FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 8771
March 15, 1980

ANTI-INFLATION PROGRAM

To All Member Banks
in the Second Federal Reserve District:

On March 14, President Carter 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, including a 3 percent surcharge on certain borrowings from the Federal Reserve by member banks with deposits of $500 million or more.

The Federal Reserve program includes (1) a voluntary Special Credit Restraint Program that applies to financial institutions, (2) a restraint program requiring special deposits on certain types of consumer credit, (3) a strengthening of the marginal reserve requirement program on managed liabilities of member banks, (4) a special deposit requirement on increases in managed liabilities of nonmember banks, (5) a special deposit requirement on increases in assets of money market mutual funds, and (6) the 3 percent surcharge on discount window borrowings by large member banks, mentioned above. In addition, the Federal Reserve Board has imposed interest rate ceilings under Regulation Q on certain debt instruments issued by bank holding companies, in view of the likely impact of such instruments on deposit flows among depository institutions.

Descriptions of the voluntary Special Credit Restraint Program, the Consumer Credit Restraint Program, and the Managed Liabilities Reserve Requirements Program, are set forth below. Banks with deposits in excess of $300 million will receive instructions shortly regarding monthly or quarterly reports authorized by the President for the purpose of monitoring the Special Credit Restraint Program. Even if your institution is exempt from reporting under that program because its deposits are less than $300 million, examiners will evaluate your loan portfolio in the context of your expected cooperation.

The highlights of the programs, as they affect State member banks, as described in more detail in enclosures with this circular, are as follows:

Special Credit Restraint Program

1. Banks are expected to restrain their growth in total loans to a range of 6 to 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 to the extent possible, lending rates and other terms should take account of the special needs of small businesses and farmers.

Consumer Credit Restraint Program

1. The program is designed to slow the expansion of certain types of consumer credit by requiring that all bank 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 through 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, a 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 the nearest available figure.

5. Thereafter, covered banks must file a monthly report with the Federal Reserve 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 the month 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.

Managed Liabilities Reserve Requirements

1. This program is designed to strengthen the marginal reserve requirement first imposed by the Board on October 6, 1979. The changes made will further restrain extensions of bank credit funded by increases in managed liabilities at member banks and U.S. branches and agencies of foreign banks.

2. The marginal liabilities base for those banks with a base in excess of $100 million will be reduced by the larger of 7 percent or the amount of any reduction in a bank's foreign loans occurring since September 1979. In no case will the base be reduced below $100 million.

3. Each bank with a base in excess of $100 million must report its outstanding foreign loans for September 13 through September 26, 1979 and for March 6 through March 12, 1980 by March 25, for purposes of recalculating the base.

4. In each reserve maintenance period including the one beginning April 3, a marginal reserve requirement of 10 percent must be held against increases in managed liabilities outstanding above the new adjusted base for each reserve computation period, including the period beginning March 20.

All questions regarding the marginal reserve requirements on managed liabilities of member banks, Edge corporations, and U.S. branches and agencies of foreign banks, special deposit requirements for non-member banks (similar to the marginal reserve requirements), and the Regulation Q amendment should be directed to our Bank Relations Department (Tel. Nos. 212-791-6600 through 6606, 6071 and 6072). All questions regarding the Special Credit Restraint Program and special deposits on consumer credit and money market mutual funds should be directed to our supervision and regulations area (Tel. Nos. 212-344-1358, 1359, 3858, 3864, 3865, 3923, and 3924, and 791-6379). Questions regarding the discount rate surcharge should be directed to our Credit and Discount Department (Tel. No. 212-791-6146).

Following is a list of enclosures that explain more fully the actions taken by the Board:

--Board's March 14 press release regarding the overall program to moderate inflationary forces.

--Description of Special Credit Restraint Program.

--Text of new Regulation CC establishing a special deposit requirement on increases in certain types of consumer credit, in money market mutual funds, and in managed liabilities of nonmember banks.

--Text of amendment to Regulation D, "Reserves of Member Banks," reflecting the changes in reserve requirements on managed liabilities.

--Board's press release regarding amendments to Regulation Q.

--Text of amendments to Regulation Q,"Interest on Deposits," imposing interest rate ceilings on certain debt instruments issued by bank holding companies.

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 further 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. We are counting on your wholehearted cooperation in the best interests of our Nation.

THOMAS M. TIMLEN,
First Vice President

FEDERAL RESERVE press release

For immediate release

MARCH 14, 1980

The Federal Reserve Board today announced a series of monetary and credit actions as part of a general government program to help curb inflationary pressures. The actions are:

1. A voluntary Special Credit Restraint Program that will apply to all domestic commercial banks, bank holding companies, business credit extended by finance companies, and credit extended to U.S. residents by the U.S. agencies and branches of foreign banks. The parents and affiliates of those foreign banks are urged to cooperate in similarly restricting their lending to U.S. companies. Special effort will be made to maintain credit for farmers and small businessmen.

2. A program of restraint on certain types of consumer credit, including credit cards, check credit overdraft plans, unsecured personal loans and secured credit where the proceeds are not used to finance the collateral. The Board has established a special deposit requirement of 15 percent for all lenders on increases in covered types of credit. Automobile credit, credit specifically used to finance the purchase of household goods such as furniture and appliances, home improvement loans and mortgage credit are not covered by the program.

3. An increase from 8 percent to 10 percent in the marginal reserve requirement on the managed liabilities of large banks that was first imposed last October 6, and a reduction in the base upon which the reserve requirement is calculated.

4. Restraint on the amount of credit raised by large non-member banks by establishing a special deposit requirement of 10 percent on increases in their managed liabilities.

5. Restraint on the rapid expansion of money market mutual funds by establishing a special deposit requirement of 15 percent on increases in their total assets above the level of March 14.

6. A surcharge on discount borrowings by large banks to discourage frequent use of the discount window and to speed bank adjustments in response to restraint on bank reserves. A surcharge of 3 percentage points applies to borrowings by banks with deposits of $500 million or more for more than one week in a row or more than four weeks in any calendar quarter. The basic discount rate remains at 13 percent.

In making the announcement, the Board said:

"President Carter has announced a broad program of fiscal, energy, credit and other measures designed to moderate and reduce inflationary forces in a manner that can also lay the ground work for a return to stable economic growth.

"Consistent with that objective and with the continuing intent of the Federal Reserve to restrain growth in money and credit during 1980, the Federal Reserve has at the same time taken certain further actions to reinforce the effectiveness of the measures announced in October of 1979. These actions include an increase in the marginal reserve requirements on managed liabilities established on October 6 and a surcharge for large banks on borrowings through the Federal Reserve discount window.

"The President has also provided the Federal Reserve, under the terms of the Credit Control Act of 1969, with authority to exercise particular restraint on the growth of certain types of consumer credit extended by banks and others. That restraint will be achieved through the imposition of a requirement for special deposits equivalent to 15 percent of any expansion of credit provided by credit cards, other forms of unsecured revolving credit, and personal loans.

"One consequence of strong demands for money and credit generated in part by inflationary forces and expectations has been to bring heavy pressure on credit and financial markets generally, with varying impacts on particular sectors of the economy. At the same time, restraint on growth in money and credit must be a fundamental part of the process of restoring stability. That restraint is, and will continue to be, based primarily on control of bank reserves and other traditional instruments of monetary policy. However, the Federal Reserve Board also believes the effectiveness and speed with which appropriate restraint can be achieved without disruptive effects on credit markets will be facilitated by a more formal program of voluntary restraint by important financial intermediaries, developing further the general criteria set forth in earlier communications to member banks."

Special Credit Restraint Program

In adopting this program, the Board said increases in lending this year should generally be consistent with the announced growth ranges for money and credit

reported to Congress on February 19. Although growth trends will vary among banks and regions of the country, growth in bank loans should not generally exceed the upper part of the range of 6-9 percent indicated for bank credit (that is, loans and investments). Banks whose past lending patterns suggest relatively slow growth should expect to confine their growth to the lower portion or even below the range for bank credit.

The Board said the commercial paper market and finance companies--both a growing source of business credit--will be monitored closely in the program. Since activity in the commercial paper market is normally covered by bank credit lines, banks are expected to avoid increases in commitments for credit lines to support such borrowing out of keeping with normal business needs. Thrift institutions and credit unions will not be covered by the special program in light of the reduced trend in their asset growth.

No numerical guidelines for particular types of credit are planned but banks are encouraged particularly:

- To restrain unsecured lending to consumers, including credit cards and other revolving credits. Credit for automobiles, home mortgage and home improvement loans should be treated normally in the light of general market conditions.
- To discourage financing of corporate takeovers or mergers and the retirement of corporate stock, except in those limited instances in which there is a clear justification in terms of production or economic efficiency commensurate with the size of the loan.
- To avoid financing for purely speculative holdings of commodities or precious metals or extraordinary inventory accumulation.
- To maintain availability of funds to small business, farmers homebuyers and others without access to other forms of financing.
- To restrain the growth in commitments for back-up lines in support of commercial paper.

No specific guidelines will be issued on the terms and pricing of bank loans. However, rates should not be calculated in a manner that reflects the cost of relatively small amounts of marginal funds subject to the marginal reserve requirement on managed liabilities. The Board also expects that banks, as appropriate and possible, will adjust lending rates and other terms to take account of the special needs of small business and others.

Lenders covered by the program are asked to supply certain data and information. The President, in activating the Credit Control Act, has provided the authority to require such reports.

Monthly reports are requested from domestic banks with assets in excess of $1 billion and for branches and agencies of foreign banks that have worldwide assets in excess of $1 billion. Monthly reports are also requested on the business credit activities of domestic affiliates of bank holding companies with total assets in excess of $1 billion. Banks with assets between $300 million and $1 billion are asked to report quarterly. Smaller institutions need not report unless subsequent developments warrant it.

Foreign banks will be asked to respect the substance and spirit of the guidelines in their loans to U.S. borrowers or loans designed to support U.S. activity.

A panel of large corporations will be asked to report monthly on their commercial paper issues and their borrowings abroad. Finance companies with more than $1 billion in business loans outstanding will also be asked to report monthly on their business credit outstanding.

Consumer Credit Restraint

The special deposit requirements of 15 percent on increases in some types of consumer credit is designed to encourage particular restraint on such credit extensions. Methods used by lenders to achieve such restraint are a matter for determination by the individual firms. Increases in covered credit above the base date—March 14—will be subject to the special deposit requirement.

Among lenders subject to the regulation are commercial banks, finance companies, credit unions, savings and loan associations, mutual savings banks, retail establishments, gasoline companies and travel and entertainment card companies--in all instances where there is $2 million or more in covered credit.

Typical examples of credit that is covered are credit cards issued by financial institutions, retailers and oil companies; overdraft and special check-type credit plans; unsecured personal loans; loans for which the collateral is already owned by the borrower; open account and 30-day credit without regard to whether a finance charge is imposed; credit secured by financial assets when the collateral is not purchased with the proceeds of the loan.

Examples of consumer credit not covered are:

Secured credit 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; insurance company policy loans, credit extended for utilities, health or educational services; credit extended under State or Federal government guaranteed loan programs; and savings passbook loans.

All creditors with $2 million or more of covered credit outstanding on March 14 must file a base report by April 1 directly with the Federal Reserve or through the Federal Home Loan Bank Board or the Federal Credit Union Administration. This report will state the amount of credit outstanding on March 14 or a figure for the nearest available date.

Thereafter, these creditors 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 if that data is available, or the amount outstanding on other appropriate dates approved by the Federal Reserve. The first report--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 following month.

The first 15 percent deposit requirement must be maintained beginning May 22 on increases in outstanding credit.

