FISCAL AGENCY OPERATIONS OF THE FEDERAL RESERVE BANKS

The Federal Reserve Bank of St. Louis, in common with the other Reserve Banks, performs a number of services for the United States Government. Included among them are operations for the Treasury in connection with public debt transactions, activities involving receipts of revenues and payments for the account of the Federal Government and its various agencies, miscellaneous fiscal and custodial work, and certain statistical tabulation work for the Treasury. All of these are typical central banking functions; most central banks exercise similar functions for their national governments.

The Fiscal Agency Department of the St. Louis Bank, and the Fiscal Agency Departments at the branches are concerned mainly with operations for the Treasury incident to public debt transactions. About 142 people work in the department at St. Louis and 15 are employed at the three branches. Thus approximately 14 per cent of the parent Bank and branch employment is in these departments alone.

At St. Louis, the department is under the general supervision of the First Vice President and is managed directly by two Assistant Vice Presidents and an Assistant Manager. The department is divided into several divisions, each under a chief. The divisions are: Marketable Issues, Issue, Redemption and Reissue.

Most of the expenses incurred in operating the Fiscal Agency Department are reimbursable to the Bank by the Treasury. In 1950, of the total expenses of $660,000 for the departments at St. Louis and the branches, 97 per cent was reimbursable.

The Public Debt

The public debt of the United States is now about $256 billion, most of it reflecting debt incurred in connection with World War II.
tables show some detail of the volume and kind of securities (as of January 31, 1951) and the ownership of outstanding securities (as of November 30, 1950).

There are three basic types of securities now issued as debt obligations - marketable public issues, nonmarketable public issues and special issues. The marketable issues are Treasury bills, notes and bonds, the latter being divided into issues eligible for bank ownership and those restricted as to ownership by banks. The nonmarketable public issues include the various types of savings bonds, tax and savings notes and certain miscellaneous securities such as Armed Forces Leave bonds, Treasury Investment bonds, etc. The special issues are those designed for Government agencies and trust funds.

Table I
Volume and Kind of Securities (as of Jan. 31, 1951)
(In billions of dollars)

<table>
<thead>
<tr>
<th>Total debt (including guaranteed)</th>
<th>$256.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketable public issues</td>
<td>$151.6</td>
</tr>
<tr>
<td>Bills</td>
<td>$13.6</td>
</tr>
<tr>
<td>Notes</td>
<td>43.8</td>
</tr>
<tr>
<td>Bank eligible bonds</td>
<td>44.5</td>
</tr>
<tr>
<td>Restricted bonds</td>
<td>49.6</td>
</tr>
<tr>
<td>Nonmarketable public issues</td>
<td>68.2</td>
</tr>
<tr>
<td>Savings Bonds - Series D</td>
<td>0.4</td>
</tr>
<tr>
<td>Series E</td>
<td>34.7</td>
</tr>
<tr>
<td>Series F</td>
<td>3.9</td>
</tr>
<tr>
<td>Series G</td>
<td>19.2</td>
</tr>
<tr>
<td>Tax and Savings Notes</td>
<td>8.7</td>
</tr>
<tr>
<td>Other (adjusted service depository</td>
<td></td>
</tr>
<tr>
<td>bonds, Armed Forces Leave bonds,</td>
<td></td>
</tr>
<tr>
<td>2 1/2 per cent Treasury investment</td>
<td></td>
</tr>
<tr>
<td>bonds - Series A - 1965)</td>
<td>3.5</td>
</tr>
<tr>
<td>Special issues</td>
<td>34.0</td>
</tr>
<tr>
<td>Non-interest bearing debt</td>
<td>2.4</td>
</tr>
</tbody>
</table>
The debt is owned by many types of holder. About $39 billion or 15 per cent, mostly special issues, is held by Government agencies and trust funds. Another 8 per cent is held by the Federal Reserve Banks. Almost one-fourth is held by the commercial banks and another fourth by individuals, most of the latter being the savings bonds. The balance is owned by mutual savings banks (4 per cent), insurance companies (8 per cent), "other" corporations (8 per cent), state and local governments (3 per cent) and miscellaneous investors (4 per cent).

