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# Department of the Treasury



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**Fiscal Service, Bureau of the Public Debt**

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**Part 342 - Offering of United States Savings Notes**

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**Department of the Treasury Circular No. 3-67**

**As of July 2012**

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SOURCE: 57 FR 14282, Apr. 17, 1992, unless otherwise noted.

#### **§ 342.0 Offering of notes.**

The Secretary of the Treasury offered for sale to the people of the United States, United States Savings Notes (also known as “Freedom Shares”, and generally referred to herein as “savings notes” or “notes”). The notes could be purchased only in combination with Series E savings bonds of the same or greater denomination. This offering was effective from May 1, 1967 until the close of business October 31, 1970 when the sale of savings notes was terminated by the Secretary of the Treasury.

#### **§ 342.1 Definition of words and terms used in this part.**

(a) *Payroll savings plan* refers to a voluntary program maintained by an employer whereby its participating officers and employees authorize regular withholdings from their salaries or wages for the purchase of savings bonds.

(b) *Quarter* refers to a 3-month period of a year, as follows: January-February-March, April-May-June, July-August-September, or October-November-December.

#### **§ 342.2 Description of notes.**

(a) *General*. Savings notes were issued only in registered form and are non-transferable.

(b) *Term*. A savings note was dated as of the first day of the month in which payment of the purchase price was received by an issuing agent. A note had an original maturity period of 4 years and 6 months and has been granted two 10-year extensions of maturity and an additional extension of 5 years and 6 months with interest; it will reach

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final maturity 30 years from its issue date. A note cannot be called by the Secretary of the Treasury prior to maturity and was not redeemable during the first year from issue date. Thereafter, a note may be redeemed at the option and request of the owner.

(c) *Denominations and purchase prices.* Savings notes were issued on a discount basis. The denominations and purchase prices were as follows:

Denomination	Purchase price
\$25 .....	\$20.25
50 .....	40.50
75 .....	60.75
100 .....	81.00

Interest is paid as a part of the redemption value. A note increased in value one year after issue date and increases at the beginning of each half-year period thereafter until final maturity, at which time interest ceases to accrue. Interest on a note which is redeemed before maturity ceases to accrue at the end of the interest period next preceding the redemption date, except that if the note is redeemed on a date on which the redemption value increases, interest ceases to accrue on that date.

(d) *Inscription and issue.* At the time of issue, the authorized issuing agent:

- (1) Inscribed on the face of each note the name and address of the owner and the name of the beneficiary, if any, or the names of the coowner;
- (2) Entered the issue date in the right-hand portion of the note in the space provided for that purpose; and
- (3) Imprinted thereunder, by use of the agent's validation indicia for the issue of Series E savings bonds, the date the note was actually inscribed. A note is valid only if an authorized issuing agent received payment therefor and duly inscribed, dated, imprinted validation indicia on the note and delivered it.

**§ 342.3 Extended terms and yields for outstanding notes.**

(a) *Extended maturity periods.* The terms *extended maturity period* and *second extended maturity period* refer to the 10-year intervals after the original maturity dates during which owners may retain their savings notes and continue

to earn interest thereon. The term *third extended maturity period* refers to the final interval of 5 years and 6 months during which owners may retain notes and continue to earn interest until final maturity, which occurs 30 years after issue date. No special action is required of owners to take advantage of any extension heretofore or herein granted. The following table describes the previous and final maturities of savings notes:

Issue dates—1st day of	Previous maturities		Previous maturity dates—1st day of
	yrs.	mos.	
May 1967–Oct. 1970	24	6	Nov. 1991–Apr. 1995.

  

Issue dates—1st day of	Additional extended maturity period		Life of notes—yrs.
	yrs.	mos.	
May 1967–Oct. 1970 .....	5	6	30

  

Issue dates—1st day of	Final maturity dates—1st day of
May 1967–Oct. 1970 .....	May 1997–Oct. 2000

(b) *Guaranteed minimum investment yield*—(1) *General.* Except as provided in paragraph (b)(2) of this section, the guaranteed minimum investment yields for outstanding savings notes are as follows:

(i) For savings notes in extended maturity periods prior to November 1, 1982, the guaranteed minimum investment yield was 8.5 percent per annum, compounded semiannually, effective for the period from the first semi-annual interest accrual date on or after May 1, 1981, through their next extended maturity dates on or after November 1, 1982.

