

Macroprudential policy

Do we have the data, the tools and the policies?

Based heavily on “Cyclical American
Macroprudential Policy” by Douglas J. Elliott,
Greg Feldberg, Andreas Lehnert

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Macroprudential Policy

Financial regulatory policies designed to constrain cyclical imbalances that threaten financial stability

- What is “too much” credit growth?
- When are asset prices “too high”? Is that even properly a question ex ante?
- Even if we know the answers, what tools can/should policymakers use?

But these aren't new questions

- “Macroprudential” is a neologism, but theory and practice have a long tradition
- Policymakers in many countries around the world are deploying macroprudential tools right now
- The U.S. had a rich history of using macroprudential tools until about 1980 or so

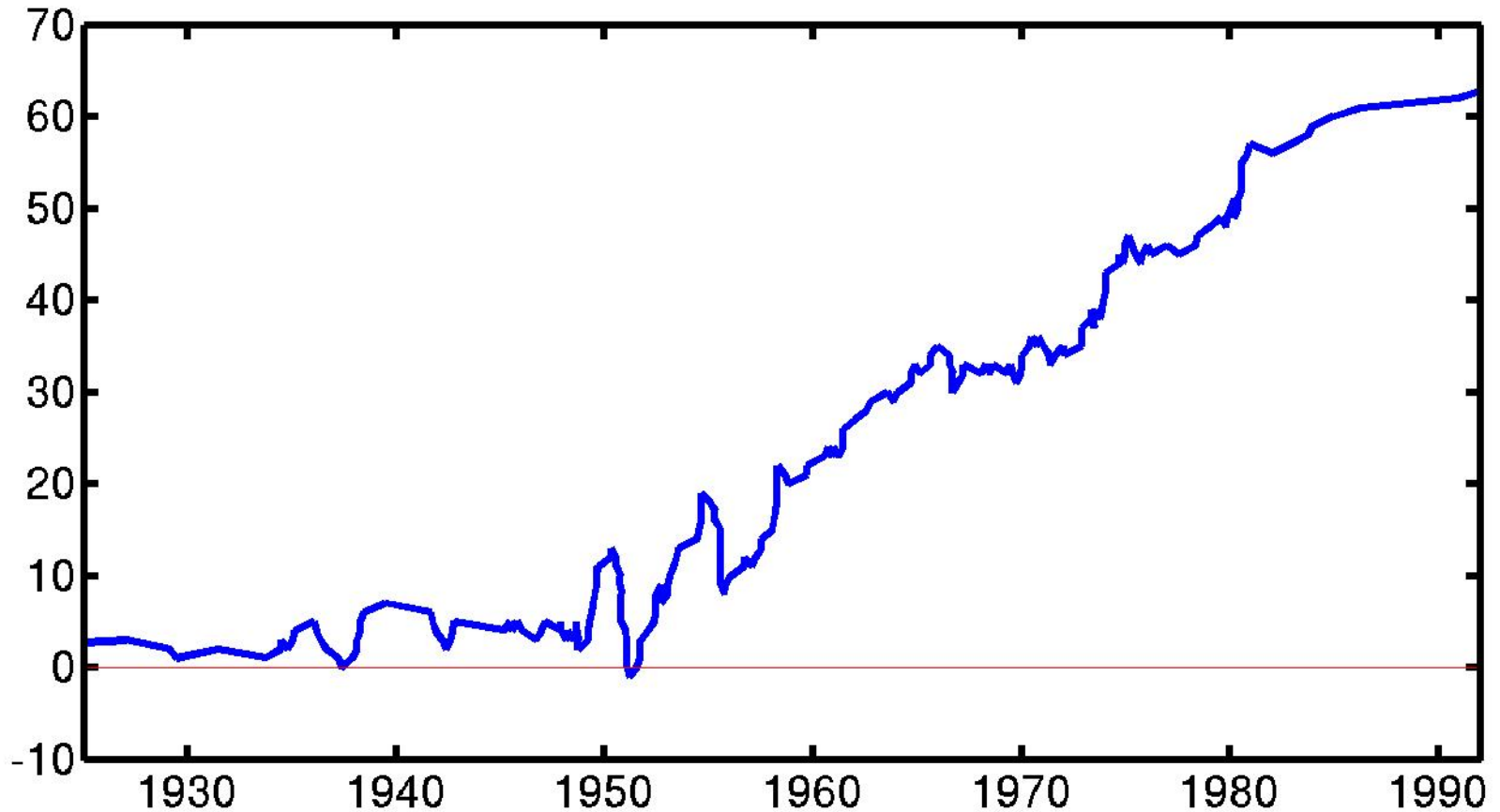
History of US MP Policy

- Tools of choice shifted over the years
- Complex and intrusive, difficult to administer, politically unpopular
- Used before and after the Treasury Accord
- Was able to constrain credit, but unable to “push on a string”

