

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8068]
March 11, 1977

FUNDS OBTAINED FROM STATE AND MUNICIPAL HOUSING AUTHORITIES
UNDER "LOAN-TO-LENDER" PROGRAMS

Indefinite Suspension of Regulations D and Q Requirements

To All Member Banks in the
Second Federal Reserve District:

In our Circular No. 7727, dated October 9, 1975, you were advised that the Board of Governors of the Federal Reserve System, pending further review, had suspended its earlier action subjecting funds obtained by member banks through so-called "Loan-to-Lender" programs to reserve requirements and interest rate limitations. After an extensive review of such programs, the Board of Governors has decided to continue, *for an indefinite period*, that suspension.

Printed below is the text of the Board's Order in this matter. Questions may be directed to our Bank Regulations Department. Additional copies of this circular will be furnished upon request.

PAUL A. VOLCKER,
President.

(Regs. D and Q)
RESERVES OF MEMBER BANKS
INTEREST ON DEPOSITS

[Docket No. 0085]

"Loan-to-Lender" Programs—Notice of Continuation of
Waiver of Reserve Requirements and Interest Rate Limitations

The Board of Governors has reconsidered the question of the deposit status under its Regulations D and Q of funds obtained by member banks on their notes issued to State or municipal housing authorities under "Loan-to-Lender" type programs. The Board has determined to continue the waiver of reserve requirements and interest rate limitations announced in September 1975 with respect to funds obtained by member banks under these programs. This action is based upon the Board's authority to determine what types of obligations shall be deemed a deposit under section 19(a) of the Federal Reserve Act, 12 U.S.C. 461, and its regulatory authority under § 204.1(f) of Regulation D and § 217.1(f) of Regulation Q. The following notice has been issued to all Federal Reserve Banks:

Loan-to-Lender Programs

The Board has reviewed the question of whether funds obtained by member banks on their notes issued to State and municipal housing authorities under "Loan-to-Lender" agreements should be regarded as "deposits" under the Board's Regulation D (§ 204.1(f)) and Regulation Q (§ 217.1(f)).

"Loan-to-Lender" programs usually involve the issuance by a State or municipal housing authority of tax-exempt bonds and the subsequent lending of the bond

revenue funds to financial institutions under the requirement that these funds be used to make specified types of real estate loans (generally mortgage loans to low or moderate income home buyers). The funds advanced to financial institutions pursuant to a "Loan-to-Lender" program are evidenced by a loan agreement and a promissory note issued by the financial institution to the housing authority. These programs enable State and municipal authorities to channel funds obtained into housing programs through financial institutions possessing specialized expertise in real estate lending and construction financing. At the present time such programs are in operation in 11 States. Thirteen other State legislatures have approved legislation authorizing such programs. On the basis of available information, "Loan-to-Lender" programs currently represent approximately \$800 million in funds lent for these purposes.

By letter of August 6, 1975, the Board requested that the Federal Reserve Banks inform member banks in their districts that funds obtained by member banks on their notes issued to State or municipal housing authorities under "Loan-to-Lender" programs are funds to be used in the banking business and, therefore, should be treated as deposits subject to Regulation D reserve requirements and Regulation Q interest rate limitations.

On September 29, 1975, the Board announced that, in

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response to requests for such action, it would review the deposit status of funds received by member banks on their notes issued to State and municipal housing authorities under "Loan-to-Lender" type programs. In conjunction with that review, the Board suspended the effectiveness of its determination of August 6, 1975, and waived the maintenance of required reserves on "Loan-to-Lender" obligations.

The Board has conducted an extensive review of all known "Loan-to-Lender" type programs. Based upon this review, the Board has determined to continue, for an indefinite period, the suspension of its August 6, 1975, determination regarding the deposit status of "Loan-to-Lender" funds. (This suspension was first announced on September 29, 1975.) This action is based upon the Board's belief that a determination on the deposit status of funds obtained by member banks under "Loan-to-Lender" programs should be deferred pending the completion of broader based studies of possible statutory and regulatory reforms pertaining to interest on deposits and reserves held by member banks. The continued suspension will also provide the Board with further opportunity to assess the potential impact of application of reserve requirements and interest rate limitations on

funds obtained by member banks through participation in "Loan-to-Lender" programs.

The Board recognizes that its decision to defer for an indefinite period a final determination regarding the deposit status of funds obtained by member banks under "Loan-to-Lender" agreements may result in some uncertainty among member banks presently participating in such programs or contemplating participation at a future date. Accordingly, in order to avoid any uncertainty with respect to member bank participation in "Loan-to-Lender" programs during the time this suspension is in effect, the Board has determined that any funds obtained by member banks as the result of "Loan-to-Lender" agreements entered into during this suspension period will continue to be exempt from interest rate limitations and reserve requirements, regardless of any future decision of the Board to reinstate its determination of August 6, 1975.

Where "Loan-to-Lender" programs are being offered, it is suggested that you inform member banks in your district of the Board's decision to continue, indefinitely, the suspension of the effectiveness of its August 6, 1975, determination regarding the deposit status of such funds.

Board of Governors of the Federal Reserve System.