

maturity is to be taken in classifying individual credit transactions, except that a credit transaction should not be classified as "long term" (and hence subject to guideline (3) below) unless 10 per cent or more of the amount to be repaid is scheduled to be repaid *after* 10 years. Loans guaranteed or arranged by the Export-Import Bank or insured by the Foreign Credit Insurance Association are not to be considered foreign credits for purposes of this program.

Net financial investment in foreign branches, financial subsidiaries and affiliates, if any, is included among the assets subject to the percentage ceilings of this guideline. Such financial investment includes payments into equity and other capital accounts of, and net loans and advances to, foreign corporations engaged principally in finance, insurance, or real estate activities, in which the U.S. institution has an ownership interest of 10 per cent or more. Earnings of a foreign affiliate that are reinvested in the business are not included among assets subject to the guideline ceiling, although institutions are requested to repatriate such earnings to the fullest extent feasible.

In administering restraint in foreign lending and investing, institutions are requested to observe the following priorities or guides:

1. Credits and investments that represent bona fide U.S. export financing should receive absolute priority.

2. Nonexport credits and investments in the less developed countries, and investments in the securities of international institutions, are to be given priority consideration second only to bona fide export financing.

3. The flow of investment funds to Canada and Japan, which are heavily dependent on U.S. capital markets, need be restricted only to the extent necessary to remain under the guideline ceiling.

It is recognized that some individual institutions may temporarily exceed the guideline ceiling, because of investments made under the first two priorities above, or the taking down of firm commitments to lend or invest entered into prior to June 22, 1965, the effective date of the previous guidelines. In any such case, an institution that exceeds its target should consult with the Federal Reserve Bank of the Reserve district in which it is located regarding a program for moving back within the ceiling in a reasonable period of time.

(3) Long-term credits (exceeding 10 years in maturity) and stock investments in foreign companies are not subject to an aggregate ceiling for 1966. This category includes bonds, notes, mortgages, loans, and other credits maturing more than 10 years after date of acquisition, as well as preferred and common stocks. (Loans and investment in certain subsidiaries and affiliates, however, are covered by guideline (2).) Term loans and serial-payment notes and bonds are included in this category *only if* 10 per cent or more of the total amount of the credit is scheduled for repayment to the lender after 10 years beyond date of acquisition.

No percentage ceiling is suggested on long-term credits and investments in the priority categories relating to export financing and to less developed countries (including international institutions) as described in guideline (2). Long-term investment in Canada and Japan also is not subject to a percentage ceiling, in view of inter-Governmental agreements affecting the net amount of financing done by these countries in U.S. financial markets. Lending institutions are requested, however, to limit in 1966 the total of credits and investments in other developed countries to an amount not in excess of 105 per cent of the amount of such holdings on September 30, 1965. Within this category, institutions are expected to avoid any increase in long-term investments in the developed countries of continental Western Europe.

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The attention of lending institutions is directed to the need to refrain from making loans and investments inconsistent with the President's balance of payments program. Among these are the following:

1. Long-term credits covered by guideline (3) which substitute for loans that commercial banks would have made in the absence of the voluntary foreign credit restraint effort administered by the Federal Reserve System.

2. Credits to U.S. borrowers which would aid in making new foreign loans or investments inconsistent with the voluntary restraint program administered by the Department of Commerce.

3. Credits to U.S. subsidiaries and branches of foreign companies which otherwise might have been made to the foreign parent, or which would substitute for funds normally obtained from foreign sources.