FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 79-107
June 25, 1979

PAMPHLETS ON SAVINGS BONDS

TO ALL ISSUING AND PAYING AGENTS OF SAVINGS BONDS
IN THE ELEVENTH FEDERAL RESERVE DISTRICT:

Enclosed are copies of two pamphlets which the Bureau has prepared to respond to inquiries about the savings bond changes announced in January and the recently announced rate increase.

The pamphlet entitled, "Information on New Savings Bonds and Maturities of Outstanding Bonds," contains updated comparison charts as well as descriptive paragraphs designed to respond to some of the most frequently asked questions about the new bonds and maturities of the Series E and H. Several details which have been finalized in the past few weeks are also included, namely:

1) It was previously announced that Series HH bonds purchased for cash would be subject to an interest adjustment if redeemed before original maturity. Update: Interest adjustment will only be made if the bond is redeemed within five years after issue and the adjustment will reduce the yield of the HH bond to a level comparable to that of a Series EE bond held for the same length of time.

2) It was previously mentioned that there would be some limitations on the eligibility of Series E and EE bonds for exchange for Series HH. These limitations will be as follows: Series E bonds will be eligible until one year after final maturity; Series EE bonds will be eligible six months after issue.

The second pamphlet, "Questions and Answers About the Improved Rate on Savings Bonds," is essentially a revised format of the information which was sent to you earlier with our Circular 79-88, dated May 16, 1979.

Additional copies of this circular are available upon request to the Fiscal Agency Department of this Bank, Ext. 6364.

FEDERAL RESERVE BANK OF DALLAS
Fiscal Agent of the United States

Enclosures

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-492-4403 (intrastate) and 1-800-527-4970 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

Information on
New Savings Bonds
and
Maturities of Outstanding Bonds

INTRODUCTION

The major changes announced in the savings bond program underline the Treasury's continued interest in strengthening savings bonds as a vital part of its debt management operations. Bonds provide the Treasury with a stable source of funds from millions of citizens, and also provide Americans at all economic levels with an opportunity to save in a safe and convenient manner.

Savings bonds are an absolutely secure form of investment. Bonds that are lost, stolen, or destroyed will be replaced upon adjudication of a valid claim. Locations for purchasing and redeeming bonds are readily accessible throughout the country. The return on savings bonds is guaranteed. The reporting of interest on Series E and the new EE bonds can be deferred, for Federal income tax purposes, until the bonds reach final maturity, are redeemed, or otherwise disposed of.

The information contained in this report is divided into five major sections: (I) Series EE, (II) Series HH, (III) Exchange Offering, (IV) Extensions and Maturities of Series E and H bonds and savings notes, and (V) Comparison charts of the essential features. We believe the information furnished will be beneficial in acquainting owners with the new changes and the status of their present holdings. However, this report is not intended to substitute for official Treasury regulations and instructions by which the program is administered.

(I) Series EE

A new accrual type bond called Series EE will be offered for sale beginning January 2, 1980, and will be available at banks and other financial institutions qualified as issuing agents and through payroll savings plans. The Series E bonds will be withdrawn from sale over-the-counter as of December 31, 1979. Payroll plans will convert to the new Series EE bonds no later than June 30, 1980. (Please note that unredeemed Series E bonds will continue to earn interest beyond these dates - see section IV for further details.)

The new Series EE bonds will have a term to maturity of 11 years. Like the current Series E bonds, however, the EE bond will yield 6 1/2%, compounded semiannually, if held at least 5 years and will continue to earn 6 1/2% thereafter. The new EE bond will be eligible for redemption six months after issue.

The purchase price of a Series EE bond will be one-half the face value. For example, a purchaser can buy a \$50 Series EE bond (the lowest denomination) for \$25. The chart on page 5 provides a comparison of the terms and conditions of Series E and EE bonds.

(II) Series HH

Beginning January 2, 1980, a new current income bond called Series HH will be offered for sale. Series H bonds will be withdrawn from sale as of December 31, 1979.

The major difference between Series H and HH bonds will be in the payment of interest. Series H bonds earn interest on a graduated scale which starts at 4.71% and increases to provide an overall yield of 6 1/2% if held to original maturity (10 years). This graduated scale has generated many complaints from bondowners concerning the fluctuations in the amounts of their semiannual interest checks. The new Series HH bonds will pay interest at a level rate of 6 1/2%. However, bonds purchased for cash will be paid at less than their face amount if they are redeemed within 5 years after issue. This interest adjustment will reduce the overall yield to a level comparable to that of a Series EE bond held for the same length of time. Bonds purchased on exchange will not be subject to an interest adjustment for early redemption.

