FEDERAL RESERVE BANK OF DALLAS

FISCAL AGENT OF THE UNITED STATES

Dallas, Texas, March 15, 1961

PRELIMINARY ANNOUNCEMENT
ADVANCE REFUNDING EXCHANGE OFFERING

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

A press statement issued today by the Treasury Department in regard to an advance refunding is quoted on the following pages.

Official circulars and subscription forms for the exchange offering will be mailed as soon as possible.

Yours very truly,

Watrous H. Irons

President

ADVANCE REFUNDING OFFER

The U. S. Treasury offers to the holders of four issues of outstanding Treasury Bonds and Notes which mature from June 15, 1962, through August 15, 1963, two issues of 3⅜% and 3⅝% intermediate-term bonds in exchange as of March 15, 1961, on mutually advantageous terms to the holder and the Treasury.

The Treasury will in this way offer holders of intermediate-term securities maturing within the next 2½ years an opportunity of remaining invested in new intermediate-term securities in the six and seven-year maturity range. By means of this advance refunding the Treasury can reduce the volume of outstanding debt to be refinanced on final maturity during the next 2½ years. In view of the large volume of other issues in the short-term area, any reduction of the congested maturity schedule in 1962 and 1963 will be of material advantage in the management of the debt and will reduce the over-all burden of interest costs.

The offering is made attractive to investors by providing an immediate increase in interest return, in consideration of acceptance of a security of somewhat longer maturity. Market yields on the new issues are at least equal to those on outstanding issues of comparable maturity on the date of this offering. The investment return to holders for the period of the extension as summarized herein, would appear to compare favorably with prospective yields that might be obtained on reinvestment at the time when these four outstanding securities are scheduled to mature. The transfer of old for new securities will not be treated as a sale and purchase for tax purposes, thereby avoiding immediate charging of book losses on the securities being accepted by the Treasury in exchange for the new issues.

Terms and Conditions of the Advance Refunding Offer

1. To all holders owning $500, or more, of the following outstanding Treasury bonds:

Description of bonds and notes	Issue date	Maturity date	Remaining term to maturity (Yrs. — Mos.)	Amount outstanding (in billions)
2¼% bonds of 6/15/59-62	June 1, 1945	June 15, 1962	1 — 3	$5.3
2¼% bonds of 12/15/59-62	Nov. 15, 1945	Dec. 15, 1962	1 — 9	3.4
2⅝% notes of 2/15/63	Apr. 15, 1958	Feb. 15, 1963	1 — 11	4.0
2½% bonds of 8/15/63	Dec. 15, 1954	Aug. 15, 1963	2 — 5	6.8

2. New bonds to be issued:

Description	Issue date	Maturity date	Interest starts[1]	Interest payable
3⅝% bonds of 1967	March 15, 1961	Nov. 15, 1967	March 15, 1961	May 15 & Nov. 15
3⅜% bonds of 1966	March 15, 1961	Nov. 15, 1966	March 15, 1961	May 15 & Nov. 15

[1] Interest on the bonds and notes surrendered stops on March 15,1961.

3. Terms of the exchange:

Exchanges will be made on the basis of par for par in multiples of $500, and with adjustments of accrued interest to March 15, 1961, and payments to the Treasury as indicated below:

Outstanding bonds and notes	Exchangeable only for bonds	Payment to Treasury on account of $100 issue price[1]	Accrued interest payable to investor (per $100 face amount)	Extension of maturity Yrs. — Mos.
2¼% bonds 6/15/59-62	3⅝% of Nov. 15, 1967	----	$0.556	5 — 5
2¼% bonds 12/15/59-62		$0.30	.556	4 — 11
2⅝% notes 2/15/63		----	.203	4 — 9
2½% bonds 8/15/63	3⅜% of Nov. 15, 1966	----	.193	3 — 3

[1] To be deducted from amount of accrued interest shown in next column.

4. Limitation on amount of new bonds to be issued:

While it is not practicable to estimate the extent of investor acceptance, the Treasury is placing an outside limit of $5 billion, or thereabouts, on the aggregate amount of 3⅝% bonds of Nov. 15, 1967, and $3 billion, or thereabouts, on the aggregate amount of 3⅜% bonds of Nov. 15, 1966, to be issued to the public. In

the event the limit on either issue is exceeded, subscriptions to the respective issue will be subject to allotment. In addition, exchange subscriptions not to exceed $250,000,000, in the aggregate, from Government Investment Accounts to these two issues will be allotted in full.

5. **Books open for subscriptions for the new bonds:**

Books will be open for subscriptions from March 20 through March 22, 1961. Subscriptions accompanied by eligible bonds and notes and placed in the mail by midnight March 22, 1961, addressed to Treasurer, U. S., Washington 25, D. C., or any Federal Reserve Bank or Branch will be accepted. The use of registered mail is recommended for bondholders' protection. The new bonds will be delivered to subscribers on March 30, 1961.

6. **Requirements applicable to subscriptions:**

Subscriptions will be received at the Federal Reserve Banks and Branches and at the Office of the Treasurer of the United States, Washington, D. C. Banking institutions generally may submit subscriptions for account of customers, provided the names of the customers are set forth in such subscriptions.

