FEDERAL RESERVE BANK
OF NEW YORK

Fiscal Agent of the United States

[Circular No. 4809
November 19, 1959]

TREASURY FINANCING

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

The following statement was made public today:

The Treasury Department announced today the following offerings of public debt obligations:

$2,000 million, or thereabouts, for cash, of 320-day Treasury bills to be dated December 2, 1959, and to mature October 17, 1960.

Series F and G savings bonds issued in 1948, and maturing in 1960 ($1,600 million outstanding), may be exchanged during the period from November 23 to November 30, at face value, with certain interest and other adjustments to December 15, 1959, for 4¾ percent Treasury notes, dated July 20, 1959, maturing May 15, 1964, to be issued at 99¾ percent and accrued interest to December 15, 1959.

The Treasury also made a preliminary announcement concerning a proposal to permit holders of Series E savings bonds, and unmatured Series F and J savings bonds to exchange them, effective January 1, 1960 and thereafter, for Series H savings bonds, subject to deferral of gain on the exchange for Federal income tax purposes.

Treasury bills

The $2,000 million of 320-day Treasury bills will be offered for cash on an auction basis to cover the current requirements of the Treasury. This is the fourth and final step in the Treasury's program for the establishment of a pattern of one-year maturities on quarterly dates in January, April, July and October, which was initiated on April 1, 1959.

Tenders for the Treasury bills will be received at the Federal Reserve Banks and Branches up to the closing hour at 1:30 o'clock p.m., Eastern Standard time, on Tuesday, November 24, 1959. The bills will be dated December 2, 1959, and will mature October 17, 1960.

All subscribers to this issue of Treasury bills are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of the Treasury bills for which tenders are submitted under this offering, until after the closing hour for tenders on November 24. The bills may be paid for by credit in Treasury Tax and Loan Accounts.

Full details regarding the offering of these 320-day Treasury bills are being released at this time.

Exchange offering to holders of Series F and G savings bonds issued in 1948 and maturing in 1960

The Treasury also announced that it is offering to the holders of approximately $1,600 million of Series F and G savings bonds issued in 1948, which mature in 1960, an opportunity to exchange them at their face amount, with certain interest and other adjustments as of December 15, 1959, for 4¾ percent Treasury notes, dated July 20, 1959, maturing May 15, 1964, to be issued at a price of 99¾ percent. These 4¾ percent Treasury notes will constitute an additional amount to the $4,184 million of such notes now outstanding (including $2,666 million held by the Federal Reserve Banks and Treasury Investment Accounts), and which were issued on July 20, 1959. Interest is payable on the notes on May 15 and November 15.

The subscription books for exchanges of the Series F and G savings bonds maturing in 1960 will be open only during the period from November 23 to November 30, 1959, inclusive. Any subscription addressed to a Federal Reserve Bank or Branch, or to the Treasurer of the United States, and placed in the mail before midnight Monday, November 30, 1959, will be considered timely.

The delivery date for the 4¾ percent Treasury notes will be December 15, 1959. The notes will be made available in registered form, as well as bearer form. Notes in registered form, however, may not be available for immediate delivery on December 15, as special printing arrangements have to be made for registered notes. In the interim, notes in conventional bearer form will be available to subscribers.

Exchange of Series F and G savings bonds maturing in 1960 will be made on the basis of equal face amounts, and allotments will be made in full. Since holders of the Series F and G bonds will receive interest on the new notes at the rate of 4¾ percent from November 15, 1959, interest adjustments will be made as follows: All subscribers will be charged accrued interest on the 4¾ percent notes from November 15, 1959, to December 15, 1959 ($4.00 per $1,000), and will be credited with the discount on the issue price of the notes ($2.50 per $1,000).