Marginal Reserve Requirement

On October 6, the Board established an 8 percent marginal reserve requirement on increases in managed liabilities that had been actively used to finance a rapid expansion in bank credit. The base for this reserve requirement was set at the larger of $100 million or the average amount of managed liabilities held by a member bank, an Edge corporation, or a family of U.S. agencies and branches of a foreign bank as of September 13-26. Any increase in managed liabilities above that base period was subject to the additional 8 percent reserve requirement.

Managed liabilities include large time deposits ($100,000 or more) with maturities of less than a year, Eurodollar borrowings, repurchase agreements against U.S. government and federal agency securities, and federal funds borrowed from a nonmember institution.

In today's action, the Board increased the reserve requirement to 10 percent and lowered the base by (a) 7 percent or (b) the decrease in a bank's gross loans to foreigners and gross balances due from foreign offices of other institutions between the base period and the week ending March 12, whichever is greater. In addition, the base will be reduced to the extent a bank's foreign loans continue to decline. The minimum base amount remains at $100 million.

Nonmember Banks

The special deposit requirement for nonmember banks is designed to restrain credit expansion in the same manner as the marginal reserve requirement on the managed liabilities of member banks.

For nonmembers, the base is the two-week period that ended March 12 or $100 million, whichever is greater. The 10 percent special deposit will be maintained

at the Federal Reserve on increases in managed liabilities above the base amount. The base will be reduced in subsequent periods to the extent that a nonmember bank reduces its foreign loans.

Money Market Mutual Funds

Money market mutual funds and similar creditors must maintain a special deposit with the Federal Reserve equal to 15 percent of the increase in their total assets after March 14.

A covered fund must file by April 1 a base report of its outstanding assets as of March 14. Thereafter, a monthly report on the daily average amount of its assets must be filed by the 21st of the month. For example, a report on the first month's assets--from March 15 to April 14--must be filed by April 21 and the special deposit requirement will be maintained beginning May 1. A fund that registers as an investment company with the Securities and Exchange Commission after March 14 must file a base report within two weeks after it begins operations.

Discount Rate

In fixing the surcharge for large bank borrowing, the Board acted on requests from the directors of all 12 Federal Reserve Banks. The action is effective Monday. The discount rate is the interest rate that member banks are charged when they borrow from their district Federal Reserve Bank.

The surcharge above the basic discount rate would generally be related to market interest rates. It is designed to discourage frequent use of the discount window and to encourage banks with access to money markets to adjust their loans and investments more promptly to changing market conditions. This should facilitate the ability of the Federal Reserve to attain longer-run bank credit and money supply objectives.

The surcharge will apply to banks with more than $500 million in deposits on their borrowings for ordinary adjustment credit, when such borrowing occurs successively in two statement weeks or more, or when the borrowing occurs in more

than four weeks in a calendar quarter. There will be no other change in the administration of the discount window with respect to adjustment credit. Such credit will continue to be available to member banks only on a short-term basis to assist them in meeting a temporary requirement for funds or to provide a cushion while orderly adjustments are made in response to more sustained changes in a bank's position.

The surcharge will not apply to borrowing under the seasonal loan program, which will continue at the basic discount rate, nor to borrowing under the emergency loan program.

Attached are copies of the following documents:

1. The Special Credit Restraint Program.
2. Regulation CC establishing a special deposit requirement on increases in certain types of consumer credit.
3. An amendment to Regulation D increasing the marginal reserve requirement on managed liabilities to 10 percent and reducing the base period.
4. A subpart of Regulation CC establishing a special deposit requirement for nonmember banks.
5. A subpart of Regulation CC establishing a special deposit requirement for money market mutual funds.

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Board's March 14 press release regarding
the overall anti-inflation program.

Special Credit Restraint Program

Background

President Carter has announced a broad program of fiscal, energy, credit, and other measures designed to moderate and reduce inflationary forces in a manner that can also lay the groundwork for a return to stable economic growth.

In connection with those actions, and consistent with the continuing objective to restrain growth in money and credit during 1980, the Federal Reserve has also taken certain further actions to reinforce the effectiveness of the measures announced in October of 1979. These actions include an increase in the marginal reserve requirements on managed liabilities established on October 6 and the establishment of a surcharge on borrowings through the discount window by large banks.

The President has also authorized the Federal Reserve, under the terms of the Credit Control Act of 1969, to exercise particular restraint on certain types of credit. The Board has determined to restrain the growth of certain types of consumer credit through the imposition of a requirement for special deposits equivalent to 15% of any expansion of consumer credit provided by any lender through credit cards, other forms of unsecured revolving credit, and personal loans. Under the authority of the Credit Control Act, the Federal Reserve has also (a) applied a special deposit requirement on the growth of managed liabilities of large non-member banks and (b) imposed a special deposit requirement on the growth in the net assets of money market mutual funds and other similar entities.

One consequence of strong demands for money and credit generated in part by inflationary forces and expectations has been to bring heavy pressure on credit and financial markets generally, with varying impacts on particular sectors of the economy. At the same time, restraint on growth in money and credit must be a fundamental part of the process of restoring stability. That restraint is, and will continue to be, based primarily on control of bank reserves and other traditional instruments of monetary policy. However, the Federal Reserve Board also believes

the effectiveness and speed with which appropriate restraint can be achieved without unnecessarily disruptive effects on credit markets will be facilitated by a program of voluntary credit restraint by important financial intermediaries. The program set forth here develops certain general criteria to help guide banks and others in their lending policies during the period ahead.

Statement of Purpose

The purpose of the Special Credit Restraint Program is to encourage lenders and borrowers, in their individual credit decisions, to take specific account of the overall aims and quantitative objectives of the Federal Reserve in restraining growth in money and credit generally. The guidelines set forth are consistent with the continuing interest of the Federal Reserve and individual institutions to:

- Meet the basic needs of established customers for normal operations, particularly smaller businesses, farmers, thrift institution bank customers, and agriculturally-oriented correspondent banks, and homebuyers with limited alternative sources of funds.
- Avoid use of available credit resources to support essentially speculative uses of funds, including voluntary buildup of inventories by businesses beyond operating needs, or to finance transactions such as takeovers or mergers that can resasonably be postponed, that do not contribute to economic efficiency or productivity, or may be financed from other sources of funds.
- Limit overall loan growth so that adequate provision is made for liquidity and acceptable capital ratios.

In requesting cooperation of individual institutional lenders in achieving the general objectives of this program, the Federal Reserve Board is strongly conscious of the fact that sound decisions concerning the distribution of credit and specific loans

can be made only by individual institutions dealing directly in financial markets and intimately familiar with the needs and conditions of particular customers. We are also aware, however, that in existing market circumstances, individual institutions may be under competitive pressure to make loans or commitments that, in the aggregate, cannot be sustained within our overall monetary and credit objectives or that, for particular institutions, may exceed prudent limits. By more clearly considering individual lending and commitment decisions in the light of the national objectives reflected in this program, undue market pressures and disturbances can be avoided and available credit supplies be used to meet more urgent requirements.

Nature of the Program

Coverage

The Special Credit Restraint Program will be directed primarily toward the domestic credit supplied by commercial banks and the domestic business credit extended by finance companies. Surveillance will also be exercised over borrowing in the commercial paper market and borrowings abroad by U.S. corporations.

With regard to domestic commercial banks, the program is designed to cover credit extended to U.S. residents by both the domestic and overseas offices of such banks. Credit extended to U.S. residents by agencies and branches of foreign banks domiciled in the United States will be specifically covered. Affiliates abroad of banks operating in the U.S. are expected to respect the substance and spirit of the guidelines in their loans to U.S. borrowers or loans otherwise designed to support U.S. activity.

In recent months, the commercial paper market and finance companies have been a growing source of business credit. In recognition of this trend and to assure comparable competitive treatment, finance companies (including subsidiaries of bank holding companies) are asked to follow the general guidelines in their business lending.

Activity in the commercial paper market is normally covered by bank credit lines. That practice is strongly encouraged in the interest of continuing to provide a sound base to that market. But the use of commercial paper should be restrained, and growth in the market and activity of the larger users of that market will be closely monitored. For their part, banks are expected to give special attention to avoiding increases in commitments for credit lines for purposes of supporting commercial paper borrowing for other than normal business operating purposes.

Thrift institutions and credit unions are not specifically covered by the Special Program in light of recent patterns in their asset growth.

Reporting arrangements are described below.

Quantitative Guidelines

The Federal Reserve has recently set forth growth ranges for the monetary aggregates for 1980 as follows:

M1A	3½%	-	6%
M1B	4%	-	6½%
M2	6%	-	9%
M3	6½%	-	9½%

The growth ranges set forth for M3 encompass almost all the relatively short-term liabilities of banks and other depository institutions. That liability growth was broadly estimated to be consistent with growth in total bank credit (loans and investments) of 6-9%. We are aware that in current market circumstances, banks may be requested to carry a larger than normal share of growth in business and certain other types of credit. However, prudent attention to liquidity and capital positions will also be required, and liquidity of banks is already somewhat depleted. Taking these factors into account, growth in bank loans, consistent with the monetary growth ranges and maintenance of prudent liquidity positions, should not generally exceed the upper part of the indicated range of growth in total bank credit. That growth should

be spread out over time in an orderly fashion, taking account of normal seasonal patterns.

Growth trends vary among banks and regions of the country. Individual institutions will wish to appraise their own prospects and policies in that light. Banks whose past patterns suggest relatively slow growth, and particularly those serving more slowly growing areas, should expect to confine growth to the lower portion or even below the indicated range for bank credit, particularly in instances where liquidity or capital ratios are below average. More rapidly growing banks should also evaluate their ability to support such growth without impairing liquidity or capital ratios.

The Federal Reserve and other federal bank regulatory agencies will carefully review patterns of loans and commitments at institutions that are experiencing growth in lending at or above the top of the range specified. Account will be taken of their own past experience and regional trends as well as the banks' capacity to finance their loan portfolios without straining capital or liquidity. Increases in loans by banks resulting in lower capital or liquidity ratios, particularly when the bank ratios are below peer groups, will be especially closely reviewed to assure their position is not weakened. In that connection, other regulatory authorities will be consulted as appropriate.

Individual institutions should adopt commitment policies that enable them to maintain adequate control over growth in loan totals and to assure funds are available to meet the priority needs specified below.

Qualitative Guidelines

The Board does not intend to set forth numerical guidelines for particular types of credit. However, banks are encouraged particularly:

(1) To restrain unsecured lending to consumers, including credit cards and other revolving credits. Credit for auto,

home mortgage and home improvement loans should not be subject to extraordinary restraint.

(2) To discourage financing of corporate takeovers or mergers and the retirement of corporate stock, except in those limited instances in which there is a clear justification in terms of production or economic efficiency commensurate with the size of the loan.

(3) To avoid financing of purely speculative holdings of commodities or precious metals or extraordinary inventory accumulation out of keeping with business operating needs.

(4) To maintain reasonable availability of funds to small businesses, farmers, and others without access to other forms of financing.

(5) To restrain the growth in commitments for backup lines in support of commercial paper.

(6) To maintain adequate flow of credit to smaller correspondent banks serving agricultural areas and small business needs and thrift institutions.

The terms and pricing of bank loans are expected to reflect the general circumstances of the marketplace. No specific guidelines or formulas are suggested. However, the Board does not feel it appropriate that lending rates be calculated in a manner that reflects the cost of relatively small amounts of marginal funds subject to the marginal reserve requirements on managed liabilities. Moreover, the Board expects that banks, as appropriate and possible, will adjust lending rates and other terms to take account of the special needs of small businesses, including farmers, and others.

