FEDERAL RESERVE BANK OF DALLAS

FISCAL AGENT OF THE UNITED STATES

Dallas, Texas, April 22, 1957

IMPROVED INTEREST RATES ON SERIES E AND H SAVINGS BONDS

To Banking Institutions and Others Concerned in the Eleventh Federal Reserve District:

There follows a statement issued by the Treasury Department with respect to improved interest rates on Series E and H Savings Bonds:

"Improved interest rates on new purchases of Series E and H Savings Bonds were announced by the Treasury Department today, following the signing by President Eisenhower of the law authorizing the rate increases.

"Series E and H bonds purchased currently will now yield 3¼ per cent per annum, compounded semi-annually, when held to maturity. The former rate was 3 per cent. The increase is effective for all Series E and H bonds purchased on or after February 1, 1957.

"Another improvement in the new bonds is higher interest paid to holders who find they have to cash their bonds prior to maturity. Both redemption values for the new E bonds and interest payments on the new H bonds are substantially increased for the earlier years.

"For example, the redemption value of a new E bond is increased so as to yield 3 per cent at the end of 3 years, compared with 2¼ per cent heretofore, and to yield 3.20 per cent at the end of 6 years, compared with 2.64 per cent heretofore.

"The improved rates apply automatically to all E and H bonds purchased on or after February 1, 1957; persons who have bought these bonds since that date need not take any further action to insure getting the improved terms. This is true even though the E and H bonds purchased since February 1 may have imprinted on them the former (and now obsolete) tables of redemption values or interest payment scales. The issue date shown on each bond will be controlling in determining the actual redemption values or scale of interest payments, and banks and other paying agents have been furnished tables of the new values.

"The new E bonds mature in 8 years and 11 months and the new H bonds in 10 years. Both issues formerly matured in 9 years and 8 months.

"The Treasury pointed out that in most cases it will not be advantageous for the holders of E and H bonds issued prior to February 1, 1957, to redeem their old bonds and buy new ones. Any bond that is 2½ years old or older and has not reached first maturity will earn more than 3¼ per cent on its current redemption value as it grows to maturity. In the case of bonds bought prior to last February 1 and held less than 2½ years, only a small gain could be realized by redeeming them to buy new bonds — typically not more than a few cents per year in increased interest.

"Series E bonds which have reached first maturity since May 1952 and are retained under the optional extension privilege are already yielding a full 3 per cent, compounded semi-annually, with the privilege of redemption at any time. If they were redeemed and new E bonds purchased, the new bonds would have to be held 3 years before they would earn as much as 3 per cent.

"With the change in interest return the previous calendar year limit of $20,000 (face amount) on purchases of each series by individuals has been lowered to $10,000. The Treasury is withdrawing the present investment-type Series J and K bonds from sale, effective April 30, 1957. Both of these decisions underline the Treasury's desire to emphasize the savings bond as a security designed for millions of average individual American savers.

"The Treasury announced that details of the terms of the new bonds have been forwarded to Federal Reserve banks, which will circulate them to bond-issuing and redeeming agencies throughout the country."

Official Treasury Department circulars and other material will be mailed to all issuing agents, paying agents and others as soon as they can be prepared.

Yours very truly,

Watrous H. Irons

President