

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5627]
March 4, 1965

Tentative Guidelines for Foreign Lending Activities of Nonbank Financial Institutions
Under the President's Balance of Payments Program

To All Banks in the Second Federal Reserve District:

For your information, the texts of the following documents are printed below:

Press release issued yesterday by the Board of Governors of the Federal Reserve System on the implementation of the voluntary foreign lending and investment restraint effort with respect to nonbank financial institutions;

Letter of Chairman Wm. McC. Martin, Jr., referred to in the press release; and

Tentative guidelines for nonbank financial institutions on foreign lending and investing, also referred to in the press release.

Following is the text of the press release:

The President's program to improve the nation's balance of payments position, in part through voluntary efforts to restrain foreign lending and investment activities, was implemented with respect to nonbank financial institutions today by the Board of Governors of the Federal Reserve System. In a letter to the chief executive officers of approximately 750 nonbank financial organizations Chairman Wm. McC. Martin, Jr., set forth tentative guidelines proposed by the Board for the foreign lending activities of these institutions during 1965, to be effective immediately.

Nonbank financial organizations covered by the program include life insurance companies, fire and casualty insurance companies, mutual savings banks, investment companies and mutual funds, sales, business and consumer finance companies, corporate noninsured pension funds, State and local retirement funds, charitable trusts and foundations, college endowment funds, as well as the trust departments of commercial banks.

Recipients of the letter were also advised that within a few days they would receive a statistical questionnaire from the Federal Reserve Bank of their District designed to gather benchmark information on the extent of their foreign lending and investment activities.

As in the program for commercial banks, the System's activities with regard to nonbank financial institutions are being coordinated by Governor J. L. Robertson. Contacts with individual organizations will be made through the individual Federal Reserve Banks.

Copies of Chairman Martin's letter and of the tentative guidelines on foreign lending and investing by nonbank financial institutions are attached. Guidelines for commercial bank foreign lending under the President's program are expected to be available within the next few days.

Following is the text of Chairman Martin's letter:

As you know, the President has launched a program designed to improve our international balance of payments position. An important element of the program is the President's request that banks, other financial institutions and business corporations exercise all practicable restraint in their foreign lending and investment activities. The Department of Commerce has the responsibility for administering this voluntary program, so far as business corporations are concerned. And the Federal Reserve System, in cooperation with the Treasury, has been asked to carry the program to the financial institutions of the country. Governor J. L. Robertson is coordinating the System's activities in this matter here at the Board.

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The purpose of my letter is to acquaint you with the tentative guidelines on foreign lending that we are proposing for 1965. These are detailed in the attached circular. In addition, within a few days you will receive a statistical questionnaire from the Federal Reserve Bank in your District designed to supply some bench-mark information on the extent of your foreign lending and investment activities, if any. This information will help us judge the appropriateness of our guideline objectives.

If you have questions concerning the actions that can be taken to effectuate the program, we urge you to contact the Federal Reserve Bank. Its officers will be glad to counsel with you. Your support in achieving the President's goal—one which is essential to the continued strength of the dollar at home and abroad—will be deeply appreciated.

Following is the text of the guidelines:

TENTATIVE GUIDELINES ON FOREIGN LENDING AND INVESTING
NONBANK FINANCIAL INSTITUTIONS

(Pursuant to the President's Balance of Payments Program)

1. *Deposits and money-market instruments.* Holdings of liquid funds abroad should be limited to the 1964 year-end total, and the longer-term objective is to reduce such investments in a gradual and orderly manner to the December 31, 1963 level. Included in this category of liquid investments are dollar-denominated deposits held in foreign banks and foreign branches of U. S. banks; short-term securities of foreign governments and their instrumentalities; foreign commercial paper, finance company credits and bankers' acceptances; and all other negotiable instruments maturing in 1 year or less. Foreign bank deposits denominated in local currencies may be maintained to the extent needed to support ordinary business operations in that country.

2. *Foreign credits with original maturities of 5 years or less.* Holdings of investments other than those listed above, and written to have final maturities in 5 years or less, should not be increased by more than 5 per cent during calendar 1965. Included in this category are securities, mortgage and other loans, and credits of all other types. The 5 per cent growth ceiling is to be measured against the total of all such holdings at the end of 1964, without regard to type of instrument or country of origin. Priority should be given to credits that directly finance U. S. exports, however, and special care should be taken to avoid the extension of credit to borrowers who would have been accommodated by commercial banks in the absence of the voluntary restraint program.

3. *Foreign credits with original maturities over 5 years.* In the area of long-term financing, there would seem to be no present need for a guideline under the voluntary restraint program. Developments in the long-term credit area will be followed closely, however, so that we may be alert to excessive foreign financing demands if they should materialize. The issues of industrialized countries are subject to the Interest Equalization Tax, and have been very small in volume since that tax became effective. Borrowing by the less developed countries has been relatively light also, and in any event should not be substantially restricted in view of our national policy encouraging productive investment in these countries. In the case of Canada and Japan, separate agreements will serve to limit aggregate financing in United States capital markets.

4. *Direct investment in foreign branches and subsidiaries.* Some types of financial institutions may conduct operations abroad through foreign offices, branches and subsidiaries. In such cases, institutions are urged to limit their additional investment in these operations to the fullest extent practicable during 1965. Particular care should be taken to restrict any increase in net loans and advances outstanding to foreign branches and subsidiaries; ordinarily, expansion in such credit during 1965 should be held within 5 per cent. In the case of insurance carriers doing business abroad, these guidelines are not applicable to holdings of foreign investments in amounts up to 110 per cent of foreign policy reserves.

BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM.

March 3, 1965.

Banks with trust departments are asked to bring the guidelines to the attention of the managing officers of such departments for their guidance.

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.