Types of MP Tools

1. Underwriting standards (LTV & maturity)
2. Margin requirements (Regs T & U)
3. Limits on portfolios (mainly at banks)
4. Reserve requirements
5. Bank liability rate ceilings (Reg Q)
6. Capital requirements
7. Supervisory pressure (e.g. SR letters)

Macroprudential stance: Net number of MP easings (tightenings) 1913—1992



Reserve Requirements as MP Tool

[The Banking Act]...places responsibility on the Board to use its power to change reserve requirements not only to restrict and minimize an injurious credit expansion or contraction after it has developed, but to anticipate and prevent such an expansion or contraction (Federal Reserve Board, 1936).

Underwriting Standards: Debate

Roosevelt 1941: “[l]iberal terms for such credit tend to stimulate demand for consumers’ durable goods the production of which requires materials, skills, and equipment needed for national defense”

upswings and downswings of the business cycle. **There is no way of preventing such excessive expansion and contraction except government regulation of the terms on which consumer credit shall be made available**, such as the down payment required on installment sales or financing and the length permissible for installment contracts

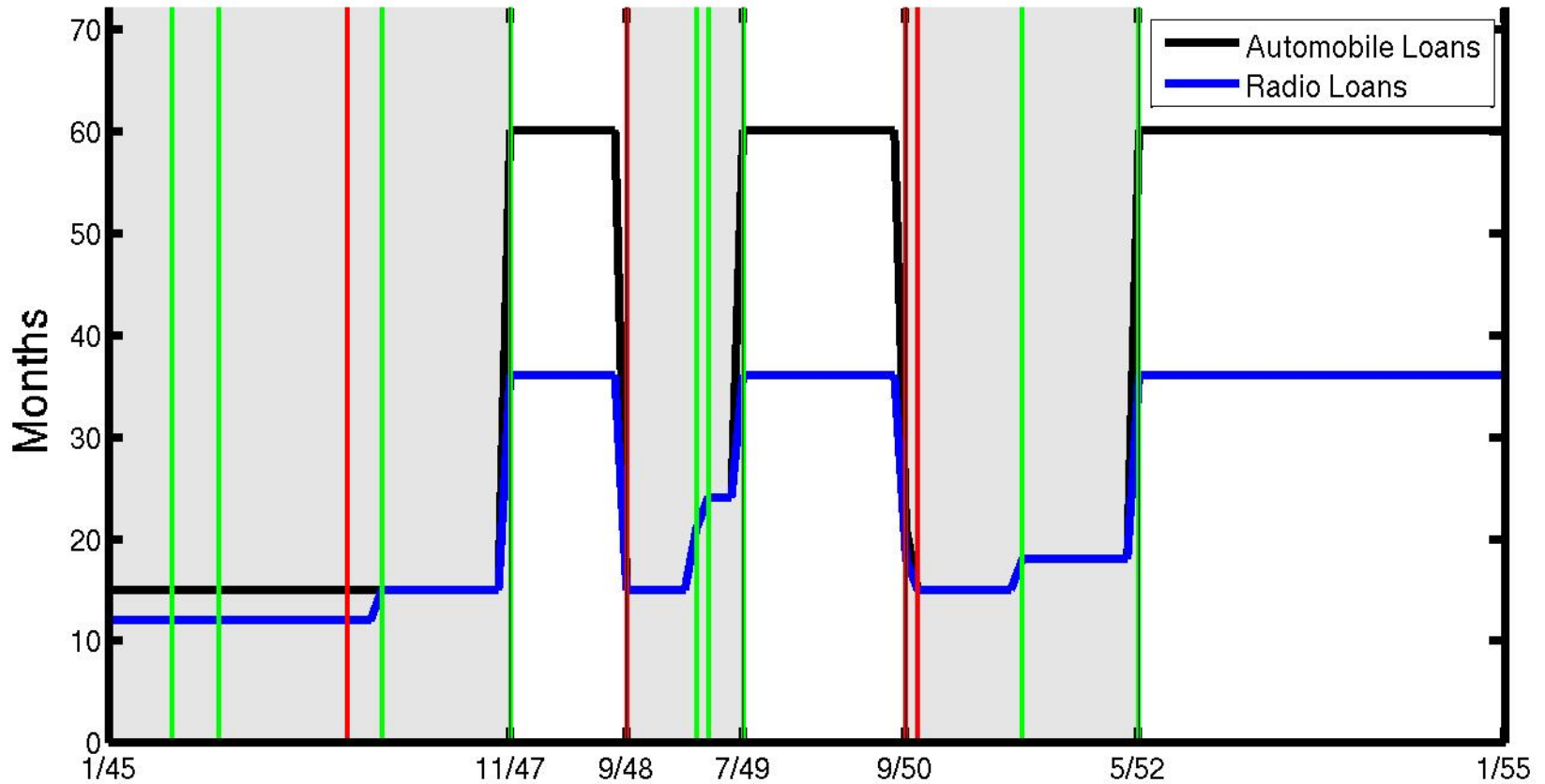
Did Reg W Affect Credit Growth?

