

REDEMPTION OF SAVINGS NOTES

OCTOBER 8, 1968.—Ordered to be printed

Mr. LONG of Louisiana, from the Committee on Finance,
submitted the following

REPORT

[To accompany H.R. 15114]

The Committee on Finance, to which was referred the bill (H.R. 15114) to extend to savings notes the provisions of the Second Liberty Bond Act relating to the redemption of savings bonds and the payment of losses incurred in connection with such redemption, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

PURPOSE

The purpose of H.R. 15114 is to authorize the Secretary of the Treasury to utilize the same financial institutions in redeeming savings notes as are presently used in the redemption of savings bonds, and to authorize the granting of relief from liability for losses incurred in connection with such redemptions in the same manner as relief is presently granted with respect to redemptions of savings bonds.

GENERAL STATEMENT

The Department of the Treasury began the issuance of savings notes, popularly referred to as Freedom Shares, on May 1, 1967. They are issued under the authority of the same sections of the Second Liberty Bond Act (secs. 18 and 20, 31 U.S.C. 753 and 754b, respectively) as are fully negotiable Treasury notes. However, savings notes, like savings bonds, are not transferable by the owners. In many other respects they are very similar to Series E savings bonds. They are designed for the small investor, sold in small denominations on a discount basis, have fixed increases in redemption values at stated intervals and are redeemable at the option of the owner prior to maturity (after 1

year from issue date in the case of the notes and 2 months for the bonds). The term "savings" in connection with U.S. bonds and notes is now commonly understood to refer to securities having some or all of these or similar characteristics, especially nontransferability.

Today, "Freedom Shares" are sold only in connection with the sale of a regular savings bond. However they may not be redeemed as savings bonds are redeemed. Savings bonds are redeemed through local banks, trust companies, savings and loans associations, credit unions, and similar organizations. There are about 16,500 of these institutions today qualified to redeem them and, including their branch offices, they provide some 30,000 locations for redeeming savings bonds. Unfortunately, under the present law, these same organizations which may be utilized in redeeming savings bonds are prohibited from redeeming savings notes.

If an owner of negotiable Treasury notes needs his money prior to maturity the only thing he can do is sell them on the market because they are not redeemable at his option. However, in the case of savings notes there is a continually increasing volume which becomes redeemable at the option of the owner each month, and at the present time only the Federal Reserve banks and their branches and the Office of the Treasurer of the United States may redeem these notes. The committee understands that the Federal Reserve banks and branches will not be able to take care of the increasing volume of redemptions by a mere temporary shift in personnel or by temporary overtime; and at some point enough capable personnel will simply not be available. The committee is advised that even now there are delays which gravely inconvenience the public including many servicemen who cannot get their notes redeemed locally.

The committee is further advised that it is a great deal more costly to redeem the notes through Federal Reserve banks and branches and the Treasurer than through private financial institutions. Redemptions of savings notes through August 1968 aggregated 105,000 pieces, or 19.24 percent of the total number eligible for payment. All of these notes were paid by a Federal Reserve bank or branch or the Office of the Treasurer. At this rate, redemptions will total about 1,430,000 by the end of the fiscal year. It is estimated that the cost of having all redemptions of this volume of notes handled through the Reserve banks and the Treasurer will be about \$315,000 more than if the redemptions can be handled through the paying agents.

For these reasons the Committee on Finance agrees with the Committee on Ways and Means of the House that it is desirable, both from the standpoint of convenience to the public and economy to the Government, that these notes be redeemable through the same outlets as savings bonds. Hence, the first section of H.R. 15114 would authorize the Secretary of the Treasury to use the same financial institutions to make payments in connection with redemption of savings notes as are presently used to make payments on savings bonds under section 22(h) of the Second Liberty Bond Act, as amended, (31 U.S.C. 757c(h)).

The committee also agrees that it is equitable to accord such paying agents the same relief from liability for losses in the handling of saving notes as is provided under existing law with respect to savings bonds. At the present time, section 22(i) of the Second Liberty Bond Act, as

amended (31 U.S.C. 757c(i)), authorizes the relief of paying agents for savings bonds from liability to the United States in cases in which it can be established that such losses resulted from no fault or negligence on the part of the paying agent. Section 2 of the bill, H.R. 15114, therefore, would extend the same relief to these paying agents in their services with respect to savings notes.

In view of the above considerations, your committee recommends prompt enactment of H.R. 15114.

CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill as reported, are shown as follows (new matter is printed in *italic*, existing law in which no change is proposed is shown in roman):

SECOND LIBERTY BOND ACT, AS AMENDED

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 SEC. 22. (a) * * *
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(h) The Secretary of the Treasury, under such regulations as he may prescribe, may authorize or permit payments in connection with the redemption of savings bonds *and savings notes* to be made by commercial banks, trust companies, savings banks, savings and loan associations, building and loan associations (including cooperative banks), credit unions, cash depositories, industrial banks, and similar financial institutions. No bank or other financial institution shall act as a paying agent until duly qualified as such under the regulations prescribed by the Secretary, nor unless (1) it is incorporated under Federal law or under the laws of a State, Territory, possession, the District of Columbia, or the Commonwealth of the Philippine Islands; (2) in the usual course of business it accepts, subject to withdrawal, funds for deposit or the purchase of shares; (3) it is under the supervision of the banking department or equivalent authority of the jurisdiction in which it is incorporated; and (4) it maintains a regular office for the transaction of its business.

(i) Any losses resulting from payments made in connection with the redemption of savings bonds *and savings notes* shall be replaced out of the fund established by the Government Losses in Shipment Act, as amended, under such regulations as may be prescribed by the Secretary of the Treasury. The Treasurer of the United States, any Federal Reserve bank, or any qualified paying agent authorized or permitted to make payments in connection with the redemption of such bonds *and notes*, shall be relieved from liability to the United States for such losses, upon a determination by the Secretary of the Treasury that such losses resulted from no fault or negligence on the part of the Treasurer, the Federal Reserve bank, or the qualified paying agent. The Post Office Department or the Postal Service shall be relieved from such liability upon a joint determination by the Postmaster General and the Secretary of the Treasury that such losses resulted from no fault or negligence on the part of the Post Office Department or the Postal Service. Relief from liability shall be

granted in all cases where the Secretary of the Treasury shall determine, under regulations prescribed by him, that written notice of liability or potential liability has not been given by the United States, within ten years from the date of the erroneous payment, to any of the foregoing agents or agencies whose liability is to be determined: *Provided*, That no relief shall be granted in any case in which a qualified paying agent has assumed unconditional liability to the United States. The provisions of section 3 of the Government Losses in Shipment Act, as amended, with respect to the finality of decisions by the Secretary of the Treasury shall apply to the determinations made pursuant to this subsection. All recoveries and repayments on account of such losses, as to which replacement shall have been made out of the fund, shall be credited to it and shall be available for the purposes thereof. The Secretary of the Treasury shall include in his annual report to the Congress a statement of all payments made from the fund pursuant to this subsection.

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