

Credit control notices

Notice to banks and deposit-taking finance houses, issued by the Bank of England on 8 June 1978.

Supplementary special deposits

The Bank of England have decided, with the approval of the Chancellor of the Exchequer, to reintroduce the supplementary special deposits scheme.

The scheme will apply, as before, to all banks (except the Northern Irish banks) and to deposit-taking finance houses. These institutions will be required to place with the Bank supplementary special deposits, bearing no interest, in relation to the growth in each institution's interest-bearing resources on the following basis:

- (i) interest-bearing resources to be the interest-bearing element, defined as in the previous activation of the scheme, of each institution's eligible liabilities;
- (ii) the growth in each institution's interest-bearing resources as defined in (i) above to be measured from the average of the amounts outstanding on the make-up days for the six months November 1977 – April 1978;
- (iii) up to 50% of the growth in each institution's interest-bearing resources, on a three-month moving average basis, over and above the rate specified below, to be placed on non-interest-bearing deposit with the Bank, subject to:
 - (a) supplementary special deposits being repayable in full should the growth of an institution's interest-bearing resources fall back to the rate specified or in part if the amount of the excess should decline; and
 - (b) the requirement to lodge supplementary special deposits being capable of variation or suspension at the Bank's discretion.

An institution will be liable to lodge with the Bank during November 1978 a non-interest-bearing special deposit on the scale specified below if the average of its interest-bearing resources for the three months August – October 1978 exceeds by more than 4% the average amount outstanding on the make-up days in the six months November 1977 – April 1978. The arrangements thereafter will be notified in due course.

The rate of deposits required will be progressive with the excess rate of growth of each institution's interest-bearing resources; in respect of an excess of 3% or less, the rate will be 5%; in respect of an excess of over 3% but not more than 5%, the rate will be 25%; thereafter the rate will be 50%.

Supplementary special deposits will not be payable by any institution with a three-month moving average of interest-bearing eligible liabilities of less than £10 million. Any institution attaining an average of £10 million or more will become subject to the scheme, in accordance with detailed arrangements set out in a separate notice.

In order to conform with the limitation on the growth of their interest-bearing resources, as required above, banks and finance houses will need to restrain the growth of their lending. They are asked, in exercising this restraint, to have regard to the guidance on the direction of their lending set out in the Bank's notice of 11th April 1978.

Supplementary special deposits: institutions with low levels of interest-bearing eligible liabilities

Supplementary special deposits will not be payable by any institution with a three-month moving average of interest-bearing eligible liabilities of less than £10 million. An institution will become subject to the scheme if the average of its interest-bearing eligible liabilities exceeds £10 million in any period of three consecutive months beginning with the period March – May 1978. Its 'base-date' figure will be whichever is the higher of:

- (i) its actual interest-bearing eligible liabilities for the base-date period (the average of the amount at the six make-up dates from November 1977 to April 1978); or
- (ii) a notional figure [1] arrived at by deducting from £10 million an amount of growth since the base-period at the rate permitted without penalty to existing members of the scheme.

An institution will become subject to the scheme immediately if its base-date figure has been arrived at by method (i), or one month later if method (ii) is used. Its liability to make supplementary special deposits would be calculated in relation to the base-date figure by the same method as applies to institutions already subject to the scheme.

[1] For example, if an institution first attains a £10 million average of interest-bearing eligible liabilities in the three months of August, September and October 1978, when the penalty-free limit is to be 104% of the base-date average, this calculation would provide a base-date figure of $£10,000,000 \times \frac{100}{104}$ or £9,615,385. For an institution first attaining a £10 million average in earlier periods, the divisors and resulting notional base-date figures would be:

	Divisor	Base-date figure
1978 March – May	100 $\frac{1}{4}$	£9,933,775
April – June	101 $\frac{1}{2}$	£9,868,421
May – July	102	£9,803,922
June – August	102 $\frac{3}{4}$	£9,740,260
July – September	103 $\frac{1}{2}$	£9,677,419

Supplementary special deposits

The Bank of England announce that, with the approval of the Chancellor of the Exchequer, they have decided to continue the operation of the supplementary special deposits scheme for a further eight-month period.

The base on which the operation of the scheme rests will continue to be the average of each institution's interest-bearing eligible liabilities outstanding on the make-up days for the six months November 1977–April 1978. The application of the extension of the scheme will start from the average of each institution's interest-bearing eligible liabilities on the make-up days for September, October and November 1978 and end with the average of the make-up days for April, May and June 1979. The specified penalty-free rate of growth for each institution will be 1% per month^[1] of the base average. An institution will be liable to lodge with the Bank non-interest-bearing special deposits on the scale specified in the Bank's notice of 8th June 1978 in the month after the period in which the average of its interest-bearing resources exceeds the penalty-free rate of growth. The terms of the operation of the scheme otherwise remain as set out in the Bank's notice of 8th June 1978.

The Bank's guidance (set out in their notice of 11th April 1978) to banks and finance houses on the direction of their lending remains in force.

[1] Thus, for example, the penalty-free level for the period September–November 1978 will be 105% of the base average.