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FOREIGN BANKING IN THE UNITED STATES

MATERIALS PREPARED FOR THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

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LETTERS OF TRANSMITTAL

JULY 5, 1966.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the Joint Economic Committee and other Members of the Congress is a study of foreign bank operations in the United States. In spite of the extensive Federal interest in such operations, which affect the balance of payments, as well as our international commercial relations, there is very little information on these operations readily available. In view of this, the committee deemed it important to obtain an analysis of the scope and character of foreign bank activities in this country and an assessment of the effect of their operations on our balance of payments and international policy. The committee has been fortunate in enlisting the services of Dr. Jack Zwick for this study.

This paper is another in a series on "Economic Policies and Practices" in the various foreign industrial countries which the committee has undertaken in the interest of increased understanding of international economic policies within the framework of the enterprise and free market "rules of the game" as practiced by the leading industrial nations.

The views expressed in these materials do not necessarily represent the views of the committee, individual members thereof, or the staff.

Sincerely,

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

JULY 1, 1966.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is an analysis of foreign banking establishments in the United States.

The study was prepared by Dr. Jack Zwick of Columbia University at the request of the Joint Economic Committee. There were several factors tbat prompted the committee to undertake the study. For one thing, foreign bank activities have expanded considerably in the United States during the past 10 years; yet very little is known about these activities at the Federal level. All foreign branches are State franchised. There is no Federal supervision of them, nor does the Federal Government have detailed information as to the size, scope, or nature of the operations of these banks. There is an obvious Federal interest, not only because of the involvement of foreign banks in international negotiations, but particularly now because of the balance-of-payments question.

Professor Zwick has conducted an objective and careful study of foreign banks in this country, and his observations should prove very

valuable to members of the committee and other Members of Congress, as well as to financial scholars throughout the country. His findings point up the obvious Federal interest in foreign bank operations and should prove useful to the Congress in considering any legislation on this matter.

This study is another in the series of studies which the committee has done comparing important aspects of various national economies. It should be noted that we hope it will be paralleled at a later date by a study analyzing the operation of American banks abroad through branches or subsidiaries.

In the absence of published data, it has been necessary for the author to rely primarily on information obtained by interviews with officials in these institutions, supplemented by discussions with other informed individuals. The author conducted 36 interviews with officials of the Departments of State and Treasury, representatives of State banking departments, members of the staff of the Federal Reserve Bank of New York, and officers of foreign and domestic banks in various sections of the country.

Dr. Zwick is an assistant professor at the Graduate School of Business, Columbia University. A number of people have cooperated with Professor Zwick in the preparation of these materials, for which the committee is most appreciative. The advice and counsel of Dr. Ira Scott and Dr. Roger Murray of Columbia University have been especially helpful. The study was supervised at the committee level by John R. Stark, Deputy Director.

Sincerely yours,

JAMES W. KNOWLES,
Executive Director.

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FOREIGN BANKING IN THE UNITED STATES

Introduction

Since 1960, a number of American banks have substantially expanded their networks of offices and correspondent relations abroad. During the same period, foreign banks have almost doubled the number of their offices in the United States. Total assets of foreign bank offices have increased 40 percent, to approximately $7 billion at the end of 1965. Comparatively little is known about the functions performed and services offered by these offices, and Members of the Congress have requested that a study be conducted to provide background information regarding the activities of foreign banks in the United States.

The objectives of this paper are threefold: to delineate the characteristic activities of foreign bank offices in the United States; to assess the influence of these banking offices on domestic bank operations and on the economy at large; and, finally, to appraise the existing arrangements for examining and supervising these institutions. Particular attention is given to the role of these institutions in financing foreign trade, providing retail and commercial banking services, and supplying funds to the money market. The paper is concluded with a series of recommendations for improving the supervisory structure.

The Structure of Foreign Banking in the United States

Foreign banks doing business in the United States are licensed and supervised by the States of New York, California, Oregon, and Washington in accordance with the relevant provisions of the banking laws in these States.[1] No provision currently exists for chartering or supervising foreign banks at the national level.[2] The structure of foreign banking that has emerged in response to competitive conditions and the various State laws is sketched below.

It was not until after World War I that international activity reached a sufficient level in the United States to justify direct representation of foreign banking interests. The war gave rise to huge public debts, reparations, and substantial movements of funds between American savers and foreign borrowers—both public and private. Between 1920 and 1929, the U.S. market for foreign bonds and equities grew dramatically, and foreign banks sought to follow their customers to the United States.

Besides establishing extensive correspondent relations with American banks during the 1920's, foreign banks opened representative offices, agencies and State-chartered trust companies in New York. The trust companies—subsidiaries of the respective foreign banks—

[1] Foreign banking is also allowed in Massachusetts and Hawaii, although no offices are currently operated in these States. State-chartered banks which are owned by foreigners have been established in Illinois, as well as in New York and California.

[2] In at least one instance non-U.S. residents have obtained a charter to establish a subsidiary national bank in the United States. In accordance with the provisions of the National Banking Act all the directors of this bank are U.S. citizens and the lending limits are governed by the equity capital invested in the subsidiary by the foreign owners. Because of these and other provisions in the Act, which was originally intended to apply to domestic bank applicants, virtually all foreigners regard the establishment of a subsidiary national bank as an unattractive instrumentality for entering the American market.

were permitted to solicit deposits and to engage in a general banking business. As they grew during the 1920's, some of the trust companies opened branches in the New York metropolitan area, principally to attract the deposits of specific ethnic groups.

As early as 1920, several foreign banks expressed the desire to enter the New York market with branches rather than with subsidiary trust companies. Operating with branches in other countries, foreign banks had been able to capitalize fully on parent bank reputations, and to exercise greater flexibility in several aspects of their operations than was possible under the subsidiary-trust company form of organization. In 1923, a bill was introduced in the New York Legislature which would have permitted, on a reciprocal basis, branching by foreign banks whose capital resources exceeded $1 million. The bill was rejected by the State Senate since it did not have the support of the State Superintendent of Banks and of numerous small banks which feared an invasion of larger and more sophisticated foreign banks. It was not until a few U.S. banks had begun to encounter resistance to their overseas expansion programs during the late 1950's that the issue of permitting foreign banks to branch in New York was raised again.

Although most foreign banking activity during the 1920's was concentrated in New York, Canadian and Japanese banks also established agencies and branches in California, Oregon, Washington, and Illinois. In California, Washington, and Illinois foreign branches were opened before legislation was passed prohibiting foreign branch banking. Subsequently, the foreign branch in Washington State continued to operate under a "grandfather clause," whereas the other branches were either converted to State-chartered subsidiary banks or discontinued.

The economic collapse in 1929 and the subsequent global depression severely stunted foreign bank growth. Several foreign banks closed their American offices during this period and interest in foreign banking was not revived until the late 1940's.

The immediate postwar period in international finance was characterized by heavy public debts (especially in the United States and in the United Kingdom), the extension of large public credits to Europe and Japan in the form of aid, a huge demand for capital to rebuild the economies of Europe and Japan, and capital and foreign exchange controls. Governments and central banks played a major role in international finance during this period.

As aid and trade between the United States and other countries increased, international banks needed American facilities to handle related banking transactions. Unless foreign banks established operations in this country to participate in the growing volume of trade financing, they risked becoming little more than regional banks. This prospect was regarded as particularly undesirable by those foreign banks whose home countries depend heavily upon international trade.

By the late 1950's considerable liberalization of foreign exchange controls had been achieved and the international economy began to function comparatively smoothly under the terms of the Bretton-Woods Agreement and the rules of the International Monetary Fund. The dollar firmly established itself as a key monetary reserve currency, and foreign central banks accumulated substantial dollar assets and

liabilities in New York in the form of demand deposits, time deposits, Government securities, and bankers' acceptances. Consequently, it became desirable for important European and Middle Eastern banks to establish facilities in New York to transfer and trade dollars and dollar obligations.

Between 1946 and 1960, foreign banks expanded in the United States mainly by opening representative offices and agencies in the major centers of international trade and finance. Forty-two foreign banks have opened more than 79 representative offices and 25 foreign banks have established 35 agencies. Although the geographic breakdown in exhibit 1 is by State, virtually all the New York and California representative offices and agencies (which account for more than 85 percent of the total) are located in New York City and San Francisco.

Foreign banks have regarded the representative office as the most flexible form for entering the new banking market. Offices have been opened and subsequently closed, when conditions so dictated, with little financial sacrifice and loss of prestige to the parent bank. Although representative offices are not authorized to enter into actual banking transactions, they have facilitated banking transactions through correspondent banks while cultivating and protecting the parent banks' interests. Where circumstances have warranted, representative offices have later been converted to agencies or State-chartered subsidiaries.

Agencies have been established primarily to handle financial transactions related to U.S.-home nation trade, and to buy and sell U.S. securities for private and official holders in the home country, as well as for the parent banks. Agencies have not been permitted to receive deposits subject to drafts by check or to exercise trust powers.

A parallel development during the 1950's and 1960's has been the establishment of State-chartered subsidiaries by foreign banks in New York, California, and Illinois. In New York six subsidiaries have been opened by foreign banks, mainly to complement operations of their agencies which are prohibited by law from engaging in trust activities. Although these subsidiaries are empowered to receive deposits, an informal agreement has been reached with the New York State Banking Department to the effect that they would confine their activities mainly to corporate trust work. Other subsidiaries of foreign banks in New York include three institutions chartered as "investment corporations" under the New York State banking law. These subsidiaries have been allowed to maintain credit balances and to engage in a broad range of lending and investment activities. Still other subsidiaries in New York, California, and Illinois have been licensed to receive deposits and to conduct a general banking business like domestically-owned, State-chartered banks. Particularly in California the subsidiary form has been used by foreign banks to circumvent the State's prohibition against foreign branching.

In the late 1940's certain American banks began to open branch offices abroad. These banks encountered resistance in the late 1950's in several countries because of the prohibition against branches of foreign banks in the States, particularly in New York. In particular, Brazil, Venezuela, the Philippines, and Japan were resentful of the

lack of reciprocity and threatened to adopt similar restrictions against overseas branches of U.S. banks.

