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AMERICAN INTERNATIONAL BANKING
Trends and Prospects

Paper By

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I. Introduction

For almost a decade, the foreign activities of American commercial banks have been influenced substantially by limitations on their ability to transfer funds from the United States. Partly as a by-product of those restrictions, the banks have recorded a spectacular growth in their network of foreign branches. Since the Administration has committed itself to phase out the restraints on capital outflow by the end of 1974, questions are naturally being asked about the implications of such a move for the future of American international banking. In fact, some observers--without waiting for details regarding the scope and timing

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I am grateful to several persons on the Board's staff for assistance in the preparation of this paper. Mr. Henry S. Terrell was particularly helpful in organizing statistics relating to sources and uses of funds by foreign branches of U.S. banks. He also helped in the overall coordination of the statistical analysis. Mr. Michael D. O'Connor was the primary source of information on the banking activity of Edge Corporations and on the profitability of foreign banking activity. (Mr. O'Connor in turn was assisted by Mr. Michael Martinson in the compilation of some of the international financial statistics.) A considerable amount of computer programming was required to obtain the data on which the analysis is based. Mrs. Veronica M. Harris helped with the processing of the monthly reports for the foreign branches, and Mrs. A. Christine James formulated the specifications for the program to provide cumulative ratios of categories of bank assets by size of bank as reported under the Voluntary Foreign Credit Restraint Program.

However, while I am grateful to members of the Board's staff for assistance, the analysis presented and views expressed in the paper are my own and should not be attributed to the staff--nor to my colleagues on the Board.

of steps to eliminate the restrictions--have already concluded that the outlook is far from promising for a number of banks which recently emerged on the international financial scene.

I have also been thinking about the foreign activities of American banks. To gain at least a modest basis on which to form judgments about prospects ahead, I thought it desirable to review the principal trends that have shaped and conditioned the banks' foreign business in recent years. The conclusions I reached from this review suggest that the future is by no means pessimistic--but neither is it aglow with promises of universal prosperity. In general, I would expect American commercial banks as a group to continue to play an expanding role on the world financial scene. But I would also expect to see a winnowing out of individual participants as the currents of competition in the provision of international banking services strain managerial talent and erode profit margins. It also seems evident that the competitive edge in this unfolding rivalry will be held by the largest banks--although a few smaller institutions (perhaps because of unique management talents or other special situations) may be able to survive and prosper.

These general observations are supported by the evidence presented in the rest of this paper. In Section II, the changing scope and geography of U.S. international banking are discussed.

The expansion of the banks' foreign branch network is examined in Section III. The character of the foreign branches' business is sketched in Section IV; this is done in terms of the sources and uses of their funds--with special reference to the differential performance of branches in the United Kingdom and shell branches in the Bahamas. A preliminary assessment of the profitability of international banking is presented in Section V; the tentative conclusion reached suggests that profit margins in foreign lending (particularly in London) which were already thin have been shaved further in the last year. While the dominant movement has been the expansion in the network of foreign branches, a subsidiary theme has been the establishment of out-of-state Edge Corporations by some of the largest banks in the country. The dimensions and competitive impact of this movement are discussed in Section VI. Commercial banks apparently played an important role in the capital outflow which resulted from the speculation against exchange rates earlier this year. While the full extent of this participation cannot be quantified, the readily available statistics summarized in Section VII, suggest that the banks' role was considerable. The performance of commercial banks with respect to the Guidelines established under the Voluntary Foreign Credit Restraint (VFCR) Program is discussed in Section VIII. Several features stand out: a sizable proportion of the foreign assets on the books of the banks' head offices is no

longer subject to the VFCR restraints. The elimination of export credits from restraint has produced a modest deconcentration in the ownership of foreign assets--although the largest banks remain the dominant forces in international banking. The U.S. agencies and branches of foreign banks have greatly expanded their role in international financial transactions originating in this country. Under the VFCR Program, these entities are not subject to the same form of restraint as applies to U.S. headquartered institutions. The prospects for international banking are assessed in Section IX. The scope for U.S. banks to engage in foreign activities under the 1971 amendments to the Bank Holding Company Act is outlined. The near-term prospects for foreign banking are weighed in terms of the future of the VFCR. The long-term outlook is discussed against the background of the reassessment of the framework of international banking now underway in the Federal Reserve System. While no definitive paths can be charted at this time, I am personally hopeful that the scope for U.S. banks' activities abroad can be broadened considerably. Finally, in Section X, the principal conclusions reached in the paper are summarized.

II. Scope and Geography of American International Banking

The fact that activities of U.S. banks abroad have expanded enormously is widely recognized. However, as background for the subsequent discussion of the performance and profitability of their foreign operations, it might be helpful to summarize the overall dimensions and geographic focus of this expansion. For this purpose, the statistics presented in Tables 1, 2, 3 and 4 (attached) can be drawn upon.

Growth of Foreign Business

During the last decade, the foreign activities of U.S. commercial banks rose almost three times as fast as their domestic business. But the sharp break in the way in which they conducted their foreign lending which occurred with the advent of the VFCR program in early 1965 is also evident. As shown in Table 1, outstanding bank credit to foreigners extended from offices in the U.S. amounted to \$4.2 billion in 1960; the level rose to \$9.4 billion in 1964 and to \$13.4 billion in 1972. Over the same period, total assets of all insured commercial banks in the U.S. climbed from \$255.7 billion in 1960; to \$343.9 billion in 1964; and to \$661.8 billion in 1972.

These figures indicate that the domestic business of U.S. banks expanded at an annual average rate of 7.7 per cent between 1960-64; 8.5 per cent between 1964-72; and 8.2 per cent for the period 1960-72. In contrast, the annual average growth rates for foreign assets

on the books of their head offices were as follows: 1960-64, 22.8 per cent; 1964-72, 4.5 per cent; and 1960-72, 10.1 per cent. Thus, one can see readily the way in which the introduction of the VFCR program dampened bank lending of U.S. source funds to foreign borrowers. But paralleling the restraint on outflows of funds from the U.S., lending activity at the banks' foreign branches accelerated greatly. Assets at these branches rose at an annual average rate of 18.5 per cent during 1960-64; 37.7 per cent during 1964-72; and 31.3 per cent during 1960-72.

The division of the banks' foreign business between their head offices and foreign branches since 1960 can be traced in Table 2. The major shift of lending activity to the foreign branches after 1964 stands out unmistakably. In 1960, the latter held 36 per cent of the total foreign assets; this proportion had declined to only 29 per cent by 1964. This relative decline reflected the banks' stepped-up lending to foreigners from their head offices in the intervening years--an acceleration which contributed substantially to the total capital outflow in that period which in turn necessitated the subsequent imposition of restraints on foreign lending. As the VFCR Guidelines took hold, the proportion of the banks' international business conducted through foreign branches rose steadily. By the end of last year, over four-fifths of the banks' total foreign credits outstanding were on the books of their foreign branches.

Another important aspect of the effects of the VFCR program on the way in which the banks conduct their business can be seen in Table 2. It will be recalled that, in response to Congressional mandate, export credits were exempted from the VFCR ceilings in November, 1971. In response to this freedom, a number of banks placed on their head office book export loans to foreigners that otherwise would have been extended from foreign branches. As a result, in 1971--for the first time since the VFCR Program was put in place--a significant proportion (one-sixth) of the increase in the banks' foreign credit outstanding occurred in the U.S. Last year, a similar pattern was followed--with about one-seventh of the rise centering at their head offices. This point should be kept in mind when the effects of the export credit exemption on the deconcentration of foreign assets among banks is discussed below.

Still other important dimensions of recent developments in international banking can be traced in the statistics. However, one overriding conclusion stands out: U.S. banks became much more heavily engaged in foreign lending relative to the rest of their business in the last decade. For example, foreign assets of U.S. banks (that is, assets at foreign branches plus loans to foreigners on head office books) represented under 3 per cent of their total assets (domestic and foreign) in 1960; the proportion rose to about 4 per cent in 1964, and to roughly 10 per cent in 1972.^{1/} In my opinion, this fundamental change in the orientation of U.S. banking is not likely to be reversed in the near future.

^{1/} Because of differences in the coverage of the available statistical series, only a rough estimate can be made of the share of the banks' total resources devoted to foreign activities.

Another aspect of the growing emphasis of U.S. banks on the international side of their business can be seen in the behavior of foreign deposits at their head offices and in their foreign branches. In 1960 (as shown in Table 1), the banks were holding at their head offices \$9.1 billion of foreign-owned deposits. By 1964, the volume had risen to \$13.4 billion, and it climbed further to \$17.4 billion in 1972. In 1960, foreign deposits represented 4.0 per cent of the head office total, and the proportion rose to 4.5 per cent in 1964. However, by 1972, it had receded to 3.2 per cent. Between 1960-64, foreign deposits at head offices expanded at an annual average rate of 10.1 per cent. But in the 1964-72 period, the rate of growth was 3.0 per cent--less than one-third the earlier annual average. To a considerable extent, this slackening pace was a by-product of the efforts by U.S. banks to attract funds to their foreign branches--from which they could be relent outside the constraints of the VFCR Guidelines.^{2/}

The increased reliance of U.S. banks on foreign deposits--particularly at their foreign branches--stands out even more clearly in the data presented in Table 3, showing deposits for 20 U.S. multinational banks. It will be noted that in 1964, only 10 of these banks had foreign branches. These branches had \$5.8 billion of deposits, representing 9.1 per cent of the total deposits held by these banks at both their head offices and foreign branches. By 1972, all except

^{2/} In passing, it should also be observed that deposits in foreign branches were also free of both U.S. imposed reserve requirements and ceiling on maximum interest rates which could be paid.

one of the 20 banks had foreign branches. These branches held \$57.9 billion in deposits, representing 29.9 per cent of the combined head office and branch deposits--vs. 6.3 per cent of the total in 1964. However, the most dramatic change was the accelerated expansion in the foreign branch deposits of those banks which already had such branches in 1964. Among these institutions, deposits at foreign branches were equal to 34.4 per cent of the combined head office and branch total in 1972--or 3-1/2 times the proportion registered eight years earlier. Among the 10 banks which acquired foreign branches between 1964-72, deposits at such branches last year amounted to 18.1 per cent of the combined head office and branch total. Among individual banks, the proportion of their total deposits held at foreign branches varied greatly in 1972. For nearly half of the banks (9 of 20), branch deposits were equal to more than one-quarter of the total, and for six of them the proportion exceeded one-third. In general, the largest banks in the group had the highest percentage of their total deposits on the books of their foreign branches.

Changing Geography of Foreign Lending

While U.S. commercial banks were shifting an increasing share of their international business to their foreign branches after the mid-1960's, they were also changing the geographic direction of foreign lending from their head offices. This pattern

can be seen in the statistics presented in Table 4, showing claims on foreigners reported by banks in the United States in 1964, 1968, and 1972. At the end of 1964, before the VFCR program came into effect, residents of Latin America had received the largest share of the total outstanding (29 per cent) followed closely by Japan (27 per cent). Western Europe was next with 24 per cent, and Canada's share was 11 per cent. When the volume outstanding is divided according to maturity, the geographic pattern of lending changed somewhat. Japan was the heaviest borrower of short-term funds (35 per cent), but Western Europe was in the lead with respect to long-term bank loans (40 per cent). The share of both short-term and long-term credits advanced to borrowers in Latin America was roughly the same, 28 per cent and 30 per cent, respectively.

However, with the imposition of the VFCR program (and especially after a provision was added to the Guidelines limiting bank term loans to the developed countries of continental Western Europe), the proportion of outstanding claims reflecting loans extended to Western European borrowers declined. By the end of 1968, the proportion had receded to one-seventh--from one-quarter in 1964. The relative decline of term loans was even more noticeable--a drop from two-fifths to one-sixth. Latin America was the main beneficiary of this shift in the direction of U.S. commercial bank lending abroad. By 1968, that area's share of total claims had climbed to 37 per cent, and the percentage was essentially the same for both short-term and long-term loans.

In contrast, partly reflecting liberalization of the VFCR program in the intervening years, by the end of last year, the geographic distribution of lending had shifted appreciably back toward the pattern which prevailed in 1964. For example, Western European borrowers had received almost one-fifth of the total outstanding loans to foreigners in 1972, and the percentage for Latin America had shrunk to less than one-third. The Japanese share had also declined somewhat. The relative shift to Western Europe was somewhat more marked in the case of short-term loans than it was in the case of credits of longer maturity. In the case of Latin America, the share of long-term claims continued to rise moderately, but the share of short-term loans was about the same in 1972 as it had been in 1964. Japanese borrowers continued to rely heavily on U.S. short-term bank credit during much of the 1960's, although their share of such credits outstanding eased off between 1968 and 1972 and amounted to just over one-quarter in the latter year.

It should be remembered, of course, that the figures presented here describe the geographic pattern of lending from the banks' head offices in the U.S. The geography of lending by their foreign branches may have differed somewhat, but data are not available to determine the extent--if any--of such divergence.

