

FEDERAL RESERVE BANK OF NEW YORK

Fiscal Agent of the United States

[Circular No. 7456]
[September 16, 1974]

TREASURY FINANCING TO USE NEW BIDDING METHOD

*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 will refund the \$2.0 billion of notes maturing on September 30, 1974, by auctioning \$2.0 billion of 2-year notes maturing September 30, 1976. This is the first rollover of the quarterly cycle of 2-year maturities started in 1972. The auction will be held on Tuesday, September 24.

For the first time in a Treasury auction, bidding will be on a yield basis rather than a price basis. Bidders are asked to state the percentage yield they will accept to two decimal places, for example 8.47 percent. The coupon will be set, after the auction, to the 1/8 of one percent which is nearest to the average yield on accepted tenders and which produces an average price at or below par. Each successful competitive bidder will pay the price equivalent to his bid. Noncompetitive bidders will pay the average price.

The new bidding method will permit pricing close to par and eliminate the risk of setting a coupon which, because of a change in the market between the coupon announcement date and the auction date, would result, on the one hand, in a price so far above par as to discourage bidders or, on the other hand, result in a price so low that the sale would have to be canceled to avoid placing the purchasers in an unanticipated tax position in which the excess of the maturity value over the initial discount price would be taxable as ordinary income.

To shorten the time between the auction date and the issue date, coupon securities will not be delivered on the issue date of September 30. They will be delivered on or about October 8. However, any successful bidder who needs a security for trading, collateral or other purposes before the delivery date may request an interim certificate. Interim certificates will be bearer securities, equivalent in all respects to the 2-year Treasury notes except that they will not have coupons attached and must be exchanged for regular coupon securities in order to collect interest.

Each tender for the notes must be in the amount of \$10,000 or a multiple thereof, the same minimum tender required on Treasury bills of a maturity up to one year. Previous auctions of two-year notes have permitted tenders as low as \$1,000, the minimum tender normally required on sales of longer term Treasury bonds. The decision to increase the minimum tender on this auction was taken in the light of current liquidity drains on thrift institutions upon which the nation depends for the bulk of its mortgage financing for housing.

Following is the text of the details of this offering, which was also released today by the Treasury Department.

The Treasury will auction under competitive and noncompetitive bidding \$2.0 billion, or thereabouts, of 2-year notes to refund the same amount of notes maturing September 30, 1974. The coupon rate for the notes will be determined after tenders are allotted. Some of the notes will be allotted to Government accounts and the Federal Reserve Banks in exchange, on a noncompetitive basis, for any portion of their \$0.2 billion holdings of the maturing notes that they choose to exchange.

The method of auction to be used for this issue of notes will differ from that used for previous auctions of Treasury securities. Competitive tenders for these new notes must be expressed in terms of an annual yield in two decimal places, e.g., 8.47, rather than in terms of a

price, as has been the procedure in other auctions. Tenders at the lowest yields, and noncompetitive tenders, will be accepted to the extent required to attain the \$2.0 billion offered. After a determination is made as to which tenders are accepted, a coupon yield will be determined to the nearest 1/8 of 1 percent necessary to make the average accepted price 100.00 or less. That will be the rate of interest that will be paid on all of the notes. Based on such interest rate, the price on each competitive tender allotted will be determined and each successful competitive bidder will pay the price corresponding to the yield he bid. Price calculations will be carried to two decimal places on the basis of price per hundred, e.g., 99.92, and the determinations of the Secretary of the Treasury shall

be final. Tenders at a yield that will produce a price less than 99.51 will not be accepted.

The notes to be issued will be Treasury Notes of Series J-1976 dated September 30, 1974, due September 30, 1976 (CUSIP No. 912827 DX7) with interest payable semiannually on March 31 and September 30. They will be issued in registered and bearer form in denominations of \$10,000, \$100,000 and \$1,000,000, and in book-entry form to designated bidders. Delivery of bearer notes will be made on or about October 8, 1974. A purchaser of bearer notes may elect to receive an interim certificate on September 30, which shall be a bearer security exchangeable at face value for Treasury Notes of Series J-1976 when available.

Tenders will be received up to 1:30 p.m., Eastern Daylight Saving time, Tuesday, September 24, at any Federal Reserve Bank or Branch and at the Bureau of the Public Debt, Securities Transactions Branch, Washington, D.C. 20226; provided, however, that noncompetitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than Monday, September 23. Each tender must be in the amount of \$10,000 or a multiple thereof, and all tenders must state the yield, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender. The notation "TENDER FOR TREASURY NOTES" should be printed at the bottom of envelopes in which tenders are submitted.

The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, including the right to accept more or less than \$2,000,000,000 of tenders, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for \$500,000 or less will be accepted in full at the average price of accepted competitive tenders, which price will be 100.00 or less.

Commercial banks, which for this purpose are defined as banks accepting demand deposits, and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, may submit tenders for the account of customers, provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account.

Tenders will be received without deposit from commercial and other banks 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, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, Federal Reserve Banks, and Government accounts. Tenders from others must be accompanied by payment of 5 percent of the face amount of notes applied for.

Payment for accepted tenders must be completed on or before Monday, September 30, 1974. Payment must be made at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt in cash, 6% Treasury Notes of Series E-1974, which will be accepted at par, or other funds immediately available to the Treasury by that date. Where full payment is not completed in funds available by the payment date, the allotment will be canceled and the deposit with the tender up to 5 percent of the amount of notes allotted will be subject to forfeiture to the United States.

The Treasury will construe as timely payment any check drawn to the order of the Federal Reserve Bank or the United States Treasury that is received at such bank or at the Treasury by Wednesday, September 25, 1974, provided the check is drawn on a bank in the Federal Reserve District of the bank or office to which the tender is submitted. Other checks will constitute payment only if they are fully and finally collected by the payment date. Checks not so collected will subject the investor's deposit to forfeiture as set forth in the preceding paragraph. A check payable other than at a Federal Reserve Bank received on the payment date will not constitute immediately available funds on that date.

Commercial banks are prohibited from making unsecured loans, or loans collateralized in whole or in part by the securities bid for, to cover the deposits required to be paid when tenders are entered, and they will be required to make the usual certification to that effect. Other lenders are requested to refrain from making such loans.

All bidders 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 notes bid for under this offering at a specific rate or price, until after 1:30 p.m., Eastern Daylight Saving time, Tuesday, September 24, 1974.

If there is any doubt that tenders sent by mail will reach this Bank or its Branch as required above, bidders should use other means of transmitting their tenders. The official offering circular and tender form will be mailed to you as soon as possible. Telephone inquiries regarding this offering may be made by calling Telephone No. 212-791-5823, 212-791-6616, or 212-791-5465.

ALFRED HAYES,
President.