

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 7697
August 28, 1975

**PROMISSORY NOTES ISSUED BY MEMBER BANKS
TO STATE AND MUNICIPAL HOUSING AUTHORITIES
Status Under Regulations D and Q**

*To All Member Banks
in the Second Federal Reserve District:*

The Board of Governors of the Federal Reserve System has recently reviewed the status under its Regulation D — Reserves of Member Banks — and Regulation Q — Interest on Deposits — of promissory notes issued by member banks to State or municipal housing authorities. In this connection, the Board made the following statement:

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 thirty 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 on 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.

You may direct any inquiries regarding this matter to our Bank Regulations Department. Additional copies of this circular will be furnished upon request.

PAUL A. VOLCKER,
President.