

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 80-135
July 10, 1980

PHASE-OUT OF CREDIT RESTRAINT PROGRAM

TO ALL BANKS,
BANK HOLDING COMPANIES,
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

In view of current economic conditions, the Board of Governors of the Federal Reserve System has announced plans to complete the phase-out of the Credit Restraint Program which was initiated on March 14.

Printed on the following pages is the Board's press release announcing the phase-out and plans for elimination of the reporting and special deposit requirements of the Credit Restraint Program.

For additional information, please contact Richard D. Ingram, Assistant Vice President, Ext. 6333, or Helen E. Holcomb, Ext. 6166.

Sincerely yours,

Robert H. Boykin

First Vice President

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

FEDERAL RESERVE press release



July 3, 1980

For immediate release

The Federal Reserve Board today announced plans to complete the phase-out of the special measures of credit restraint that had been put in place, or reinforced, on March 14 of this year.

The special measures were designed to supplement, temporarily, more general measures of credit and monetary control, and recent evidence indicates that the need for those extraordinary measures has ended. For the year to date, credit expansion, particularly at banks, is clearly running at a moderate pace. In recent months, there has been apparent contraction in consumer borrowing, indications are that anticipatory and speculative demands for credit have subsided, and funds have been in more ample supply.

While the special conditions necessitating the extraordinary credit restraints are no longer present, the Board emphasized that its general goals of achieving restrained growth in money and credit aggregates are unchanged. Those continuing goals are closely related to its concern with further reduction of inflationary pressures in the economy.

The Board previously, on May 22, had halved the special deposit requirements in connection with the credit restraint program and had modified the guidelines for the special program for restraining bank credit growth.

Today, the Board scheduled completion of the phase-out by taking the following measures:

--Elimination of the remaining 5 percent marginal reserve requirement on managed liabilities of large banks and agencies and branches of foreign banks. This action applies to managed liabilities beginning July 10, for reserves required beginning July 24. In addition, the Board eliminated, effective the same date, the 2 percent supplementary reserve requirement applicable to member banks on large time deposits. This requirement had been initiated in November 1978.

--Elimination of the remaining 7-1/2 percent special deposit requirement that applies to increases in covered consumer credit, effective for covered credit extended in June and thereafter. Thus, no further special deposits will be required after the present deposit maintenance period ends on July 23. To permit orderly implementation of changes now in process and to assure adequate notice of such changes to credit users, the Board's rule permitting creditors to modify the terms of credit accounts will remain in effect for notices mailed only on or before September 5.^{1/}

--Elimination of the remaining 7-1/2 percent special deposit requirement that applies to increases in covered assets of money market mutual funds and other similar institutions. This action applies to covered assets beginning July 28, and hence no special deposits will be required beginning August 11.

--Phase-out of the Special Credit Restraint Program under which banking institutions and finance companies were asked to limit domestic loan growth to a range of 6 to 9 percent in 1980. Available data for the first five months of this year indicate that bank loans to domestic borrowers have increased at around a 3 percent annual rate. Banking institutions with \$300 million or

^{1/} Under the consumer credit restraint program, to make certain changes in terms of accounts, a creditor must send a 30-day advance notice explaining the changes and giving the consumer the option of paying down the existing balance according to the original terms. Subsequent use of the account by the consumer is deemed to be acceptance of the new terms.

more deposits will be expected to complete reports (either the quarterly report or the monthly report for the larger institutions) due under this program July 10 for data as of June 30. After those reports are received, discussions will be held with individual banks to review experience with the special program.

In phasing out the aggregate 6-9 percent guideline for individual institutions, the Board feels that normal competitive and market incentives can again be relied upon to assure the flow of credit consistent with normal banking standards, and that qualitative guidelines are therefore no longer appropriate. However, the Board remains concerned over the volume of credit that appears to have flowed to essentially speculative purposes in the past, and is considering the need for additional means of monitoring such developments in the future.

The Board's orders in these matters are attached.

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Docket No. R-0314]

PART 229--CREDIT RESTRAINT

[Subpart A]

Consumer Credit

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: On March 14, 1980, the Board adopted a consumer credit restraint program pursuant to the Credit Control Act as implemented by Executive Order 12201. In view of current economic conditions, the Board is terminating the reporting and special deposit requirements of the consumer credit restraint program. The provisions regarding change in terms of open-end and 30-day credit accounts will remain temporarily in effect in order to permit the orderly phase-out of those provisions.

EFFECTIVE DATE: July 24, 1980.

