(Notes used by President Bopp in his discussions with commercial banks* on February 23, 24, 25, 26, 1965.)

BALANCE OF PAYMENTS PROBLEM
(Voluntary Foreign Credit Restraint Program)

I. Balance of Payments Problem. $35/gold.

Maintain a strong + expanding economy limits what can be done with monetary policy.

Discount rate @ 4 per cent -- highest in 30 years.
Bill rate @ 4 per cent -- highest except end of '59-'60.

Favorable balance of trade + services.
Unfavorable capital account.

Voluntary Credit Restraint Program.

NOT EASY!

Meeting to exchange views.

We all want it to work -- Equitably.

We are new at it: Don't have all the answers.

II. Federal Reserve Thinking as to Guidelines.

A. Banks with no foreign loans on December 31, 1964.

We must watch that they don't become a loophole. (13,000 banks even @ 200M each.)

To finance export of local product if not mere shift from another bank.

B. Omit.

C. Banks 75 per cent now.

Return within reasonable period of time.
Work out time schedule.

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*February 23 - Philadelphia National Bank.
February 24 - Girard Trust Bank and Provident National Bank.
February 25 - Fidelity-Philadelphia Trust Company.
February 26 - First Pennsylvania Banking & Trust Company.

D. Substitution of export credit for credit for other purposes.

Customer using export credit to finance other foreign investments or to supplant credit formerly obtained abroad -- thus releasing those funds for other uses.

Difficult area -- consult with Dave.

5 per cent ceiling should help.
Department of Commerce on nonfinancial firms.

E. Participations in Export-Import and I.B.R.D. loans included.

Ex-Im. "Portfolio-Fund" participations considered domestic loans.

F. Customer accounts + Trust departments must obviously follow instructions from customer.

BUT in making investments for customers or as fiduciary, be guided by principles inherent in President's program.

G. Foreign branches.

Inappropriate to use foreign branches to circumvent program.

We will follow using I.E.T. forms for branches.

Loans to overseas branches.

Balances due head office covered in 5 per cent.

H. Edge Act Corps. and Agreement Corps. included may be combined with parent in 5 per cent lien.

Will need information on foreign investment and other foreign assets not covered in Treasury foreign export reports.

All significant: investment still subject to specific consent of Board of Governors.

I. U. S. Branches of foreign banks to comply with program.

J. Bank sales of foreign assets to U.S. residents.

Then use proceeds for additional foreign loans.
Obviously would not help balance of payments problem.

Program on non-bank financial institutions not yet worked out but under active development.

K. Country preference + loan priorities.

1. Priority to export financing.

2. Preferential treatment underdeveloped countries.

3. Avoid undue hardship to --

   Japan
   Canada
   United Kingdon

4. Would a system of priorities --

   by purpose of loan
   by country groups

   be feasible?
   be desirable?

Heavy restraint

By place:	Most industrial countries, especially Continential Europe with balance of payments surpluses and heavy buyers of of U.S. Gold (Austria - Spain).
By type:	Finance 3d country trade -- especially Iron Curtain -- fixed/working capital; local currency expenditures.

L. Establishing a target base.

Base = outstanding loans and investments as of December 31, 1964.

Target = 105% of base.