FEDERAL RESERVE BANK
OF NEW YORK
Fiscal Agent of the United States

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February 26, 1970]

Treasury Raises Minimum Bill Denomination to $10,000

*To All Incorporated Banks and Trust Companies, and Others Concerned,
in the Second Federal Reserve District:*

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

The U. S. Treasury today announced that:

(1) New issues of Treasury bills, beginning with the auction scheduled on March 2, will be provided in minimum denominations of $10,000.

(2) Treasury notes and bonds will continue to be made available in denominations as small as $1,000.

These decisions are based upon an evaluation of Treasury costs, trading activity and market needs in recent months. These decisions recognize the desirability of maintaining access by small investors to marketable U. S. Government securities. At the same time, the deterioration in the market's ability to handle normal activity and the increase in costs that have arisen from the extraordinarily large volume of small transactions in short-term Treasury bills will be ameliorated.

Specific factors in decisions

(1) The basic function of the Treasury bill market is to afford the Treasury regular and economical access to the large volume of funds available from institutional investors for short-term employment in the money market. Typically, such funds are available in large blocks. The extraordinary volume of small individual transactions, which provide neither an important nor a dependable source of funds to the Treasury, is beginning to overtax existing market facilities to the point where the effectiveness of this basic source of Treasury finance could be impaired.

(2) The direct costs to the Government of issuing very small denominations are excessive in relation to the volume of funds attracted. Analysis of these costs indicates that the processing cost for subscriptions submitted by individuals to the Federal Reserve Banks amounts to approximately $15 to $20 per item. This is equivalent to an additional interest cost of 1.2 to 1.6 percent for a typical $5,000 sale of a three-month bill and to more than ½ percent for six-month bills. These costs are proportionately more for smaller transactions, at the extreme equivalent to 6 or 8 percent for a $1,000 sale of three-month bills. Such costs are obviously far out of proportion with going rates of interest.

(3) Sizable charges increasingly placed by dealers, banks, and brokers on small transactions to cover their costs often reduce the net return to these investors well below the quoted yield on the bill. A $10 charge, for instance, would reduce the effective yield on purchases of three-month bills from 7 to 3 percent for a $1,000 purchase or to 6.2 percent for a $5,000 transaction. Moreover there are significant dangers of loss or additional costs to small investors without adequate and convenient means of safeguarding holdings of these bearer securities, which must be handled by the investor like cash.

(4) These risks and costs are substantially reduced in the case of notes and bonds. These readily available securities, which afford investment for periods of one year or more, are available in registered form more suitable for individuals. The transactions costs are spread over a longer period of time, so their impact on interest returns or Government costs is substantially reduced.

(OVER)

(5) Action at this time is particularly timely. The diversion of savings into Treasury bills, while relatively small in terms of Treasury finance, has contributed to the interruption of the orderly flow of funds into the housing mortgage market. This has aggravated the problems of home buyers and the already depressed housing industry. This action thus supports national policy designed to maintain an adequate flow of funds into mortgages at this critical juncture.

George Romney, Secretary of the Department of Housing and Urban Development, issued the following statement:

"The outflow of savings from savings and loan associations, mutual savings banks, and other thrift institutions has aggravated the shortage of mortgage funds and contributed to a serious decline in housing production. To avoid a serious, growing housing shortage it is essential that we discourage the outflow of funds from mortgage lending institutions. This Treasury action should substantially improve our housing outlook."

The Treasury has informed us that on any reopened series of bills which *initially were offered* with the $1,000 and $5,000 denominations (as will be true for a period of time with 3-month and 9-month issues), the additionally issued bills, although subject at the time of issue to the new minimum denomination of $10,000, may nevertheless be exchanged after issue into the $1,000 and $5,000 denominations. Six-month and one-year bills issued hereafter will *not* be exchangeable into the $1,000 and $5,000 denominations.

Additional copies of this circular will be furnished upon request.

Alfred Hayes,
President.