

**FEDERAL RESERVE BANK  
OF NEW YORK**

Fiscal Agent of the United States

[ Circular No. 2919 ]  
March 22, 1945.

**SEVENTH WAR LOAN**

**Elimination of Speculative Subscriptions  
Abuse of War Loan Deposit Privilege  
Portfolio Adjustments by Non-Bank Investors**

*To all Banking Institutions, and Others Concerned,  
in the Second Federal Reserve District:*

There were three statements in the preliminary announcement by the Secretary of the Treasury concerning the Seventh War Loan Drive (set forth in our Circular No. 2913, dated March 3, 1945) which it is desirable to emphasize at this time when transactions related to the offering of securities in the drive may be under consideration. These statements were, in substance, as follows:

1. In order to help in achieving the objective of selling as many securities as possible outside of the banking system, the Secretary will request the cooperation of all banking institutions in declining to make speculative loans for the purchase of Government securities, in declining to accept subscriptions from customers which appear to be entered for speculative purposes, and in not making loans for the purpose of acquiring drive securities later for their own account.
2. The acquisition of outstanding securities by banks on the understanding that a substantially like amount of the new securities will be subscribed for through such banks, thus enabling them to expand their war loan deposit balances, is regarded as an improper practice by the Treasury. The Secretary will request banking institutions not to make such purchases.
3. The Treasury requests that all non-bank investors refrain from selling securities heretofore acquired to obtain funds to subscribe for the securities offered in the Seventh War Loan Drive. However, this request is not intended to preclude normal portfolio adjustments.

The meaning of the first request is believed to be well understood by the banks and their customers.

The second request relates to a practice which has developed during the more recent war loans. Your aid in its prevention was sought prior to the opening of the Sixth War Loan, and the statement then contained in our Circular No. 2865, dated November 13, 1944, is repeated here:

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

(OVER)

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.

The third request grows directly out of the experience of the Sixth War Loan, when a large amount of indirect bank participation was the consequence of heavy sales of previously acquired securities by holders other than commercial banks, who wished to increase their drive subscriptions and who found it profitable to do so in this way. The Treasury's request is not, of course, intended to interfere with normal portfolio adjustments of non-bank investors. It is recognized that investment requirements change in response to changes in income, the character of liabilities and other factors, and that a realignment of maturities may be appropriate from time to time. It is also recognized that, between drives, investors properly make use of short-term securities, such as Treasury bills and certificates of indebtedness, as a temporary means of employment of cash balances pending reinvestment of such funds in obligations having more appropriate rates and maturities when they become available in succeeding war loan drives. It is not possible, therefore, to define precisely each type of transaction embraced in the Treasury's request. It is believed, however, that portfolio managers and non-bank investors, in most cases, will be able to distinguish between sales of Government securities merely to obtain funds with which to subscribe for securities offered in the Seventh War Loan Drive, and sales representing normal portfolio adjustment.

The whole-hearted compliance of all banks and their customers with the spirit of these requests will be of the greatest aid in helping to achieve the Treasury's objective of selling as many Government securities as possible outside the banking system. It will contribute to the real success of the Seventh War Loan Drive.

ALLAN SPROUL,  
*President.*