FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 8868
July 3, 1980

COMPLETION OF PHASE-OUT OF CREDIT RESTRAINT PROGRAM

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

The following statement was issued today by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board today announced plans to complete the phase-out of the special measures of credit restraint that had been put in place, or reinforced, on March 14 of this year.

The special measures were designed to supplement, temporarily, more general measures of credit and monetary control, and recent evidence indicates that the need for those extraordinary measures has ended. For the year to date, credit expansion, particularly at banks, is clearly running at a moderate pace. In recent months, there has been apparent contraction in consumer borrowing, indications are that anticipatory and speculative demands for credit have subsided, and funds have been in more ample supply.

While the special conditions necessitating the extraordinary credit restraints are no longer present, the Board emphasized that its general goals of achieving restrained growth in money and credit aggregates are unchanged. Those continuing goals are closely related to its concern with further reduction of inflationary pressures in the economy.

The Board previously, on May 22, had halved the special deposit requirements in connection with the credit restraint program and had modified the guidelines for the special program for restraining bank credit growth.

Today, the Board scheduled completion of the phase-out by taking the following measures:

— Elimination of the remaining 5 percent marginal reserve requirement on managed liabilities of large banks and agencies and branches of foreign banks. This action applies to managed liabilities beginning July 10, for reserves required beginning July 24. In addition, the Board eliminated, effective the same date, the 2 percent supplementary reserve requirement applicable to member banks on large time deposits. This requirement had been initiated in November 1978.

— Elimination of the remaining 7-1/2% special deposit requirement that applies to increases in covered consumer credit, effective for covered credit extended in June and thereafter. Thus, no further special deposits will be required after the present deposit maintenance period ends on July 23. To permit orderly implementation of changes now in process and to assure adequate notice of such changes to credit users, the Board's rule permitting creditors to modify the terms of credit accounts will remain in effect for notices mailed only on or before September 5. *

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* Under the Consumer Credit Restraint Program, to make certain changes in terms of accounts, a creditor must send a 30-day advance notice explaining the changes and giving the consumer the option of paying down the existing balance according to the original terms. Subsequent use of the account by the consumer is deemed to be acceptance of the new terms.

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— Elimination of the remaining 7-1/2% special deposit requirement that applies to increases in covered assets of money market mutual funds and other similar institutions. This action applies to covered assets beginning July 28, and hence no special deposits will be required beginning August 11.

— Phase-out of the Special Credit Restraint Program under which banking institutions and finance companies were asked to limit domestic loan growth to a range of 6 to 9 percent in 1980. Available data for the first five months of this year indicate that bank loans to domestic borrowers have increased at around a 3 percent annual rate. Banking institutions with deposits of $300 million or more will be expected to complete reports (either the quarterly report, or the monthly report for the larger institutions) due under this program on July 10 for data as of June 30. After those reports are received, discussions will be held with individual banks to review experience with the special program.

In phasing out the aggregate 6-9% guideline for individual institutions, the Board feels that normal competitive and market incentives can again be relied upon to assure the flow of credit consistent with normal banking standards, and that qualitative guidelines are therefore no longer appropriate. However, the Board remains concerned over the volume of credit that appears to have flowed to essentially speculative purposes in the past, and is considering the need for additional means of monitoring such developments in the future.

The text of the *Federal Register* notice reflecting the Board's actions regarding the phase-out of the Credit Restraint Program will be sent to you as soon as it is available.

Any questions on these matters may be directed to the persons listed in our Circular No. 8794, dated April 9, 1980.

ANTHONY M. SOLOMON,
President.