In the face of increasing foreign resistance to its overseas expansion program, First National City Bank in 1959 proposed that the New York State banking law be amended to permit foreign branch banking. Together with the Chase Manhattan Bank, the First National City Bank worked closely with the State banking department in drafting a bill acceptable to the banks and the supervisory authorities. After lengthy debate and compromise, a bill evolved which was formally sponsored by the Association of New York Clearing House Banks. Four principal arguments were presented to the 1960 legislature in support of the foreign branching amendment. They were (1) the desirability of alleviating present discrimination against foreign banks; (2) the need to lessen the possibility of retaliatory legislation by foreign nations; (3) the opportunity to increase the prestige of New York as an international financial center; and (4) the opportunity to benefit from the establishment of foreign branches, for example, through the expansion of trade financing. Political conditions had changed markedly since the 1920's when the first foreign branching proposal was introduced. The bill was passed by the New York State Legislature and became effective on January 1, 1961.

The amended New York law has permitted branches of foreign banks to accept deposits in New York and to engage in a broad range of banking functions. Between 1961 and 1966, 15 foreign banks have opened 23 branches in New York. (See exhibit 3.) Nine of the 15 banks converted their agencies to branches since the amended law stipulates that a bank cannot maintain both an agency and a branch. Outside New York, foreign branching has been authorized only in Puerto Rico, the Virgin Islands and, in the States, in Massachusetts, Oregon, and California. Canadian banks operate seven branches in Puerto Rico, three in the Virgin Islands and one each in Oregon and Washington. A Japanese bank also operates a branch in Oregon. These 13 branch offices, together with the 23 offices in New York, comprise the total foreign branch population in the United States and its territories.

Although foreign branching is permitted in Massachusetts, no institution operates an office in the State. Under pressure from Bank of America, California legislators in 1964 amended the State banking law to permit foreign branching in California.[3] Virtually identical to the New York branching amendment, the California law differs from the New York law in one important respect. To obtain a branching license in California a foreign bank must first be approved for FDIC insurance. Since branches of foreign banks are not currently eligible for FDIC insurance, California has remained closed to foreign branches.

It can be seen from the foregoing that foreign banking activity is still not very extensive in the United States and only a few States have legislated in the area. (See exhibit 1.) Domestic banks in most parts of the country have not exerted pressure on their State governments to extend banking privileges to foreigners in order to secure reciprocal banking privileges for themselves.

[3] Bank of America has considered the lack of branching reciprocity in California as a potential disadvantage in its overseas competition with the New York banks.

The Choice of Organizational Form

Foreign banks are authorized to conduct business as foreign institutions in only six States.[4] (The remaining States either have no laws relating to foreign banking or have statutes expressly prohibiting foreign banking.) Only three of these States—New York, Massachusetts, and Oregon—allow foreign banks to operate through any instrumentality of their choosing; i.e., agencies, branches, or local banks owned by them. And only one of these three States is considered by foreign banks to be an important market. Hence the discussion which follows regarding choice of organizational form is primarily applicable to a few unique (although important) locations.

(A) SUBSIDIARY VERSUS BRANCH

If a foreign bank intends to receive deposits subject to withdrawal by check, it must establish either a State-chartered subsidiary or a branch. The procedures and requirements relevant to a subsidiary application are quite similar to those for a domestic bank. To open a branch in New York (where the majority of foreign branches is located), the following conditions must be met:

(1) Evidence must be provided that the applicant's home nation does not prohibit the operation of branches or agencies by New York banks.

(2) The Superintendent must be convinced that the foreign branch "will be honestly and efficiently conducted and that public convenience and advantage will be promoted."

(3) A guarantee fund composed of cash and/or securities equivalent to 5 percent of liabilities (but not less than $100,000) must be deposited by the prospective foreign branch in an approved New York bank.

(4) The parent bank must have capital funds of at least $1 million to be eligible for a branch license, which amount is higher than requirements for establishing a subsidiary, or even a domestic bank.

(5) A license must be obtained from the Superintendent of Banks subsequent to affirmative evaluation of the branch application by the State banking board.

It is not profitable for a foreign bank to open either a subsidiary or a branch unless the ability to attract a significant volume of deposits can be anticipated; regardless of organizational form it is expensive to rent, equip, staff and maintain a banking office in a major city. A notable exception to this rule concerns the foreign banks that have opened subsidiaries in New York principally to engage in corporate trust work.

Most foreign banks prefer to establish branches rather than subsidiaries. The branch provides a less complicated organizational structure for the foreign bank. The necessity of having American stockholders and a local board of directors which controls the affiliate is circumvented. Difficulties encountered in obtaining suitable local residents as directors to satisfy State requirements are avoided and, it is argued, the home office can more effectively control operations of a branch.

Also, less capital is typically required than for a State-chartered subsidiary. The loan limit of a subsidiary is determined by the

[4] California, Hawaii, Massachusetts, New York, Oregon, and Washington.

subsidiary's capital position and, therefore, substantial capital must be invested if the subsidiary is to make loans of substantial size. On the other hand, the loan limit of a branch is a function of the capital position of the parent bank. Consequently, the loan limit of a branch is likely to be much higher than that of a subsidiary.

The parent bank has broad discretion to move funds to and from a branch without obtaining advance clearance from the State supervisory authorities. Moreover, branches usually afford substantial tax advantages in comparison with subsidiary banks,

Finally, whereas a subsidiary stands on its own base and has a separate name from the parent bank, a branch functions with the parent name and resources at its disposal, and, consequently, can take advantage of the greater familiarity and prestige associated with the parent name. This advantage has been cited as important in attracting foreign-owned dollar deposits, from both the home nation and third countries.

On the other hand, the State-chartered subsidiaries have certain advantages over branches. Statutory requirements and supervision are somewhat less restrictive for the subsidiaries. For example, foreign branches in New York must obtain annual renewals of their licenses, maintain "New York assets" equivalent to 108 percent of liabilities and submit weekly reports of condition in addition to the call reports required of all State banks. Subsidiary banks are exempt from these requirements. Additionally, State-chartered, foreign-owned subsidiaries are eligible for FDIC insurance which may, in some instances, aid in deposit solicitation.[5] Yet the substantial majority of foreign bank officials who have been interviewed regard the branch form as preferable. (Analysis of the expansion programs of American banks overseas also reveals a distinct preference for branches.) Most foreign banks which have elected the subsidiary form have done so because the alternative of branching has not been made available. Many of these banks have indicated that they would probably convert their operations to branches were the option made available.

The few foreign banks which have elected the subsidiary form where branching is permissible have been primarily enticed by the relative freedom from restrictions which their subsidiary-plus-agency organizations offer in contrast to the branch form. This preference can be traced in entirety to several important competitive advantages enjoyed by agencies which are enumerated below.

(B) AGENCY VERSUS BRANCH

In New York State an election must be made between a branch and an agency, since foreign banks are not permitted to operate both instrumentalities. For the majority of banks the choice hinges on the prospects for attracting deposits. If the bank can reasonably expect to receive sufficient deposits to justify the higher initial investment and operating costs of a branch, a branch is established since it affords the broadest range of permissible banking activities.

[5] The two branches of Israeli banks in New York have regarded the unavailability of deposit insurance for branches to be a distinct handicap. On the other hand, most branches in New York do not regard the unavailability of deposit insurance as a disadvantage. Most foreign branches do not actively solicit retail business. Their depositors are few in number and maintain substantial balances. Since deposits in excess of $10,000 are uninsured in any event, most foreign branches are content to do without deposit insurance and avoid the FDIC assessment.

Yet a number of foreign banks have preferred to operate both subsidiaries and agencies rather than branches. Although establishment of a branch precludes operating an agency, a foreign bank is permitted to operate both an agency and a subsidiary. Although a branch may be preferable to a State-chartered subsidiary, a subsidiary in addition to an agency may be preferred to sole reliance on a branch. Therefore, the relative advantage of an agency as opposed to a branch plays an important role in the selection of the best overall instrumentality.

Foreign branches are offered banking privileges virtually identical to those of domestic banks. Along with the privileges, however, they are subject to a number of restrictions similar to those which apply to domestic banks. The branches are required to maintain the same fractional reserves against deposits as domestic banks, to abide by the same restrictions and limitations regarding loans, and to comply with the same rate ceilings on deposits and loan charges. Additionally, the New York branches are expected to maintain assets in the State equivalent to 108 percent of liabilities and to maintain high-quality asset deposits amounting to at least $100,000 in approved depositories.

Operating with an agency, a foreign bank can circumvent a number of these restrictions. The fractional reserve requirement is not applicable to agencies. Agencies can make loans to individual customers which exceed 10 percent of parent bank capital. Agency assets in New York need only exceed credit balances by 100 percent, in contrast to the 108-percent requirement for branches. Another advantage of agencies from the point of view of foreign banks concerns the relative freedom from extensive examination. In contrast to foreign branch examinations, the agency assessments are only peripherally concerned with the quality and composition of assets. It is contended that since the protection of depositors is not at issue with respect to agencies, detailed surveillance of assets is unnecessary.

Some sources contend that for many years a substantial part of the agency's "credit balances" were the practical equivalent of deposits. In recent years, however, New York State examiners have become increasingly critical of agencies' liability composition. The supervisory authorities have sought to establish that the credit balances are legitimately related to international transactions. The conversion to branches from agencies by certain foreign banks in New York has been partially attributed to difficulties arising out of the more critical examination of agency liabilities.

Presumably, the nine banks in New York which have converted their agencies to branches since 1961 believe that the advantages of a single organization which can receive deposits and engage in a broad range of banking functions outweigh the offsetting benefits associated with operating both agencies and trust companies. Apparently, a number of other banks have concluded that the freedom from restrictions which agencies enjoy, coupled with the authority to receive deposits in affiliated subsidiaries, is preferable. Obviously, the agency-plus-subsidiary arrangement has been selected by Canadian banks, since it is the only available alternative. (The Canadians do not allow American banks to branch or establish agencies in Canada and, consequently, the Canadian banks cannot meet the reciprocity

prerequisite for branching in the New State law.)[6] Similarly, subsidiaries plus agencies have been established without choice in California, where the FDIC provision nullifies branching. Quite possibly, however, foreign banks in California would prefer to continue operating subsidiaries plus agencies even if the alternative of branching were available, in view of the broad range of powers extended agencies and the liberal supervision of agencies in that State.

