

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 80-87

May 5, 1980

ADDITIONAL QUESTIONS AND ANSWERS REGARDING
THE CREDIT RESTRAINT PROGRAM

TO ALL BANKS
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The staff of the Federal Reserve Board has supplied this additional set of answers to questions concerning the Board's Credit Restraint Program.

These questions and answers may be added to those previously supplied, under the headings previously used and continuing previous numbering of questions.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure

CONSUMER CREDITCovered Credit -- Page 10

31. A provider of health or education services, such as a hospital or college, arranges consumer credit to be extended by a creditor. Is this covered credit?

Answer: Yes. The exemption for credit extended by health and education service providers applies only to situations where the provider extends the credit, rather than merely arranging it.

32. Is credit extended by a U.S. creditor to a non-U.S. resident to be considered in determining covered credit?

Answer: No.

33. Are loans made under the FHA Title I program covered credit?

Answer: No. They are considered loans guaranteed by the Federal government.

34. Under a closed-end credit agreement with a consumer, a creditor is committed to advance a certain amount of funds, as demanded by the consumer. These funds are not used to purchase any collateral. Is the full amount of the commitment covered credit?

Answer: If the creditor books the full amount of the commitment as a loan, it is covered credit. However, as indicated in Question No. 4 under Covered Credit, if the commitment is not booked as a loan, it is not covered credit.

35. A creditor is in the process of converting its accounts from closed-end to open-end credit. All of the closed-end loans outstanding were extended as purchase money transactions. As of March 14, 1980, \$30 million of total outstanding credit of \$100 million was carried on the creditor's books as closed-end credit. For purposes of the base report, how much of the \$100 million should be considered covered credit? For purposes of subsequent monthly reports, will the conversion of the remaining closed-end accounts to open-end make the outstanding balances covered credit?

Answer: For purposes of the base report, \$70 million is covered credit, with \$30 million exempt. The outstanding balances on the closed-end accounts as of March 14 will not become covered credit when the accounts are converted to open-end status. However, any additional amounts added to open-end accounts after March 14 should be treated as covered credit, unless one of the exceptions applies.

36. A credit union has overseas branches making loans to U.S. armed forces personnel stationed abroad. Are these loans to be included in the credit union's covered credit?

Answer: No. Only loans made by U.S. offices of a creditor are to be considered.

CONSUMER CREDIT

Covered Credit -- Page 11

37. A credit union has an open-end plan under which consumers may purchase automobiles and other large-ticket items. These loans are purchase money transactions. Is this covered credit?

Answer: Yes. The exception for purchase money transactions applies only to closed-end loans. Open-end credit secured by the property being purchased with the loan proceeds is not exempt. However, if the loan is secured by a regular share account at the credit union, it would be exempt under the exception for loans secured by savings deposits.

38. Are loans to purchase or build a home to be used for rental purposes to be included in covered credit?

Answer: No. A loan to acquire, maintain or improve any dwelling which the customer intends to rent out rather than occupy is considered business credit and therefore not included in covered credit.