

DEPARTMENT OF THE TREASURY

Fiscal Service

31 CFR Part 351

[Department of the Treasury Circular, Public Debt Series No. 1-80]

Offering of United States Savings Bonds, Series EE

AGENCY: Bureau of the Public Debt, Fiscal Service, Department of the Treasury.

ACTION: Final rule.

SUMMARY: This Final Rule amends the offering circular for Series EE United States Savings Bonds to reflect rate changes for Series EE savings bonds issued on or after May 1, 1995, and the repeal of the statutory minimum 4 percent investment yield guarantee. The purpose of these changes is to provide for greater flexibility in determining and calculating the interest rates and redemption values for Series EE savings bonds.

EFFECTIVE DATE: May 1, 1995.

FOR FURTHER INFORMATION CONTACT: Wallace Earnest, Director, Division of Staff Services, Savings Bond Operations, Bureau of the Public Debt, Parkersburg, West Virginia 26106-1328 (304) 480-6319, or Edward Gronseth, Deputy Chief Counsel, or Bob Riffle, Paralegal Specialist, Office of the Chief Counsel, Bureau of the Public Debt (304) 480-5192.

SUPPLEMENTARY INFORMATION:**I. Background**

On March 15, 1976, the savings bonds statute, the Second Liberty Bond Act (31 U.S.C. 757c(b), later codified at 31 U.S.C. 3105), was amended to require that the investment yield on Series E savings bonds would not be less than 4 percent per annum, compounded semiannually, from the first day of the month after issue date to the last day of the month before the redemption date (31 U.S.C. 3105(b)(2)). The purpose of this amendment was to provide savings bond owners with a guaranteed minimum rate of return no matter when they redeemed their bonds. In 1982, the Treasury amended the offering circular for Series EE bonds held at least 5 years. The returns were linked to yields for 5-year Treasury securities. A guaranteed minimum rate was still in effect, but it declined over the years from 7.5 percent to 6 percent to the statutory 4 percent floor.

On December 8, 1994, the guaranteed minimum 4 percent was repealed (Pub. L. 103-465). This statutory change

provided the opportunity for Treasury to consider a fresh approach to determining rates for new savings bonds and better achieve the goals of the Savings Bond Program.

II. Summary of Amendments

Section 351.0 is amended to change the effective date of the offering circular to May 1, 1995.

Paragraphs (e) through (i) of section 351.2, are amended to ensure that the provisions of those paragraphs do not conflict with or contradict other changes to Section 351.2, as described below.

A new paragraph (j) is added to Section 351.2 to describe changes in the terms and conditions for Series EE bonds offered for sale on and after May 1, 1995. The following paragraphs describe the terms and conditions for such bonds:

Market Yields. Treasury uses market bid yields for bills, notes, and bonds to create a yield curve based on the most actively traded Treasury securities. This curve relates the yield on a security to its time to maturity. Yields at particular points on the curve are referred to as "constant maturity yields" and are determined by the U.S. Treasury from this daily yield curve. The Board of Governors of the Federal Reserve System currently publishes daily Treasury constant maturity yields in the Statistical Release H.15, "Selected Interest Rates". The 6-month and 5-year Treasury securities rates described below are derived from these yield curves. (Note: This method of determining market rates has been used since the inception of the market-based program in 1982).

Short-Term Savings Bond Rate. No less frequently than on each May 1 and November 1, Treasury announces a short-term savings bond rate. To determine this rate, Treasury compiles 6-month Treasury securities rates as of the close of business for each day of the previous three months and calculates the monthly average for each month, rounding each monthly average to the nearest one-hundredth of one percent. The short-term savings bond rate is then determined by taking 85 percent of the 3-month average and rounding the result to the nearest one-hundredth of one percent. If the regularly scheduled date for the announcement (for example, May 1) is a day when the Treasury is not open for business, then the announcement is made on the next business day and is effective as of the first day of that month. For bonds entitled to interest accruals at the short-term savings bond rate, that rate applies to the bond's first full semiannual

interest accrual period following each announcement of the rate.

Long-Term Savings Bond Rate. No less frequently than on each May 1 and November 1, Treasury announces a long-term-savings bond rate. To determine this rate, Treasury compiles 5-year Treasury securities rates as of the close of business for each day of the previous six months and calculates the monthly average for each month, rounding each monthly average to the nearest one-hundredth of one percent. The long-term savings bond rate is then determined by taking 85 percent of the 6-month average and rounding the result to the nearest one-hundredth of one percent. If the regularly scheduled date for the announcement (for example, May 1) is a day when the Treasury is not open for business, then the announcement is made on the next business day and is effective as of the first day of that month. For bonds entitled to interest accruals at the long-term savings bond rate, that rate applies to the bond's first full semiannual interest accrual period following each announcement of the rate.

