period of time—would not compensate for the loss of such important established contacts.

Banks with extensive overseas branch operations are also dependent upon correspondent relationships, especially in areas where their direct activities are light, or where they have not established facilities. The foreign department itself, moreover, is a necessary prerequisite to the establishment of direct operations overseas.

DIRECT BRANCHES

While correspondent relationships through international banking departments are the most prevalent form of international banking activity, branching is the most directly associated with the concept of "overseas banking." Although few banks have direct branches abroad, branch operations of those that do use this form are scattered throughout the world, some branch systems being quite extensive. At the end of 1966, 13 member banks of the Federal Reserve System had a total of 244 branches. (See table 1.) Of these, seven were national banks operating 230 branches and six were State banks with 14 branches.

TABLE 1.—*Foreign branches of member banks,*[1] *Dec. 31, 1966*

Bank	*Number*
Bank of America	44
Bankers Trust Co	2
Chase Manhattan Bank	42
Chemical Bank New York Trust Co	2
Continental Illinois National Bank & Trust Co	4
First National Bank of Boston	12
First National Bank of Chicago	2
First National City Bank of New York	124
Irving Trust Co	1
Manufacturers Hanover Trust Co	2
Marine Midland Grace	1
Morgan Guaranty Trust Co	6
Virgin Islands National Bank [2]	2
Total	244

[1] Including 23 branches in U.S. overseas areas and trust territories.
[2] Agreement corporation owned by First Pennsylvania Banking & Trust Co.

Source: The American Banker, February 28, 1967.

National banks are authorized to establish branches abroad through section 25 of the Federal Reserve Act. A recent revision of the Federal Reserve's Regulation M governing branches of national banks expanded their powers to extend to some of those that are usual in the banking operations in the foreign location. These included issuing guarantees subject to stated amount limitations; investing in the securities of central banks, clearinghouses, government entities and development banks; and underwriting obligations of the national government of the country in which the U.S. bank is located. The revision was designed to enable U.S. banks to compete on a more equitable basis in local markets. Further revisions to regulation M are currently being studied, the most significant of which would permit U.S. banks to invest directly in a foreign bank rather than through a subsidiary.

The only State banks currently operating foreign branches are those chartered under the laws of New York State. As contrasted to