

Credit notice

Text of a letter which the Governor of the Bank of England sent to the main banking associations on 11th September 1973

Bank lending

After two years of active competition in the provision of credit, the greater part of the banking system is now much closer to being fully lent. In addition, the banks are now being asked (below) to limit their bidding for small deposits. They will thus find it more difficult to provide the resources to meet all their customers' requirements. It is, however, clearly necessary, if the growth of the economy is to proceed soundly, that the demand for credit to finance a higher volume of exports and industrial investment and for other essential purposes should be satisfied. In order to ensure the availability of credit for such purposes it will in my view be necessary further to limit lending in the less essential areas. Accordingly I have to ask that all banks should in their lending policies adhere to this guidance on the direction of their lending. This will involve significant restraint on the provision of credit for persons (other than for house purchase) and further restraint on lending for property development and financial transactions.

Building societies

In the Bank's consultative document on competition and credit control it was recognised that circumstances might arise in which competition for individuals' savings might require to be restrained in the interests of the finance of housing. Such circumstances at present prevail and I have to ask that, with immediate effect, banks shall now observe a limit of 9½% on the rate of interest which they pay on deposits in amounts of under £10,000. The technical details of this arrangement are set out in the enclosed note [see below].

'Merry-go-round' or interest arbitrage activities

In view of the recent indications of the extent to which some companies have been drawing on overdraft facilities, not for the purposes for which the facilities were sought but to invest in higher-yielding certificates of deposit or other money market instruments, I have been pleased to learn that some banks have recently been taking steps to curtail this practice. Such activities operate to put unnecessary pressures on money markets and are thus harmful. Accordingly I encourage all banks to be on the watch for, and active in combatting, this misuse of their lending facilities.

Notice to banks

The Bank of England have today requested all banks to pay no more than 9½% on any deposit with them of less than £10,000. This request applies with immediate effect and until further notice. These deposits are defined as interest-earning balances of less than £10,000 of whatever term to maturity. This limit will not be applied to any existing deposits which have been placed up to the close of business tonight at fixed rates for fixed or minimum periods. It will apply, however, to any existing deposits, as defined, which have been placed for fixed periods at floating rates or which have no fixed maturity or which are extended after the expiry of an initial minimum period.