

**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, Treasury.

**ACTION:** Final rule.

**SUMMARY:** This final rule amends the offering circular for Series EE United States Savings Bonds to change the rate structure for Series EE United States Savings Bonds with issue dates of May 1, 1997, or thereafter. The purpose of these changes is to simplify the rate structure for Series EE United States Savings Bonds.

**EFFECTIVE DATE:** May 1, 1997.

**FOR FURTHER INFORMATION CONTACT:** Wallace Earnest, Director, Division of Staff Services, Savings Bond Operations Office, Bureau of the Public Debt, Parkersburg, West Virginia 26106-1328, (304) 480-6319 or through the Internet at [wearnest@bpd.treas.gov](mailto:wearnest@bpd.treas.gov); or Ed Gronseth, Deputy Chief Counsel, Office of the Chief Counsel, Bureau of the Public Debt, Parkersburg, West Virginia 26106-1328, (304) 480-5192 or through the Internet at [egronset@bpd.treas.gov](mailto:egronset@bpd.treas.gov); or Bob Riffle, Attorney-Adviser, Office of the Chief Counsel, Bureau of the Public Debt, Parkersburg, West Virginia 26106-1328, (304) 480-5192 or through the Internet at [briffle@bpd.treas.gov](mailto:briffle@bpd.treas.gov). Copies of this amendment can be downloaded from the Internet at the following address: <http://www.publicdebt.treas.gov>.

**SUPPLEMENTARY INFORMATION:****1. Background**

In 1995, Treasury published a new rate structure for Series EE savings bonds with issue dates of May 1995 or thereafter. That rate structure simplified market-based rates and, among other things, eliminated minimum yields (except that redemption values at the date of original maturity—17 years after the date of issue—are not less than the face amount). Based on experience since May 1995, Treasury has determined that it is appropriate to simplify the program further, and to change the rate structure to make savings bonds with issue dates of May 1, 1997, or thereafter, more attractive to savers. These changes include: (1) a rate structure based on 90% of the average of the 5-year Treasury securities yields from the date

of issue through original maturity (17 years from the date of issue) and through the final maturity period (17 years to 30 years from the date of issue) unless the terms and conditions applicable to a final maturity period are expressly amended prior to the beginning of such period; (2) a 3-month interest penalty for bonds redeemed prior to five years from the date of issue; and (3) monthly increases in redemption values beginning with the fourth month from the date of issue (due to the 3-month interest penalty) through original maturity (17 years from the date of issue) and through the final maturity period (17 years to 30 years from the date of issue) unless the terms and conditions applicable to a final maturity period are expressly amended prior to the beginning of such period.

Currently, the interest rate on savings bonds for the first five years is 85 percent of the average of 6-month Treasury securities yields (see 31 CFR 351.2(j)(1)(ii) for information on how the short-term rate is determined); and, for holding periods beyond the first five years, the rate is 85 percent of the average of the 5-year Treasury securities yields (see 31 CFR 351.2(j)(1)(iii) for information on how the long-term rate is determined). This final rule provides a new rate structure for Series EE savings bonds issued May 1, 1997, or thereafter. The new rates are 90 percent of the average of 5-year Treasury securities yields from the date of issue through original maturity (17 years from the date of issue).

This final rule includes a 3-month interest penalty for early redemptions to encourage owners to hold their bonds for the longer term. This penalty applies only to owners that redeem their bonds prior to 5 years after the date of issue and would not affect those who hold bonds for 5 years or more. Like other Series EE savings bonds, savings bonds issued May 1, 1997, or thereafter, may be redeemed after six months from the date of issue (31 CFR 351.2(d)); however, the 3-month interest penalty would apply if redeemed prior to 5 years from the date of issue. Redemption values published in tables reflect the 3-month interest penalty for redemptions, if the bonds are redeemed prior to 5 years after the date of issue.

The third feature of the new savings bonds rate structure is the monthly accrual of interest. The new rate structure, taking into account the 3-month interest penalty, provides owners with increases in value every month beginning with the fourth month from the date of issue through original maturity. This contrasts with savings bonds, described in 31 CFR 351.2(h),

issued March 1, 1993, through April 1, 1995, in which the redemption values increase on the first day of each month from the third through the sixtieth month after issue, and thereafter either on the first day of each month or on the first day of each successive 6-month period, whichever accrual schedule ensures that the actual yield from issue date to redemption date is in no case less than 4 percent per annum, compounded semiannually.