FOR FURTHER INFORMATION CONTACT: Margaret Egginton, Attorney (202/452-2489), Legal Division; or Margaret A. Stewart, Senior Attorney (202/452-2412), Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: On March 14, 1980, the Board adopted a consumer credit restraint regulation (12 C.F.R. Part 229, Subpart A; 45 Fed. Reg. 17927, March 19, 1980) pursuant to the Credit Control Act (12 U.S.C. §§ 1901-1909) as implemented by Executive Order 12201. The regulation requires certain creditors to maintain a special deposit with the Federal Reserve against increases in the creditor's outstanding covered credit over the creditor's base. As originally promulgated, the regulation required a deposit equal to 15 per cent of the increase in a creditor's covered credit. On May 22, 1980 the Board reduced the special deposit requirement, to 7-1/2 per cent (45 Fed. Reg. 37413, June 3, 1980). In view of current economic conditions, the Board is rescinding the consumer credit special deposit and reporting requirements effective July 24, 1980. Reports for credit outstanding during the month of June 1980, that are to be filed by July 14, 1980, will not be required.

On April 2, 1980, the Board amended its consumer credit restraint regulation to provide a uniform, national rule to govern certain changes

by creditors in the terms of their open-end and 30-day credit agreements (12 C.F.R. § 229.6; 45 Fed. Reg. 24444, April 10, 1980). The rule requires that a creditor give an affected consumer at least 30-days notice of the change in terms and permit the consumer to pay down the outstanding account balance according to the original contract terms. The rule provides, further, that use by the consumer of the account after the effective date of the change is deemed acceptance of the new terms, which can then be applied to both existing credit balances and new credit advances.

The Board is aware that some creditors are in the process of changing terms according to the consumer credit restraint program's rules. In order to provide an orderly phase-out of this aspect of the program, the Board is amending § 229.6 of the regulation to provide a transition period during which a creditor may adopt changes in account terms pursuant to the consumer credit restraint rules. The amendment provides that creditors desiring to change terms under § 229.6 must mail or deliver notice of the change on or before September 5, 1980.

For a change in terms made during the transition period, the date on which a creditor mails or delivers a notice to the individual account holder will determine the applicable legal requirements. For example, if a creditor mails or delivers a change of terms notice pursuant to the consumer credit restraint regulation on or before September 5, 1980, the notice will be effective according to its term even though the account holder receives the notice, uses the account or otherwise assents to the change after September 5, 1980. Any change-in-terms notice that is mailed or delivered after September 5, 1980 must comply with the requirements of Regulation Z (Truth-in-Lending, 12 C.F.R. 226.7(f)) and any other applicable Federal or State law.

The Board believes that these amendments facilitate the orderly termination of the consumer credit restraint program and do not impose any additional burden on affected parties. The Board therefore for good cause finds that the notice, public procedure and delayed effective date provisions of 5 U.S.C. § 553 with regard to this action are unnecessary and that immediate implementation is in the public interest.

Pursuant to its authority under the Credit Control Act (12 U.S.C. §§ 1901-1909) as implemented by Executive Order 12201, the Board hereby takes the following actions:

1. Effective July 24, 1980, 12 C.F.R. Part 229, Subpart A is amended as follows:

a) Sections 229.3 and 229.4 are removed and reserved.

SECTION 229.3 -- [Reserved.]

SECTION 229.4 -- [Reserved.]

b) Paragraph (d) is added to Section 229.6 as follows:

SECTION 229.6 -- Change in Terms of Open-End Credit Accounts

* * * * *

(d)(1) A change in terms is effective under this section, only if notice of such change is mailed or delivered on or before September 5, 1980.

(2) A change-in-terms notice that is mailed or delivered after September 5, 1980, is not subject to this Subpart and must comply with the requirements of Regulation Z (12 C.F.R. 226.7(f)) and other applicable Federal or State law.

2. Effective October 31, 1980, 12 C.F.R. Part 229, Subpart A, §§ 229.1 through 229.6 are rescinded.

By order of the Board of Governors of the Federal Reserve System, July 3, 1980.

(signed) Griffith L. Garwood

Griffith L. Garwood
Deputy Secretary of the Board

[SEAL]

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Docket No. R-0315]

PART 229--CREDIT RESTRAINT

[Subpart B]

Short Term Financial Intermediaries

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Rescission of regulation.

SUMMARY: On March 14, 1980, the Board adopted this Subpart pursuant to the Credit Control Act (12 U.S.C. §§ 1901-1909), as implemented by Executive Order 12201, to restrain the expansion of short term credit through money market funds and other similar creditors. In view of current economic conditions, the Board has determined to rescind this Subpart.