Reporting

The Federal Reserve will closely monitor developments in all sectors of the credit markets and will ask that certain data and information be supplied by banks and others. The President, in activating the Credit Control Act of 1969, has provided authority for requiring such reports.

In the case of domestic banks with assets in excess of $1 billion, and for U.S. branches and agencies of foreign banks that have worldwide assets in excess of $1 billion, a monthly report will be requested. Monthly reports will also be requested on the business credit activities of domestic affiliates of bank holding companies with U.S. financial assets in excess of $1 billion. As will be noted, the bank reports include, apart from qualitative information, certain data on the movements in broad categories of loans and commitments, liquid asset holdings, and capital accounts. Certain data, including that on capital and liquidity, will be requested on a consolidated worldwide basis. Banks with less than $1 billion but more than $300 million in assets will report quarterly. Smaller institutions, while requested to observe the program, will not have special reporting requirements unless warranted by subsequent developments.

A group of large corporations will be requested to complete a brief monthly form about their activities in the commercial paper market, including the extent and usage of "backup" lines of credit at banks and their borrowing abroad. Finally, finance companies -- including subsidiaries of bank holding companies -- with more than $1 billion in loans outstanding to business borrowers will be requested to provide monthly reports concerning their business lending activities.

Consultative Arrangements

In instances warranted by trends in loans and commitments, Federal Reserve Bank officials in consultation with other federal bank regulatory agencies, will review with individual banks and others their progress in achieving and

maintaining appropriate restraint on lending. In general, such consultations will be sought if:

(1) Bank or finance company lending is occurring at a pace that appears to be significantly in excess of the national objective, taking account of the location or past experience of the bank or other institution.

(2) Commitment policies appear to suggest the possibility of large subsequent increases in lending or exceptional expansion of commercial paper borrowing.

(3) Explanations of "takeover" or "speculative" financing contained in regular reports raise significant questions.

(4) The distribution of credit at an institution generally appears disproportionate in light of the qualitative guidelines above.

(5) Liquidity positions or capital ratios reflect developing strains, particularly in the case of institutions whose ratios are below peer group averages.

In the case of nonbanks, the Federal Reserve may also wish to hold informal discussions with such institutions if such discussions seem warranted by developments.

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

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

(Docket No. R-0280)

Part 229--CREDIT RESTRAINT

[Regulation CC--Subpart A]

Consumer Credit

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: Pursuant to the Credit Control Act (12 U.S.C. §§ 1901-1909) as implemented by Executive Order 12201, the Board has adopted provisions requiring creditors that extend certain types of consumer credit to maintain a special non-interest bearing deposit with the Federal Reserve equal to 15% of the amount by which certain types of the creditor's outstanding consumer credit exceeds the larger of $2 million or the amount of such credit outstanding on March 14, 1980 (or the last day or other period immediately prior to March 14, 1980 for which data are available). Members of the Federal Home Loan Banks and all other savings and loan associations shall maintain the special deposit with the Federal Home Loan Banks. Credit unions, whether or not members of the National Credit Union Administration's Central Liquidity Facility, shall maintain the special deposit with the Central Liquidity Facility. The types of consumer credit covered by this regulation include credit extended through the use of credit cards, unsecured consumer loans, and secured consumer credit where the proceeds are not being used to purchase the collateral. Credit extended for business and agricultural purposes and closed-end consumer credit secured by the collateral financed are not subject to the regulation. The purpose of this action is to help curb inflationary pressures in the economy.

EFFECTIVE DATE: March 14, 1980.

FOR FURTHER INFORMATION CONTACT: Robert E. Mannion, Deputy General Counsel; Gilbert T. Schwartz, Assistant General Counsel; or Margaret L. Egginton, Attorney; Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202/452-3000).

SUPPLEMENTARY INFORMATION: In accordance with the Credit Control Act (12 U.S.C. §§ 1901-1909) as implemented by Executive Order 12201, dated March 14, 1980, the Board has adopted this regulation to require certain creditors that extend certain types of consumer credit to hold a special deposit with the Federal Reserve Banks against increases in

the amount of those types of credit outstanding. Creditors that have less than $2 million of consumer credit outstanding of the types covered by the regulation will not be required to maintain the special deposit. The amount of the special deposit that must be held will be equal to 15% of the amount by which certain types of consumer credit extended by the creditor exceeds the larger of $2 million or the amount of such credit outstanding as of the base date. For creditors that have daily credit data available, the base date is March 14, 1980 or the last day before March 14, 1980 for which such data are available. For creditors that do not have daily credit data available, the base date is the period immediately prior to March 14, 1980 for which credit data are available.

The regulation will apply to (1) all open-end consumer credit, whether secured or unsecured and (2) closed-end consumer credit that is either unsecured or secured by collateral that is not being purchased with the proceeds of the credit. Examples of open-end consumer credit are:

- credit card plans, such as cards issued by financial institutions, retailers, and oil companies;

- overdraft and special check-type credit plans offered by financial institutions;

- other revolving credit plans.

Examples of closed-end consumer credit that is covered are:

- unsecured personal loans;

- loans for which the collateral provided is already owned by the borrower;

- open account and 30-day credit without regard to whether a finance charge is imposed, such as travel and entertainment card plans and retail merchant credit;

- credit secured by financial assets, other than savings deposits, when the collateral is not purchased with the loan proceeds.

Credit extended through the use of credit cards will be presumed to be consumer — that is, non-business -- credit unless the creditor establishes otherwise. A creditor also will be required to treat as covered consumer credit any such credit that is sold or otherwise transferred to any non-U. S. office of the same or another entity and any such credit sold or otherwise transferred with recourse to another entity wherever located.

Examples of consumer credit that is not covered are:

- secured credit where the collateral is purchased with the proceeds of the loan, such as automobile, mobile home, and other chattel-secured loans (see Uniform Commercial Code § 9-107, including Official Comments 1 and 2);

- credit secured by financial assets when the collateral is purchased with the proceeds;

- credit secured by savings deposits held at the lending institution;

- mortgage loans where the proceeds are used to purchase the collateral or for home improvements or "bridge" loans;

- insurance company policy loans;

- credit extended by providers of utility, health and educational services;

- credit extended under state or federal government guaranteed consumer loan programs, such as student loans.

All creditors with $2 million or more of covered consumer credit outstanding as of the base date are required to file a base report on the amount of such credit outstanding with the Federal Reserve Banks by April 1, 1980. If daily data are available, a creditor shall report as its base the actual amount of covered credit outstanding on March 14, 1980 or the last day before March 14 for which such data are available; if daily data are not available, the creditor shall report as its base the amount of such credit outstanding during the last period immediately before March 14, 1980, for which such data are available. A base report may be also required of certain creditors with covered consumer credit of less than $2 million. All creditors with $2 million or more of covered consumer credit outstanding as of the base date or anytime thereafter on an average basis during any calendar month shall file monthly reports on the amount of covered consumer credit outstanding. The monthly report on the average amount of covered consumer credit outstanding during the calendar month shall be filed by the second Monday of the following month. For example, a report on the daily average amount of covered credit outstanding during May shall be filed by June 9, 1980. The initial monthly report, however, shall cover the period from March 15, 1980 through April 30, 1980 and shall be filed by May 12, 1980.

Based upon the monthly report, a covered creditor is required to maintain a special non-interest bearing deposit with the Federal Reserve (or with the Federal Home Loan Bank or Central Liquidity Facility) equal to 15% of the amount by which the average amount of its covered credit exceeds the reported base or $2 million, whichever is greater. The special deposit shall be maintained in collected funds,

in the form of U. S. dollars, during the period beginning on the fourth Thursday of the month following the month for which the last report has been filed and ending on the day prior to the fourth Thursday of the next month. For example, the report covering the month of May shall be filed by June 9, 1980, and the special deposit based upon the May report shall be held beginning June 26, 1980, and continue through July 23, 1980, at which time a special deposit based upon June's report shall be required. The deposit based on the initial report, for March 15 through April 30, 1980, shall be maintained beginning May 22, 1980 and ending June 25, 1980. The amount of the special deposit may not vary during each maintenance period. Federal Reserve services, such as check collection, will not be made available based on maintenance of the special deposit.

Members of the Federal Home Loan Banks and all other savings and loan associations shall file reports and maintain the special deposit with the Federal Home Loan Banks. Credit unions, whether or not members of the National Credit Union Administration's Central Liquidity Facility, shall file reports and maintain the special deposit with the Central Liquidity Facility. Deposits maintained with the Federal Home Loan Banks and the Central Liquidity Facility shall be passed through by those entities to the Federal Reserve Banks. All other covered creditors, including commercial banks, U.S. branches and agencies of foreign banks, retailers, other credit card issuers, and finance companies, are required to file reports and maintain the special deposit with the Federal Reserve Bank for the District in which the reporting office of the creditor is located.

For purposes of reporting and determining whether the creditor's outstanding covered credit exceeds the $2 million threshold during the base period or thereafter, the covered credit of all U. S. offices of the same company and direct and indirect U. S. subsidiaries of the same parent company shall be combined, and only one base and monthly report shall be filed for the combined organization. For example, if a company has 100 offices throughout the United States, it should combine the required information from each office, and one designated reporting office should file one combined base or monthly report for the entire company. The covered credit of all U. S. offices (such as the branches, agencies and subsidiaries, including banks) of the same foreign parent company and all U.S. offices of that foreign parent's non-U.S. subsidiaries shall be combined and one office selected as the reporting office for such offices. A subsidiary is a company that is more than 50 per cent owned, directly or indirectly, by another.

These actions are being taken to curb inflationary pressures. Continuing growth of consumer credit has contributed to inflationary forces by helping to sustain consumer demand for goods and services. As a consequence of this sustained high level of demand, savings in the economy have fallen to the lowest level since the Korean War. Restraint on consumer credit will tend to encourage additional savings, which can be channelled to productive investment to increase the supply of goods. At the same time, consumer demands for the supply of goods available will be restrained. In both of these ways, restraint on consumer credit will contribute to dampening inflationary forces. The particular types of credit to which these restraints will apply are those generally showing undue strength in recent months. Thus, automobile credit, residential mortgage credit, and credit extended to purchase the collateral will not be affected by this action.

The Board believes that it is in the national interest to achieve the objective of curbing inflation as quickly as possible, and that publication of this rule for comment or any delay in its effective date would lead to rapid increases in extensions of consumer credit that would not be subject to the regulation and would frustrate its purpose. The Board, therefore, for good cause finds that further notice, public procedure, and deferral of effective date provisions of 5 U.S.C. § 553(b) 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. §§ 1901-1909) as implemented by Executive Order 12201, the Board hereby issues this subpart (12 C.F.R. 229, Subpart A) effective March 14, 1980, as follows:

SECTION 229.1 - AUTHORITY, PURPOSE, AND SCOPE

(a) Authority. This subpart is issued by the Board of Governors of the Federal Reserve System pursuant to the Credit Control Act (12 U.S.C. §§ 1901-1909) as implemented by Executive Order 12201, dated March 14, 1980.

(b) Purpose and Scope. This subpart is intended to curb inflation generated by the extension of certain types of consumer credit in an excessive volume and governs extensions of such credit by all covered creditors.

SECTION 229.2 - DEFINITIONS

(a) For the purposes of this subpart, the terms, "Board," "credit," "creditor," "extension of credit" and "credit transaction," and "loan," shall have the meanings given them in the Credit Control Act. In addition, the following definitions apply.

(b) "Base" means the larger of $2 million or the amount of covered credit outstanding as of the close of business on the base date.