Subscriptions which are subject to allotment from banking institutions for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, Federal Reserve Banks, and Government Investment Accounts will be received without deposit. Subscriptions which are subject to allotment from all others must be accompanied by deposit of eligible securities in an amount equal to 10% of the bonds applied for.

7. **Denominations and other characteristics of new bonds:**

$500, $1,000, $5,000, $10,000, $100,000, and $1,000,000 in coupon and registered forms. They will be acceptable to secure deposits of public moneys.

8. **Nonrecognition of gain or loss for Federal income tax purposes:**

Pursuant to the provisions of section 1037(a) of the Internal Revenue Code of 1954 as added by Public Law 86-346 (approved Sept. 22, 1959) the Secretary of the Treasury has declared that no gain or loss shall be recognized for Federal income tax purposes upon the exchange of the eligible bonds and notes solely for the new 3⅝% or 3⅜% bonds. For tax purposes, therefore, the investor will carry the new bonds on his books at the same amount as he is now carrying the eligible bonds and notes, plus the amount of premium, if any, paid on the new bonds. Gain or loss, if any, upon the obligations surrendered in exchange will be taken into account upon the disposition or redemption of the new bonds.

9. **Federal estate tax option in new bonds:**

The option to redeem the eligible 2¼% bonds of June 15, 1959-62, and December 15, 1959-62, at par and accrued interest prior to maturity for the purpose of using the proceeds in payment of Federal estate taxes (if the bonds were owned by the deceased at the time of his death) is *not* applicable to the new 3⅝% bonds issued in exchange.

10. **Book value of new bonds to banking institutions:**

The Comptroller of the Currency, Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation have indicated to the Treasury that banks under their supervision may place the new 3⅝% and 3⅜% bonds received in exchange on their books at an amount not greater than the amount at which the eligible bonds and notes surrendered by them are carried on their books, plus the amount of premium, if any, paid on the new bonds, and that they will so advise their examiners.

11. **Computation of investment return for the extension of maturity:**

A holder of the outstanding eligible bonds or notes has the option of accepting the Treasury's exchange offer or of holding the eligible bonds or notes to maturity. Consequently, he can compare his return resulting from exchanging now with the return that he might obtain by reinvesting the proceeds of the eligible bonds or notes at maturity.

The return before tax for making the extension now through exchange will be the coupon rate on the new issue. If a holder of the eligible bonds or notes does not make the exchange, he would receive only the respective interest rates to their maturity and would have to reinvest at that time at a rate equal to that indicated in Section 12 below for the remaining term of the issue now offered, in order to equal the return he would receive by accepting the exchange offer. For example, if the 2¼ percent bonds of June 15, 1959-62, are exchanged for the new 3⅝ percent 6-year 8-month bonds, the rate for the entire 6 years and

8 months will be 3⅝ percent. If the exchange is not made, a 2¼ percent rate will be received until June 1962 requiring reinvestment of the proceeds of the 2¼'s at the time at a rate of at least 3.89 percent for the remainder of the 6 years and 8 months, all at compound interest, to average out to a 3⅝ percent rate for 6 years, 8 months. This minimum reinvestment rate for the extension period is shown in the table under Section 12 and is the investment return for the extension period if the exchange is made now. The minimum reinvestment rates for the other issues included in the exchange are also shown in the table under Section 12.

12. Investment return on the 3⅝ % and 3⅜ % bonds offered in exchange, to the holders of the eligible bonds and notes:

Eligible bonds and notes	2¼% bonds June 15, 1959-62	2¼% bonds Dec. 15, 1959-62	2⅝% notes Feb. 15, 1963	2½% bonds Aug. 15, 1963
Payment to Treasury on account of $100 issue price	—	$0.30	—	—
3⅝% bond offered in exchange	Nov. 15, 1967			
3⅜% bond offered in exchange				Nov. 15, 1966
Approximate investment return:				
From issue date (March 15, 1961) to maturity[1]	3.75%	3.75%	3.75%	3.63%
For the extension of maturity[2]:				
Nontaxable holder (or before tax)	3.98	4.10	4.08	4.09
Taxable holder; equivalent rate[3] if cost (book value) of eligible bond or note (per $100 face value) is:				
$102[4]	—	—	4.02	4.02
100	3.96	4.07	4.05	4.06
98	3.98	4.06	4.07	4.08
96	4.00	4.08	4.09	4.09
94	4.02	4.10	4.11	4.11
92	4.04	4.12	4.13	4.13
90	4.06	4.14	4.15	4.15

[1] Yield to a nontaxable holder, or before tax. Based on mean of bid and ask prices of eligible bonds and notes at noon on March 15, 1961.

[2] For explanation see paragraph 11 above.

[3] Rate of return during extension which, combined with the respective interest rates until maturity of the eligible bond or note, would provide the same return as the applicable new bond for its full term *after tax* (on basis of 52% tax on ordinary income and 25% tax on long-term capital gain at maturity of the new bond). To obtain approximate equivalent rates between those for book value shown, interpolation may be applied.

[4] Holders of the 2¼ percent bonds are assumed to have amortized any premium when purchased to par at first call date in 1959. Holders of the 2⅝ percent notes and 2½ percent bonds with book cost above par are assumed to be amortizing any premium to par at maturity.