

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers
of Tuesday, November 25, 1947.

November 24, 1947.

The statement by the Federal and State bank supervisory authorities, entitled "Bank Credit Policy During the Inflation", was participated in by the Board of Governors of the Federal Reserve System on the basis of its bank supervisory responsibilities. The statement obviously does not concern itself with the System's functions in the monetary field nor its joint responsibilities with the Treasury respecting debt management.

Board of Governors of the Federal Reserve System
Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation

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BANK CREDIT POLICY DURING THE INFLATION

Our country is experiencing a boom of dangerous proportions. The volume of bank credit has been greatly inflated in response to the needs for financing the war effort. Domestic and foreign demands for goods and services are exerting a strong upward pressure on prices in spite of the high volume of our physical production. These demands would be inflationary without any further increase in the use of bank credit, but the demand is being steadily increased through continued rapid expansion in bank loans, in addition to other factors outside the control of the banking system.

A substantial increase in production, agricultural as well as industrial, would be highly beneficial. However, increases can only take place slowly and to a limited degree. In industry, they are dependent upon corresponding increases in the available supply of basic raw materials, plant capacity, and the number and productivity of the labor force. Therefore a further growth of outstanding bank credit tends to add to the already excessive demand and to make for still higher prices.

The Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Executive Committee of the National Association of Supervisors of State Banks are unanimously of the view that present conditions require the bankers of the country to exercise extreme caution in their lending policies. It is at times such as these that bad loans are made and future losses become inevitable.

It is recognized that a continued flow of bank credit is necessary for the production and distribution of goods and services. The banks of the country have adequately met this important need in the reconversion period. Under existing conditions, however, the banks should curtail all loans either to individuals or businesses for speculation in real estate, commodities or securities. They should guard against the over-extension of consumer credit and should not relax the terms of installment financing. As far as possible extension of bank credit under existing conditions should be confined to financing that will help production rather than merely increase consumer demand.

The bank supervisory authorities strongly urge directors to see that their banks follow these policies and maintain adequate capital in relation to risk assets.