FEDERAL RESERVE BANK
OF NEW YORK

Fiscal Agent of the United States

[Circular No. 4427
February 14, 1957]

UNITED STATES SAVINGS BONDS

Treasury Proposes Legislation Authorizing Higher Yields

To All Banking Institutions, and Others Concerned,
in the Second Federal Reserve District:

The following statement was made public today:

The Treasury announced today that it has requested the Congress to enact legislation which will permit an increase in the interest rate on new sales of United States Savings Bonds.

The Treasury's request to the Congress called attention to the important role that the Savings bonds program has played in our national life over the last 22 years, serving to encourage thrift and to place the Government's finances on a sound basis. Today about 40 million persons own more than $41 billion of Series E and H Savings bonds.

Identical proposed bills were transmitted to the Senate and the House of Representatives today which would give the Treasury the same flexibility with regard to interest rates on Savings bonds that it has on other types of Treasury bonds. Passage of the legislation will permit the Treasury to go forward with plans to offer improved interest rate terms on all Series E and H bonds sold on or after February 1, 1957.

If the proposed legislation is passed, the Treasury plans to increase to 3¼ percent the interest rate on new E bonds held to maturity, in place of the present 3 percent. The issue price and face value of the new E bond will be unchanged but the present 9 years and 8 months maturity will be shortened to 8 years and 11 months. Terms of any extension privilege for the new bonds will be determined later.

Also, redemption values of the new bond for the early years will be increased to provide a substantially higher yield to owners who find it necessary to redeem their bonds before maturity. The return on the new bond, if held 3 years, would be 3 percent, compared with 2¼ percent at present.

However, present owners of bonds will generally find it advantageous to continue holding them. For example, a $100 E bond has a redemption value of $79.20 when held two and a half years. That bond will earn $20.80 more to reach its full $100 value at first maturity, and this $20.80 is slightly more than 3¼ percent on $79.20 for the remaining period of 7 years 2 months, compounded semi-annually.

People holding bonds which have reached maturity and are being retained under the ten-year extension privilege will also find it to their advantage to continue holding them. Such bonds reaching the extension period since May 1952 are already paying a full 3 percent interest compounded semi-annually and are redeemable on demand, and bonds of an earlier period show a still greater return.

The Treasury also plans to offer, effective February 1, 1957, a revised 10-year Series H bond with yields generally comparable to the new E bond and returning 3¼ percent if held to maturity. The new H bond, like the present bond, would pay interest by check each six months in contrast to the appreciation-type E bond.

On passage of the legislation, all bonds dated February, 1957, or thereafter would bear the new terms automatically. Existing stocks of bonds in the hands of the Treasury's more than 20,000 E bond issuing agents would be used until supplies of the new bonds are available. Since the issue date on the bond would determine its terms, no purchaser who received an old form of bond dated February, 1957, or thereafter need feel that he should exchange it for a new bond when it is available—although he may if he wishes.

The E and H Savings bonds rank among the best investments in the world for the average saver. The man who buys a Savings bond has something that other bonds do not offer—complete freedom from market fluctuations. He also has something many other forms of saving do not have—a guaranteed interest rate over a period of years. He has the unusual protection of safety against the physical loss or destruction of his securities; a million separate bonds have been replaced by the Treasury over the years.

Series E bonds have acquired greater attractiveness in recent years because of the country's substantial success in curbing inflation. Government fiscal and monetary policies will continue to be directed toward the twin goals of economic growth and stability in the value of the dollar.

Because of the more attractive features of the new Series E and H bonds, the limit on bonds which may be purchased by one individual in any one year is being reduced from $20,000 to $10,000 face amount for each series. The Treasury is withdrawing the present investment-type Series J and K bonds from sale, effective April 30, 1957. Both of these decisions underline the Treasury's desire to emphasize the Savings bond as a security designed for millions of average individual American savers.

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.

UNDER SECRETARY OF THE TREASURY

WASHINGTON

February 14, 1957

To Paying and Issuing Agents for United States Savings Bonds:

The attached press statement contains the Treasury's announcement of its request to the Congress to enact legislation which will permit an increase in the interest rate on all Series E and H bonds sold on or after February 1, 1957.

The improvement in the rate to 3¼ percent for bonds of both series held to maturity, and the substantially higher yield on bonds redeemed during the earlier years, are basic improvements over the present bonds.

Your continued support of the Savings bond program and your assistance in acquainting present owners and prospective purchasers with the new terms and conditions, and the general advantages to most owners to continue holding bonds they already own, will be very much appreciated.

If the legislation is enacted, the Treasury will promptly proceed with the preparation and promulgation of new issue circulars, tables of redemption values, and other pertinent information, which will be promptly forwarded to you.

Very truly yours,

W. Randolph Burgess,
Under Secretary.