

At 5627A

# FEDERAL RESERVE BANK OF NEW YORK

NEW YORK 45, N.Y.

RECTOR 2-5700

March 12, 1965

In his letter to you of March 3, Chairman Martin set forth the guidelines proposed by the Federal Reserve System for 1965 on the foreign lending and investing activities of financial institutions other than commercial banks. This program of voluntary restraint in institutional lending abroad, in combination with the limitations suggested on commercial bank credit extensions to foreign borrowers, constitutes a vital part of the national effort proposed by the President to improve our balance of payments position. Enclosed for your reference is a copy of our Circular No. 5627 which contains the press release of the Board of Governors on the implementation of the program with respect to non-bank financial institutions, Chairman Martin's letter and the guidelines.

In the absence of President Hayes, I am writing to amplify some aspects of this voluntary credit restraint program, and to request statistical information regarding the extent of your institution's foreign investment holdings, if any. As to the program, you will note that no guideline is proposed on credits (including corporate stock) with maturities over 5 years. The aggregate volume of such credit going abroad would seem to have been effectively curtailed by application of the Interest Equalization Tax, so that no voluntary restriction of such credit by investors seems necessary or appropriate as of now. The situation will bear watching, of course, and our intention is to set up a simple periodic survey covering both short-term and long-term foreign credits beginning with the first quarter of 1965.

Under the voluntary program, there is no intent to restrict the reinvestment of funds received from ordinary business operations abroad. Investments representing reserves on insurance policies sold abroad are specifically excluded from the program's coverage, as will be any other similar investments required by the nature of foreign operations, when and if they are brought to our attention.

Individual institutional restraint in lending is sought principally on loans, investments and other credits carrying final maturities of 5 years or less. The suggested 5 per cent ceiling on growth in such holdings this year is comparable to that requested of the commercial banks, and is needed on the grounds of equity among financial institutions as well as to help guard against a shifting of credit demands from banks to other lenders. In addition, we are proposing that holdings of foreign deposits and money market instruments be

limited to no more than the 1964 year-end amounts, and that a gradual reduction to the 1963 year-end level should be accomplished over the remainder of this year. Care should be taken, however, to avoid repatriating liquid funds so rapidly that the foreign markets in which they are invested become unduly constricted.

The purpose of this program is to improve our balance of payments, but other national objectives should also be kept in mind. It seems clear that credit tied directly to the financing of U.S. exports should be accommodated to the extent possible under the guidelines, since exports also enter into the balance of payments. Also, priority should be given to the sound and potentially productive credit needs of less developed countries, in view of our national objective of facilitating the economic growth and development of such nations. Finally, care should be taken to avoid restrictive policies that would place an undue burden on Canada and Japan, which are heavily dependent upon U.S. financial markets, and on the United Kingdom, which is suffering from balance of payments difficulties.

The guidelines that we propose are tentative (though they should be regarded as effective until further notice) mainly because we have only limited information regarding the extent and character of the foreign credits held by institutional lenders. For this reason, I am enclosing two copies of a statistical form designed to provide us with bench-mark information on your foreign investments at the ends of 1963 and 1964. Most institutions will hold only a few of the classes of investments included in the questionnaire, and some probably will have none. In any event, however, we would appreciate your completing the form and returning one copy to this Federal Reserve Bank on or before March 26, 1965. Any information concerning the position of individual institutions will be held in strict confidence, for the use only of this Bank and of the Federal agencies involved in the President's balance of payments program.

If you have any questions or comments regarding the program, please contact our Foreign Department (Telephone Extension 1000) which is in charge of its administration at this Bank. Questions regarding the statistical form should be directed to our Balance of Payments Division (Telephone Extension 2000). We sincerely trust that we can count on you for your cooperation in this matter. Substantial improvement in the balance of payments is essential to the continued strength of the United States in international, economic and financial affairs.

Very truly yours,

*William F. Treiber*

William F. Treiber  
First Vice President

Enclosures