

FEDERAL RESERVE BANK  
OF NEW YORK

Circular No. 7727  
October 9, 1975

PROMISSORY NOTES ISSUED BY MEMBER BANKS  
TO STATE AND MUNICIPAL HOUSING AUTHORITIES

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

In our Circular No. 7697, dated August 28, 1975, you were notified that the Board of Governors of the Federal Reserve System had determined that funds obtained by member banks through so called "Loan to Lender" programs must be treated as deposits subject to reserve requirements and interest rate limitations. The generation of such funds usually involves the issuance by a municipal authority of tax-exempt bonds and the subsequent lending of the bond proceeds to financial institutions under the obligation that these funds are to be used to make specified types of real estate loans.

Since that announcement, the Board of Governors has received requests, from member banks, State housing authorities, and others, that the Board review its earlier action in view of its possible adverse impact upon the ability of member banks to participate in such State-sponsored housing programs. On the basis of additional information that has been provided to the Board, and in response to these requests, the Board has decided to review its decision regarding the "deposit" status of promissory notes issued by member banks to State or municipal housing authorities under such "Loan to Lender" programs.

During the pendency of its review of these programs, the Board of Governors has decided to suspend the effectiveness of its prior determination and, therefore, to waive the requirements for maintenance of reserves against such funds.

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.*