

**§ 343.5**

and the former name. It must be supported by satisfactory proof of the change of name.

(d) *Legal succession.* A bond registered in the name of a company which has been succeeded by another company as the result of a merger, consolidation, incorporation, reincorporation, conversion, reorganization, or which has been lawfully succeeded in any manner whereby the business or activities of the original organization are continued without substantial change, will be paid to or reissued in the name of the successor upon an appropriate request on its behalf, supported by satisfactory evidence of successorship.

(e) *Conversion to book-entry.* Although not required, any owner of tax and loss bonds held in registered form after the effective date of this regulation, may submit those bonds to the Division of Special Investments, for conversion to book-entry form.

(Approved by the Office of Management and Budget under control number 1535-0127)

**§ 343.5 Taxation.**

Tax and loss bonds will be exempt from all taxation now or hereafter imposed on the principal by any state or any possession of the United States or of any local taxing authority.

**PART 344—U.S. TREASURY SECURITIES—STATE AND LOCAL GOVERNMENT SERIES**

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APPENDIX B TO PART 344—FORMULA FOR DETERMINING REDEMPTION VALUE FOR SECURITIES SUBSCRIBED FOR AND EARLY-REDEEMED ON OR AFTER OCTOBER 28, 1996

AUTHORITY: 26 U.S.C. 141 note; 31 U.S.C. 3102.

SOURCE: 65 FR 55405, Sept. 13, 2000, unless otherwise noted.

**Subpart A—General Information**

**§ 344.0 What does this part cover?**

(a) *What is the purpose of the SLGS securities offering?* The Secretary of the Treasury (the Secretary) offers for sale State and Local Government Series (SLGS) securities to provide issuers of tax exempt securities with investments from any amounts that:

(1) Constitute gross proceeds of an issue; or

(2) Assist in complying with applicable provisions of the Internal Revenue Code relating to the tax exemption.

(b) *What types of SLGS securities are governed by this part?* This part governs the following SLGS securities:

SLGS securities	United States Treasury certificates of indebtedness	United States Treasury notes	United States Treasury bonds
(1) Time Deposit .....	X	X	X
(2) Demand Deposit .....	X	.....	.....
(3) Special Zero Interest (Discontinued offering on October 28, 1996) .....	X	X	.....

(c) *In what denominations are SLGS securities issued?* SLGS securities are issued in the following denominations:

(1) *Time deposit securities*—a minimum amount of \$1,000, or in any larger whole dollar amount; and

(2) *Demand deposit securities*—a minimum amount of \$1,000, or in any larger amount, in any increment.

(d) *For how long is the offering in effect?* The offering continues until terminated by the Secretary.

**§ 344.1 What special terms do I need to know to understand this part?**

As appropriate, the definitions of terms used in this part are those found in the relevant portions of the Internal Revenue Code and the Income tax regulations.

*Business Day(s)* means Federal business day(s).

*Current Treasury borrowing rate* means the prevailing market rate, as determined by Treasury, for a Treasury security with the specified period to maturity.

*Day(s)* means calendar day(s).

*Issuer* refers to the Government body that issues State or local government bonds described in section 103 of the Internal Revenue Code.

*Public Debt's website* refers to <<http://www.publicdebt.treas.gov/spe/spe.htm>>.

*SLGS rate* means the current Treasury borrowing rate on the day we receive your subscription, less 5 basis points, as released daily by Treasury in a SLGS rate table.

*SLGS rate table* means a compilation of SLGS rates available for a given day.

“We”, “us”, or “the Secretary” refers to the Secretary and the Secretary’s delegates at the Department of the Treasury (Treasury), Bureau of the Public Debt (Public Debt), and Division of Special Investments (DSI). The term also extends to any fiscal or financial agent acting on behalf of the United States when designated to act by the Secretary or the Secretary’s delegates.

**§ 344.2 What general provisions apply to SLGS securities?**

(a) *What other regulations apply to SLGS securities?* SLGS securities are subject to:

(1) The electronic transactions and funds transfers provisions for United States securities, part 370 of this subchapter, “Electronic Transactions and Funds Transfers Related to U.S. Securities”, and

(2) The Appendix to subpart E to part 306 of this subchapter, for rules regarding computation of interest.

(b) *Where are SLGS securities held?* SLGS securities are issued in book-entry form on the books of the Department of the Treasury, Bureau of the Public Debt, Division of Special Investments, Parkersburg, WV.

(c) *Besides DSI, do any other entities administer SLGS securities?* The Secretary may designate selected Federal Reserve Banks and Branches, as fiscal agents of the United States, to perform services relating to SLGS securities.

(d) *Can SLGS securities be transferred?* No. SLGS securities held in an account of any one type, *i.e.*, time deposit, demand deposit, or special zero interest, cannot be transferred within that account, or to an account of any other type. Transfer of securities by sale, exchange, assignment, pledge, or otherwise is not permitted.

(e) *How does a bank or other agent certify its authority?* When a commercial bank or other agent submits an initial or final subscription on behalf of the issuer, it certifies that it is acting under the issuer’s specific authorization. Ordinarily, evidence of such authority is not required.

(f) *What transactions are not permitted?* The following is a nonexclusive list of impermissible transactions:

(1) It is impermissible to subscribe for SLGS securities for deposit in a defeasance escrow of fund if at any time between the close of business on the date of subscription and the close of business on the date of issue, the amount of SLGS securities subscribed for, plus the amount of any other securities already in such escrow or fund, plus the amount of other securities the issuer has acquired, or has the right to acquire for deposit in an escrow or fund, exceeds the total amount of securities needed to fund such escrow or fund.

(2) For paragraph (f)(1) of this section, do not include in the computation any securities held in the escrow or

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fund that are not subject to an agreement conditioned on changes in the interest rate on open market Treasury securities on or before the issue date of the SLGS securities. An adjustment in the subscription amount under § 344.5(b)(4)(ii) will not in and of itself make the transaction impermissible.

