

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7152]
[May 25, 1973]

Program to Reduce Rate of Bank-Credit Expansion

*To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:*

Following is the text of a statement issued May 22 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today that the attached letter [*printed below*] has been sent by Chairman Arthur F. Burns to all member banks, requesting their cooperation in assuring that the rate of bank credit extension is appropriately disciplined. The letter follows last week's announcement by the Board of a series of regulatory measures designed to curb the rapid expansion in bank credit.

"Some key segments of the Nation's economy are now growing at an unsustainable pace, thereby adding substantially to inflationary pressures. Since excessive bank loan expansion is a factor in this development, the Federal Reserve last week supplemented its previous policy actions by adopting several regulatory amendments with a view to further curbing such expansion. I am writing to you and every other member bank today on behalf of the Board to give emphasis to these recent actions and to invite your personal cooperation in assuring that the rate of credit extension by your bank is appropriately disciplined.

The national interest calls for bankers to exercise financial statesmanship at this time. You and your colleagues can meet this need by intensifying your scrutiny of credit applications and by resisting excessive credit demands. A corollary requirement is the exercise of prudence in issuing large-denomination certificates of deposit and in borrowing from nondeposit sources. It is also appropriate that banks, while exercising this restraint, continue to give special consideration in using their limited supplies of lendable funds to the accommodation of credit needs originating within their local communities.

All of us have a stake in slowing the pace of inflation and achieving the basis for a lasting economic prosperity. Greater prudence in the extension of credit can contribute importantly to that goal. I look forward to your earnest cooperation in this endeavor.

Sincerely yours,
Arthur F. Burns"

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.