

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 21, 1939.

Dear Sir:

Attached is a copy of a letter dated March 7, 1939, from the Administrator of the United States Housing Authority, requesting advice as to whether it would be possible for the Federal Reserve banks to act as agents of the United States Housing Authority in connection with a proposed new plan for furnishing local housing agencies with necessary funds for the construction of low-rent housing projects.

The plan contemplates the sale of bonds by the local housing agencies, the proceeds of such bond offerings to be deposited with the Federal Reserve banks and released to local depositaries of the local housing agencies on the sole order of the United States Housing Authority from time to time as funds are needed for construction of the projects.

The United States Housing Act of 1937 specifically directs the Federal Reserve banks to act as depositaries, custodians, and fiscal agents for the United States Housing Authority, and the Board sees no objection to the Federal Reserve banks acting in the capacity requested in the attached letter.

It is understood that, if it appears to be necessary or desirable, existing agreements between the respective banks and the Authority will be modified to such extent as may be appropriate or new agreements will be entered into to cover the performance of these services.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea", written over a horizontal line.

L. P. Bethea,
Assistant Secretary.

Enclosure

COPY
DEPARTMENT OF THE INTERIOR
UNITED STATES HOUSING AUTHORITY
Washington

March 7, 1939.

Gentlemen:

The plan of financing contemplated by the United States Housing Authority prior to the present time anticipated that it would be necessary for the United States Housing Authority to lend to public housing agencies 90% of the development cost of low-rent housing projects. The remaining 10% was to be raised from sources other than the United States Housing Authority. The entire 100% was to be represented by bonds of the housing agencies. Under such a plan, it was possible for the United States Housing Authority, and it has been our practice, to advance funds from time to time as needed. Prospective investors had no objection to the deposit of the proceeds of the bonds they were to purchase (representing only 10% of the loan) in the local banks which acted as depositories for the housing agencies.

At the present time, we expect the housing agencies to be able to sell bonds representing as much as 95% of the cost of the projects to private investors, the bonds to carry an interest rate lower than the minimum rate at which we are authorized to lend funds. One obstacle to such a plan is the refusal of prospective investors to permit the immediate deposit of the entire proceeds of the sale of such bonds in the local depositories. Bond issues of local authorities will amount to several millions of dollars in many cases, and the prospective purchasers are unwilling to have the entire amount deposited in local banks during the entire construction period. In addition, it is contemplated that the bond offerings of the local authorities will be coordinated so that the total offerings at one time may be as much as \$200,000,000. The prospective investors have suggested that this money could be deposited in several New York banks, but we are unwilling to have such an amount representing a large part of our present program on deposit in one or several banks at any one time. For these reasons, we find it necessary to ask your advice as to whether it will be possible for the Federal Reserve Banks to act as our agents in carrying out the following plan.

The public housing agencies (which are public bodies of the several states, created under state enabling acts) will authorize their bonds and advertise them for sale. After bids have

been received and the bonds awarded, we will make arrangements with the Federal Reserve Bank for the Federal Reserve District in which the local housing agency is situated to accept the deposit of the proceeds of the sale of such bonds of the local housing agency. These proceeds will be held by the particular Federal Reserve Bank for release, on the sole order of the United States Housing Authority, from time to time as funds are needed for construction of the projects. As funds are released on the order of the United States Housing Authority, they will be deposited in the local depositories of the housing agencies. Such releases will be in sizable amounts estimated at \$100,000 or more for average projects, and will be supplemented from time to time with funds representing additional bond purchases by the United States Housing Authority in the manner provided by our present arrangements with the Federal Reserve Banks. Under the proposed plan, the same amount of money will be deposited in and disbursed from local banks as would have been deposited in and disbursed from local banks under our present plan.

Upon receipt of advice that the procedure proposed above is agreeable to you, we will communicate with the several Federal Reserve Banks and arrange the necessary details.

Faithfully yours,

(Signed) Nathan Straus

NATHAN STRAUS,
Administrator.

Board of Governors of the
Federal Reserve System,
Federal Reserve Building
Washington, D. C.