



FEDERAL RESERVE BANK
OF DALLAS

TONY J. SALVAGGIO
FIRST VICE PRESIDENT

DALLAS, TEXAS 75222

March 3, 1993

Notice 93-29

TO: The Chief Operating Officer of
each financial institution in the
Eleventh Federal Reserve District

SUBJECT

**New Minimum Savings Bonds Rate of 4% Set:
Effective for Bonds Sold Beginning March 1, 1993**

DETAILS

The Department of the Treasury has announced that the 6 percent guaranteed minimum rate on savings bonds is being lowered to 4 percent, effective March 1, 1993. Series EE bonds issued on or after March 1 will be subject to the new percent minimum rate. Outstanding Series E and EE savings bonds and savings notes will retain their previously guaranteed minimum rates until the end of their original maturity periods or current extended maturity periods. Similarly, Series HH savings bonds issued on or after March 1 will earn interest at a flat 4 percent, while outstanding Series H and HH bonds will retain their current interest rates until the end of their original maturity periods or current extended maturity periods.

This reduction in the guaranteed minimum rate is being taken in response to the substantial decline in market interest rates over the past year or so. The 6 percent guaranteed minimum rate has become an above-market rate, spurring record sales of savings bonds and calling the cost-effectiveness of the savings bond program into question. The last change in the guaranteed minimum rate took place on November 1, 1986, when the minimum was reduced to 6 percent from 7½ percent, in response to a sharp drop in market interest rates.

The market-based rate system and the other basic features of Series EE bonds remain unchanged, guaranteeing bond owners a competitive return under all market conditions. Series EE bonds held five years or longer earn the higher of the guaranteed minimum rate or the market-based rate (defined as 85 percent of the average yield during the holding period on outstanding marketable Treasury securities with five years remaining to maturity). Also, interest on Series EE bonds is exempt from State and local income taxes, and Federal tax may be deferred until a bond is redeemed or reaches final maturity. Moreover, interest on the bonds may be exempt from Federal income taxes altogether if the proceeds are used for qualified educational expenses and the holder's family income is within certain limits.

MORE INFORMATION

If you have any questions, please contact the Savings Bond Division at (800) 627-8266. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tomp. Salzman".