CIRCULAR No. 206

(Closed)

FEDERAL RESERVE BANK
OF NEW YORK

CERTIFICATES OF INDEBTEDNESS
DEPARTMENT

September 10, 1919.

UNITED STATES TREASURY CERTIFICATES OF INDEBTEDNESS

Acceptable in Payment of Income and Profits Taxes

Series T 9, 4¼% Due March 15, 1920

Series T 10, 4½% Due September 15, 1920

TO ALL BANKS, TRUST COMPANIES, SAVINGS BANKS, BANKERS, INVESTMENT DEALERS AND PRINCIPAL CORPORATIONS IN THE SECOND FEDERAL RESERVE DISTRICT,

DEAR SIRS:

The gratifying response of subscribers to the recent issues of certificates of indebtedness offered under the plan laid out last July by the Secretary of the Treasury and the improved financial condition of the Treasury generally have induced the Treasury to believe that this is the opportune time to offer for subscription the current issues of Series T 9 and T 10, both dated and bearing interest from September 15, 1919, the certificates of Series T 9 carrying 4¼% interest and maturing in six months, on March 15, 1920, and the certificates of Series T 10 carrying 4½% interest and maturing in one year, on September 15, 1920.

The Secretary of the Treasury on September 8th addressed a letter to all banking institutions of the country giving in full detail the reasons for the substitution and issuance of "tax" certificates at this time (a copy of which for your convenient reference is attached herewith). The new certificates should appeal as a most attractive Government security to investors generally and particularly to those prospective purchasers hesitating for any reason to invest their funds on account of the railroad, labor or other internal or foreign situations. The fact also that the certificates of the six months' maturity bear but 4¼% interest enhances the character of the security, as it indicates the naturally strong present financial status of the Treasury. The Treasury Department feels that the major attractiveness of the certificates is to be found in their short maturities, valuable exemptions from taxation, certainty of payment and assurance against depreciation.

Subscriptions are now being received and banking institutions are urged to subscribe liberally and to accomplish a wide distribution by stimulating resales of the certificates to customers of the banks.

Yours very truly,

J H Case

Deputy Governor.

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Reprint of letter from the Secretary of the Treasury to all incorporated banks and trust companies.

"*Washington, D. C.*
September 8, 1919

"The third semi-monthly issue of Treasury certificates of indebtedness Series C 1920, in pursuance of the program outlined in my letter of July 25, 1919, was, in accordance with the announcement made on August 25, 1919, offered without asking the banking institutions of the country to subscribe for any specified quota. The Treasury felt confident that these certificates could be sold in amounts more than sufficient to meet the reduced needs of the Government without assigning the usual quota to individual banking institutions.

"This confidence was amply justified by the event. The certificates of Series C 1920 were dated September 2 and subscriptions closed on September 3, the following day. The aggregate amount of certificates of this series subscribed for and allotted was $573,841,500, a sum greater by about $40,000,000 than the amount subscribed for either of the two preceding issues each of which had definite quota assignments and remained open a week after the date of issue.

"This aggregate was in excess of the immediate requirements of the Treasury, but allotment was nevertheless made in full upon all subscriptions made on the date of issue and the day following, in order not to disappoint those subscribers who had presented their subscriptions with reasonable promptness; and the opportunity was taken to redeem on September 15 the certificates of Series V K maturing October 7, 1919, (the last of the certificates issued in anticipation of the Victory Loan). The redemption of these certificates should have a beneficial effect in connection with the large payments of income and profits taxes due on September 15.

"The aggregate amount of Treasury certificates of indebtedness still outstanding on August 30 of the several series maturing or called for redemption on September 9 and 15, 1919, was $1,799,041,500. This entire sum (which has since been reduced by exchanges and cash redemptions) is provided for from cash in bank and income and profits taxes due September 15, leaving an ample balance in the general fund.

"There remain no maturities of certificates to provide for prior to 1920 as the certificates maturing December 15 are more than covered by the income and profits tax installment due on that date.

"In the month of August just past ordinary and special disbursements exceeded ordinary receipts by less than $500,000,000. In September, because of the income and profits tax installment payment, ordinary receipts should exceed ordinary and special disbursements by approximately $500,000,000.

"The success of recent issues of Treasury certificates, the fortunate cash position of the Treasury at the moment, and the reinvestment demand which will result from the payment of so large an amount of certificates on or before September 15 create a situation which should be availed of to make an important step forward in financing the debt growing out of the war.

"In my letter of July 25, above referred to, I indicated that the Treasury certificate program might be varied at opportune times by the substitution of issues of tax certificates. This obviously is an opportune time, and accordingly the Treasury is offering two series of so-called tax certificates, both dated September 15, 1919, Series T 9, maturing March 15, 1920, and bearing interest at the rate of 4¼%, and Series T 10 maturing September 15, 1920 and bearing interest at the rate of 4½% payable semi-annually.

"It is not possible to say definitely when semi-monthly issues of loan certificates will be resumed nor upon what terms they will be issued; but such issues will certainly not be resumed before October 15, and the minimum amount offered should not exceed $250,000,000.

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"In view of the important fact that now for the first time in over a year certificates (of Series T 9, maturing March 15) are offered at a lower rate than 4½% I deem it proper to say that, if hereafter certificates maturing on or before March 15, 1920 should be issued bearing interest at a higher rate than 4¼% certificates of Series T 9 will be accepted at par with an adjustment of accrued interest in payment for certificates of such series which may be subscribed for and allotted.

"I hope that each and every banking institution in the United States will not only subscribe liberally for one or both issues of the certificates now offered but also will use its best endeavors to procure the widest possible redistribution of such certificates among investors. The certificates, although acceptable in payment of income and profits taxes payable at maturity, are, as you know, payable in cash when they mature, and should make a wide appeal to investors generally because of their valuable exemptions from taxation and attractive maturities. The success of these issues will be an important advance in the process of financing the war debt in such a way as to avoid the necessity for great refunding operations, by spreading maturities and meeting them, so far as may be, out of tax receipts. Incorporated banks and trust companies which are not qualified depositaries are urged to become such in order that they, like others, may participate in the temporary deposits growing out of these issues.

"The patriotic, loyal, and enlightened support which the banking institutions of the country gave to the Treasury during the darkest days of the war and continued through the perhaps more difficult period after the cessation of hostilities, when war expenditures were at their peak, justifies the Treasury in addressing to them this confident appeal now that the turn of the tide has come.

Cordially yours,

CARTER GLASS."