Table II
Ownership of Government Securities (as of Nov. 30, 1950)
(In billions of dollars)

<table>
<thead>
<tr>
<th>Total debt</th>
<th>$257.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Agencies &amp; Trust Funds</td>
<td>$39.1</td>
</tr>
<tr>
<td>Special issues</td>
<td>$33.7</td>
</tr>
<tr>
<td>Public issues</td>
<td>5.4</td>
</tr>
<tr>
<td>Federal Reserve Banks</td>
<td>19.7</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>61.3</td>
</tr>
<tr>
<td>Mutual Savings Banks</td>
<td>10.9</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>19.2</td>
</tr>
<tr>
<td>Other Corporations</td>
<td>20.1</td>
</tr>
<tr>
<td>State and Local Governments</td>
<td>8.1</td>
</tr>
<tr>
<td>Individuals</td>
<td>67.3</td>
</tr>
<tr>
<td>Savings bonds</td>
<td>49.7</td>
</tr>
<tr>
<td>Other issues</td>
<td>17.6</td>
</tr>
<tr>
<td>Miscellaneous (savings and loan associations, dealers and brokers, foreign accounts, corporate pension funds, nonprofit institutions)</td>
<td>11.3</td>
</tr>
</tbody>
</table>

Transactions in connection with the public debt are many and varied for the Reserve Banks. Under instructions from the Secretary of the Treasury, Federal Reserve Banks print or arrange for the printing of official circulars.
describing new offerings of Treasury issues, distribute them among all banking institutions and others interested, receive subscriptions, make allotments, receive payment and make deliveries of the securities. An unissued stock of all outstanding issues of bearer securities is maintained by the Reserve Banks for use in making deliveries on original issues and exchanges.

The Reserve Banks also redeem securities as they mature, make exchanges of denominations or kinds, handle transfers and pay interest coupons and do a number of other things involved in servicing the Government debt.

**Marketable Issues**

United States bonds (except Savings bonds which are discussed later) are issued in both coupon and registered form and in various denominations. They are freely interchangeable as between coupon and registered bonds of the same issue and as between the various authorized denominations. Registered bonds may be transferred into other names. Treasury notes, certificates of indebtedness\(^1\) and bills are available only in bearer form. Notes and certificates are freely interchangeable as between the authorized denominations but bills may be exchanged only from a higher denomination to a lower denomination.

United States coupon bonds, notes (except Treasury Savings notes), certificates and bills are payable to bearer and title thereto passes by delivery without endorsement and without notice to the Treasury Department. Interest on coupon bonds and notes is payable upon presentation and surrender of the interest coupons appertaining thereto as they mature. Interest on certificates is payable simultaneously with the principal on maturity.

A United States registered bond is payable to the registered owner or his registered assigns and may be transferred only by an assignment thereon.

\(^1\) Currently no certificates are outstanding; the last issue matured January 1 and was exchanged into notes.
duly executed by the registered owner or his authorized representative. Interest on United States registered bonds is payable by check drawn on the Treasurer of the United States to the order of the registered holder.

Treasury bills are issued on a discount basis under both competitive and noncompetitive bidding. They are payable at maturity upon presentation to the Treasurer of the United States in Washington or to any Federal Reserve Bank. Treasury bills are issued only by Federal Reserve Banks pursuant to tenders accepted by the Secretary of the Treasury. When Treasury bills are offered, tenders therefor are invited through public notice given by the Secretary of the Treasury. In such public notice there is set forth the amount of Treasury bills for which tenders are invited, the date of issue, the date when such bills will become due and payable, the date and closing hour for the receipt of tenders at the Federal Reserve Banks and branches, and the date on which payment for accepted tenders must be made or completed.

In order to assist in maintaining a uniform market for Government securities throughout the United States, a Reserve Bank is authorized to receive outstanding unmatured Government securities and to request other Reserve Banks to make delivery of a like face amount of the same issue in instances (1) where a sale is involved and where delivery by another Reserve Bank is necessary to consummate the sale, and (2) where securities are pledged on original issue as collateral to Treasury Tax and Loan Accounts and subsequently are to be withdrawn from the custody of the Federal Reserve Bank for delivery to the owner or his agent (at the risk and expense of the Treasury Department). Such transactions are called CPD transfers. They are accomplished through the exchange of telegrams between Federal Reserve Banks over leased-wire service, with appropriate reports to the Division of Public Debt Accounts and Audit and entries in Fiscal Agency accounts. With a few exceptions,
a fee of $5 for each transaction involving securities in a face amount of 
$50,000 or less and a fee of $10 for each transaction involving securities 
in a face amount in excess of $50,000 is charged. No fees are charged for 
the transfer of (a) bonds and notes during the year immediately preceding the 
date of maturity where the securities are not callable for redemption prior 
to maturity, or (b) beyond the date of notice of call for redemption where 
the securities are called for redemption prior to maturity, (c) Treasury 
bills, (d) securities pledged on original issue as collateral to Treasury Tax 
and Loan Account.

