

FEDERAL RESERVE BANK  
OF NEW YORK

Fiscal Agent of the United States

[ Circular No. 5221 ]  
[ September 5, 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 is offering holders of \$26.8 billion of certificates and notes maturing February 15, 1963 and May 15, 1963 the right to exchange them for either or both of the following new securities:

3¾ percent notes due August 15, 1967

4 percent bonds due August 15, 1972

The issues eligible for exchange are considerably closer to maturity than the eligible issues in earlier advance refundings. The Treasury's objective in making this offer is to reduce the extremely congested maturity schedules of February and May 1963 and to improve the structure of the outstanding debt. By refunding these maturing securities in two stages, the Treasury will also assist the smooth functioning of the money and capital markets.

In February 1963, three issues totaling \$13.3 billion mature, \$9.4 billion of which is held by the public and the remaining \$3.9 billion by the Federal Reserve and Government investment accounts. In May 1963, three issues totaling \$13.5 billion mature, \$9.8 billion of which is held by the public and the remaining \$3.7 billion by the Federal Reserve and Government accounts.

The offering is designed to be attractive to investors. Market yields on the new issues, as summarized in paragraph 11 below, compare favorably with those on outstanding issues of comparable maturities on the date of this offering. After giving effect to the difference between the present and the offered coupon rates, and to the payments that will be made by the Treasury to subscribers in further adjustment of interest differences, the effective yields on the new notes will range between 3.80 and 3.83 percent; the effective yields on the new bonds will range between 4.05 and 4.07 percent.

The reinvestment return to holders for the period of the extension would also appear to compare favorably with prospective yields that might be obtained on reinvestment at the time these six outstanding securities are scheduled to mature. The new 4-year 11-month notes will provide yields for the extension period of 3.89 percent or 3.90 percent for holders of February maturities and 3.94 percent to 3.97 percent for May holders. The new 9-year 11-month bonds will provide a yield for the extra period of holding equivalent to 4.11 percent or 4.12 percent for the subscribers who turn in February maturities and 4.15 percent or 4.16 percent for those who turn in May maturities.

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

## Terms and Conditions of the Advance Refunding Offer

1. To all holders of the following outstanding Treasury securities:

Description of securities	Issue date	Final maturity date	Remaining term to maturity (Months)	Amount outstanding (in billions)
3½% certificate A-1963	Feb. 15, 1962	Feb. 15, 1963	5	\$6.9
2⅝% note A-1963	April 15, 1958	Feb. 15, 1963	5	2.8
3¼% note E-1963	Nov. 15, 1961	Feb. 15, 1963	5	3.6
3¼% certificate B-1963	May 15, 1962	May 15, 1963	8	6.7
3¼% note D-1963	May 15, 1961	May 15, 1963	8	5.0
4% note B-1963	April 1, 1959	May 15, 1963	8	1.7

2. New securities to be issued:

Description of securities	Issue date	Interest starts <sup>1</sup>	Interest payable
3¾% note of August 15, 1967	Sept. 15, 1962	Sept. 15, 1962	Feb. 15 and Aug. 15
4% bond of August 15, 1972	Sept. 15, 1962	Sept. 15, 1962	Feb. 15 and Aug. 15

<sup>1</sup> Interest on the securities surrendered stops on September 15, 1962.

3. Terms of the exchange:

Exchanges will be made on the basis of equal face amounts, with payments by the Treasury, and with adjustments of accrued interest to September 15, 1962, on the securities surrendered (per \$100 face amount), as indicated below:

Securities to be exchanged	Amounts to be paid to subscribers			Extension of maturity Yrs.-Mos.
	On account of purchase price of securities to be issued	On account of accrued interest to Sept. 15, 1962 on securities to be exchanged	Total	
FOR THE NEW NOTES				
3½% certificate A-1963	\$ .50	\$ .294837	\$ .794837	4—6
2⅝% note A-1963	.10	.221128	.321128	4—6
3¼% note E-1963	.40	.273777	.673777	4—6
3¼% certificate B-1963	.40	1.086277	1.486277	4—3
3¼% note D-1963	.40	1.086277	1.486277	4—3
4% note B-1963	1.00	1.336957	2.336957	4—3
FOR THE NEW BONDS				
3½% certificate A-1963	\$ .70	\$ .294837	\$ .994837	9—6
2⅝% note A-1963	.30	.221128	.521128	9—6
3¼% note E-1963	.60	.273777	.873777	9—6
3¼% certificate B-1963	.60	1.086277	1.686277	9—3
3¼% note D-1963	.60	1.086277	1.686277	9—3
4% note B-1963	1.20	1.336957	2.536957	9—3

The following coupons should be attached to the securities in bearer form when they are surrendered:

Securities	Coupons to be attached
3½% ctf. A-1963, 2⅝% note A-1963, 3¼% note E-1963	Feb. 15, 1963
3¼% ctf. B-1963, 4% note B-1963, 3¼% note D-1963	Nov. 15, 1962 & May 15, 1963

Accrued interest to September 15, 1962, will be paid to subscribers, in the case of bearer securities following their acceptance, and in the case of registered notes following discharge of registration in accordance with the assignments on the notes surrendered. Payment for and delivery of the new notes and bonds will be made on September 20, 1962.