(c) "Base date" means: for a creditor that has daily credit data available, March 14, 1980 or the last day immediately before March 14, 1980 for which such data are available; for a creditor that does not have daily credit data available, the period immediately before March 14, 1980 for which credit data are available.

(d) "Closed-end credit" means all consumer credit except open-end credit.

(e) "Consumer credit" means credit extended in the U. S. primarily for personal, family, or household purposes and does not include credit for business or agricultural purposes.

(f) "Covered credit" means consumer credit that is (1) open-end credit and (2) closed-end credit which is unsecured or in which the proceeds of the credit are not being used to purchase the collateral. Covered credit that is sold or otherwise transferred after March 14, 1980 to any office located outside the U. S. of the same or another entity shall remain the covered credit of the transferor until such credit is repaid. Covered credit that is sold or otherwise transferred on a recourse basis to any U. S. office of the same or another entity shall remain the covered credit of the transferor; covered credit that is transferred on a non-recourse basis to any U. S. office of the same or another entity shall be treated as covered credit of the transferee. Covered credit does not include insurance company policy loans; credit extended by federal, state or local governments, or by providers of utility, health or education services; state or federal government guaranteed loans; or loans secured by savings deposits[1/] held at the lending institution.

(g) "Covered creditor" means any creditor which extends covered credit. For purposes of determining the amount of a creditor's outstanding covered credit, the covered credit of all U. S. offices of (i) the same company, (ii) U. S. subsidiaries of the same parent company, and (iii) non-U. S. subsidiaries of the same parent company shall be combined. A subsidiary is a company that is more than 50 per cent owned directly or indirectly by another company.

(h) "Open-end credit" means consumer credit extended on an account pursuant to a plan under which (1) the creditor may permit the customer to make purchases or obtain loans, from time to time, directly from the creditor or indirectly by use of a credit card, check, or other

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1/ As defined in § 217.1(e) of this Chapter (Regulation Q).

device, as the plan may provide; (2) the customer has the privilege of paying the balance in full or in instalments; and (3) a finance charge may be computed by the creditor from time to time on an outstanding unpaid balance.

(i) "U.S." means the fifty states of the United States and the District of Columbia.

SECTION 229.3 - REPORTS

(a) Each covered creditor with $2 million or more of covered credit outstanding as of the base date, and certain covered creditors as may be required by the Board, shall file a base report by April 1, 1980. The base report shall state the amount of the covered creditor's base. A creditor with a base of $2 million or more as indicated on its base report, or with covered credit outstanding in excess of $2 million on an average basis during any calendar month, shall submit monthly reports. The initial monthly report shall be filed by May 12, 1980, for the period March 15 through April 30, 1980; thereafter, the monthly report shall be filed for each full calendar month by the second Monday of the following month. The monthly report shall include the average amount of covered credit outstanding during the month (on a daily average basis if such data are available) and the amount by which that number exceeds the creditor's base.

(b) One base and one monthly report shall be filed by a reporting office for all the offices of a covered creditor. A covered creditor may designate any of its offices as its reporting office.

(c) Members of the Federal Home Loan Banks and all other savings and loan associations shall file reports with the Federal Home Loan Banks. Credit unions, whether or not members of the National Credit Union Administration's Central Liquidity Facility, shall file reports with the Central Liquidity Facility. All other creditors shall file reports with the Federal Reserve Bank in whose District their reporting office is located.

SECTION 229.4 - MAINTENANCE OF SPECIAL DEPOSIT

(a) Each covered creditor shall hold a non-interest bearing special deposit equal to 15 per cent of the amount by which the average amount of its covered credit outstanding during the calendar month exceeds its base. The corresponding period during which the special deposit shall be maintained begins on the fourth Thursday of the month following the calendar month for which the report was filed and continues through the Wednesday before the fourth Thursday of the next month. The special deposit shall be maintained in collected funds in the form of U. S. dollars.

(b) Members of the Federal Home Loan Banks and all other savings and loan associations shall maintain the special deposit with the Federal Home Loan Banks. Credit unions, whether or not members of the National Credit Union Administration's Central Liquidity Facility, shall maintain the special deposit with the Central Liquidity Facility. Deposits maintained with the Federal Home Loan Banks and the Central Liquidity Facility shall be placed with a Federal Reserve Bank. All other creditors shall maintain the special deposit with the Federal Reserve Bank to which the creditor reports.

SECTION 229.5 - PENALTIES

For each willful violation of this subpart, the Board may assess against any creditor, or officer, director or employee thereof who willfully participates in the violation, a maximum civil penalty of $1,000. In addition, a maximum criminal penalty of $1,000 and imprisonment of up to one year may be imposed for willful violation of this subpart.

By order of the Board of Governors of the Federal Reserve System, effective March 14, 1980.

(Signed) Theodore E. Allison

Theodore E. Allison
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-0281)

Part 229--CREDIT RESTRAINT

[Subpart B]

Short Term Financial Intermediaries

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: Pursuant to the Credit Control Act (12 U.S.C. §§ 1901-1909) as implemented by Executive Order 12201, the Board has adopted provisions requiring money market funds and other similar creditors to maintain a special non-interest bearing deposit with the Federal Reserve equal to 15 per cent of the amount by which the investment assets of these creditors exceeds their investment assets on March 14, 1980. Special non-interest bearing deposits shall be maintained at the Federal Reserve Bank of the district in which the creditor maintains its principal place of business. The purpose of this action is to control inflation by limiting the expansion of short-term credit offered by such financial intermediaries.

EFFECTIVE DATE: March 14, 1980.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel, Lee S. Adams, Senior Attorney, C. Baird Brown, Attorney, or Daniel L. Rhoads, Attorney, Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202/452-3000).

SUPPLEMENTARY INFORMATION: In accordance with the Credit Control Act (12 U.S.C. §§ 1901-1909) as implemented by Executive Order 12201, the Board has adopted this Subpart of its Credit Restraint regulation to require creditors, consisting of investment companies commonly regarded as money market funds and certain common trust funds of banks that invest in short term assets (short term investment funds) to hold a non-interest bearing special deposit with the Federal Reserve against increases in their total assets. The amount of the special deposit that must be held shall be equal to 15 per cent of the amount by which the assets of the creditor exceed the amount of such assets in the creditor's portfolio on March 14, 1980. The special deposit must be made in collected funds in U.S. dollars.

A creditor will be covered if its investment portfolio primarily consists of short-term securities, deposits, or other instruments with original or remaining maturities of 13 months or less through which it extends credit to banks, federal, state or local governmental units or agencies thereof, any corporation, partnership or other business entity, or any person. Covered creditors include both open and closed-end management companies and unit investment trusts. A series of shares or units of a registered investment company is a covered creditor if the investment assets which are included in the valuation of the shares or units in the series primarily have maturities of less than 13 months. Common trust funds of banks and trust companies are also included unless all moneys contributed to them are held by the bank or trust company incidentally to the management of other trust assets. Collective investment funds consisting of funds of retirement, pension, or other tax exempt trusts are not covered.

A covered creditor, other than a unit investment trust or series of units of such a trust ("Non-unit Creditor"), that possesses assets on March 14, 1980, shall file a base report with a Federal Reserve Bank by April 1, 1980. A Non-unit Creditor that acquires or holds assets or trust moneys that cause it to become a covered creditor after March 14, 1980, shall file a base report, within two weeks after it becomes a covered creditor. The base report will state the amount of the Non-unit Creditor's covered credit, which is defined as the total amount of its investment assets and other deposits plus accrued interest, held as of March 14, 1980, whether or not it was a covered creditor at that time. If the covered creditor was not in existence on March 14, 1980, its base amount is zero.

Thereafter, each Non-unit Creditor shall file a report monthly stating the daily average amount of its net assets during each reporting period by the 21st day of the month in which the reporting period ends. The reporting periods will run from the 15th day of each month to the 14th day of the following month. For example, the first reporting period will run from March 15 to April 14, 1980, and the second from April 15 to May 14, 1980. The report for the first reporting period must be filed by April 21, 1980, and for the second by May 21, 1980. Based upon this report, a covered creditor is required to maintain a special non-interest bearing deposit with the Federal Reserve Bank in the District in which its principal place of business is located equal to 15 per cent of the amount by which the reported average of covered credit exceeds the reported base. The special deposit shall be maintained during the period beginning on the first Thursday of the first full calendar month following the period for which the report was filed and ending on the day prior to the first Thursday of the next month. For example, the special deposit based upon the first report shall be held beginning May 1, 1980 and continue through June 4, 1980, at which time a special deposit based upon the second report shall be required.

A unit investment trust or series of units of such a trust ("Unit Creditor") that holds investment assets on March 14, 1980, need not file reports or maintain special deposits, as their assets are fixed as of the date they are transferred to the trust and will not increase after March 14, 1980. A Unit Creditor that is established, by the transfer of investment assets to the trustee, after March 14, 1980, must file immediately upon acquisition of assets by the trust, a base report stating the amount of covered credit held by the trust. Each such Unit Creditor must maintain a special deposit equal to 15 per cent of the covered credit it holds. The special deposit must be maintained during the period beginning with the acquisition of assets by the Unit Creditor and ending on the day prior to termination of the trust pursuant to the terms of the trust agreement. A Unit Creditor is only required to file reports and maintain deposits if, at its inception, its assets primarily have original or remaining maturities of less than 13 months. A Unit Creditor whose assets at its inception had longer maturities, but whose asset maturities fall below 13 months as the termination of the trust approaches is not required to report or to maintain a special deposit.

For a covered creditor that is a series of shares or units of a registered investment company, reports should be filed and deposits maintained by the registered investment company. If the entire investment company which issues such a series is a covered creditor, the entire company may file a single report and maintain a single deposit. Otherwise the investment company must file a separate report and maintain a separate deposit for each series that is a covered creditor. Maintenance of a special deposit at a Federal Reserve Bank does not entitle covered creditors to Federal Reserve services.

Recent strong demands for money and credit, generated in part by inflationary forces, have brought heavy pressure on credit and financial markets generally, with varying impacts on particular sectors of the economy. The creditors covered by this Subpart act as financial intermediaries, accepting funds from investors who desire a stable, liquid, high income investment, and extending credit primarily through the purchase of money market instruments. Rapid expansion of credit extended by these creditors has contributed to the pressures by facilitating borrowing in the markets for Eurodollars, commercial paper, bankers acceptances, and other short-term liquid instruments. Moreover, the rapid expansion of such creditors has tended to impede reasonable flows of credit to other sectors including housing, small businesses, and farmers. Restraint on the growth of money market funds and similar creditors will enable funds to flow in more usual measure to productive uses, and thus contribute to dampening inflationary forces.

These actions are being taken to curb inflationary pressures. The Board believes that it is in the national interest to achieve this objective as quickly as possible, and that publication of this rule for comment or any delay in its effective date would lead to rapid increases in extensions of credit that would not be subject to the regulation and would frustrate its purpose. The Board therefore finds for good cause that further notice, public procedure, and deferral of effective date provisions of 5 U.S.C. § 553(b) 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. §§ 1901-1909) the Board hereby adopts Subpart B of its Credit Restraint regulation (12 C.F.R. § 229) effective March 14, 1980, as follows:

SECTION 229.11--AUTHORITY, PURPOSE, AND SCOPE

(a) Authority. This Subpart is issued by the Board of Governors of the Federal Reserve System pursuant to the Credit Control Act (12 U.S.C. §§ 1901 - 1909), as implemented by Executive Order 12201.

