

**FEDERAL RESERVE BANK  
OF NEW YORK**

Fiscal Agent of the United States

[ Circular No. 5153 ]  
February 15, 1962

**ADVANCE REFUNDING OFFER**

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

The following statement was made public today by the Treasury Department:

The Treasury announced today that it will offer holders of nearly \$19 billion of outstanding bonds an opportunity to extend their holdings at higher yields. For the first time, the Treasury is combining in one operation a "junior" advance refunding (in which holders of relatively short-term maturities are given an opportunity to move into an intermediate maturity) and a "senior" advance refunding (in which holders of intermediate-term securities may exchange into a longer term issue).

Holders of \$10.8 billion of two bonds issued in February and June 1958, and maturing in February 1964 and February 1965, will be given an opportunity to exchange them for a new 4 percent bond to mature in August 1971. In addition, holders of one of these bonds, the 2½ percent issue maturing in 1965, will be given a second option—the right to exchange for additional amounts of the outstanding 4 percent bond maturing in February 1980.

The "senior" portion of this advance refunding is available to all holders of the 2½ percent bonds maturing in June, September and December, 1967-72. These bonds were originally issued in 1941 and 1945. Holders will have the option of selecting either the 3½ percent bonds maturing in February 1990 or the 3½ percent bonds maturing in November 1998.

The Treasury is making it possible for investors to gain additional income at terms mutually advantageous to the Treasury and themselves, by extending the maturity of their holdings for additional periods ranging between 6½ and 26½ years. As explained below, holders will be expected in most cases to make small cash payments to supplement the outstanding bonds which they submit in exchange for new or additional amounts of other bonds. In order to equal the terms of this offering through any alternative investment, investors would otherwise have to reinvest the proceeds of their present holdings, on maturity, at interest rates ranging from 4.30 to 4.38 percent.

The exchange of old for new securities will not be treated as a sale and purchase for tax purposes, thereby avoiding the immediate charging of book losses on the securities being accepted by the Treasury in exchange for the new issues.

To the extent that investors choose to extend the maturity of their existing holdings, the Treasury will have accomplished some needed restructuring of its outstanding debt, without diverting from productive purposes in other sectors of the economy the new savings currently flowing into the intermediate and longer term capital markets. Books will be open for subscriptions beginning Monday, February 19, and will remain open through Wednesday, February 21. In addition, individuals will be allowed to subscribe for a further period through Wednesday, February 28.



## Terms and Conditions of the Advance Refunding Offer

1. To all holders owning \$500, or more, of the following outstanding Treasury bonds:

Description of bonds	Issue date	Final maturity date	Remaining term to final maturity (Yrs.-Mos.)	Amount outstanding (in billions)
3% bonds 1964	Feb. 14, 1958	Feb. 15, 1964	1 — 11½	\$3.9
2½% bonds 1965	June 15, 1958	Feb. 15, 1965	2 — 11½	6.9
2½% bonds 6/15/67-72	June 1, 1945	June 15, 1972	10 — 3½	1.8
2½% bonds 9/15/67-72	Oct. 20, 1941	Sept. 15, 1972	10 — 6½	2.7
2½% bonds 12/15/67-72	Nov. 15, 1945	Dec. 15, 1972	10 — 9½	3.5

2. New bonds to be issued (or additional amounts of outstanding issues):

Description of bonds	Issue date	Amount outstanding (in billions)	Interest starts <sup>1</sup>	Interest payable
4% bonds of Aug. 15, 1971	Mar. 1, 1962	—	Mar. 1, 1962	Feb. 15 & Aug. 15
4% bonds of Feb. 15, 1980	Jan. 23, 1959	\$ .9	Mar. 1, 1962	Feb. 15 & Aug. 15
3½% bonds of Feb. 15, 1990	Feb. 14, 1958	4.0	Mar. 1, 1962	Feb. 15 & Aug. 15
3½% bonds of Nov. 15, 1998	Oct. 3, 1960	3.5	Mar. 1, 1962	May 15 & Nov. 15

<sup>1</sup> Interest on the bonds surrendered stops on March 1, 1962.

