FEDERAL RESERVE BOARD

WASHINGTON

X-3031

Confidential

January 26, 1921.

Subject: Purchase of Certificates of Indebtedness from Borrowing Member Banks.

Dear Sir:

There is enclosed for your confidential information copy of a letter which was recently sent out by the Federal Reserve Bank of New York to 114 of its borrowing member banks.

It is estimated that exclusive of New York, eleven Federal Reserve Banks hold as collateral to member banks'fifteen day notes about $45,000,000 of Treasury Certificates of issues previous to that dated January 15, 1921. The Board believes that if you would care to point out to those of your member banks which are borrowing on Treasury Certificates that there is now a ready market for these issues, you could effect a substantial reduction in the volume of notes which you are carrying for member banks secured by Treasury Certificates.

As you know, the Board has been in communication with Federal Reserve Banks recently on the subject of rates of interest charged on paper secured by certificates. The Federal Reserve Banks of St. Louis and San Francisco have established a flat rate of 6% on all paper secured by these obligations without regard to the rate of interest borne by the certificates. There is enclosed for your further consideration copy of a memorandum received today from Assistant Secretary of the Treasury Gilbert, in which he points out the desirability of eliminating the present 5% and 5¼% rates.

In another communication, dated January 24th, Mr. Gilbert states that "Treasury certificates are now firmly established on an investment basis and it would be helpful to the general situation if borrowing banks generally would take steps to reduce their loans at the Federal Reserve Banks by further sales of Treasury certificates".

Very truly yours,

Governor.

TO GOVERNORS OF ALL F.R.BS. EXCEPT NEW YORK
COPIES TO CHAIRMEN " " "

Copy.

FEDERAL RESERVE BANK
NEW YORK

X-3031a
January 21, 1921.

Dear Sir:

You will be interested to know that the latest issue of U. S. Treasury certificates of indebtedness, which was dated January 15, 1921, has been more largely oversubscribed than any previous issue, thereby indicating the highly satisfactory condition of the certificate market. The allotments to this district of the January 15 certificates were about \$138,000,000, while the subscriptions received at this bank totaled fully \$300,000,000, which leaves an unsatisfied demand approaching \$200,000,000 in this district alone.

With regard to the previous issues of Treasury certificates now outstanding, for which there is likewise a ready market, we find that a number of our member banks have pledged these certificates with us as collateral for advances and, although they are for the most part scattered among many banks in small amounts, the aggregate makes a sizeable figure. The unsatisfied demand in the market for certificates would readily absorb, on very favorable terms, the entire amount of certificates so pledged with us by member banks, and we are confident that we can sell all of the certificates which you own of the March 15, May 16 and June 15 maturities on a 5½% basis, and all of those maturing between August 16 and December 15 on a 5 5/8% basis.

As you know, it has been the desire of the Treasury to gradually get these certificates, as well as other Government securities, out of the banks and into the hands of investors, and we feel sure that you will agree with us as to the desirability of accomplishing this, especially with respect to such certificates as are used for loans at Federal Reserve Banks. The extent to which this has been accomplished is evidenced by the fact that there are at present \$2,350,000,000 certificates of all issues outstanding, while the Federal Reserve Banks are now loaning only \$131,000,000 or 5½% of that total against certificates. It is of obvious public advantage that borrowings at the Federal Reserve Banks should be gradually reduced in order to bring the System back to a normal basis, and one way to accomplish this result is to distribute certificates now held by the banks among ultimate investors.

We are bringing this matter to your attention as we believe it will be of interest to you to know that the present is an extremely favorable time to dispose of your holdings of certificates if you desire to do so.

We shall be glad to hear from you if we can be of any service in this connection.

Very truly yours,

(Signed) J. H. CASE,
Deputy Governor.

Copy X-3031b

TREASURY DEPARTMENT

Washington

Assistant Secretary.

January 25, 1921.

TO GOVERNOR HARDING

The latest schedule of discount rates in effect at the several Federal Reserve Banks shows that at the Federal Reserve Banks of Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Kansas City and Dallas, the discount rate on paper secured by Treasury certificates corresponds to the interest rate borne by the certificates, with a minimum of 5 per cent in case of Philadelphia, Atlanta, Kansas City and Dallas, and $5\frac{1}{2}$ per cent in case of Cleveland, Richmond and Chicago. Entirely apart from the question of a flat 6 per cent rate on paper secured by Treasury certificates, it occurs to me that it would be desirable to clean up the situation by eliminating the rates under $5\frac{1}{2}$ per cent, which are still possible under the present schedule at Philadelphia, Atlanta, Kansas City, and Dallas. There is only one issue of Treasury certificates now outstanding which bears interest at a rate lower than $5\frac{1}{2}$ per cent, namely, the certificates of Series T M 1921, maturing March 15, 1921, which bear interest at $4\frac{3}{4}$ per cent. The amount of this series outstanding in the hands of the public is relatively small, namely, about $160,000,000, and the certificates can be readily sold in the market on about a $5\frac{1}{2}$ per cent basis. Except for this one issue, the present 5 and $5\frac{1}{4}$ per cent rates in the banks named are, therefore, practically paper rates, which have fulfilled their purpose, and which, if continued, might invite a policy of offering Treasury certificates at too low a rate to be attractive as investments, in reliance on a level discount rate which would make it possible for the certificates to be pledged without loss at the Federal Reserve Banks. From this point of view particularly I think that the present 5 and $5\frac{1}{4}$ per cent rates should be eliminated, and that the present is a good time to accomplish it.

(Signed) S. P. Gilbert, Jr.