(3) The following examples illustrate certain permissible and impermissible practices:

(i) In order to fund an escrow for an advance refunding, the issuer simultaneously enters into a purchase contract for open market securities and subscribes for SLGS securities, such that either purchase is sufficient to pay the cash flows on the outstanding bonds to be refunded but together, the purchases are greatly in excess of the amount necessary to pay the cash flows. The issuer plans that, if interest rates decline during the period between the date of subscribing for SLGS securities and the requested date of issuance of SLGS securities, the issuer will enter into an offsetting agreement to sell the open market securities and use the bond proceeds to purchase SLGS securities to fund the escrow. If, however, interest rates do not decline in that period, the issuer plans to use the bond proceeds to purchase the open market securities to fund the escrow and cancel the SLGS securities subscription. This arrangement in effect allows the SLGS program to provide a cost-free option to the issuer. This transaction is prohibited.

(ii) The existing escrow for an advance refunding contains open market securities which produce a negative arbitrage. In order to reduce or eliminate this negative arbitrage, the issuer subscribes for SLGS securities at a yield higher than the yield on the existing escrow, but less than the permitted yield. At the same time, the issuer agrees to sell the open market securities in the existing escrow to a third party and use the proceeds to purchase SLGS securities if interest rates decline between the date of subscribing for SLGS securities and the requested date of issuance of SLGS securities. The issuer and the third party further agree that if interest rates increase during this period, the issuer will cancel the SLGS securities subscription.

This arrangement in effect allows the SLGS program to provide a cost-free option to the issuer. This transaction is prohibited.

(iii) Under the same facts as in paragraph (f)(3)(ii) of this section, except that in this case, the agreement entered into by the issuer with a third party to sell the open market securities in order to obtain funds to purchase SLGS securities is not conditioned upon changes in interest rates on Treasury securities. No option is created. This transaction is permissible.

(iv) The issuer subscribes for SLGS securities fifteen days before the settlement date of its bonds at the maximum rates on such day, but the resulting yield in the escrow is less than the permitted yield. The rates on the SLGS securities rise over the next few days, and, within the time periods permitted for cancellation of a subscription under § 344.5(b)(1) and § 344.8(b)(2), the issuer cancels the earlier subscription and resubscribes at the higher rates. This transaction is permissible.

(v) The issuer holds a portfolio of open market securities in an account that produces negative arbitrage. In order to reduce or eliminate this negative arbitrage, the issuer subscribes for SLGS securities for purchase in sixty days. At the same time, the issuer sells an option to purchase the portfolio of open market securities. If interest rates increase, the holder of the option will not exercise its option and the issuer will cancel the SLGS securities subscription. On the other hand, if interest rates decline, the option holder will exercise the option and the issuer will use the proceeds to purchase SLGS securities. This arrangement uses the SLGS program to provide the issuer with a cost-free option. This transaction is prohibited.

(g) *When and how do I pay for SLGS securities?* You must submit full payment for each subscription to DSI by 4:00 p.m., Eastern time, on the issue date. Submit payments by the Fedwire funds transfer system with credit directed to the Treasury's General Account. For these transactions, Public Debt's ABA Routing Number is 051036476.

(h) *What happens if I do not settle on a subscription?* The penalty imposed for failure to make settlement on a subscription that you submit but do not timely cancel will be to render you ineligible to subscribe for SLGS securities for six months, beginning on the date the subscription is withdrawn or the proposed issue date, whichever occurs first.

(1) *Upon whom is the penalty imposed?* If you are the issuer, the penalty is imposed on you unless you provide the Taxpayer Identification Number of the conduit borrower that is the actual party failing to make settlement of a subscription. If you provide the Taxpayer Identification Number for the conduit borrower, the six-month penalty will be imposed on the conduit borrower.

(2) *What occurs if Treasury exercises the option to waive the penalty?* If you settle after the proposed issue date and we determine that settlement is acceptable on an exception basis, we will waive under §344.2(n) the six-month penalty under paragraph (h) of this section. You shall be charged a late payment assessment. The late payment assessment equals the amount of interest that would have accrued on the SLGS securities from the proposed issue date to the date of settlement plus an administrative fee of \$100 per subscription. Late payment assessments are due on demand.

(i) *What happens at redemption?* Treasury cannot call a security for redemption before maturity. Upon the maturity of a security, we will pay the owner the principal amount and interest due. A security scheduled for maturity on a non-business day will be redeemed on the next business day.

(j) *How will I receive payment?* We will make payment by the Automated Clearing House (ACH) method for the owner's account at a financial institution as designated by the owner. We may use substitute payment procedures, instead of ACH, if we consider it to be necessary. Any such action is final.

(k) *If I am not an Internet customer, how do I submit transactions to DSI?* Non-Internet customers may submit transactions by fax at (304) 480-6818, or by carrier service, U.S. Postal Service

(certified or registered mail), or other means, to the Bureau of the Public Debt, Division of Special Investments, 200 3rd St., P.O. Box 396, Parkersburg, WV 26106-0396. Unless requested, DSI will not send a confirmation of receipt to non-Internet customers.

(l) *Will the offering be changed during a debt limit contingency?* We reserve the right to change or suspend the terms and conditions of the offering, including provisions relating to subscriptions for, and issuance of, SLGS securities, interest payments, early redemptions, rollovers, and notices, at any time the Secretary determines that the issuance of obligations sufficient to conduct the orderly financing operations of the United States cannot be made without exceeding the statutory debt limit. We will announce such changes by any means the Secretary deems appropriate.

(m) *What transaction requests are unacceptable?* A decision to reject an unacceptable transaction request is in our sole discretion and is final. Although we may waive the right to reject transactions under §344.2(n), Treasury reserves the right:

(1) To reject any SLGSafe<sup>SM</sup> Application for Internet Access;

(2) To reject any electronic or paper transaction request (including requests for subscription and redemption, and changes to subscriptions) that is unsigned, inappropriately completed, or untimely submitted;

(3) To refuse to issue any SLGS securities in any case or class of cases; and

(4) To revoke the issuance of any SLGS securities and to declare the subscriber ineligible thereafter to subscribe for securities under the offering if the Secretary deems that such action is in the public interest and any security is issued on the basis of an improper certification or other misrepresentation (other than as the result of an inadvertent error) or there is an impermissible transaction under §344.2(f).

(n) *Are there any situations in which Treasury may waive these regulations?* We reserve the right, at our discretion, to waive or modify any provision of these regulations in any case or class of cases. We may do so if such action is not inconsistent with law and will not

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subject the United States to substantial expense or liability.