III. Expanding Network of International Banking

As I mentioned above, the introduction of the VFCR program was a major stimulus to the growth of foreign branches of U.S. banks. The main contours of this expansion can be seen in Table 5. At the end of 1964, only a handful of banks (11) had established such offices abroad--although in combination they were operating from 181 foreign locations. By the end of 1968, the number of banks had climbed to 27 and the number of branches to 375. In the next four years, the pace accelerated rapidly; by the end of last year, 107 banks had 627 foreign branches.

Since the banks' customers (composed mainly of American multi-national corporations) were greatly expanding their activities abroad during these years, one would have expected some expansion in the network of foreign branches. This expansion was enhanced by the restraints on capital outflow imposed on U.S. direct investors by the U.S. Department of Commerce. By lending from their foreign branches, and therefore outside the VFCR, U.S. commercial banks could assist their customers to comply with the Commerce Department's Program.

Growth of London Branches

Until recent years, the growth of American international banking was centered primarily in London. This was initially a reflection of London's historical role as a financial center second only to New York.

However, during the periods of monetary stringency in the U.S. in 1966 and 1969-70, a bank with a branch in London had a convenient means of tapping the Euro-dollar market for funds to be used in its domestic business. Realizing this advantage, a number of banks (some of which were well-below the average size of banks already active on the international scene) rushed to open branches in London. Consequently, by the end of 1972, 34 U.S. banks were operating a total of 45 branches in London. Moreover, at the peak of U.S. commercial bank borrowing in the Euro-dollar market in 1969, total indebtedness by all U.S. banks to their foreign branches amounted to over \$13 billion, and the overwhelming proportion of this was obtained through the London branches.

Growth of Branches in the Bahamas and Cayman Islands

While the growth of U.S. commercial bank branches in London is clearly a major event in international banking, the most remarkable developments have occurred on this side of the Atlantic. These have been the mushroom growth of "shell" branches in Nassau, Bahamas, and more recently in the Cayman Islands. In 1964, only two U.S. commercial banks had established a branch in Nassau, and both of them were full-service units. Even as late as the end of 1968, only six banks had a total of eight Nassau branches, and four of these were offering a full range of banking services.

However, in early 1969, the Federal Reserve Board began to approve the creation of Nassau shell branches (a policy which I have

personally never supported). The Board's decision was aimed primarily at providing smaller banks with a means of obtaining access to the Euro-dollar market--initially to enable them to serve their foreign customers outside the restrictions of the VFGR Guidelines. Subsequently, most of these Nassau units began to channel funds from the Euro-dollar market to their head offices in the U.S. to enable the latter to cushion the impact of domestic monetary restraint. Still later, a number of banks (including some of the largest in the country) opened Nassau shell branches primarily for the purpose of benefiting from the favorable tax laws governing income generated by assets assigned to the Bahamas. The extremely low cost of establishing a shell branch in Nassau compared with the cost in London--only a few thousand dollars vs. \$400,000 - \$500,000--made launching such a branch an easy proposition. Moreover, annual operating costs are also modest. A typical shell branch has virtually no full-time employees, since the needed bookkeeping services are contracted for locally. All management decisions are made at the head office in the U.S. where a duplicate set of books is kept.

Reflecting these circumstances, the number of Nassau shell branches has grown spectacularly. At the end of last year, 84 banks were operating such branches in the Bahamas. Seventy-one of these had no other branch. But several of the remaining 13 were among the largest banks in the country with a virtually world-wide network of branches. As already mentioned, they have been attracted to the area primarily because of substantial tax advantages.

In recent months, however, a number of banks have found the Bahamas somewhat less appealing than they did at the outset. The principal reasons cited by some of them relate to uncertainty on their part regarding the future political environment as the Bahamas approaches full self-government. But whatever the specific reason, some of the banks with Nassau shell branches have begun to migrate to locations which they believe will be more hospitable to their interest. The favored alternative to emerge so far is the Cayman Islands. This British possession just off the north coast of Jamaica offers the same kind of tax haven found in Nassau, and many bankers reportedly are more comfortable about the Caymans' long-run political prospects. In any case, by the end of last year, 10 U.S. banks had established branches in the Caymans, and eight of these were of the shell variety. Six of the eight were banks which have no other foreign branches. Furthermore, three of these six were banks which have one shell branch each in Nassau--each of which is scheduled to be closed.

While I have looked upon the Nassau shell branches as falling short of the requirements needed to qualify as genuine foreign banking institutions--and the movement to the Caymans simply compounds an already undesirable situation--I have no expectations that the device will disappear. Rather, I would expect these or similar arrangements to be maintained, at least on a minimum-level-of-operations basis, even if the VFCR restraints were to disappear and the demand for Euro-dollars to avoid the pressures

generated by domestic monetary restraint falls short of that experienced in earlier years. This expectation rests on the strong incentives provided by income tax havens such as Nassau and the Caymans. In the meantime, beginning about a year ago, the Board has alerted the banks opening shell branches in the Bahamas and the Cayman Islands to the possibility that the conditions under which the Board permits them to do business may be modified. Personally, I hope these will be substantially circumscribed (and preferably cancelled) and hope this is done sooner rather than later.

IV. Nature and Scope of Foreign Branch Activities

A variety of approaches could be used to analyze the performance of foreign branches of U.S. commercial banks. For the purpose of this paper, however, I decided that it might be instructive to recast the data from the balance sheets of the foreign branches in a way which would highlight their sources and uses of funds. It is also possible to rearrange the statistics to show the principal market sectors in which the foreign branches' activities are concentrated. Moreover, the branches can be grouped according to geographic location. Finally, because such a large proportion of the growth in foreign activities of U.S. banks in recent years has been centered in London, it seems especially interesting to contrast the long-established institution with those opened since the mid-1960's. The statistical information produced by this rearranging is shown in Tables 6, 7 and 8.

As stressed previously, one of the principal motivations inducing U.S. banks to open foreign branches was the opportunity to provide funds to their U.S. parents during the periods of domestic stringency in 1966 and 1969-70. These branches (particularly those located in the United Kingdom) were also used to mobilize funds which could be rechanneled to other foreign branches in various parts of the world. The branches' activities along these lines essentially constituted financing an internal commercial banking system of which they were a part.

The overwhelming part of the foreign branches business, however, was concentrated in the inter-bank market. This market is

a network of foreign commercial banks which hold each others deposits and extend credits to each other. The individual banks, of course, would eventually have to attract funds outside the banking system; but as a group, their net positions vis-a-vis each other are represented in the statistics. Entry to the inter-bank market is fairly easy, and this has enabled even fairly small banks to launch foreign branches which can quickly build up sizable footings on their balance sheets.

The foreign branches have also been able to do a moderate amount of business with foreign official institutions. Here also--depending partly on contacts developed by their parents--some of the foreign branches have been able to attract official deposits, and some of them have also been able to extend a modest amount of credit to foreign governments.

Yet, the dominant reason underlying the initial expansion of foreign branches was the desire to finance their foreign customers--especially U.S. multi-national corporations. As mentioned above, the imposition of restraints on the ability of U.S. corporations to finance themselves from the U.S. (particularly after these restraints were made mandatory in January, 1968) made it increasingly necessary for these firms to raise funds abroad. This development created a widening opportunity for U.S. banks to expand their foreign branches--an opportunity which many banks were forced to exploit in order to retain some of their oldest customers. Thus, the extent to which the foreign branches

have been able to concentrate their business in this market seems to be a fairly good test of their overall performance. I have defined this segment of their business as participation in the external market; here one can observe the behavior of their liabilities to private foreign depositors and changes in their claims on private foreign borrowers.

Within the framework sketched above, the performance of foreign branches can be examined. As shown in Table 6, at the end of 1969, the foreign branches of U.S. banks were carrying \$36.6 billion of resources on their books. Of this amount, \$24.2 billion (or 66.4 per cent of the total) were held by branches in the United Kingdom. Branches in the Bahamas held \$3.0 billion (8.3 per cent of the total) and branches outside of these areas held \$9.3 billion in resources, which accounted for 25.4 per cent of the total. By the end of last year, the total resources of foreign branches of U.S. banks had climbed to \$80.0 billion (Table 7). However, a noticeable shift had occurred in the relative position of the branches in the United Kingdom compared with those in the Bahamas. At the end of 1972, the United Kingdom units held \$43.7 billion in resources, but this represented only 54.6 per cent of the resources held by all foreign branches in contrast to the 66.4 per cent which they represented in 1969. The resources of the Bahamas branches had expanded to \$13.1 billion at the end of last year, and their share had risen to 16.4 per cent of the total. Branches located in areas other than in the United Kingdom and the Bahamas also expanded their resources appreciably--to a level of

\$23.3 billion. However, their relative share rose only moderately from 25.4 per cent in 1969 to 29.1 per cent in 1972. These overall magnitudes ought to be kept in mind as the foreign branches' participation in various segments of international banking is examined.

Financing the Banks' Internal System

The extent to which the foreign branches have been used to supply funds to the various components of the banking system of which they are a part has varied appreciably. For instance, in 1969, \$13.8 billion of the foreign branches' resources (approximately two-fifths of the total) represented funds supplied to their U.S. parents. This was the largest single use of the branches' funds. At the same time, the branches had received only a trivial proportion (2 per cent) of their resources from their parents, so their net position was overwhelmingly in the branches' favor. About 8 per cent of the branches resources had originated with other foreign units in their systems, and about the same percentage of their total resources was used to put other branches in funds.

The degree to which the branches in different parts of the world were devoting themselves to the financing of their internal banking systems varied noticeably. For example, branches in both the United Kingdom and in the Bahamas were using over two-fifths of their total resources to help meet the needs of their U.S. parents in 1969. In contrast, foreign branches outside of those two locations were devoting only one-quarter of their resources to the same purpose. Moreover,

the latter obtained a somewhat larger share (6-1/2 per cent) of their resources from their parents compared with only 0.3 per cent for branches in the United Kingdom and 1.3 per cent for branches in the Bahamas. Likewise, branches outside the United Kingdom and the Bahamas were relied on somewhat more heavily as a source of loans and as a place in which to keep deposits of other branches in the system than was the case with the branches in the former locations.

By the end of last year, reflecting the sharp decline in demand for Euro-dollars by U.S. head offices as domestic monetary restraint was replaced by moderate ease, the foreign branches withdrew almost completely from supplying funds to their U.S. parents. At the end of last December, the foreign branches were using only 2.7 per cent of their greatly enlarged volume of resources for this purpose. The cutback extended across the board--with branches in the United Kingdom, the Bahamas, and in other parts of the world being in essentially the same position. So, while meeting the needs of the U.S. parents was the single most important use of the foreign branches' funds in 1969, this activity had shrunk to the point where it was almost the least important in 1972 (only claims on foreign official institutions accounted for a smaller share--2.1 per cent of the total). For all foreign branches combined, the proportion of their total activity represented by the financing of branches in other countries rose somewhat over the period -- from 8 per cent to 12 per cent. However, the share of resources

used for this purpose by branches in the Bahamas declined slightly while other foreign branches became substantially more important as a source of funds. On the other hand, branches in both the United Kingdom and in other parts of the world increased the proportion of their resources used to finance other branch units in their respective systems.

In the face of this dramatic decline in the opportunity of the foreign branches to employ their resources in financing their internal systems--while the overall volume of their resources was registering an even more dramatic rise--these foreign institutions found themselves in an extremely competitive environment characterized by shrinking outlets for their funds. The way in which they performed under these circumstances can be discussed next.

Participation in the Inter-Bank Market

The natural place to which the foreign branches could turn to employ their resources was the inter-bank market. This was always the main source of funds for these institutions. For example, in 1969, about 56 per cent of the total liabilities of all the foreign branches combined represented liabilities to foreign commercial banks. The proportion was substantially higher for branches in the United Kingdom (61 per cent) and in the Bahamas (64 per cent). Branches outside these two areas relied on the interbank market to a significantly lesser

degree; since they had obtained only 39 per cent of their total resources in the interbank market. On the other hand, despite the very extensive employment of their funds to finance their parents, all of the foreign branches had used a sizable proportion (27 per cent) of their resources to extend loans in the inter-bank market. This fraction varied somewhat when the London branches are contrasted with the other geographic groups. For the London branches, the proportion was 29 per cent, but the other two groups had essentially the same ratio (23 per cent for those in the Bahamas and 22-1/2 per cent for those in other parts of the world).

This pattern of participation in the inter-bank market had changed noticeably by the end of last year. This market continued to provide for all foreign branches combined about the same proportion of their total resources as it did at the end of 1969--53 per cent last year vs. 56 per cent on the earlier date. The same was true for branches in both the Bahamas and the rest of the world. In the case of the Bahamas, the proportions were 63.8 per cent in 1969 and 62.4 per cent in 1972; for branches in other countries, the proportions were 38.8 per cent in 1969 and 41.2 per cent in 1972. But, in the case of the branches in the United Kingdom, the proportion of funds obtained in the inter-bank market declined over the intervening period-- from 61.4 per cent in 1969 to 56.7 per cent last year.

But an even more dramatic change occurred in the extent to which the foreign branches relied on the inter-bank market as an outlet for their resources. The foreign branches as a group had nearly one-half of their assets in the inter-bank market at the end of 1972 in contrast to only one-quarter at the end of 1969. This sharp change in the composition of earning assets was particularly evident in both the United Kingdom and the Bahamas, but it was also noticeable at branches in other foreign countries. The proportion just about doubled in the two former areas, but it increased by roughly one-third in the latter.

