

**FEDERAL RESERVE BANK  
OF NEW YORK**

Fiscal Agent of the United States

[ Circular No. 2865 ]  
November 13, 1944 ]

**SIXTH WAR LOAN  
Speculative Subscriptions  
Abuse of War Loan Deposit Privilege**

*To all Banking Institutions  
in the Second Federal Reserve District:*

The Secretary of the Treasury has requested the banks of the country to aid in the elimination of speculative subscriptions for Government securities during the Sixth War Loan Drive which begins November 20, 1944. The principal objective of the drive is to sell as many securities as possible to non-bank investors, who will retain their investment unless there arises a pressing and urgent need for its liquidation. Banks can help achieve this objective by continuing to give their enthusiastic support to the sales program of the War Finance Committees of the district, by declining to make loans to their customers, or others, which will permit speculative subscriptions for the marketable obligations offered during the drive, and by discouraging subscriptions made in anticipation of quick resale after the close of the drive.

A procedure has been formulated for dealing with speculative subscriptions. It was set forth in a letter addressed to all banks by the Secretary of the Treasury, under date of November 1, 1944, and was part of the information concerning the Sixth War Loan Drive included in this bank's Circular No. 2857, also dated November 1, 1944. You are asked to examine subscriptions for marketable issues presented through your bank to see if the amounts of such subscriptions are in excess of the ability of the subscribers to pay for the securities. If, in your opinion, subscriptions are in excess of ability to pay, or appear to have been submitted for the purpose of acquiring securities for resale shortly after the drive, you are requested to submit a statement of the circumstances and all available information to the Federal Reserve Bank of New York, as fiscal agent of the United States, for the attention of the Securities Department. This bank will then send you instructions, as promptly as possible, as to the disposition to be made of each case.

A supplementary abuse appears to be developing in connection with war loan deposit accounts. Apparently some banks have solicited sales of outstanding securities, either directly from customers or through the Government securities market, with the understanding that the sellers will use the proceeds of such sales to pay for subscriptions entered through these banks for substantially equivalent amounts of new securities offered during the drive. The initiative has also come from present holders of securities, who wish to sell the securities to a bank, with the same understanding with respect to a subsequent subscription to be made through the bank. In either case the banks appear, in effect, to be purchasing the privilege of creating war loan deposit balances, an undesirable practice in itself and one which exaggerates natural adjustments in security portfolios.

Ample provision has been made in the Sixth War Loan Drive for the sale of securities to investors who have accumulated funds, who can pay out of current income, who can pay with the proceeds of normal portfolio adjustments, who wish to borrow and buy in anticipation of future income\*, or who can use a deferred payment plan. Every effort should be concentrated on making the maximum amount of sales to such investors.

Specifically, you are requested:

1. Not to make loans to facilitate speculative purchases of Government securities;
2. Not to make loans for the purpose of acquiring indirectly, for your own account, securities offered in the drive to non-bank subscribers; and
3. Not to solicit sales of outstanding Government securities, either directly from your customers or through the Government securities market, with an understanding that the sellers will use the proceeds of your purchase to pay for subscriptions entered through your bank during the drive.

The twelve Federal Reserve Banks are endeavoring to obtain the utmost support from the banking community for the Treasury's policies with respect to speculative subscriptions and the use of war loan deposit accounts, so that there may be uniform treatment of subscribers throughout the country. The banks of this district have cooperated in similar efforts during past drives. By continuing to do so, they can help to assure the real success of the Sixth War Loan.

ALLAN SPROUL,  
*President.*

\* The Treasury has stated that it is in favor of banks making loans to facilitate *permanent* investment in Government securities provided such loans are made in accord with the general statement issued by the National and State supervisory authorities on November 23, 1942. This statement was in part as follows:

" . . . subscribers relying upon anticipated income may wish to augment their subscriptions by temporary borrowings from banks. Such loans will not be subject to criticism but should be on a short term or amortization basis fully repayable within periods not exceeding six months."