SLGSAFE<sup>SM</sup>

#### § 344.3 What special provisions apply to SLGSafe<sup>SM</sup> Internet transactions?

(a) *What is SLGSafe<sup>SM</sup>?* SLGSafe<sup>SM</sup> is a secure Internet site on the World Wide Web through which you can submit SLGS securities transactions. SLGSafe<sup>SM</sup> Internet transactions constitute electronic messages under 31 CFR part 370.

(b) *When can I subscribe using SLGSafe<sup>SM</sup>?* You will be able to submit SLGSafe<sup>SM</sup> transactions to DSI after we approve your SLGSafe<sup>SM</sup> Application under § 344.3(g).

(c) *What special terms and conditions apply to SLGSafe<sup>SM</sup>?* The following terms and conditions, which may change from time to time, apply to SLGSafe<sup>SM</sup> transactions and are downloadable from Public Debt's website:

(1) SLGSafe<sup>SM</sup> Application for Internet Access and SLGSafe<sup>SM</sup> User Acknowledgment;

(2) Public Debt's Certificate Practice Statement; and

(3) SLGSafe<sup>SM</sup> Internet User's Guide.

(d) *Who can apply for SLGSafe<sup>SM</sup> access?* There are five roles in SLGSafe<sup>SM</sup>: owner, trustee, receiving depository financial institution, subscriber, and viewer. If you are an owner of SLGS securities or act as a trustee, receiving depository financial institution or subscriber, you can apply to DSI for authorization to send electronic messages through SLGSafe<sup>SM</sup>. If you are an owner or trustee, you can authorize your SLGS securities holdings to be accessed by any other viewer who applies for SLGSafe<sup>SM</sup> access.

(e) *What SLGSafe<sup>SM</sup> functions can I perform in each role?* The role that you play in SLGSafe<sup>SM</sup> shall determine the functions that you will be allowed to perform. An explanation of the roles and functions is outlined in the SLGSafe<sup>SM</sup> Internet User's Guide.

(f) *How do I apply for access to SLGSafe<sup>SM</sup>?* You must apply for SLGSafe<sup>SM</sup> access before performing any Internet functions. To apply for SLGSafe<sup>SM</sup> Internet access, you must:

(1) Submit to DSI a completed Treasury form, PD F 4144-5, SLGSafe<sup>SM</sup> Application for Internet Access;

(2) Appoint a SLGSafe<sup>SM</sup> Access Administrator and a backup administrator who certify that the information on the SLGSafe<sup>SM</sup> Application is accurate;

(3) Ensure only authorized users are reflected on the SLGSafe<sup>SM</sup> Application; and

(4) Await our written approval of your SLGSafe<sup>SM</sup> Application before you, or anyone acting on your behalf, uses an electronic connection to access any of our services or to send any electronic messages.

(g) *How is my SLGSafe<sup>SM</sup> Application approved?* The Secretary has the sole discretion to determine the priority of approval of SLGSafe<sup>SM</sup> Applications. Upon receipt of your SLGSafe<sup>SM</sup> Application, we will review your SLGSafe<sup>SM</sup> Application and send to you either an approval or rejection notice. If we approve your SLGSafe<sup>SM</sup> Application, we will:

(1) Issue a digital certificate with an associated authorization code to each user you authorize on your approved application; and

(2) Provide access to your existing portfolio of SLGS securities, if any, to enable you to access the SLGS securities through SLGSafe<sup>SM</sup>.

(h) *What are the conditions of SLGSafe<sup>SM</sup> use?* If you are designated as an authorized user on a SLGSafe<sup>SM</sup> Application that we've approved, you must:

(1) Sign, and send to DSI, a User Acknowledgment regarding the use of the digital certificate and authorization code;

(2) Have and maintain the compatibility of your computer(s) and associated equipment and software so that you can send electronic messages and permit us to send an automatic confirmation receipt of each transaction, and any other information, to you on a timely basis throughout the day;

(3) Assume the sole responsibility and the entire risk of use and operation of your electronic connection;

(4) Agree that we may act on any electronic message that we authenticate as yours under Public Debt's Certificate Practice Statement, and

any other Certificate Policy that Treasury may issue, to the same extent as if we had received a written instruction bearing the signature of your duly authorized officer;

(5) Submit electronic messages exclusively through SLGSafe<sup>SM</sup> unless you:

(i) Are unable to do so; and

(ii) Notify us before submitting transactions by other means; and

(6) Agree to submit transactions by other means if we notify you that problems with hardware, software or data transmission delays, or any other reason, prevent our sending or receiving electronic messages.

(i) *If I am an Internet customer, how do I submit transactions using SLGSafe<sup>SM</sup> to DSI?* Internet customers must submit transactions to DSI through the SLGSafe<sup>SM</sup> Internet site at Public

Debt's website. If your electronic message is accepted, we will send automatically an electronic confirmation to you. You can use the confirmation notice to verify the date and time that Public Debt's Application server received the electronic message that you submitted.

**Subpart B—Time Deposit Securities**

**§ 344.4 What are Time Deposit securities?**

Time deposit securities are issued as certificates of indebtedness, notes and bonds.

(a) *What are the terms of maturity?* The issuer must fix the maturity periods for time deposit securities, which are issued as follows:

Time deposit securities	Maturity range	
	From	Up to and including
Certificates of Indebtedness that bear no interest .....	15 days .....	1 year.
Certificates of Indebtedness .....	30 days .....	1 year.
Notes .....	1 year and 1 day .....	10 years.
Bonds .....	10 years and 1 day .....	40 years; provided that for any subscription for a bond exceeding 30 years, the maximum available rate must be the rate on a 30-year bond.

(b) *How are SLGS rates determined?* For each security, the issuer shall designate an interest rate that does not exceed the maximum interest rate shown in the daily SLGS rate table as defined in §344.1.

(1) *When is the SLGS rate table released?* We release the SLGS rate table to the public by 10:00 a.m., Eastern time, each business day. If we find that due to circumstances beyond our control the SLGS rate table is not available at that time on any given business day, the SLGS rate table for the preceding business day applies.

(2) *How do I lock in a SLGS rate?* The applicable daily SLGS rate table for a non-Internet subscription is the one in effect on the date the initial subscription is faxed, postmarked, or carrier date stamped. The applicable daily SLGS rate table for a SLGSafe<sup>SM</sup> Internet initial subscription is the one

in effect on the date shown on Public Debt's Application server.