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The Series F and G bonds will be accepted in the exchange at amounts set forth in the offering circular. These exchange values have been fixed to provide the holders of such bonds an investment yield approximately 1 percent more than otherwise would accrue from December 15, 1959, until their respective maturity dates, less an amount equal to the interest which will accrue on the 4¾ percent Treasury notes during the corresponding period. The effect of these adjustments will also provide for the 4¾ percent Treasury notes an investment yield of approximately 4.81 percent per annum from the respective maturity dates of the Series F and G bonds to May 15, 1964, the maturity date of such notes.

The lowest denomination of the 4¾ percent Treasury note is $1,000. Holders of smaller denomination Series F and G bonds may exchange them for the next higher multiple of $1,000 upon payment of any cash difference.

Full details of this offering to holders of Series F and G bonds appear in the official circular being released at this time and which will be available at banking institutions on Monday, November 23. Holders may consult their local banks for further information after that time.

Exchange of Series E, F, and J for Series H savings bonds

The Treasury further announced that regulations will be issued in December, under which holders of outstanding Series E savings bonds, and unmatured Series F and J savings bonds, effective on January 1, 1960, and thereafter, may exchange them at current redemption values for Series H bonds, and have the privilege of treating the increase in redemption value (to the extent not previously included in gross income) in excess of the amount paid for such Series E and unmatured Series F or J bonds includable in gross income in the taxable year in which the Series H bonds are finally redeemed or disposed of, or in the taxable year of final maturity, whichever is earlier. Exchanges of Series E and unmatured Series F and J savings bonds under these conditions are authorized in the law requested by the Treasury, and enacted by the Congress during its last session, approved September 22, 1959.

The offering circular will contain a provision with respect to this exchange, reading as follows:

> Pursuant to the provisions of Section 1037(a) of the Internal Revenue Code of 1954 as added by Public Law 86-346 (approved September 22, 1959), the Secretary of the Treasury hereby declares that no gain or loss shall be recognized for Federal income tax purposes upon the exchange with the United States of the Series E, F, and J savings bonds solely for the Series H savings bonds. Gain or loss, if any, upon the obligations surrendered in exchange will be taken into account upon the disposition or redemption of the new obligations.

The effect of this proposed action by the Treasury will permit many persons who hold amounts of Series E and unmatured Series F and J bonds on which the interest earnings are reflected in the increase in redemption value from date of issue until maturity, or earlier redemption prior to maturity, to exchange them for Series H current income bonds on which interest is payable each six months by check issued to the bondowner.

Presently, persons redeeming their Series E, F, and J savings bonds to purchase Series H bonds are required to include the increase in value (difference between cost and redemption value) in their income tax returns in the years in which the transactions occurred, unless such increment has been included previously in their gross income. Under the proposed exchanges effective after January 1, 1960, payment of income taxes on the increase in value may be deferred until the Series H bonds are finally redeemed or disposed of, or until the taxable year of final maturity, whichever is earlier.

Exchanges of the Series E and unmatured Series F and J bonds for Series H bonds will be authorized without regard to the annual limitation of $10,000 of Series H bonds which may be purchased under current regulations.

Series H savings bonds are issued at par. They are dated the first day of the month in which payment is received and mature ten years thereafter. Interest is payable on a graduated basis and is equivalent to a rate of 3¾ percent if the bonds are held until maturity. The bonds are issued in denominations of $500, $1,000, $5,000, and $10,000. For each $100 of investment, interest is paid amounting to $2.25 for the first year, $3.60 for the second year, and $4.00 for each year thereafter until maturity. Further details governing the exchange and instructions to bondowners are now being prepared, and will be released near the middle of December 1959, at which time additional information may be obtained from local banking institutions.

Series H savings bonds are issued only at Federal Reserve Banks and Branches, and at the Treasury Department in Washington.

The circular and tender form for the Treasury bill offering are enclosed with this circular to those on our mailing lists to receive notices of Treasury bill offerings. The circular and subscription form for the exchange offering will be mailed to reach those on our mailing lists to receive notices of Treasury offerings other than bills by Monday, November 23.

Alfred Hayes,
President.