In other words, it seems that, once the foreign branches had been established, they were open to a continued sizable inflow of funds--although the demand for funds by their own internal systems had declined appreciably. To employ such resources, the foreign branches began to engage progressively in what was essentially a brokerage rather than a banking business. As discussed more fully below, the competition to place funds in the inter-bank market has led to a significant narrowing in lending margins, and this has had a significant impact on the profitability of the foreign branches--particularly in London.

Participation in the External Market

As a group, foreign branches seem to have made some progress in expanding the volume of international banking services provided to private depositors and private borrowers. However, the overall

pattern has been quite mixed. At the end of 1969, all foreign branches combined had received about one-fifth of the total resources in the form of private deposits. There was virtually no variation in the proportion among branches in different locations. But by the end of last year, the share of the foreign branches' total resources represented by private deposits had dropped to one-seventh. The decline was particularly noticeable in the case of branches in the Bahamas (where the fraction was only 10 per cent), but it also occurred at branches in the United Kingdom (16 per cent) and at branches in other areas (13 per cent). The changes in the investment of their resources in the external market also contrasted significantly among the different groups of institutions. Taken as a whole, the claims on private foreign borrowers rose from 17 per cent in 1969 to 29 per cent in 1972. The most striking increase occurred at branches in the Bahamas where the proportion doubled between the two years (a rise from 17 per cent to 35 per cent). A noticeable but less dramatic rise occurred in lending to private borrowers by branches in other countries (from 25 per cent of the total resources in 1969 to 35 per cent in 1972). At branches in the United Kingdom, the proportion rose from 14 per cent to 23 per cent in 1969 and 1972, respectively.

These statistics suggest that banking activity at the foreign branches in the Bahamas seems to be becoming more like that conducted by branches in foreign countries in general (other than the United Kingdom) as far as lending to private borrowers is concerned. On the other hand,

they seem to be conforming more closely to the pattern set by the United Kingdom branches with respect to their sources of funds. These mixed trends among branches in the Bahamas may very well be a reflection of the fact that a number of large banks which also have London branches have established shell branches in Nassau. As indicated earlier, the search for a favorable tax haven has been the principal motivation underlying this latter development. To the extent that this is true, one would expect those large banks which recently arrived in the Bahamas--but which maintain widespread networks including units in the United Kingdom--to conduct their business in essentially the same way that they did previously. Under these circumstances, they would probably continue to raise funds from sources similar to those relied on by their branches in the United Kingdom, and they would probably continue to serve the same roster of corporation customers which they had previously served. So over time, I would personally expect to see an even closer convergence of the commercial banks' Bahama-based activity toward the pattern observable in the United Kingdom.

The Performance of London Branches Established Before and After 1964

Before concluding this discussion of the changing pattern of business at foreign branches, it might be instructive to look at the extent to which the activities of the London branches differ depending on the length of time they have been operating in the city.

As shown in Table 8, striking differences are observable. As one would expect, the older branches have the major share of the total resources. At the end of 1972, their total assets amounted to \$29.9 billion, representing 68 per cent of the total held by all London branches of U.S. banks. But the most dramatic difference between the two groups centers in the extent to which they rely on the inter-bank market in obtaining and employing their funds. The branches established since 1964 drew nearly three-quarters of their resources from the inter-bank market, and they had rechanneled two-thirds of the volume to the same market. In contrast, the reliance of the longer established branches on the inter-bank market was much less, and their position was equally balanced--49 per cent in both cases.

The newcomer branches in London were not linked as closely with other foreign units in their respective systems as were those institutions opened prior to 1964. The post-1964 branches had obtained about 2-1/2 per cent of their resources within their own systems, and just over 6 per cent of their assets represented claims on affiliates. In contrast, the older branches had gotten over 7 per cent of their resources within their own systems, and they were using almost one-fifth of their assets to supply funds to their parents and other branches within their own organization.

The pre-1964 branches also seem to have a much better access to the market for private deposits than the more recently established

institutions. In fact, the proportion of the established banks' total resources held in the form of private deposits was about double that obtained by the latter--19 per cent vs. 10 per cent. On the other hand, the newcomer banks' share was not much smaller on the lending side. The older branches held one-quarter of their total assets in the form of claims on private borrowers compared with one-fifth for the branches established after 1964. In the same vein, the older units attracted a proportionately larger fraction of their deposits from foreign governments and official institutions than was the case for the more recently launched branches. Here again the older groups' proportion (17-1/2 per cent) was almost double that for the more recently formed institutions (9 per cent).

This differential pattern of business activity among the two groups of London-based branches should be kept in mind. It seems to have had a direct and significant bearing on the willingness of various members within these groups to compete for funds and on the interest rates they seem prepared to charge borrowers. On the other hand, the extent to which the observed differences show through in terms of the profitability of the branches' London-based business is more uncertain.

V. Credit Standards, Credit Quality, and Profitability of Lending in London

While the major contours of the foreign branches' activities can be traced in some detail, it is much more difficult to gauge their performance in terms of those measures carrying the most weight for any lender: the nature of the risks taken and the rates of return on employed resources. Over the last few years, I have discussed both of these questions during trips to London as well as in conversations in this country with American bankers operating branches in London. On the basis of those contacts, a fairly consistent picture has emerged. In the last week or so, I have tried to supplement those informal impressions with quantitative information on the profitability of the banks' London business. The highlights of both of these inquiries can be summarized here.

Credit Standards and Credit Quality

Credit standards in international lending and the quality of credit in Eurocurrency markets have been the subject of wide debate and discussion during the last few years. Some of this was touched off by the failure of Penn Central in 1971 which caused European investors and lending institutions to look more thoroughly at the standards employed in lending to U.S. corporations. That concern subsequently became more general and widespread among both European and American institutions.

In that discussion, criticism was directed at (1) excessive reliance on name and reputation, rather than credit analysis; (2) inadequate documentation protecting lenders accompanied by a failure to structure

loans in accordance with their purposes and cash flow considerations; (3) insufficiently detailed and timely information on companies and banks borrowing in the market; (4) overcompetition from a growing number of institutions; and (5) inexperience in the newer institutions and a corresponding reliance on loan organizers in lending decisions instead of on their own credit analysis.

Comments heard on this subject more recently emphasize the effects of growing competition on credit quality. As indicated above, while the supply of funds available for lending has held up well, overall credit demands have declined, and there has been a change in the composition of those demands. American corporations sharply reduced their term borrowings beginning in 1971, and European demands shrank as a result of changing national market conditions and government restrictions on access to the Euro-currency markets. Most notably, the heavy German and Italian borrowings of 1970 and the early 1971 were followed by substantial repayments on these credits. As 1972 unfolded, credit demands increasingly came largely from peripheral countries, such as Spain, Iran, Denmark and Brazil. Part of the reported decline in the quality of credit extended in Euro-currency markets has therefore reflected the withdrawal of prime (i.e., U.S. and major European) borrowers.

Competition among a still growing number of lending institutions for the reduced amount of loan business available has been reflected in relaxation of credit terms and a shaving of

lending margins. Maturities of term credits have been lengthening toward a 7-year average. Moreover, even on the less-than-prime credits coming to market, loan margins have been trimmed. Contributing to this tendency, it was said, were the efforts of the branches of interior U.S. banks to obtain earning assets in the absence of head office demands for Euro-dollar funds and the ability to cover operating costs from earnings in money and market arbitrage. Similar efforts by the new institutions to get their names recognized in the market and to get loans on their books were also noted. It was also reported that, at least well into last year, some appeared to be ready to take any loans offered to them without a great deal of selectivity as regards loan terms or names. The larger and longer-established institutions maintained that they have resisted this tendency with some loss of business as a result. Some of these observations may reflect differences of view in a changing market situation about the adequacies of return in relation to risk. But the general impression one got from conversations in London was that--after some tightening of credit standards and terms in late 1970 and early 1971--a renewed relaxation occurred last year.

This easing in trends in credit standards seems to have continued into 1973. It might be recalled that, prior to the difficulties created by the Penn-Central failure in mid-1970, most of the medium-term lending activities of American banks in London (as for other participants in the market) consisted of organizing syndicates--or participating in them--for large packages of financing to governments and major international companies. The lending was concentrated in the two-to-five year maturity range, with some extending out to about seven years. A small amount of fixed rate lending was being done, but the preponderant proportion was conducted on a floating rate basis. In these arrangements, the rate was normally set at six-month intervals at $3/4$ of 1 per cent over the inter-bank rate for dollar deposits.

The bankruptcy of the Penn-Central clearly had a distinct shock on the credit and capital market in London as well as in the rest of Europe. Apparently, European investors and financial institutions had assumed that there was little to be concerned about in extending credit to major U.S. companies. In making such loans, they had relied more on size and reputation of the borrower than on a strict credit analysis. Moreover, it was reported that some of the best known American corporations were able to get what amounted to a "super" prime rate--as low as $1/2$ per cent over the three-to-six month Euro-dollar rate in contrast to the $3/4$ of 1 per cent typically quoted to other prime borrowers. But the bankruptcy abruptly changed that situation.

The immediate consequence of the failure was an intensive review by European banks and financial institutions of their loans and lending commitments to American companies. A general impression gotten from branches and affiliates of U.S. banks in London was that a more lasting consequence has been to make loans for U.S. companies somewhat more expensive. Previously U.S. companies could always command the prime rate in the market or a shade below. However, after the Penn-Central difficulties, rates typically quoted for such borrowers were the same as the prime rate or a shade above. Moreover, the rate spread for everyone widened appreciably--from $3/4$ of 1 per cent above the six-month Euro-dollar rate to as much as $1-1/4$ per cent above the latter.

However, while memories of that experience have not been erased in London, it appears that they have been dampened somewhat, and the growing competition to place money in the market has again shaved lending margins. It is reported that rate spreads have again declined significantly to the point where only a few prime borrowers are still being quoted a rate as high as $3/4$ of 1 per cent above the three-to-six month Euro-dollar rate. Instead, most credit demands of prime borrowers apparently are being met at rates in the neighborhood of $5/8$ to $3/4$ of 1 per cent above the basic cost of money to the lenders. Furthermore, borrowers of less-than-prime standing have also benefited from the impact of growing competition on lending rates. In

the late 1969-early 1970 period, these non-prime borrowers were typically quoted rates ranging to 2-1/2 per cent and more above the six-month Euro-dollar rate. In recent weeks, borrowers with the same lower-quality credit rating have been able to obtain funds at rates only 1-1/4 per cent to 1-1/2 per cent above the six-month Euro-dollar rate. Perhaps of equal importance, more and more borrowers previously regarded as falling below the prime standard have been able to move into the preferred category.

Rates of Return in Foreign Branch Lending

The impact of this growing competition on the profitability of branches of American banks in London cannot be readily measured. On the other hand, using a combination of bank examination reports and statistical data submitted by insured U.S. commercial banks with branches in London, it is possible to derive rough estimates of the pattern of earnings of London branches for the last year or so. Unfortunately, because of the need to avoid breaching regulations governing the confidentiality of these data, the experience of individual banks cannot be shown. Furthermore, the information readily available was quite inadequate for several of the largest banks operating branches in London. Thus, the rates of return which were calculated must be interpreted with care.

The statistical results obtained are summarized in Table 8-a. In the first panel of the table, the average rate of return is shown for 1972 for 15 American banks with branches in London.* As noted, this is a measure of their net earnings after taxes. The underlying reports from which the statistics were obtained showed total assets for London branches--rather than earning assets (that is, loans and investments). Consequently, for comparison purposes it was also necessary to show total assets for the parent banks. By separating out the London assets, it was possible to calculate three separate rates of return: (1) the rate of return on the banks' total assets, (2) the rate of return on their London business and, (3) the rate of return on their business apart from their London activities. Three of the 15 London branches were established before the end of 1964, and the remaining 12 were open in the subsequent years. Rates of return were calculated for these two sub-groups.

Data could also be obtained for three additional banks with London branches. However, the London activities of these institutions could not be separated from the rest of their foreign business. So for these three, the data shown in Table 8-a refer to all of their foreign branches combined. Several other pieces of information relating to the foreign activity and profitability of U.S. banks are shown in Table 8-a. The percentage of total deposits accounted for

* It will be recalled that 34 banks were operating branches in London at the end of 1972, and their total assets amounted to \$43.7 billion. The 15 banks covered in these profit calculations had London assets amounting to \$19.0 billion in 1972, representing 43 per cent of the total assets of all U.S. London branches. Since the London branches of several of the largest U.S. banks were not included in the analysis, the figures can be taken as representative of the broad spectrum of banks just below those at the very top of the size range.

by deposits in their foreign branches is presented. This fraction provides a rough indication of the overall importance of the foreign branches in the parent banks' total banking business. The same comparison of foreign and total deposits is shown for the 20 multinational banks listed in Table 3. Finally, as a rough guideline for the overall profitability of the U.S. banking business, earnings of Federal Reserve member banks for the four years 1968 through 1971 are also shown in Table 8-a.