- Reg W in force 1941—1952 but with gaps (allowed to expire three times)
 - Affected all kinds of lenders (nonbanks, banks)
 - Max LTV and maturity on loans secured by autos and radios
- While in force, terms were tightened and loosened
 - E.g. max maturity on loans secured by radios changed
- Examine how total consumer credit and bank credit were affected by Reg W

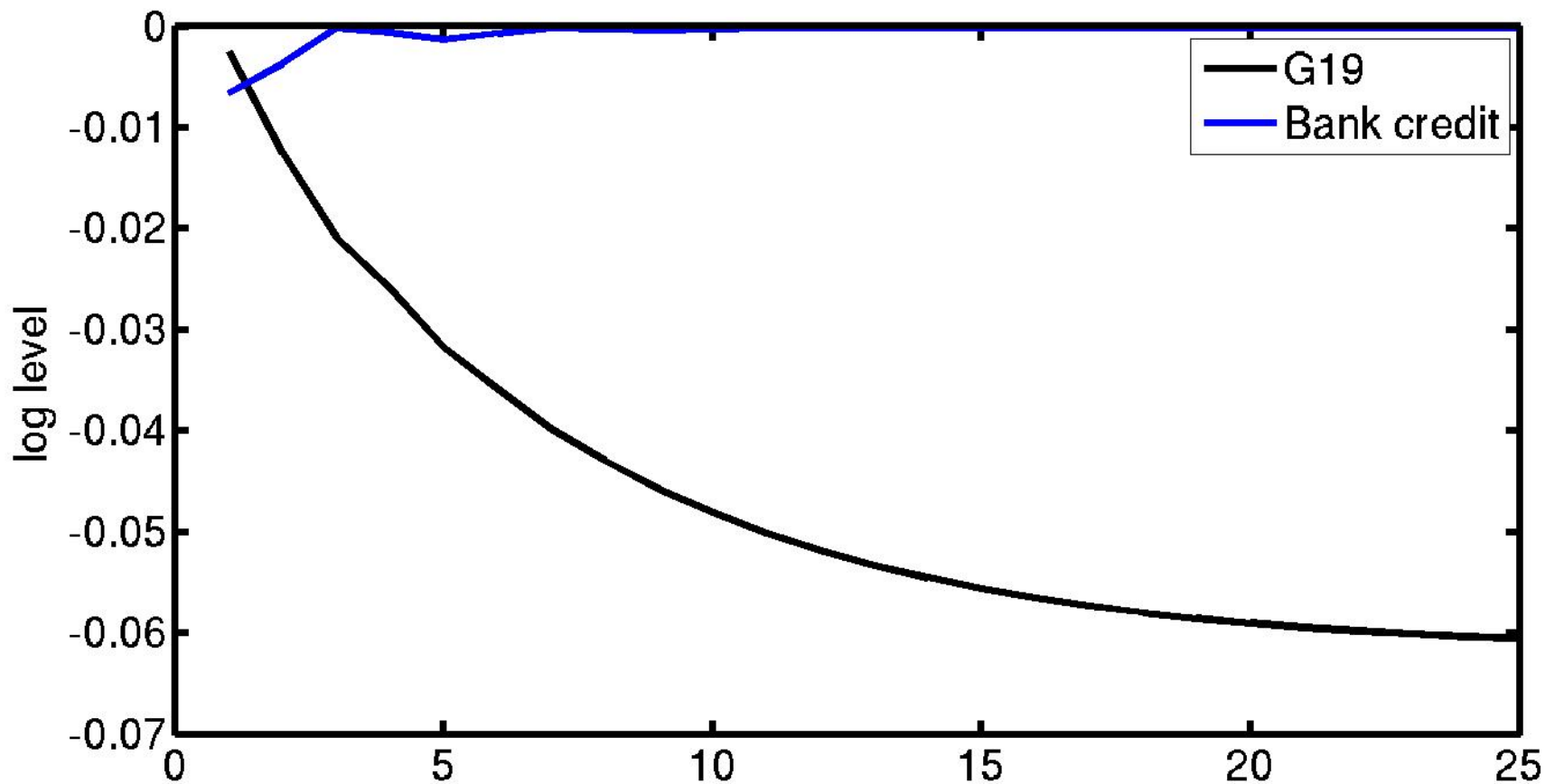
Underwriting Standards Summary

- Initially used as an emergency wartime measure but then seen as a key part of the macro toolkit.
- Complex to administer:
 - Fed created a Division of Selective Credit Controls,
 - Embroiled in administrative actions against small lenders
 - But this is the price of covering all U.S. lenders
- Always politically controversial—even in 1940s