(3) *Where can I find the SLGS rate table?* The SLGS rate table can be obtained:

(i) On the Internet at Public Debt's website; or

(ii) By calling DSI at (304) 480-7752.

(c) *How are interest computation and payment dates determined?* Interest on a certificate of indebtedness is computed on an annual basis and is paid at maturity with the principal. Interest on a note or bond is paid semi-annually. The issuer specifies the first interest payment date, which must be at least thirty days and less than or equal to one year, from the date of issue. The final interest payment date must coincide with the maturity date of the security. Interest for other than a full interest period is computed on the basis of a 365-day or 366-day year (for certificates of indebtedness) and on the basis of the

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exact number of days in the half-year (for notes and bonds). See the Appendix to subpart E of part 306 of this subchapter for rules regarding computation of interest.

**§ 344.5 How do I subscribe for Time Deposit securities?**

(a) *Where do I submit transactions?* All subscriptions for purchase, cancellation requests, changes to initial or final subscriptions and notices of redemption must be sent to DSI.

(b) *What requirements apply to initial subscriptions?*

(1) *When is my initial subscription or cancellation due in DSI?* The subscriber must fix the issue date of each security in the initial subscription. The issue date must be a business day. The issue date cannot be more than sixty days after the date DSI receives the initial subscription. To determine when you must send an initial subscription or cancellation request, follow this table:

If:	Then:
(i) The subscription is for:	DSI must receive an initial subscription (or you can cancel it without penalty):
(A) \$10 million or less, or,	at least 5 days before the issue date of the subscription.
(B) Over \$10 million.	at least 7 days before the issue date of the subscription.
(ii) The 5th or 7th day before the issue date is a non-business day.	DSI must receive the cancellation request on the preceding business day.
(iii) DSI receives an initial subscription more than 60 days before the issue date.	DSI will not accept an initial subscription.

*Example to paragraph (b)(1):* If SLGS securities totaling \$10 million or less will be issued on March 16th, DSI must receive the initial subscription no later than March 11th. If SLGS securities totaling more than \$10 million will be issued on March 16th, DSI must receive the initial subscription no later than March 9th.

(2) *What form is used to submit an initial subscription?* An initial subscription must be submitted on an electronic or paper Treasury form, PD F 4144, "Subscription for Purchase and Issue of U.S.

Treasury Securities State and Local Government Series Time Deposit."

(3) *Can I submit a letter instead of an initial subscription form?* Yes. If you do not have an initial subscription form under paragraph (b)(2) of this section, then submit a letter to DSI that contains the following information:

- (i) The total principal amount;
- (ii) The issue date;
- (iii) The name and the Taxpayer Identification Number of issuer eligible to purchase SLGS securities;
- (iv) The date; and
- (v) The signature and title of an official authorized to purchase SLGS securities.

(4) *How do I change an initial subscription?* You can change an initial subscription on or before the issue date, but not later than 3:00 p.m., Eastern time, on the issue date. Changes to an initial subscription are acceptable with the following exceptions:

(i) You cannot change the issue date to require issuance earlier than the issue date originally specified. The issue date can be changed up to seven days after the original issue date. If you make such a change, you should notify DSI as soon as possible, but no later than 3:00 p.m., Eastern time, one business day before the original issue date;

(ii) You may change the aggregate principal amount specified in the initial subscription up to \$10 million or ten percent, whichever is greater;

(iii) You can change an interest rate provided it does not exceed the maximum interest rate in the SLGS rate table that was in effect for a security of comparable maturity on the date the initial subscription was submitted (unless the issuer obtains a higher rate by canceling and resubscribing in compliance with this section); and

(iv) If you submit an untimely change, Treasury, in its sole discretion, can accept the change on an exception basis under § 344.2(n). Whether we accept the change before or after the issue date, the amended information will be applied to the securities. The six-month penalty will be imposed under § 344.2(h). If Treasury waives the six-month penalty, you will be charged a late payment assessment under § 344.2(h)(2).

(5) *When is an initial subscription not required?* No initial subscription is required when a final subscription is received at least five days before the issue date for subscriptions of \$10 million or less and at least seven days before the issue date for subscriptions of over \$10 million. Such final subscription is treated as the initial subscription for purposes of determining the applicable SLGS rate table under §344.4(b).

(c) *What requirements apply to final subscriptions?*

(1) *What form is used to submit a final subscription?* You must submit an electronic or paper Treasury form, PD F 4144 "Subscription for Purchase and Issue of U.S. Treasury Securities State and Local Government Series Time Deposit," as a final subscription.

(2) *What information must be contained on the final subscription?* The final subscription must:

- (i) be dated and signed by an official authorized to make the purchase;
- (ii) include the Taxpayer Identification Number of the issuer;
- (iii) be accompanied with a copy of the initial subscription (or if a SLGSafe<sup>SM</sup> subscription, the Treasury case number) where applicable;
- (iv) separately itemize securities by the various maturities, interest rates, and first interest payment dates (in the case of notes and bonds);
- (v) not be more than \$10 million or ten percent, whichever is greater, above or below the aggregate principal amount specified in the initial subscription; and
- (vi) not be paid with proceeds that are derived, directly or indirectly, from the redemption before maturity of SLGS securities subscribed for on or before December 27, 1976.

(3) *How do I change a final subscription?* You can change a final subscription on or before the issue date in the same fashion as you change an initial subscription under §344.5(b)(4)(i)-(iv).

(4) *When must I send a final subscription?* DSI must receive a final subscription on or before the issue date, but not later than 3:00 p.m., Eastern time, on the issue date.

**§344.6 How do I redeem a Time Deposit security before maturity?**

(a) *What is the minimum time a security must be held?* To determine how long you must hold a security, follow this table:

If the security is . . .	then, at the owner's option, the security can be redeemed no earlier than . . .
(1) A zero percent certificate of indebtedness of 16 to 29 days.	15 days after the issue date.
(2) A certificate of indebtedness of 30 days or more.	25 days after the issue date.
(3) A note or bond .....	30 days after the issue date.

