

FEDERAL RESERVE BANK  
OF NEW YORK

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CREDIT RESTRAINT PROGRAM

Additional Questions and Answers—Fifth Series

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

Printed below is the fifth 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 special credit and consumer credit restraint programs.

Any questions concerning the Credit Restraint Program may be directed to the persons listed in Circular No. 8794, which was sent to you yesterday.

ANTHONY M. SOLOMON,  
*President.*

Subpart A of Part 229

Special deposits on consumer credit

A-56. Q: Creditor B buys federally guaranteed loans from Creditor A. Does Creditor B reflect these loans in its covered credit?

A: No. The loans were originally exempt and remain so after the transfer.

A-57. Q: Is a loan for the purchase of a commercial property such as a store or warehouse to be considered business credit, even where the borrower intends to use it as a residence as well as for commercial purposes?

A: Yes. A loan whose purpose is the acquisition, construction or maintenance of a commercial property is business credit, so long as the structure continues to serve a commercial function.

A-58. Q: A customer who currently owns a home and a vacant lot obtains a loan from a creditor to finance construction of a new residence on the lot. The loan is secured by the customer's current home. Is this covered credit?

A: No, the loan is exempt.

A-59. Q: An earlier question (A-6) asked about the application of Regulation B (Equal Credit Opportunity) to creditor actions to restrain consumer credit growth as contemplated by Subpart A. Are any modifications in Regulation B contemplated?



A: No. The regulation continues to apply in the same manner as before. No modification in Regulation B is considered necessary to take account of creditor actions prompted by Subpart A. With regard to new accounts, if a creditor rejects all new applications because of the credit restraint program that would not be viewed as an "adverse action" under Regulation B. However, if the creditor rejects particular applicants because of tighter creditworthiness standards prompted by the credit restraint program, the creditor must give specific reasons for the denial. With regard to existing accounts, if any adverse change applies to all accounts, no "adverse action," within the meaning of Regulation B, is considered to have occurred. If the change is imposed on a more selective basis, the creditor may be required to treat the change as an adverse action and provide an adverse action notice. It must be emphasized that any actions taken by a creditor that may have the effect of denying credit to a class of persons on a prohibited basis will be measured by the same standards as now apply to determine whether those actions violate Regulation B.

#### Special Credit Restraint Program

S-12. Q: Are any classes of bank loans (such as loans to small business) to U.S. residents "exempt" or excluded from the 6 to 9 percent quantitative guideline for growth in bank loans in the Special Credit Restraint Program?

A: No. The qualitative objectives of the Program call upon banks and other lenders to ensure that flows of credit to small business, farmers, homebuyers, smaller correspondent banks and others as stipulated in the Program are maintained. However, growth in these loan categories is included in the overall quantitative guidelines relating to lending. Consequently, where necessary, individual banks are expected to exercise special restraint on loans to large business customers or others that have access to other sources of funds so that credit to groups requiring special attention can be maintained. The guidelines thus apply to overall loan growth; the special categories are not "exempt" in judging overall growth, but the restraint should fall on other sectors.

S-13. Q: How can a bank that is already high in or above the 6 to 9 percent range cope with takedowns of legally binding commitments that would push the bank's overall loans over or further beyond the 9 percent limit?

A: As a first step, banks should review existing commitments carefully to determine which are, in fact, legally binding. Also, banks in such a position should attempt aggressively to encourage prospective borrowers to postpone such takedowns where possible and/or to consider alternate sources of funding. If these options are not realistic and the loans are made, the Federal Reserve would fully expect that such a bank would be extra-



ordinarily careful about making new commitments, and that it would not accommodate such loans by reducing credit to small business, homebuyers, farmers and other similar customers. Moreover, in these circumstances, the Federal Reserve's attitude toward the bank's performance will be importantly influenced by the bank's liquidity and capital position relative to that of its peers.