Series HH bonds will be issued only by Federal Reserve Banks or their Branches and the Bureau of the Public Debt. Applications for purchase or exchange may be submitted in person or by mail. Most banks and financial institutions which now issue Series E bonds will assist customers in completing and forwarding Series HH bond applications to the Federal Reserve Banks.

Please see page 6 for a comparison chart of the terms and conditions of Series H and HH bonds.

(III) Exchange Offering

The Treasury is withdrawing the present Series E for Series H exchange offering as of December 31, 1979. A new exchange offering will be introduced on January 2, 1980.

The present offering allows owners to exchange Series E bonds and savings notes (Freedom Shares) for Series H bonds. The new offering will permit the exchange of eligible Series E bonds, savings notes and Series EE bonds for Series HH bonds. To avoid any loss in interest the Series E bonds being exchanged should be presented before they reach final maturity. (See section IV for details on maturity dates.) Matured bonds may still be exchanged, with tax deferral privileges, until one year after maturity; however, the bonds will not earn any interest from the time they mature until the time the exchange is made. Series EE bonds will not be eligible for exchange until 6 months after issue.

The new offering will carry the same tax deferral privilege as the present offering. At the time of exchange, a bondowner may continue to defer reporting the interest earned on the exchanged securities, for Federal income tax purposes, until the Series HH bonds are cashed, finally mature, or are otherwise disposed of. The amount of the deferred interest will be shown on the face of the Series HH bond. The interest earned on the Series HH bonds must be reported each year for Federal income tax purposes.

Series HH bonds issued on exchange will not be subject to an interest adjustment for early redemption.

A purchaser may use any combination of Series E and EE bonds and savings notes to purchase Series HH bonds provided all the securities are still eligible for exchange. The redemption value of the securities being exchanged must equal at least $500 (the minimum denomination for Series HH bonds). A bondowner may add cash to the redemption value of the bonds to reach the next highest multiple provided he is exchanging for a denomination higher than $500 and the amount of cash being added is less than $500.

No offering will be made to permit the exchange of Series H bonds for new Series HH or the exchange of Series E bonds or savings notes for the new Series EE bonds.

Please see the chart on page 7 for a comparison of the current and new exchange offering.

(IV) Extensions and Maturities of Series E and H Bonds and Savings Notes

Series E bonds with issue dates from May 1941 through April 1952 will not be extended again. This group of bonds will reach final maturity exactly 40 years from their respective issue dates and will cease to earn interest at that time. The accrued interest on an unredeemed Series E bond is reportable, for Federal income tax purposes, for the year in which the bond matures, and must be declared if the bond is not exchanged for current income bonds. (See section III for further detail on exchanges with tax deferral privilege.)

Series H bonds with issue dates from June 1952 through May 1959 will not be extended again. This group of bonds will reach maturity from February 1982 through May 1989.

An additional 10-year extension will be given to all unredeemed Series E bonds issued after April 1952; to all savings notes (Freedom Shares); and to Series H bonds issued after May 1959.

Although Series E and H bonds will not be available for purchase after December 31, 1979, all unredeemed bonds will continue to earn interest until they reach final maturity. The chart on page 4 provides additional information concerning extended maturities.

SERIES E EXTENDED MATURITIES

Date of Issue	Date of Maturity (including new extension)	Term of Bond
*May 1941 – Apr. 1952	May 1981 – Apr. 1992	40 years
May 1952 – Jan. 1957	Jan. 1992 – Sept. 1996	39 years, 8 mos.
Feb. 1957 – May 1959	Jan. 1996 – Apr. 1998	38 years, 11 mos.
June 1959 – Nov. 1965	Mar. 1997 – Aug. 2003	37 years, 9 mos.
Dec. 1965 – May 1969	Dec. 1992 – May 1996	27 years
June 1969 – Nov. 1973	Apr. 1995 – Sept. 1999	25 years, 10 mos.
Dec. 1973 – Dec. 1979	Dec. 1998 – Dec. 2004	25 years
Jan. 1980 – June 1980	Jan. 2005 – June 2005	25 years (payroll issues only)

SERIES H EXTENDED MATURITIES

Date of Issue	Date of Maturity (including new extension)	Term of Bond
*June 1952 – Jan. 1957	Feb. 1982 – Sept. 1986	29 years, 8 mos.
*Feb. 1957 – May 1959	Feb. 1987 – May 1989	30 years
*June 1959 – Dec. 1979	June 1989 – Dec. 2009	30 years

SAVINGS NOTES EXTENDED MATURITIES

Date of Issue	Date of Maturity (including new extension)	Term of Note
May 1967 – Oct. 1970	Nov. 1991 – Apr. 1995	24 years, 6 mos.

