

FEDERAL RESERVE BANK OF DALLAS

FISCAL AGENT OF THE UNITED STATES

Dallas, Texas, February 18, 1966

IMPROVED INTEREST RATES ON SERIES E AND H SAVINGS BONDS

To all Qualified Issuing and Paying Agents
in the Eleventh Federal Reserve District:

President Johnson announced on February 16 an increase in the interest rate on Series E and H United States Savings Bonds. The Treasury Department's announcement and related documents are enclosed.

The official circulars are being printed by the Treasury Department in Washington. As soon as they are available, possibly in late March or early April, these circulars and other material will be mailed to each issuing and paying agent. New tables of redemption values for May and June, 1966, for Series E bonds will be furnished to all paying agents during April.

Stocks of bonds carrying the new terms and conditions are being printed, but at this time there will be no general withdrawal of stock of E bonds in the present design. However, all Series E and H bonds purchased on or after December 1, 1965, will carry the new interest rate and redemption values and all other provisions as fully as if expressly set forth in the text of the bonds themselves.

In the meantime, issuing agents should continue to use existing bond stock until notified to the contrary - possibly several months from now - holding requisitions to a minimum consistent with sales.

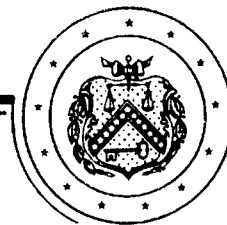
Yours very truly,

Watrous H. Irons

President

Enclosures

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 16, 1966

ADVANCE FOR 12:00 NOON, EST TODAY
WEDNESDAY, FEBRUARY 16, 1966

NEW SAVINGS BONDS INTEREST RATE

President Johnson today announced an increase in the interest rate on United States Savings Bonds. New bonds will earn at the rate of 4.15% instead of the previous 3.75%. Future rates of earning on outstanding bonds are also being increased.

Attached is a letter to the President from Secretary Fowler recommending the new program and a summary sheet detailing the new bond offerings directed to all the Federal Reserve Banks and other issuing and paying agents who transact U. S. Savings Bonds business with the public. A printed circular will later be distributed. Also attached are tables showing redemption values and investment yields for Series E and H Bonds issued beginning December 1, 1965. All Savings Bonds purchased since December 1, 1965, will earn at the new rate of 4.15% to maturity.

In addition to the issuance of new Series E and H Savings Bonds at an interest rate above the previous rate, the Presidential action raised the earnings after December 1, 1965, of outstanding E and H Savings Bonds.

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Attachments

F-381



THE SECRETARY OF THE TREASURY
WASHINGTON

February 16, 1966

Dear Mr. President:

In your letter of January 18, 1966, you directed me to recommend as soon as possible a higher interest rate on United States Savings Bonds, in order to sustain and enlarge the vital role of this program.

You stated in your letter that a rate increase at this time would serve important national purposes. This conclusion, meeting the requirements of the Act of September 22, 1959, which amended the Second Liberty Bond Act, is clearly justified not only in view of the higher rates now available on various private savings accounts, but also in light of current needs to sustain vigorous non-inflationary growth and manage our public debt soundly. Above all, such a move is in our national interest now, so that a healthy economy at home provides maximum support to our efforts on behalf of defending freedom in Viet Nam. With these facts in mind, I recommend the following:

- (1) that all Series E and H bonds sold beginning December 1965 earn 4.15% per annum compounded semiannually, if held to maturity, with yields for shorter periods of holding also increased from current levels;
- (2) that all outstanding Series E and H bonds sold before December 1965 earn $\frac{4}{10}$ of 1% more than before to next maturity, starting with the interest period of five months or more which begins on or after December 1, 1965, with lesser improved yields for shorter periods of holding;
- (3) that Series E bonds with issue dates of April 1956 through April 1957 (which had not reached maturity before December 1965) on which a 3.75% ten-year extension had already been promised and those with issue dates of May 1957 through May 1959 on which a ten-year extension had been promised earn interest at an annual rate of about 4.15% for each half-year period of holding to extended maturity;
- (4) that matured Series E bonds with issue dates of December 1945 through May 1949 (which had not reached first extended maturity before December 1965) on which a 3.75% second ten-year extension had already been promised earn interest at an annual rate of about 4.15% for each half-year period of holding to second extended maturity; and

- (5) that unmatured Series H bonds with issue dates of April 1956 through January 1957 (which had not reached maturity before December 1965) on which a 3.75% ten-year extension had already been promised earn interest at an annual rate of about 4.15% for each half-year period of holding to extended maturity.

