

VOLUNTARY CREDIT RESTRAINT PROGRAM

The following is a summary of the remarks of Governor Oliver S. Powell, chairman of the National Voluntary Credit Restraint Committee, delivered before the Conference on Bank and Public Relations, April 26, 1951.

I have been asked to tell this Conference something about the Voluntary Credit Restraint program and how the Federal Reserve banks fit into it. My remarks will be informal.

What we are trying to achieve is this -- to get "horse sense" back into the lending field and to get bankers to avoid things which they know are not sound. Excesses (in lending) have a kickback. People are not going to thank a banker for lending them money if he lends them too much. A banker never wins by sacrificing good judgment to make a loan.

We have tried to keep this program from being thought of as a Federal Reserve program for two reasons: It is not a Federal Reserve program, and its being thought a Federal Reserve program is not fair to the "volunteers" from the commercial lending field who are actually running it. All the Reserve Board has done was to get it started and release the initial publicity. We don't want to take credit for the program away from the men who are running it and who deserve the credit. If it succeeds, we want them to have full credit. If it fails, we (the Reserve System) don't want to be pegged with it.

The Federal Reserve System mailed out formal requests to lenders to take part in the program. Not all groups of lenders are represented on the national committee and some of these groups think, therefore, they can do as they please. We are working now on plans to bring in representatives of building and loan associations on the national committee. Later, perhaps, we will bring in sales finance companies and others.

(The Board of Governors on May 10 announced the addition of four more members to the national committee, two representing mutual savings banks and two the savings and loan associations.)

Another part of the national program is trying to widen the area of borrower understanding so that it will be easier for the lender to turn him down. This is still in the rudimentary stage, but here are some of the things that have been done:

Charles E. Wilson, mobilization director, asked the Secretary of Commerce to contact large borrowers through the business advisory committee. This is now under way. The Secretary of Commerce made a counter-proposal that the lender should send a statement of principles to borrowers for the latter to read before going to a bank to request a loan.

We are also trying to encourage participating bankers to keep their boards of directors informed of the purposes of the program, because boards of directors generally consist of businessmen who are leaders in their areas. We want to "sell" them so that they will want their own banks to comply. Bank directors also are a good contact with businessmen and borrowers. Some of the regional committees have sent letters to banks suggesting this approach.

The voluntary program has no teeth in it. Its success depends on public acceptance. There has been a fair amount of publicity nationally. The national committee has encouraged clearinghouse associations to endorse the program publicly and many have done so. The Board issues press releases on the national committee's bulletins. We try to get something into the papers every week. Placards have been developed to set forth the principles of the program. The idea is for every lending officer to have a copy of the placard at hand, and if he has trouble convincing a customer that a loan should be refused or cut down he can simply show the placard and say he can't make the loan for these reasons. This has been well-received by bankers, and they think the idea will do some good.

In the future there will be further information available to us for weekly release. The Reserve banks' research departments are now working to measure the scope of the problem in terms of banks' business loans. Every week research people in all of the Reserve banks get in touch with a certain number of commercial banks to get a line on these figures. The trend is not showing up yet, but as soon as we have information on a uniform basis we will circularize the press weekly. If the program is not succeeding, we want the fact known. If it is, we want that known too.

Right now, incidentally, defense loans are rising and commodity loans are falling. Loans to wholesale and retail trade are increasing, showing that inventories are backing up. This program will not be successful until inventory credit falls off. Sales finance loans are increasing, and I may say I don't like this trend.

At the district level, most regional committees are just getting started. The first important job they have is making direct contact with lenders. They should get out letters saying, "We have a committee; if you have inquiries send them in. This is the form to use." The Philadelphia district committee had this line on its printed form: "Don't send applications in if you expect to turn them down anyway." -- or words to that effect. The voluntary program will have a lot of criticisms without being blamed for the actions of weak-kneed bankers.

From the standpoint of the Federal Reserve System, the attitude of the Reserve bank men on the regional committees is important. It would be a great mistake if the Reserve bank men began to make decisions for the committees. The committee decisions should be those of the full committee; the Reserve bank representative should remain just one of the committee members with only one man's weight in the voting on decisions. Keeping the Reserve bank representatives position clear to bankers may be difficult, since the Reserve bank men on the committees serve as secretaries and handle the committees' correspondence.

Incidentally, one thing to be avoided is this: Keep people from sending their inquiries to the Federal Reserve banks for snap judgment, or the program will not remain voluntary.

On the other hand, we must be interested in the program. We don't want any more regimentation than we have now. There is a point, however, between our interest in the success of the program and our independence of it in its operations. We have told the national committee that the System is not going to give up its regulatory powers, but will, if the need arises, ask for further powers.

We should keep in front of each regional committee and the national committee the fact that stringent regulatory powers are available for use if the President sees fit to use them -- the Trading with the Enemy Act of 1917 and the Emergency Banking Act of 1933.

Another pitfall we should be aware of is believing that a temporary success for the program means that it is fully successful. Two things make it seem so now: (1) Inventories are very high and bankers are worried, and (2) the credit restraint program began just at the time open market operations were released for wider use.

The real test will come next Fall when defense spending goes into high gear. It is hoped that the program will reduce loans to such a point as to permit necessary borrowing for defense purposes without any net increase in bank loans.

The Federal Reserve banks are, of course, lending a great deal of support to the program on the regional levels. We furnish considerable manpower, supplies, printed matter, and the like. The Board has given its approval to the absorption of some expense by the Reserve banks, but it wants to be kept informed of any unusual proposals which might impose an unwarranted expenditure upon the Reserve banks.