

Bank and finance house lending 1970/71

*Notice issued by the Bank of England
to banks and finance houses on
14th April 1970*

The Chancellor of the Exchequer announced in his Budget speech this afternoon that a gradual and moderate increase, of the order of 5% over the twelve months to March 1971, in lending which has hitherto been subject to ceiling restrictions would be consistent with the main economic objectives. This Notice sets out the guidance which the banks and the leading finance houses are now asked to observe.

The Bank asked in November 1968 that banks and finance houses should restrict their sterling lending to the domestic private sector and to overseas borrowers (other than fixed rate lending under the special schemes for export and shipbuilding finance) by reference to the level of that lending just prior to devaluation in November 1967. That request is superseded by the terms of this Notice.

Sterling lending both by the clearing banks and by the Scottish banks to the domestic private sector and to overseas borrowers (other than fixed rate lending under the special schemes for export and shipbuilding finance) should not rise in the aggregate by more than about 5% over the twelve months starting from mid-March 1970.

The rate of growth in lending by the other banks will need similarly to be kept within bounds. Here aggregate figures are less easily applicable and each of them individually is asked to ensure that its sterling lending to the domestic private sector and to overseas borrowers (other than fixed rate lending—if any—under the special schemes for export and shipbuilding finance) does not rise by more than 7% over the twelve months starting from mid-March 1970.

Banks are also asked not to allow their sterling acceptances outstanding to rise faster than the rates specified above for their sterling lending.

The provisions of the Special Deposits scheme and of the Cash Deposits scheme will be used, as appropriate, to support the guidance set out in this Notice. A call for Special Deposits has been made today.

The members of the Finance Houses Association and those non-member finance houses who receive this Notice are asked to ensure that, over the twelve months starting from 31st March 1970, their lending does not rise by more than 5% above the amount outstanding at that date.

Any increase in the lending covered by the guidance given in this Notice should, subject to normal banking criteria, be directed to the finance of export transactions not eligible for the fixed rate schemes and to finance for production and investment—not only in manufacturing industry but also in agriculture—which can be expected to contribute to the balance of payments over the coming years by making possible increased exports, higher invisible earnings or savings in imports. It is not intended that there should be any increase in finance for personal consumption whether extended directly to individuals or indirectly through retailers, dealers and others. Any personal loans related to the purchase of goods subject to hire purchase terms control should continue

to be on terms no easier than those permitted by the Board of Trade for hire purchase contracts. Severe restraint should continue to be applied to lending for the finance of imports of manufactured goods for home consumption or of imports which are to be added to stocks; and for the finance of import deposits.

The guidance set out above applies to credit made available through overdrafts, advances, the discounting of commercial bills and through leasing facilities extended directly by banks and finance houses. The special arrangements which the Bank have made with certain banks and finance houses for leasing business conducted through subsidiary companies are unaffected.