Series I, hereinafter referred to as Series I bonds or bonds. This offer, effective September 1, 1998, will continue until terminated by the Secretary of the Treasury.

§ 359.1 Governing regulations.

Series I bonds are subject to the regulations of the Department of the Treasury, now or hereafter prescribed, governing United States Savings Bonds of Series I, contained in Department of the Treasury Circular, Public Debt Series No. 2–98 (31 CFR part 360), hereinafter referred to as Circular No. 2–98. Treasury expressly disclaims the effect of, and does not warrant the correctness of, any representations or warranties regarding Series I bonds, wherever made, that in any way conflict with the terms and conditions of Series I bonds, as set out in these regulations and other applicable law. The regulations in 31 CFR part 370 apply to transactions for the purchase of United States Savings Bonds issued through the Bureau of the Public Debt. The regulations in 31 CFR part 370 do not apply to transactions for the purchase of bonds through issuing agents generally, unless and to the extent otherwise directed by the Commissioner of the Bureau of the Public Debt or the Commissioner's designee.

§ 359.2 Description of bonds.

(a) *General.* Series I bonds are issued only in registered form (subject to §359.11) and are non-transferable. The bonds may be either in book-entry or definitive form.

(b) *Denominations and prices.* Series I bonds are issued at par (face amount). The denominations and purchase prices are as follows:

Denomination	Purchase price
$ 50	$50.00
75	75.00
100	100.00
200	200.00
500	500.00
1,000	1,000.00
5,000	5,000.00
10,000	10,000.00

(c) *Term—maturity period.* The issue date of a Series I bond is the first day of the month in which the issue price is received by an authorized issuing agent. Series I bonds have a maturity period of 30 years, consisting of an original maturity period of 20 years and an automatic extension period of 10 years.

(d) *Redemption.* A Series I bond may be redeemed beginning six months after its issue date or at any time thereafter. The Secretary of the Treasury may not call a Series I bond for redemption prior to an original maturity period of 20 years and an automatic extension period of 10 years, for a total period of 30 years from its issue date.

(e) *Composite rates and redemption values.* (1) The following definitions apply for determining the composite rates and redemption values:

(i) *Rate announcements.* Rates applicable to Series I bonds will be furnished in rate announcements published each May 1 and November 1, or at any other date determined by the Secretary or the Secretary's designee. 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 rates remains the first day of the month of the announcement.

(ii) *Fixed rate of return.* Each May and November, or at any other date determined by the Secretary or the Secretary's designee, the Secretary shall establish the fixed rate of return for Series I bonds issue-dated during the six-month period, or any other period determined by the Secretary or the Secretary's designee, beginning on such date. Such fixed rate of return will be applicable for the life of the bond.

(iii) *Semiannual inflation rate.* Each May and November, or at any other date determined by the Secretary or the Secretary's designee, Treasury will announce a variable semiannual inflation rate for Series I bonds. The index used to determine this rate will be the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (''CPI–U'') published by the Bureau of Labor Statistics (''BLS'') of the U.S. Department of Labor. The semiannual inflation rate to be effective with the May announcement, and the rate that is effective for Series I bonds offered from September 1, 1998, through October 31, 1998, will reflect the rate of change in the CPI–U for the six-month period ending with the immediately preceding March 31. The rate of change over the six-month period will be expressed as a percentage, rounded to the nearest one-hundredth of one percent. More specifically, the semiannual inflation rate will reflect the CPI–U value for the most recent March less the value for the preceding September, that difference will then be divided by the CPI–U value for the preceding September, and the result will be multiplied by 100 to convert the rate to a percentage. The resulting rate will be rounded to the nearest one-hundredth of one percent. The semiannual inflation rate to be effective with the November announcement, reflecting the change in the CPI–U for the six-month period ending with the immediately preceding September, will be similarly determined. In certain deflationary conditions, the semiannual inflation rate may be negative to such an extent that it will offset the fixed rate of return. However, the redemption value of a Series I bond for any particular month will not be less than the value for the preceding month. (See § 359.3(b) for a discussion of the lag between when inflation is measured and when it is reflected in the value of a bond.)