Your approval of the above recommendations will enable the Treasury to issue the necessary regulations and put them into effect.

Faithfully yours,

Henry H. Fowler

Henry H. Fowler

The President

The White House

SUMMARY

Improvements in Series E and H Savings Bonds, Effective December 1, 1965

1. New Series E and H bonds with issue dates of December 1, 1965 and after -- earn 4.15% compounded semiannually, if held to maturity (instead of former 3.75%). On the accrual type E bonds the increase from 3.75% to 4.15% is accomplished by reducing the term of the bond to 7 years (instead of former 7 years and 9 months). The purchase price of E bonds will continue to be 75 percent of face value. On the current income H bond the increase is accomplished by raising the amounts of the semiannual interest checks. The H bond is issued at par, is redeemable at par (on one month's notice after six months' holding), and matures at par at the end of 10 years.

a) There are also improved redemption values and investment yields if the new E bonds are held for less than the 7 years to maturity. Some examples are:

<u>When held for:</u>	<u>Redemption value per \$100 bond</u>	<u>Yield for:</u>	
		<u>Period held</u>	<u>Period remaining to maturity</u>
1 year	\$77.28	3.02%	4.34%
2 years	80.40	3.51	4.41
3 years	83.84	3.75	4.46
5 years	91.44	4.00	4.52

b) As before, interim yields on the new H bonds are generally in line with the new E's for equal periods of holding. Interest checks after the first two will be level providing 4.3% current income after the first year of holding.

2. Outstanding E and H bonds purchased before December 1, 1965 -- earn $4/10$ of 1% more than before for the remaining period to next maturity. There will be lesser improvement in yields if bonds are redeemed earlier. The increase will be on a graduated scale, starting with the first interest period of 5 months or more which begins on or after December 1, 1965. There is no retroactive increase in interest rates for periods prior to December 1, 1965.

3. Interest rates on bonds entering a new extension period beginning December 1, 1965:

a) Unmatured E bonds:

- 1) Issued April 1956 through April 1957 (which had not reached maturity before December 1, 1965) on which a $3-3/4\%$ 10-year extension had already been promised and those issued May 1957 through May 1959 on which a 10-year extension had been promised, will earn interest at an annual rate of about 4.15% for each half year period of holding to extended maturity.
- 2) Issued beginning with June 1959 have already been promised a 10-year extension privilege. Interest rates and other terms and conditions will be determined as they approach maturity.

b) Matured E bonds, issued December 1945 through May 1949 (which had not reached first extended maturity before December 1, 1965) on which a $3-3/4\%$ second 10-year extension had already been promised will now earn interest at an annual rate of about 4.15% for each half year period of holding to second extended maturity.

c) Unmatured H bonds, issued April 1956 through January 1957 (which had not reached maturity before December 1, 1965) on which a $3-3/4\%$ 10-year extension had already been promised will earn interest at an annual rate of about 4.15% for each half year period of holding to extended maturity.

UNITED STATES SAVINGS BONDS - SERIES E
TABLE OF REDEMPTION VALUES AND INVESTMENT YIELDS
FOR BONDS BEARING ISSUE DATES BEGINNING DECEMBER 1, 1965

Table showing: (1) How bonds of Series E bearing issue dates beginning December 1, 1965, by denominations, increase in redemption value during successive half-year periods following issue; (2) the approximate investment yield on the purchase price from issue date to the beginning of each half-year period; and (3) the approximate investment yield on the current redemption value from the beginning of each half-year period to maturity. Yields are expressed in terms of rate percent per annum, compounded semiannually.