Base Denomination. All redemption value calculations are performed on a hypothetical denomination of \$25, having a value at the beginning of the first earning period equal to an issue price of \$12.50. Redemption values for bonds of greater denominations are in direct proportion according to the ratio of denominations. *For example*, if the value of a hypothetical \$25 denomination is \$26.80—i.e., \$12.50 issue price plus \$14.30 accrued interest—the value of a \$50 bond is $\$26.80 \times (50 \div 25)$, or \$53.60.

Semiannual Earning Periods and Accrual Dates. Bonds bearing May 1, 1995, and later issue dates, earn interest during each successive 6-month period from date of issue to final maturity. Interest accrues, immediately following each earning period, on each semiannual anniversary of the date of issue, including the date of final maturity.

Original Maturity. Original maturity occurs at 17 years after date of issue.

The redemption value of a bond at original maturity shall not be less than the face amount (denomination) of the bond.

Final Maturity. Final maturity occurs at 30 years after the date of issue. Bonds cease to earn interest at final maturity.

Interest Rate and Redemption Values for Bonds Through Original Maturity. Short-term saving bond rates are used to determine the increase in redemption values for each semiannual accrual date occurring on or before 5 years from the date of issue. For a bond outstanding

more than five years through original maturity, long-term savings bond rates are used to determine the increase in redemption values for each semiannual accrual date occurring after 5 years from the date of issue.

Interest Rate and Redemption Values for Bonds During An Extended Maturity Period. From 17 years after date of issue to the final maturity date, the bond continues to earn interest and ceases to earn interest at final maturity.

Outstanding Savings Bonds. No changes are made to the terms and conditions for outstanding bonds or to the regulations governing the offering of Series E, H and HH savings bonds in 31 CFR parts 316, 332, and 352, respectively, and savings notes in 31 CFR part 342, as a result of the repeal of paragraph (b)(2) of 31 U.S.C. 3105 and the amendment to 31 CFR part 351.

Procedural Requirements

It has been determined that this Final Rule is not a significant regulatory action as defined in Executive Order 12866. Therefore, an assessment of anticipated benefits, costs and regulatory alternatives is not required.

This rule relates to matters of public contract, as well as the borrowing power and fiscal authority of the United States. The notice and public procedures requirements of the Administrative Procedure Act are inapplicable, pursuant to 5 U.S.C. 553(a)(2). As no notice of proposed rulemaking is required, the provisions of the Regulatory Flexibility Act (5 U.S.C. 601, *et seq.*) do not apply.

There are no collections of information required by this Final Rule,

and, therefore, no approval pursuant to the Paperwork Reduction Act, is required.

List of Subjects in 31 CFR Part 351

Bonds, Government Securities.

Dated: March 10, 1995.

Gerald Murphy,

Fiscal Assistant Secretary.

For the reasons set forth in the preamble, Part 351 of Title 31 of the Code of Federal Regulations is amended as follows:

PART 351—OFFERING OF UNITED STATES SAVINGS BONDS, SERIES EE

1. The authority citation for part 351 is revised to read as follows:

Authority: 5 U.S.C. 301; 12 U.S.C. 391; 31 U.S.C. 3105.

2. Section 351.0 is amended, in the second sentence, by removing “March 1, 1993”, and adding in its place “May 1, 1995.”

3. Section 351.2(c) is amended as follows:

A. Adding at the end of the heading “for bonds issued prior to May 1, 1995”;

B. In the second sentence, after “Series EE bonds”, by adding “issued prior to May 1, 1995.”;

C. In the table, in the first column, last line, by revising “Mar. 1993, and thereafter” to read “Mar. 1993–Apr. 1995”; and

D. In the table, in the second column, last line, by revising “Mar. 2011, and thereafter” to read “Mar. 2011–Apr. 2013”.

4. Section 351.2(e) is amended as follows:

A. In the paragraph heading, by revising the words “November 1, 1982, or thereafter” to read “November 1, 1982 through April 1, 1995.”;

B. The introductory text of paragraph (e) is revised to read as follows:

* * * * *

(e) * * * The investment yield of a Series EE bond bearing issue dates of November 1, 1982, through April 1, 1995, from its issue date to each interest accrual date occurring less than 5 years after issue, will be as shown in Tables 1, 2, and 3 in the appendix to this part.

* * * * *

C. Removing “or thereafter” at the end of the first sentence of paragraph (e)(1) and adding in its place “through April 1, 1995”;

D. In paragraph (e)(2)(iii), in the first sentence, after the words “May 1, 1989,” by removing “or thereafter” and adding in its place “through April 1, 1995”.

