

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8798]
April 14, 1980

CONSUMER CREDIT RESTRAINT

Alternative Seasonally Adjusted Base for Special Deposits

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

Enclosed is the text of the amendments, effective April 2, 1980, to Subpart A of the regulation on Credit Restraint, issued by the Board of Governors of the Federal Reserve System, concerning an alternative base period for calculation of the 15 percent special deposit requirement, which was announced in our Circular No. 8793, dated April 7, 1980. The amendments provide creditors with an alternate method to determine their base according to a formula that accommodates seasonal variations in outstanding covered credit. The amendments also impose additional reporting requirements on creditors that select the alternate method for determining the base.

Legal questions regarding the amendments may be directed to Donald L. Bittker, Assistant Counsel, Legal Department (Tel. No. 212-791-5036); other questions may be directed to the Consumer Credit Reports Unit (Tel. Nos. 212-791-7721 through 7725).

ANTHONY M. SOLOMON,
President.

Board of Governors of the Federal Reserve System

CREDIT RESTRAINT

AMENDMENTS TO SUBPART A—CONSUMER CREDIT

(Alternative Base)

(effective April 2, 1980)

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: On March 14, 1980, the Board adopted provisions to restrain the extension of certain types of consumer credit (12 C.F.R. Part 229, Subpart A), pursuant to the Credit Control Act (12 U.S.C. §§ 1901-1909) as implemented by Executive Order 12201. The provisions require a covered creditor to maintain a special non-interest bearing deposit with the Federal Reserve on the outstanding covered credit during a month that exceeds the creditor's base amount of covered credit. As originally promulgated, the regulation fixed the base as the amount of covered credit outstanding on March 14, 1980 (or the last day or other period immediately prior to March 14, 1980 for which data are available). For many creditors, that base date coincided with a seasonal low point in the amount of covered credit outstanding over a year. Consequently, they would be penalized for normal seasonal increases in credit that are not the result of underlying credit growth. In order to prevent undue hardship to creditors that experience seasonal fluctuation, the Board has amended Subpart A of its credit restraint regulation. The amendment provides a creditor an alternate method to determine its base according to a formula that accommodates seasonal variation in outstanding covered credit. Furthermore, the amendment imposes an additional reporting requirement on creditors that select the alternate method for determining the base.

EFFECTIVE DATE: April 2, 1980.

FOR FURTHER INFORMATION CONTACT: Barbara D. Ranagan, Attorney, Division of Consumer and Community Affairs; Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202/452-3000).

For this Regulation to be complete, retain:

- 1) Regulation pamphlet entitled "Credit Restraint," adopted effective March 14, 1980.
- 2) Subpart D, effective March 28, 1980.
- 3) Amendment to Subpart B, effective March 28, 1980.
- 4) Amendment to Subpart A (*Change in Terms of Open-End Credit Accounts*), effective April 2, 1980.
- 5) This slip sheet.

[Enc. Cir. No. 8798]

SUPPLEMENTARY INFORMATION: On March 14, 1980, the Board adopted a consumer credit restraint program that is designed to curb growth in certain types of consumer credit. As a deterrent to credit expansion, the regulation requires a creditor to maintain a special deposit with the Federal Reserve equal to 15 per cent of the growth in the creditor's outstanding covered credit over the base. Members of the Federal Home Loan Banks and all other savings and loan associations 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, maintain the special deposit with the Central Liquidity Facility. Under the regulation the base is the fixed amount of covered outstanding on the base date, which is March 14, 1980 (or the last day or other period immediately prior to March 14, 1980 for which data are available).

The base, as currently defined, does not make any provision for seasonal variation in amounts of credit outstanding which many creditors experience. Those creditors, particularly in the retail and oil industry, would be penalized for increases in credit that are attributable solely to seasonal factors. In order to align the regulatory requirements with the program objective of curbing growth, and in order to prevent an inequitable burden on covered creditors that cannot avoid large seasonal increases in outstanding covered credit, the Board has amended the consumer credit restraint regulation (12 C.F.R. Part 229, Subpart A) to provide all creditors, including those that already filed a base report, an alternative method of determining the base that accommodates seasonal variation and allows for a modicum of growth as well.