(iv) *Index contingencies.* If a previously reported CPI–U is revised, Treasury will continue to use the previously reported CPI–U in calculating redemption values. If the CPI–U is rebased to a different year, Treasury will continue to use the CPI–U based on the base reference period in effect when the security was first issued, as long as that CPI continues to be published. If, while an inflation-indexed savings bond is outstanding, the applicable CPI–U is: discontinued, in the judgment of the Secretary, fundamentally altered in a manner materially adverse to the interests of an investor in the security, or in the judgment of the Secretary, altered by legislation or Executive Order in a manner materially adverse to the interests of an investor in the security, Treasury, after consulting with the Bureau of Labor Statistics (''BLS''), or any successor agency, will substitute an appropriate alternative index. Treasury will then notify the public of the substitute index and how it will be applied. Determinations of the Secretary in this regard will be final.

(v) *Composite rate.* (A) The fixed rate of return, FR, and the semiannual inflation rate, SIR, as determined in paragraphs (e)(1)(ii) and (iii) of this section are divided by 100 to remove the percentage format (*i.e.*, to convert to decimal form) and are then combined into a composite annual rate, CR, in accordance with the following formula:

$$CR = \{SIR + (FR \div 2) + [SIR \times (FR \div 2)]\} \times 2$$

(B) The resulting annual rate is converted to a percentage and is rounded to the nearest one-hundredth of one percent. The composite rates will be announced by Treasury each May and November, or at any other date determined by the Secretary or the Secretary's designee, and will be derived from the semiannual inflation rate announced on the same date and the fixed rates of return applicable to Series I savings bonds.

(vi) *Base denomination.* All value calculations are performed on a hypothetical denomination of $25 having a value at the beginning of the first semiannual rate period equal to the issue price of $25. 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 $41.20—*i.e.*, $25.00 issue price plus $16.20 accrued interest—on the same redemption date, the value of a $50 bond bearing the same issue date is $41.20 × (50/25) or $82.40.

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

(viii) *Redemption value.* The redemption value of a bond is that amount that will be paid when the bond is redeemed.

(ix) *Accrual date.* Earnings on a Series I bond, if any, accrue on the first day of each month. The redemption value of a bond does not change between these accrual dates.

(x) *Semiannual rate periods.* Semiannual rate periods are the six-month periods beginning on the date of issue and on each semiannual anniversary of the date of issue to maturity.

(xi) *Maturity.* Series I bonds have a maturity period of 30 years, consisting of an original period of 20 years and an automatic extension period of 10 years. The bonds have an interest paying life of 30 years after the date of issue and cease to increase in value as of that date.

(2) *Interest rates and monthly accruals.* Series I composite rates, defined in paragraph (e)(1)(v) of this section, apply to earnings during the first semiannual rate period beginning on or after the effective date of the rate. Interest, at the composite rate from the beginning of the semiannual rate period, accrues according to the formula specified in paragraph (e)(4)(ii) of this section. The following table shows, for any given month of issue with composite rates announced each May and November, the months making up the semiannual rate period during which interest is earned at the composite rate specified in the announcement:

Month of issuance	Semiannual rate period (1) begins	Announcement date of composite rate that applies during rate period (1)	Semiannual rate period (2) begins	Announcement date of composite rate that applies during rate period (2)
January	January 1	November 1 (announced 2 months prior to beginning of semiannual rate period).	July 1	May 1 (announced 2 months prior to beginning of semiannual rate period).
February	February 1	November 1 (announced 3 months prior to beginning of semiannual rate period).	August 1	May 1 (announced 3 months prior to beginning of semiannual rate period).
March	March 1	November 1 (announced 4 months prior to beginning of semiannual rate period).	September 1	May 1 (announced 4 months prior to beginning of semiannual rate period).
April	April 1	November 1 (announced 5 months prior to beginning of semiannual rate period).	October 1	May 1 (announced 5 months prior to beginning of semiannual rate period).
May	May 1	May 1	November 1	November 1.
June	June 1	May 1 (announced 1 month prior to beginning of semiannual rate period).	December 1	November 1 (announced 1 month prior to beginning of semiannual rate period).
July	July 1	May 1 (announced 2 months prior to beginning of semiannual rate period).	January 1	November 1 (announced 2 months prior to beginning of semiannual rate period).
August	August 1	May 1 (announced 3 months prior to beginning of semiannual rate period).	February 1	November 1 (announced 3 months prior to beginning of semiannual rate period).
September	September 1	May 1 (announced 4 months prior to beginning of semiannual rate period).	March 1	November 1 (announced 4 months prior to beginning of semiannual rate period).
October	October 1	May 1 (announced 5 months prior to beginning of semiannual rate period).	April 1	November 1 (announced 5 months prior to beginning of semiannual rate period).
November	November 1	November 1	May 1	May 1.
December	December 1	November 1 (announced 1 month prior to beginning of semiannual rate period).	June 1	May 1 (announced 1 month prior to beginning of semiannual rate period).