3. Terms of the exchange:

Exchanges will be made on the basis of equal face amounts, with payments to the Treasury, and with adjustments of accrued interest to March 1, 1962, on the bonds surrendered, and on the bonds issued in the exchange (per \$100 face amount), as indicated below:

Bonds to be exchanged	Bonds to be issued	Amount of purchase price of bonds to be issued		Accrued interest		Net amount		Extension of maturity Yrs.-Mos.
		To be collected from subscriber	To be paid to subscriber	To be collected from subscriber	To be paid to subscriber	To be collected from subscriber	To be paid to subscriber	
3%—2/15/64	4% 1971	—	\$ .11602	—	—	\$ .11602	—	7 — 6
2½%—2/15/65	4% 1971	\$2.00	.10152	—	—	—	\$1.89848	6 — 6
	4% 1980	.25	.10152	\$ .15470	—	—	.30318	15 — 0
2½%—6/15/72	3½% 1990	1.25	.52198	.13536	—	—	.86338	17 — 8
	3½% 1998	—	.52198	1.02486	—	—	.50288	26 — 5
2½%—9/15/72	3½% 1990	1.50	1.15331	.13536	—	—	.48205	17 — 5
	3½% 1998	.25	1.15331	1.02486	—	—	.12155	26 — 2
2½%—12/15/72	3½% 1990	1.75	.52198	.13536	—	—	1.36338	17 — 2
	3½% 1998	.50	.52198	1.02486	—	—	1.00288	25 — 11

Coupons dated August 15, 1962, on the 3% and 2½% bonds; coupons dated June 15, 1962, on the 2½% bonds of June 15, 1972, and December 15, 1972; and coupons dated March 15, 1962, on the 2½% bonds of September 15, 1972, in bearer form should be attached to the bonds when they are surrendered for exchange. Accrued interest on the 3% bonds of 1964 will be paid to subscribers, in the case of bearer bonds following their acceptance, and in the case of registered bonds following discharge of registration in accordance with the assignments on the bonds surrendered.

4. Limitation on amount of bonds to be issued:

The amount of the new or additional bonds to be issued under this offering will be limited to the amount of the eligible 3%, 2½%, and 2½% bonds tendered in exchange and accepted.



## 5. Books open for subscription for the new or additional bonds:

The books will be open for the receipt of subscriptions from *ALL* classes of subscribers from Monday, February 19, through Wednesday, February 21, 1962. In addition, the books will also be open for the receipt of subscriptions from *individuals* through Wednesday, February 28. For this purpose, individuals are defined as natural persons in their own right. Subscriptions placed in the mail by midnight of the respective closing dates, addressed to the Treasurer, U. S., Washington 25, D. C., or any Federal Reserve Bank or Branch, will be considered as timely. The use of registered mail is recommended for bondholders' protection in submitting bonds to be exchanged. The 4% bonds of 1971 and 4% bonds of 1980 will be delivered to subscribers on March 9, 1962. The 3½% bonds of 1990 and 3½% bonds of 1998, will be delivered on March 16, 1962.

## 6. Requirements applicable to subscriptions:

Subscriptions will be received at Federal Reserve Banks and Branches and at the Office of the Treasurer of the United States, Washington 25, D. C. Banking institutions generally may submit subscriptions for account of customers, provided the names of the customers are set forth in such subscriptions.

## 7. Denominations and other characteristics of the new or additional bonds:

\$500, \$1,000, \$5,000, \$10,000, \$100,000, and \$1,000,000 in coupon and registered forms. They will be acceptable to secure deposits of public moneys.

## 8. Nonrecognition of gain or loss for Federal income tax purposes:

(a) *Where the exchange is solely of the 3%, 2½%, or 2½% bonds surrendered for exchange for the new or additional bonds*—the Secretary of the Treasury has declared pursuant to section 1037(a) of the Internal Revenue Code that no gain or loss shall be recognized for Federal income tax purposes upon the exchange.

(b) *Where premium is paid by the subscriber*—if a premium is paid by the subscriber no gain or loss will be recognized; but his tax basis in the new or additional 4% or 3½% bonds will be his cost basis in the 3%, 2½%, or 2½% bonds surrendered for exchange *increased* by the amount of the premium.

(c) Gain or loss, if any, upon the 3%, 2½%, or 2½% bonds surrendered in exchange will be taken into account upon the disposition or redemption of the 4% or 3½% bonds issued in exchange.