A number of observations can be made on the basis of these data. The rate of return at London branches of American banks appears to be far below that obtained in banks' total business. For the 15 banks with London branches, the rate of return on total assets was 0.54 per cent in 1972. In marked contrast, the figure for the London branches was only 0.12 per cent. After setting the London assets aside, the rate of return on the remainder of the banks business was 0.61 per cent. These rates were virtually the same for the banks which opened London branches before 1964 as for those which established operations after that date. The three banks with London branches but whose London assets could not be separated from the remainder of their foreign business had an overall rate of return of 0.44 per cent in 1972. The rates were essentially the same for their combined foreign branches (0.40 per cent) and for their purely domestic business (0.45 per cent).

The rates of return for all insured U.S. commercial banks in recent years seem to have been well above those achieved by banks with branches in London--even when the total business of the parents is compared with that of U.S. commercial banks generally. For instance, in 1971, the rate of return on total assets of all insured U.S. commercial banks was in the neighborhood of 0.79 per cent. The rate was approximately the same for the four years 1968-71. The rate of return on the earnings assets (total loans and investments) of insured commercial banks was somewhat higher: 0.97 per cent in 1968, 1.08 per cent in both 1969 and 1970, and 0.98 per cent in 1971.

While, the comparison between the profitability of all insured U.S. commercial banks and the sample of those with London branches is necessarily imprecise, one overall impression seems inescapable: profit margins in the London-based banking business are remarkably narrow. Moreover, the effect of these low earnings rates is to depress the overall profitability of the parent banks themselves. Again, further refinements of the underlying data would undoubtedly improve the quality of these estimates, but there is no reason to believe that such an effort would erase the substantial differences observed on the basis of the information as it now stands. Rather, I am prepared to believe that the figures do provide an approximate indication of the performance of American institutions in the international banking business centered in London.

VI. Growth of Edge Corporations

In addition to the rapid expansion of foreign branching, U.S. banks have accelerated the formation of Edge Act and Agreement Corporations. As is generally known, these are domestically organized subsidiaries that serve as vehicles for foreign banking and investment. Since the introduction of the VFCR Program, the number of such corporations has more than doubled and stood at 89 in June of 1972 while their assets grew from \$1 billion to \$5 billion. The growth of these subsidiaries (except where they have established foreign branches) cannot be attributed specifically to the VFCR, since they are subject to the VFCR in common with U.S. banks. Rather, their expansion is evidence of a growing effort by U.S. banks to compete for foreign banking business and to exploit foreign investment opportunities.

Expansion of Domestic Edge Corporations

However, the really interesting Edge Corporation story concerns the growth of out-of-state institutions. These are Edge Corporations located in an area outside of the city in which their parent bank is headquartered. Since the Board approved the entry of First National Bank of Boston into the New York market through its Edge Corporation in 1918, a total of 45^{*} banks have been granted permission to establish out-of-state subsidiaries to handle international business. As shown in Table 9, these banks had a total of 39 out-of-state corporations--of which 21 were located in New York City. Of the remaining 18, 7 were located in Miami, Florida; 6 were in California; 2 each in Chicago and Houston; and 1 in New Orleans. The 39 out-of-state corporations had a total of \$4.4 billion in assets at the end of last year. About 90 per cent

* This figure includes 18 banks that are joint owners of Allied Bank International, which is headquartered in New York City.

of this amount was held by the out-of-state units operating in New York. In other areas, the institutions were started in the last few years. So, as expected, they had accumulated only a modest amount of resources in each location. In Table 10, the composition of the assets and liabilities of the out-of-state Edge Corporations is shown. Here also there are no surprises. The activity in New York dominates the picture, but the out-of-state units are beginning to register their presence in the other areas.

Regional Competition in International Banking

The extent to which this is true to date can be seen in Table 11. This table shows the share of international banking business held by the out-of-state Edge Corporations during the three years 1969, 1971, and 1972. It will be noted that in New York City, where the volume of international business obtained by the out-of-state Edge Corporations is large enough to provide a basis for judgement, these institutions had acquired about 10 per cent of the total international or foreign business held by commercial banks. In the case of other locations, the number of out-of-state institutions which were active last year was so small that a separate discussion of the situation would reveal data relating to an individual bank. But in 1972, the out-of-state Edge Corporations had obtained about 6 per cent of the market in California, and they had just under half of the market in Miami, Florida.

In deciding to approve out-of-state locations for Edge Corporations in areas other than New York, the Board has had to weigh a number of conflicting concerns. Once the decision had been made to permit out-of-state banks to

enter the New York market to conduct an out-of-state business, the basic policy issue had been settled. In applying that policy, the Board has approved virtually every application of an out-of-state bank to open an office in New York in order to conduct an international business. The more difficult issue arose when banks began to seek permission to locate in other areas. These applications engendered protests in almost every case from one or more local bankers who were apprehensive about the effects of increased competition which the newcomers would bring. These concerns were enhanced by the fact that all except one or two of the out-of-state banks were among the largest in the country, and most of them already had a widespread foreign branch network as well as secure footing in the New York market.

In dealing with these applications--and without formally enunciating it--the Board seems to have evolved a policy under which a bank has been able to open at least one out-of-state international banking office in Miami as well as in one other location along the southern border. The position seems also to allow for another office along the northern boundary (and two out-of-state banks have established themselves in Chicago) and another one or two offices on the West Coast.

I personally think that the growing role of out-of-state Edge Corporations in various areas of the country is a good thing. I believe these institutions greatly enliven competition in the international banking business. On the other hand, I think it is of crucial importance that the banks abide by the spirit as well as the letter of the regulations restricting their activities to international banking. To allow the out-of-state

offices to be transmuted into outposts from which to compete for domestic banking business would be inconsistent with the requirements of both the statute and the regulation prohibiting out-of-state banking as far as domestic business is concerned.

VII. Commercial Banks and Exchange Rate Speculation

At this point, I would like to focus on the significant role which commercial banks seemed to have played in the sizable outflows of funds from the U.S. during the intense speculation against foreign exchange rates in January and February of this year. Detailed information to appraise the part they played is not available. However, through a combination of sources, it is possible to get enough insights to persuade one that their participation was by no means trivial.

Some of this information is derived from the reports of 300 or more large banks filed with the Federal Reserve System each week. In Table 12 are summarized data on the assets of these institutions associated with foreign transactions during the eleven weeks of January 3-March 14. These data show the level and change in foreign-related assets during this period for each of the last three years. The assets identified are: (1) the reporting banks' balances with foreign commercial banks, (2) loans to foreign commercial banks, (3) loans to foreign businesses, and (4) loans to foreign governments and official institutions.

In interpreting these figures, it is instructive to divide the period into two parts--January 3-14 and February 14-March 14. This distinction allows one to concentrate on the period of intense speculation leading up to the devaluation of the dollar on February 12 of this year. One can then trace in the following weeks the extent

to which--if any--the reflow of bank funds to the U.S. occurred.

Balances with foreign commercial banks (assets over which the reporting banks have considerable discretion) rose substantially in the 3 weeks ending February 14. Prior to that date, U.S. banks had been in the process of drawing down their foreign claims. In the 2 weeks following the devaluation of the dollar, some reflow did occur under this heading, but that was offset in large part by a renewal of the outflow in early March.

The most dramatic outflow of funds occurred when foreign commercial banks drew heavily on their outstanding lines of credit with U.S. institutions. Such borrowings had been paid down during the first 4 weeks of this year. But that situation changed drastically beginning in the closing days of January. At that time, an outflow got underway which produced a net change of \$750 million in the week ending February 14 alone. The pace eased off somewhat during the rest of that month, but a large outflow of over \$525 million occurred in the week ending March 7. As a consequence, by mid-March, foreign commercial banks had withdrawn from the U.S. through their American correspondents \$1.8 billion.

As speculation against the structure of exchange rates was gaining force, there was a good deal of discussion about the extent to which American multi-national corporations were participating in the outflow. The data reported in Table 12 cannot cast much light on this issue because the statistics relate to assets held for the

reporting banks' own account. On the other hand, loans to foreign businesses (some of which are foreign subsidiaries of U.S. corporations) are reported. These loans show no definite trend during the period of intense speculation although some net outflow under this heading did occur during the first half of March.

In summary, taking the four types of transactions in combination, these U.S. commercial banks experienced a net outflow of \$1.3 billion in the few weeks before the dollar was devalued. Another \$1.2 billion outflow occurred in the following month. Thus, a net balance of some \$2-1/2 billion of bank funds moved abroad during the period of exchange rate speculation.

Several observations are suggested by the foregoing statistics on commercial bank lending abroad in the earlier months of this year. In the first place, the pattern is quite reminiscent of the outflows which occurred during May and August of 1971. In May of that year, growing market expectations that the West German Government would allow the Mark to float touched off a sizable move out of dollars and into that currency. U.S. commercial banks were drawn into that stream to a considerable extent, and the foreign assets of the weekly reporting banks rose over \$500 million in that month. At that time also the bulk of the outflow centered in loans to foreign commercial banks--but the U.S. banks' loans to foreign and industrial corporations also rose substantially. In August of that year, both before and after the adoption of the New Economic Policy in the U. S., commercial banks in this country were confronted with an enormous foreign demand for credit. In response, they expanded their foreign

assets by \$1.5 billion. That was the largest monthly gain in bank reported foreign assets since the VFCR program was instituted.

This year, a number of factors seem to have been associated with the sizable outflow of commercial bank funds. It seems clear that a number of foreign commercial banks drew against their outstanding credit lines with American institutions in order to place the funds in the Euro-dollar market. Such an arbitrage possibility was clearly suggested by the interest rate differentials which prevailed at the time. Moreover, these relative rate spreads still favor holding such funds in the Euro-dollar market, and that may explain the failure of a reflow to develop to date. As far as U.S. commercial banks themselves are concerned, the modest build-up in their balances with foreign institutions may not have reflected foreign exchange activity--since the increases were primarily in dollars. Nevertheless, because of the complexity of the overall situation, such a possibility cannot be ruled out.

So, on the basis of the foregoing analysis, I conclude that the susceptibility of the U.S. banking system to influences originating abroad but which result in large capital outflows from this country remains a serious problem.

VIII. Commercial Bank Lending and the Voluntary Foreign Credit Restraint Program

Over the last year, foreign assets held by U.S. banks have increased significantly (Table 13). This trend contrasts sharply with the very slow growth during the earlier years of the VFCR program. As of the end of February, 1973, foreign assets held by U.S. banks for their own account amounted to \$15.4 billion, having increased by \$1.5 billion from the level of a year earlier.

Of the \$15.4 billion of foreign assets reported under the VFCR by banks, only \$9.7 billion was subject to ceilings. Of the \$5.7 billion not subject to ceiling, \$4.5 billion was made up of export credit. A minor part of these export credit would have been exempted under provisions in use from the early days of the Program. However, the greater part was exempt because of the full export credit exclusion created in late 1971 under Congressional mandate.

Although bankers have long been accustomed to looking at the virtually unchanged amount of foreign lending and investment under the VFCR ceiling--an observation that is still valid--a feature which has emerged over the last year (and that is at least as striking) is the large and rapidly growing amount of foreign assets that are free from restraint. Today, over one-third of banks' own foreign assets are exempt from ceilings.

The exemption of export credit has led to some deconcentration of such foreign assets among banks when viewed according to size. Looking at banks arranged by size at the end of 1971, about one month after the

full export credit exemption was introduced, and at the end of 1972 (Table 14), we can see a reduction in the share of outstanding export credits accounted for by the 15 largest banks. (If one looks, not simply at the relationship of the cumulative percentages by size category, but at the shift in the percentage difference from one category to another, one sees a reverse shift going farther down the size categories.) Thus, it appears that the creation of the exemption for export credit has been of relatively greater importance to medium-sized and smaller banks than to the very largest institutions.

One of the most important foreign banking developments under the VFCR Program in recent months has been the large movement of funds abroad reported for February, 1973. Foreign assets for the banks' own account rose \$1.3 billion in that month alone. Several banks went over their ceilings--generally by small amounts and generally reversed quickly after the reporting date. I am aware of the difficulties banks have in anticipating and in controlling sudden drawings against outstanding credit lines. But the VFCR Guidelines ask the banks to keep their covered foreign assets within the ceilings on a daily average basis, and they are expected to anticipate--and plan for-- the possible need to adjust their operations to meet effectively a problem that is a part of their normal banking life.

To the comments I have made on U.S. banks operating under the VFCR, let me add some remarks on U.S. agencies and branches of foreign banks. The data on this category of financial institution presented in Table 15 show an even more striking picture of outflows than that relating to U.S. banks--although the data developed for VFCR purposes omit much

information that is necessary to analyze their operations. The foreign assets of the agencies and branches rose in February by \$1.2 billion to a level of \$5.7 billion. Although a large portion of the rise centered in the types of assets exempt from restraint under the VFCR Program, the growth in all categories of foreign assets reported by these institutions has been quite dramatic in the 15 months during which they have been submitting regular reports under the program.