Upon receipt and acceptance by a Federal Reserve Bank (receiving 
bank) of securities for authorized transfer to another Federal Reserve Bank 
(delivering bank), the receiving bank cancels and retires the securities re­
ceived for transfer and authorizes and instructs the delivering bank to issue 
and deliver an equal amount of like securities. Upon receipt of telegraphic 
authority from a receiving bank, the delivering bank withdraws from its 
general stock securities and confirms such issue and delivery by telegram to 
the receiving bank. All Government securities received by Federal Reserve 
Banks for exchange, transfer, redemption or other authorized transactions are 
subsequently cancelled, scheduled according to issue and class of trans­
action, and forwarded to the Treasury Department for retirement.

Special Depositaries

Banks and trust companies may be designated and qualified as 
special depositaries. As such they are permitted to make payment in the form 
of a deposit credit (Treasury Tax and Loan Account) for the purchase price of 
securities bought by them on original issue for their own account or for the 
account of their customers (who enter subscriptions through such institutions 
when this method of payment is permitted). About 1,000 qualified depositaries
presently exist in this district. Under this arrangement large sums of money raised by the Treasury through financing operations are left on deposit in local banking institutions until the Treasury needs to withdraw them to meet Government expenditures. This procedure avoids sporadic tightening or loosening of the money market which would result from immediate withdrawal of such funds by the Government.

Calls for withdrawal of deposits held by special depositaries are made by direction of the Secretary of the Treasury through the Federal Reserve Banks. The depositaries are required to arrange for payment of such calls in funds that will be immediately available on the payment due date.

Before receiving deposits, special depositaries are required to pledge as collateral for such deposits securities eligible and acceptable to the Secretary of the Treasury in an amount at least equal to such deposits. (No collateral security is required for such part of deposits as are insured under Section 12B of the Federal Reserve Act creating the Federal Deposit Insurance Fund.)

The collateral posted by the special depositaries may be and usually is held by the Reserve Bank or branch of the district in which the depositary is located. The depositary may, however, place its collateral with another custodian or custodians designated by the Reserve Bank and subject to such terms and conditions as the Reserve Bank may prescribe. Under this latter procedure a depositary may execute a Letter of Agreement with its correspondent bank and post its required collateral with the correspondent. More than 150 qualified depositaries in this district have done so and, at the end of 1950, 21 commercial banks held about $15 million in such collateral security for the account of their correspondent banks subject to the St. Louis Reserve Bank’s order.
In the latter part of 1949, the Treasury Department announced a new plan for handling deposits of Withheld Income and Employment Taxes and authorized and directed the Federal Reserve Banks to receive from employers or other persons deposits of Federal taxes and to perform such other functions as might be prescribed by the Secretary of the Treasury in connection with the handling and processing of such tax deposits. The new plan also provided that any bank or trust company which desired to qualify for receiving from employers deposits of Federal taxes could apply for qualification through the Federal Reserve Bank of the district in which it was located.

Up to the present time, 699 banks and trust companies have made application and have been designated as depositaries for Federal taxes. Depositaries forward daily to the Federal Reserve Banks depositary receipts accepted from employers, together with payment in funds immediately available to the Federal Reserve Bank, or advice that funds have been credited in the Treasury Tax and Loan Account of the depositary bank.

