

FEDERAL RESERVE BANK OF NEW YORK

CERTIFICATES OF INDEBTEDNESS
DEPARTMENT

HANDLING CERTIFICATES OF INDEBTEDNESS

DEAR SIRs:

In response to inquiries, we have prepared this brief summary of the administrative machinery provided by the Federal Reserve Board to aid the banks of the country in subscribing to U. S. Treasury Certificates of Indebtedness. We shall be glad to supplement this information with further details regarding any special points and to furnish any of the official forms, upon request.

PAYMENT OF SUBSCRIPTION BY BOOK CREDIT

The best and, by far, the most satisfactory method for the payment of subscriptions to Certificates of Indebtedness, is by means of book credits; i. e., a bank subscribing for its regular bi-weekly quota would make an entry in its Investment Account covering the purchase of the Certificates and, on the other hand, would merely give the Federal Reserve Bank credit on its books as fiscal agent, for the amount of the purchase, such deposit drawing 2% interest. Past experience has shown that withdrawals of Government deposits thus obtained, usually extend over a period of about four weeks and that on the average about one-quarter of the account is withdrawn each week, reasonable notice of the withdrawals being given in advance. The net result is that over the period of certificate issues the purchasing bank will have an average deposit (at 2% interest) fully equal to the amount of its initial subscription, provided it subscribes its quota regularly to each succeeding issue. Banks that have already qualified as Government Depositories do not need to obtain new designation. Banks that have not qualified may do so at any time, and the procedure is extremely simple.

FINANCING WITHDRAWALS

A—By Resale to Customers

It is of course desirable (looking ahead to the Fourth Liberty Loan) that, so far as possible, banks effect a resale to customers of as large a portion as possible of the certificates subscribed for by them. If this plan is followed it will leave the banks with a substantial Government deposit (at 2%) with but a moderate amount of the certificates in their own portfolio.

B—By Conserving Credit

The definite adoption of the general policy of credit conservation should also facilitate Certificate purchases by leading to a gradual but steady return of funds now loaned out for less essential purposes. The money thus made available can, in turn, be used directly to finance the Government withdrawals.

C—By using the facilities of the Federal Reserve Bank

For such portions of the withdrawals as cannot be financed either by resales to customers or by conserving the banks' own credit, a member bank may draw on its deposit with the Federal Reserve Bank or with its correspondent, or

- (a) It may borrow on its own note from the Federal Reserve Bank for fifteen days with the purchased certificates as collateral, the present rate on this accommodation being 4%. In regard to renewals, the Federal Reserve Bank has expressly pointed out that there is nothing in the law to prevent a member bank from paying the loan as it matures and making a new loan for a smaller or larger amount for further periods of fifteen days, provided circumstances at the time the notes mature, require it; or
- (b) It may rediscount eligible commercial paper for periods up to 90 days and eligible agricultural paper for periods up to six months, applying the proceeds against the call; or
- (c) A member bank may also draw down its reserve with the Federal Reserve Bank temporarily below the required minimum, provided, however, it maintains an **average** for the month equal to the legal requirement.

Section 301 of the War Finance Corporation Act, approved April 5, 1918, provides "that no stamp tax shall be required or imposed upon a promissory note **secured by the pledge of bonds or obligations of the United States, issued after April 24, 1917,** or secured by the pledge of a promissory note which itself is secured by the pledge of such bonds or obligations: Provided that in either case the par value of such bonds or obligations shall equal the amount of such note."

NON-MEMBER BANKS

Non-member banks, when called upon for payment, also have three methods of procedure. They may draw on balances, borrow from correspondents, or sell the Federal Reserve Bank the certificates which they have purchased, with agreement on the part of the non-member to repurchase the certificates within fifteen days, the present rate on this accommodation being 4%.

Sales to the Federal Reserve Bank cannot be made for a period exceeding fifteen days, but there is nothing to prevent the repurchase of the certificates and a resale for a further period of fifteen days, if necessary.

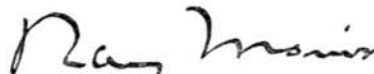
RELEASE OF CERTIFICATES

To the extent that various kinds of eligible collateral are used by banks to secure Government deposits (see Treasury Circular No. 92, which we will furnish on application), certificates which are purchased are rendered free assets, available at any time for the manufacture of credit as above set forth.

RESERVE POSITION

Certificate transactions, as herein outlined, do not affect the reserve position in any particular, as banks are not required to carry reserves against Government deposits.

Yours very truly,



Director of Sales.