The amended definition of "base" gives a creditor the option of using a constant base, as the regulation currently provides, or a variable base. The variable base is calculated according to a formula that accommodates seasonal variations reflected by the creditor's own credit data. A creditor must make an initial selection of one method or the other of determining its base and be bound by its choice for the duration of the program. A creditor that chooses the variable base must file a base report by April 29, 1980 that provides the amount of covered credit outstanding in each of the twelve months from April, 1979 to March, 1980. The formula is based on those monthly figures and a factor that provides a diminishing allowance monthly for year-to-year growth. The formula thus yields a base that is directly related to the creditor's pattern of lending over the past twelve months. The formula for the base in any month "i" is:

$$\text{Base for any month "i", 1980} = \left[\left(\frac{\text{Credit outstanding on base date}}{\text{Credit outstanding on same date, 1979}} - 1 \right) \times \left(\frac{12-n}{12} \right) + 1 \right] \times \text{Credit outstanding in same month "i", 1979}$$

The letter "n" equals the number of months after March; for example, in calculating the base for May, 1980, "n" would be 2.

The following is a step-by-step explanation of how the variable base formula described above works for the month of May, 1980. First the amount of covered credit outstanding on the base date (March 14, 1980 or other period in March, 1980) and the amount of covered credit outstanding for the same date or period in March 1979 are determined. Second, the percent increase (or decrease) in covered credit outstanding, expressed as a proportion, is computed by subtracting the number one from a ratio with the March 1980 figure as the numerator and the March 1979 figure as the denominator. Third, this increase is multiplied by another fraction in which the numerator is twelve less the number of months from March, 1980 -- in this case two, since May is the second month after March -- and in which the denominator is twelve. The number one is then added to the product computed in the third step, and the resulting figure is multiplied by the total amount of covered credit outstanding in May, 1979.

Covered creditors that select the variable base are required, under the amended regulation, to file a base report by April 29, 1980. Covered creditors that have already filed the April 1 base report may still select the variable base alternative and file the new base report. The base report forms will be available from the Reserve Banks. The base report shall contain the creditor's monthly data on outstanding covered credit for the twelve months prior to April, 1980, as well as the amount of covered credit outstanding on the base date and on the same date or period in March, 1979. In addition, the base report shall state the base for each month from April, 1980, through March, 1981, calculated according to the formula. The computational process has been simplified on the base report forms to ease the reporting requirement. A sample form has been completed with the name and outstanding covered credit figures of a fictitious creditor and is included as an appendix.

The Board has also amended the regulation to clarify the reporting requirements in §§ 229.3(a) and 4(a) of its consumer credit restraint regulation. The purpose of this technical amendment is to facilitate compliance with the regulation by creditors that keep records on an other-than-calendar month basis -- e.g., those whose books are kept on the basis of a four-week month, followed by a five-week month, followed by a four-week month, and so forth. The Board wishes to make clear that creditors may compile data and report according to whatever type of "month" they customarily employ, and that the regulation does not require modification of recordkeeping done on an other-than-calendar month basis. However, creditors must still file reports by the second Monday of the calendar month following their reporting "month" and maintain the special deposit beginning on the fourth Thursday of the calendar month following their reporting "month."

These actions are being taken to facilitate implementation by certain creditors of the Board's credit restraint measures. Because those measures are already in effect and specifically because creditors must comply with the approaching reporting and special deposit maintenance deadlines, the Board believes that publication of this rule for comment or any delay in its effective date 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 amends 12 C.F.R. Part 229, Subpart A, effective March 14, 1980 as follows:

SECTION 229.2 - DEFINITIONS

* * *

(b) "Base" means either

(1) a constant amount, which is the larger of \$2 million or the amount of covered credit outstanding as of the close of business on the base date; or

