The Basics of Treasury Securities

What are U.S. Treasury securities?

U.S. Treasury securities are debt instruments. The U.S. Treasury issues securities to raise the money needed to operate the Federal Government and to pay off maturing obligations - its debt, in other words.

Why should I buy a Treasury security?

Treasury securities are a safe and secure investment option because the full faith and credit of the United States government guarantees that interest and principal payments will be paid on time. Also, most Treasury securities are liquid, which means they can easily be sold for cash.

What types of securities do you sell to individual investors?

We sell Treasury bills, notes, bonds*, and U.S. savings bonds to individual investors.

What are Treasury bills?

Treasury bills (or T-bills) are short-term securities that mature in one year or less from their issue date. You buy T-bills for a price less than their par (face) value, and when they mature we pay you their par value. Your interest is the difference between the purchase price of the security and what we pay you at maturity (or what you get if you sell the bill before it matures). For example, if you bought a $10,000 26-week Treasury bill for $9,750 and held it until maturity, your interest would be $250.

What are Treasury notes and bonds*?

Treasury notes and bonds* are securities that pay a fixed rate of interest every six months until your security matures, which is when we pay you their par value. The only difference between them is their length until maturity. Treasury notes mature in more than a year, but not more than 10 years from their issue date. Bonds*, on the other hand, mature in more than 10 years from their issue date. You usually can buy notes and bonds* for a price close to their par value.

Treasury sells two kinds of notes, fixed-principal and inflation-indexed. Both pay interest twice a year, but the principal value of inflation-indexed securities is adjusted to reflect inflation as measured by the Consumer Price Index -- the Bureau of Labor Statistics' Consumer Price Index for All Urban Consumers (CPI-U). With inflation-indexed notes and bonds*, we calculate your semiannual interest payments and maturity payment based on the inflation-adjusted principal value of your security.

What are U.S. savings bonds?

Savings bonds are Treasury securities that are payable only to the person to whom they are registered. Savings bonds can earn interest for up to 30 years, but you can cash them after 6 months if purchased before February 1, 2003 or 12 months if purchased on or after February 1, 2003.

What types of savings bonds are available?

You can buy two types of savings bonds for cash: the Series EE bond or the Series I bond. You can only buy Series HH bonds in exchange for Series EE/E bonds and savings notes or when you reinvest the proceeds of matured Series H bonds. For more information on these types of securities and how to purchase them, visit our Savings Bonds website.

How do Treasury bills, notes, and bonds* differ from savings bonds?
Unlike savings bonds, Treasury bills, notes, and bonds* are transferable, so you can buy or sell them in the securities market. Also, bills, notes, and bonds* are electronic - they're not paper securities like savings bonds. You can buy Treasury bills, notes, and bonds* for a minimum of $1,000, and you can buy savings bonds for as little as $25.

How can I buy a Treasury bill, note, or bond*?

It's easy. Buy Treasury bills, notes, or bonds* either at one of the auctions we conduct or in the securities market. If you want to buy a Treasury security at auction, contact us, a Federal Reserve Bank, a financial institution, or a government securities broker or dealer. If you want to buy a Treasury security in the securities market, contact your financial institution, broker, or dealer for more information.

What is a Treasury auction?

Each Treasury bill, note, or bond* (except savings bonds, of course) is sold at a public auction. In Treasury's auctions, all successful bidders (we'll discuss bids in a little bit) are awarded securities at the same price, which is the price equal to the highest rate or yield of the competitive bids we accept. You can find a complete explanation of the auction process in our Uniform Offering Circular, which is in the Code of Federal Regulations (CFR) at 31 CFR Part 356.

How can I find out when an auction will be held?

About one week before each auction, we issue a press release announcing the security being sold, the amount we're selling, the auction date, and other pertinent information. This information is available from us and from your financial institution, broker, or dealer. Many newspapers also report Treasury auction schedules in their financial sections.

How can I participate in an auction?

Simply submit a bid for the security you want to buy. You can bid either noncompetitively or a competitively, but not both in the same auction.

If you bid noncompetitively, you'll receive the full amount of the security you want at the return determined at that auction. Therefore, you don't have to specify the return you'd like to receive. You can't bid for more than $1 million in a bill auction or $5 million in a note auction. Most individual investors bid noncompetitively.

If you bid competitively, on the other hand, you have to specify the return -- the "rate" for bills or the "yield" for notes - that you would like to receive. If the return you specify is too high, you might not receive any securities, or just a portion of what you bid for. However, you can bid competitively for much larger amounts than you can noncompetitively.

How do I submit my bid?

