

**FEDERAL RESERVE BANK
OF NEW YORK**

Fiscal Agent of the United States

Circular No. 8797
April 11, 1980

**FULL PAYMENT WITH TENDER REQUIRED FOR PURCHASE
OF ALL TREASURY SECURITIES BY NON-INSTITUTIONAL INVESTORS**

*To Non-Institutional Investors Who Purchase Treasury Notes or Bonds,
and Others Concerned, in the Second Federal Reserve District:*

The Department of the Treasury has announced a change in the payment procedures relating to the purchase of Treasury notes and bonds by non-institutional investors. Beginning with the 2-year notes to be auctioned later this month, all non-institutional purchasers of notes and bonds will be required to submit *full payment* of the face amount of the notes or bonds with their tenders for the securities. Non-institutional investors will no longer have the option of submitting a 5 percent deposit with note or bond tenders. The full payment requirement is already in effect for Treasury bill issues.

The following is a summary of the Treasury's announcement of the change in the payment procedures for note and bond issues:

Under current operating procedures, non-institutional investors have had the option of submitting a 5 percent deposit with note and bond tenders. This practice multiplies the processing steps and delays the issuance of the securities because before the security can be issued, the deposit payment must be processed for collection, and the final payment must be collected from the investor, matched with the tender form, and then processed for collection. Under the new procedures, the issuance of securities will be simplified and expedited by discontinuing the deposit option.

Since 1977 the number of tenders for Treasury notes and bonds has more than quadrupled. The current payment procedures have strained the ability of the Federal Reserve Banks and the Treasury to handle the increased demand while assuring timely collection of full proceeds and issuance of the securities. The increased demand results from the significant increase in the number of non-institutional investors participating in Treasury auctions.

Most Treasury bond and note auctions result in a price slightly below par, and each bidder submitting full payment will usually receive a small discount check representing the difference between the full par amount submitted and the actual price of the security, as established in the auction process. In cases in which the price is established slightly above par, investors will usually be billed for the additional amount due. Under the new requirement, applications submitted by non-institutional purchasers without full payment will be rejected.

Payment may still be made by personal check, or an official bank check, payable on its face to the Federal Reserve Bank of New York. *Checks endorsed to this Bank will not be accepted.* A personal check for a note or bond purchase does not have to be certified. However, the Treasury continues to require that personal checks submitted in payment for Treasury *bill* purchases be certified.

Inquiries regarding these payment procedures may be addressed to the Government Bond Department at this Bank's Head Office or to the Collection, Loans, and Fiscal Agency Division at the Buffalo Branch. A new standard form that can be used for submitting tenders for 2-year notes will be sent to you with this Bank's circular announcing the next 2-year note offering.

ANTHONY M. SOLOMON,
President.

A-35. Q: In a closed-end loan where the proceeds of the loan are being used to purchase the collateral, must the security interest obtained by the creditor be perfected for the transaction not to involve covered credit?

A: No. So long as the creditor retains a security interest, under applicable State law, the transaction does not involve covered credit. Perfection of a security interest is not required.

A-36. Q: Is a loan secured by a regular share account at a credit union considered covered credit?

A: No. A regular share account is regarded as a savings deposit for purposes of Section 229.2(f) of the regulation.

A-37. Q: Does the exemption for loans secured by savings deposits also include loans secured by time deposits?

A: No. However, a loan, the proceeds of which are used to purchase a money market certificate where the certificate is collateral for the loan, is not covered credit (e.g., "loophole" certificates), because the loans proceeds are being used to purchase the collateral (see Section 229.2(f)(2)).

A-38. Q: Is an advance under an open-end agreement covered credit if that advance is completely secured by the savings deposit account of the borrower?

A: No. If the advance is completely secured by a savings deposit, the last sentence of Section 229.9(f) provides that the loan is not covered credit. However, that portion of an advance is covered credit to the extent it exceeds the amount of the savings deposit serving as the security. For example, a \$1,000 advance under an open-end agreement which is secured by a savings deposit of at least \$1,000 is not covered credit, while a \$1,000 advance secured by a savings deposit of \$600 would represent covered credit of \$400.

A-39. Q: Does covered credit include bridge loans that are unsecured or secured by the old residence?

A: No. Bridge loans are not regarded as covered credit as they are made in conjunction with, and form an integral part of, a mortgage loan.

Special Credit Restraint Program

S-3. Q: To what period does the limitation on loan growth "in 1980" refer?

A: It refers to the period from December 1979 to December 1980.

S-4. Q: The reporting forms do not ask for the December 1979 "base period." How will we obtain these base period levels?

A: For almost all respondents subject to the lending constraint, data for the December 1979 base period are generally available from reports they file regularly with the Federal Reserve or with one of the other bank supervisory agencies.

S-5. Q: Does "December 1979" mean December 31?

A: In order to avoid the distortions in base period levels that could arise from calculating them as of a single day, an average for the month of December should be used to the extent permitted by available data. For weekly reporting banks, an average of the four Wednesdays in December 1979 seems appropriate. For businesses (e.g., finance companies) from which we have been receiving end-of-month reports, November and December figures should be averaged. For respondents such as nonmember banks, however, December 31 data will have to be used for the base period.

S-6. Q: Is it essential that reporting of data by bank holding companies be as of the last Wednesday of the month, or are data as of the last business day of the month acceptable?