The Activities of Foreign Banks

The discussion of foreign banking activities which follows is based on information obtained from a number of sources. First, articles and news releases have provided background information. Secondly, published call reports for the institutions in California, Washington, and Oregon have revealed certain characteristics of these banks' operations. Thirdly, and most important, have been 36 interviews with lawyers; officers from the Departments of State and Treasury, State banking departments, and the Federal Reserve Bank of New York; and officials of foreign and domestic banks from different sections of the country. Since there is a paucity of published financial data regarding foreign bank activities (particularly in New York) it has not been possible to substantiate the insights obtained during interviews. Nonetheless, verbal confirmations from different sources have provided reasonable assurances that the description below is accurate.

(A) REPRESENTATIVE OFFICES

At least 79 foreign banks operate representative offices whose function is to disseminate information regarding the parent bank and to cultivate customer-parent bank relations. Representative offices are not allowed to perform banking functions of any kind. In California, seven representative offices of foreign banks have been licensed by the State banking department although in other States they are exempt from supervisory purview on the ground that they are not directly engaged in banking functions.

Interesting legal questions are raised concerning the question when a representative office ceases to function as a passive intermediary and begins to conduct an active banking business for the parent. If, for example, a representative accepts a check for deposit with the parent, is he receiving a draft which as an individual he forwards to the parent bank as a convenience, or is he conducting a banking transaction? When a representative presents a loan agreement to a customer for his signature and returns it to the bank, is he processing a loan as a go-between for the parent bank, or is he making a loan, which is clearly illegal?

Since the scope of permissible or tax-free activities for representatives has not been clearly specified, many representatives are reluctant to discuss their activities and, in extreme cases, seek total

[6] Actually, Canadian banks can meet the reciprocity requirement in New York if the law is interpreted literally. Section 202-a of the New York banking law provides that a foreign banking corporation may be licensed to maintain a branch if under the laws of its own country a New York bank "may be authorized to maintain either a branch or agency or may be authorized to own all the shares (except for directors' qualifying shares) of a banking organization organized under the laws of such foreign country * * *." Canadian law does not exclude the possibility of a New York bank's taking the administrative action necessary to operate a Canadian banking subsidiary, and so statutory reciprocity does exist. However, a New York bank would find it difficult, if not impossible, to obtain permission from the Canadian authorities. Consequently, in exercising its discretion the New York Banking Department has taken the position that reciprocity for New York banks to operate in Canada does not exist in fact.

seclusion. Some representatives list phones in their own names rather than in the names of parent banks to assure bank anonymity, and it is consequently impossible to ascertain the exact number of representative offices in the country.

(B) SUBSIDIARIES

Ostensibly, foreign banks establish State-chartered subsidiaries for one of two purposes. Either they desire to engage in a broad range of banking activities, typically when the alternative of branching is prohibited, or they want to perform trust functions which complement the activities of affiliated agencies.

In California State-chartered subsidiaries have been established by seven foreign banks to engage principally in retail banking. These banks report that the bulk of their deposits originate domestically and that most of their loans are made to local businessmen and individuals. The State-chartered foreign subsidiaries compete directly with domestic banks, and occasional evidence has been cited of rate shaving to obtain loans and of premiums paid to attract deposits. These banks are insured by the Federal Deposit Insurance Corporation and are subject to the same restrictions and reporting requirements as are other banks in the State. In general, the asset and liability structures of the State-chartered subsidiaries are similar to those of domestic banks. Four of the California subsidiaries also operate licensed agencies in the State, in some instances under the same roof. As noted earlier, the subsidiary form is the only viable avenue for foreign banks to receive deposits in California, since the unavailability of FDIC insurance to foreign branches effectively prevents the establishment of branches in the State. Two Japanese-controlled subsidiaries which have been the most successful in attracting deposits largely through ethnic appeal have opened several branches in the San Francisco and Los Angeles areas.

Three of the six foreign-owned subsidiaries in New York differ in an important respect from their counterpart in California. Two of these three banks are Canadian-owned and exist principally to conduct corporate trust activities. The deposits which these subsidiaries obtain are largely, if not entirely, incidental to the banks' trust work. The Canadians are precluded from opening branches in New York because of lack of reciprocity, and their subsidiaries are intended mainly to complement the activities of agencies controlled by the same parent.

Three other foreign-controlled subsidiaries in New York—one Belgian, one Canadian and one Japanese—do a substantial retail business and their asset and liability structures are quite similar to those of domestic banks in the State. Although the six New York subsidiaries are eligible for FDIC insurance, only one Japanese bank has obtained insurance. The remaining foreign-controlled subsidiary in New York, a long-established, Greek-controlled bank, and a recently formed subsidiary of a Japanese bank in Chicago complete the list of subsidiaries.

(C) NEW YORK STATE INVESTMENT COMPANIES

There are a small number of international financing companies chartered under the New York State Investment Company Act as

investment corporations. These include Belgium-American Banking Corp., French-American Banking Corp., J. Henry Schroeder Banking Corp., and the American-Swiss Credit Co. Essentially, these international banks finance high-risk trade and participate in venture capital schemes, expecially in Latin America.

The investment companies possess substantial expertise with respect to particular industries and types of goods and have established close relationships with importers and exporters in particular areas of the world. Because of their expertise, they have been in a position to promote and finance the exports of small and often unknown firms. These firms have also provided nonrecourse financing to credit-worthy exporters.

Finally, the investment companies have offered advice and direct financing to firms who are establishing marketing or franchised distribution networks for their products in foreign markets. Offering these services, which few domestic or foreign banks are willing to provide, the investment companies have expanded the scope of the financial community's services to international businesses.

(D) FOREIGN BRANCHES

There are 36 foreign branches in the United States, most of which have been established in New York since 1961 (see exhibit 3). More than 90 percent of foreign branch assets are held by the branches licensed in New York. The only published data regarding the New York branches are the abbreviated balance sheets which appear in exhibit 2. The principal activities of the foreign branches are trade financing, the investment of dollar resources, commercial lending and deposit solicitation, and personal lending and deposit solicitation.

In contrast to domestic banks, for which trade financing is invariably of secondary importance, virtually all of the foreign branches depend upon trade financing for a major portion of their business. Several have indicated that more than 50 percent of their loans and discounts relate to transactions involving foreign trade. The trade financing frequently involves the United States and a third nation, rather than the United States and the nation of the parent bank. Except for the two Swiss banks all the foreign branches of European banks devote their major efforts to trade financing of the third-country type. The American branches of these banks act as contacts for networks of bank branches throughout the world, and enable the banks to complete both ends of trade financing involving the United States and any of numerous other nations.

Recently, two banks from developing countries have opened branches in New York, primarily to finance trade between the United States and their home nations. Brazil's largest bank saw a natural opportunity to extend its services at the inception of the Alliance for Progress. Likewise, a Lebanese bank believed that its extensive branch system in the Arab Middle East could be used to promote import-export activities between the United States and this area of the world.

Most of the foreign branches offer complete trade financing facilities including letters of credit, discounts, acceptances, collections, foreign exchange transfers of funds, and remittances abroad. The foreign banks have a special competence in financing international trade.

With extensive branch organizations throughout the world they have developed knowledge of customers, regulations, legal requirements, tax laws, and political conditions in various countries. They are in a position to provide current information on economic trends, marketing data, and credit standing of foreign firms and, therefore, have an edge over most American banks in arranging trade financing.

Several foreign branches act as important depositories for U.S. dollar resources of foreign institutions and individuals. The British, Swiss, Lebanese, and Israeli branches attract dollar deposits from individuals in South America, Europe, and the Middle East, and from their European affiliates. The British and Swiss branches are especially active in the foreign exchange and securities trading business. The Swiss indicate, however, that foreign exchange transactions are becoming less profitable and that these activities are continued primarily as a service to retain deposits of their customers. Investments by foreign branches in securities, especially through the third market, are becoming more prevalent and some branches foresee a great potential in facilitating the purchase and sale of American securities for foreign accounts. Certain branches are actively studying the feasibility of operating large commingled trust funds with foreign-owned dollar resources obtained from parent offices and other branches.

Additionally, during periods of monetary ease, the British and Swiss branches, in particular, make "street" loans to the better, more stable brokers and dealers and lay off surplus Federal funds in that market.

Since many of the branches are subject to unexpected cash drains, they prefer to keep their loans short term. Each of the foreign branches considers inventory and distribution financing to be a principal component of its commercial lending business. Corporate customers are primarily those firms which have some connection with the bank's home nation. Also, many branches make loans and solicit deposits from the local office of a home airline or steamship company. Several of the branches indicate that they also service numerous U.S. corporations which have no ties with their own nation. Some foreign branches have men on the road who actively promote their loan service.

A number of the branches obtain commercial business through ethnic appeal. The Israeli branches are able to obtain the commercial banking business of some Jewish businessmen and one of the Israeli banks has organized an advisory group which acts as its New York board of directors. The advisory group attracts other accounts for the branch through personal and business contacts of its members. To a lesser degree, the New York branch of an Italian bank attracts Italian businessmen and the Lebanese bank services the Middle Eastern business community in New York. The Puerto Rican branches offer their services to Spanish-speaking small businessmen.[1]

The foreign branches also attract business by catering to particular industries. The Italian bank has a department which specializes in loans to the motion picture industry. The Israeli banks have strong ties with the diamond industry, and other banks are experts in the commodities flowing from their geographic areas of concentration. In these cases the branches use competence acquired in one area of the world to attract similar business on a worldwide scale. Although occasionally certain branches have been accused of shaving rates on

[1] The Puerto Rican branches in New York have traditionally been regarded as "foreign banks" by the supervisory authorities. They are foreign to New York State in the sense that their parent institutions are located outside the State. (Domestic banks in the various states have not been permitted to open branches outside the home state.)

commercial loans to obtain customers, a number of large New York banks contend that branch lending rates are typically comparable to the charges of domestic banks.

