

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 80-52
March 17, 1980

TO THE CHIEF EXECUTIVE OFFICER
OF THE BANK ADDRESSED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

President Carter has announced a broad program designed to moderate and reduce inflationary forces in the United States economy. In addition to fiscal, energy, and other measures, the President, under the terms of the Credit Control Act of 1969, provided the Federal Reserve Board with the authority to exercise special restraints on the growth of certain kinds of credit. At the same time, the Federal Reserve Board has taken a series of other steps to restrain credit growth.

In order to clarify the actions taken today, enclosed are copies of certain new regulations adopted by the Federal Reserve Board and a description of the voluntary Special Credit Restraint program that covers, among others, uninsured commercial banks. In the near future you will be receiving from the Federal Reserve further instructions on the program of special deposits, which must be held at Federal Reserve Banks, on increases in certain kinds of consumer credit.

Very briefly, here are the highlights of the two programs that affect noninsured commercial banks, as described in more detail in the enclosures.

Special Credit Restraint Program

1. Banks are expected to restrain their growth in total loans to a range of 6-9 percent. However, the actual growth for individual institutions will be appraised in light of their location, past growth patterns, their liquidity and capital positions, and other individual circumstances. Similar restraint should be exercised with respect to commitments.

2. Within this general constraint, banks are encouraged to maintain reasonable availability of funds for small businesses, farmers, housing, smaller agriculturally-oriented commercial bank correspondents, and thrift institutions.

3. Credit for automobile and home improvement loans should be treated normally.

4. Special restraint should be applied to financing of corporate takeovers or mergers, of the retirement of corporate stock, of speculative holding of commodities or precious metals, and of extraordinary inventory accumulation.

5. In establishing the price and non-price terms of bank loans, no specific guidelines or formulas are suggested. However, as appropriate and possible, lending rates and other terms should take account of the special needs of small businesses and farmers.

Consumer Credit Restraint

1. The program is designed to slow the expansion of certain types of consumer credit requiring that all lenders with more than \$2 million of such credit outstanding on March 14 maintain a special deposit at a Federal Reserve Bank equal to 15 percent of the increases in such credit since March 14.

2. Covered consumer credit includes loans extended via credit cards, checking account overdraft credit plans, other forms of revolving credit, all open-end credit, unsecured closed-end credit, or secured credit not extended to purchase the collateral—with the exceptions noted below.

3. Excluded from covered consumer credit are secured loans where the security is purchased with the proceeds of the loan, such as an automobile, mobile home, furniture or appliance; mortgage loans where the proceeds are used to purchase the home or for home improvements; credit extended for utility, health or educational services; credit extended under State or Federal government guaranteed loan programs; and savings passbook loans.

4. All banks with \$2 million or more of covered credit outstanding on March 14 must file a base report by April 1 with the Federal Reserve. This report will state the amount of credit outstanding on March 14 or nearest available figure.

5. Thereafter, covered banks must file a monthly report on the amount of covered consumer credit outstanding during the month, based on the daily average amount of covered credit or other available figures. The first of these reports, for the period from March 15 through April 30 is due by May 12. The report for subsequent months is due by the second Monday of the month after that covered by the report.

6. The first 15 percent special deposit requirement must be maintained during the period beginning May 22 and ending June 25 on increases in outstanding credit during the first reporting period.

While the Federal Reserve is aware of the burdensome nature of these actions on both you and your customers, we believe that they are necessary to begin the process of slowing the pace of inflation that has become so painful. We also believe that these programs seek to spread the burden of combating inflation equitably among all lenders and as fairly among borrowers as is practical. Without your wholehearted cooperation, the best interest of our Nation will not be served. The Federal Reserve fully expects your cooperation and assistance in assuring the success of the two programs that apply to your bank.

Sincerely yours,

Ernest T. Baughman

President

Enclosures

As there were only 5 uninsured commercial banks, I xeroxed and mailed the circular myself.

Cheri Holloway
3-17-80

Chilton Citizens Bank
Chilton, Tx 76632

Farmers & Merchants Bk.
Drawer a
Paddy, Tx 76870

D & A Oppenheimer
Box 960
San Antonio, Tx 78294

Colonial Trust Co.
Box 406
Hillsboro, Tx 76645

The Gray Bank
Box 98
Gray, Tx 76654