

Two of them pointed out that in prior years they would not have considered putting their surplus funds in any country other than the United States, but now they believe the situation is somewhat different: they are not unaware of our balance-of-payments problem, and the interest rates that they can obtain elsewhere are higher than what they can obtain in the United States. One of our customers stated that if the legislation is enacted even though the tax provision would not go into effect until a later date, it was like a "sword hanging over" his head, and he would want to move his funds as quickly as possible. One customer stated that he has already begun to look around so that he can act promptly if and when the bill is enacted. As a matter of fact, I believe that this is one of the detrimental features concerning the mere consideration of this legislation—it causes a number of people who previously were content with leaving deposits in U.S. banks to investigate alternative investments elsewhere.

We must remember that a cash deposit in a bank outside of Mexico is not the only alternative that a Mexican investor can consider. I have gained the impression, when talking to some of our customers, that they may be considering other forms of investment since they must withdraw from U.S. banks anyway. You can understand that any form of investment requires more investigation and analysis than a cash deposit, and the investor must capitalize upon an opportunity when it presents itself rather than wait for a deadline. In answer to your question, this is one of the reasons foreigners are considering the withdrawal of funds from U.S. banks at this time, even though the provision is not to go into effect for 5 years.

I realize that no one can state exactly the proportion of funds that will be moved and how quickly they will be moved. But I believe that it is obvious that large amounts will be moved, and, therefore, serious consideration should be given to the problem: What is the amount of such foreign deposits in U.S. banks at this time, what stable countries that exempt interest paid to foreigners can expect to benefit from the anticipated loss, and what tax can the United States hope to collect on deposits that are now withdrawn?

I have not touched upon the imposition of the estate tax. Of course, our corporate customers were not concerned about this matter, but two individuals were more anxious about this provision than the proposed income tax.

I honestly feel that this is a situation where we will be earning pennies and losing dollars, and our entire economy, not just the banking industry, will be better off if we refuse to tamper with a provision that has been so effective since 1921 and make this decision without delay.

I hope that I may hear from you again concerning this matter.

Yours very truly,

MAX A. MANDEL, *President.*

TREASURY DEPARTMENT,  
*Washington, D.C., June 10, 1966.*

Mr. MAX A. MANDEL,  
*President, The Laredo National Bank,*  
*P.O. Box No. 59,*  
*Laredo, Tex.*

DEAR MR. MANDEL: Thank you for your letter of June 1 in which you discuss the provision appearing in the Foreign Investors Tax Act (H.R. 13103) subjecting to tax interest paid by U.S. banks after December 31, 1971, to nonresident aliens and foreign corporations not engaged in trade or business in the United States. We were most interested in your comments as to why you believe that foreigners holding deposits in U.S. banks will remove these deposits as a result of this provision in the legislation.

As I indicated to you previously, we are giving this matter our most careful consideration. We are pleased to have received the benefit of your views in this regard.

Sincerely yours,

STANLEY S. SURREY.