In return for the commercial loans which they extend, the foreign branches receive compensatory deposits. Some branches acquire additional resources by selling certificates of deposits. Certain foreign branches have sometimes offered higher interest rates and more flexible maturities on CD's than domestic banks. Those branches whose claim structures are comparatively volatile have sought close and active relationships with short-term fund users such as finance companies.

All of the foreign branches offer personal banking services, although the variety of deposit and lending arrangements offered varies depending upon the importance attached by the branch to retail business. Each branch offers checking accounts, and most offer savings accounts. Every branch will make either secured or unsecured loans to individuals. Branches of the two Puerto Rican banks go further and offer installment loans. All of the branches offer corporate trust services in their home nation, although the importance of this activity varies markedly among the banks. Finally, several of the banks provide safe deposit facilities for the convenience of their customers. The branches do not have personal trust powers and, with the exception of the Puerto Rican banks which qualify under their Commonwealth status, are not eligible for FDIC insurance.

Most of the branches are heavily involved in international transactions and do not directly compete with domestic banks for retail business. While these branches do not turn away depositors or savers, they do not actively solicit personal accounts. The personal accounts received by the branches which are heavily committed to international trade can be traced principally to three sources: some accounts are obtained by the branches through their efforts to build international business, particularly compensatory balances of borrowers; balances are maintained by individuals from the home nation who are employed in the States; and both private and official foreign dollar-holdings are obtained by some of the New York branches of international banks for purposes of investment and safekeeping. Obtaining domestic deposits is a secondary and limited objective for most of the American branches of foreign banks.

On the other hand, certain foreign banks aggressively promote retail business both by soliciting deposits and by making personal loans. Typically, these branches secure personal business, as they solicit commercial business, because of their ethnic appeal. Branches of two Puerto Rican banks in New York devote their efforts almost exclusively to obtaining the personal business of the Spanish-speaking population of New York. Offices of the banks are staffed with Spanish-speaking officers and forms are printed in both Spanish and English.

To a lesser extent the branches of the two Israeli banks in New York also aim their appeal at the sizable, local Jewish community. These banks offer all personal services except installment loans.

The Puerto Rican and Israeli banks, as well as several of the other foreign branches, advertise in general circulation as well as foreign language newspapers. Several of the branches use spot radio commercials, billboard advertisements, mailing campaigns, and personal solicitations to attract deposits.

(E) AGENCIES

The U.S. agencies of foreign banks occupy a prominent role both in financing international transactions and in the money market. As of September 30, 1965, 27 New York agencies of foreign banks reported assets of over $4 billion, of which about half are loans, approximately a fifth are investments, and almost a third are cash and compensatory balances in other banks, including those due from the head office and its branches. (See exhibit 4.) The growth of foreign agencies has exceeded by a substantial margin that of foreign subsidiaries and international departments of domestic banks. Of special significance is the fact that New York agency assets have continued to increase despite the fact that nine of the agencies have been converted to branches since 1961 and agency business has been constrained by the U.S. program of capital restriction. This growth is attributable in large part to the increased volume of money market loans made primarily by the Canadian agencies to brokers and dealers in securities.

The 11 agencies reporting to the State banking department in California in December of 1965 held over $300 million of total assets, counterbalanced mostly by amounts due the home office and other banks. For a number of foreign banks in both California and New York agency assets complement those of affiliated subsidiaries.

The activities of the agencies are even more varied and complex than those of foreign branches. Almost all of the agencies are active in financing trade between the United States and the home country. Unlike branches, they rarely become involved in financing trade between the United States and a third nation. Their trade financing activities consist mainly of issuing letters of credit, and buying, selling, paying, and collecting bills of exchange in connection with U.S.-home nation trade. They also handle the dollar balances and administer the dollar needs, arising in this country, of their head office and its branches throughout the world. Some agencies are active in the foreign exchange market and others are heavily involved in the purchase and sale of securities for their home office, its branches and related customers.

Fourteen of the 35 agencies in the United States annotated in exhibit 5 are affiliates of Japanese banks. With the exception of the Bank of Tokyo's New York agency, which acts as the fiscal agent of the Japanese Government and, as such, handles very sizable amounts of official dollar balances as a "foreign exchange bank," these banks are almost exclusively engaged in financing and promoting trade between Japan and the United States. They work very closely with the Japanese trading companies and are rarely involved in third-party financing or complicated money market operations as are the Canadians. More than 80 percent of the Japanese borrowings in the United States are short-term and directly tied to import and export transactions.

The agency form has been elected by the Japanese banks in both California and New York because of the banks' close affiliations with the large Japanese trading companies which market highly diversified groups of exports in the United States. The agencies are permitted to lend to individual trading firms amounts in excess of 10 percent of parent capital. In view of the borrowing requirements of the trading

firms, the lending limits imposed on branches or subsidiaries would inhibit the Japanese banks.

Japanese bankers, businessmen, and government officials have been well received by the American banking community in their quest for financial resources. While Japanese agencies have sold CD's with less than 30-day maturities, they have not aggressively solicited balances of this type from corporate treasurers, preferring to rely on carefully nurtured credit lines with U.S. commercial banks. Outside New York Japanese bankers have solicited loans from bankers in the Northwest, South, and Midwest.

At the present time, the Japanese agencies, together with their trading firm clients, produce large and profitable trade acceptances in which American banks can invest. The agencies have done much to provide domestic banks with profitable outlets for their money and to introduce many of them to international banking. Besides promoting exports of the trading firms, the agencies have arranged for the purchase, shipment, and financing of U.S. exports to Japan. Perhaps the most important short-term contribution of the Japanese agencies to the United States has been their highly successful promotion of U.S. exports to Japan, which have constantly exceeded imports by a wide margin.

The other agencies in New York, except for the Canadians, confine the bulk of their lending to finance U.S.-home nation trade. They generally do not attempt to compete with domestic banks in making loans to industrial and commercial borrowers in this country, except for a limited volume of loans made to U.S. affiliates, subsidiaries, and branches of companies from their respective home nations. There are a few agencies on the west coast whose principal objective is to make loans to domestic borrowers and, in some instances, to receive compensatory balances in the parent name. Since deposits booked in the parent name appear on the agency books as "due to own head office," the agencies circumvent difficulties with the State regulatory authorities who seek to prevent deposit solicitation by agencies.

It has been estimated that the five Canadian agencies in New York account for more than half of total agency assets in the State. The following factors account for the relative importance of these agencies: (1) bond flotations by Canadian provinces and municipalities have yielded sizable U.S. dollar balances which are left with Canadian agencies (Canadian issues are exempt from the Interest Equalization Tax); (2) Canadian residents desire to hold precautionary balances of U.S. dollars whenever the Canadian exchange rate is expected to fluctuate; (3) agencies are able to attract short-term balances in behalf of the parent bank by paying higher rates of interest and offering shorter maturities than domestic banks which are subject to restrictions under Regulation Q; (4) the substantial expansion of U.S.-Canadian trade has created substantial dollar balances held by the agencies; and (5) since fractional reserve requirements do not apply to agency operations, the Canadians have been able to create resources simply by borrowing in the domestic market in parent name, or with parent guarantees, and lending out the proceeds.

In the financing of United States-Canadian trade, the agencies have a substantial advantage over domestic banks in handling the Canadian side of the transaction, since Canada severely restricts the extent to which American banks can solicit business in that country. Through

American agencies the Canadians concentrate on the U.S. side of the transactions as well. The agencies have liberally purchased 180-day trade acceptances and are willing to arrange term loans with their parents for high-grade U.S. customers. In return they receive credit balances from the U.S. customers as well as balances in some instances for the parent banks.

The Canadian agencies have been heavily committed to interest rate arbitrage and operations in the foreign exchange forward markets. Some of this activity has involved lending Euro-dollars in Europe for 180 days or longer while attracting short-term balances in the United States. This same practice has been followed with trade acceptances. Still another variation has involved selling short-term CD's while laying off this money in the form of term loans. These practices contribute to a deposit-loan structure which is potentially unstable—i.e., vulnerable to withdrawals and difficulties in obtaining renewals.

For a number of years the Canadian agencies have been extremely active in the market for loans to brokers and dealers. "Street" loans, as they are called, are convenient investment media for the short-term volatile balances which the agencies attract. The agencies are in a position to shave rates on "street" loans by virtue of several cost advantages over domestic banks. They are not subject to the FDIC assessments. They are not required to maintain fractional reserves. And they are able to attract balances by paying interest on credit balances by virtue of their exemption from Regulation Q.

During periods of tight money, the Canadian agencies typically extend street loans in amounts which approximate those loaned by New York city banks. Domestic banks typically do not resent the agency advantage under these circumstances since more profitable investment and lending opportunities exist elsewhere. But when money is easy and domestic banks would like to make street loans at attractive rates, many banks regard the Canadian intrusion as objectionable. Quite possibly, the large balances which the Canadian agencies maintain with the major domestic banks preclude concerted expressions of discontent.

The Canadian agencies are legally subject to the same restrictions and requirements as other agencies. They merely have cultivated several opportunities in the money market which other agencies have neglected or avoided. The existence of such risk-takers as the Canadian agencies in the New York money market has done much to enhance its prestige, and has undoubtedly provided many Americans with profitable investment outlets for short-term funds.

Recent monetary developments have substantially reduced the scope of Canadian agencies' activities. The voluntary restraint program resulted in a withdrawal of American-owned dollar balances in Canada. Also, under the guidelines program the Federal Reserve Bank of New York has scrutinized the U.S. dollar inflow-outflow position of the agencies. Finally, higher interest rates in the United States, growth in the short-term segments of the commercial paper and CD markets, and higher ceilings under Regulation Q have made it more difficult for the Canadian agencies to obtain balances from domestic sources.

It should be noted, however, that agency resources have continued to increase notwithstanding these developments. Moreover, when the U.S. program of capital restriction is relaxed, the Canadian agencies

may again enjoy competitive advantages over American institutions in view of their comparatively liberal regulatory environment.