(b) Purpose and Scope. This Subpart is intended to curb inflation generated by the extension of credit by certain of those financial intermediaries which are not subject to either the amendments of law effected by Pub. L. 89-597, as amended, or section 19 of the Federal Reserve Act, as amended (12 U.S.C.§461), and which are primarily engaged in the extension of short-term credit, specifically money market funds and other similar creditors.

SECTION 229.12--DEFINITIONS

(a) For the purposes of this Subpart, the terms "credit," "creditor," and "extension of credit" shall have the meanings given them in the Credit Control Act. In addition, the following definitions apply.

(b) "Base" means the amount[1/] of covered credit held by a covered creditor as of the close of business on March 14, 1980.

(c) "Covered credit" means any extension of credit originated through the acquisition of a security, deposit, or other instrument,[1/] including but not limited to domestic and Eurodollar certificates of deposit, U.S. Treasury bills, repurchase agreements, commercial paper, bankers acceptances, and state and local government obligations, and any interest accrued thereon.

1/ Assets should be valued for purposes of this Subpart by the same procedure used by a registered investment company to value assets in calculating net share or unit value under the Investment Company Act of 1940 and rules promulgated thereunder.

(d) "Covered creditor" means any creditor (1) that is (A) an investment company registered with the Securities and Exchange Commission under the Investment Company Act of 1940, (B) any series of shares or units of such a company, or (C) any common trust fund or similar fund maintained by a bank or trust company exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank or trust company in its capacity as a trustee, unless all moneys contributed thereto are held incidentally to the management of other trust assets; and (2) whose investment portfolio consists primarily of securities, deposits or other instruments, including but not limited to domestic and Eurodollar certificates of deposit, U.S. Treasury bills, repurchase agreements, commercial paper, and state and local obligations with maturities of 13 months or less.[2/] However, a unit investment trust is only a covered creditor if its investment portfolio consists primarily of securities, deposits, or other instruments with maturities of 13 months or less[2/] at the time the unit investment trust acquires those assets.

(e) "Security" means any security as defined in the Securities Act of 1933.

(f) "Unit investment trust" means any unit investment trust as defined in the Investment Company Act of 1940, or a series of units of such a trust.

SECTION 229.13--REPORTS

(a) Each covered creditor except a unit investment trust shall file a base report and periodic reports. The base report shall state the amount of the covered creditor's base and shall be submitted no later than April 1, 1980, or in the case of a covered creditor that becomes a covered creditor after March 14, 1980, within two weeks of acquiring or holding assets or accepting trust moneys that cause it to become a covered creditor. Periodic reports shall be filed monthly for each period running from the 15th day of each calendar month to the 14th day of the following month, or in the case of a covered creditor that becomes a covered creditor after March 14, for each full period after it becomes a covered creditor. These reports shall be submitted by the 21st day of the month in which the reporting period ends, and shall state the amount by which the average of the daily amounts of covered credit outstanding during the reported period exceeds the base.

2/ This includes variable rate securities, deposits or other instruments with longer nominal maturities but with interest rates subject to adjustment at intervals shorter than 13 months.

(b) A covered creditor that is a unit investment trust established after March 14, 1980, shall file a base report stating the amount of covered credit it holds. This report shall be filed immediately upon acquisition of investment assets by the unit investment trust. Each such covered creditor shall also notify the appropriate Federal Reserve Bank two weeks before termination of the trust stating the projected date of termination of the trust.

(c) All reports shall be filed with the Federal Reserve Bank in the District where the covered creditor has its principal place of business.

SECTION 229.14--MAINTENANCE OF SPECIAL DEPOSIT

(a) Each covered creditor that is not a unit investment trust shall maintain a non-interest bearing special deposit equal to 15 per cent of the amount by which the average of the daily amounts of its covered credit outstanding during each reporting period exceeds its base. The corresponding period during which the special deposit shall be maintained begins on the first Thursday of the first full calendar month following the period for which the report was filed and ends on the day prior to the first Thursday of the following month. The special deposit shall be maintained at the Federal Reserve Bank to which the covered creditor reports.

(b) Each covered creditor that is a unit investment trust established after March 14, 1980, shall maintain a non-interest bearing special deposit equal to 15 per cent of the covered credit it holds as of the date it acquires investment assets. This special deposit shall be maintained during the period beginning with the day the covered creditor acquires assets consisting of covered credit and ending one day prior to final distribution of trust assets by the Trustee pursuant to the terms of the trust agreement. The special deposit shall be maintained at the Federal Reserve Bank to which the covered unit investment trust reports. Upon two weeks notice, the special deposit will be returned to the trustee one day prior to maturity or final distribution pursuant to the terms of the trust agreement.

(c) Special deposits shall be maintained in collected funds in the form of U.S. dollars.

SECTION 229.15--PENALTIES

For each willful violation of this Subpart, the Board may assess against any creditor, or officer, director or employee thereof who willfully

participates in the violation, a maximum civil penalty of $1,000. In addition, a maximum criminal penalty of $1,000 and imprisonment of one year may be imposed for willful violation of this Subpart.

Board of Governors of the Federal Reserve System, effective March 14, 1980.

(signed) Theodore E. Allison
Theodore E. Allison
Secretary of the Board

[SEAL]

(CORRECTED PAGE)

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

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

(Docket No. R-0282)

Part 229--CREDIT RESTRAINT

[Regulation CC--Subpart C]

Nonmember Commercial Banks

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: Pursuant to the Credit Control Act (12 U.S.C. §§ 1901 - 1909) as implemented by Executive Order 12201, the Board has adopted provisions requiring commercial banks that are not members of the Federal Reserve System to maintain a non-interest bearing special deposit with the Federal Reserve equal to 10 per cent of the amount by which the total of certain managed liabilities of those banks exceeds the amount of such managed liabilities outstanding during a base period. The purpose of this action is to better control the expansion of bank credit and thereby serve to dampen inflationary forces. The managed liabilities affected by this action include the total of (1) time deposits in denominations of $100,000 or more with original maturities of less than one year; (2) Federal funds borrowings with original maturities of less than one year from U.S. offices of certain depository institutions and from U.S. government agencies; (3) repurchase agreements with original maturities of less than one year on U.S. government and agency securities; and (4) Eurodollar borrowings from foreign banking offices, asset sales to related foreign offices, and foreign office loans to U.S. residents. The special deposit requirement will not apply to borrowings from the United States, principally in the form of Treasury tax and loan account note balances. The 10 per cent special deposit requirement will apply to the amount by which the daily average amount of an institution's total managed liabilities during a deposit computation period exceeds a base amount calculated generally as either the daily average amount of such liabilities outstanding during the base period (February 28 to March 12, 1980) or $100 million, whichever is greater.

EFFECTIVE DATE: The special deposit requirement is effective on marginal total managed liabilities outstanding during the seven-day computation period beginning March 20, 1980, and each seven day period thereafter. The non-interest bearing special deposit for the computation periods beginning March 20, 27, and April 3, 1980 must be held during the deposit maintenance period beginning April 17, 1980. Thereafter the special deposit must be held during the seven day maintenance period beginning eight days after the end of the corresponding computation period.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel, C. Baird Brown, Attorney, Paul S. Pilecki, Attorney, or Daniel L. Rhoads, Attorney, Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202/452-3000).

SUPPLEMENTARY INFORMATION: In accordance with the Credit Control Act (12 U.S.C. §§ 1901 - 1909) as implemented by Executive Order 12201, the Board has adopted this Subpart to require certain borrowers consisting of all commercial banks that are not members of the Federal Reserve System to maintain a non-interest bearing special deposit with the Federal Reserve System. This Subpart does not apply to United States branches and agencies of foreign banks that are subject to the Board's marginal reserve requirements (12 C.F.R. § 204.5(f)). Other United States branches and agencies of foreign banks are covered. The amount of the special deposit to be held will be equal to 10 per cent of the amount by which the daily average total of an institution's managed liabilities during a deposit computation period exceeds a base amount. Generally, an institution's base is the daily average amount of the institution's total managed liabilities outstanding during the base period (February 28 to March 12, 1980) or $100 million, whichever is greater. The managed liabilities on which the special deposit requirement will apply include the total of (1) time deposits in denominations of $100,000 or more with original maturities of less than one year; (2) Federal funds borrowings with original maturities of less than one year from U.S. offices of certain depository institutions and from U.S. government agencies; (3) repurchase agreements with original maturities of less than one year on U.S. government and agency securities; and (4) Eurodollar borrowings from foreign banking offices of the same institution or of other banks, asset sales to related foreign offices, and non-member commercial bank foreign office loans to U.S. residents.

Time Deposits of $100,000 or More

Managed liabilities subject to the special deposit requirement include deposits of the following types:

(a) Time deposits of $100,000 or more with original maturities of less than one year; and

(b) Time deposits of $100,000 or more with original maturities of less than one year represented by promissory notes, acknowledgements of advance, due bills, or similar obligations (written or oral) as provided in § 204.1(f) of Regulation D; and

(c) Time deposits of any denomination with remaining maturities of less than one year represented by ineligible bankers' acceptances or obligations issued by a bank's affiliate to the extent that the proceeds are supplied to the bank as provided in § 204.1(f) of Regulation D.

Credit balances of $100,000 or more with original maturities of 30 days or more but less than one year will also be treated as managed liabilities subject to the special deposit requirement. Time deposits subject to the special deposit requirement do not include savings deposits and Christmas club-type deposits.

Federal Funds and Repurchase Agreements

Certain Federal funds borrowings and repurchase agreements of non-member commercial banks are treated as managed liabilities subject to the special deposit requirement. Under this approach, the amount of borrowings with original maturities of less than one year from agencies of the United States and other non-exempt entities (together with other managed liabilities) that exceeds the institution's base, will be subject to the 10 per cent special deposit requirement. The Board believes that exempting Federal funds borrowings from institutions whose liabilities already are subject to Federal reserve requirements from the special deposit requirement is appropriate to facilitate the reserve adjustment process.

Borrowings from the United States government (principally in the form of Treasury tax and loan account note balances), however, will not be regarded as managed liabilities subject to the special deposit requirement. Borrowings with original maturities of less than one year from Federal agencies and instrumentalities such as the Federal Home Loan Bank Board and the Federal Home Loan Banks will be subject to the special deposit requirement.

In the past, the term "bank" has been defined by the Board to include commercial banks, savings banks, savings and loan associations, cooperative banks, credit unions, the Export-Import Bank, and Minbanc Capital Corporation (see 12 C.F.R. § 217.137). Borrowings from all such non-member institutions by non-member commercial banks will be regarded as managed liabilities subject to the special deposit requirement.

Borrowings from domestic offices of organizations that are required by the Board to maintain reserves will not be regarded as managed liabilities subject to the special deposit requirement. The institutions that currently are required to maintain reserves include member banks,

Edge Corporations engaged in the banking business (12 U.S.C. § 615), Agreement Corporations (12 U.S.C. §§ 601-604a), operations subsidiaries of member banks (12 C.F.R. § 204.117), and U.S. branches and agencies of foreign banks with worldwide banking assets in excess of $1 billion (12 U.S.C. § 3105).

Under the Board's action, borrowings in the form of repurchase agreements with original maturities of less than one year involving U.S. government and agency securities also would be regarded as managed liabilities subject to the special deposit requirement. Repurchase agreements entered into with U.S. offices of member banks or organizations that are required by the Board to maintain reserves with the Federal Reserve System would not be regarded as managed liabilities subject to the special deposit requirement. Repurchase agreements entered into by non-member commercial banks with nonexempt entities, such as non-member banks and nonbank dealers, will not be subject to the special deposit requirement if such transactions are intended to provide collateral to nonexempt entities in order to engage in repurchase transactions with the Federal Reserve System Open Market Account.