Largely because this category of banking institutions relies very heavily on foreign head office or other foreign sources for funds-- and because their practices differ in other significant respects as well from those of U.S. banks--specific ceilings of the types set for U.S. banks have not been provided for them. Instead, they are asked to act in accordance with the spirit of the guidelines, to report, and to consult as may be frequently requested with the Federal Reserve Banks.

It is no secret that finding a way to apply principles of capital restraint to these institutions which correspond to those governing the foreign activities of U.S. banks has been especially troublesome. This issue of VFCR administration has been--and continues to be--under review.

IX. Prospects for American International Banking

While the foregoing observations relating to the foreign activity of American banks may be of some interest, I know that many observers are clearly far more concerned with the outlook for the future. Unfortunately, while I share the same interests, I am not able to be very definitive in detailing my own anticipations. In the first place, the continuing official discussions of international monetary reform of necessity preclude my going deeply into that subject. And above all, it is the eventual revamping of the international monetary system which will have the greatest influence on the opportunities open to U.S. banks for doing business abroad. For essentially the same reasons, I am unable to sketch with precision the nature of any changes which might take place in the VFCR. Neither can I say much about the time horizon over which these might occur. Nevertheless, several observations can be made.

Bank Holding Companies and U.S. Foreign Banking

One of these areas relates to the possible role of bank holding companies--especially in light of the 1970 amendments to the Act. Actually, these amendments have had only minimal effects on the competitive posture abroad of member banks and their parent bank holding companies. Prior to the amendments, a regulated multibank holding company did not require the Board's approval to acquire foreign institutions "principally engaged in banking." Other than this direct investment power for foreign banking

institutions, the holding company was limited to the opportunities provided by sections 25 and 25(a) of the Federal Reserve Act, and it had to employ its banking subsidiaries or an Edge Corporation for this purpose.

The 1970 amendments added the requirement of Board approval for a holding company's direct investments in foreign banks. However, in section 4(c)(13) of the Act, Congress gave the Board the authority to allow the holding company to invest in other foreign companies which did no business in the United States so long as the Board determined that the investment would be in the public interest and would not be at variance with the purposes of the Act. In exercising its discretion under this section, the Board has adopted regulations allowing direct investments by holding companies in foreign companies if the firm is one in which an Edge Corporation could invest. Under the regulations, however, the capital and surplus limitations which would have applied to the Edge Corporation investments do not apply.

With respect to the nature of the foreign investments which may be made, sections 25 and 25(a) and the Board's regulations thereunder have traditionally allowed a greater range of activities in the foreign area for member banks and Edge Corporations than have been permitted for the bank or its parent holding company domestically. This has been for the purpose of enabling the banks to remain fully competitive in foreign banking markets. The Board's regulations under the Act now extend this investment latitude for the first time to the parent bank holding company. Thus, the effect of the Act has not been to extend the range of permissible

activities and investments for member banks abroad. That is, in the foreign area, before the amendments, member banks already were in a position to receive approval for those activities now permissible under amended section 4(c)(8) as well as for some activities not now permissible domestically, such as the underwriting of stocks and bonds. So far, there has been only a modest flow of applications from banks seeking to do business under the 1970 amendments.

Short-Term Outlook: Future of the VFCR Program

With regard to the VFCR, it will be recalled that the Administration announced on February 12 that this program will be phased out by the end of 1974. The same would apply to the Interest Equalization Tax (IET) and to the restraints on foreign direct investment administered by the Commerce Department. Upon making the announcement, no details were provided with respect to the timing of any initial steps to implement the specified policy goal. Subsequently, at the conclusion of the negotiations establishing a new structure of exchange rates in Paris in mid-March, U.S. representatives at that meeting indicated that any measures aimed at unwinding the restraints on capital outflow would be undertaken in a way that was consistent with improvements in the U.S. balance of payments. Since that statement was issued, there have been no further official comments from the Administration on the future of the VFCR and the other components of the capital restraints program.

In the meantime, in light of the sizable outflow of funds through commercial banks which occurred earlier this year, it is clear

that the VFCR Program still has a role in the international financial policy of the U.S. For this reason, when the reports indicated that a number of banks (including some of the largest in the country) had exceeded their VFCR ceiling in February, the Federal Reserve Banks were asked promptly to contact each institution to discuss the causes of the overages, the corrective actions taken, and (to the extent known) the current position of the bank in relation to its ceiling. As usual, the response of the banks was prompt and cooperative. But the fact that the overages occurred and were so widespread indicates the continuing need for the program under the circumstances currently prevailing.

Long-Term Outlook: Future of American International Banking

Looking beyond the near-term prospects for the VFCR Program, a few observations can be made regarding the possibility of significant modifications in the regulatory environment of international banking. It will be recalled that, on February 1 this year, the Board of Governors announced that it had been reviewing for some time its regulations relating to foreign activities of U.S. banks and the regulatory issues arising from the U.S. activity of foreign banks. The Board said that a review of international banking regulation was necessitated because of the substantial growth in recent years in the size and scope of activities of foreign banks that have entered the United States and the striking expansion in foreign operations of U.S. banks.

Because of the Board's long-standing regulatory responsibilities over U.S. banks operating abroad, it has had policies in this field of activity under consideration for some time. The Board announced that it was also giving increased attention to the U.S. operations of foreign banks, as a result of both increased activity in this area and the responsibilities assigned to the Board under the 1970 amendments to the Bank Holding Act. The review that is currently under way is focused on structural aspects of U.S. activities of foreign banks and foreign operations of U.S. banks. It does not encompass an assessment of the volume and types of international flows of funds through such institutions.

To carry out its review of international banking and its regulation, the Board established a Steering Committee made up of three Members of the Board of Governors and three Presidents of the Federal Reserve Banks.* The review will include consultations with other central banks and other officials on matters of common interest. Thereafter, to the extent required by consideration of effective and equitable regulation of international banking, the Board expects to consider the possible need for legislation and to propose changes in its own governing regulations. The Board made clear its intention of allowing ample time for public comment on any possible regulatory changes.

* They are Governor George Mitchell, Chairman, and Governors J. Dewey Daane and Jeffrey M. Bucher and Presidents Alfred Hayes of the Federal Reserve Bank of New York, Bruce K. MacLaury of the Federal Reserve Bank of Minneapolis, and John J. Balles of the Federal Reserve Bank of San Francisco.

Of course, the nature of the regulatory changes which might result from the review cannot be foreseen at this time. However, I am personally hopeful that the range of opportunities open to U.S. banks will be broadened considerably. I also hope the prospective changes will yield substantial equality of treatment in this country of domestic and foreign-headquartered banks operating here. As is generally known, the latter have a number of advantages (including the ability to operate a banking business in several states) over U.S. institutions, and I personally believe these ought not to persist indefinitely into the future.

Summary and Conclusions

The main conclusions reached in this paper have been set forth in each principal section. Only a few highlights need be emphasized here.

- In the last decade, U.S. commercial banks became much more heavily engaged in foreign lending relative to the rest of their business. For example, in 1960, their foreign assets represented less than 3 per cent of their total resources, but the proportion had risen to roughly 10 per cent by the end of 1972. To a considerable extent, this growth was a by-product of the restraints on capital outflows from the U.S. (undertaken in the mid-1960's for balance of payments reasons), but it also partly reflected an independent thrust of American institutions into the field of international banking.
- In response to the imposition of the VFCR Program in 1965, U.S. commercial banks shifted the direction of their foreign lending progressively away from Western Europe and in the direction of Latin America and other developing areas. However, with the liberalization of the restraints in recent years, the geographic pattern of lending has come to look much more like that which prevailed before the mid-1960's.
- The network of foreign branches of U.S. banks has expanded enormously. In 1964, only 11 banks were operating a total of 181 foreign branches with total assets of only \$7 billion. By the end of 1972, the number of banks had risen to 107, the number of branches to 627, and the latter's total assets to over \$90 billion. Moreover, while the main focus of branch activity in the earlier period was in the capital markets of Western Europe (especially in London), most of the expansion in the last few years has been in the Bahamas--and in the Cayman Islands. In both instances, the move recently has been motivated more by a quest for a tax haven than because of the presence of economic and financial connections normally expected in principal banking centers.
- The main activity of foreign branches of U.S. banks in earlier years consisted of taking deposits and extending loans to corporations and other international customers who were drawn to the respective markets

(again London stood out) in the ordinary course of their operations. Beginning in the mid-1960's, however, this part of the branches' business was stimulated greatly as U.S. multi-national corporations sought funds abroad in order to comply with the direct investment restraints. Still another major change occurred in the nature of the branches' efforts in 1966 and 1969-70; in these years, they bid aggressively for funds in the Euro-dollar market which were rechanneled to their head offices to help ease the impact of domestic monetary restraint on the latter.

- More recently, with the drastic decline in the demand for Euro-dollars by U.S. headquartered banks-- in the face of a considerably expanded volume of funds available--foreign branches of U.S. banks have faced an increasingly intensive competitive struggle to find outlets for their resources. This competition has shaved significantly the rate spread which these branches can earn over the basic cost of money in the Euro-dollar market.
- Partly reflecting this situation, the rate of profit which the banks can earn on the resources of their foreign branches appears to be remarkably thin. For example, in 1972, the rate of return on the assets of the London branches of U.S. banks seems to have been in the neighborhood of 0.12 per cent. This contrasted sharply with the rate of 0.54 per cent earned on the total assets of these same U.S. banks-- and 0.61 per cent if their London-based assets are put to one side. For all insured commercial banks in the U.S., the rate of return on their total assets was roughly 0.79 per cent in 1971, and it was 0.98 per cent on their total loans and investments taken alone.
- While these figures obviously must be interpreted with caution, they seem to be broadly consistent with the impressions one obtains through conversations with American and other participants in the London market. These low profit margins also seem to be one of the basic reasons one encounters such persistent concern about the prospects for some of the U.S. banks currently operating foreign branches.

- Commercial banks in the U.S. were significant participants in the capital outflows which occurred earlier this year during the intense speculation against exchange rates. During the period January 3-February 14, just before the dollar was devalued, large banks which report to the Federal Reserve each week experienced a net outflow of \$1.3 billion. Over the next month, an additional net outflow of \$1.2 billion was recorded. So these institutions contributed on balance some \$2-1/2 billion to the volume of funds which moved abroad in connection with the exchange rate speculation earlier this year. So far, no reversal of the flow has developed.
- The banks which report each month under the VFCR Program participated in this outflow to a substantial degree. In fact, an appreciable number of these institutions (including some of the largest banks in the country) ran over their foreign lending ceilings in February in meeting the demands of their foreign customers. Virtually all of these overages had been corrected by the end of March--and most of them within only a few days after the end of their reporting period.

Unfortunately, the U.S. agencies and branches of foreign banks also participated substantially in the outflow, and they seem to be maintaining the greatly enlarged volume of foreign lending. The foreign assets of these institutions rose by \$1.2 billion in February. While they are not subject to the same type of restraints which apply to U.S. headquartered banks under the VFCR Program, they are requested to abide by the spirit of the program. The place of these foreign agencies and branches within the framework of the VFCR Guidelines has been--and continues to be--under review.

- As is generally known, the future of the VFCR Program itself (along with the other elements of the Administration's restraints on capital outflow) is now the subject of discussion within the Government. While these are scheduled to be phased out by the end of 1974, it has also been announced that any moves to accomplish that objective would be made against the background of improvements in the U.S. balance of payments. Under these circumstances, little more can be said.

- Looking to the long-run, the future of American international banking seems to me to be quite promising. The nature of the regulatory changes which might result from the review announced by the Federal Reserve Board in early February obviously cannot be foreseen at this time. However, I am personally hopeful that the range of opportunities open to U.S. banks will be broadened considerably. I also hope the prospective changes will yield substantial equality of treatment in this country of domestic and foreign-headquartered banks operating here--since the latter currently have a number of advantages over U.S. institutions.

In the meantime, I am convinced that the future of American international banking is far from pessimistic. But--as I mentioned at the outset--I would not be surprised to see a winnowing out of some individual participants as the currents of competition in the provision of international banking services strain managerial talent and erode profit margins.

Table 1. International Operations of U.S. Banks: Selected Indicators, 1960-1972
(Monetary Magnitudes are in Billions of Dollars)

	<u>1960</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
I. <u>U.S. Offices</u>^{1/}										
Bank credit to foreigners ^{2/}	\$4.2	9.4	9.7	9.6	9.8	9.2	9.3	9.7	12.1	13.4
Foreign deposits ^{2/3/} (other than due to foreign branches)	\$9.1	13.4	13.6	12.6	14.4	14.7	16.5	16.5	17.7	17.4
Due to foreign branches ^{4/}	\$--	1.2	1.3	4.0	4.2	6.0	12.8	7.7	0.9	1.4
II. <u>Overseas Branches of Banks</u>^{5/}										
Number of banks with overseas branches	8	11	13	13	15	26	53	79	91	108
Number of overseas branches	131	181	211	244	295	375	459	536	583	627
Assets of overseas branches ^{6/}	\$3.5	6.9	9.1	12.4	15.7	23.0	41.1	52.6	67.1	90.2p.e.
III. <u>Edge and Agreement Corporations</u>										
Number	15	38	42	49	53	63	71	77	85	89 ^{J/}
Assets	\$N.A.	0.9	1.0	1.4	1.5	2.5	3.5	4.6	5.5	4.6 ^{J/}

MEMORANDUM:

All Insured Commercial Banks in U.S.

