

FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, November 25, 1947

BANK CREDIT POLICY DURING THE INFLATION

To the Chief Executive Officers of All

Banks in the Eleventh Federal Reserve District:

In view of its great importance at this time there is quoted below a joint statement by Federal and State Bank Supervisory Agencies issued today:

“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.”

The Board of Governors of the Federal Reserve System participated in the above statement on the basis of its bank supervisory responsibilities. The statement obviously does not concern itself with the Federal Reserve System's functions in the monetary field nor its joint responsibilities with the Treasury respecting debt management.

Yours very truly,


President