The above tables show the extended maturity dates and terms (calculated with the most recent extension) for all Savings Bonds and Savings Notes (Freedom Shares).

Bonds with issue dates marked by an asterisk above will receive no further extensions and will cease to earn interest as of their respective maturity dates. To determine the final maturity date of one of these bonds, add the number of years and months in the column, "Term of Bond" to the issue date on the bond. For example, a Series E Bond which bears an issue date of July 1942 has a 40-year term and will mature in July 1982. A Series H Bond which bears an issue date of August 1954 has a term of 29 years, 8 months and will mature in April 1984.

COMPARISON OF TERMS AND CONDITIONS OF SERIES E AND SERIES EE ACCRUAL-TYPE SAVINGS BONDS

	Series E Bonds	Series EE Bonds
Offering Date	Terminate over-the-counter sales December 31, 1979; terminate payroll sales no later than June 30, 1980	Begin January 2, 1980; phase in payroll sales through June 30, 1980
Denominations	\$25, \$50, \$75, \$100, \$200, \$500 \$1,000, \$10,000, \$100,000	\$50, \$75, \$100, \$200, \$500, \$1,000, \$5,000, \$10,000
Issue Price	75% of face amount	50% of face amount
Term to Original Maturity	5 years	11 years
Interest	Accrues through periodic increases in redemption value to maturity	Same
Yield	4% after 2 months, 4.5% first year, increases thereafter to yield 6.5% if held 5 years	4% after 2 months, 4.5% first year, increases thereafter to yield 6.5% if held 5 or more years
Retention Period	Redeemable any time after 2 months from issue date	Redeemable any time after 6 months from issue date
Annual Limitation	\$7,500 issue price	\$15,000 issue price
Tax Status	Accruals subject to Federal income tax and to estate, inheritance and gift taxes—Federal and state—but exempt from all other state and local taxes. Federal income tax may be reported (1) as it accrues, (2) for year bond matures, is redeemed or otherwise disposed; or (3) in accordance with provisions of exchange offering.	Same
Registration	In names of individuals in single, coownership or beneficiary form; in names of fiduciaries or organizations in single ownership only.	Same
Transferability	Not eligible for transfer or pledge as collateral.	Same
Rights of Owners	Coownership: either owner may redeem, both must join reissue request. Beneficiary: only owner may redeem during lifetime; both must join reissue request.	Coownership: same. Beneficiary: same except that consent of beneficiary to reissue not required.
Exchange Privilege	Eligible for exchange for Series H or HH bonds in multiples of \$500, with continued tax deferral privilege applicable to accrued interest. Limitations: see exchange offering chart.	Eligible, alone or with Series E bonds or savings notes, for exchange for Series HH bonds in multiples of \$500, with continued tax deferral privilege applicable to accrued interest. Limitations: see exchange offering chart.

COMPARISON OF TERMS AND CONDITIONS OF SERIES H AND SERIES HH CURRENT INCOME-TYPE SAVINGS BONDS

	Series H Bonds	Series HH Bonds
Offering Date	Terminate December 31, 1979	Begin January 2, 1980
Denominations	\$500, \$1,000, \$5,000, \$10,000	Same
Issue Price	Face Amount	Same
Term to Original Maturity	10 years	10 years
Interest	Payable semiannually by check	Same
Yield	4.71% first 6 months, 6.31% next 4½ years, 7.02% final 5 years to yield 6.5% if held to maturity. During extension, uniform payments based on rate prevailing when bond enters extended maturity.	Payments based on 6.5% level rate, however, bonds sold for cash will have an interest adjustment applied against redemption value, if redeemed within 5 years after issue. Bonds issued on exchange will not be subject to an interest adjustment for early redemption.
Retention Period	Redeemable any time after 6 months from issue date.	Same
Annual Limitation	\$10,000 face amount	\$20,000 face amount
Tax Status	Interest is subject to Federal income tax reporting for year it is paid. Interest subject to estate, inheritance and gift taxes—Federal and state—but exempt from all other state and local taxes.	Same
Registration	In names of individuals in single, coownership or beneficiary form; in names of fiduciaries or organizations in single ownership only.	Same
Transferability	Not eligible for transfer or pledge as collateral.	Same
Rights of Owners	Coownership: either owner may redeem; both must join reissue request. Beneficiary: only owner may redeem during lifetime; both must join reissue request.	Coownership: same. Beneficiary: same except that consent of beneficiary to reissue not required.
Exchange Privilege	Issuable in exchange for Series E bonds and savings notes, in multiples of \$500, with continued tax deferral privilege applicable to accrued interest.	Issuable in exchange for Series E, EE, and savings notes, in multiples of \$500, with continued tax deferral privilege applicable to accrued interest. Limitations; E bonds eligible until one year after maturity: EE bonds eligible 6 months after issue.