(b) *Can I request partial redemption of a security balance?* You may request partial redemptions in any whole dollar amount; however, a security balance of less than \$1,000 must be redeemed in total.

(c) *Do I have to submit a notice of early redemption?* Yes. An official authorized to redeem the securities before maturity must submit an electronic or paper notice of redemption. The notice must show the Taxpayer Identification Number of the issuer, the Treasury case number, the security number and the dollar amount of the securities to be redeemed. DSI must receive the notice no less than 10 days and no more than 60 days before the requested redemption date. You cannot cancel the notice.

(d) *How do I calculate the amount of redemption proceeds for subscriptions on or after October 28, 1996?* For securities subscribed for on or after October 28, 1996, the amount of the redemption proceeds is calculated as follows:

(1) *Interest.* If a security is redeemed before maturity on a date other than a scheduled interest payment date, Treasury pays interest for the fractional interest period since the last interest payment date.

(2) *Redemption value.* The remaining interest and principal payments are discounted by the current Treasury borrowing rate for the remaining term to maturity of the security redeemed. This may result in a premium or discount to the issuer depending on whether the current Treasury borrowing rate is unchanged, lower, or higher than the stated interest rate of

the early-redeemed SLGS securities. There is no market charge for the redemption of zero interest time deposit SLGS securities subscribed for on or after October 28, 1996. Redemption proceeds in the case of a zero-interest security are a return of the principal invested. The formulas for calculating the redemption value under this paragraph, including examples of the determination of premiums and discounts, are set forth in appendix B of this part.

(e) *How do I calculate the amount of redemption proceeds for subscriptions from September 1, 1989, through October 27, 1996?* For securities subscribed for from September 1, 1989, through October 27, 1996, the amount of the redemption proceeds is calculated as follows:

(1) *Interest.* If a security is redeemed before maturity on a date other than a scheduled interest payment date, Treasury pays interest for the fractional interest period since the last interest payment date.

(2) *Market charge.* An amount shall be deducted from the redemption proceeds if the current Treasury borrowing rate for the remaining period to original maturity exceeds the rate of interest originally fixed for such security. The amount shall be the present value of the future increased borrowing cost to the Treasury. The annual increased borrowing cost for each interest period is determined by multiplying the principal by the difference between the two rates. For notes and bonds, the increased borrowing cost for each remaining interest period to original maturity is determined by dividing the annual cost by two. Present value is determined by using the current Treasury borrowing rate as the discount factor. When you request a redemption date that is less than thirty days before the original maturity date, we will apply the rate of a one month security as listed on the SLGS rate table issued on the day you make a redemption request. The market charge under this paragraph can be computed by using the formulas in appendix A of this part.

(f) *How do I calculate the amount of redemption proceeds for subscriptions from December 28, 1976, through August 31, 1989?* For securities subscribed for from December 28, 1976, through August 31,

1989, the amount of the redemption proceeds is calculated as follows:

(1) *Interest.* Interest for the entire period the security was outstanding shall be recalculated if the original interest rate of the security is higher than the interest rate that would have been set at the time of the initial subscription had the term of the security been for the shorter period. If this results in an overpayment of interest, we will deduct from the redemption proceeds the aggregate amount of such overpayments, plus interest, compounded semi-annually thereon, from the date of each overpayment to the date of redemption. The rate used in calculating the interest on the overpayment will be one-eighth of one percent above the maximum rate that would have applied to the initial subscription had the term of the security been for the shorter period. If a note or bond is redeemed before maturity on a date other than a scheduled interest payment date, no interest is paid for the fractional interest period since the last interest payment date.

(2) *Market charge.* An amount shall be deducted from the redemption proceeds in all cases where the current Treasury borrowing rate for the remaining period to original maturity of the security prematurely redeemed exceeds the rate of interest originally fixed for such security. You can compute the market charge under this paragraph by using the formulas in appendix A of this part.

(g) *How do I calculate the amount of redemption proceeds for subscriptions on or before December 27, 1976?* For bonds subscribed for on or before December 27, 1976, the amount of the redemption proceeds is calculated as follows.

(1) *Interest.* The interest for the entire period the bond was outstanding shall be re-calculated if the original interest rate at which the bond was issued is higher than an adjusted interest rate reflecting both the shorter period during which the bond was actually outstanding and a penalty. The adjusted interest rate is the Treasury rate which would have been in effect on the date of issue for a marketable Treasury bond maturing on the semi-

annual maturity period before redemption reduced by a penalty which must be the lesser of:

(i) One-eighth of one percent times the number of months from the date of issuance to original maturity, divided by the number of full months elapsed from the date of issue to redemption; or

(ii) One-fourth of one percent.

(2) *Deduction.* We will deduct from the redemption proceeds, if necessary, any overpayment of interest resulting from previous payments made at a higher rate based on the original longer period to maturity.

**Subpart C—Demand Deposit Securities**

**§ 344.7 What are Demand Deposit securities?**

Demand deposit securities are one-day certificates of indebtedness that

are automatically rolled over each day until you request redemption.

(a) *How is a Demand Deposit account established?* Each demand deposit subscription will establish a unique account.

(b) *How are interest rates determined?* Each security shall bear a variable rate of interest based on an adjustment of the average yield for three-month Treasury bills at the most recent auction. A new rate is effective on the first business day following the regular auction of three-month Treasury bills and is shown in the SLGS rate table. Interest is accrued and added to the principal daily. Interest is computed on the balance of the principal, plus interest accrued through the preceding day.

(1) *How is the interest rate calculated?*

(i) First, you calculate the annualized effective demand deposit rate in decimals, designated “I” in Equation 1, as follows:

$$I = \left[ \left( \frac{100}{P} \right)^{Y/DTM} - 1 \right] \times (1 - MTR) - TAC$$

(Equation 1)

WHERE:	
I =	Annualized effective demand deposit rate in decimals.
P =	Average auction price for the most recently auctioned 13-week Treasury bill, per hundred, to three decimals.
Y =	365 (if the year following issue date does not contain a leap year day) and 366 (if the year following issue date does contain a leap year day).
DTM =	The number of days from date of issue to maturity for the most recently auctioned 13-week Treasury bill.
MTR =	Estimated marginal tax rate, in decimals, of purchasers of tax-exempt bonds.
TAC =	Treasury administrative costs, in decimals.