Total Assets	255.7	343.9	374.1	401.4	448.9	498.1	527.6	572.7	635.8	661.8 ^{J/}
Total Deposits	228.4	305.1	330.3	351.4	394.1	432.7	434.1	479.2	535.7	550.0 ^{J/}

N.A. Not Available. Data are for end of year except where footnoted J/ which indicates end of June.
p.e. Partly estimated.

^{1/} All data for U.S. offices are on a balance of payments basis.

^{2/} Bank credit to foreigners and foreign deposits relate to all commercial banks reporting on the Treasury foreign exchange forms, and include credits and deposits of branches and agencies of foreign banks as well as U.S. banks. Bank credit includes short- and long-term loans and acceptance credits denominated in dollars; for 1960, some other short- and long-term claims are also included. Data for 1972 do not include claims of U.S. banks or their foreign branches or claims of U.S. agencies and branches of foreign banks on their head offices.

^{3/} Foreign deposits include demand and time deposits of one year or less maturity, and, beginning in 1964, include negotiable certificates of deposit issued to foreigners and international institutions.

^{4/} Due to branches refers to the gross liabilities due to foreign branches of large U.S. weekly-reporting banks.

^{5/} Overseas branches include branches of member banks in U.S. possessions and territories as well as in foreign countries.

^{6/} Branch assets include interbranch balances.

Sources: Treasury forms B-2 and B-3; Division of Supervision and Regulation, Board of Governors of the Federal Reserve System.

Table 2. Foreign Credit Outstanding at Domestic Banking Offices and at Foreign Branches of U.S. Commercial Banks, 1960-72

Year	Foreign Credits				Annual Percentage Change		
	Total	Held by Domestic Offices for Own Account ^{1/}	Held by Foreign Branches Amount ^{2/}	Per cent of Total	Total	Domestic Offices	Foreign Branches
1960	6.6	4.2	2.4e	36.3	-	-	-
1964	13.3	9.4	3.9e	29.3	-	-	-
1965	15.2	9.7	5.5	36.1	14.3	3.2	41.0
1966	15.6	9.6	6.0	38.4	2.6	-1.0	9.1
1967	17.5	9.8	7.7	44.0	12.2	2.1	28.3
1968	19.4	9.2	10.2	52.5	10.9	-6.5	32.5
1969	25.4	9.3	16.1	63.3	30.9	1.1	57.8
1970	38.3	9.7	28.6	74.7	50.8	4.3	77.6
1971	53.1	12.1	41.0	77.2	38.6	24.7	43.4
1972	72.9	13.4	59.5p	81.6	37.3	10.7	45.1

^{1/} All commercial banks reporting on Treasury Forms B-2 and B-3; includes credits of U.S. branches and agencies of foreign banks, as well as U.S. banks. Covers short-and long-term loans and acceptance credits denominated in dollars. For 1960, a minor amount of other short-and long-term claims (not denominated in dollars) is also included. For domestic offices, totals include loans to own foreign branches. Branch totals exclude interbranch balances and amounts due from head offices.

^{2/} Data for foreign branches are from U.S. Treasury (Form 3954) for years 1965-68. Data for 1969-72 from the Federal Reserve Board (Form 502).

p) Preliminary

e Estimated

Table 3. Domestic Assets and Selected Deposits of U.S. Multi-National Banks, 1964 and 1972

	TOTAL DOM. ASSETS	As of December 31, 1964				TOTAL DOM. ASSETS	As of June 30, 1972			
		DEPOSITS					DEPOSITS			
		Total Deposits	At Dom. Offices	At Foreign Offices	Foreign as Per Cent of Total		Total Deposits	At Dom. Offices	At Foreign Offices	Foreign as Per Cent of Total
Bank of America NT&SA	14,589	14,349	12,970	1,379	9.6	26,086	32,393	21,667	10,726	33.1
Chase Manhattan Bank, N.A.	12,177	11,445	10,054	1,391	12.1	19,919	22,823	14,985	7,838	34.3
First National City Bank	11,140	10,926	9,166	1,760	16.1	17,847	25,035	13,471	11,564	46.2
Manufacturers Hanover	6,852	6,054	5,722	332	5.4	10,972	11,964	9,024	2,941	24.6
Chemical Bank	6,182	5,377	5,226	151	2.8	10,971	10,787	8,520	2,267	20.9
Morgan Guaranty	5,764	4,788	4,382	406	8.4	9,724	10,717	6,646	4,071	37.9
Security Pacific	4,624	4,395	4,210	-	-	9,162	9,132	7,721	1,411	15.5
Bankers Trust	4,373	3,754	3,707	185	4.2	8,152	9,521	6,550	2,971	31.2
Continental Illinois	4,754	4,123	4,123	47	1.2	7,932	8,176	5,978	2,199	26.9
FNB of Chicago	4,214	3,613	3,613	-	-	7,405	7,400	5,195	2,206	29.8
Wells Fargo Bank, N.A.	3,790	3,312	3,312	-	-	7,016	6,711	5,589	1,122	16.7
Crocker National Bank	3,688	3,216	3,216	-	-	6,095	5,862	4,911	951	16.2
United California Bank	3,181	2,745	2,745	-	-	5,761	5,083	4,468	615	12.1
National Bank of Detroit	2,772	2,508	2,508	-	-	5,110	4,802	4,222	580	12.1
Mellon National Bank	3,183	2,677	2,677	-	-	4,736	4,963	3,548	1,415	28.5
Irving Trust	3,249	2,782	2,782	-	-	4,043	4,164	3,165	999	24.0
FNB of Boston	2,192	1,886	1,774	112	5.9	3,765	3,974	2,646	1,328	33.4
First Pennsylvania	1,555	1,353	1,353	-	-	3,501	2,946	2,566	380	12.9
Marine Midland Bank-N.Y.	951	1,092	1,074	18	1.6	3,136	4,962	2,610	2,352	47.4
Cleveland Trust	1,640	1,847	1,847	-	-	2,774	2,361	2,358	3	-
Total	100,870	92,242	86,461	5,781		174,107	193,776	135,840	57,939	-

Note: "Multi-National Banks" are those exceptionally large institutions which play a substantial role in international affairs. All of them have one or more branches in foreign countries, and each one has a relatively large volume of loans to foreign borrowers on the books of its head office. For a fuller description of the criteria used to identify multi-national banks, see Andrew F. Brimmer, "Multi-National Banks and the Management of Monetary Policy in the United States," presented before a Joint Session of the American Economic Association and the American Finance Association, Toronto, Canada, December 28, 1972, pages 19-23.

Table 4. Claims on Foreigners Reported By Banks in the
United States, By Geographic Region
(Amounts Outstanding in Millions of Dollars)

	<u>December 31, 1964</u>		<u>December 31, 1968</u>		<u>December 31, 1972 p</u>	
	<u>Amount</u>	<u>Per Cent of Total</u>	<u>Amount</u>	<u>Per Cent of Total</u>	<u>Amount</u>	<u>Per Cent of Total</u>
I. Short-Term Claims						
Western Europe	1,210	15.2	1,181	13.6	2,831	18.2
United Kingdom	310	3.9	318	2.1	856	5.5
Canada	1,004	12.6	533	6.1	1,927	12.4
Japan	2,810	35.3	2,889	33.2	4,172	26.8
Latin America	2,235	28.1	3,114	35.7	4,445	28.6
All other countries	<u>698</u>	<u>8.8</u>	<u>994</u>	<u>11.4</u>	<u>2,165</u>	<u>13.9</u>
Total	7,957	100.0	8,711	100.0	15,540	100.0
II. Long-Term Claims						
Western Europe	1,707	39.8	526	14.7	802	16.3
United Kingdom	87	2.0	68	1.9	138	2.8
Canada	328	7.7	428	12.0	382	7.8
Japan	430	10.0	122	3.4	315	6.4
Latin America	1,275	29.8	1,375	38.5	1,992	40.5
All other countries	<u>544</u>	<u>12.7</u>	<u>1,116</u>	<u>31.3</u>	<u>1,423</u>	<u>29.0</u>
Total	4,284	100.0	3,567	100.0	4,914	100.0
III. Total Claims						
Western Europe	2,917	23.8	1,707	13.9	3,633	17.8
United Kingdom	397	3.2	386	3.1	994	4.9
Canada	1,332	10.9	961	7.8	2,309	11.3
Japan	3,240	26.5	3,011	24.5	4,487	21.9
Latin America	3,510	28.7	4,489	36.6	6,437	31.5
All other countries	<u>1,242</u>	<u>10.1</u>	<u>2,110</u>	<u>17.2</u>	<u>3,588</u>	<u>17.5</u>
Total	12,241	100.0	12,278	100.0	20,454	100.0

Source: Treasury Foreign Exchange Reports.

p = preliminary.

Table 5. Expanding Network of Overseas Branches of Federal Reserve
Member Banks, 1964, 1968 and 1972
(Number)

DATE	TOTAL		UNITED KINGDOM				BAHAMAS				CAYMAN ISLANDS				OTHER AREAS	
	Banks	Branches	Total		London		Total		Shells		Total		Shells		Banks	Branches
			Banks	Branches	Banks	Branches	Banks	Branches	Banks	Branches	Banks	Branches	Banks	Branches		
December 31, 1964	11	181	10	17	10	17	2	2	-	-	-	-	-	-	7	162
December 31, 1968	27	375	22	33	22	31	6	8	4	4	-	-	-	-	8	334
December 31, 1972	107	627	34 ^{a/}	49	34 ^{a/}	45	86	94	84 ^{b/}	84	2	2	1	1	18	482
March 15, 1973	107	627	34 ^{a/}	49	34 ^{a/}	45	86	94	84 ^{b/}	84	10	10	8 ^{c/}	8	18	482

Note: A number of banks have branches in two or more areas, so components will not add to total.

^{a/} Includes 12 banks which have no other foreign branches and 7 banks which have only one other branch located in the Bahamas.

^{b/} Includes 70 banks which have no other branch.

^{c/} Includes 5 banks which have no other foreign branches; 2 of these 5 have one branch each in the Bahamas which is scheduled to be closed.

Table 6. Sources and Uses of Funds of Foreign Branches of U.S. Banks, December 31, 1969
(Millions of Dollars)

Sources and Uses of Funds	All Foreign Branches			Branches in the United Kingdom				Branches in the Bahamas			All Other Branches			
	Amount	Percentage Distribution		Amount	Percentage Distribution		Per Cent of Total	Amount	Percentage Distribution		Per Cent of Total	Amount	Percentage Distribution	
		Sources	Uses		Sources	Uses			Sources	Uses			Sources	Uses
Internal System														
<u>U.S. Parent</u>														
Source: liabilities to U.S. Parent	719	2.0		82	0.3		11.4	40	1.3		5.6	597	6.4	83.0
Use: claims on U.S. Parent	13,834		37.8	10,217		42.1	73.9	1,293		42.7	9.4	2,324		16.8
Net Position	13,115			10,135			77.3	1,253			9.6	1,727		13.2
<u>Branches in Other Countries</u>														
Source: liabilities to branches	2,745	7.5		991	4.1		36.1	123	4.1		5.5	1,631	17.5	59.4
Use: claims on branches	2,890		7.9	1,430		5.9	49.3	222		7.3	7.7	1,238	13.3	42.8
Net Position	145			439			302.8	99			68.3	- 393		-271.0
<u>Inter-Bank Market</u>														
Source: liabilities to foreign banks	20,412	55.8		14,876	61.4		73.9	1,931	63.8		9.5	3,605	38.8	17.7
Use: claims on foreign banks	9,707		26.6	6,308		28.5	71.2	695		23.0	7.2	2,104		21.7
Net Position	-10,705			-7,968			-74.4	-1,236			11.6	-1,501		14.0
<u>Foreign Official Institutions</u>														
Source: liabilities to fgn. off. Inst.	1,856	5.1		1,235	5.1		66.5	24	0.8		1.3	597	6.4	32.2
Use: claims on fgn. off. Inst.	537		1.5	289		1.2	53.8	25		0.8	18.3	223	2.4	41.5
Net Position	-1,319			-946			71.7	1			0.0	- 374		28.4
<u>External Market</u>														
Source: liabilities to private fgn. depositors	6,958	19.0		4,509	18.6		64.8	622	20.5		8.9	1,827	19.7	26.3
Use: claims on private fgn. borrowers	6,307		17.3	3,458		14.3	54.8	522		17.2	8.3	2,327	25.0	36.9
Net Position	- 651			-1,051			161.4	- 100			15.4	500		- 76.8
<u>Residual Market</u>														
Source: All other claims	3,873	10.6		2,631	10.8		67.9	287	9.5		7.4	955	11.2	24.6
Use: All other liabilities	3,288		9.0	1,940		8.0	59.0	270		8.9	8.2	1,078	11.6	32.8
Net Position	- 585			- 691			118.2	- 17			2.3	123		- 21.0
<u>Total Resources</u>	36,563	100.0	100.0	24,242	100.0	100.0	66.4	3,027	100.0	100.0	8.3	9,294	100.0	25.4

Source: Federal Reserve Board, Monthly Report (FR 302) on Foreign Branch Assets and Liabilities.