5. Section 351.2(f)(2) is amended by removing “November 2, 1982” and adding in its place “November 1, 1982”.

6. Section 351.2(g) is amended as follows:

A. In the paragraph heading, after “Extended maturity periods,” by adding “for bonds bearing issue dates prior to May 1, 1995”;

B. In the first sentence, by removing “of 12 years or less”;

C. In the heading of paragraph (g)(2), after “Extensions granted,” adding “for bonds bearing issue dates prior to May 1, 1995”; and

D. By revising the tables in paragraph (g)(2) to read as follows:

* * * * *

Issues dates—1st day of:	Original terms	Original maturity dates—day of:	Final maturity dates—1st day of:
Jan. 1980–Oct. 1980	11 years	Jan. 1991–Oct. 1991	Jan. 2010–Oct. 2010.
Nov. 1980–Apr. 1981	9 years	Nov. 1989–Apr. 1990	Nov. 2010–Apr. 2011.
May 1981–Oct. 1982	8 years	May 1989–Oct. 1990	May 2011–Oct. 2012.
Nov. 1982–Oct. 1986	10 years	Nov. 1992–Oct. 1996	Nov. 2012–Oct. 2016.
Nov. 1986–Feb. 1993	12 years	Nov. 1998–Feb. 2005	Nov. 2016–Feb. 2023.
Mar. 1993–Apr. 1995	18 years	Mar. 2011–Apr. 2013	Mar. 2023–Apr. 2025
Issues dates—1st day of:	1st extended maturity dates—1st day of:*	Years to final maturity	Final maturity dates—1st day of:
Jan. 1980–Oct. 1980	Jan. 2001–Oct. 2001	9 years	Jan. 2010–Oct. 2010.
Nov. 1980–Apr. 1981	Nov. 1999–Apr. 2000	11 years	Nov. 2010–Apr. 2011.
May 1981–Oct. 1982	May 1999–Oct. 2000	12 years	May 2011–Oct. 2012.
Nov. 1982–Oct. 1986	Nov. 2002–Oct. 2006	10 years	Nov. 2012–Oct. 2016.
Nov. 1986–Feb. 1993	Nov. 2008–Feb. 2015	8 years	Nov. 2016–Feb. 2023.
Mar. 1993–Apr. 1995	Mar. 2021–Apr. 2023	2 years	Mar. 2023–Apr. 2025

* At 10 years after original maturity.

* * * * *

E. In the heading of paragraph (g)(3), by adding “for bonds bearing issue dates

prior to May 1, 1995” after “extended maturity period”.

7. Paragraph 351.2(h) is amended as follows:

A. In the heading, by adding “for bonds issued prior to May 1, 1995” after “Accrual and payment of interest”;

B. In the fifth sentence, after "For bonds with issue dates", by removing "on and after" and adding in their place the word "of"; and

C. In the fifth sentence, after "March 1, 1993," by adding "through April 1, 1995."

8. Paragraph 351.2(i) is amended as follows:

A. In the heading, by adding "for bonds issued prior to May 1, 1995" after "Tables of redemption values"; and

B. In the first sentence, after "November 1, 1982," by removing "and thereafter", and adding in its place "through April 1, 1995".

9. A new paragraph (j) is added to Section 351.2 to read as follows:

* * * * *

(j) *Market-based interest rate and redemption values—bonds bearing issue dates of May 1, 1995, or thereafter.* (1) The following definitions apply for determining the interest rates and redemption values for bonds bearing issue dates of May 1, 1995, and thereafter:

(i) *Market yields.* Treasury uses market bid yields for bills, notes, and bonds to create a yield curve based on the most actively traded Treasury securities. This curve relates the yield on a security to its time to maturity. Yields at particular points on the curve are referred to as "constant maturity yields" and are determined by the Treasury from this daily yield curve. The 6-month and 5-year Treasury securities rates described below are derived from these yield curves.

(ii) *Short-term savings bond rate.* No less frequently than on each May 1 and November 1, Treasury announces a short-term savings bond rate. To determine this rate, Treasury compiles 6-month Treasury securities rates as of the close of business for each day of the previous three months and calculates the monthly average for each month, rounding each monthly average to the nearest one-hundredth of one percent. The short-term savings bond rate is then determined by taking 85 percent of the three-month average and rounding the result to the nearest one-hundredth of one percent. If the regularly scheduled date for the announcement (for example, May 1) is a day when the Treasury is not open for business, then the announcement is made on the next business day and is effective as of the first day of that month. For bonds entitled to interest accruals at the short-term savings bond rate, that rate applies to the bond's first full semiannual interest accrual period following each announcement of the rate.