No changes are being made to the terms and conditions for outstanding Series EE savings bonds with issue dates prior to May 1, 1997, or to the regulations governing the offering of savings notes or Series E, H, and HH savings bonds in 31 CFR Parts 316, 332, and 352.

**II. Summary of Amendments**

Section 351.0 is being amended to change the effective date of the offering circular to May 1, 1997.

Section 351.2 is being amended to limit the applicability of paragraph (j) to Series EE savings bonds with May 1995 through April 1997 issue dates.

A new paragraph (k) is added to Section 351.2 to describe terms and conditions for Series EE savings bonds offered for sale on and after May 1, 1997. Paragraph (k) sets forth definitions applied in the determination of values for Series EE savings bonds issued May 1, 1997, or thereafter. The definitions for market yields, base denominations, issue dates, original maturity, and final maturity parallel definitions used in previous offerings of savings bonds (see similar definitions in paragraph (j) for bonds issued May, 1995, through April 1997). In addition, paragraph (k)(1) contains three new definitions:

*Savings bonds rate.* Paragraph (k)(1)(ii) sets forth the definition of savings bonds rate. To determine this rate, Treasury compiles 5-year Treasury securities yields as of the close of business for each day of the previous six months and calculates the monthly average to the nearest one-hundredth of one percent. The savings bonds rate is then determined by taking 90 percent of the 6-month average and rounding the result to the nearest one-hundredth of one percent.

*Accrual dates.* Paragraph (k)(1)(v) sets forth the definition of accrual dates. Interest on a Series EE savings bond accrues on the first day of each month beginning with the fourth month from the date of issue. The redemption value of a bond does not change between these accrual dates.

*Semiannual Rate Periods.* Paragraph (k)(1)(vi) describes the 6-month time periods between the semiannual anniversaries of the date of issue running through original maturity (17 years from the date of issue).

Paragraph (k)(2) sets out an explanation of interest rates and

monthly accruals for savings bonds with issue dates of May 1, 1997, or thereafter. Savings bonds rates are defined in paragraph (k)(1)(ii). This paragraph explains how the savings bonds rates for Series EE savings bonds are determined during the first semiannual rate period beginning on or after the effective date of the rate.

Interest is credited on the first day of each month and compounded semiannually. Interest accrues beginning with the fourth month from the date of issue. *For example*, a bond issued in January has interest first credited on May 1, which represents one month of interest because of the 3-month interest penalty. A table provided in paragraph (k)(2) shows, for any given month of issue with rates announced each May and November, the months making up the semiannual rate period during which interest is earned at the announced rate (disregarding the penalty for bonds redeemed prior to 5 years after the date of issue) and the months in which the bonds increase in value. This rate is an annual rate compounded semiannually.

Paragraph (k)(3) describes a 3-month interest penalty that is applied to bonds issued May 1, 1997, or thereafter that are redeemed prior to 5 years following the date of issue. The overall earning period for these bonds is reduced and the redemption values of such bonds will reflect the 3-month interest penalty. *For example*, if a bond is redeemed 9 months after the date of issue, the redemption value will be determined by applying the redemption value calculation formula described in paragraph (k)(4) and the savings bonds rate for that bond at 6 months after the date of issue. The redemption value of a bond subject to the 3-month interest penalty shall not be reduced below the issue price. This penalty does not apply to bonds redeemed 5 years or more after the date of issue.

Paragraph (k)(4) sets out the formula and definitions for calculation of the redemption value of savings bonds issued May 1, 1997, or thereafter. An example is provided to help explain the redemption value calculations.

Paragraph (k)(5) sets forth how interest rates will be applied during extended maturity periods. From 17 years after date of issue to the final maturity date (30 years after the date of issue), the bond continues to earn interest as described in paragraph (k)(2) unless the terms and conditions applicable to a final maturity period are expressly amended prior to the beginning of such period.

Paragraph (k)(6) sets out the finality of the Secretary's determination of market

yields, savings bonds rates, extended maturity period rates and redemption values.

Paragraph (k)(7) sets out the availability of redemption tables and states that redemption values reflect penalties for early redemptions, where applicable because bonds are held less than 5 years after the date of issue.

Section 351.9 is being revised by replacing the current description of the savings bonds education feature with a brief paragraph that refers the reader to authoritative IRS publications.

The heading of Table 3 appended to 31 CFR Part 351 is amended to replace the March 1, 1993, date with March 1, 1993, through April 1, 1995.