In order to continue to facilitate the activities of bank dealers in the U.S. government and agency securities markets, and to provide competitive equality between bank and nonbank dealers, the amendment permits non-member commercial banks to deduct the amount of U.S. government and agency securities held by the institution in its trading account from the total amount of its repurchase agreements entered into in determining the amount of its repurchase agreements subject to the special deposit requirement. A trading account represents the U.S. government and agency securities that are held for dealer transactions--i.e., securities purchased with the intention that they will be resold rather than held as an investment. The Board expects that institutions will not reclassify U.S. government and agency securities held in their investment or other accounts to their trading accounts for the purpose of avoiding special deposit requirements.

Managed liabilities subject to the 10 per cent special deposit requirement also will include any obligation that arises from a borrowing for one business day from a dealer in securities whose liabilities are not subject to the reserve requirements of the Federal Reserve Act of proceeds of a transfer of deposit credit in a Federal Reserve Bank (or other immediately available funds), received by such dealer on the date of the loan in connection with clearance of securities transactions.

Eurodollars

The Board also has included the Eurodollar borrowings of non-member commercial banks as managed liabilities subject to the special deposit requirement. Consequently, the amount of Eurodollars (together with other managed liabilities) of a bank that exceeds the institution's base will be subject to the 10 per cent special deposit requirement. Such Eurodollars include the institution's daily average balance of (1) borrowings with original maturities of less than one year from foreign offices of other banks and institutions that are exempt from interest rate limitations pursuant to § 217.3(g) of Regulation Q; (2) net balances due from an institution's domestic offices to its foreign offices; (3) liabilities of an institution's foreign branches to the extent that the branches hold assets (including participations) acquired from its domestic offices or has credit outstanding from the bank's foreign offices to U.S. residents.

Computation and Maintenance of Non-Interest Bearing Special Deposits

The amount of special deposits that a bank will be required to maintain each week will be determined by the amount by which the total of the institution's managed liabilities during a corresponding seven-day computation period exceeds its base of managed liabilities. The base amount for a bank that is a net borrower of managed liabilities is $100 million, or the daily average amount of its managed liabilities during the fourteen-day base period ending March 12, 1980, reduced by an adjustment for the reduction in its foreign lending from domestic offices, whichever is greater. The adjustment for any given computation period is based on the difference between the sum of its gross loans to non-United States residents and gross balances due from foreign offices of other institutions, and the lowest gross total of such lending for any computation week beginning after March 19, 1980. That difference is then rounded down to the largest lower multiple of $2 million and subtracted from the daily average of managed liabilities for the base period. For example, if a bank has $125 million of average managed liabilities and $40 million in gross lending to foreign borrowers and institutions during the base period, and $35 million of gross lending to foreign borrowers and institutions during the week beginning March 20, 1980, its base for that computation week would be $125 million minus $4 million = $121 million (where $4 million is derived from $40 million minus $35 million = $5 million which is rounded to $4 million). If in a later week the gross lending to foreign borrowers and institutions rises to $45 million, the base remains at $121 million. If in a later week the gross lending to foreign borrowers and institutions falls to $10 million, the reduction would be $40 million minus $10 million = $30 million (no rounding needed), thus the calulated base would be $125 million minus $30 million = $95 million, but the reported base amount would be $100 million,

which is a permanent floor for the base amount. The special deposit would be 10 per cent of the difference between its managed liabilities for the computation week and the $100 million base.

Rounding the reduction in the base will serve to minimize the impact of small repayments or reductions in the daily average gross loans to non-United States residents and balances due from foreign offices of other institutions. The reduction in such lending below the daily average for the base period ending March 12, 1980 will only reduce the base in increments of $2 million. This approach will enable institutions to receive ordinary repayments of foreign loans without being required to relend such funds immediately to avoid a reduction in the base.

For an institution that is a net lender of managed liabilities (that is, the sum of its managed liabilities is negative because its net Eurodollar loans to its foreign offices are greater than the total of its large time deposits, Federal funds purchased, repurchase agreements, and borrowed Eurodollars), its base will be the algebraic sum of its managed liabilities during the base period ending March 12, 1980, and $100 million. For example, if an institution has negative $150 million of managed liabilities during the base period, its base will be negative $50 million, and special deposit requirements will apply to the amount of its total managed liabilities above that amount. If such an institution maintained a daily average of total managed liabilities during a computation period of negative $30 million, it would be required to maintain the 10 per cent special deposit requirement against $20 million of managed liabilities during the reserve maintenance period.

The special deposit must be maintained in collected funds in the form of U.S. dollars. Maintenance of a special deposit does not entitle a non-member bank to Federal Reserve services.

Restraint on growth in money and credit must be a fundamental part of the process of subduing inflationary forces. Growth in bank credit in recent months has been excessive. Therefore, the Board has adopted this special deposit requirement based on managed liabilities issued by nonmember banks. This requirement will impose restraint on the sources of funds that banks typically have used to finance the expansion of bank credit. The nonmember bank special deposit requirement complements the additional restraint the Board has imposed on similar liabilities of member banks. In the absence of this constraint, nonmember banks could continue to extend credit with few limitations. Borrowers that could not be accommodated at a member bank could turn to a nonmember bank, thereby undermining restraint on bank credit. Containing the growth of bank credit financed in large part by managed liabilities at nonmember banks will thus contribute to dampening inflationary forces.

These actions are being taken to help curb the expansion of bank credit, thereby dampening inflationary pressures. The Board believes that it is in the national interest to achieve this objective as quickly as possible, and that publication of this rule for comment or any delay in its effective date would lead to rapid increases in extensions of credit that would not be subject to the regulation and would frustrate its purpose. The Board therefore finds for good cause that the notice, public procedure, and deferral of effective date provisions of 5 U.S.C. § 553(b) 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 - 1909) the Board hereby adopts Subpart C of its regulation regarding Credit Restraint (12 C.F.R. § 229) effective March 14, 1980, 1980, as follows:

SECTION 229.21--AUTHORITY, PURPOSE, AND SCOPE

(a) Authority. This Subpart is issued by the Board of Governors of the Federal Reserve System pursuant to the Credit Control Act (12 U.S.C. §§ 1901 - 1909), as implemented by Executive Order 12201.

(b) Purpose and Scope. This Subpart is intended to curb inflation by controlling the expansion of credit extended by commercial banks that are not members of the Federal Reserve System that is supported by extensions of credit to those banks in the form of managed liabilities.

SECTION 229.22--DEFINITIONS

(a) For the purposes of this Subpart, the terms "credit," and "extension of credit" shall have the meanings given them in the Credit Control Act. In addition, the following definitions apply.

(b) "Covered bank" means any commercial bank that is not a member of the Federal Reserve System, or required to maintain reserves under the Federal Reserve Act.

(c) "Member bank" means any bank that is a member of the Federal Reserve System.

SECTION 229.23--REPORTS

Each covered bank shall file with the Federal Reserve Bank for the Federal Reserve district in which its head office is located such reports as shall be required in connection with the maintenance of a special deposit under this Subpart.

SECTION 229.24--MAINTENANCE OF SPECIAL DEPOSIT

(a) During the seven-day deposit maintenance period beginning April 17, 1980, each covered bank shall maintain a non-interest bearing special deposit equal to 10 per cent of the sum of the amounts by which the daily average of its total managed liabilities during each of the seven-day computation periods beginning March 20, 27, and April 3 exceeds its managed liabilities base as determined in accordance with paragraph (b). During the seven-day deposit maintenance period beginning April 24, 1980, and each deposit maintenance period thereafter, each covered bank shall maintain a non-interest bearing special deposit equal to 10 per cent of the amount by which the daily average of its total managed liabilities during the seven-day computation period ending eight days prior to the beginning of the corresponding seven-day deposit maintenance period exceeds its managed liabilities base as determined in accordance with paragraph (b). A covered bank's managed liabilities are the total of the following:

(1)(A) time deposits of $100,000 or more with original maturities of less than one year;

(B) time deposits of $100,000 or more with original maturities of less than one year representing borrowings in the form of promissory notes, acknowledgments of advance, due bills, or similar obligations as provided in § 204.1(f) of Regulation D; and

(C) time deposits with remaining maturities of less than one year represented by ineligible bankers' acceptances or obligations issued by a bank's affiliate, as provided in § 204.1(f) of Regulation D. However, managed liabilities do not include savings deposits, or time deposits, open account that constitute deposits of individuals, such as Christmas club accounts and vacation club accounts that are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than three months;

(2) any obligation with an original maturity of less than one year that is issued or undertaken as a means of obtaining funds to be used in its banking business in the form of a promissory note, acknowledgment of advance, due bill, ineligible bankers' acceptance, repurchase agreement (except on a U.S. or agency security), or similar obligation (written or oral) issued to and held for the account of a domestic banking office or agency[1/] of another commercial bank or trust company that is not required to maintain reserves pursuant to Regulation D, a savings bank (mutual or stock), a building or savings and

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1/ Any banking office or agency in any State of the United States or the District of Columbia of a bank organized under domestic or foreign law.

loan association, a cooperative bank, a credit union, or an agency of the United States, the Export-Import Bank of the United States, Minbanc Capital Corporation and the Government Development Bank for Puerto Rico;

(3) any obligation with an original maturity of less than one year that is issued or undertaken as a means of obtaining funds to be used in its banking business in the form of a repurchase agreement arising from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof that the institution is obligated to repurchase except repurchase agreements issued to a domestic banking office or agency of a member bank, or other organization that is required to maintain reserves under Regulation D pursuant to the Federal Reserve Act,[2/] to the extent that the amount of such repurchase agreements exceeds the total amount of United States and agency securities held by the covered bank in its trading account;

(4) any obligation that arises from a borrowing by a covered bank from a dealer in securities that is not a member bank or other organization that is required to maintain reserves pursuant to Regulation D,[2/] for one business day, of proceeds of a transfer of deposit credit in a Federal Reserve Bank (or other immediately available funds), received by such dealer on the date of the loan in connection with clearance of securities transactions;

(5) borrowings with an original maturity of less than one year from foreign offices of other banks and from institutions that are exempt from interest rate limitations pursuant to § 217.3(g) of Regulation Q;

(6) net balances due from the covered bank's domestic offices to its foreign branches;

(7) liabilities of a foreign branch of the covered bank to the extent that the foreign branch holds assets (including participations) acquired from the covered bank's domestic offices; and

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2/ Edge Corporations engaged in banking, Agreement Corporations, operations subsidiaries of member banks and U.S. branches and agencies of foreign banks with worldwide banking assets in excess of $1 billion.

(8) liabilities of a foreign branch of the covered bank to the extent that it has credit outstanding from its foreign branches to U.S. residents[3/] (other than assets acquired and net balances due from its domestic offices). Provided, That this paragraph does not apply to credit extended (1) in the aggregate amount of $100,000 or less to any United States resident, (2) by a foreign branch which at no time during the computation period had credit outstanding to United States residents exceeding $1 million, (3) under binding commitments entered into before May 17, 1973, or (4) to an institution that will be maintaining reserves on such credit under paragraphs (c) or (f) of section 204.5 of Regulation D or under Regulation K.

(b) Managed liabilities base. During the seven-day deposit computation period beginning March 20, 1980, and during each seven-day deposit computation period thereafter, the managed liabilities base of a covered bank shall be determined as follows:

(1) For a covered bank that, on a daily average basis, is a net borrower of total managed liabilities during the fourteen-day base period ending March 12, 1980, its managed liabilities base shall be the daily average of its total managed liabilities during the base period reduced by the amount by which its lowest daily average of gross loans to non-United States residents[3/] and gross balances due from foreign offices of other institutions[4/] or institutions the time deposits of which are exempt from the rate limitations of Regulation Q pursuant to § 217.3(g) thereof[5/] outstanding during any computation period after March 12, 1980, is lower than the daily average amount of such loans and balances outstanding during the base period. The amount of the reduction shall be rounded down to the largest lower multiple of $2 million.