Notes: (1)Notwithstanding any consideration of the interest penalty for early redemption, interest earned during each month of a semiannual rate period accrues according to the formula specified in § 359.2(e)(4)(ii).

(2) Also, if the regularly scheduled date for a composite rate announcement is a day that Treasury is not open for business, the announcement will be made on the next business day; however, the effective date of the rate will be the first day of the month of the announcement.

(3) *Interest penalty for Series I bonds redeemed less than five years following the issue dates.* If a Series I bond 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, 1999, is redeemed nine months later on October 1, 1999, the redemption value will be determined by applying the value calculation procedures described in paragraph (e)(4) of this section and the Series I bond composite rate for that bond as if the redemption date were three months earlier (July 1, 1999). The redemption value of a bond subject to the three-month interest penalty shall not be reduced below the issue price. This penalty does not apply to bonds redeemed five 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 redeemed.

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

(A) Determine the composite rate as defined in paragraph (e)(1)(v) of this section. If the result of the composite rate calculation is a negative value, zero will be the assumed composite rate in the redemption value calculation. Redemption values are calculated using the following formula:

$$FV = PV \times \{1 + (CR \div 2)]^{(m \div 6)}\}$$

Where:

FV (future value) = redemption value on the accrual date rounded to the nearest cent.

PV (present value) = value at the beginning of the semiannual rate period calculated without consideration of penalty. For bonds that are older than five years, PV will equal the redemption value at the start of the semiannual rate period.

CR = composite rate as defined in paragraph(e)(1)(v) of this section converted to decimal form by dividing by 100.

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

(B) The following hypothetical examples illustrate how this formula is applied:

(*1*) For a bond five years or older:

Example: i. Given a Series I bond composite rate of 5.02%, effective May 1, 2003, for a hypothetical bond denominated at $25, with an issue date of September 1, 1998, and a redemption value of $31.90 as of September 1, 2003, the February 1, 2004, 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 date of the May 1, 2003, rate announcement composite rate would be the period beginning September 1, 2003. PV, the present value, $31.90, would be the redemption value of the bond at the beginning of the semiannual rate period (September 1, 2003). The composite rate, 5.02% converted to a decimal, would be 0.0502. The number of months, m, is five, since five full calendar months (September through January) have lapsed since the beginning of the semiannual rate period. FV, the redemption value (rounded to the nearest cent), is then the result of the formula:

$$FV = PV \text{ x } \{[1 + (CR \div 2)]^{(m \div 6)}\} \text{ where}$$
$$FV = 31.90 \text{ x } \{[1 + (0.0502 \div 2)]^{(5 \div 6)}\} = \$32.57$$

ii. The redemption value for the actual denomination of a Series I bond can be determined by applying the appropriate multiple, for example: $32.57 x ($100.00 ÷ $25.00) for a bond with a $100.00 face amount; or $32.57 x ($1000.00 ÷ $25.00) for a bond with a $1000.00 face amount.