(ii) For savings notes that entered extended maturity periods during the period of November 1, 1982, through October 1, 1986, the guaranteed minimum investment yield was 7.5 percent per annum, compounded semiannually, for such periods, including notes that entered into an extended maturity period, as shown below:

Issue dates—1st day of—	Extension	Entered—1st day of
May 1968–Oct. 1970	2nd .....	Nov. 1982–Apr. 1985.

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(iii) For savings notes that entered into extended maturity periods during the period of November 1, 1986, through February 1, 1993, the guaranteed minimum investment yield is 6 percent per annum, compounded semiannually, for such periods, including notes that entered into an extended maturity period, as shown below:

Issue dates—1st day of—	Extension	Entered—1st day of
May 1967–Aug. 1968.	3rd (final) .....	Nov. 1991–Feb. 1993.

(iv) For savings notes that entered or enter extended maturity periods on or after March 1, 1993, the guaranteed minimum investment yield is 4 percent per annum, compounded semiannually, for such periods, or the investment yield in effect at the beginning of such periods, including notes that enter into an extended maturity period, as shown below:

Issue dates—1st day of—	Extension	Entered—1st day of
Sep. 1968–Oct. 1970.	3rd (final) .....	Mar. 1993–Apr. 1995.

(2) *Eleven-year bonus.* If a savings note was held for the 11-year period beginning with the first semiannual interest accrual date that occurred on or after January 1, 1980, its guaranteed minimum investment yield for such period was increased by one-half of one percent per annum, compounded semiannually.

(c) *Market-based variable investment yield.* In order to be eligible for the market-based variable investment yield, notes had to be held at least five years beginning with the first semiannual interest accrual date occurring on or after November 1, 1982. The market-based variable investment yield shall be determined by the Secretary of the Treasury as follows:

(1) For each 6-month period, starting with the period beginning May 1, 1982, the average market yield on outstanding marketable Treasury securities with a remaining term to maturity of approximately 5 years during such period as determined. Such determination by the Secretary of the Treasury or his or her delegate shall be final and conclusive.

(2) For notes which entered an extended maturity period prior to May 1, 1989, the market-based variable investment yield from the first semiannual interest accrual date occurring on or after November 1, 1982 to each semiannual interest accrual date occurring on or after November 1, 1987, will be 85 percent, rounded to the nearest one-fourth of one percent, of the arithmetic average of the market yield averages, as determined in accordance with paragraph (c)(1) of this section, for the appropriate number of 6-month periods involved, starting with the period beginning May 1, 1982.

(3) For notes which entered an extended maturity period on or after May 1, 1989, the market-based variable investment yield from the first semiannual interest accrual date occurring on or after November 1, 1982 to each semiannual interest accrual date occurring on or after November 1, 1989, will be 85 percent, rounded to the nearest one-hundredth of one percent, of the arithmetic average of the market yield averages, as determined in accordance with paragraph (c)(1) of this section for the appropriate number of 6-month periods involved, starting with the period beginning May 1, 1982.

(d) *Determination of redemption values during any extended maturity period.* The redemption value of a note on a given interest accrual date during any extended maturity period will be the higher of the value produced by using the applicable guaranteed minimum investment yield or the value produced by using the appropriate market-based variable investment yield. The calculation of these values is described below:

(1) *Guaranteed minimum investment yield and resulting values during an extended maturity period.* A note has a guaranteed minimum investment yield for each of its extended maturity periods. The applicable guaranteed minimum investment yield for the current extended maturity period and any subsequent periods are specified in paragraph (b) of this section. In order to determine the value of a note during an extended maturity period, the value of the note either at the end of the next preceding maturity period or when the guaranteed minimum investment yield

last increased,<sup>1</sup> whichever occurs later, is determined using the applicable guaranteed minimum investment yield. This value is then used as the base upon which interest accrues during the extended maturity period at the guaranteed minimum investment yield in effect for savings bonds at the beginning of that period. The resulting semiannual values are then compared with the corresponding values determined by using the applicable market-based variable investment yields.

