

expansions abroad. The foreign branches of U.S. banks have been confronted during the past year with a heavy demand for Eurodollar loans with maturities of up to five years. This demand has come primarily from U.S. corporations and their European subsidiaries because of the Department of Commerce Restraint Program. Would-be borrowers have been looking for these loans because these maturities best fitted their cash flow from foreign earnings; because of the ease and often lower cost of making bank loans as compared to public bond issues; and their reluctance to sell convertible bond issues. The foreign branches of U.S. banks have been unable to meet this demand in a meaningful way because the Interest Equalization Tax represented too much of an additional cost. To some extent their place has been taken by foreign banks that are not subject to the tax. Earnings on such loans have accrued to these foreign banks instead of to the U.S. banks and the U.S. balance of payments.

There is another way in which increased ability to make dollar bank loans out of foreign branches would be beneficial to the U.S. balance of payments. In the Eurodollar area the foreign branches of U.S. banks do not in general lend for long maturities against short deposits. Therefore, the ability to make long loans would be an important incentive to induce depositors to lengthen their maturities with the foreign branches. This in turn would delay the point where these funds could become a claim on U.S. gold.

It is true that foreign branches may now make loans in foreign currencies free of the IET. However, the banks have not been able to make effective use of this exemption for foreign currency loans. Deposits in branches of U.S. banks are largely in dollars and it is not possible to swap these dollars into foreign currencies for sufficiently long maturities. American branch banks overseas attract only limited amounts of longer term foreign currency deposits because: 1) the majority of clients are subsidiaries of U.S. companies operating to a large extent in borrowed funds and remitting dividends, now in larger percentages, to parent companies; 2) truly international, non-U.S. sources tend to hold their excess funds in U.S. dollars, and 3) local companies, except as they have extensive dollar oriented business, tend to deal with native banks.

We would like to mention also that the ability of U.S. subsidiaries to obtain medium-term Eurodollar loans could become even more important if local currency loans in developed countries become further restricted by market conditions or government restrictions. As an example, the Bank of England has restricted the sterling borrowing of foreign owned companies but at the same time has indicated permission for Eurocurrency borrowings under certain conditions.

APPENDIX A. THE NEW YORK CLEARING HOUSE ASSOCIATION

MEMBER BANKS

The Bank of New York.
 The Chase Manhattan Bank.
 First National City Bank.
 Chemical Bank New York Trust Company.
 Morgan Guaranty Trust Company of New York.
 Manufacturers Hanover Trust Company.
 Irving Trust Company.
 Bankers Trust Company.
 Marine Midland Grace Trust Company of New York.
 United States Trust Company of New York.

Senator ANDERSON. Thank you very much.

Do you have any comment to make, Mr. Lindsay?

Mr. LINDSAY. No comment.

Senator ANDERSON. Thank you. I am sorry you had to wait so long. We will recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:35 p.m., the committee recessed, to reconvene at 10 a.m., Tuesday, August 9, 1966.)