

Prior to a decision, the Federal Reserve Bank will obtain clearance from the Board of Governors.

5. Any expansion under paragraphs 2 or 3 that is in excess of 109 per cent of the bank's base should be limited to loans or acceptance credits that finance exports of U.S. goods or services or that represent credit extended to less developed countries. Export credits should be limited to transactions originated by the bank's regular customers or by residents of its normal trade territory. Such expansion should not involve (A) participations in loans originated by other banks or purchases of such loans, (B) investments in foreign securities, (C) deposits in foreign banks, or (D) investments in foreign short-term money market instruments.

(c) Reporting

1. Banks that report on Treasury Foreign Exchange Form B-2 or B-3 should file a Monthly Report on Foreign Claims (Form F.R. 391) with the Federal Reserve Bank of the Reserve district in which the bank is located.

2. Banks that have claims on foreigners in an amount of \$100,000 or more and do not report on Treasury Foreign Exchange Form B-2 or B-3 should file a Quarterly Report on Foreign Claims (Form F.R. 391a) with the Federal Reserve Bank of the Reserve district in which the bank is located.

3. Copies of Forms F.R. 391 and 391a are available at the Reserve Banks.

(2) LOANS INVOLVING EXPORT-IMPORT BANK

Participations in individual export loans arranged by the Export-Import Bank, loans with Export-Import Bank guarantees or insurance, and holdings of "Export-Import Portfolio Fund" participations are excluded from the ceiling. The role of the Export-Import Bank within the framework of the President's program is coordinated by the National Advisory Council for International Monetary and Financial Problems.

(3) CREDITS IN EXCESS OF CEILING

A bank would not be considered as acting in a manner inconsistent with the program if it at times exceeds its ceiling as a result of the (a) drawdown of binding commitments entered into before February 11, 1965; or (b) extension of priority export credits.

The bank should, however, reduce its claims on foreigners to an amount within the ceiling as quickly as possible. It should also take every opportunity to withdraw or reduce commitments, including credit lines, that are not of a firm nature and to assure that drawings under credit lines are kept to normal levels and usage. At time of renewal, each credit line should be reviewed for consistency with the program.

A bank whose foreign credits are in excess of the ceiling will be invited periodically to discuss with the appropriate Federal Reserve Bank the steps it has taken and proposes to take to reduce its credits to a level within its ceiling.

(4) LOAN PRIORITIES

Within the ceiling, absolute priority should be given to bona fide export credits. Credits that substitute for cash sales or for sales customarily financed out of nonbank or foreign funds are not entitled to priority.

With respect to nonexport credits, banks should give the highest priority to loans to less developed countries and should avoid restrictive policies that would place an undue burden on Canada, Japan, and the United Kingdom.

It is expected that the outstanding amount of nonexport credits to developed countries in continental Western Europe would not be increased during 1966 but rather would be reduced to the extent needed to meet bona fide requests for priority credits within the over-all ceiling.

Without attempting to specify all types of loans that should be restricted, it is obvious that credits to developed countries that can be cut back with benefit to our balance of payments and with the least adverse side-effects include: credits to finance third-country trade, credits to finance local currency expenditures outside the United States, credits to finance fixed or working capital needs, and all other nonexport credits to developed countries that do not suffer from balance of payments difficulties.