Federal Depositary receipts received direct from employers as well as those received from depositary banks are processed by means of IBM tabulating equipment in keeping with procedural operations prescribed by the Treasury Department, after which the funds are credited to the Treasurer's General Account, the Federal depositary receipt validated and returned to the employer, together with a blank receipt for use in making subsequent deposits of Federal taxes. The validated receipts are subsequently deposited with the collectors of internal revenue in payment of taxes due quarterly. Ultimately they are returned to the Federal Reserve Banks for verification with the Reserve Bank's record set up at the time the receipt was originally processed.
Savings Bonds

In the early part of 1935 the Secretary of the Treasury offered for sale through the Postal Service United States Savings Bonds, Series A. This series of bonds was issued only in registered form, in denominations of $25, $50, $100, $500 and $1,000 (maturity value) and bore the name and address of the owner, the date of issue and the date of maturity. All such Savings Bonds were dated as of the first day of the month in which sold, and matured ten years from such issue date. After 60 days they were redeemable prior to maturity at the owner's option, in accordance with the table of redemption values set forth on the face of each bond.

The bonds were sold at a percentage of their maturity value. The purchase price was fixed so as to produce an investment yield of about 2.9 per cent per annum, compounded semi-annually if the bonds were held to maturity. If the owner exercised his option to redeem his bond prior to maturity, the yield was less. The bonds were not transferable and were payable only to the owner named thereon except in the case of death or disability of the owner. Safekeeping facilities were offered by the Secretary of the Treasury to the purchasers if they so desired, and in this connection the Secretary utilized the facilities of the Federal Reserve Banks. The Federal Reserve Banks were authorized and requested by the Secretary of the Treasury to redeem any such bonds presented for redemption prior to maturity and make payment by check drawn to the order of the owner under rules and regulations prescribed by the Treasury Department. A similar type of security was offered by the Treasury at the beginning of each year subsequent to 1935, which bonds were designated Series B, C and D. The terms and conditions of each were substantially identical with the Series A bonds. By 1941, about $5 billion (maturity value) of these "Baby Bonds" had been sold.
In order to place as many securities as possible in the hands of nonbank investors during the heavy financings of World War II, the Treasury stepped up its Savings Bond program early in 1941. Three new types of bonds were offered investors.

(1) The Series E, or Defense Savings bond, was designed primarily for small investors and restricted as to ownership to individuals in their own right. This bond was similar to and replaced the Baby Bond noted above. It was sold at discount from maturity value, matured in ten years and, if held to maturity, yielded an average of 2.9 per cent.

(2) The Series F Savings bond was designed for individual investors, large as well as small, and also for trustees, associations, pension funds and corporations. This bond matured in 12 years, was sold at a discount from maturity value, and, if held to maturity, produced an average yield of 2.53 per cent. The bond could be redeemed at any time after six months following purchase (upon 30 days notice) in accordance with a table of redemption values printed on the face of the bond.

(3) The Series G Savings bond was designed to meet the needs of savers who preferred an income type bond. It was issued at par and interest was paid semi-annually at 2 1/2 per cent per year. Like the Series F bond, maturity was 12 years, the bond could be bought by individuals and by corporations, trust funds, etc. It was not transferable but was redeemable before maturity at a penalty price.

To further the sale of the Series E bonds the Treasury designated all banks, members of the Federal Home Loan Bank System and various other types of institutions as selling agents, subject to very simple qualifications. The Reserve Banks were authorized to qualify such issuing agents and to administer regulations applicable to them.
At that time, 1,238 banks, 113 building and loan and savings and loan associations and 37 credit unions were qualified by this Bank as issuing agents. These were on a consignment basis; they were provided with necessary instructions and forms for issuance and accounting. Subsequently, other types of issuing agents were authorized - corporations and others operating payroll deduction plans, retail stores, theatres, radio stations, etc. Some 600 such issuing agents were qualified by this Bank. These latter operated on a prepayment basis. Presently there are about 1,600 issuing agents in this district.

Accountability controls are maintained by the Federal Reserve Banks for bond stock furnished issuing agents, whether on a consignment or prepayment basis. Federal Reserve Banks are required to examine the original registration stubs detached from bonds sold by issuing agents to determine whether the registration conforms with the requirements of the Treasury Department, that the date of issue is clearly shown, that the validating stamp of the issuing agent is affixed and that no alteration or erasures appear in the inscription or issue date. The stubs are then segregated by month of issue, denomination, sorted in numerical order as to each segregation, scheduled and shipped to the Chicago Office of the Division of Loans and Currency, where they are retained as a permanent record of the bonds issued.