S-14. Q: How firm is the 6 to 9 percent limit on loan growth? Under what circumstances will faster growth be acceptable?

A: In the current economic and market circumstances, the 6 to 9 percent range is a firm guideline for the December 1979-December 1980 period. Banks should judge current trends in the light of the yearly target. It is recognized that loans or commitments made during the first two months of the year, seasonal peaks in lending (as, for example, around tax dates), exceptionally strong local growth, or other particular factors might cause some banks temporarily to exceed a path consistent with the guideline. In such cases, special consultations will be held with the regional Federal Reserve Bank in which the bank(s) should be prepared to explain and justify the circumstances surrounding the departure and to discuss plans for slowing the pace of lending, particularly in areas not subject to special treatment, so as to move back within the range. One important element in such special consultations will be the lending pattern of the bank in relation to its capital and liquidity position.

S-15. Q: Does the 6 to 9 percent growth limit apply equally to the credit extended by nonbank subsidiaries of bank holding companies?

A: Yes, the general limitation on loan growth does apply to the bank and nonbank subsidiaries of bank holding companies. The Federal Reserve is mindful of the possibility that each unit in a bank holding company may not experience the same rate of credit expansion. In these circumstances the Federal Reserve will look at the aggregate rate of credit expansion by the overall holding company as well as the performance of individual reporting units within the holding company structure.

S-16. Q: Does the 6 to 9 percent growth limit apply to the credit extended by finance companies that are not affiliated with bank holding companies?

A: Finance companies are expected to respect the overall intent of the Program. Consistent with the framework of the Program, no special restraint is suggested for consumers and small business lending, which would include auto dealers with credit lines of \$1.5 million or less. Lending to larger businesses should be reduced to accommodate any increases in consumer and automobile paper so that the overall growth can stay within the guideline. The Federal Reserve recognizes that in some instances the firm's customer base and/or seasonal or



cyclical patterns of lending by such finance companies may require evaluation on a case-by-case basis. In such instances, finance companies should, in their subsequent reporting to their respective Federal Reserve Banks, provide appropriate information bearing on such circumstances.

S-17. Q: Page 1 of the Federal Reserve press release of March 14 states that special efforts will be made to maintain credit for farmers and small businessmen, including accommodation of the needs of correspondent banks serving such customers. What is the nature of these special efforts?

A: The Federal Reserve expects that individual banks without special lending and credit availability programs will design appropriate programs to maintain the flow of such credit and promptly put them into effect. These programs should reflect the nature of that bank's business, its existing customer base, and other appropriate circumstances. While the nature and substance of such programs must and should be determined by the individual banks, the banks are asked to inform their Federal Reserve Bank of their programs. Moreover, bank examiners will monitor the implementation of these special programs as part of the usual examination process.

S-18. Q: The program states that account will be taken of a bank's capacity to finance its loan portfolio without straining capital or liquidity. How will this be done?

A: The Federal Reserve is mindful of the fact that both the capital and liquidity positions of some banks are lower than may be desirable over time and that some banks are therefore not as well equipped as others to absorb increases in lending. In view of this, and in light of the continuing interest of the Federal Reserve and the other Federal bank regulatory agencies in promoting stronger capital and liquidity positions in the banking industry, the Federal Reserve will be especially sensitive to those banks with loan growth in the upper area of, or temporarily above, the guideline range at the expense of further declines in already relatively low capital and liquidity positions. In some instances, capital and liquidity considerations may require special consultations even when a bank's loan growth is well within the specified range.

S-19. Q: Are de novo banks subject to the 6 to 9 percent limitation on loan growth in 1980?

A: Because of the impossibility of establishing a meaningful base period, de novo banks will require special consideration on a case-by-case basis. In general, the Federal Reserve will monitor these institutions in the light of their capital positions and of the past and present growth patterns of other de novo banks. Particular attention will be paid to the activities of de novo banks established by or related to bank holding companies.