(*2*) For a bond less than five years old:

Example: i. Assume a composite rate of 5.07% effective May 1, 2003, for a bond denominated at $25.00, with an issue date of December 1, 2000, a redemption date of February 1, 2004, and a value on June 1, 2003, of $28.45, without consideration of penalty. A three-month penalty is assessed since the redemption date is less than five years after the issue date. The penalty is accounted for by assuming that the redemption date is three months earlier (November 1, 2003). The February 1, 2004, redemption value is then calculated as follows: bonds issue-dated in December have semiannual rate periods that begin each June 1 and December 1. The first semiannual rate period to begin on or after the May 1, 2003, rate announcement composite rate would be the period beginning June 1, 2003. PV, the present value, $28.45, is the value of the bond at the beginning of the semiannual rate period (June 1, 2003), without consideration of penalty. The composite rate, 5.07%, converted to a decimal, would be 0.0507. The number of months, m, is five, since five full calendar months (June through October) have elapsed since the beginning of the semiannual rate period and the redemption date (as adjusted for penalty). FV, the redemption value (rounded to the nearest cent), is then the result of the formula:

$FV = PV \times \{[1 + (CR \div 2)]^{(m \div 6)}\}$ where
$FV = \$28.45 \times \{[1 + (0.0507 \div 2)]^{(5 \div 6)}\} = \$29.05$

ii. The redemption value for the actual denomination of a Series I bond can be determined by applying the appropriate multiple, for example: $29.05 x ($100.00 ÷ $25.00) for a bond with a $100.00 face amount; or $29.05 x ($1000.00 ÷ $25.00) for a bond with a $1000.00 face amount.

(5) *The Secretary's determination.* The determination by the Secretary of the Treasury, or the Secretary's designee, of fixed rates of return, semiannual inflation rates, composite rates, and savings bond redemption values shall be final and conclusive.

(6) *Tables of redemption values.* Tables of redemption values are made available in various formats and media, including on the Internet, by the Bureau of the Public Debt, Parkersburg, West Virginia 26106–1328. Treasury reserves the right to cease making the tables of redemption values available in any of these formats or media. Redemption values published in such tables reflect the three-month interest penalty applied to bonds redeemed prior to five years from the date of issue.

[63 FR 38044, July 14, 1998, as amended at 63 FR 45946, Aug. 28, 1998]

§ 359.3 Investment considerations.

(a) *Index contingencies.* (1) If a previously reported CPI is revised, Treasury will continue to use the previously reported CPI in calculating redemption values.

(2) If the CPI is rebased to a different year, Treasury will continue to use the CPI based on the base reference period in effect when the savings bond was first issued, as long as that CPI continues to be published.

(3) If, while a Series I savings bond is outstanding, the applicable CPI is discontinued, in the judgment of the Secretary, fundamentally altered in a manner materially adverse to the interests of an investor in the savings bond, or in the judgment of the Secretary, altered by legislation or Executive Order in a manner materially adverse to the interests of an investor in the savings bond, Treasury, after consulting with the Bureau of Labor Statistics, or any successor agency, will substitute an appropriate alternative index. Treasury will then notify the public of the substitute index and how it will be applied. Determinations of the Secretary in this regard will be final.

(4) If the CPI for a particular month is not reported by the last day of the following month, the Treasury will announce an index number based on the last 12-month change in the CPI available. Any calculations of the Treasury's payment obligations on the inflation-indexed savings bond that rely on that month's CPI will be based on the index number that Treasury has announced.

(b) *Inflation lag.* (1) The inflation rate component of investor earnings will be determined twice each year. This rate will be the percentage change in the CPI–U for the six months ending each March and September. The rate will be included in the composite rate that is announced each May and November. For Series I bonds offered from September 1, 1998, through October 31, 1998, the inflation rate component of investor earnings will be the percentage change in the CPI–U for the six months ending March 31, 1998. This rate will be included in the composite rate that is announced for Series I bonds offered effective from September 1, 1998, through October 31, 1998. In the event the Secretary, or the Secretary's designee, announces a composite rate at an effective date other than May 1 or November 1, the announcement will specify the period to be used to calculate the semiannual inflation rate. Each composite rate will be effective for the entirety of the applicable rate period that begins while the rate is in effect. Thus, an inflation rate may affect interest accruals from 3 to 13 months from the date that the CPI–U is measured.

(2) For example, the inflation rate determined from the CPI–U for the six-month period from October 1, 2003, through March 31, 2004, will be included in the composite rate announced on May 1, 2004. For a bond purchased in May 1999, this rate will go into effect immediately, since a new semiannual rate period for this bond will begin on May 1, 2004. Series I bonds issued in May begin new semiannual rate periods in the months of May and November.