3/ A United States resident is: (a) any individual residing (at the time the credit is extended) in any State of the United States or the District of Columbia; (b) any corporation, partnership, association or other entity organized therein ("domestic corporation"); and (c) any branch or office located therein of any other entity wherever organized. Credit extended to a foreign branch, office, subsidiary, affiliate or other foreign establishment ("foreign affiliate") controlled by one or more such domestic corporations will not be deemed to be credit extended to a United States resident if the proceeds will be used in its foreign business or that of other foreign affiliates of the controlling domestic corporation(s).

4/ Any banking office located outside the States of the United States and the District of Columbia of a bank organized under domestic or foreign law.

5/ A foreign central bank, or any international organization, of which the United States is a member, such as the International Bank for Reconstruction and Development (World Bank), International Monetary Fund, Inter-American Development Bank, and other foreign international, or supranational entities exempt from interest rate limitations under § 217.3(g)(3) of Regulation Q (12 C.F.R. § 217.3(g)(3)).

However, in no event will the managed liabilities base for a covered bank that was a net borrower of managed liabilities during the fourteen-day base period ending March 12, 1980, be less than $100 million.

(2) For a covered bank that, on a daily average basis, is a net lender of total managed liabilities during the fourteen-day base period ending March 12, 1980, its managed liabilities base shall be the sum of its daily average negative total managed liabilities and $100 million.

(c) The special deposit shall be maintained at the Federal Reserve Bank to which the covered bank reports. The special deposit must be maintained in collected funds in the form of U.S. dollars.

SECTION 229.25--PENALTIES

For each willful violation of this Part, the Board may assess against any creditor, or officer, director or employee thereof who willfully participates in the violation, a maximum civil penalty of $1,000. In addition, a maximum criminal penalty of $1,000 and imprisonment of one year may be imposed for willful violation of this Part.

Board of Governors of the Federal Reserve System, effective March 14, 1980.

(Signed) Theodore E. Allison

Theodore E. Allison
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-0278)

Part 204--RESERVES OF MEMBER BANKS

Marginal Reserve Requirements

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: On October 6, 1979, the Board of Governors amended Regulation D to establish a marginal reserve requirement of 8 per cent on the amount by which the total of certain managed liabilities of member banks (and Edge and Agreement Corporations) and United States branches and agencies of foreign banks exceeds the amount of an institution's base of managed liabilities. An institution's base was defined as the daily average total of managed liabilities outstanding during the period September 13-26, 1979, or $100 million, whichever is greater. The Board has amended Regulation D to increase the marginal reserve requirement ratio to 10 per cent. The Board also has amended Regulation D to reduce an institution's managed liabilities base by the greater of 7 per cent or the amount of decrease in an institution's daily average gross loans to non-United States residents and gross balances due from foreign offices of other institutions between the base period (September 13-26, 1979) and the statement week ending March 12, 1980. In the future, an institution's base will be reduced further after March 12, 1980, by the amount by which it decreases its daily average gross loans to non-U. S. residents and gross balances due from foreign offices of other institutions during a statement week. However, in no event will the base of an institution that was a net borrower of managed liabilities during the base period (September 13-26, 1979) be reduced below $100 million. The purpose of this action is to control further the availability of bank credit.

EFFECTIVE DATE: This action is effective for marginal reserves required to be maintained during the seven-day period beginning April 3, 1980, against total managed liabilities outstanding during the seven-day period beginning on March 20, 1980.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3625), Anthony F. Cole, Senior Attorney (202/452-3612), or Paul S. Pilecki, Attorney (202/452-3281), 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). Managed liabilities include the total of (1) time deposits in denominations of $100,000 or more with original maturities of less than one year; (2) Federal funds borrowings with original maturities of less than one year from U. S. offices of depository institutions not required to maintain Federal reserves and from U. S. government agencies; (3) repurchase agreements with original maturities of less than one year on U. S. government and agency securities entered into with parties other than institutions required to maintain Federal reserves; and (4) Eurodollar borrowings from foreign banking offices, asset sales to related foreign offices and member bank foreign office loans to U. S. residents. The purpose of this action was to better control the expansion of bank credit, help curb speculative excesses in financial, foreign exchange and commodity markets and thereby serve to dampen inflationary forces.

Under the marginal reserve program, the amount of marginal reserves that a member bank, Edge or Agreement Corporation, or a U. S. branch or agency family of a foreign bank that is a net borrower of managed liabilities is required to maintain is determined by the amount by which the total of the institution's managed liabilities during a given seven-day reserve computation period exceeds the daily average amount of managed liabilities outstanding during the base period or $100 million, whichever is greater. For an institution that is a net lender of managed liabilities (that is, the sum of its managed liabilities is negative because its net Eurodollar loans to its foreign offices are greater than the total of its other managed liabilities), its managed liabilities base is the algebraic sum of its managed liabilities and $100 million.

The Board has determined to increase the marginal reserve requirement ratio to 10 per cent and also has determined to adjust the base amount of managed liabilities for institutions subject to the marginal reserve requirement program. For reserve computation periods beginning March 20, 1980, if an institution was a net borrower of managed liabilities during the base period, its base amount will be reduced by an amount equal to the greater of 7 per cent of its current base or an amount equal to the decrease in the sum of its daily average gross loans to non-United States residents and gross balances due from foreign offices of other institutions from the base period (September 13-26, 1979) to the seven-day statement week ending March 12, 1980. For example,

if an institution has a borrowed managed liabilities base of $250 million, its base would be reduced by at least $17.5 million (7 per cent x $250 million). However, if such institution's daily average of gross loans to non-United States residents and gross balances due from foreign offices of other institutions decreased between the base period (September 13-26, 1979) and the statement week ended March 12, 1980, by $25 million, then the new managed liabilities base for such institution would be $225 million, since the decrease in daily average of such loans and balances was greater than 7 per cent. Consequently, the marginal reserve ratio of 10 per cent would be applied to the institution's managed liabilities in excess of $225 million.

The managed liabilities base shall be further reduced in reserve computation periods beginning March 20, 1980, by the amount by which the institution's daily average of gross loans to non-United States residents and gross balances due from foreign offices of other institutions during the statement week is lower than the daily average amount of such loans and balances during the statement week ending on March 12, 1980. In order to minimize the reserve impact of small repayments or reductions in the daily average gross loans to non-United States residents and balances due from foreign offices of other institutions, a future reduction in such loans and balances below the daily average for the week ending March 12, 1980, will reduce the base only in increments of $2 million. For example, if an institution reduces such loans and balances by a daily average of $12.5 million during the statement week ending March 26, 1980, its base for that week and future weeks will be reduced by $12 million. This approach also will enable institutions to receive ordinary repayments of foreign loans without being required to relend such funds immediately to avoid increased marginal reserves. The base for an institution that was a net borrower of managed liabilities during the base period (September 13-26, 1979), will not be reduced below $100 million. The base will not change for an institution that was a net lender of managed liabilities during the base period. An institution's base will not be affected by an increase in daily average gross loans to non-United States residents. In addition, eligible bankers' acceptances not held in the issuer's own portfolio will not be regarded as loans for purposes of determining reductions in the managed liabilities base.

These actions are being taken to moderate expansion of bank credit, thereby dampening inflationary pressures. In order to achieve the above stated objectives as soon as possible, the Board for good cause finds that the notice, public procedure, and deferral of effective date provisions of 5 U.S.C. § 553(b) with regard to these actions are impracticable and contrary to the public interest.

These actions are taken pursuant to the Board's 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 April 3, 1980, section 204.5 of Regulation D (12 CFR § 204.5) is revised as follows:

§ 204.5 RESERVE REQUIREMENTS

* * * * *

(f) Marginal Reserve Requirements.

(1) Member banks. A member bank shall maintain a daily average reserve balance against its time deposits equal to 10 per cent of the amount by which the daily average of its total managed liabilities during the seven-day computation period ending eight days prior to the beginning of the corresponding seven-day reserve maintenance period exceeds the member bank's managed liabilities base as determined in accordance with subparagraph (3). A member bank's managed liabilities are the total of the following: * * *

(2) United States branches and agencies of foreign banks. A United States branch or agency of a foreign bank with total worldwide consolidated bank assets in excess of $1 billion shall maintain a daily average reserve balance against its liabilities equal to 10 per cent of the amount by which the daily average of its total managed liabilities during the seven-day computation period ending eight days prior to the beginning of the corresponding seven-day reserve maintenance period exceeds the institution's managed liabilities base as determined in accordance with subparagraph (3). In determining managed liabilities of United States branches and agencies, the managed liabilities of all United States branches and agencies of the same foreign parent bank and of its majority-owned (greater than 50 per cent) foreign banking subsidiaries (the "family") shall be consolidated. Asset and liability amounts that represent intra-family transactions between United States branches and agencies of the same family shall not be included in computing the managed liabilities of the family. United States branches and agencies of the same family shall designate one U.S. office to be the reporting office for purposes of filing consolidated family reports required for determination of the family's marginal reserve requirements. The reporting office shall file reports and maintain marginal reserves required under this section for the family at the Federal Reserve Bank of the district in which the reporting office is located. The total managed liabilities of a family are the total of each branch's and agency's: * * *

(3) Managed liabilities base. During the seven-day reserve computation period beginning March 20, 1980, and during each seven-day reserve computation period thereafter, the managed liabilities base of a member bank or a family of United States branches and agencies of a foreign bank ("family") shall be determined as follows:

(i) For a member bank or family that, on a daily average basis, is a net borrower of total managed liabilities during the fourteen-day base period ending September 26, 1979, its managed liabilities base shall be the daily average of its total managed liabilities during the base period less the greater of

(A) 7 per cent of the daily average of its total managed liabilities during the base period; or

(B) the amount equal to the decrease in its daily average gross loans to non-United States residents[18] and gross balances due from foreign offices of other institutions[19] or institutions, the time deposits of which are exempt from the rate limitations of Regulation Q pursuant to § 217.3(g) thereof[20] between the fourteen-day base period ending September 26, 1979, and the computation period ending March 12, 1980.

For each computation period beginning after March 19, 1980, the managed liabilities base of a member bank or family shall be further reduced during the computation period by the amount by which its lowest daily average of gross loans to non-United States residents[18] and gross balances due from foreign offices of other institutions[19] or institutions, the time deposits of which are exempt from the rate limitations of Regulation Q pursuant to § 217.3(g) thereof[20] outstanding during any computation period beginning after March 19, 1980, is lower than the daily average amount of such loans and balances outstanding during the computation period ending on March 12, 1980. The amount representing such difference shall be rounded to the next lowest multiple of $2 million.

In no event will the managed liabilities base for an institution that was a net borrower of managed liabilities during the fourteen-day base period ending September 26, 1979 be less than $100 million.

Part 204--RESERVES OF MEMBER BANKS
Regulation D
Marginal Reserve Requirements

(ii) For a member bank or family that, on a daily average basis, is a net lender of total managed liabilities during the fourteen-day base period ending September 26, 1979, its managed liabilities base shall be the sum of its daily average negative total managed liabilities and $100 million.