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(ii) Then, you calculate the daily factor for the demand deposit rate as follows:

$$DDR = (1 + I)^{1/Y} - 1$$

(Equation 2)

(2) *Where can I find additional information?* Information on the estimated average marginal tax rate and costs for administering demand deposit SLGS securities, both to be determined by Treasury from time to time, will be published in the FEDERAL REGISTER.

(c) *What happens to demand deposit securities during a Debt Limit Contingency?* At any time the Secretary determines that issuance of obligations sufficient to conduct the orderly financing operations of the United States cannot be made without exceeding the statutory debt limit, we will invest any unredeemed demand deposit securities in special ninety-day certificates of indebtedness. Funds invested in the ninety-day certificates of indebtedness earn simple interest equal to the daily factor in effect at the time demand deposit security issuance is suspended, multiplied by the number of days outstanding. When regular Treasury bor-

rowing operations resume, the ninety-day certificates of indebtedness, at the owner's option, are:

- (1) Payable at maturity;
- (2) Redeemable before maturity, provided funds are available for redemption; or
- (3) Reinvested in demand deposit securities.

**§ 344.8 How do I subscribe for Demand Deposit securities?**

(a) *Where do I submit transactions?* All subscriptions for purchase, cancellation requests, changes to subscriptions and notices of redemption must be sent to DSI.

(b) *What requirements apply to subscriptions?*

(1) *What form is used to submit a subscription?* You must submit an electronic or paper Treasury form, PD F 5237, "Subscription for Purchase of U.S. Treasury Securities State and Local Government Series One-Day Certificate of Indebtedness Demand Deposit."

(2) *When is my subscription or cancellation request due in DSI?* To determine when you must send a subscription or cancellation request, follow this table:

If:	Then:
(i) The subscription is for: .....	DSI must receive a subscription (or you can cancel it without penalty):
(A) \$10 million or less, or .....	at least 5 days before the issue date of the subscription.
(B) Over \$10 million .....	at least 7 days before the issue date of the subscription.
(ii) The 5th or 7th day before the issue date is a non-business day * * *.	DSI must receive the cancellation request on the preceding business day.
(iii) DSI receives a subscription more than 60 days before the issue date * * *.	DSI will not accept a subscription.

(3) *How do I change a subscription?* You can change the principal amount to be invested without penalty on or before the issue date, but no later than 3:00 p.m., Eastern time, on the issue date. If you submit an untimely change, § 344.5(b)(4)(iv) applies.

(4) *What information must be contained on the subscription?* The subscription must:

- (i) Be dated and signed by an official authorized to make the purchase;
- (ii) Include the Taxpayer Identification Number of the issuer; and

(iii) Specify the principal amount to be invested and the issue date.

(a) *When must I notify DSI to redeem a security?* To determine when you must notify us, follow this table:

**§ 344.9 How do I redeem a Demand Deposit security?**

To redeem a demand deposit security, follow this section.

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A security can be redeemed at the owner's option, if DSI receives a request for redemption not less than \* \* \* for redemptions of \* \* \*

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(1) 1 business day before the requested redemption date. \$10 million or less.

---

(2) 3 business days before the requested redemption date. more than \$10 million.

---

(b) *Can I request partial redemption of a security balance?* You may request partial redemptions in any amount. If your account balance is less than \$1,000, it must be redeemed in total.

and notes. Provisions of subpart B of this part (Time Deposit Securities) apply except as specified in subpart D of this part. Special zero interest securities were discontinued on October 28, 1996. The only zero interest securities available after October 28, 1996, are zero interest time deposit securities that are subject to subpart B of this part.

(c) *Do I have to submit a notice of redemption?* Yes. An official authorized to redeem the securities must submit an electronic or paper Treasury form PD F 5238, "Request for Redemption of U.S. Treasury Securities State and Local Government Series One-Day Certificate of Indebtedness Demand Deposit." The notice must show the Taxpayer Identification Number of the issuer, the Treasury case number, the security number and the dollar amount of the securities to be redeemed. DSI must receive the notice by 3:00 p.m., Eastern time on the required day. You cannot cancel the notice.

**§ 344.11 How do I redeem a Special Zero Interest Security before maturity?**

Follow the provisions of § 344.6(a)-(g) except that no market charge or penalty will apply when you redeem a special zero interest security before maturity.

**Subpart D—Special Zero Interest Securities**

APPENDIX A TO PART 344—EARLY REDEMPTION MARKET CHARGE FORMULAS AND EXAMPLES FOR SUBSCRIPTIONS FROM DECEMBER 28, 1976, THROUGH OCTOBER 27, 1996

**§ 344.10 What are Special Zero Interest securities?**

Special zero interest securities were issued as certificates of indebtedness

(a) The amount of the market charge for bonds and notes subscribed for before October 28, 1996 can be determined by the following formula:

$$M = \frac{\left(\frac{b}{2}\right) \times \left(\frac{r}{s}\right) + \left(\frac{b}{2}\right) a_{n\uparrow}}{1 + \left(\frac{r}{s}\right) \times \left(\frac{i}{2}\right)}$$

(Equation 1)

WHERE:	
M =	Market charge
b =	Increased annual borrowing cost (i.e., principal multiplied by the excess of the current borrowing rate for the period from redemption to original maturity of note or bond over the rate for the security)
r =	Number of days from redemption date to next interest payment date
s =	Number of days in current semi-annual period
i =	Treasury borrowing rate over the remaining term to maturity, based on semi-annual interest payments and expressed in decimals
n =	Number of remaining full semi-annual periods from the redemption date to the original maturity date, except that if the redemption date is on an interest payment date, n will be one less than the number of full semi-annual periods remaining to maturity
v <sup>n</sup> =	1/(1 + i/2) <sup>n</sup> = present value of 1 due at the end of n periods (Equation 2)
a <sub>n\uparrow</sub> =	(1 - v <sup>n</sup> )/(i/2) = v + v <sup>2</sup> + v <sup>3</sup> + ... + v <sup>n</sup> = present value of 1 per period for n periods (Equation 3)

(b) The application of this formula can be illustrated by the following example:

(1) Assume that a \$600,000 note is issued on July 1, 1985, to mature on July 1, 1995. Interest is payable at a rate of 8% on January 1 and July 1.

