

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8794]
April 9, 1980

CREDIT RESTRAINT PROGRAM
Additional Questions and Answers—Fourth Series

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

Printed on the following pages is the fourth series of questions and answers, representing the views of the legal staffs of the Federal Reserve Bank of New York and of the Board of Governors of the Federal Reserve System, regarding the consumer credit and special credit restraint programs.

In our Circular No. 8781, dated March 26, 1980, we provided you with a list of telephone numbers of persons to whom questions concerning the Credit Restraint Program may be directed. Some of those telephone numbers have been changed. Therefore, we have revised that earlier listing as follows:

Special Credit Restraint Program

- Legal questions—Raleigh M. Tozer, Senior Attorney, Legal Department (Tel. No. 212-791-5009).

Banking Institutions—

- Questions relating to the administration of the Program—Donald E. Schmid, Manager, Bank Analysis Department (Tel. No. 212-791-6611).
- Questions relating to the completion of forms—Nathan Bednarsh, Chief, Bank Analysis Division (Tel. No. 212-791-6710).

Finance companies and selected large corporations—

- Questions relating to the administration of the Program—Eugene P. Emond, Manager, Credit and Discount Department (Tel. No. 212-791-6146).
- Questions relating to the completion of forms—Credit Analysis Division (Tel. Nos. 212-791-6148, 6153 and 6154).

Consumer Credit Restraint Program

- Legal questions—Donald L. Bittker, Assistant Counsel, Legal Department (Tel. No. 212-791-5036).
- All other questions—Tel. Nos. 212-791-7721 through 7725.

Money Market Mutual Funds Program

- Legal questions—Walker F. Todd, Assistant Counsel, Legal Department (Tel. No. 212-791-5041).
- All other questions—Tel. Nos. 212-791-7721 through 7725.

Marginal Reserves/Special Deposits on Managed Liabilities

- Legal questions—Bradley K. Sabel, Assistant Counsel, Legal Department (Tel. No. 212-791-5033).
- All other questions—Thomas J. Campbell, Accounting Officer (Tel. No. 212-791-5262) or Richard J. Gelson, Manager, Statistics Department (Tel. No. 212-791-6312).

Interest Rate Ceilings on Certain Bank Holding Company Obligations

- Legal questions—Bradley K. Sabel, Assistant Counsel, Legal Department (Tel. No. 212-791-5033).
- All other questions—Bank Regulations Division (Tel. No. 212-791-5914).

Surcharge on the Discount Rate

- All questions—Eugene P. Emond, Manager, Credit and Discount Department (Tel. No. 212-791-6146).

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Questions have been raised concerning the proper treatment of bankers' acceptances as loans under the base revisions portion of the Managed Liabilities Program (under Subpart C of Part 229 and under the amendments to Regulation D). If an institution filing the weekly managed liabil-

ities report form creates bankers' acceptances for foreign addressees, any such acceptance is considered to be a loan to a non-U.S. resident *if it has been discounted or purchased by the institution and remains in the institution's portfolio*. If the institution creates such an acceptance but does not discount it, the acceptance is not treated as a loan; also, if the institution sells such an acceptance from its portfolio, the acceptance ceases to be a loan and may not be treated as a loan to a non-U.S. resident as of the date of sale. In addition, if a reporting bank purchases an acceptance created by a foreign office of a bank, the acceptance will constitute a "due from foreign office" for purposes of base revision for as long as the reporting bank holds the acceptance.

Questions concerning bankers' acceptances may be directed to Messrs. Campbell and Sabel at the telephone numbers listed on the previous page.

ANTHONY M. SOLOMON,
President.

Subpart A of Part 229 -- Special deposits on consumer credit

A-48. Q: A provider of health or education services, such as a hospital or college, arranges consumer credit to be extended by a creditor. Is this a covered credit?

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

A-49. Q: Is credit extended by a U.S. creditor to a non-U.S. resident to be considered in determining covered credit?

A: No.

A-50. Q: Are loans made under the FHA Title I program covered credit?

A: No. They are considered loans guaranteed by the Federal Government.

A-51. Q: Under a closed-end credit agreement with a consumer, a creditor is committed to advance a certain amount of funds, as demanded by the consumer. These funds are not used to purchase any collateral. Is the full amount of the commitment covered credit?

A: If the creditor books the full amount of the commitment as a loan, it is covered credit. However, as indicated in Question A-17, if the commitment is not booked as a loan, it is not covered credit.

A-52. Q: A creditor is in the process of converting its accounts from closed-end to open-end credit. All of the closed-end loans outstanding were extended as purchase money transactions. As of March 14, 1980, \$30 million of total outstanding credit of \$100 million was carried on the creditor's books as closed-end credit. For purposes of the base report, how much of the \$100 million should be considered covered credit? For purposes of subsequent monthly reports, will the conversion of the remaining closed-end accounts to open-end make the outstanding balances covered credit?

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

A-53. Q: A credit union has overseas branches making loans to U.S. armed forces personnel stationed abroad. Are these loans to be included in the credit union's covered credit?

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

A-54. Q: A credit union has an open-end plan under which consumers may purchase automobiles and other large-ticket items. These loans are purchase money transactions. Is this covered credit?

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

A-55. Q: Are loans to purchase or build a home to be used for rental purposes to be included in covered credit?

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

Note: There is an error in Question A-8 of Circular No. 8781. The second sentence of the Question states, "Many transferors 'hold back' a portion of the purchase price. . . ." The word "transferors" should be "transferees."

Special Credit Restraint Program

S- 9. Q: Are export loans included in the total of loans subject to the 6 to 9 percent growth limitation?

A: They are. But the Board would not want banks to reduce the availability of export loans in order to make less desirable types of loans. Any bank that exceeds the growth limit because of export loans should note that fact in Section D of its report.

S-10. Q: How should credit extended by Edge Act Corporations be reported?

A: With respect to domestic banks reporting on form FR 2062a, Edge Act Corporation subsidiaries should be included only in figures reported in item C3. Branches and agencies reporting on form FR 2062b should include Edge Act subsidiaries only in item C10. Bank holding companies reporting on form FR 2062c should include Edge Act subsidiaries in items C2-C4. Holding companies should not include data for Edge Act subsidiaries of reporting bank subsidiaries. (A company owned more than 50 percent by a reporting entity is a subsidiary).

S-11. Q: Are extensions of credit by Edge Act subsidiaries included in the 6-9 percent guidelines?

A: Loans by Edge Act subsidiaries to U.S. addressees are to be included in total loans and leases to U.S. addressees by banks, branches and agencies, and bank holding companies. The 6-9 percent growth limitation applies to this measure of bank lending. Thus, Edge Corporations are not exempt from the growth limit on bank loans.