COMPARISON OF THE TERMS AND CONDITIONS OF CURRENT INCOME BOND EXCHANGE OFFERING

	Series H Exchange	Series HH Exchange
Offering Date	Terminate December 31, 1979	Begin January 2, 1980
Eligible Securities	Series E Bonds and Savings Notes, singly or in combination.	Series E Bonds, Savings Notes, and Series EE Bonds, singly or in combination. Limitations: E bonds eligible for exchange until one year after maturity; EE bonds eligible for exchange 6 months after issue.
Minimum Amount	\$500 current redemption value of accrual-type securities	Same
Annual Purchase Limitation	Exempt	Same
Exchange Security	Series H Bonds including all terms and conditions thereof.	Series HH Bonds, including all terms and conditions thereof. HH bonds sold for cash will have an interest adjustment applied against redemption value, if redeemed within 5 years after issue; bonds issued on exchange will not be subject to an interest adjustment for early redemption.
Eligible Owners	Registered owners, coowners and persons entitled as surviving beneficiaries or next of kin or legatees of deceased owners.	Same
Tax Treatment	Accrued interest on retired securities may be (1) reported on Federal income tax return for year of exchange (or maturity, if earlier), or (2) deferred to the taxable year in which the current income bonds are redeemed, disposed of or mature. Amount of deferred accruals will be shown on face of new bonds.	Same
Registration of Bonds Issued on Exchange	Tax deferred: New bonds will be in name of owner and in same forms as securities submitted except that principal coowner, as defined in Circular, may change, add or eliminate coowner or beneficiary. Non-tax deferred: Any authorized form.	Same
Cash Adjustments	If securities submitted for exchange have current value which is not an even multiple of \$500, subscriber may add cash to reach next highest multiple or receive payment of amount in excess of next lower multiple. In the latter case, amount of accrued interest included in refund must be reported currently for Federal income tax purposes.	Same

Questions and Answers about the Improved Rate on Savings Bonds

Q. What securities will receive the benefit of the interest rate increase?

A. The increase will apply to Series E and H savings bonds, U. S. Savings Notes (Freedom Shares), and the new Series EE and HH savings bonds that will go on sale after January 1, 1980.

Q. When will the increase be effective?

A. The increase will be effective with the first full semiannual interest period that begins on or after June 1, 1979. It will be calculated and paid as shown below.

SERIES E SAVINGS BONDS

Q. How will the increase be applied to current purchases of Series E bonds?

A. Series E bonds purchased on and after June 1, 1979, will yield 6-1/2 percent, compounded semiannually, when held to original maturity, five years after issue. The increase will be applied to the redemption values of the bonds as a one-time bonus at original maturity. For example, a bond purchased in June 1979 for $75 will have a redemption value of $103.28, if held until June 1984. If the bond is redeemed before original maturity, the yield will be less than 6-1/2 percent.

Q. How will the increase be applied to outstanding Series E bonds issued before June 1979 that had not reached original maturity on that date?

A. (1) Bonds issued from December 1974 through May 1979.

These bonds will reach original maturity between December 1979 and May 1984, five years after issue. The increase will be effective for the remaining time to original maturity, from the first semiannual interest period that begins on or after June 1, 1979. It will be applied to the redemption value of the bond as a one-time bonus at original maturity. The bond will not receive the benefit of the increase if it is redeemed before that date.

For example: A bond issued in January 1977 will begin another semiannual interest period in July 1979. The increase in yield will be calculated from that date to original maturity, and will be added to the redemption value as of January 1, 1982, which is the original maturity date. If the bond is redeemed before January 1982, it will not receive the increase.

(2) <u>Bonds issued from July 1974 through November 1974.</u>

These bonds will reach original maturity between July and November 1979, five years after their issue dates. As of the effective date of the increase --- June 1, 1979 --- they will have less than a full semiannual interest period remaining before they reach original maturity. For these bonds the increase in yield will be applied to their redemption values at the end of each semiannual interest period after they enter extended maturity.