(2) *Market-based variable investment yield and resulting values during and extended maturity period.* The market-based variable investment yield from the first semiannual interest accrual date occurring on or after November 1, 1982 to each semiannual interest accrual date occurring on or after November 1, 1987, is determined as specified in paragraph (c) of this section. The value of a note on its first semiannual interest accrual date occurring on or after November 1, 1982 is used as the base upon which interest accrues during an extended maturity period at the applicable market-based variable investment yield. If redeemed, the note will receive the higher of the two values produced by using the applicable guaranteed minimum investment yield and the applicable market-based variable investment yield.

(e) *Market-based variable investment yields and tables of redemption values.* The market-based variable investment yields for notes redeemed during each 6-month period, beginning on May 1 and November 1 of each year, are made available prior to each of those dates by the Bureau of the Public Debt, Parkersburg, West Virginia 26106-1328, accompanied by tables of the redemption values of notes for the following 6 months, based on either the applicable market-based variable investment yields or guaranteed minimum investment yields.

[57 FR 14282, Apr. 17, 1992, as amended at 58 FR 60937, 60938, Nov. 18, 1993]

<sup>1</sup>The 11-year bonus was the last increase in the guaranteed minimum investment yield (see paragraph (b)(2)). Savings notes which were eligible to receive this bonus received it on the first semiannual interest accrual date which occurred on or after January 1, 1991.

#### § 342.4 Purchase—registration.

(a) *Purchase.* Savings notes, in combination with Series E bonds, could be purchased from any authorized issuing agent, a Federal Reserve Bank or Branch, or the Bureau of the Public Debt. Payment for the notes could be made in the same manner as payment for Series E savings bonds. Issuing agents delivered the notes at the time of purchase, or by mail at the risk and expense of the United States, but only within the United States, its territories and possessions and the Commonwealth of Puerto Rico. No mail deliveries elsewhere were made.

(b) *Registration.* The following restrictions applied to original issues of savings notes:

(1) They were limited to registration in the name of a natural person (whether adult or minor), alone, or with another natural person as co-owner or beneficiary, and

(2) They had to be identical in registration to the Series E bond purchased in combination therewith.

#### § 342.5 Limitations.

(a) *Purchases—(1) Payroll savings plans.* Under a payroll savings plan, withholdings for notes could not exceed the ratio of \$1.08 for the notes to \$1 for the Series E bonds and could not exceed \$20.25 per weekly pay period, or \$40.50 per biweekly or semi-monthly pay period, or \$81 per monthly pay period.

(2) *Others.* In combination purchases of notes and Series E bonds, other than under a payroll savings plan, purchases of notes could not exceed \$350 (face amount) a quarter, and in no event could the annual limitation of \$1,350 (face amount) be exceeded.

(b) *Holdings.* The face amount of savings notes originally issued to any one person during any one calendar year, was limited to \$1,350.

#### § 342.6 Taxation.

(a) *General.* For the purpose of determining taxes and tax exemptions, the increment in value represented by the difference between the purchase price and the redemption value received for a savings note is considered interest. The interest is subject to all taxes imposed under the Internal Revenue Code

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of 1986, as amended. The notes are subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but are exempt from all other taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

(b) *Federal income tax on notes.* An owner of savings notes who is a cash-basis taxpayer may use either of two methods for reporting the increase in the redemption value of the notes for Federal income tax purposes, as follows:

(1) Defer reporting of the increase to the year of final maturity, actual redemption, or other disposition, whichever is earlier; or

(2) Elect to report the increase for the year in which it accrues, in which case the election applies to all savings notes then owned and those subsequently acquired, as well as to any other similar obligations purchased on a discount basis.