(iii) *Long-term savings bond rate.* No less frequently than on each May 1 and

November 1, Treasury announces a long-term savings bond rate. To determine this rate, Treasury compiles 5-year Treasury securities rates as of the close of business for each day of the previous six months and calculates the monthly average for each month, rounding each monthly average to the nearest one-hundredth of one percent. The long-term savings bond rate is then determined by taking 85 percent of the 6-month average and rounding the result to the nearest one-hundredth of one percent. If the regularly scheduled date for the announcement (for example, May 1) is a day when the Treasury is not open for business, then the announcement is made on the next business day and is effective as of the first day of that month. For bonds entitled to interest accruals at the long-term savings bond rate, that rate applies to the bond's first full semiannual interest accrual period following each announcement of the rate.

(iv) *Base denomination.* All redemption value calculations are performed on a hypothetical denomination of \$25 having a value at the beginning of the first earning period equal to an issue price of \$12.50. Redemption values for bonds of greater denominations are in direct proportion according to the ratio of denominations. For example, if the value of a hypothetical \$25 denomination is \$26.80—i.e., \$12.50 issue price plus \$14.30 accrued interest—on the same redemption date, the value of a \$50 bond bearing the same issue date is $\$26.80 \times (50 \div 25)$ or \$53.60.

(v) *Issue date.* The issue date of a Series EE bond is the first day of the month in which payment of the issue price is received by an authorized issuing agent.

(vi) *Semiannual earning periods and accrual dates.* Bonds bearing issue dates of May 1, 1995, and thereafter earn interest during each successive six month period from date of issue to final maturity. Interest accrues, immediately following each earning period, on each semiannual anniversary of the date of issue, including the date of final maturity.

(vii) *Original maturity.* Bonds reach original maturity at 17 years after date of issue.

(viii) *Final maturity.* Bonds reach final maturity at 30 years after date of issue. A bond ceases to earn interest at final maturity.

(2) *Interest rates and redemption values for bonds held 5 years or less.* The interest rate for a Series EE bond bearing an issue date of May 1, 1995, or thereafter, for semiannual earning periods during the first 5 years from

date of issue, is the short-term savings bond rate determined as defined in paragraph (j)(1)(ii) of this section. Redemption values for semiannual accrual dates occurring on or before 5 years from date of issue are calculated in accordance with paragraph (j)(5) of this section.

(3) *Interest rates and redemption values for bonds held 5 years and 6 months and longer.* The interest rate for a Series EE bond bearing an issue date of May 1, 1995, or thereafter, for semiannual earning periods beginning 5 years from date of issue through original maturity, is the long-term savings bond rate determined as defined in paragraph (j)(1)(iii) of this section. Redemption values for semiannual accrual dates occurring after 5 years from date of issue, through original maturity, are calculated in accordance with paragraph (j)(5) of this section, except that the redemption value at the date of original maturity, as provided in paragraph (j)(1)(vii) of this section, shall not be less than the denomination (face amount or face value).

(4) *Interest rates and redemption values for bonds during an extended maturity period.* From 17 years after date of issue to the final maturity date (the "extended maturity period") the bond will be subject to the terms and conditions in effect when it is issued, and will continue to earn interest as described in paragraph (j)(3) of this section, unless the terms and conditions applicable to an extended maturity period are expressly amended prior to the beginning of such period.

(5) *Redemption value calculations.* Interest on a bond accrues and becomes part of the redemption value which is paid when the bond is cashed. The redemption value of a bond on the accrual date immediately following each semiannual earning period is determined as follows:

(i) The applicable long-term or short-term savings bond rate for the semiannual earning period is converted to decimal form by dividing by 100, and is adjusted to a semiannual rate by dividing by 2.

(ii) Using redemption values for the base denomination, as defined in paragraph (j)(1)(iv) of this section, this rate is then multiplied by the redemption value of the bond at the beginning of the semiannual earning period.

(iii) The resulting interest amount, rounded to the nearest cent, is added to the redemption value of the bond at the beginning of the earning period to produce the redemption value at the next semiannual accrual date. The

redemption value of a bond remains constant between accrual dates.

(6) *The Secretary's determination.*

The determination by the Secretary of the Treasury, or his delegate, of the market yields, and the long-term and short-term savings bond rates, shall be final and conclusive.

(7) *Tables of redemption values.*

Tables of redemption value are made available by the Bureau of the Public Debt, Parkersburg, West Virginia 26106-1328, prior to the periods during which the redemption values are payable.

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