The Competitive Influence of Foreign Banks on Domestic Banks

Rather than suggesting that foreign and domestic banks are in competition, most bankers who have been interviewed [7] have stressed the degree of cooperation and mutual benefit both parties enjoy. The denial of competitive intentions is largely motivated by the realization that foreign banks need domestic banks' assistance, not only for loan participation, but also for advice. When a problem arises for a foreign bank, such as developing U.S. sales projections for a particular product, the bank may be unfamiliar with aspects of American markets and wish to obtain outside advice. The foreign bank frequently turns to a large domestic bank because of the latter's size and extensive business connections.

The large domestic banks, on the other hand, are quite willing to advise and assist the foreign banks in order to obtain working and correspondent balances. Moreover, the domestic banks are mindful of the opportunities to participate in loans obtained by the foreign banks both here and in foreign countries, and of opportunities to make loans to the foreign banks. It is understandable that both foreign and domestic banks are reluctant to admit that they are in competition with one another.

The raison d'etre of most foreign banks is the financing of international trade. In most foreign countries, trade accounts for a much larger percentage of gross national product than in the United States, and a number of foreign banks have developed substantial skills in this field whereas all but a few American banks still regard international financing activities as side offerings. The agencies and branches established in the United States by these foreign banks have undoubtedly taken away some trade financing which might otherwise have gone to domestic banks. The networks of branches which several foreign banks have established and cultivated for many years throughout the world afford significant advantages over American banks in competing for trade financing. These banks have developed a large clientele of importers and exporters because of their knowledge, expertise, and broad range of international services. It may take another generation for a handful of American banks which began to expand overseas in the late 1940's to develop staffs as knowledgeable in local operations as is the personnel of many foreign banks.

Although the foreign banks have taken away some international business from domestic banks, they have probably also helped to expand the volume of international financing. These banks have found it to be profitable to promote import and export activities in the United States. Some of the increased volume in trade financing has gone to U.S. banks, both directly and through participation with the foreign banks, and most domestic banks report growing levels of trade financing activity notwithstanding the foreign competition.

In point of fact, the competition for trade financing has probably been greater among the various foreign banks than between U.S. and

[7] Reference here is to managers of foreign branches, agencies, and subsidiaries on the one hand and to officials in large American banks throughout the country on the other.

foreign banks. British and Dutch banks compete with Japanese agencies and the agency of a Chinese bank for business involving southeast Asia. Likewise, the two Israeli branches aggressively compete between themselves for United States-Israeli trade financing, as no U.S. bank maintains branches in Israel. The Israeli banks concentrate to a larger extent on home nation trade in their international activities, rather than on trade involving the United States and third countries. Finally, branches of the European banks have become increasingly competitive with respect to trade financing involving the United States and various European countries.

Growth opportunities in trade financing for the foreign banks might very well be concentrated in the inland cities where interest in exports and imports has increased markedly in recent years. The cities on both coasts have been serviced by American banks with extensive overseas interests and by offices of foreign banks. The interior cities, on the other hand, have depended largely on correspondent relations to handle their international business. A number of foreign banks have discovered that a more active interest in international business by interior firms can be fostered by direct contact and solicitation. Starting in the early 1960's, Japanese banks began to consult directly with firms and banks in interior locations where United States-Japanese trade originates. Additionally, the Swiss, British, and Italian foreign branches located in New York, seeking to make direct international financing connections in the interior cities, have put men on the road for this purpose.

Although certain domestic banks have probably experienced competitive pressures because of foreign branches' retail activities, most domestic banks operating in the same localities regard their retail impact as insignificant. The deposits of foreign branches amount to little more than 1 percent of total deposits of banks in the States where foreign branches are located. Clearly, the retail business of these branches has had a negligible influence on the American banking system as a whole.

Few foreign banks have attempted to cultivate an extensive retail banking business. They have preferred to concentrate primarily on wholesale banking and trade financing and have endeavored to obtain related, compensatory balances. There are, however, conspicuous exceptions to this pattern. The branches of the two Puerto Rican banks and, to a lesser extent, of the two Israeli banks, concentrate their attention on the sizable Spanish-speaking and Jewish communities in New York respectively. These branches are heavily committed to obtaining domestic deposits and undoubtedly attract deposits which in their absence would have gone to domestic banks. Apparently, however, significant proportions of the deposits in these branches represent new business—that is, deposits which American banks did not previously hold.

It is generally believed that both of the Puerto Rican banks, rather than taking retail business away from other New York banks, have attracted "mattress" money which otherwise would have been held outside the banking system. The extent of the Puerto Rican banks' commitment to serve the Spanish-speaking community is indicated by the establishment of personal installment loan departments in neighborhoods which the New York banks would not enter.

Similarly, a sizable proportion of the deposits of the Israeli banks represent foreign-owned dollars held by Jews throughout the world. In all probability these deposits would have been held in Europe were there no Israeli branches in New York.

More significant is the retail competition provided by the State-chartered, wholly-owned subsidiaries in California which are primarily retail banks. One of the banks operates nine branch offices and ranks as the 13th largest bank in the State. The activities of the California subsidiaries resemble those of domestic banks in most respects, the principal difference being that the foreign banks concentrate on specific ethnic groups. Yet even in California, where competition between domestic and foreign banks in the retail field is comparatively intense, most domestic bankers regard the impact of foreign banks as unimportant.

Over time, the ability of foreign banks to attract retail customers is likely to diminish. Ethnic identification, the principal magnetism of foreign banks in the retail area, is fading. Few of the foreign banks are likely to achieve sufficient economies of scale to use data processing equipment economically. It is conceivable, therefore, that the foreign banks will eventually be caught in a cost-price squeeze which will force them to curtail retail banking services.

The foreign and American bankers who have been interviewed report that correspondent relationships have been strengthened between American banks and foreign banks which have opened offices in the United States. Several of the foreign banks were assisted by American banks in preparing applications for licenses. A number of domestic and foreign banks claim that they freely exchange business and credit information. The comparatively large size and extensive knowledge about American institutions of the U.S. banks makes foreign banks especially responsive in this respect. The foreign banks, in return, are in a unique position to provide detailed and current information regarding specific geographic areas. As previously noted, foreign banks commonly maintain accounts in domestic banks and frequently participate with U.S. banks in loans. Thus, relations appear to have improved rather than to have suffered as some bankers had feared as a consequence of direct foreign bank representation.

As noted previously, the agencies (and especially the Canadian) are a major competitive factor in the money markets during periods of easy money. They enjoy a number of cost advantages in making street loans. On the other hand, during periods of tight money when domestic banks prefer to concentrate on other types of loans, the agencies tend to complement rather than to compete with domestic banks' lending operations.

Balance-of-Payments Effects

The U.S. balance-of-payments deficit became an important issue in the late 1950's when U.S. authorities concluded that the dollar could not be used continuously to provide liquidity for the rest of the world and remain a freely convertible currency. Subsequently, a number of legislative and administrative steps were taken to restrict U.S. dollar outflows and to encourage nonliquid investments in the United States by foreigners. In several respects, the offices of foreign banks in the United States have influenced the achievement of these objectives.

First, the initial capital invested by foreign banks to establish American offices, together with subsequent nonliquid advances to the American affiliates, has had positive effects on the U.S. balance of payments. Secondly, to the extent that the deposits received from foreigners by the American affiliates of foreign banks have exceeded the volume of foreign loans made by these institutions, the U.S. payments deficit has been reduced, according to the reserve settlements definition.[8] The payments position has also been improved to the extent that these U.S. offices have been successful in inducing foreign dollar-holders to convert liquid dollar holdings into nonliquid investments. A fourth effect can be traced to the foreign institutions which concentrate on trade financing, and is reflected in any changes which such financing may have induced in the balance of trade. Finally, associated effects have involved the payments implications of the operations of branches and subsidiaries of U.S. banks abroad since to some extent the existence and activities of these offices are tied to the reciprocal banking privileges offered foreign banks in certain segments of the U.S. market.

(Unfortunately, there is a paucity of published data concerning the effects of foreign banks operating in the United States upon the balance of payments. While agencies, branches, and subsidiaries of foreign banks in the United States have filed monthly reports of claims on foreigners and liabilities to foreigners under the Treasury-Federal Reserve regular reporting program, the data reported by these banks have been aggregated with data pertaining to purely domestic banks; for both foreign-exchange reporting and balance of payments purposes American affiliates of foreign banks are regarded as "domestic banks." The resulting lack of separate published data on the foreign banks has complicated the task of appraising their balance of payments influence.[9] Notwithstanding the data limitations, a number of payments effects are suggested by the characteristic behavior of foreign banking institutions. Certain tendencies and trends are apparent, although magnitudes cannot be ascertained.)

Although payments gains can be traced to the initial nonliquid capital invested by foreign banks in establishing offices in the United States, these investments and the resulting gains have typically been quite small. Far more important payment effects relate to the fact that the U.S. offices of foreign banks function with both domestic and non-U.S. liabilities. Several foreign bankers who have been interviewed claim that their U.S. offices obtain large percentages of their resources from non-U.S. dollar holders, although the assets of these offices consist primarily of loans and investments made in the United States. To the extent that the foreign-owned dollars which these banks have attracted would otherwise have remained abroad, the existence of the U.S. offices has aided in reducing the payments deficit as computed on the reserve-settlements basis.

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[8] Since September 1965, the U.S. balance of payments has been officially computed using two different measures—the liquidity measure and the official reserve-settlements measure. The principal difference between the two measures concerns their treatment of liquid assets in the United States held by foreigners, other than official monetary authorities. Using the traditional liquidity yardstick, the payments deficit is measured in terms of both the decline in U.S. monetary reserve assets and the increase in our liquid liabilities to all foreigners, both official and private holders. Using the reserve-settlements measure, the deficit consists of declines in U.S. reserve assets and increases in liquid liabilities and certain nonliquid liabilities to official foreign holders only.

[9] Even if quarterly or monthly data for foreign banks were available, an unequivocal assessment of these banks' effect on payments would be made difficult by the possibility of important, but undetected, intra-period swings caused by changes in relative monetary conditions and other factors affecting international capital flows.

