

**FEDERAL RESERVE BANK
OF NEW YORK**

Fiscal Agent of the United States

[Circular No. 4201]
February 23, 1955]

CHAIN-LETTER SCHEME USING SAVINGS BONDS

*To All Issuing Agents in the Second Federal Reserve District
Qualified for Sale of United States Savings Bonds, Series E:*

The Savings Bonds Division of the Treasury Department recently issued a statement indicating the Treasury's disapproval of a reported chain-letter scheme using Savings bonds, and cautioning the public against becoming involved in it. The text of that statement is reprinted on the reverse side of this circular.

The Treasury Department has now asked us to transmit the following statement of the Post Office Department, issued February 10, on the same problem:

POST OFFICE DEPARTMENT WARNS OF CHAIN LETTER PARTICIPATION

Postmaster General Arthur E. Summerfield moved today to head off what purports to be another wave of chain letters sweeping through the nation.

In making this announcement, Postmaster General Summerfield said that this new chain letter scheme differs from those encountered in past years in that U. S. Savings bonds or, in some instances, receipts for the purchase of bonds are being transmitted through the mails without the accompanying list of names. The list itself is circulated from hand to hand.

A typical endless chain "chart" being circulated in the conduct of these schemes is one entitled "This is a give-away-your-wealth campaign (possible return of \$38,400 or \$51,200 if you wait 10 years)." Participants in this scheme obtain the list by giving a receipt for purchase of a \$25 Savings bond to the person supplying the list. In the latter's presence, the purchaser is also to mail to the individual whose name appears at the top of the list a receipt for purchase of a second \$25 Savings bond. Two copies of the list are then to be made, eliminating the first name and adding the name of the purchaser, who then endeavors to continue the chain by selling the list to two others willing to comply with the same conditions of purchase.

The Postmaster General has advised that each scheme of this character will be investigated fully and submitted to the Department of Justice for its consideration of possible violation of Federal criminal statutes. He also stated that the Internal Revenue Service is studying the matter to determine whether this scheme involves a violation of the wagering tax statutes and other internal revenue laws.

The experience of the Post Office Department with such endless chain schemes over a period of many years is that in some instances a few persons entering the scheme at the outset receive more than they put in, but never receive the large sums promised; and that many participants receive nothing at all, but lose their entire investment. Such an outcome is inevitable inasmuch as the supply of interested persons is soon exhausted; and the greater the amount to be invested, the sooner the saturation point will be reached.

The Treasury Department authorizes and requests all issuing agents to reject applications for the purchase of Savings bonds where the applicant states, or where the agent has reason to believe, that the applications are made as part of the chain-letter scheme. Authority for this action is contained in Sec. 316.20(b) of Treasury Department Circular No. 653, which reads as follows:

The Secretary of the Treasury reserves the right to reject any application for Series E bonds, in whole or in part, and to refuse to issue or permit to be issued hereunder any such bonds in any case or any class or classes if he deems such action to be in the public interest, and his action in any such respect shall be final.

Additional copies of this circular will be furnished upon request.

ALLAN SPROUL,
President.

(OVER)

TREASURY CAUTIONS PUBLIC ABOUT SAVINGS BONDS LOTTERIES
AND GAMES OF CHANCE

Washington, D. C.,
January 19, 1955.

TREASURY DEPARTMENT,
SAVINGS BONDS DIVISION.

The Treasury's National Savings Bonds Director, Earl O. Shreve, cautioned Americans today about becoming involved in chain letter or similar schemes to get rich quick with Savings bonds.

He stated that the Treasury Department disapproves of the use of Savings bonds and Savings stamps as prizes or awards in lotteries or games of chance involving the element of personal profit. "This has been a policy of long standing," he pointed out. The Treasury has no objection, however, to the use of Savings bonds and stamps in contests of knowledge or skill, such as quiz programs and athletic events.

What prompted the Treasury's words of caution were newspaper articles, particularly in the south and east, reporting a get-rich-quick scheme reminiscent of the chain letter craze of a few years ago. Instead of money, Savings bonds are used, and instead of sending the bonds through the mail they are being delivered in person. Wherever the plan has been started in a town, banks have reported a quick depletion of the \$25 Savings bond being used. Letters and telephone calls from interested persons who have been contacted to participate in the scheme have been deluging the Savings Bonds Division.

Mr. Shreve pointed out that the Treasury's objection is based upon consideration of public policy and in no way involves the legality or illegality of this or any device or method employed.

"The purchase and distribution of Savings bonds through the so-called 'chain-letter' arrangement, which has been brought to my attention by newspaper articles and personal inquiries to the Treasury Department, is contrary to the policy of the Treasury's intended purpose for which such Savings bonds are sold by the Government.

"United States Savings Bonds are issued by the Treasury to permit our citizens to invest in securities of the Government and through their savings put aside regularly something for future use and benefit. It is my understanding that this present scheme serves no such purpose."

Mr. Shreve would still like to see heavy Savings bonds purchases by millions of Americans in every bank, but he wants them to be purchases for themselves and their loved ones as "gifts today for a brighter tomorrow."