(2) a variable amount, which is the larger of \$2 million or a seasonally projected amount determined by application of a factor each month to the amount of covered credit outstanding in the same month in the preceding year. This factor is based on a comparison of the covered credit outstanding on the base date and the covered credit outstanding in the same date in March 1979, expressed as a ratio, which is progressively diminished by one-twelfth each month. The base for each month after March 14, 1980 equals the factor described above, multiplied by the amount of covered credit outstanding in the corresponding month in the year before. The formula for the base in any month "i" is:

$$\text{Base for any month "i", 1980} = \left[\left(\frac{\text{Credit outstanding on base date}}{\text{Credit outstanding on same date, 1979}} - 1 \right) \times \left(\frac{12-n}{12} \right) + 1 \right] \times \text{Credit outstanding in same month "i", 1979}$$

where "n" is a variable representing the number of months after March, 1980. (Therefore, "n" equals one in April, "n" equals two in May, and it increases progressively in each succeeding month up to 12 in March, 1981.)

For purposes of filing base and monthly reports as required by § 229.3, a creditor must choose either the constant amount base or the variable amount base and may not vary that choice.

* * *

SECTION 229.3 - REPORTS

(a) (1) Each covered creditor with \$2 million or more of covered credit outstanding as of the base date that selects the constant amount base described in § 229.2(b) (1), 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) (2) Each covered creditor with \$2 million or more of covered credit outstanding as of the base date that selects the variable amount base described in § 229.2(b) (2) shall file a base report by April 29, 1980. Each covered creditor with covered credit outstanding in excess of \$2 million on a average basis during any month after the base date that selects the variable amount base shall file a base report together with the monthly report required in paragraph (a) (3) of this subsection. The base report shall state the following: (i) the amount of covered credit outstanding on the base date; (ii) the amount of covered credit outstanding on the same date (or other period) in 1979; (iii) the average amount of covered credit outstanding during each of the twelve months (on a daily average basis if such data are available) beginning April, 1979 and ending March, 1980; (iv) the variable amount base for each of the twelve months beginning April, 1980 and ending March, 1981.

(a) (3) 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 month by the second Monday of the following calendar 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.

* * *

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 month exceeds its base. The corresponding period during which the special deposit shall be maintained begins on the fourth Thursday of the calendar month

following the month for which the report was filed and continues through the Wednesday before the fourth Thursday of the next calendar month. The special deposit shall be maintained in collected funds in the form of U.S. dollars.

By order of the Board of Governors of the Federal Reserve System, effective April 2, 1980.

(Signed) Griffith L. Garwood

Griffith L. Garwood
Deputy Secretary of the Board

[SEAL]

APPENDIX

Section 5: To be Completed by Creditors That Elect a Variable Base

Subsection A

| | Bils. | Mils. | Thous. |
|--|---------|----------------|--------|
| Line 1: Amount of covered consumer credit outstanding on March 14, 1980 ¹ | | 55 | 650 |
| Line 2: Amount of covered consumer credit outstanding one year prior to the date or period used for Line 1 | | 45 | 725 |
| Line 3: Line 1 divided by Line 2 (calculate to four decimal places rounded) | | 1.1421 | |
| Line 4: Line 3 minus 1.0000 (if negative, enter negative amount) | | .1421 | |
| Line 5: Date or period for which base data (Lines 1 and 2 above) are submitted | Line 1: | March 14, 1980 | |
| | Line 2: | March 14, 1979 | |

1. For a creditor that has daily credit data available, report the data as of 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, report data as of the period immediately before March 14, 1980 for which credit data are available.

Subsection B

| Month | Average Amount of Covered Consumer Credit Outstanding | | |
|-------------------------|---|-------|--------|
| | Bils. | Mils. | Thous. |
| 1. April 1979 | | 48 | 532 |
| 2. May 1979 | | 49 | 500 |
| 3. June 1979 | | 50 | 185 |
| 4. July 1979 | | 50 | 770 |
| 5. August 1979 | | 51 | 459 |
| 6. September 1979 | | 52 | 458 |
| 7. October 1979 | | 52 | 934 |
| 8. November 1979 | | 54 | 668 |
| 9. December 1979 | | 59 | 925 |
| 10. January 1980 | | 57 | 381 |
| 11. February 1980 | | 56 | 124 |
| 12. March 1980 | | 55 | 485 |

PENALTIES. For each willful violation of 12 C.F.R. 229 Subpart A, 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.

