FEDERAL RESERVE BANK OF NEW YORK

Certificates of Indebtedness Department

[Circular No. 549
May 7, 1923]

$400,000,000

(or thereabouts)

New Issue of 4¾ Per Cent. Treasury Notes

With the Right Reserved to Allot Additional Notes in Exchange for 4¾ Victory Notes

To all Banks, Trust Companies, Savings Banks, Bankers, Investment Dealers, Principal Corporations and Others Concerned in the Second Federal Reserve District:

The Secretary of the Treasury offers for subscription today a new issue of Treasury notes running for nearly four years and bearing interest at 4¾ per cent. In announcing the offering Secretary Mellon made the following statement:

"The Treasury is announcing today its May financing, which takes the form of an offering of 4¾ per cent. Treasury notes of Series B-1927, dated May 15, 1923, and maturing March 15, 1927. The offering is for $400,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to allot additional notes to the extent that 4¾ per cent. Victory notes, whether or not called for redemption, are tendered in payment. This is a refunding offering, and the Treasury is accordingly providing special facilities for exchanging Victory notes for the new notes, without the necessity of adjustments of interest and with full interest to maturity in the case of uncalled Victory notes.

"There are still outstanding 4¾ per cent. Victory notes called for redemption on December 15, 1922, in the amount of about $65,000,000 and uncalled Victory notes maturing May 20, 1923, in the amount of about $765,000,000, making an aggregate of Victory notes outstanding amounting to about $830,000,000. The new offering of Treasury notes is intended, with the balances already on hand, to provide for the payment of the outstanding Victory notes and at the same time to cover the Treasury's other cash requirements between now and the June installment of income taxes. Aside from the usual quarterly offering in connection with the June 15th tax payment, which will probably be on a moderate scale, the current offering of Treasury notes therefore constitutes the last important piece of financing for the current fiscal year, and, for practical purposes, completes the operations incident to the refunding of the Victory Liberty Loan. In addition to the usual circular giving the terms of the new issue, the Secretary is sending to the heads of all banking institutions in the United States a letter outlining the significance of the offering from the point of view of the Government's finances."

Your attention is invited to the terms of subscription and allotment as stated in the official offering, *and particularly to the provisions with respect to subscriptions for which Victory notes are tendered in payment.* The text of the offering together with Secretary Mellon's letter to the presidents of banking institutions will be found in full on the following pages.

Very truly yours,

BENJ. STRONG,
Governor.

Special attention is called to that part of the offering which provides that called 4¾ per cent. Victory notes will be accepted at par flat as of May 15, 1923, in payment for the new notes, interest thereon having ceased on December 15, 1922, and such notes if in coupon form must have the May 20, 1923, coupon attached. Uncalled notes will be accepted at par flat as of May 15, 1923, but full interest thereon to maturity will be paid in ordinary course when due, and such notes if in coupon form should accordingly be presented without the May 20, 1923, coupon, which should be detached and separately collected. This will mean that subscribers who present uncalled notes in payment of the new notes will receive the advantage of interest for the five-day period from May 15 to May 20, 1923, on the notes surrendered in payment, collecting it either through the May 20, 1923, coupon or by check for interest due May 20, 1923.

Federal Reserve Bank of New York

Offering of **$400,000,000** (or thereabouts)

United States of America Treasury Notes

Dated and Bearing Interest from May 15, 1923

Series B—1927 4¾ Per Cent. Due March 15, 1927

To all Banks, Trust Companies, Savings Banks, Bankers, Investment Dealers, Principal Corporations and Others Concerned in the Second Federal Reserve District:

The Secretary of the Treasury offers for subscription, at par and accrued interest, through the Federal Reserve Banks, Treasury notes of Series B-1927, of an issue of gold notes of the United States authorized by the Act of Congress approved September 24, 1917, as amended. The notes will be dated and bear interest from May 15, 1923, will be payable on March 15, 1927, and will bear interest at the rate of four and three-quarters per cent. per annum payable September 15, 1923, and thereafter semiannually on March 15 and September 15 in each year.

Applications will be received at the Federal Reserve Banks.

Bearer notes with interest coupons attached will be issued in denominations of $100, $500, $1,000, $5,000, $10,000, and $100,000. The notes are not subject to call for redemption before maturity, and will not be issued in registered form. The principal and interest of the notes will be payable in United States gold coin of the present standard of value.

The notes of said series shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (*a*) estate or inheritance taxes, and (*b*) graduated additional income taxes commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations.