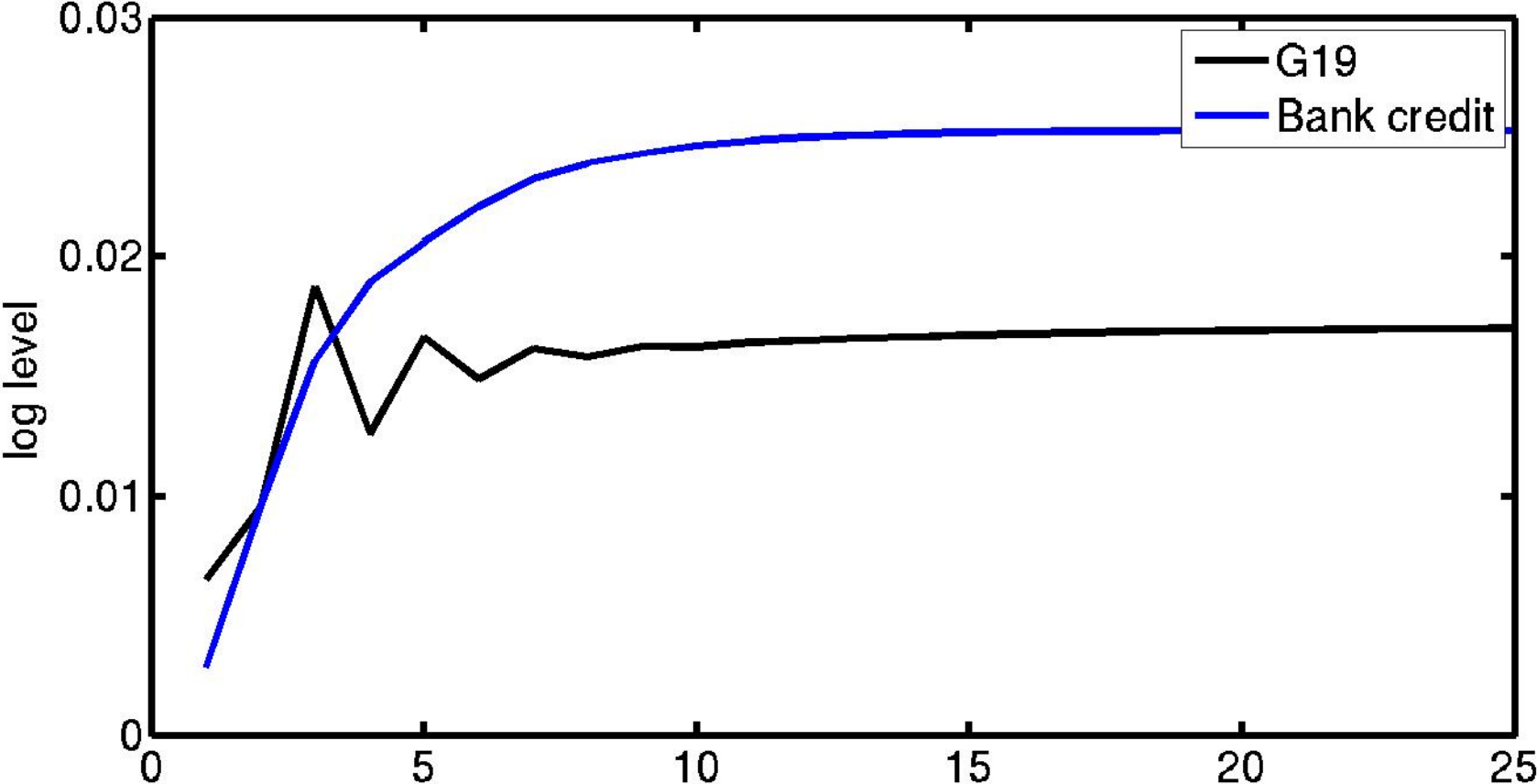
Reg W. limits on the maturity of select consumer loans



Effect of a tightening of Reg W standards on credit



Effect of an easing of Reg W standards on credit



Implications for information collection

- Think about what policymakers wanted to know in historical episodes
- Quantities:
 - Where is credit flowing, how many, and on what terms?
- Valuations:
 - What are people really paying for assets? How does this compare to the assets' periodic yield?