#### 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. 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: April 28, 1997.

**Gerald Murphy,**

*Fiscal Assistant Secretary.*

For the reasons set forth above, Part 351 of Title 31, Chapter II 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 continues to read as follows:

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

##### § 351.0 [Amended]

2. Section 351.0 is amended, in the second sentence, by removing "May 1, 1995", and adding in its place "May 1, 1997".

##### § 351.2 [Amended]

3. Section 351.2 is amended as follows:

A. In paragraph (j), the heading is amended by removing the words "May 1, 1995, or thereafter" and adding in its place "May 1, 1995, through April 1, 1997";

B. In paragraph (j)(1), the introductory text is amended by removing the words "May 1, 1995, and thereafter" and adding in its place "May 1, 1995, through April 1, 1997";

C. Paragraph (j)(1)(vi) is amended by removing the words "May 1, 1995, and thereafter" and adding in its place "May 1, 1995, through April 1, 1997";

D. Paragraph (j)(2) is amended by removing the words "May 1, 1995, or thereafter" and adding in its place "May 1, 1995, through April 1, 1997";

E. Paragraph (j)(3) is amended by removing the words "May 1, 1995, or thereafter" and adding in its place "May 1, 1995, through April 1, 1997".

F. A new paragraph (k) is added to § 351.2 to read as follows:

#### § 351.2 Description of bonds.

\* \* \* \* \*

(k) *Interest rate and redemption values—bonds bearing issue dates of May 1, 1997, or thereafter.*

(1) The following definitions apply for determining the interest rates and redemption values for bonds bearing issue dates of May 1, 1997, or 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 5-year Treasury securities yields described below are derived from these yield curves.

(ii) *Savings bonds rate.* No less frequently than on each May 1 and November 1, Treasury announces a variable market-based savings bonds rate. To determine this rate, Treasury compiles 5-year Treasury securities yields as of the close of business for each day of the previous six months and calculates the monthly average to the nearest one-hundredth of one percent. The savings bonds rate is then determined by taking 90 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, however, the effective date of the rate remains the first day of the month of the announcement.

(iii) *Base denomination.* All redemption value calculations are performed on a hypothetical denomination of \$25 having a value at the beginning of the first semiannual rate 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.

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

(v) *Accrual date.* Interest on a Series EE savings bond accrues on the first day of each month beginning with the fourth month from the date of issue. The redemption value of a bond does not change between these accrual dates.

(vi) *Semiannual Rate Periods.* Semiannual rate periods are the 6-month periods beginning on the date of issue and on each semiannual anniversary of the date of issue to original 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 the date of issue. Bonds cease to earn interest at final maturity.

(2) *Interest rates and monthly accruals for bonds with issue dates of May 1, 1997, or thereafter, through original maturity.* Savings bonds rates defined in paragraph (k)(1)(ii) of this section apply to earnings during the first semiannual rate period beginning on or after the effective date of the rate.

Interest is credited on the first day of each month and compounded semiannually. Interest accrues beginning with the fourth month from the date of issue. For example, a bond issued in January has interest first credited on May 1, which represents one month of interest because of the 3-month interest penalty. The following table shows, for any given month of issue with rates announced each May and November, the months making up the semiannual rate period during which interest is earned at the announced rate (disregarding the penalty for bonds redeemed prior to 5 years after the date of issue) and the months in which the bonds increase in value. This rate is an annual rate compounded semiannually.

If issue month is:	And rate announcement/effective date is:	Then, semiannual rate periods in which interest is earned include months of:	And bonds increase in value on 1st day of months of:
JAN or JUL	May 1	JUL through DEC	AUG through JAN.
FEB or AUG	May 1	AUG through JAN	SEP through FEB.
MAR or SEP	May 1	SEP through FEB	OCT through MAR.
APR or OCT	May 1	OCT through MAR	NOV through APR.
MAY or NOV	May 1	MAY through OCT	JUN through NOV.
JUN or DEC	May 1	JUN through NOV	JUL through DEC.
JAN or JUL	November 1	JAN through JUN	FEB through JUL.
FEB or AUG	November 1	FEB through JUL	MAR through AUG.
MAR or SEP	November 1	MAR through AUG	APR through SEP.
APR or OCT	November 1	APR through SEP	MAY through OCT.
MAY or NOV	November 1	NOV through APR	DEC through MAY.
JUN or DEC	November 1	DEC through MAY	JAN through JUN.