Notes of this series will be accepted at par, with an adjustment of accrued interest, during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury, in payment of income and profits taxes payable at or within six months before the maturity of the notes. Any of the notes which have been owned by any person continuously for at least six months prior to the date of his death, and which upon such date constitute part of his estate, shall, under rules and regulations prescribed by the Secretary of the Treasury, be receivable by the United States at par and accrued interest in payment of any estate or inheritance taxes imposed by the United States, under or by virtue of any present or future law upon such estate or the inheritance thereof. The notes of this series will be acceptable to secure deposits of public moneys, but do not bear the circulation privilege.

The right is reserved to reject any subscription and to allot less than the amount of notes applied for and to close the subscriptions at any time without notice. The Secretary of the Treasury also reserves the right to make allotment in full upon applications for smaller amounts, and to make reduced allotments upon, or to reject, applications for larger amounts, to make preferred allotments upon applications for which four and three-quarter per cent. Victory notes are tendered in payment, and to make classified allotments and allotments upon a graduated scale; and his action in these respects will be final. Allotment notices will be sent out promptly upon allotment, and the basis of allotment will be publicly announced. Payment at par and accrued interest for notes allotted must be made on or before May 15, 1923, or on later allotment. After allotment and upon payment Federal Reserve Banks may issue interim receipts pending delivery of the definitive notes. Any qualified depositary will be permitted to make payment by credit for notes allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district, except upon subscriptions for which Victory notes are tendered in payment. Victory notes of the 4¾ per cent. series, whether or not called for redemption, will be accepted as herein provided in payment for any notes of the Series B-1927 now offered which shall be subscribed for and allotted. Called 4¾ per cent. Victory notes, bearing the distinguishing letters A, B, C, D, E, or F, prefixed to their serial numbers, will be accepted at par flat, as of May 15, 1923, interest thereon having ceased on December 15, 1922, and such notes if in coupon form must have the May 20, 1923, coupon attached. Uncalled 4¾ per cent. Victory notes, maturing May 20, 1923, and bearing the distinguishing letters G, H, I, J, K, or L, prefixed to their serial numbers, will be accepted at par flat, as of May 15, 1923, but full interest thereon to maturity will be paid in ordinary course when due, and such notes if in coupon form should accordingly be presented without the May 20, 1923, coupon, which should be detached and separately collected. Victory notes in registered form must be assigned to the Secretary of the Treasury for redemption or payment, in accordance with the general regulations of the Treasury Department governing assignments.

The amount of the offering will be $400,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to allot additional notes to the extent that payment is tendered in Victory notes pursuant to this circular. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions and to make allotments thereon on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts.

Very truly yours,

BENJ. STRONG,
Governor.

New York, May 7, 1923.

Secretary Mellon's Letter

On the Significance of the Current Offering of Treasury Notes

WASHINGTON, D. C., MAY 7, 1923.

DEAR SIR:

The Treasury is announcing today an offering of 4¾ per cent. Treasury notes of Series B-1927, dated May 15, 1923, and maturing March 15, 1927. This is a refunding offering, and accordingly provides special facilities for receiving 4¾ per cent. Victory notes in exchange for the new Treasury notes, without the necessity of adjustment of interest in any case and with full interest to maturity in the case of uncalled Victory notes. The terms of the offering more fully appear in Treasury Department Circular No. 323, dated May 7, 1923, a copy of which is enclosed for your ready reference.*

The amount of the new issue will be $400,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to allot additional notes to the extent that 4¾ per cent. Victory notes are tendered in payment. There are still outstanding 4¾ per cent. Victory notes which were called for redemption on December 15, 1922, to the amount of about $65,000,000, and uncalled Victory notes maturing May 20, 1923, to the amount of about $765,000,000, making a total of about $830,000,000, of Victory notes now outstanding. The new offering of Treasury notes is intended, with exchange of Victory notes and the balances already on hand, to provide for the outstanding Victory notes which will be presented for payment and at the same time to cover the Treasury's other cash requirements between now and the June installment of taxes.

