

FEDERAL RESERVE BANK OF DALLAS

FISCAL AGENT OF THE UNITED STATES

Dallas, Texas, April 23, 1945

To the Managing Officer of the Bank Addressed:

As was clearly indicated in Secretary Morgenthau's letter of March 20, the primary objectives of the Seventh War Loan Drive starting on May 14 are, first, to produce the amount of new money which will be required by the Treasury and, second, to minimize inflationary pressures by raising these funds entirely from non-banking investors. With this latter objective in mind a sales quota of \$7 billion has been set for individual purchasers, the largest such quota ever established in a War Loan drive, and the corporation quota has been reduced from \$9 billion in the last drive to a goal of \$7 billion.

If the drive is to be a real success these quotas must not only be reached but the sales made must represent a bona fide investment of idle funds, i. e. net additions to the Government security holdings of the purchasers. In other words, the advance selling of present holdings in order to purchase drive securities must be discouraged, as well as the speculative purchasing of the securities offered in the drive itself. Secretary Morgenthau's letter was very clear on this point, but the matter is of such importance that I am taking the liberty of writing you again in an effort to emphasize the specific requests which were then made. These requests are substantially as follows:

1. All banking institutions are requested not to approve loans to facilitate the speculative purchasing of Government securities or for the purpose of acquiring drive securities at a later date for their own account; and they are also requested not to accept subscriptions for drive securities from their customers when these subscriptions appear to be entered for speculative purposes.
2. Each banking institution is requested not to purchase outstanding securities with the understanding that a substantially like amount of drive securities will be purchased through the bank, thus enabling the bank to expand its War Loan Deposit Account.
3. All non-bank investors are requested to refrain from selling securities heretofore acquired in order to obtain funds with which to purchase securities offered in the drive. This request, however, is not intended to preclude such normal portfolio adjustments as may be necessary and appropriate.

The intent of the first request, I believe, is well understood by the banks in the Eleventh Federal Reserve District, as this request has been emphasized repeatedly in connection with earlier War Loan drives. In an effort to obtain more uniform compliance with this request and also to expedite the processing of subscriptions, the Treasury will require that all subscriptions for marketable securities offered in the Seventh War Loan Drive be accompanied by a certificate signed by an officer of the bank submitting the subscription. It is hoped that this certificate will be of assistance to the banks in obtaining the cooperation of uninformed subscribers which is necessary if the objectives of the drive are to be attained. If the bank has any doubt as to the propriety of signing any subscription certificate, it is requested to submit the case with a statement of the circumstances to the Federal Reserve Bank, which institution, acting as fiscal agent for the United States, will

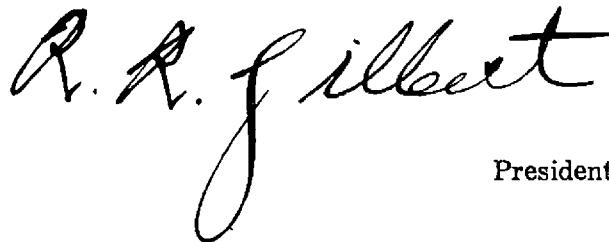
advise as to the disposition which should be made of the subscription. This certificate will be incorporated in the subscription forms to be used in the drive and the forms will be forwarded to all banks shortly.

The second request is the outgrowth of a practice which developed during the more recent drives when some banks appeared to be in the position of purchasing the privilege of expanding their War Loan Deposit balances. In some cases, banks solicited sales of outstanding securities with the understanding that the sellers would use the proceeds of such sales to pay for subscriptions entered through these banks for substantially equivalent amounts of drive securities. In other cases, the initiative was taken by customers of the banks with the same understanding. To the extent that this practice was indulged in, the banks themselves were encouraging the indirect placement of drive securities in banking institutions and thus were operating to defeat a primary objective of the drive itself.

The third request grows directly out of the experience of the last War Loan drive, when a large volume of securities was sold by non-bank holders, both before and during the drive, in order to obtain funds with which to purchase drive securities. Although helpful in meeting local quotas and also profitable to the sellers, it is obvious that this practice involves indirect placement of drive securities in the banks and thus serves to defeat a prime objective of the drive. It cannot be emphasized too strongly that the securities sold during the Seventh War Loan Drive should represent either new or additional purchases by non-banking investors, rather than replacements of former holdings. Your assistance in discouraging anticipatory selling of this type will be of the greatest aid in achieving this objective. It is understood, of course, that this request does not apply to sales reflecting normal portfolio adjustments to meet changed conditions, as such transactions are specifically provided for in the Secretary's letter of March 20. Although it is impossible to define normal portfolio adjustments precisely, it is believed that few investors will be unable to distinguish between these operations and anticipatory selling.

Assuming that you share my views as to the desirability of selling all of the securities offered in the coming drive to non-banking investors, I bespeak your wholehearted cooperation in complying with the requests of the Treasury as outlined above. Your assistance in carrying these policies into effect will contribute in a very real sense to the success of the Seventh War Loan Drive.

Sincerely yours,

A handwritten signature in cursive script that reads "R. R. Gilbert". The signature is written in dark ink and is positioned to the left of the typed name "President".

President