4. Limitation on amount of securities to be issued:

While it is not practicable to estimate the extent of investor acceptance, the Treasury is placing an outside limit of \$6 billion, or thereabouts, on the aggregate amount of notes, and \$3 billion, or thereabouts, on the aggregate amount of bonds to be issued to the public. In the event the limit on either issue is exceeded, subscriptions to the respective issue will be subject to allotment. In

addition, exchange subscriptions for the notes and bonds from Government Investment Accounts will be allotted in full.

5. Books open for subscription for the new securities:

The books will be open for the receipt of subscriptions from Monday, September 10, through Wednesday, September 12, 1962. Subscriptions placed in the mail by midnight of September 12, 1962, 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 security holders' protection in submitting securities to be exchanged.

6. Requirements applicable to subscriptions:

Subscriptions will be received at the 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. Subscriptions from banking institutions for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, Federal Reserve Banks, and Government Investment Accounts will be received without deposit. Subscriptions from all others must be accompanied by deposit of eligible securities in an amount equal to 10% of the securities applied for.

7. Denominations and other characteristics of new securities:

The notes will be issued in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$1,000,000, \$100,000,000 and \$500,000,000 in coupon and registered forms. The bonds will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000 in coupon and registered forms. The notes and bonds will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

8. Nonrecognition of gain or loss for Federal income tax purposes solely on account of exchange of old for new securities:

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 solely on account of the exchange of the securities;

*However, section 1031(b) of the Code requires recognition of any gain realized on the exchange to the extent that money (other than interest) is received by the security holder in connection with the exchange.* Accordingly, if the fair market value<sup>1</sup> of the 3¾% notes or 4% bonds plus the amount paid to the investor (discount) exceeds the cost basis of the old securities to the investor, the gain (but not to exceed the amount of the payment) must be recognized and accounted for as gain for the taxable year of exchange. He will carry the new securities on his books at the same amount as he is now carrying the old securities except that he will reduce the cost basis by the amount of the payment and increase it by the amount of the gain recognized. If the fair market value of the new securities plus the amount of the payment does not exceed the cost basis of the old securities, the basis in the new securities will be the cost basis in the old securities reduced by the amount of the payment.

Gain to the extent not recognized (or loss), if any, upon the securities surrendered in exchange will be taken into account upon the disposition or redemption of the new notes or bonds.

<sup>1</sup> The mean of the bid and asked quotations on date subscriptions are submitted.

9. Book value of new securities 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 notes and bonds received in exchange on their books at the amount at which the eligible securities surrendered are carried on their books, reduced by the amount of discount, if any, received by the subscriber and increased by the amount of gain, if any, which will be recognized as indicated in paragraph 8. They will so advise their examiners.

10. Computation of reinvestment rate for the extension of maturity:

A holder of the outstanding eligible certificates and notes has the option of accepting the Treasury's exchange offer or of holding them 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 eligible securities 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 certificates and notes does not make the exchange he would receive the coupon rates on the eligible issues to their maturity and would have to reinvest at that time at a rate equal to that indicated in paragraph 11 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 3¼% certificates or notes of 5/15/63 are exchanged for the 4% bonds of 8/15/72, the rate for the entire nine years and eleven months will be 4%. If the exchange is not made, a 3¼% rate will be received until May 15, 1963, requiring reinvestment of the proceeds of the 3¼'s at that time at a rate of at least 4.15% for the remaining nine years and three months, all at compound interest, to average out to a 4% rate for nine years and eleven months.

This minimum reinvestment rate for the extension period is shown in the table under paragraph 11. The minimum reinvestment rates for the other issues included in the exchange are also shown in the table under paragraph 11.

11. Investment rates on the new notes and bonds offered in exchange to holders of the eligible securities:

Eligible securities	3½%	2⅝%	3¼%	3¼%	3¼%	4%
	C/Is 2/15/63	Notes 2/15/63	Notes 2/15/63	C/Is 5/15/63	Notes 5/15/63	Notes 5/15/63
FOR THE NEW 3¾% NOTES OF AUGUST 15, 1967						
Payments on account of \$100 issue price to subscriber .....	\$0.50	\$0.10	\$0.40	\$0.40	\$0.40	\$1.00
Approximate investment yield from exchange date (9/15/62) to maturity of notes offered in exchange based on price of securities eligible for exchange <sup>1</sup> .....	3.81%	3.80%	3.81%	3.81%	3.81%	3.83%
Approximate minimum reinvestment rate for the extension period <sup>2</sup> .....	3.90%	3.89%	3.90%	3.94%	3.94%	3.97%
FOR THE NEW 4% BONDS OF AUGUST 15, 1972						
Payments on account of \$100 issue price to subscriber .....	\$0.70	\$0.30	\$0.60	\$0.60	\$0.60	\$1.20
Approximate investment yield from exchange date (9/15/62) to maturity of bonds offered in exchange based on price of securities eligible for exchange <sup>1</sup> .....	4.06%	4.05%	4.06%	4.06%	4.06%	4.07%
Approximate minimum reinvestment rate for the extension period <sup>2</sup> .....	4.12%	4.11%	4.12%	4.15%	4.15%	4.16%

<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 September 4, 1962.

<sup>2</sup> Rate for nontaxable holder or before tax. For explanation see paragraph 10 above.

The official offering circulars and subscription forms for this offering will be mailed to arrive by Monday, September 10.

ALFRED HAYES,  
President.