This offering completes for practical purposes the refinancing of the Victory Liberty Loan, and it is therefore an appropriate time to indicate the results of the refunding operations which have been in progress. On April 30, 1921, the Treasury announced its program for the refunding of the short dated debt, and it has since been carrying out the policy of orderly funding and gradual liquidation outlined in that announcement. Except for the issue of about $750,000,000, of 25-30 year Treasury bonds in the fall of 1922, the refunding has all been on a short term basis, and it has been arranged with a view to distributing the early maturities of debt at convenient intervals over the period between now and the maturity of the Third Liberty Loan in 1928, in such manner that surplus revenues might be applied most effectively to the gradual reduction of the debt. With this object in view all of the short term notes issued in the course of the refunding have been given maturities on quarterly tax payment dates, and all outstanding issues of Treasury certificates have likewise been reduced to tax maturities. There has been at the same time a substantial reduction in the total debt, particularly the short dated debt, through the operation of the sinking fund and other public debt retirements chargeable against ordinary receipts, as well as through the application of surplus revenues. The result is that the public debt stands today at a much reduced figure and in manageable shape, with maturities distributed in such a way as to give the Government adequate control over it and facilitate its gradual retirement.

The comparative figures of the debt as it stood when these operations commenced on or about April 30, 1921, and as it will stand on or about June 30, 1923, when the present refunding will have been completed, show clearly what has been accomplished. On April 30, 1921, the gross public debt, on the basis of daily Treasury statements, amounted to about 24 billion dollars of which over 7½ billion dollars was short dated debt maturing in about two years. This included over $4,050,000,000 of Victory notes, over $2,800,000,000 of Treasury certificates of indebtedness, and over $650,000,000 of War Savings certificates of the 1918 series. By June 30, 1923, it is estimated, the gross debt

*The text of Treasury Circular 323 is printed on the opposite page.

will have been brought down to about $22,400,000,000, a reduction of about $1,600,000,000, during the period, and all the old 7½ billion dollars of short dated debt will have been retired or refunded. In its place there will be a new class of short dated debt, aggregating about 5½ billion dollars and maturing over the period of about 5 years up to the maturity of the Third Liberty Loan consisting of (1) $1,100,000,000, or thereabouts, of Treasury certificates of indebtedness, maturing on various quarterly payment dates within the year; (2) about $4,000,000,000, in the aggregate, of Treasury notes, maturing on various quarterly tax payment dates in the years 1924, 1925, 1926, and 1927; and (3) about $350,000,000 of War Savings certificates and Treasury Savings certificates, maturing in moderate amounts, each year. These maturities are arranged so as to permit their refinancing with the minimum of disturbance to business and industry, and with the Government balancing its budget each year and showing a reasonable surplus, it should be possible to retire them gradually out of surplus revenues, in time to avoid embarrassment to the heavy refinancing that will be necessary in connection with the maturity of the Third Liberty Loan.

This Government, as you probably know, has squarely followed the policy of balancing its budget from year to year, ordinary receipts against ordinary expenditures, and beginning with the fiscal year 1921, it has included as ordinary expenditures for budget purposes the sinking fund and other debt retirements properly chargeable against ordinary receipts, aggregating about $422,000,000 for the fiscal year 1921 and about the same amount for the fiscal year 1922. This means that any surplus which may be realized is after providing for sinking fund charges and similar public debt retirements. For the fiscal year 1923 the returns are not yet complete, but up to April 30, 1923, covering the first ten months of the year, there was a surplus on the basis of daily Treasury statements of over $137,000,000 above all expenditures chargeable against ordinary receipts, and the Treasury's best estimates indicate that by the end of the year there will be a surplus of over $125,000,000, after charging out expenditures for the sinking fund and other public debt retirements of the same nature to the amount of about $405,000,000. This means that notwithstanding the unfavorable prospects at the beginning of the year the Government will succeed in closing the year with a substantial surplus. This fortunate result is due, in large part, to increased revenues from internal revenue and customs, and, to a lesser extent, to decreases in the general expenditures of the Government. It is a showing which gives much reason for encouragement, and it means better prospects for the future if all concerned will continue to exercise the utmost economy in Government expenditure and avoid new projects that would drain the public treasury.

The current offering of Treasury notes brings to an end the first phase of the refinancing of the war debt, and it offers a peculiarly favorable opportunity for holders of Victory notes to reinvest in a Government security of similar maturity and bearing the same rate of interest. The terms are attractive, and nothing will be more helpful to the general situation than the widest possible distribution of the new notes among investors. I am accordingly writing to ask your continued cooperation, believing that you will wish to extend to your customers every possible facility for subscribing to the new securities and particularly for exchanging their Victory notes for the Treasury notes now offered.

Cordially yours,

A. W. MELLON,

Secretary of the Treasury.

TO THE PRESIDENT OF THE BANKING INSTITUTION ADDRESSED