For example: A bond issued in November 1974 will reach original maturity in November 1979. The increase in yield will be added to the redemption value of the bond at the end of each semiannual interest period that begins on or after November 1, 1979.

(3) <u>Bonds issued from September 1973 through November 1973.</u>

These bonds will reach original maturity between July 1979 and

September 1979, <u>five years and 10 months</u> after their issue dates. As of the effective date of the rate increase --- June 1, 1979 --- they will have less than a full semiannual interest period remaining before they reach original maturity. For these bonds the increase in yield will be applied to their redemption values at the end of each semiannual interest period after they enter extended maturity.

For example: A bond issued in October 1973 will reach original maturity in August 1979. The increase in yield will be added to the redemption value of the bond at the end of each semiannual interest period that begins on or after August 1, 1979.

(4) <u>Bonds issued from December 1973 through June 1974</u> are in their first extended maturity period June 1, 1979. See next question.

Q. How will the increase be applied to outstanding Series E bonds which were in an extended maturity period on June 1, 1979?

A. Outstanding bonds in the first, second or third extended maturity period on June 1, 1979, will have the increase in yield applied to their redemption value at the end of each semiannual interest period that begins on or after June 1.

Q. How is the interest rate increase payable on a Series E bond?

A. The interest rate increase credited to a Series E bond at original maturity or during an extension is paid as part of the redemption value when the bond is redeemed.

SERIES H SAVINGS BONDS

Q. How will the increase be applied to current purchases of Series H bonds?

A. Series H bonds purchased on and after June 1, 1979, will yield 6-1/2 percent, compounded semiannually, when held to their original maturity of 10 years after issue. The increase will be applied to the amount of each semiannual interest check. If the bond is redeemed before original maturity, the yield will be less than 6-1/2 percent.

Q. How will the increase be applied to outstanding Series H bonds issued before June 1979 that had not reached original maturity on that date?

A. Outstanding Series H bonds that have been held less than 10 years as of June 1, 1979, will receive an increase in the amount of the interest check for each semiannual interest period that begins on or after June 1.

For example: A bond issued in April 1971 will receive the improvement in the amount of the check for the semiannual interest period that begins October 1, 1979, and for each semiannual interest period thereafter.

Q. How will the increase be applied to outstanding Series H bonds that were in an extended maturity on June 1, 1979?

A. Outstanding Series H bonds in the first or second extended maturity period on June 1, 1979, will receive an increase in the amount of the interest check for each semiannual interest period that begins on or after June 1.

Q. Will the interest rate increase be applied differently to Series H bonds purchased for cash and those purchased in exchange for Series E bonds or savings notes?

A. No

Q. Will the term to maturity of E and H bonds be shortened as a result of the interest increase?

A. No. The 5 year original maturity for E bonds and 10 year original maturity for H bonds remains the same. Extended maturities for E and H bonds also remain the same.

Q. Is there any advantage to cashing in my older E and H bonds to buy new bonds after June 1?

A. No. Yields increase for all bonds, as detailed in earlier answers.

U. S. SAVINGS NOTES (FREEDOM SHARES)

Q. How will the increase be applied to outstanding savings notes?

A. All savings notes are in their first 10-year extension. They will have the increase in yield applied to their redemption values at the end of each semiannual interest period that begins on or after June 1, 1979. The interest, including the increase, is payable as part of the redemption value when the notes are redeemed.

SERIES EE AND HH SAVINGS BONDS

Q. Will the Series EE and HH savings bonds that go on sale January 2, 1980, benefit from the interest rate increase?

A. Yes.

Q. How will the increase be applied to Series EE bonds?

A. Series EE bonds will yield 6-1/2 percent, compounded semiannually, when held for five years, and they will continue to earn 6-1/2 percent thereafter to original maturity. The interest is payable as part of the redemption value when the bonds are redeemed. If they are redeemed within five years from their issue dates, the yield will be less than 6-1/2 percent.

Q. Will the term to original maturity be affected by the interest rate increase?

A. Yes. The term to original maturity, originally announced as 11 years, 9 months, will be reduced to 11 years.

Q. How will the increase be applied to Series HH bonds?

A. Series HH bonds will pay interest semiannually by check at a level rate of 6-1/2 percent. However, bonds purchased for cash will be subject to an interest adjustment if they are held for less than five years, and this will reduce the overall yield. HH bonds purchased in exchange for Series E or EE bonds or savings notes will not be subject to an interest adjustment for early redemption.