Savings bonds of Series F and G are issued only by the Federal Reserve Banks or the Treasurer of the United States. Banking institutions may submit applications for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies, and the receipt of an application and payment at an official agency governs the dating of the bonds issued. The original registration stubs detached from Series F and G bonds are handled in the same manner as stubs
detached from Series E bonds and are forwarded to the Treasury where they are retained as a permanent record of the bonds issued.

Reissue of Savings Bonds

Savings bonds are not transferable and are payable only to the owners named thereon, except in case of the disability or death of the owner when the bonds either may be reissued or payment made to the person found to be entitled to the estate of the deceased owner. Reissue of a Savings bond is restricted to a form of registration in effect on the date of original issue of the bond. Reissue of a Savings bond in a different name or in a different form of registration is also authorized in order to (a) correct an error in the original issue, (b) to show a change in the name of an owner, co-owner or designated beneficiary, (c) to eliminate the beneficiary or change the beneficiary to a co-owner, (d) to eliminate or change the name of an owner or co-owner if either one of the co-owners is married after the issue of the bond.

The problems encountered in connection with the reissue of Savings bonds are manifold, due principally to unfamiliarity on the part of the public of the conditions under which a bond may be reissued. In the majority of reissue cases, some form of documentary evidence ranging from a simple death certificate to judgments or decisions of courts where judicial proceedings have been instituted by conflicting claimants must support the request for reissue.

Upon approval of the documentary evidence supporting a request for reissue, new bonds of like series and issue date are inscribed in keeping with the request. With respect to Series F and G bonds, the surrendered bonds as well as the new bonds are scheduled, which schedule is transmitted to the Treasury Department for release of registration. Registration is
released and reissue authorized by the Treasury Department upon the sufficiency of the evidence approved by the Reserve Banks.

If and when reissue is authorized, the new bonds are delivered in keeping with instructions given in the request for reissue and the old bonds are cancelled and forwarded to the Treasury Department.

**Redemption of Savings Bonds**

During the early years of the Savings bond program, in order to redeem Savings bonds prior to maturity, the holder was obliged to present his bonds to the Treasury Department or to any Federal Reserve Bank. Payment was made in the form of a Treasurer's check drawn to the order of the owner and mailed to him at the address given in the request for payment.

However, as the sales of Savings bonds increased tremendously during the war period, redemptions before maturity increased proportionately. The volume of redemptions in the Treasury Department and the Reserve Banks became so great that in the latter part of 1944 the Treasury designated incorporated banks and trust companies and certain financial institutions as Series A through E bond paying agents, subject to certain limitations and regulations prescribed by the Treasury Department. The Treasury authorized the Federal Reserve Banks to qualify eligible institutions upon application to the Reserve Bank of the district in which the applicant is located.

We have at present 1,556 agents qualified to redeem and pay Series E Savings bonds (and Series A - D also) upon presentation and satisfactory proof or knowledge that the person presenting the bond is the rightful owner thereof. For this service the agent is reimbursed by the Treasury Department through the Federal Reserve Banks at the rate of 15 cents each for the first 1,000 bonds, and 10 cents each for all over 1,000 bonds paid in a particular quarter. Bonds paid by the agents are subsequently submitted to the Federal
Reserve Banks where, upon receipt, immediate settlement is made for the amount shown in the transmittal letter, subject to adjustment. Various procedural operations are prescribed by the Treasury Department for verification of the amounts paid. This is done mostly on IBM tabulating equipment, after which the paid bonds are scheduled and shipped to the Treasury Department for retirement.

Armed Forces Leave bonds issued to veterans of World War II are redeemed through the same channels and processed in a manner similar to Savings bonds of Series A to E.

Federal Reserve Banks redeem all Savings bonds received direct through the mails or over the counter and make payment in the form of a Treasurer's check payable to the person entitled. Such items consist mostly of bonds which the paying agent is not authorized to redeem. For example, bonds inscribed in the name or names of a person or persons who are deceased and bonds inscribed in the names of corporations, associations, partnerships or fiduciaries. These items in most instances require documentary evidence to support the request for payment, which evidence is examined and approved by experienced personnel especially trained and thoroughly familiar with the regulations of the Treasury Department.

Series F and G Savings bonds are redeemable only at the Treasury Department and the Federal Reserve Bank subject to release of registration by the Treasury Department, and, after payment, are processed and shipped to the Treasury Department for reimbursement in a manner similar to Series A to E bonds.

John J. Christ
3/8/51