

S-120
Sec. 5136 R.S.-14

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

October 17, 1938.

Mr. _____, Executive Secretary,
_____ Municipal Housing Authority,
City Hall,
_____, _____.

Dear Sir:

This refers to your letter of October 12, 1938, requesting advice as to whether a State member bank of the Federal Reserve System may underwrite bonds issued by the (name of city) Municipal Housing Authority for the erection of a slum-clearance project in the City of _____ under the regulations of the United States Housing Authority.

Under the provisions of section 9 of the Federal Reserve Act, State member banks of the Federal Reserve System are subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks under section 5136 of the Revised Statutes. This section of the Revised Statutes forbids the underwriting of all kinds of securities except those specifically exempted from the provisions of the section. It is our understanding that bonds issued by a municipal housing authority are not general obligations of a State or political subdivision thereof and, accordingly, that these bonds do not fall within the class of obligations exempted by the statute. It follows, therefore, that State member banks may not underwrite such bonds.

Although your question was whether a State member bank may underwrite these bonds, it seems probable that you also desire information upon the question whether a State member bank may purchase such bonds for purposes of investment. The office of the Comptroller of the Currency has ruled that the bonds, notes, or debentures issued by public housing agencies and representing the 10 per cent local participation in the cost of low-rent housing or slum-clearance projects under the United States Housing Act of 1937 are investment securities which are eligible for purchase by a national bank within the limitations as to amount prescribed by section 5136 of the Revised Statutes. It is our view that State member banks of the Federal Reserve System also have authority to

purchase, for purposes of investment and subject to the limitations stated above, the bonds, notes, or debentures issued by such public housing agencies.

There is inclosed herewith for your information a copy of the Investment Securities Regulation of the Comptroller of the Currency which contains at page 3 the provisions of section 5136 of the Revised Statutes and section 9 of the Federal Reserve Act.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.