EFFECTIVE DATE: August 11, 1980.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3625), or Daniel L. Rhoads, Attorney (202/452-3711), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: On March 14, 1980, the Board adopted this Subpart pursuant to the Credit Control Act (12 U.S.C. §§ 1901-1909), as implemented by Executive Order 12201, to restrain the expansion of short term credit through money market funds and similar creditors (45 Fed. Reg. 17930). This Subpart was subsequently amended by the Board on March 28, 1980 (45 Fed. Reg. 23642). On May 23, 1980, the Board acted to decrease the special deposit ratio from 15 per cent to 7-1/2 per cent (45 Fed. Reg. 37414). In view of current economic conditions, the Board has determined to rescind this Subpart. Covered creditors will not be required to maintain a special deposit pursuant to this Subpart for covered credit outstanding during the seven-day period beginning July 28, 1980. Accordingly, the special deposit required during the seven-day maintenance period beginning August 4, 1980, for covered credit outstanding during the seven-day computation period beginning July 21, 1980, will be the last special deposit required to be maintained pursuant to this Subpart.

In order to achieve the objectives of this action more quickly, and because this action relieves a restriction, the Board for good cause finds that the notice and public procedure provisions of 5 U.S.C. § 553 with regard to these actions are impracticable and contrary to the public interest.

Pursuant to its authority under the Credit Control Act (12 U.S.C. §§ 1909) effective August 11, 1980, the Board hereby rescinds Subpart B of its Credit Restraint regulation (12 C.F.R. Part 229).

By order of the Board of Governors of the Federal Reserve System, July 3, 1980.

(Signed) Griffith L. Garwood

Griffith L. Garwood
Deputy Secretary of the Board

[SEAL]

TITLE 12 -- BANKS AND BANKING

CHAPTER II -- FEDERAL RESERVE SYSTEM

SUBCHAPTER A -- BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Docket No. R-0316]

Part 229 -- CREDIT RESTRAINT

[Subpart C]

Nonmember Commercial Banks

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Rescission of regulation.

SUMMARY: On March 14, 1980, the Board adopted this Subpart pursuant to the Credit Control Act (12 U.S.C. §§ 1901-1909), as implemented by Executive Order 12201, to restrain the expansion of credit through non-member commercial banks. In view of current economic conditions, the Board has determined to rescind this Subpart.

EFFECTIVE DATE: July 24, 1980.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3625), Paul S. Pilecki, Attorney (202/452-3281), or Daniel L. Rhoads, Attorney (202/452-3711), Legal Division, Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: Pursuant to the Credit Control Act (12 U.S.C. §§ 1901-1909), as implemented by Executive Order 12201, the Board adopted this Subpart on March 14, 1980, requiring commercial banks that are not members of the Federal Reserve System or not required to maintain reserves under the Federal Reserve Act to maintain a noninterest bearing special deposit with the Federal Reserve equal to 10 per cent of the amount by which the total managed liabilities of those banks exceeds the amount of such managed liabilities outstanding during a base period (45 Fed. Reg. 17934). On May 22, 1980, the Board acted to decrease the special deposit ratio to 5 per cent and to increase, generally, an institution's managed liabilities base (45 Fed. Reg. 37413).

In view of current economic conditions, the Board has determined to rescind the special deposit requirement for banks subject to this Subpart. A special deposit will not be required for managed liabilities outstanding during the seven-day computation period beginning July 10, 1980, or thereafter. Consequently, the special deposit required to be maintained during the seven-day maintenance period beginning July 17, 1980, for the seven-day computation period beginning July 3, 1980, will be the last special deposit required pursuant to this Subpart.

In order to achieve the objectives of this action more quickly, and because this action relieves a restriction, the Board for good cause finds that the notice, public procedure, and deferral of effective date provisions of 5 U.S.C. § 553 with regard to this action are impracticable and contrary to the public interest.

Pursuant to its authority under the Credit Control Act (12 U.S.C. §§ 1901-1909) effective July 24, 1980, the Board hereby rescinds Subpart C of its Credit Restraint regulation (12 C.F.R. Part 229).

By order of the Board of Governors of the Federal Reserve System, July 3, 1980.

(Signed) Griffith L. Garwood

Griffith L. Garwood
Deputy Secretary of the Board

[SEAL]

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Docket No. R-0317]

PART 229--CREDIT RESTRAINT

[Subpart D]

Reports Under Special Credit Restraint Program

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Rescission of regulation.

SUMMARY: The Board is terminating the reporting requirements that U.S. commercial banks, U.S. branches and agencies of foreign banks, U.S. bank holding companies, finance companies, and certain other selected corporations are required to file in view of the phase-out of the Board's voluntary Special Credit Restraint Program.