If the method in paragraph (b)(1) of this section is used, the taxpayer may change to the method in paragraph (b)(2) of this section without obtaining permission from the Internal Revenue Service. However, once the election to use the method in paragraph (b)(2) of this section is made, the taxpayer may not change the method of reporting without permission from the Internal Revenue Service. For further information on Federal income taxes, the Service Center Director or District Director, Internal Revenue Service, of the taxpayer's district should be contacted.

**§ 342.7 Payment or redemption.**

(a) *General.* A savings note is redeemable any time one year or more after

the issue date upon its presentation and surrender, with a duly executed request for payment, to any Federal Reserve Bank or Branch referred to in § 342.9, the Bureau of the Public Debt, or to any financial institution designated as a paying agent of savings bonds.

(b) *Judgment creditors.* Payment of a savings note to the purchaser at a sale under a levy, or to the officer authorized to levy upon the property of the owner under appropriate process to satisfy a money judgment, could not be made until one year after the issue date of the note.

[57 FR 14282, Apr. 17, 1992, as amended at 59 FR 10540, Mar. 4, 1994]

**§ 342.8 Governing regulations.**

Savings notes are subject to the regulations of the Department of the Treasury, now or hereafter prescribed, governing United States Savings Bonds, contained in 31 CFR part 315, also published as Department of the Treasury Circular No. 530, current revision, except as otherwise specifically provided herein.

**§ 342.9 Fiscal agents.**

(a) Federal Reserve Banks and Branches referred to below, as fiscal agents of the United States, are authorized to perform such services as may be requested of them by the Secretary of the Treasury, or his or her delegate, in connection with the issue, redemption and payment of savings notes.

(b)(1) The following Federal Reserve Offices have been designated to provide savings bond services:

Servicing office	Reserve districts served	Geographic area served
Federal Reserve Bank, Buffalo Branch, P.O. Box 961, Buffalo, NY 14240.	New York, Boston	CT, MA, ME, NH, NJ (northern half), NY (City & State), RI, VT, Puerto Rico and Virgin Islands.
Federal Reserve Bank, Pittsburgh Branch, P.O. Box 867, Pittsburgh, PA 15230.	Cleveland, Philadelphia.	DE, KY (eastern half), NJ (southern half), OH, PA, WV (northern panhandle).
Federal Reserve Bank of Richmond, P.O. Box 27622, Richmond, VA 23261.	Richmond, Atlanta	AL, DC, FL, LA (southern half), MD, MS (southern half), NC, SC, TN (eastern half), VA, WV (except northern panhandle).
Federal Reserve Bank of Minneapolis, 250 Marquette Avenue, Minneapolis, MN 55480.	Minneapolis, Chicago.	IA, IL (northern half), IN (northern half), MN, MT, ND, SD, WI.

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Servicing office	Reserve districts served	Geographic area served
Federal Reserve Bank of Kansas City, 925 Grand Avenue, Kansas City, MO 64198.	Dallas, San Francisco, Kansas City, St. Louis.	AK, AR, AZ, CA, CO, HI, ID, IL (southern half), IN (southern half), KS, KY (western half), LA (northern half), MO, MS (northern half), NE, NM, NV, OK, OR, TN (western half), TX, WA, WY, UT and GU.

(2) Until March 1, 1996, other Federal Reserve Offices may continue to provide some savings bond services, but such services will be phased out over the period prior to that date.

[59 FR 10540, Mar. 4, 1994]

### § 342.10 Reservations.

(a) *Issue of notes.* The Secretary of the Treasury reserved the right to reject any application for purchase of savings notes, in whole or in part, and to refuse to issue or permit to be issued hereunder any such notes in any case or any class or classes of cases if such action was deemed to be in the public interest. Any action in any such respect was final.

(b) *Terms.* The Secretary of the Treasury may at any time, or from time to time, supplement or amend the terms of this part, or of any amendments or supplements thereto.