The investment activities of certain of these institutions have also aided the U.S. payments position. Several foreign banks have actively encouraged foreigners to purchase U.S. securities, and some banks have recently expressed interest in initiating or expanding this facet of their operations. Obviously, the personnel of foreign banks who deal directly with non-U.S. citizens are in a good position to acquaint foreign investors with the general desirability of acquiring American securities.[10]

The foreign banking institutions provide only a small volume of financing for direct-investment enterprises of their home nations in the United States. As noted previously, with the exception of certain agencies most of these institutions concentrate on the financing of imports and exports between the United States and their home nations or third countries. Regrettably, it is impossible to ascertain to what extent these trade-financing activities have been the cause, rather than the result, of trade patterns among other countries and the United States.

To the extent that the foreign banks have promoted import and export activity which would not otherwise have taken place, they have provoked changes in our current account position. In this connection, it probably has been easier for foreign banks to arrange to finance imports, rather than exports, into the United States, at least initially. Foreign banks have a greater familiarity with foreign suppliers, and it is less difficult to identify customers for foreign products than to encourage and facilitate the financing of U.S. exports. This tendency is reinforced by the inclination of U.S. exporters to use their own established banking connections. On the other hand, the foreign banks are encouraged to finance exports since foreign importers of U.S. goods must provide dollars—i.e., importers cannot use local currency which is permissible in export credit. On balance, it is not altogether clear that the volume of U.S. exports promoted by affiliates of foreign banks has not exceeded the volume of the imports they have induced, notwithstanding the frequent shortages of home-nation capital and the logical desire of foreign banks to promote home-nation products. Numerous instances have been cited in which U.S. exports have been encouraged and financed by foreign banking institutions. For example, the New York branch of a Lebanese bank claims to have promoted the sale of American-made jet aircraft to the home airline which in the absence of the New York banking office would allegedly have purchased British-made jets. Export financing has become a logical activity for these banks to cultivate, since it is an area in which competition with domestic banks is perhaps least keen.

Foreign banking institutions have been asked to abide by the spirit of the voluntary restraint program although this program does not specifically apply to them, and on the basis of monthly reports filed with the Federal Reserve banks, the Reserve Board has concluded that they have generally cooperated with this request. The restraint program's guidelines have restricted the pace of increase in foreign loans which these institutions can make, and, thereby, the amount of import financing which they can accommodate. According to officials of various foreign banking institutions, the program has compelled

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[10] The advantages to the United States of increasing foreign ownership of U.S. securities has been stressed by the report of a Presidential task force. See "Promoting Increased Foreign Investment in U.S. Corporate Securities and Increased Foreign Financing for U.S. Corporations Operating Abroad," Report to the President, Washington, D.C., 1964.

foreign banks to search for export financing opportunities to fill the gap. A number of banks have begun to canvass interior cities to cultivate export business since the announcement of the program. At the same time, there has been a tendency for domestic banks to deemphasize export financing as credit conditions have tightened; attractive investment and lending opportunities have existed without aggressive solicitation of export business.[11] Quite possibly, foreign banks have arranged to finance some U.S. exports during the recent period when sufficient financing from U.S. sources would not have otherwise been forthcoming.

U.S. Overseas Branches

Turning to the foreign branches and subsidiaries of American banks, one observes that a handful of banks do the bulk of our overseas banking business. Although data are again unavailable, the pattern of these banks' overseas activities is reasonably clear and a number of payments implications emerge. Traditionally, our banks have followed their customers overseas and, unlike foreign banks here, they have made a substantial volume of loans to finance nonbank direct investments of American firms. Another major function of the foreign branches and subsidiaries of American banks has been the financing of U.S. exports. In most foreign countries, capital has been in scarce supply and, in conjunction with the Export-Import Bank, overseas branches and subsidiaries of U.S. banks have stressed accommodations for U.S. exports in foreign countries. (This is not to suggest that overseas branches and subsidiaries of U.S. banks are uninterested in financing imports, for such business has also been sought. Yet it has been substantially easier for overseas affiliates of U.S. banks to arrange U.S. export financing, since they have a comparative advantage over other banking institutions in this area.) The lending of these institutions derives primarily from the deposits of American individuals and corporations overseas and non-U.S. residents.

It has been observed that the overseas branches typically leave larger deposit balances with their parents than do the parents with the affiliates. The data for national banks, which include the great bulk of U.S. banks abroad, show the following net deposits with parents at year's end:[12]

	Millions
1964	$312
1963	216
1962	169
1961	266
1960	271

Typically, domestic banks limit the volume of dollar balances maintained in overseas affiliates to amounts required for working balances. On the other hand, the domestic banks frequently draw upon the dollar balances on deposit with overseas affiliates. (Additionally, a sizable proportion of the dollar balances which affiliates of U.S. banks receive are remitted to U.S. exporters whose sales the affiliates finance.) To the extent that the net amounts due to affiliates from their parents are related to deposits in the affiliates by non-U.S. residents, our payments position has been aided in terms of the reserve-settlements measure.

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[11] The Secretary of Commerce's Balance of Payments Advisory Committee has recently addressed itself to this problem (February 1966).

[12] These figures represent the net amount due to branches from head offices, after deducting any amount due (whether short- or long-term funds or original capital) from branches to head offices.

The affiliates have also been responsible for clear-cut balance of payments gains, to the extent that they have reduced capital outflows from the United States by virtue of financing exports and direct investments of American firms with deposits received from non-U.S. residents. This mobilization of foreign-held dollars for additional financing, or as a substitute for U.S.-resident financing of our exports and direct investments, has an important positive effect on the payments position.

Especially significant is the fact that national banks are required under the Federal Reserve Act to remit all foreign branch profits annually. Since most of the overseas business is conducted by branches of national banks, our payments position is regularly aided by these required remissions, which represent balance of payments receipts.

It has been noted that foreign affiliates of U.S. banks actively engage in the financing of nonbank direct investments of U.S. residents. This financing contributes to longrun payments gains in terms of increased direct investment earnings, to the extent that the investments are profitable and would not have taken place in the absence of these institutions. Americans who make direct foreign investments usually anticipate higher rates of return than would otherwise have been available at home.

In summary, foreign banks appear to have a favorable effect on the U.S. balance of payments. The U.S. offices of foreign banks mobilize some foreign-held dollar balances which are used by the banks to acquire nonliquid assets in the United States and to finance trade. The foreign banks are particularly helpful to the extent that they provide additional financing for U.S. exports (or substitutes for U.S. resident financing) with the deposits they obtain from non-U.S. residents. The Federal Reserve Bank of New York reports that the foreign banks comply with the guidelines announced under the voluntary restraint program. Also, the existence of foreign banks here has facilitated the reciprocal expansion of U.S. banking offices abroad. And the branches and subsidiaries of American banks provide export credits as well as financing for U.S. direct-investment enterprises abroad, reducing to some extent the capital outflows to these enterprises from U.S. sources. At the same time, this financing has a positive longrun effect on the balance of payments through increased direct investment earnings. Finally, the foreign branches of national banks are required to remit all overseas profits, thereby providing payments inflows.

The Regulatory Environment

Frequently, foreign banking institutions desiring licenses to do business in the United States have approached Federal authorities. In their home nations, the licensing and administration of foreign banking interests have invariably rested with national rather than with provincial or municipal officials. Yet in the absence of Federal banking legislation in the United States that would permit foreign banks to enter the United States on terms comparable to those extended by their home nations to American banks expanding abroad, the foreign banks have approached the States for banking privileges. In response to these requests (and in some instances, to pressures by domestic

banks which have supported liberalization of State laws), seven States have made legal provision for some degree of foreign banking within their boundaries. (The appendix compiles a list of States and corresponding legislation pertaining to foreign banks.) In general, the States have treated representative offices, subsidiaries, agencies, and branches of foreign banks as distinct entities requiring different types and degrees of supervision.

In most States it is unnecessary for foreign banks to license a representative office under the presumption that the representative office will not engage in banking functions. California is an exception in this respect, requiring representative offices to obtain licenses from the State banking superintendent.

Foreign banks establishing State-chartered subsidiaries have generally been licensed and supervised in a manner similar to that applied to domestic banks. Although there is some variation among the States, foreign banking institutions are required to establish a board of directors, comprised partially (or entirely) of residents of the State.

The two States which have licensed agencies of foreign banks have based their supervisory criteria on the ground that these institutions would not accept deposits within the State. It is the general premise of the supervisors that since foreign agencies bring their own resources to the States rather than attracting them locally, close surveillance of their investment and lending activities is unwarranted. For example, it is regarded to be unnecessary for examiners to analyze loan types and lending limits of agencies, so long as State laws are not violated. The typical agency examination ostensibly is restricted primarily to determining whether the agency is complying with fidelity bond coverage and capital provisions and is submitting accurate reports as prescribed by law. An exception to the characteristic examination is made for agencies operated in conjunction with subsidiaries chartered in the same State. In these instances, attempts are made to deduce whether delinquent loans, or loans made to officers, or excessive loans emanating in the subsidiaries have been transferred to agency books in violation of State laws.

In the New York State law, a provision does exist which states that an agency's New York State assets must exceed corresponding credit balances. However, the term "New York State assets" has been interpreted quite broadly. Virtually any loan, either domestic or foreign, which ultimately is payable in dollars in New York qualifies as a New York State asset. Since virtually all of the claims of agencies (or branches) in New York qualify as New York State assets, the 100-percent restriction has not proved onerous.

In both New York and California, where all agencies currently are located, applications for agency licenses appear to be processed in a manner quite similar to branch application.

Traditionally, officials have regarded branches of foreign banks to be the most difficult to supervise. The authorities have feared that they could not adequately protect the depositors in the branch institutions which, in effect, are appendages of foreign banking networks. Since the parent institutions are entirely outside the jurisdiction for examination and supervision by State authorities, concern has been expressed that any attempt to exercise effective control over foreign branches is made illusory. It has been argued that assets of branches could be withdrawn by the foreign parent with comparative ease, and

once removed, would be difficult to recover in suits initiated in American courts.