Table 7. Sources and Uses of Funds of Foreign Branches of U.S. Banks, December 31, 1972
(Millions of Dollars)

Sources and Uses of Funds	All Foreign Branches			Branches in the United Kingdom				Branches in the Bahamas				All Other Branches			
	Amount	Percentage Sources	Distribution Uses	Amount	Percentage Sources	Distribution Uses	Per Cent of Total	Amount	Percentage Sources	Distribution Uses	Per Cent of Total	Amount	Percentage Sources	Distribution Uses	Per Cent of Total
Internal System															
<u>U.S. Parent</u>															
Source: liabilities to U.S. Parent	1,000	1.2		113	0.3		11.3	312	2.4		31.2	575	2.5		57.5
Use: claims on U.S. parent	2,124		2.7	1,138		2.6	53.6	225		1.7	10.6	761		3.3	35.8
Net Position	1,124			1,025			91.2	- 87			- 7.7	186			
<u>Branches in Other Countries</u>															
Source: liabilities to branches	9,520	11.9		2,442	5.6		25.7	1,951	14.9		20.5	5,127	22.0		53.9
Use: claims on branches	9,845		12.3	5,069		11.5	51.5	706		5.4	7.2	4,070		17.5	41.3
Net Position	325			2,627			808.3	-1,245			-383.1	-1,037			-325.2
<u>Inter-Bank Market</u>															
Source: liabilities to foreign banks	42,531	53.1		24,776	56.7		58.3	8,165	62.4		19.2	9,590	41.2		22.6
Use: claims on foreign banks	36,738		45.9	23,983		54.9	65.3	5,741		43.9	15.6	7,014		30.2	19.1
Net Position	- 5,793			- 793			13.7	-2,424			41.8	-2,576			44.5
<u>Foreign Official Institutions</u>															
Source: liabilities to fgn. off. Inst.	8,486	10.6		6,453	14.8		76.0	230	1.8		2.7	1,803	7.8		21.3
Use: claims on fgn. off. Inst.	1,665		2.1	609		1.4	36.6	498		3.8	29.9	558		2.4	33.5
Net Position	- 6,821			- 5,844			85.7	268			- 3.9	-1,245			18.1
<u>External Market</u>															
Source: liabilities to private fgn. depositors	11,483	14.3		7,042	16.1		61.3	1,344	10.3		11.7	3,097	13.3		27.0
Use: claims on private fgn. borrowers	22,910		28.6	10,179		23.3	44.4	4,554		34.8	19.9	8,177		35.2	35.7
Net Position	11,427			3,137			27.5	3,210			28.1	5,080			46.5
<u>Residual Market</u>															
Source: All other claims	7,014	8.8		2,858	6.6		40.8	1,089	8.3		15.5	3,067	13.2		43.7
Use: All other liabilities	6,752		8.4	2,706		6.2	40.1	1,367		10.4	20.2	2,679		11.5	39.7
Net Position	- 262			- 152			58.0	278			-106.1	- 388			148.1
Total Resources	80,034	100.0	100.0	43,684	100.0	100.0	54.6	13,091	100.0	100.0	16.4	23,259	100.0	100.0	29.1

Source: Federal Reserve Board, Monthly Report (FR 502) on Foreign Branch Assets and Liabilities.

Table 8. Sources and Uses of Funds of United Kingdom Branches of U.S. Banks, December 31, 1972, By Date of Establishment: Before and After Year-End 1964 (Millions of Dollars)

Sources and Uses of Funds	All U.S. Bank Branches in United Kingdom			U.S. Banks with U.K. Branches Established Before December 31, 1964			U.S. Banks with U.K. Branches Established After December 31, 1964				
	Amount	Percentage Distribution Sources	Uses	Amount	Percentage Distribution Sources	Uses	Per Cent of Total	Amount	Percentage Distribution Sources	Uses	Per Cent of Total
Internal System											
U.S. Parent											
Source: liabilities to U.S. Parent	113	0.3		32	0.1		28.3	81	0.6		71.7
Use: claims on U.S. Parent	<u>1,138</u>		2.6	<u>1,091</u>		3.7	<u>95.9</u>	<u>47</u>		0.3	<u>4.1</u>
Net Position	<u>1,025</u>			<u>1,059</u>			<u>103.3</u>	<u>- 34</u>			<u>- 3.3</u>
Branches in Other Countries											
Source: liabilities to branches	2,442	5.6		2,166	7.2		88.7	256	1.8		11.3
Use: claims on branches	<u>5,069</u>		11.5	<u>4,258</u>		14.3	<u>84.0</u>	<u>811</u>		5.9	<u>16.0</u>
Net Position	<u>2,627</u>			<u>2,092</u>			<u>79.6</u>	<u>555</u>			<u>20.4</u>
Inter-Bank Market											
Source: liabilities to foreign banks	24,776	56.7		14,646	49.1		59.1	10,130	73.3		40.9
Use: claims on foreign banks	<u>23,983</u>		54.9	<u>14,750</u>		49.4	<u>61.5</u>	<u>9,233</u>		66.8	<u>38.5</u>
Net Position	<u>- 793</u>			<u>- 104</u>			<u>13.1</u>	<u>- 897</u>			<u>86.9</u>
Foreign Official Institutions											
Source: liabilities to fgn. off. Inst.	6,453	14.8		5,211	17.4		80.8	1,242	9.0		19.2
Use: claims on fgn. off. Inst.	<u>609</u>		1.4	<u>409</u>		1.4	<u>67.2</u>	<u>200</u>		1.4	<u>32.8</u>
Net Position	<u>-5,844</u>			<u>-4,802</u>			<u>82.2</u>	<u>-1,042</u>			<u>17.8</u>
External Market											
Source: liabilities to private fgn. depositors	7,042	16.1		5,693	19.1		80.8	1,349	9.8		19.2
Use: claims on private fgn. borrowers	<u>10,179</u>		23.3	<u>7,322</u>		24.5	<u>71.9</u>	<u>2,857</u>		20.7	<u>28.1</u>
Net Position	<u>3,137</u>			<u>1,629</u>			<u>51.9</u>	<u>1,508</u>			<u>48.1</u>
Residual Market											
Source: Other liabilities	2,878	6.6		2,109	7.1		73.3	769	5.5		26.7
Use: Other claims	<u>2,706</u>		6.2	<u>2,027</u>		6.7	<u>74.9</u>	<u>679</u>		4.9	<u>25.1</u>
Net Position	<u>- 172</u>			<u>- 82</u>			<u>47.7</u>	<u>- 90</u>			<u>42.3</u>
Total Resources	<u>43,684</u>	<u>100.0</u>	<u>100.0</u>	<u>29,857</u>	<u>100.0</u>	<u>100.0</u>	<u>68.3</u>	<u>13,827</u>	<u>100.0</u>	<u>100.0</u>	<u>31.7</u>

Source: Federal Reserve Board, Monthly Report (FR 502) on Foreign Branch Assets and Liabilities.

Table 8-a. Estimated Profitability of Foreign Branches, 1972
(Percentage)

(Note: Net Earnings After Taxes)

<u>CATEGORY</u>	<u>Rate of Return: 1972</u>			<u>Memo: Foreign Deposits as Per cent of Total Deposits, June 30, 1972</u>
	<u>Total Assets</u>	<u>London Assets</u>	<u>Total less London</u>	
<u>15 London Branches</u>	.54	.12	.61	23.0
3 branches established before Dec. 31, 1964	.53	.10	.61	31.1
12 branches established after Dec. 31, 1964	.55	.14	.61	19.0
	<u>Total Assets</u>	<u>Assets of All Foreign Brs.</u>	<u>Total less Forg. Brs.</u>	
3 Banks (all foreign branches combined)	.44	.40	.45	25.6
<u>Memorandum:</u>	<u>Total Assets</u>	<u>Earning Assets</u>	-	-
Earnings of Federal Reserve Member Banks:				
1968	.77	.97	-	-
1969	.78	1.08	-	-
1970	.79	1.08	-	-
1971	.79	.98	-	-
<u>20 Multi-National Banks</u>	-	-	-	29.9
10 banks with foreign branches established before Dec. 31, 1964	-	-	-	34.4
10 banks with foreign branches established after Dec. 31, 1964	-	-	-	18.1

Table 9. Expanding Network of Out-of-State Edge Corporations^{1/}
1964 and 1972

<u>Category</u>	<u>1964</u>	<u>1972</u>
Number of banks with out-of-state Edge Corporations	6	45 ^{2/}
Number of out-of-state Edge Corporations	6	39
Located in New York	6	21
Other Locations	--	18
Miami, Florida	--	7
Los Angeles, California	--	4
San Francisco, California	--	2
Chicago, Illinois	--	2
New Orleans, Louisiana	--	1
Houston, Texas	--	2
Assets of out-of-state Edge Corporations ^{3/} (\$ mill.)	724	4,401
Located in New York	724	3,961
Other locations	--	440
Miami, Florida	--	123
Los Angeles, California	--	120
San Francisco, California	--	130
Chicago, Illinois	}	67
New Orleans, Louisiana		
Houston, Texas		

^{1/} Out-of-state Edge Corporations are international banking subsidiaries located outside of the headquarters city of the parent.

^{2/} Includes 18 banks that are joint owners of Allied Bank International, New York.

^{3/} Asset figures may differ slightly from those in Table 10 because of rounding in basic statistics.

Table 10. Assets and Liabilities of Out-of-State Corporations,^{1/}
 By Geographic Location, December 31, 1973
 (Millions of Dollars)

<u>Category</u>	<u>New York</u>	<u>California</u>	<u>Miami</u>	<u>Other Locations</u>
<u>Liabilities</u>				
Deposits	3,252	88	76	33
Acceptances	200	30	21	15
Borrowings	124	89	3	6
Other Liabilities and equity	<u>385</u>	<u>43</u>	<u>24</u>	<u>12</u>
TOTAL	3,961	250	124	66
<u>Assets</u> ^{2/}				
Cash	2,435	50	41	5
Loans and Acceptances	1,369	194	70	42
Other Assets	<u>157</u>	<u>6</u>	<u>13</u>	<u>19</u>
TOTAL	3,961	250	124	66

1/ Out-of-state Edge Corporations are international banking subsidiaries located outside of the headquarters city of the parent.

2/ Asset figures may differ slightly from those in Table 9 because of rounding of basic statistics.

Table 11. Share of International Banking Business^{1/} Held By
 Out-of-State Edge Corporations,^{2/} By Geographic Area, 1969, 1971 and 1972
 (Amounts in Millions of Dollars)

<u>Location</u>	<u>1969</u>	<u>1971</u>	<u>1972</u>
New York City	8,208	11,453	14,136
Out-of-state Edges as per cent of total	9.3	9.9	9.7
California ^{3/}	2,045	2,853	3,394
Out-of-state Edges as per cent of total	--	--	5.7
Miami, Florida ^{3/}	--	--	149
Out-of-state Edges as per cent of total	--	--	47.0

1/ Loans and acceptances related to international or foreign business held by commercial banks and out-of-state Edge Corporations.

2/ Out-of-state Edge Corporations are international banking subsidiaries located outside of the headquarters city of the parent.

3/ Although one or more out-of-state Edge Corporations were established in these locations in 1969 and 1971, their share of the market is not shown to avoid disclosure of information relating to an individual bank.