18/ A United States resident is: (a) Any individual residing (at the time the credit is extended) in any State of the United States or the District of Columbia; (b) any corporation, partnership, association or other entity organized therein ("domestic corporation"); and (c) any branch or office located therein of any other entity wherever organized. Credit extended to a foreign branch, office, subsidiary, affiliate or other foreign establishment ("foreign affiliate") controlled by one or more such domestic corporations will not be deemed to be credit extended to a United States resident if the proceeds will be used in its foreign business or that of other foreign affiliates of the controlling domestic corporation(s).

19/ Any banking office located outside the States of the United States and the District of Columbia of a bank organized under domestic or foreign law.

20/ A foreign central bank, or any international organization of which the United States is a member, such as the International Bank for Reconstruction and Development (World Bank), International Monetary Fund, Inter-American Development Bank, and other foreign international, or supranational entities exempt from interest rate limitations under § 217.3(g)(3) of Regulation Q (12 CFR 217.3(g)(3)).

By order of the Board of Governors of the Federal Reserve System, March 14, 1980.

(Signed) Theodore E. Allison

Theodore E. Allison
Secretary of the Board

[SEAL]

FEDERAL RESERVE press release

For immediate release

MARCH 14, 1980

The Federal Reserve Board today imposed interest rate limitations on debt instruments that are issued by a bank holding company in denominations of $100,000 or less and with original maturities of four years or less.

Obligations of $10,000 or more with original maturities between six months and 2-1/2 years--or redeemable in periods of six months to 2-1/2 years--will be subject to the same interest rate ceilings paid by member banks on 26-week money market certificates.

Obligations with original maturities of 2-1/2 to 4 years--or redeemable after 2-1/2 to 4 years--will be subject to the ceiling rate payable on 2-1/2 year variable ceiling time deposits. Obligations with original maturities of less than 2-1/2 years--or redeemable in periods of less than 2-1/2 years--will be subject to the same rate limitations imposed on member banks.

Action is necessary at this time in view of the impact such instruments are likely to have on deposit flows among depositary institutions. This action does not apply to commercial paper issued by bank holding companies.

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TITLE 12 -- BANKS AND BANKING

CHAPTER II -- FEDERAL RESERVE SYSTEM

[Regulation Q]

(Docket No R-0279)

Part 217 - INTEREST ON DEPOSITS

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: The Board of Governors has amended Regulation Q (12 CFR Part 217) to impose interest rate limitations on certain obligations issued by a member bank's parent bank holding company. The amendment will apply to an obligation with a denomination of less than $100,000 issued or guaranteed by a bank holding company, regardless of the use of the proceeds, with an original maturity of 4 years or less, or redeemable by the holder in 4 years or less. Obligations with original maturities of 2-1/2 years to 4 years, or redeemable in periods of 2-1/2 years to 4 years, will be subject to the ceiling rate of interest payable on the 2-1/2 year variable ceiling time deposit. Obligations in denominations of $10,000 or more with original maturities between 26 weeks and 2-1/2 years, or redeemable in periods of 26 weeks to 2-1/2 years, will be subject to the ceiling rate of interest payable by member banks on 26-week money market time deposits of less than $100,000. Obligations in denominations of less than $10,000 with original maturities of less than 2-1/2 years, or redeemable in periods of less than 2-1/2 years will be subject to the same interest rate limitations applicable to comparable obligations of member banks. The amendment does not apply to commercial paper issued by a member bank's parent bank holding company. This action is being taken in order to facilitate the orderly administration of currently prescribed interest rate limitations.

EFFECTIVE DATE: March 14, 1980.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3625); Anthony F. Cole, Senior Attorney (202/452-3612) or Paul S. Pilecki, Attorney (202/452-3281), Legal Division, Board of Governors of the Federal Reserve System, Washington. D.C. 20551.

SUPPLEMENTARY INFORMATION: The Board of Governors has amended Regulation Q (12 CFR §§ 217.1 and 217.7) to apply Regulation Q interest rate ceilings to certain obligations issued or guaranteed, in whole or in part, as to principal or interest by a member bank's parent bank holding company. The amendment applies to any obligation, regardless of the use of the proceeds, issued in a denomination of less than $100,000 that has an

original maturity of 4 years or less, or that is redeemable by the holder in periods of 4 years or less. Obligations with original maturities of 2-1/2 years to 4 years, or redeemable between 2-1/2 years and 4 years, will be subject to the ceiling rate of interest payable on the 2-1/2 year variable ceiling time deposit. Obligations in denominations of $10,000 or more with original maturities of 26 weeks to 2-1/2 years, or redeemable in periods of 26 weeks to 2-1/2 years, will be subject to the ceiling rate of interest payable by member banks on 26-week money market time deposits of less than $100,000. In addition, obligations in denominations of less than $10,000 with original maturities of less than 2-1/2 years, or redeemable in periods of less than 2-1/2 years, will be subject to the interest rate limitations applicable to comparable obligations of member banks.

With respect to obligations redeemable at specified intervals at the holder's option, the rate of interest payable on such obligations must be adjusted at the beginning of each such interval. The maximum rate of interest that may be paid for the period during the specified redemption intervals will be determined by applying the Regulation Q rules in effect at the time the obligation was issued. For example, on March 17, 1980, a parent bank holding company subject to this action issues an obligation with redemption intervals between 2-1/2 to 4 years. The maximum rate of interest that may be paid during each redemption interval will be determined by the rule in effect as of March 17 for determining the ceiling rate of interest payable on the 2-1/2 year variable ceiling time deposit. This rule provides that a member bank may pay interest at a rate of 11-3/4 per cent or 75 basis points below the yield on 2-1/2 year Treasury securities, whichever is less. Consequently, the maximum rate that may be paid on the obligation during the first redemption interval is 11-3/4 per cent. The maximum rate that may be paid during subsequent redemption intervals will be 11-3/4 per cent or 75 basis points below the yield on 2-1/2 year Treasury securities, whichever is less. This procedure for determining the maximum rate payable during each redemption interval will apply even if the rule relating to the determination of the ceiling rate of interest payable on the 2-1/2 year variable ceiling time deposit is modified. If, however, the rule relating to the determination of the ceiling rate of interest payable on the 2-1/2 year variable ceiling time deposit is modified, the new rule would apply to bank holding company obligations issued on or after the effective date of the new rule.

The amendment applies only to obligations required to be registered with the Securities and Exchange Commission under the Securities Act of 1933 and, consequently, the amendment does not apply to commercial paper issued by a member bank's parent bank holding company. The amendment applies to covered obligations regardless of the use of the proceeds -- i.e., even if the proceeds are not being supplied to the parent bank holding company's member bank subsidiary or subsidiaries. However, if a bank holding company directly issues obligations subject to interest rate limitations imposed by the Federal Deposit Insurance Corporation or the Federal Home Loan Bank Board pursuant to P.L. 89-597, such obligations will not be subject to the interest rate limitations imposed by this action.

The Board has concluded that regulations pertaining to the rates that may be paid on obligations issued by bank holding companies in denominations of less that $100,000 with original maturities of 4 years or less are necessary at this time in view of the impact the issuance of such obligations is likely to have on deposit flows among depository institutions. Such obligations typically are issued at rates substantially in excess of the Regulation Q ceiling rates of interest payable by member banks on time deposits of comparable maturities and are competitive with consumer deposits issued by depository institutions. The Board believes that such obligations generally should be subject to the interest rate limitations imposed upon member banks.

The Board's action was taken after consultation with the Federal financial institution regulatory agencies. In order to facilitate the administration of currently prescribed deposit interest rate limitations, the Board finds that application of the notice and public participation provisions of 5 U.S.C. § 553 to this action would be contrary to the public interest and that good cause exists for making the amendment effective immediately.

Pursuant to its authority under sections 19(a) and (j) of the Federal Reserve Act (12 U.S.C. §§ 461 and 371b), the Board amends Regulation Q (12 CFR 217), effective March 14, 1980, as follows:

1. Section 217.1 of Regulation Q is amended by adding:

§ 217.1 -- DEFINITIONS

* * * * *

(h) Obligations issued by the parent bank holding company of a member bank. For the purposes of this Part, the "deposits" of a member bank also includes an obligation that is (1) issued in a denomination of less than $100,000; (2) required to be registered with the Securities and Exchange Commission under the Securities Act of 1933; (3) issued or guaranteed in whole or in part as to principal or interest by the member bank's parent which is a bank holding company under the Bank Holding Company Act of 1956, as amended (12 U.S.C. §§ 1841-1850), regardless of the use of the proceeds; and (4) issued with an original maturity of 4 years or less, or which is redeemable at intervals of 4 years or less at the option of the holder. The term "deposits" does not include those obligations of a bank holding company that are subject to interest rate limitations imposed pursuant to P.L. 89-597.

2. Section 217.7 of Regulation Q is amended by adding:

§ 217.7 -- MAXIMUM RATES OF INTEREST PAYABLE BY MEMBER BANKS ON TIME AND SAVINGS DEPOSITS

* * * * *

(h) Obligations of the parent bank holding company of a member bank. Notwithstanding the above, interest may be paid on a deposit as defined in § 217.1(h) of this Part at a rate not to exceed the following schedule:

Original Maturity or Redemption Period	Maximum Per Cent
2-1/2 to 4 years	For an obligation that is not redeemable prior to maturity, interest may be paid at the rate established for 2-1/2 year variable ceiling time deposits pursuant to the provisions of § 217.7(g) in effect at the time the obligation is issued. For an obligation that is redeemable prior to maturity, the maximum rate of interest that may be paid from the date of issuance until the first date on which the obligation may be redeemed shall not exceed the rate established for 2-1/2 year variable ceiling time deposits pursuant to the provisions of § 217.7(g) in effect at the time the obligation is issued. For a successive period thereafter, interest may be paid during such period until the next date on which the obligation may be redeemed at a rate not to exceed the rate that would be in effect on the first day of such period for 2-1/2 year variable ceiling time deposits established pursuant to the provisions of § 217.7(g) in effect at the time the obligation was issued.
26 weeks or more but less than 2-1/2 years ($10,000 minimum denomination required)	For an obligation that is not redeemable prior to maturity, interest may be paid at the rate established for 26-week money market time deposits pursuant to the provisions of § 217.7(f) in effect at the time the obligation is issued. For an obligation that is redeemable prior to maturity, the maximum rate of interest that may be paid from the date of issuance until the first date on which the obligation may be redeemed shall not exceed the rate established for 26-week money market time deposits pursuant to the provisions of § 217.7(f) in effect at the time the obligation is issued. For a successive period thereafter interest may be paid during such period until the next date on which the obligation may be redeemed at a rate not to exceed the rate that would be in effect on the first day of such period for 26-week money market time deposits established pursuant to the provisions of § 217.7(f) in effect at the time the obligation was issued.

Original Maturity or Redemption Period	Maximum Per Cent
30 days or more but less than 2-1/2 years (No minimum denomination required)	Interest may be paid at the ceilings established pursuant to the provisions of § 217.7(b) in effect at the time the obligation is issued.
less than 30 days	No interest may be paid.

By order of the Board of Governors, effective March 14, 1980.

(signed) Theodore E. Allison
Theodore E. Allison
Secretary of the Board

[SEAL]

filed w/Circ. Ltr. 8771

March 19, 1980

ANTI-INFLATION PROGRAM

To the Addressee:

Earlier this week, this Bank sent you a copy of the recently enacted Regulation CC of the Board of Governors of the Federal Reserve System and of amendments to the Board's Regulation D. Enclosed is a copy of corrections to Subpart B of Regulation CC and of the amendments to Regulation D. Also enclosed is a copy of a corrected page of the Board's March 14 press release regarding the overall anti-inflation program.

Circulars Division
FEDERAL RESERVE BANK OF NEW YORK