EFFECTIVE DATE: July 28, 1980.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3625), Joseph R. Alexander, Attorney (202/452-3582), Legal Division, or Eleanor J. Stockwell, Senior Deputy Associate Director (202/452-3651), Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: On March 14, 1980, the Board announced a voluntary Special Credit Restraint Program to encourage lenders to restrain credit by limiting growth in total loans and investments to a range between six and nine per cent per year. This subpart was adopted on March 28, 1980 (45 Fed. Reg. 22883), to require periodic reports from selected financial and non-financial organizations. In view of current economic conditions, the Board is phasing out its voluntary Special Credit Restraint Program and is rescinding the reporting requirements of this Subpart effective July 28, 1980. Reports to be filed before July 28, 1980, for lending activities during the month of June will be required to be submitted to the Federal Reserve Banks.

In order to achieve the objectives of this action more quickly and because this action relieves a restriction, the Board for good cause finds that the notice and public procedure provisions of 5 U.S.C. § 553 with regard to these actions are impracticable and contrary to the public interest.

Pursuant to its authority under the Credit Control Act (12 U.S.C. §§ 1901-09) effective July 28, 1980, the Board hereby rescinds Subpart D of its Credit Restraint regulation (12 C.F.R. Part 229).

By order of the Board of Governors of the Federal Reserve System, July 3, 1980.

(signed) Griffith L. Garwood

Griffith L. Garwood
Deputy Secretary of the Board

[SEAL]

TITLE 12 -- BANKS AND BANKING

CHAPTER II -- FEDERAL RESERVE SYSTEM

SUBCHAPTER A -- BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[REGULATION D]

[Docket No. R-0318]

Part 204 -- RESERVES OF MEMBER BANKS

Marginal Reserve Requirements

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board of Governors has determined to rescind the marginal reserve requirement on managed liabilities of member banks (and Edge and Agreement Corporations) and United States branches and agencies of foreign banks with total worldwide consolidated bank assets in excess of \$1 billion, and the supplementary reserve requirement imposed on large denomination time deposits of member banks (and Edge and Agreement Corporations).

EFFECTIVE DATE: July 24, 1980.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3625), Paul S. Pilecki, Attorney (202/452-3281), or Daniel L. Rhoads, Attorney (202/452-3711), Legal Division, Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: On October 6, 1979, the Board of Governors amended Regulation D (12 CFR Part 204) to impose a marginal reserve requirement of 8 per cent on the amount by which the total managed liabilities of member banks (and Edge and Agreement Corporations) and United States branches and agencies of foreign banks with total worldwide consolidated bank assets in excess of \$1 billion exceeds the amount of the institution's managed liabilities outstanding during the base period (September 13-26, 1979) or \$100 million, whichever is greater (44 Fed. Reg. 60071). On March 14, 1980, the Board acted to increase the marginal reserve ratio to 10 per cent and to adjust the base of managed liabilities (45 Fed. Reg. 17924).

On May 22, 1980, the Board reduced the marginal reserve ratio to 5 per cent and generally increased the base for institutions subject to the marginal reserve requirement program (45 Fed. Reg. 37410). The Board has determined to rescind the marginal reserve requirement on managed liabilities outstanding during the seven-day computation period beginning July 10, 1980. Accordingly, institutions subject to marginal reserve requirements will not be required to maintain reserves on managed liabilities for the seven-day maintenance period beginning July 24, 1980. Marginal reserves will be required to be maintained during the seven-day period beginning July 17, 1980, for managed liabilities outstanding during the seven-day computation period beginning July 3, 1980. At the same time, the Board is eliminating the 2 per cent supplementary reserve requirement on member bank time deposits in denominations of \$100,000 or more and on certain other liabilities.

In order to achieve the objectives of this action more quickly, and because this action relieves a restriction, the Board for good cause finds that the notice, public procedure, and deferral of effective date provisions of 5 U.S.C. § 553 with regard to this action are impracticable and contrary to the public interest.

Pursuant to its authority under sections 19, 25 and 25(a) of the Federal Reserve Act (12 U.S.C. §§ 461, 601 et seq.) and under section 7 of the International Banking Act of 1978 (12 U.S.C. § 3105), effective July 24, 1980, the Board amends Regulation D (12 CFR 204) as follows:

1. Sections 204.5(a)(1)(ii) and (2)(ii) are amended by deleting the last two sentences.
2. Section 204.5(f) is deleted in its entirety.

By order of the Board of Governors of the Federal Reserve System, July 3, 1980.

(Signed) Griffith L. Garwood

Griffith L. Garwood
Deputy Secretary of the Board