Since American banks had long been permitted to open branches in most foreign countries and a serious question of reciprocity was involved in prohibiting the establishment of foreign branches in the States, careful attention was devoted to the difficulties enumerated above in the drafting of New York State's branching amendment in 1960. Largely because of the importance of the reciprocity issue, interested parties endeavored to draft a bill which would provide adequate protection to foreign branch depositors notwithstanding the problem areas cited by the supervisory authorities. The law which evolved in New York is characterized in general terms below. Since most all foreign branches are located in New York (and if branching is eventually permitted in California, the applicable restrictions will be almost identical to those in New York) the protective provisions can be regarded as largely typical.

As noted previously, the New York State law provides that a branch must maintain within the State dollar assets equivalent to at least 108 percent of all its liabilities, including deposits and acceptances. The 8 percent, in effect, represents the capital of the branch. Additionally, 5 percent of such assets must be segregated and maintained under a restricted deposit agreement in another domestic bank in cash or Government securities, and are subject to withdrawal only with the consent of the superintendent of banks. Moreover, in the event of financial difficulties, creditors of the branch are preferred with respect to the assets of the branch without prejudice to their right to share in the other assets of the bank.

In effect, provisions in the New York State branching amendment require that branches be operated as if their liabilities extended only to branch depositors. Depositors in the New York branch have no right to draw on their accounts at the parent bank or any of its branches and, conversely, depositors at the parent bank or at any of its branches have no right to draw on their accounts at the New York branch. This separate-entity concept of deposits in branches versus parent institutions has been fully recognized by the courts in this country. The Federal Reserve Board in a recent ruling has determined that a branch of a foreign bank operating in the United States (as distinguished from the parent institution) falls within the terms "any bank" in the second sentence of section 22(g) of the Federal Reserve Act. Thus, in practice and in law the branch can be, and for most purposes is, treated as an entity separate from the parent institution.

Any act involving removal of assets from a foreign branch in violation of the 108-percent requirement subjects the offending persons whether officers, directors, or employees of the branch to the penalties of New York law. This provision is designed to prevent the improper transfer of branch assets out of the country, irrespective of any order to the contrary emanating from the parent bank or its other branches.

The above-mentioned provisions are designed to secure the position of branch depositors, irrespective of parent bank activities in other parts of the world. To facilitate the supervision and examination of the branch as an independent entity, the law requires that foreign branch books and records, as well as assets and liabilities, be segregated and kept separate from the books, records, assets and liabilities of

the head office or any other branches of the bank. As a condition of entry, the parent bank must submit to these requirements.

By virtue of these restrictions, the regulatory authorities in New York believe that they can responsibly grant licenses and supervise foreign branch banks without the necessity of exercising any supervision or control over the parent institutions. The state authorities apply the same standards of control over the foreign branches as they do over domestic banks and, on the basis of 5 years' experience in licensing and supervising foreign branches, report no unique problems or difficulties. From the point of view of the foreign branches who are supervised by the authorities of New York State, there is a consensus that the provisions of the State law have been fairly administered and that relations with the supervisors have been good.

A contrary position has been taken by the Superintendent of Banks in California. It is his view that only California banks should be allowed to receive deposits in the State. Although the superintendent does not object to foreign ownership of banks in California, he contends that foreign banks which receive deposits in the State should be required to operate as separately capitalized entities in the State under the control of local directors. Only if the foreign institutions deposit substantial capital in the State and if directors of the foreign-owned bank are local residents whose amenability to local, civil and criminal control is certain, does the superintendent feel that he can exercise effective control to protect depositors.

The provision to permit foreign branching in California was passed in 1964 although the State Superintendent of Banking was opposed to the provision. Under statute 1756.1 of the amended banking law a foreign bank is prohibited from accepting deposits in California until, among other provisions, it has met the following requirements:

> It has been approved for FDIC insurance, and has on deposit with the State treasurer in addition to the deposits required under section 1751(g) such assets as the superintendent may from time to time deem necessary or desirable for the maintenance of a sound financial condition, the protection of depositors and the public interest, and to maintain public confidence in such business of such foreign banking corporation.

Thus, even if branches of foreign banks become eligible for FDIC insurance, the superintendent of banks has broad discretionary power regarding the operations of such institutions in the State. The superintendent has indicated that in the event that foreign banking institutions are able to meet the FDIC eligibility requirement, conditions imposed on the operations of branches in the State are likely to be sufficiently restrictive to keep this form of organization unattractive. Thus, for all intents and purposes, California is likely to remain closed to foreign branching in view of the related risks perceived by the supervisory authority.

It is anticipated that the pattern for admitting foreign branches in various States will continue to depend largely on the attitudes of State regulatory authorities. In some States foreign branching is (or may be) authorized, while others will remain closed to foreign branching. Conditions for the entry of foreign banking institutions are likely to remain dissimilar throughout the country.

Conclusions and Recommendations

Virtually the only banking institutions in the country falling outside the scope of Federal purview are the representative offices, agencies and branches of foreign banks. At the present time one or more of the Federal authorities (the Comptroller of the Currency, the Federal Reserve and the FDIC) supervise activities of banking institutions in this country which account for 98 percent of deposits. Currently none of these authorities has jurisdiction over branches or agencies of foreign banks. Information obtained by Federal authorities pertaining to the activities of these institutions is made available with a single exception as a courtesy of the State banking departments.[13]

Ironically, the justification for Federal examination of foreign banking institutions appears greater in some respects than for other types of financial institutions. The Constitution charges Congress with the responsibility for controlling money and for managing the international monetary affairs of the country. In view of the importance attached to international monetary conditions in recent years, it seems especially inappropriate that the activities of foreign branches and agencies have been examined only by State authorities who are largely uninterested in the inflow-outflow implications of the banks' activities. A large proportion of the activities of foreign branches and agencies involve dollar inflows and dollar outflows, and failure to examine the banks with specific reference to these considerations appears especially unfortunate during a period in our history when the Interest Equalization Tax, the voluntary restraint program, and other restrictive measures have been introduced. As we have seen, supervisory authorities at the State level are primarily interested in protecting depositors and in seeing that State banking laws are not violated.

International considerations aside, it is desirable for activities of foreign agencies to be examined more intensively in view of the importance which these institutions play in our money markets and since a variety of their activities is subject to more liberal restrictions than those of domestic banks. The fact that agencies presumably do not receive deposits exempts them from close scrutiny. Yet as has been suggested, their liabilities categorized as "due to own head offices and branches" may to a significant extent consist of deposits of Americans booked by the agencies in parent name. Although conceivably unimportant to State authorities, the types of loans and investments made by these institutions markedly influence the character and competitive conditions of U.S. financial markets regardless of whether the resources are obtained from domestic depositors or from their parent institutions. Moreover, certain advantages which the agencies have over domestic banking institutions cannot be properly appraised at the State level. For example, certain foreign banks operate agencies and subsidiaries in several States and, in part, their objective is to capitalize on opportunities to transfer resources among these various affiliated institutions. A national perspective is required to assess the interrelated activities of these affiliated banking offices.

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[13] In order that their acceptances may qualify under the Federal Reserve Act, some foreign branches submit monthly reports regarding the composition of their bankers' acceptances. It should be noted, however, that some foreign banks are uninterested in selling the acceptances they create (many of which would not qualify in any event) and therefore, do not participate in the Federal Reserve Banks' acceptance surveys.

The States are confronted with an administrative problem in examining the activities of foreign banking institutions. To a large extent, the activities and banking functions of foreign banks are dissimilar to those typical of domestic banks which State authorities are accustomed to examining. Knowledge and skills pertaining to international banking are required both to appraise applications of foreign banking institutions and to examine and regulate the institutions, once licensed. Different criteria are required to assess whether convenience and advantage are served by admitting foreign banks than are used for domestic banks. For example, increased emphasis must be given to trade implications, national and international monetary considerations and questions of banking reciprocity. New forms for reporting financial activities are required in order to discern the characteristic functions which foreign banks perform. The need for new standards and yardsticks has only been partially recognized in those States where foreign banking institutions currently operate. Because the examination and regulation of foreign banks constitute such a small proportion of supervisory activities, even in the States where most foreign banks are concentrated substantial supervisory specialization in the international field has not been developed. A number of foreign banking institutions report a distinct tendency on the part of State regulatory authorities to assess foreign requests for licenses and subsequently to examine foreign banks largely as though they were domestic banks. This administrative problem is most serious in those States where few foreign banking institutions are located. And the problem is likely to become even more acute if and when additional States begin to extend foreign banking privileges.

It is in the public interest that the Congress provide for the Federal examination and supervision of foreign banks so that foreign policy and the broader national and international implications of foreign bank activities can be adequately appraised. Also, the provision for Federal examination of foreign banks would facilitate the evolution of appropriate techniques for such examination.

At the same time the National Banking Act should be amended to permit the licensing of foreign agencies and branches by the Federal Government. Currently, only five States allow foreign banks to establish offices within their boundaries.[14] The other 45 States are closed to foreign banks. Even in the five States which permit some degree of foreign banking, a foreign banking institution whose request for a license is denied by a State supervisory authority has no resort to an alternative authority. A situation can be imagined in which a foreign bank whose application is turned down in State A provokes authorities in the home nation to retaliate by turning down the pending branch application of a U.S. bank headquartered in State B. Since this retaliatory action does not affect banks in State A resistance to the State supervisor's decision and pressures to reverse his position may not be substantial.

The option of a Federal charter for a branch or an agency would provide foreign banking institutions with an alternative in the event that applications are denied by State authorities. Such an option would help to assure that conditions of entry are free in the United

[14] California, Hawaii, Massachusetts, New York, and Oregon.

States and that other countries are encouraged to grant reciprocal privileges to all of our banks which operate or wish to operate abroad.[15] Undoubtedly, it is in the public interest to deny some foreign banks' applications for licenses. It is appropriate, however, that final refusal originate at the Federal level where foreign policy implications can be fully assessed.

At the present time American banks enjoy widespread branching privileges in a number of foreign countries although foreign banks can only open branches in Massachusetts, New York and Oregon.[16] If our policy is to deny branch bank facilities to foreign banks, then, on the same theory, American banks can be deprived of the right to open new branches or to continue operating existing branches in foreign countries. If U.S. foreign policy aims at seeking and according to foreign-owned banking enterprises operating in this country the same sort of treatment applied to American banks abroad, then conditions applying in most parts of the country should clearly be liberalized. In point of fact, it is an established economic policy of this country to attempt to obtain for U.S. enterprises operating overseas the same treatment from the local government as is accorded to enterprises owned by local citizens, and to accord in return similar treatment to foreign-owned enterprises operating in the United States. This policy applies in general and is an integral part of our friendship, commerce and navigation treaties with other countries.