(2) Assume that the note is redeemed on February 1, 1989, and that the current bor-

rowing rate for Treasury at that time for the remaining period of 6 years and 150 days is 11%.

(3) The increased annual borrowing cost is \$18,000. (\$600,000)x(11%-8%)

(4) The market charge is computed as follows:

$$M = \frac{(\$18,000/2) \times (150/181) + (\$18,000/2) a_{\overline{n}|}}{1 + (150/181) (.11/2)}$$

(Equation 4)

$$M = \frac{(\$7,458.56) + (\$9,000) a_{\overline{n}|}}{1.045580111}$$

(Equation 5)

$$M = \frac{(\$7,458.56) + (\$9,000) \times \left[ \frac{1 - \frac{1}{(1+.11/2)^{12}}}{(.11/2)} \right]}{1.045580111}$$

(Equation 6)

$$M = \frac{(\$7,458.56) + (\$9,000) (8.618517849)}{1.045580111}$$

(Equation 7)

$$M = \frac{(\$7,458.56) + (\$77,566.66)}{1.045580111}$$

(Equation 8)

$$M = \$81,318.71$$

(Equation 9)

(c) The amount of the market charge for certificates of indebtedness subscribed for before October 28, 1996 can be determined by the following formula:

$$M = \frac{(b) \left( \frac{r}{s} \right)}{1 + \frac{r}{s} (i)}$$

(Equation 10)

WHERE:	
M =	Market charge
b =	Increased borrowing cost for full period
r =	Number of days from redemption date to original maturity date
s =	Number of days in current annual period (365 or 366)
i =	Current borrowing rate expressed in decimals (discount factor)

(d) The application of this formula can be illustrated by the following example:

(1) Assume that a \$50,000 certificate of indebtedness is issued on March 1, 1987, to mature on November 1, 1987. Interest is payable at a rate of 10%.

(2) Assume that the certificate of indebtedness is redeemed on July 1, 1987, and that the current borrowing cost to Treasury for the 123-day period from July 1, 1987, to November 1, 1987, is 11.8%.

(3) The increased annual borrowing cost is \$900.  $(\$50,000) \times (11.8\% - 10\%)$

(4) The market charge is computed as follows:

$$M = \frac{\$900 \left( \frac{123}{365} \right)}{1 + \left( \frac{123}{365} \right) (.118)} =$$

(Equation 11)

$$\frac{\$303.29}{1.039764384} =$$

(Equation 12)

\$291.69

(Equation 13)

APPENDIX B TO PART 344—FORMULA FOR DETERMINING REDEMPTION VALUE FOR SECURITIES SUBSCRIBED FOR AND EARLY-REDEEMED ON OR AFTER OCTOBER 28, 1996

(a) This formula results in a premium or discount to the issuer depending on whether the current Treasury borrowing rate at the time of early redemption is lower or higher

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than the stated interest rate of the early-redeemed SLGS security. The total redemption value for bonds and notes can be determined by the following two steps. First, calculate accrued interest payable in accordance with §344.6(d)(1) using the following formula:

$$AI = \left[ \frac{(s-r)}{s} \right] \times \left( \frac{C}{2} \right)$$

(Equation 14)

Second, calculate the redemption value per §344.6(d)(2) using the following formula:

$$RV = \frac{\left( \frac{C}{2} \right) + \left( \frac{C}{2} \right) a_{n|} + F(v^n)}{1 + \left( \frac{r}{s} \right) \times \left( \frac{i}{2} \right)} - AI$$

(Equation 15)

WHERE:	
RV =	Redemption value
F =	Face amount redeemed
AI =	Accrued interest = [(s-r)/s] x (C/2)
r =	Number of days from redemption date to next interest payment date
s =	Number of days in current semi-annual period
i =	Treasury borrowing rate over the remaining term to maturity, based on semi-annual interest payments and expressed in decimals
C =	The regular annual interest
n =	Number of remaining full semi-annual periods from the redemption date to the original maturity date, except that, if the redemption date is an interest payment date, n will be one less than the number of full semi-annual periods remaining to maturity
v <sup>n</sup> =	1/(1 + i/2) <sup>n</sup> = present value of 1 due at the end of n periods
a <sub>n </sub> =	(1 - v <sup>n</sup> )/(i/2) = v + v <sup>2</sup> + v <sup>3</sup> + ... + v <sup>n</sup> = present value of 1 per period for n periods

(b) The application of this formula can be illustrated by the following examples:

(1) The first example is for a redemption at a premium.

(i) Assume that an \$800,000 2-year note is issued on December 10, 1996, to mature on December 10, 1998. Interest is payable at a rate of 7% on June 10 and December 10.

(ii) Assume that the note is redeemed on October 21, 1997, and that the current borrowing rate for Treasury at that time for the remaining period of 1 year and 50 days is 6.25%.

(iii) The redemption value is computed as follows. First, the accrued interest payable is calculated as:

$$AI = \left( \frac{183-50}{183} \right) \times \left( \frac{\$56,000}{2} \right)$$

(Equation 16)

$$AI = \left( \frac{133}{183} \right) \times \$28,000$$

(Equation 17)

$$AI = \$20,349.73$$

(Equation 18)

$$RV = \frac{\left( \frac{\$56,000}{2} \right) + \left( \frac{\$56,000}{2} \right) a_{n|} + \$800,000v^n}{1 + \left( \frac{50}{183} \right) \left( \frac{.0625}{2} \right)} - AI$$

(Equation 19)

Then, the redemption value is calculated as:

$$RV = \frac{\left(\frac{\$56,000}{2}\right) + \left(\frac{\$56,000}{2}\right) \left[ \frac{1 - \left(\frac{1}{\left(1 + \frac{.0625}{2}\right)^2}\right)}{\left(\frac{.0625}{2}\right)} \right] + \$800,000 \left[ \frac{1}{\left(1 + \frac{.0625}{2}\right)^2} \right]}{1 + \left(\frac{50}{183}\right) \times \left(\frac{.0625}{2}\right)} - AI$$

(Equation 20)

$$RV = \frac{\$28,000 + (\$28,000)(1.9100092) + (\$800,000)(0.94031221)}{1.008538251} - AI$$

(Equation 21)

$$RV = \frac{\$28,000 + \$53,480.26 + \$752,249.77}{1.008538251} - AI$$

(Equation 22)

$$RV = \frac{\$833,730.03}{1.008538251} - AI$$

(Equation 23)

$$RV = \$826,671.70 - \$20,349.73$$

(Equation 24)

$$RV = \$806,321.97$$

(Equation 25)

(2) The second example is for a redemption at a discount and it uses the same assumptions as the first example, except the current Treasury borrowing cost is assumed to be 8.00%:

(i) Assume that an \$800,000 2-year note is issued on December 10, 1996, to mature on

December 10, 1998. Interest is payable at a rate of 7% on June 10 and December 10.