Maturity Value.....									Approximate Investment Yield	
	\$25.00	\$50.00	\$75.00	\$100.00	\$200.00	\$500.00	\$1,000.00	\$10,000	(2) On purchase price from issue date to beginning of each half-year period	(3) On current redemption value from beginning of each half-year period to maturity
Issue Price.....	18.75	37.50	56.25	75.00	150.00	375.00	750.00	7,500		
Period after issue date	(1) Redemption values during each half-year period (Values increase on first day of period shown)								Percent	Percent
First 1/2 year.....	\$18.75	\$37.50	\$56.25	\$ 75.00	\$150.00	\$375.00	\$ 750.00	\$ 7,500	0.00	4.15 *
1/2 to 1 year.....	18.96	37.92	56.88	75.84	151.68	379.20	758.40	7,584	2.24	4.30
1 to 1-1/2 years...	19.32	38.64	57.96	77.28	154.56	386.40	772.80	7,728	3.02	4.34
1-1/2 to 2 years...	19.70	39.40	59.10	78.80	157.60	394.00	788.00	7,880	3.32	4.38
2 to 2-1/2 years...	20.10	40.20	60.30	80.40	160.80	402.00	804.00	8,040	3.51	4.41
2-1/2 to 3 years...	20.52	41.04	61.56	82.08	164.16	410.40	820.80	8,208	3.64	4.44
3 to 3-1/2 years...	20.96	41.92	62.88	83.84	167.68	419.20	838.40	8,384	3.75	4.46
3-1/2 to 4 years...	21.42	42.84	64.26	85.68	171.36	428.40	856.80	8,568	3.84	4.46
4 to 4-1/2 years...	21.89	43.78	65.67	87.56	175.12	437.80	875.60	8,756	3.91	4.48
4-1/2 to 5 years...	22.37	44.74	67.11	89.48	178.96	447.40	894.80	8,948	3.96	4.50
5 to 5-1/2 years...	22.86	45.72	68.58	91.44	182.88	457.20	914.40	9,144	4.00	4.52
5-1/2 to 6 years...	23.36	46.72	70.08	93.44	186.88	467.20	934.40	9,344	4.04	4.57
6 to 6-1/2 years...	23.88	47.76	71.64	95.52	191.04	477.60	955.20	9,552	4.07	4.64
6-1/2 to 7 years...	24.42	48.84	73.26	97.68	195.36	488.40	976.80	9,768	4.11	4.75
MATURITY VALUE (7 years from issue date).....	\$25.00	\$50.00	\$75.00	\$100.00	\$200.00	\$500.00	\$1,000.00	\$10,000	4.15	----

* Approximate investment yield for entire period from issuance to maturity.

UNITED STATES SAVINGS BONDS - SERIES H
TABLE OF CHECKS ISSUED AND INVESTMENT YIELDS
FOR BONDS BEARING ISSUE DATES BEGINNING DECEMBER 1, 1965

Table showing: (1) Amount of interest checks paid on United States Savings Bonds of Series H bearing issue dates beginning December 1, 1965, by denominations, on each interest payment date following issue; (2) the approximate investment yield on the face value from issue date to each interest payment date; and (3) the approximate investment yield on the face value from each interest payment date to maturity. Yields are expressed in terms of rate percent per annum, compounded semiannually.

Face Value (Redemption Value <u>1/</u>)	(Maturity Value : \$500 : \$1,000 : \$5,000 : \$10,000 :)				Approximate Investment Yield	
	(Issue Price : 500 : 1,000 : 5,000 : 10,000 :)				on Face Value	
Period of time bond is held after issue date :	(1) Amount of interest check for each denomination :				(2) From issue date to each interest payment date	(3) From each interest payment date to maturity <u>2/</u>
					Percent	Percent
1/2 year.....	\$ 5.50	\$11.00	\$ 55.00	\$110.00	2.20	4.27
1 year.....	9.70	19.40	97.00	194.00	3.03	4.30
1-1/2 years.....	10.75	21.50	107.50	215.00	3.45	4.30
2 years.....	10.75	21.50	107.50	215.00	3.65	4.30
2-1/2 years.....	10.75	21.50	107.50	215.00	3.78	4.30
3 years.....	10.75	21.50	107.50	215.00	3.86	4.30
3-1/2 years.....	10.75	21.50	107.50	215.00	3.92	4.30
4 years.....	10.75	21.50	107.50	215.00	3.96	4.30
4-1/2 years.....	10.75	21.50	107.50	215.00	4.00	4.30
5 years.....	10.75	21.50	107.50	215.00	4.03	4.30
5-1/2 years.....	10.75	21.50	107.50	215.00	4.05	4.30
6 years.....	10.75	21.50	107.50	215.00	4.07	4.30
6-1/2 years.....	10.75	21.50	107.50	215.00	4.08	4.30
7 years.....	10.75	21.50	107.50	215.00	4.10	4.30
7-1/2 years.....	10.75	21.50	107.50	215.00	4.11	4.30
8 years.....	10.75	21.50	107.50	215.00	4.12	4.30
8-1/2 years.....	10.75	21.50	107.50	215.00	4.13	4.30
9 years.....	10.75	21.50	107.50	215.00	4.13	4.30
9-1/2 years.....	10.75	21.50	107.50	215.00	4.14	4.30
10 years (maturity).....	10.75	21.50	107.50	215.00	4.15	----

1/ At all times, except that bond is not redeemable during first 6 months.

2/ Approximate investment yield for entire period from issuance to maturity is 4.15 percent per annum.