(3) *Interest penalty for Series EE bonds with issue dates of May 1, 1997, or thereafter, redeemed less than 5 years following the issue dates.* If a Series EE savings bond with an issue date of May 1, 1997, or thereafter, is redeemed less than five years following the date of issue, the overall earning period from the date of issue will be reduced by three months. For example, if a bond issued January 1, 1998, is redeemed 9 months later on October 1, 1998, the redemption value will be determined by applying the redemption value calculation formula described in paragraph (k)(4) of this section and the savings bonds rate for that bond at 6 months after the date of issue on July 1, 1998. The redemption value of a bond subject to the 3-month interest penalty shall not be reduced below the issue price. This penalty does not apply to bonds redeemed 5 years or more after the date of issue.

(4) *Redemption value calculations.*

(i) Interest on a bond accrues and becomes part of the redemption value which is paid when the bond is surrendered for payment. The redemption value of a bond at original

maturity shall not be less than the face amount/denomination of the bond.

(ii)(A) The redemption value of a bond for the accrual date (the first day of each month beginning with the fourth month from the date of issue) is determined in accordance with this section and the following formula:

$FV = PV \times \{ [1 + (i \div 2)]^{(m \div 6)} \}$  where FV (future value) = redemption value on redemption date rounded to the nearest cent.

PV (present value) = redemption value at the beginning of the semiannual rate period as defined in paragraph (k)(1)(vi) of this section.

i = savings bonds rate as defined in paragraph (k)(1)(ii) of this section converted to decimal form by dividing by 100.

m = number of full calendar months outstanding during the semiannual rate period.

(B) The following hypothetical example illustrates how this formula is applied:

*Example.* assume a hypothetical savings bonds rate of 5.00% effective May 1, 2002, for a bond denominated at \$25, with an issue date of September 1, 1997 and a redemption

value of \$16.00 as of September 1, 2002. The February 1, 2003, redemption value is calculated as follows: Bonds issue dated in September have semiannual rate periods beginning each March 1 and September 1. The first semiannual rate period to begin on or after the effective date of the May 1, 2002, rate would be the period beginning September 1, 2002. PV, the present value, would be the value of the bond at the beginning of the semiannual rate period, on September 1, 2002. The savings bonds rate of 5.00% converted to a decimal would be 0.05. The number of months, m, is 5 since 5 full calendar months (September through January) have lapsed since the beginning of the rate period. FV is then the result of the formula:

$$FV = \$16.00 \times \{ [1 + (0.05 \div 2)]^{(5 \div 6)} \} = \$16.33$$

after rounding to the nearest cent.

Using the example, the FV of a savings bond with a \$50 or larger denomination can be determined by applying the appropriate multiple, for example:  $\$16.33 \times (\$50.00 \div \$25.00)$  for a bond with a \$50.00 face amount; or  $\$16.33 \times (\$100.00 \div \$25.00)$  for a bond with a \$100.00 face amount.

(5) *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 (k)(2) of this section, unless the terms and conditions applicable to an extended maturity period are expressly amended prior to the beginning of such period.

(6) *The Secretary's determination.* The determination by the Secretary of the Treasury, or his delegate, of market yields, savings bonds rates, rates applicable during any extended maturity period, and savings bond redemption values shall be final and conclusive.

(7) *Tables of redemption values.* Tables of redemption values are made

available by the Bureau of the Public Debt, Parkersburg, West Virginia 26106-1328. Redemption values published in such tables reflect the 3-month interest penalty applied to bonds redeemed prior to 5 years from the date of issue.

4. Section 351.9 is revised as follows:

**§ 351.9 Education savings bond program.**

A bond owner or coowner may be able to exclude from income for Federal income tax purposes all or part of the interest received on the redemption of qualified U.S. Savings Bonds during the year if that owner or coowner paid qualified higher education expenses during the same year and certain other conditions are satisfied. This exclusion

is known as the Education Savings Bond Program, and authoritative information about it can be found in Internal Revenue Service Publication 17, "Your Federal Income Tax", and Publication 550, "Investment Income and Expenses", available from your District Director of the Internal Revenue Service.

**Table 3 to Part 351—[Amended]**

5. The heading of Table 3 to Part 351 is amended by removing the words ". . . beginning March 1, 1993" and adding in its place ". . . March 1, 1993, through April 1, 1995."

[FR Doc. 97-11382 Filed 4-30-97; 2:30 pm]

BILLING CODE 4810-39-P