(ii) Assume that the note is redeemed on October 21, 1997, and that the current borrowing rate for Treasury at that time for the remaining period of 1 year and 50 days is 8.00%.

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(iii) The redemption value is computed as follows.

Then, the redemption value is calculated as:

First, the accrued interest payable is calculated as:

$$AI = \left( \frac{183 - 50}{183} \right) \times \left( \frac{\$56,000}{2} \right)$$

(Equation 26)

$$AI = \left( \frac{133}{183} \right) \times \$28,000$$

(Equation 27)

$$AI = \$20,349.73$$

(Equation 28)

$$RV = \frac{\left( \frac{\$56,000}{2} \right) + \left( \frac{\$56,000}{2} \right) a_{n|} + \$800,000v^n}{1 + \left( \frac{50}{183} \right) \left( \frac{.0800}{2} \right)} - AI$$

(Equation 29)

$$RV = \frac{\left(\frac{\$56,000}{2}\right) + \left(\frac{\$56,000}{2}\right) \left[ \frac{1 - \left(\frac{1}{\left(1 + \frac{.0800}{2}\right)^2}\right)}{\left(\frac{.0800}{2}\right)} \right] + \$800,000 \left[ \frac{1}{\left(1 + \frac{.0800}{2}\right)^2} \right]}{1 + \left(\frac{50}{183}\right) \times \left(\frac{.0800}{2}\right)} - AI$$

(Equation 30)

$$RV = \frac{\$28,000 + (\$28,000)(1.8860947) + (\$800,000)(0.92455621)}{1.010928962} - AI$$

(Equation 31)

$$RV = \frac{\$28,000 + \$52,810.65 + \$739,644.97}{1.010928962} - AI$$

(Equation 32)

$$RV = \frac{\$820,455.62}{1.010928962} - AI$$

(Equation 33)

$$RV = \$811,585.83 - \$20,349.73$$

(Equation 34)

$$RV = \$791,236.10$$

(Equation 35)

(c) The total redemption value for certificates of indebtedness can be determined by the following two steps. First, calculate accrued interest payable in accordance with §344.6(d)(1) using the following formula:

Second, calculate the redemption value per §344.6(d)(2) using the following equation:

$$AI = \left[ \frac{(d-r)}{Y} \right] \times C$$

(Equation 36)

$$RV = \frac{\left(\frac{d}{y}\right) \times (C) + F}{1 + \left(\frac{r}{y}\right) \times (i)} - AI$$

(Equation 37)

WHERE:	
RV =	Redemption value
F =	Face amount redeemed
AI =	Accrued interest = $[(d-r)/y] \times C$
d =	Number of days from original issue of the certificate of indebtedness to its maturity date
r =	Number of days from redemption date to the certificate of indebtedness' maturity date
y =	365, if the number of days in the year following issue of the certificate of indebtedness does not include a leap year day; 366, if the number of days following issue of the certificate of indebtedness does include a leap year day
i =	Treasury borrowing rate over the remaining term to maturity, expressed in decimals
C =	The regular annual interest

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(d) The application of this formula can be illustrated by the following examples.

(1) First, for a redemption at a premium:

(i) Assume that a \$300,000 security is issued on December 5, 1996, to mature in 151 days on May 5, 1997. Interest at a rate of 5% is payable at maturity.

(ii) Assume that the security is redeemed on April 9, 1997, and that the current borrowing rate for Treasury at that time for the remaining period of 26 days is 4.00%.

(iii) The redemption value is computed as follows.

First, the accrued interest payable is calculated as:

$$AI = \left( \frac{151 - 26}{365} \right) \times \$15,000$$

(Equation 38)

$$AI = \left( \frac{125}{365} \right) \times \$15,000$$

(Equation 39)

$$AI = \$5,136.99$$

(Equation 40)

Then, the redemption value is calculated as:

$$RV = \frac{\left(\frac{151}{365}\right) \times \$15,000 + \$300,000}{1 + \left(\frac{26}{365}\right)(.0400)} - AI$$

(Equation 41)

$$RV = \frac{\$6,205.48 + \$300,000}{1.002849315} - AI$$

(Equation 42)

$$RV = \frac{\$306,205.48}{1.002849315} - AI$$

(Equation 43)

$$RV = \$305,335.48 - \$5,136.99$$

(Equation 44)

$$RV = \$300,198.49$$

(Equation 45)

(2) Secondly, for a redemption at a discount:

(i) Assume that a \$300,000 security is issued on December 5, 1996, to mature in 151 days on May 5, 1997. Interest at a rate of 5% is payable at maturity.

(ii) Assume that the security is redeemed on April 9, 1997, and that the current bor-

rowing rate for Treasury at that time for the remaining period of 26 days is 6.25%.

(iii) The redemption value is computed as follows.

First, the accrued interest payable is calculated as:

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$$AI = \left( \frac{151 - 26}{365} \right) \times \$15,000$$

(Equation 46)

Then, the redemption value is calculated as:

$$AI = \left( \frac{125}{365} \right) \times \$15,000$$

(Equation 47)

$$AI = \$5,136.99$$

(Equation 48)

$$RV = \frac{\left(\frac{151}{365}\right) \times \$15,000 + \$300,000}{1 + \left(\frac{26}{365}\right)(.0625)} - AI$$

(Equation 49)

$$RV = \frac{\$6,205.48 + \$300,000}{1.004452055} - AI$$

(Equation 50)

$$RV = \frac{\$306,205.48}{1.004452055} - AI$$

(Equation 51)

$$RV = \$304,848.28 - \$5,136.99$$

(Equation 52)

$$RV = \$299,711.29$$

(Equation 53)