Table 12. Commercial Bank Assets Associated with Foreign Transactions, Selected Periods, 1971-1973
(Weekly Reporting Banks, Millions of Dollars)

Year 1/ Commercial Banks	Jan. 3	Jan. 10	Jan. 17	Jan. 24	Jan. 31	Feb. 7	Feb. 14	Feb. 21	Feb. 28	March 7	March 14	Cumulative Change		
												Jan. 3, 1973- Feb. 14, 1973	Feb. 14, 1973- March 14, 1973	
I. Balances with Foreign Commercial Banks														
1973: Level	620	554	539	479	506	573	757	745	533	652	635			
Change		- 66	- 15	- 60	27	67	184	- 12	-212	119	- 17	137	-122	
1972: Level	466	465	476	421	460	419	438	448	464	553	713			
Change		- 1	11	- 55	39	- 41	19	10	16	89	160	- 28	275	
1971: Level	336	394	401	393	414	445	386	412	380	462	474			
Change		58	7	- 8	21	31	- 59	26	- 32	82	12	50	88	
II. Loans to Foreign Commercial Banks														
1973: Level	3,252	3,180	3,037	3,031	3,155	3,441	4,192	4,357	4,402	4,929	5,064			
Change		- 72	-143	- 6	124	286	751	165	65	527	135	940	872	
1972: Level	2,942	2,864	2,873	2,683	2,617	2,661	2,533	2,604	2,496	2,504	2,565			
Change		- 78	9	-190	- 66	44	-128	71	-108	8	61	-409	32	
1971: Level	1,535	1,539	1,513	1,563	1,465	1,459	1,485	1,469	1,509	1,509	1,454			
Change		4	- 26	50	- 98	- 6	26	- 16	40	--	- 55	- 50	- 31	
III. Loans to Foreign Businesses														
1973: Level	3,825	3,812	3,878	3,917	3,938	3,993	3,934	3,972	4,012	4,294	4,373			
Change		- 13	66	39	21	55	- 59	38	40	282	79	109	439	
1972: Level	3,251	3,258	3,262	3,207	3,206	3,220	3,213	3,178	3,226	3,233	3,277			
Change		7	4	- 55	- 1	14	- 7	- 35	48	7	44	- 38	64	
1971: Level	2,257	2,306	2,287	2,398	2,323	2,298	2,385	2,404	2,420	2,462	2,517			
Change		49	- 19	111	- 75	- 25	87	19	16	42	55	128	132	
Sub-Total														
1973: Level	7,697	7,546	7,454	7,427	7,599	8,007	8,883	9,074	8,947	9,875	10,072			
Change		-151	- 92	- 27	172	408	876	191	-127	928	197	1,186	1,189	
1972: Level	6,659	6,587	6,611	6,311	6,283	6,300	6,184	6,230	6,186	6,290	6,555			
Change		- 72	24	-300	- 28	17	-116	46	- 44	104	265	-475	371	
1971: Level	4,128	4,239	4,201	4,354	4,202	4,202	4,256	4,285	4,309	4,433	4,445			
Change		111	- 38	153	-152	--	54	29	24	124	12	128	189	
IV. Loans to Foreign Gov't. & Official Institutions														
1973: Level	1,156	1,148	1,152	1,179	1,186	1,203	1,222	1,235	1,222	1,239	1,232			
Change		- 8	4	27	7	17	19	13	- 13	17	- 7	66	10	
1972: Level	895	924	886	912	912	906	886	911	920	890	909			
Change		29	- 38	26	--	- 6	- 20	25	9	- 30	19	- 9	23	
1971: Level	812	812	796	784	787	795	777	772	759	760	756			
Change		--	- 16	- 12	3	8	- 18	- 5	- 13	1	- 4	- 35	- 21	
Grand Total														
1973: Level	8,853	8,694	8,606	8,606	8,785	9,210	10,105	10,309	10,169	11,114	11,304			
Change		-159	- 88	--	179	425	895	204	-142	945	190	1,252	1,199	
1972: Level	7,554	7,511	7,497	7,223	7,195	7,206	7,070	7,141	7,106	7,180	7,464			
Change		- 43	- 14	-274	- 28	11	-136	71	- 35	74	284	-484	394	
1971: Level	4,940	5,051	4,997	5,138	4,989	4,997	5,033	5,057	5,068	5,193	5,201			
Change		111	- 54	141	-149	8	36	24	11	125	8	93	168	

1/ Dates are for 1973; corresponding dates were selected for previous years.

Source: Balances with and loans to foreign commercial banks and foreign governments and official institutions are from Weekly Condition Reports; foreign commercial and industrial loans are from Weekly (Federal Reserve) Commercial and Industrial loan series.

Table 13. Foreign Assets of U.S. Commercial Banks Reporting
Under the VFCR Guidelines
(Amounts in millions of dollars)
1969-1973

CATEGORY	Changes										
	Dec. ^{1/} 1969	Dec. ^{1/} 1970	Nov. 1971	Dec. 1971	Jan. 1972	Feb. 1972	Dec. 1972	Jan. 1973	Feb. 1973	Jan. 1972 to Feb. 1972	Jan. 1973 to Feb. 1973
I. <u>Foreign assets held for own account</u>	<u>10,143</u>	<u>10,424</u>	<u>11,698</u>	<u>12,902</u>	<u>12,671</u>	<u>13,045</u>	<u>14,457</u>	<u>14,097</u>	<u>15,407</u>	<u>374</u>	<u>10</u>
A. Loans, acceptances, deposits, and other claims	9,273	9,437	10,515	11,700	11,455	11,810	13,058	12,657	13,931	355	1,274
B. Long-term securities	161	141	116	119	120	121	108	113	113	1	-
C. Invest. in foreign subs.	628	781	1,005	1,021	1,032	1,045	1,222	1,261	1,293	13	32
D. Other long-term holdings	81	65	62	62	64	69	69	66	70	5	4
II. <u>Less: VFCR exempt assets</u>	<u>794</u>	<u>1,120</u>	<u>3,111</u>	<u>3,947</u>	<u>3,940</u>	<u>4,097</u>	<u>5,348</u>	<u>5,105</u>	<u>5,699</u>	<u>157</u>	<u>594</u>
A. Canadian assets (changes since 2/68)	164	266	218	536	485	529	927	710	1,000	44	290
B. Del. subs. liab. offset	--	--	104	112	112	132	199	206	211	20	5
C. Export credits other than to residents of Canada			2,789	3,299	3,343	3,436	4,222	4,189	4,488	93	299
1. Participated in, or guaranteed, by Eximbank or insured by FCIA			1,388 ^e	1,429 ^e			1,607	1,654	1,689		+35
2. Guaranteed by Department of Defense	522	791	31 ^e	32 ^e			153	153	166		+13
3. Other			1,370 ^e	1,838 ^e			2,462	2,382	2,633		+251
D. Deferred payment letters of credit ^{2/}	180	63									
III. <u>Assets subject to VFCR (I-II)</u>	<u>9,349</u>	<u>9,304</u>	<u>8,587</u>	<u>8,955</u>	<u>8,731</u>	<u>8,948</u>	<u>9,109</u>	<u>8,992</u>	<u>9,708</u>	<u>217</u>	<u>761</u>
IV. <u>Aggregate ceilings</u>	<u>10,092</u>	<u>9,968</u>	<u>9,876</u>	<u>10,032</u>	<u>9,997</u>	<u>10,014</u>	<u>10,252</u>	<u>10,220</u>	<u>10,283</u>	<u>17</u>	<u>63</u>
V. <u>Aggregate net leeway (IV-III)</u>	<u>743</u>	<u>664</u>	<u>1,289</u>	<u>1,078</u>	<u>1,266</u>	<u>1,066</u>	<u>1,143</u>	<u>1,228</u>	<u>575</u>	<u>-200</u>	<u>-653</u>
VI. <u>Number of reporting banks</u>	<u>169</u>	<u>173</u>	<u>184</u>	<u>194</u>	<u>193</u>	<u>193</u>	<u>219</u>	<u>213</u>	<u>221</u>	<u>0</u>	<u>8</u>
Memorandum Items:											
Claims held for account of customers	1,541	1,563	1,737	1,918	1,960	1,941	2,097	2,384	2,587		
Total own and customers' claims	10,814	11,000	12,252	13,619	13,415	13,751	15,155	15,041	16,518		

^{1/} Data do not include Export Term-Loan Ceiling (ETLC) and assets subject to that Ceiling. On December 31, 1969, the aggregate ETLC was \$1,264 million, with total outstandings of \$16 million. On December 31, 1970, the aggregate ETLC was \$1,423 million with total outstandings of \$190 million.

^{2/} Deferred payments letters of credit held on April 30, 1968 and currently outstanding.

^{e/} Estimated.

Table 14. Bank Size and Concentration of Assets Under the VFCR Guidelines, 1964, 1968 and 1972
(Cumulative Percentage Distribution of Selected Assets and VFCR Ceilings)
(Amounts in Millions of Dollars)

Bank Size Group (Total Assets, June 30, 1972, Mill. of Dollars)	Ranking of Reporting Banks	December 31, 1964				December 31, 1968				December 31, 1972				Export Credits	
		Total Assets	VFCR Ceilings	Assets Subject to VFCR Ceiling	Customer Claims	Total Assets	VFCR Ceilings	Assets Subject to VFCR Ceilings	Customer Claims	Total Assets	VFCR Ceilings	Assets Subject to VFCR Ceilings	Customer Claims	December 31, 1971	December 31, 1972
26,085-10,971	1-5	30.50	52.39	52.51	40.94	29.28	50.18	51.18	51.53	25.16	39.15	43.98	36.83	52.60	51.34
9,724-7,405	6-10	44.72	71.51	71.62	71.21	43.36	68.24	69.87	66.15	37.59	54.65	60.53	58.87	71.27	66.58
7,015-4,736	11-15	54.97	79.91	80.04	76.57	52.94	76.68	78.62	74.17	46.01	59.98	66.26	61.63	77.91	72.86
4,043-3,136	16-20	60.89	82.90	82.97	83.58	59.05	79.82	81.88	79.13	51.19	65.91	72.40	74.03	81.39	77.00
3,119-2,442	21-25	65.14	84.53	84.59	84.66	63.32	82.96	85.07	83.28	55.21	68.77	75.38	75.75	82.78	79.54
2,378-2,293	26-30	69.06	86.10	86.16	85.87	67.09	84.37	86.22	84.92	58.63	71.52	78.32	76.85	84.00	81.95
2,278-2,060	31-35	72.53	87.52	87.57	86.24	70.56	86.33	88.10	85.68	61.83	73.47	80.28	77.42	85.31	83.21
2,041-1,958	36-40	75.64	90.00	90.05	89.82	73.68	88.91	90.28	88.74	64.75	75.07	81.68	78.30	86.70	84.38
1,940-1,727	41-45	78.39	91.54	91.58	90.23	76.46	89.83	91.26	89.52	67.46	76.75	83.42	79.84	87.78	87.68
1,719-1,427	46-50	80.76	92.70	92.74	90.71	78.83	90.66	92.04	90.47	69.76	78.36	84.80	80.91	90.33	88.14
1,408-1,380	51-55	83.06	93.23	93.27	90.94	81.06	91.08	92.30	90.64	71.80	79.55	85.73	81.35	91.44	89.12
1,373-1,336	56-60	85.07	93.52	93.57	91.00	83.13	91.57	92.57	90.89	73.79	80.59	86.51	81.45	92.30	89.69
1,329-1,294	61-65	87.02	93.64	93.68	91.09	85.05	92.22	93.16	91.01	75.72	81.71	87.32	82.27	92.72	90.73
1,253-1,154	66-70	88.85	93.96	94.00	91.59	86.79	92.81	93.65	91.29	77.51	82.69	88.11	82.67	93.10	91.17
1,145-1,100	71-75	90.56	94.34	94.38	91.86	88.41	93.25	93.95	91.84	79.16	83.60	88.66	83.81	93.58	91.49
	All Banks	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	Number	153				179				227				205	227
	Total Amounts	166,840	9,964	9,466	1,389	247,840	9,757	9,270	1,313	340,978	10,303	9,116	2,105	3,301	4,231

Table 15. FOREIGN ASSETS OF U.S. AGENCIES AND BRANCHES OF FOREIGN BANKS
REPORTING UNDER THE VFCR GUIDELINES
(million of dollars; end of month)
1971-1973

CATEGORY	Nov. 1971	Dec. 1971	Jan. 1972	Feb. 1972	Dec. 1972	Jan. 1973	Feb. 1973	CHANGES	
								Jan. 1972 to Feb. 1972	Jan. 1973 to Feb. 1973
I. <u>Foreign Assets Held for Own Account</u>	<u>2,838</u>	<u>3,009</u>	<u>3,190</u>	<u>3,119</u>	<u>4,676</u>	<u>4,445</u>	<u>5,690</u>	<u>-71</u>	<u>+1,245</u>
A. Loans, acceptances, deposits, and other claims	2,817	2,987	3,168	3,089	4,660	4,415	5,664	-79	+1,249
B. Other holdings	21	22	22	30	16	30	26	8	- 4
II. <u>Less: Own Assets of the Types Not Subject to Restraint</u>	<u>964</u>	<u>1,066</u>	<u>1,077</u>	<u>1,137</u>	<u>1,799</u>	<u>1,859</u>	<u>2,163</u>	<u>60</u>	<u>+ 304</u>
A. Canadian assets	250	273	274	319	389	342	418	45	+ 76
B. Export credits other than to residents of Canada	714	793	803	818	1,410	1,517	1,745	15	+ 228
1. Participated in, or guaranteed, by Eximbank or insured by FCIA	--	--	--	--	38	40	40	--	--
2. Guaranteed by Department of Defense	--	--	--	--	11	11	11	--	--
3. Other	--	--	--	--	1,361	1,466	1,694	--	+ 228
III. <u>Foreign Assets of the Types Subject to Restraint (I - II)</u>	<u>1,875</u>	<u>1,943</u>	<u>2,113</u>	<u>1,982</u>	<u>2,878</u>	<u>2,585</u>	<u>3,527</u>	<u>-131</u>	<u>+ 942</u>
IV. <u>Foreign Assets of the Types Subject to Restraint on November 30, 1971</u>	<u>1,875</u>	<u>1,875</u>	<u>2,040</u>	<u>1,888</u>	<u>1,874</u>	<u>1,876</u>	<u>1,876</u>	<u>-152</u>	<u>--</u>
V. DIFFERENCE: IV - III	0	-71	-73	-94	-1,004	-709	-1,651	- 21	- 942
VI. Number of Reporting Institutions	49	51	50	53	60	62	62	3	--
Memorandum Items:									
U.S. customers' claims	232	233	243	229	447	400	421	- 14	+ 21
Total own and customers claims	3,049	3,220	3,411	3,318	5,107	4,815	6,084	- 93	+1,269