Subsection C

| 1 Ratio: enter on each line the ratio computed above in Subsection A, Line 4; if negative, enter negative amount. | 2 Adjustment $(\frac{12-n}{12})^1$ | 3 Col. 1 x Col. 2 (if negative, enter negative amount) | 4 Constant | 5 Algebraic sum of Col. 3 + Col. 4 (result will always be positive) | 6 Amount of covered consumer credit outstanding during the corresponding period one year ago | | | Base Col. 5 x Col. 6 | | | | |
|--|--|--|---------------|---|---|-------|-------|-------------------------|-------------------------|-------------------|-------|--------|
| | | | | | Enter the amount from Subsection B: | Bils. | Mils. | Thous. | Computation Month | Base ² | | |
| | | | | | | | | | | Bils. | Mils. | Thous. |
| . 1,4,2,1 | 0.91667 | . 1,3,0,3 | 1.0000 | 1. 1,3,0,3 | Line 1 | | 48 | 532 | April 1980 ³ | | 54 | 856 |
| . 1,4,2,1 | 0.83333 | . 1,1,8,4 | 1.0000 | 1. 1,1,8,4 | Line 2 | | 49 | 500 | May 1980 | | 55 | 361 |
| . 1,4,2,1 | 0.75000 | . 1,0,6,6 | 1.0000 | 1. 1,0,6,6 | Line 3 | | 50 | 185 | June 1980 | | 55 | 535 |
| . 1,4,2,1 | 0.66667 | . 0,9,4,7 | 1.0000 | 1. 0,9,4,7 | Line 4 | | 50 | 770 | July 1980 | | 55 | 578 |
| . 1,4,2,1 | 0.58333 | . 0,8,2,9 | 1.0000 | 1. 0,8,2,9 | Line 5 | | 51 | 459 | August 1980 | | 55 | 725 |
| . 1,4,2,1 | 0.50000 | . 0,7,1,1 | 1.0000 | 1. 0,7,1,1 | Line 6 | | 52 | 488 | September 1980 | | 56 | 220 |
| . 1,4,2,1 | 0.41667 | . 0,5,9,2 | 1.0000 | 1. 0,5,9,2 | Line 7 | | 52 | 934 | October 1980 | | 56 | 065 |
| . 1,4,2,1 | 0.33333 | . 0,4,7,4 | 1.0000 | 1. 0,4,7,4 | Line 8 | | 54 | 668 | November 1980 | | 57 | 259 |
| . 1,4,2,1 | 0.25000 | . 0,3,5,5 | 1.0000 | 1. 0,3,5,5 | Line 9 | | 59 | 925 | December 1980 | | 62 | 052 |
| . 1,4,2,1 | 0.16667 | . 0,2,3,7 | 1.0000 | 1. 0,2,3,7 | Line 10 | | 57 | 381 | January 1981 | | 58 | 741 |
| . 1,4,2,1 | 0.08333 | . 0,1,1,8 | 1.0000 | 1. 0,1,1,8 | Line 11 | | 56 | 124 | February 1981 | | 56 | 786 |
| . 1,4,2,1 | 0.00000 | 0. 0,0,0,0 | 1.0000 | 1. 0,0,0,0 | Line 12 | | 55 | 485 | March 1981 | | 55 | 485 |

1. The letter "n" equals the number of months after March; for example, in calculating the base for May 1980, "n" would be 2.

2. For creditors that elect a variable base, the base for the special deposit requirement for each computation month is either (1) the amount shown in Column 7 above for the respective computation month or (2) \$2 million, whichever is larger.

3. The first computation period covers March 15, 1980 through April 30, 1980. Thereafter, each computation period begins on the first day of each month and ends on the last day of that month.

I certify that the information shown on this report is correct.

Authorized Signature

Title

Area Code and Telephone Number

This report must be filed no later than April 29 with the institution designated below.

All savings and loan associations and cooperative banks should return this report to the Federal Home Loan Bank.

All credit unions should return this report to the Central Liquidity Facility of the National Credit Union Administration.

All other creditors should return this report to the Federal Reserve Bank in whose district the respondent company is located.