



American Revolution Bicentennial

# FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 75-118  
August 18, 1975

## APPLICABILITY OF REGULATIONS D AND Q TO "LOAN TO LENDER" TYPE PROGRAMS

TO ALL MEMBER BANKS  
AND OTHERS CONCERNED IN THE  
ELEVENTH FEDERAL RESERVE DISTRICT:

Quoted below is a portion of a letter dated August 6, 1975, giving the views of the Board of Governors of the Federal Reserve System:

The Board has been asked to review a number of recent inquiries related to the status as "deposits" of promissory notes issued by member banks to State or municipal housing authorities. These obligations are undertaken by member banks as part of a "Loan to Lender" type program designed primarily to provide funds for residential construction.

These transactions usually involve the issuance by a municipal authority of tax-exempt bonds and the subsequent lending of the bond revenue funds to financial institutions under the obligation that these funds are to be used to make specified types of real estate loans. The Board has determined that funds obtained by member banks on their notes to such housing authorities are not exempt from deposit status under the existing definitions contained in Regulations D and Q and, therefore, at the present time must be treated as deposits subject to reserve requirements and interest rate limitations. The Board believes that these obligations issued by member banks may be considered "time deposits" and subject to Regulations D and Q when they are issued with maturities of more than 30 days. However, where the lending agreement between a member bank and a housing authority contains a default provision providing for immediate payment of the principal of the loan default, in order to avoid treatment of such obligations as demand deposits, the loan agreements should provide a requirement that, upon such default, the authority must give the bank at least 30 days' written notice prior to repayment.

Questions relating to the applicability of the "Loan to Lender" type programs to Regulation D, "Reserves of Member Banks," should be directed to this Bank's Accounting Department (214) 651-6334, and questions concerning Regulation Q, "Interest on Deposits," should be directed to this Bank's Regulations Department (214) 651-6169.

Sincerely yours,  
T. W. Plant  
First Vice President