

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5680]
July 23, 1965

Revision of Guideline No. 5 for Foreign Lending
Activities of Commercial Banks

To All Banks in the Second Federal Reserve District:

Our Circular No. 5628, dated March 5, 1965, sets forth the guidelines issued by the Board of Governors of the Federal Reserve System for commercial banks to follow in complying with the President's program to improve the nation's balance of payments. The Board of Governors has now revised Guideline No. 5 to permit banks to sell foreign securities owned on December 31, 1964 to U. S. residents without an equivalent reduction in the bases of the banks. Sales to U. S. residents of foreign loans or participations therein owned on December 31, 1964 by banks will continue to require a reduction in the base by an equivalent amount. The revised guideline reads as follows:

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

In general, banks should not expand their lending abroad by selling to U. S. residents (including U. S. banks) claims on foreigners (except foreign securities) existing on the base date and replacing such assets with other loans to foreigners. Sales to U. S. residents of foreign loans or loan participations could assist a bank to stay within the 5 per cent target, but clearly would not benefit the U. S. payments position. Therefore, in the event of any such sales the bank's base should be reduced by an amount equivalent thereto.

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.