9. *Federal estate tax option on the additional bonds*—the 4% Treasury bonds of 1980 and the 3½% Treasury bonds of 1990 and 1998 will be redeemable at par and accrued interest prior to maturity for the purpose of using the proceeds in payment of Federal estate taxes *but only if they are owned by the decedent at the time of his death and thereupon constitute part of his estate*. Accordingly, estates of decedents to which the similar option in the 2½% Treasury bonds of 1967-72 has accrued at the date of exchange cannot make the exchange with the expectation of using the proceeds of redemption of the 4% bonds of 1980 or the 3½% bonds of 1990 and 1998 prior to maturity in payment of estate taxes because such bonds were not owned by the decedent at the time of his death.10. *Book value of new bonds to banking institutions*—the Comptroller of the Currency, Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation have indicated to the Treasury that banks under their supervision may place the new or additional bonds received in exchange on their books at an amount not greater than the amount at which the eligible bonds surrendered by them are carried on their books plus the amount of premium, if any, paid on the new bonds. They will so advise their examiners.11. *Computation of reinvestment rate for the extension of maturity*—a holder of the outstanding eligible 3%, 2½%, or 2½% bonds has the option of accepting the Treasury's exchange offer or of holding the bonds to maturity. Consequently, he can compare the interest he will receive resulting from exchanging now with the interest that he might obtain by reinvesting the proceeds of the 3%, 2½%, or 2½% bonds at maturity.



The interest income before tax for making the extension now through exchange will be the coupon rates on the new issues. If a holder of the eligible bonds does *not* make the exchange, he would receive only the 3%, 2½%, or 2¼% rates to their maturity and would have to reinvest at that time at a rate equal to that indicated in paragraph 12 below for the remaining terms of the issues now offered, in order to equal the interest he would receive by accepting the exchange offer. For example, if the 2¼% bonds of 6/15/67-72 are exchanged for the 3½% bonds of 1990, the rate for the entire twenty-seven years and eleven and one-half months will be 3½%. If the exchange is not made, a 2¼% rate will be received until June 15, 1972, requiring reinvestment of the proceeds of the 2¼'s at that time at a rate of at least 4.37% for the remaining seventeen years and eight months, all at compound interest, to average out to a 3½% rate for twenty-seven years and eleven and one-half months. This minimum reinvestment rate for the extension period is shown in the table under paragraph 12. The minimum reinvestment rates for the other issues included in the exchange are also shown in the table under paragraph 12.

12. Investment rates on the new or additional bonds offered in exchange to holders of the eligible 3%, 2½%, or 2¼% bonds:

Eligible bonds	3% Feb. 15, 1964	2½% Feb. 15, 1965	2½% June 15, 1972	2½% Sept. 15, 1972	2½% Dec. 15, 1972				
Bonds offered in exchange . . .	4% Aug. 15, 1971	4% Aug. 15, 1971	4% Feb. 15, 1980	3½% Feb. 15, 1990	3½% Nov. 15, 1998	3½% Feb. 15, 1990	3½% Nov. 15, 1998	3½% Feb. 15, 1990	3½% Nov. 15, 1998
Payments on account of \$100 issue price:									
By subscriber . . . . .	—	\$2.00	\$0.25	\$1.25	—	\$1.50	\$0.25	\$1.75	\$0.50
To subscriber . . . . .	—	—	—	—	—	—	—	—	—
Approximate investment yield from exchange date (3/1/62) to maturity of bonds offered in exchange based on price of bonds eligible for exchange <sup>1</sup>	4.11%	4.10%	4.20%	4.21%	4.19%	4.21%	4.19%	4.19%	4.17%
Approximate minimum rein- vestment rate for the exten- sion period <sup>2</sup> . . . . .	4.32%	4.36%	4.36%	4.37%	4.30%	4.38%	4.30%	4.38%	4.30%

<sup>1</sup> Yield to nontaxable holder or before tax. Based on mean of bid and ask prices (adjusted for payments on account of issue price) at noon on February 14, 1962.

<sup>2</sup> Rate for nontaxable holder or before tax. For explanation see paragraph 11 above.

The official offering circulars and subscription forms for this offering will be mailed to arrive by Monday, February 19.

ALFRED HAYES,  
President.