

FEDERAL RESERVE BANK  
OF NEW YORK

GOVERNMENT LOAN ORGANIZATION

November 3, 1919

DEALINGS IN LIBERTY BONDS

TO ALL BANKS, TRUST COMPANIES, AND SAVINGS BANKS  
IN THE SECOND FEDERAL RESERVE DISTRICT,

DEAR SIRs:

The following letter from the Secretary of the Treasury is of such importance that we believe it deserves your most careful consideration:

"As you know, we have always urged Liberty Bond holders, particularly small bond-holders, to sell their bonds, when obliged by urgent necessity, through their own bank or trust company or some reputable bond dealer. In many localities, the bank or trust company is the only reputable medium for effecting sales of the bonds, and in most places the bank or trust company has far more contact with the ordinary small bondholder than the reputable investment houses and brokers. In these circumstances it is of the utmost importance that banks and trust companies co-operate so far as possible and undertake to buy Liberty Bonds from their customers or make arrangements for the purchase.

"Much the same situation exists as to loans on Liberty Bonds. The Treasury has always told bondholders that their own banks should be willing to loan to them up to at least ninety per cent of the face value of the bonds at reasonable rates of interest and, as I understand it, the policy of the Federal Reserve Board and the Federal Reserve Banks toward loans by banks has been framed accordingly.

"Reports which come from time to time, sometimes orally and sometimes in the newspapers and occasionally by letter, indicate that the banks are not altogether supporting the Treasury in its attitude in these two respects, and I wonder whether it would not be possible to call upon the banks for greater co-operation. I think (the City of) . . . is a fair example of the situation which probably exists in many other cities. As I understand it, most of the banks in . . . refuse to handle even for their regular customers small sales of Liberty Bonds and in many cases to make small loans on Liberty Bonds. Many of the banks, for example, customarily refer customers to local brokerage and loaning companies rather than take the trouble of having these small dealings with Liberty Bond holders."

Co-operation on the part of banking institutions has been so generous in connection with the Treasury financing that we would hesitate to suggest the urgency of the Secretary's proposals, were the matter one of less vital importance to the Government and the public generally. It is believed that the small amount of time and effort required to accommodate persons who must either sell their Government bonds or borrow against them would be more than compensated for in the improvement of the market position of Government issues, which is of course a matter of great interest to all of us. We are therefore asking your further co-operation in order that this situation may be corrected as promptly as possible.

Yours very truly,

BENJAMIN STRONG,

Governor.