

FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, April 28, 1965

**REVISION OF GUIDELINE 13 FOR COMMERCIAL BANKS UNDER THE
VOLUNTARY FOREIGN CREDIT RESTRAINT PROGRAM**

**To All Banks in the
Eleventh Federal Reserve District:**

Printed on the reverse hereof is a revision of guideline 13 issued by the Board of Governors of the Federal Reserve System for foreign lending activities of commercial banks under the President's balance of payments program. The original guidelines were set forth in our circular of March 6, 1965. This revision amplifies suggestions concerning certain types of domestic credit and removes references to export credit matters covered elsewhere in the guidelines, particularly in guideline 4.

As the effects of the guidelines are increasingly felt, some domestic borrowers may seek to obtain funds from commercial banks in order to extend credit to foreign subsidiaries or foreign customers who normally would have obtained credit directly from U. S. banks. It is obvious that if such domestic borrowing occurs on a large scale, there would be a substantial expansion of capital outflows through nonbank channels, thus offsetting some of the gain obtained as a result of the curtailment of bank lending to foreigners.

The extension of credit by industrial and commercial concerns to foreigners is subject to the restraint program being administered by the Department of Commerce, but the commercial banking system can also be helpful in this area. It is suggested that even though bank loans to domestic borrowers do not come under guideline 1, your bank make every reasonable effort to ascertain that a loan to a domestic customer will not result in channeling funds abroad for purposes inconsistent with the balance of payments program. We realize that this is a rather delicate matter involving customer relations. However, if the subject is approached in the light of the urgent need to achieve the objectives of the President's program, banks should be able to accomplish a great deal.

We are also concerned with the possibility that U. S. branches and subsidiaries of foreign companies might become a conduit through which bank credit, or credit from other U. S. sources, would be channeled to their home offices or into other foreign uses. The Commerce Department is requesting such U. S.-based affiliates of foreign companies to participate in an effort to limit this development. However, banks could contribute to the success of the President's program by not increasing extensions of credit to such customers beyond the amounts normally employed by them.

These are obviously difficult areas in which there are opportunities to substitute domestic for foreign financing in ways damaging to the goals of the programs. In general, success will depend on efforts to identify the types of loans which are inconsistent with the guidelines suggested by the Federal Reserve System and the Department of Commerce's effort with respect to nonfinancial firms.

Another area of concern relates to priorities for export credits discussed in guideline 4. Certainly it is our objective that no export sales be lost for want of financing. However, as credits to foreigners to finance exports from the United States receive a high priority under the program, there may be an incentive on the part of would-be borrowers to increase their borrowing for export purposes as a possible substitute for borrowing for other purposes. For example, a borrower who in the past has used his own resources or other foreign resources to finance exports from the United States may now seek to obtain U. S. credit to finance such exports and use his own resources to finance other foreign activities. Or, a borrower may seek to increase the life of an export credit beyond the time needed to complete the transaction. Credit for the longer period is, in effect, a working capital loan. Such loans are not entitled to priority.

New lines of credit or expanded lines should be scrutinized with great care in order to insure that as much as possible of the credit available to foreigners within the guideline target is devoted to high priority uses, especially bona fide export credits.

If you have any questions or comments regarding revised guideline 13 or the types of credits discussed in this letter, or if you wish to discuss with us any aspect of the President's program, please contact Mr. T. W. Plant, who is in charge of the administration of the President's program at this Bank. Substantial improvement in the balance of payments is essential to the continued strength of the United States in international economic and financial affairs.

Yours very truly,

Watrous H. Irons

President

REVISED GUIDELINE 13 FOR COMMERCIAL BANKS UNDER THE VOLUNTARY FOREIGN CREDIT RESTRAINT PROGRAM

(13) LOANS TO U. S. RESIDENTS, AND SUBSTITUTION OF DOMESTIC CREDIT FOR CREDIT FROM FOREIGN SOURCES.

There are a number of situations in which loans to domestic customers may be detrimental to the President's balance of payments program. These include:

(A) Loans to U. S. companies which will aid the borrower in making new foreign loans or investments inconsistent with the President's program. The Secretary of Commerce has requested large companies to improve their own balance of payments position during 1965 and to report certain loans to and investments in foreign affiliates and other foreign interests on Form 41-R2289. Domestic non-bank financial institutions have been asked to observe guidelines issued by the Federal Reserve System. Banks should avoid making new loans that would directly or indirectly enable borrowers to use funds abroad in a manner inconsistent with the Department of Commerce program or with the guidelines for nonbank financial institutions.

(B) Loans to U. S. subsidiaries and branches of foreign companies which otherwise might have been made by the bank to the foreign parent or other foreign affiliate of the company, or which normally would have been obtained abroad. Subsidiaries and branches of foreign companies are being requested by the Department of Commerce to file a special quarterly report.

(C) Loans to U. S. companies with foreign activities which take the place of credit normally obtained abroad. Even though such loans are made to domestic firms or those domiciled here, the impact on the U. S. balance of payments is the same as if the bank had made loans to foreigners in the first instance.

To the extent possible, banks should also avoid making loans to domestic borrowers which have an effect similar to that of the loans described in paragraphs (B) and (C).