Once we announce the auction of a security, you can submit a bid for an auction directly to us, to a Federal Reserve Bank, or through a financial institution, broker, or dealer. We accept bids by mail or, for current customers, over the Internet and by touch-tone phone. A financial institution, government securities broker, or dealer can also submit bids on your behalf. Although we don't charge fees to process a bid, some financial institutions, brokers, and dealers may charge for that service.

What is the minimum purchase amount for Treasury securities?

The minimum amount that you can purchase of any given Treasury bill or note is $1,000. Additional amounts must be in multiples of $1,000.

Do I have a choice as to where my Treasury securities are kept?
All Treasury securities are issued in what we call "book-entry" form—an entry in a central electronic ledger. You can hold your Treasury securities in one of two systems, TreasuryDirect or the commercial book-entry system. TreasuryDirect is a direct holding system where you have a direct relationship with us. The commercial book-entry system is an indirect holding system where you hold your securities with your financial institution, government securities broker, or dealer. The commercial book-entry system is a multi-level arrangement that involves the Treasury, the Federal Reserve System (acting as Treasury's agent), banks, brokers, dealers, and other financial institutions. So, in the commercial book-entry system, there can be one or more entities between you (the ultimate owner of the security) and Treasury.

What features does TreasuryDirect offer?

TreasuryDirect makes payments by direct deposit to your bank account and sends statements directly to you. We don't charge any fees when you open an account or buy securities. (The only fee we charge is a maintenance fee ONLY IF your account has a total par amount of more than $100,000.) TreasuryDirect also allows you to automatically reinvest most maturing securities. Although you have a direct relationship with us, your financial institution, government securities broker, or dealer can submit a bid for a security to be delivered to TreasuryDirect for you. For more information on TreasuryDirect, please click here.

What features does the commercial book-entry system offer?

In the commercial book-entry system, you'll maintain your relationship with your financial institution, broker, or dealer and potentially pay fees for their services. The commercial book-entry system allows you to easily buy and sell securities as well as, unlike TreasuryDirect, use them for collateral. You can also hold Treasury securities in stripped form, known as STRIPS or zero-coupon Treasuries, in the commercial book-entry system.

What are STRIPS or zero-coupon Treasuries?

STRIPS, also known as zero-coupon securities, are Treasury securities that don't make periodic interest payments. Market participants create STRIPs by separating the interest and principal parts of a Treasury note or bond*. For example, a 10-year Treasury note consists of 20 interest payments -- one every six months for 10 years -- and a principal payment payable at maturity. When this security is "stripped," each of the 20 interest payments and the principal payment become separate securities and can be held and transferred separately. STRIPS can only be bought and sold through a financial institution, broker, or dealer and held in the commercial book-entry system.

How can I sell my Treasury security before maturity?

If you hold your security in the commercial book-entry system, contact your financial institution, government securities dealer, broker, or investment advisor. Normally there is a fee for this service. If you hold your security in TreasuryDirect, you can transfer it to an account in the commercial book-entry system or let us sell your security through our Sell Direct program for a modest fee.

How do I transfer my securities from one system to the other?

It's easy to transfer securities between TreasuryDirect and the commercial book-entry system. To transfer into TreasuryDirect, just ask your financial institution, broker, or dealer to handle it or click here. If you don't already have a TreasuryDirect account, you will need to create one before transferring any securities, however. To do that, just complete and submit a New Account Request to a Federal Reserve Bank. Likewise, if you want to move your TreasuryDirect securities to an account in the commercial book-entry system, you will need to create an account in the commercial book-entry system first. Contact your financial institution, broker, or dealer to do that. You'll also need to fill out and submit to your TreasuryDirect office a Security Transfer Request. Check with your broker, dealer, or financial institution about what wire transfer information you must include. You can download or order the necessary forms from the Internet, or get them by calling your TreasuryDirect office.
How do I receive my interest and principal payments in each system?

In the TreasuryDirect system, Treasury makes interest and principal payments directly to the bank account you choose. In the commercial book-entry system, Treasury's interest and principal payments may flow through several institutions on their way to you. For example, a payment could go from the Federal Reserve to a large bank to a smaller bank to your bank or broker before it gets to you.

What happens when my security matures?

When your security matures, we pay you the principal and the final interest payment through TreasuryDirect or the commercial book-entry system. TreasuryDirect allows you to reinvest the principal proceeds from maturing securities by mail, phone, or over the Internet.

How can I get more information about Treasury securities?

You can get information about Treasury securities on our website or your financial institution, broker, or dealer. If you're interested in TreasuryDirect, ask for our TreasuryDirect Investor Kit (PD P 009).

*The Treasury Department hasn't offered a Treasury bond since its decision in October 2001 to suspend issuance of the 30-year bond.