Legislation enabling authorities to charter agencies and branches at the Federal level would be welcomed by the foreign banking community. A number of foreign banks which operate in more than one State (or which would like to open offices in more than a single State) have expressed an interest in converting to Federal charters from State charters if the former alternative is made available. Administratively, it would be simpler for these banking institutions to operate their offices under a single set of regulations and examinations rather than under several sets of regulations among the different States. A number of foreign banks have also stated that they prefer to deal with Federal rather than State authorities in circumstances where questions of foreign policy are involved. For example, if questions arise in connection with treaties of friendship and commerce between the United States and the home nation, such questions can most effectively be resolved at the national level rather than through State officials. The banks expressing these opinions have claimed to enjoy good relations with State examiners, and officials at the State level have confirmed this impression. To some extent the preference for Federal involvement is based on experiences in the home country and other

[15] A number of factors appear to influence the decisions of foreign governments in their appraisals of U.S. banks' applications for banking privileges. Among the factors which normally might be considered are the following: the particular government's attitude with respect to foreign banks in general; the number of American branches already operating in the country; the degree of resistance to foreigners; and the existence of reciprocal privileges for local banks to operate in the United States. Although in a number of countries licenses are difficult, if not impossible, for U.S. banks to obtain, New York bankers argue that the 1961 foreign branching amendment has improved New York banks' opportunities to move abroad. Allowing foreign banks to compete in its market, New York has removed one of the barriers frequently posed by authorities in evaluating American banks' requests for admission.

[16] Since only three States allow foreign banks to branch, the opportunity for overseas expansion is not available on the same terms to domestic banks throughout the country. In a sense, banks throughout the country are at a disadvantage when competing for overseas markets especially with New York banks. To a large extent this handicap is unimportant since few banks outside New York have desired to expand overseas. Yet some banks, e.g. Bank of America and Continental Illinois, are currently or potentially handicapped by the reluctance of their State banking authorities to accommodate foreign banks that desire to open branches.

affiliate locations where the activities fo foreign banks are invariably reviewed and assessed at the national level.

True reciprocity depends both on freedom of entry and conditions of entry. In the latter respect, foreign banking institutions should be offered the same privileges as domestic banks so long as they abide by U.S. laws. At the present time foreign branches are ineligible for FDIC insurance. Certain foreign banks contend that, as a consequence, they are placed at a competitive disadvantage with respect to domestic banks. The primary purpose of insurance offered under the Federal Deposit Insurance Act is to protect depositors who use banking facilities in this country. It is not the intended purpose of the act to discriminate against a certain class of banking institutions. Such discrimination in effect is a consequence of current interpretation which prohibits the inclusion of foreign branches.

It has been argued by those who oppose the extension of FDIC insurance to branches of foreign banks that the problems of supervision and control are insurmountable. Yet if the branching provisions of the New York State law achieve their intended purpose, the supervision and examination by FDIC authorities need not be more cumbersome for foreign branches than for domestic banks, since supervision of parent institutions is unnecessary. The risks to the Corporation of insuring branches of foreign banks do not appear unduly high for a number of additional, practical reasons. First, only a handful of existing foreign branches are likely to elect FDIC insurance if it is made available on a voluntary basis. As noted previously, the majority of foreign banking institutions are uninterested in the coverage because of the composition and character of their depositors. Secondly, the economics of foreign branch establishment appear to preclude branching by foreign banking institutions except in a very few locations in the country.[17] Consequently, it is highly unlikely that the Corporation would ever be requested to insure a significant volume of deposits in foreign branches. Therefore, it seems appropriate to extend the FDIC privilege to foreign branches, thereby placing them on identical competitive footing with domestic banks.

The recommendation for free entry and equal access for foreign banks appears to be supported by past performance. Especially in the States whose foreign banking laws are most liberal, both bankers and supervisory officials argue that the advantages gained by the States and the country as a whole far outweigh the disadvantages. The foreign banks have contributed to the development of New York and San Francisco as centers of international finance and trade. A byproduct of this development has been the expansion of trade in which U.S. firms have been important participants and which several domestic banks have financed to an increasing degree. The foreign banking institutions have introduced new financial instruments in the trade financing field and, thus, have complemented the activities of domestic banks. There has been little evidence or complaints of competitive developments unfavorable to the domestic banks, and

[17] At the present time foreign bankers have the impression that they can only operate profitably in a few major centers in the country such as New York, San Francisco, Los Angeles, Chicago, Dallas, Houston, Washington, D.C., New Orleans, Seattle, Portland, and possibly two or three other cities.

most banks report improved correspondent relations since the establishment of foreign banking institutions here. In certain instances, the foreign banks have provided personal banking services to ethnic groups who otherwise would have been denied these services and who probably would have held some of their money outside the banking system. Finally, it has been noted that the existence of foreign banks here and branches and subsidiaries of U.S. banks overseas probably has had favorable payments effects.

Exhibit 1

Offices of foreign banks in the United States by type of office and by State [1]

	Foreign banking offices		Representative offices	State-chartered subsidiaries	Branches of State-chartered subsidiaries
	Agencies	Branches			
California	11	----------	7	7	14
Illinois	----------	----------	6	1	----------
New York	24	23	62	6	----------
Oregon	----------	2	----------	----------	----------
Texas	----------	----------	4	----------	----------
Washington	----------	[2] 1	----------	----------	----------
Puerto Rico	----------	7	----------	----------	----------
Virgin Islands	----------	3	----------	----------	----------

[1] No offices currently exist in Massachusetts and Hawaii although laws in these States authorize foreign banking offices.
[2] Branch operates under grandfather clause.

Exhibit 2

Condensed composite balance sheets for all foreign branches licensed in New York State

[Dollars in millions]

	Sept. 30, 1965	Dec. 31, 1964	Dec. 31, 1963	Dec. 31, 1962
Number of branches	22	21	16	8
ASSETS				
Cash and balances with other banks	$161	$200	$171	$38
Bonds and corporate stocks	99	125	99	67
Loans and overdrafts [1]	600	555	386	166
Customers' liability on acceptances	33	26	23	4
Due from own head offices and branches	73	52	35	22
Other assets	24	26	29	10
Total assets	993	986	747	309
LIABILITIES				
Deposits of foreign governments, central banks, and other foreign banks	112	145	86	147
Other deposits	447	397	305	24
Liabilities for borrowed money	5	7	6	11
Acceptances outstanding	40	34	31	9
Other liabilities	14	15	24	2
Total liabilities, exclusive of amounts due to own head offices and branches	619	600	454	194
Due to own head offices and branches	374	385	292	114
Total liabilities	993	986	747	309

[1] Includes loans to brokers and dealers in securities: Sept. 30, 1965, $129,000,000; Dec. 31, 1964, $145,000,000; Dec. 31, 1963, $100,000,000; and Dec. 31, 1962, $49,000,000.

Source: Annual Report of the Superintendent of Banks, State of New York, No. 91, 1966, pp. 196–197.

EXHIBIT 3

Branches of foreign banks, 1966

IN NEW YORK STATE

Name	Headquarters	Number of offices
Algemene Bank Nederland N.V.	Amsterdam, Holland	1
Banca Nazionale Del Lavoro	Rome, Italy	1
Banco da Lavoura de Minas Gerais, S.A.	Belo Horizonte, Minas Gerais, Brazil.	1
Banco de Ponce	Ponce, P.R.	3
Banco Popular de Puerto Rico.,	San Juan, P.R.	3
Bank Leumi le-Israel, B.M.	Tel Aviv, Israel	1
Bank of London & South America, Ltd.	London, England	1
Barclays Bank D.C.O.	do	2
Chartered Bank, The	do	2
Intra Bank (Societe Anonyme)	Beirut, Lebanon	1
Israel Discount Bank, Ltd.	Tel Aviv, Israel	1
National Bank of Pakistan	Karachi, Pakistan	1
Societe Generale pour favoriser le developpement du Commerce et de l'Industrie en France.	Paris, France	2
Swiss Bank Corp.	Basle, Switzerland	2
Swiss Credit Bank	Zurich, Switzerland	2
Total offices located in New York State		23

OUTSIDE NEW YORK STATE

Name	Headquarters	Location and number of offices
Canadian Imperial Bank of Commerce.	Montreal, Canada	Oregon and Washington (2).
Bank of Tokyo	Tokyo, Japan	Oregon (1).
The Bank of Nova Scotia	Halifax, Nova Scotia.	Virgin Islands (3). Puerto Rico (2).
The Royal Bank of Canada	Montreal, Canada	Puerto Rico (5).

Source for New York State: Annual Report of the Superintendent of Banks, State of New York, No. 91, 1966, pp. 196–197.

EXHIBIT 4

Condensed composite balance sheet for all foreign agencies licensed in New York State

[Dollars in millions]

	Sept. 30, 1965	Dec. 31, 1964	Dec. 31, 1963	Dec. 31, 1962
Number of agencies [1]	27	24	25	27
ASSETS				
Cash and balances with other banks	$550	$449	$443	$422
Bonds and corporate stocks	559	521	450	581
Loans and overdrafts [2]	1, 981	1, 989	1, 806	1, 489
Customers' liability on acceptances	392	274	212	147
Due from own head offices and branches	555	559	435	525
Other assets	103	103	54	47
Total assets	4, 143	3, 898	3, 402	3, 213
LIABILITIES				
Due to foreign banks	127	114	252	341
Due to other customers	298	357	114	88
Liabilities for borrowed money	30	62	30	7
Acceptances outstanding [3]	208	161	117	100
Other liabilities	180	26	89	55
Total liabilities exclusive of amounts due to own head offices and branches	845	722	602	594
Due to own head offices and branches	3, 298	3, 175	2, 797	2, 618
Total liabilities	4, 143	3, 898	3, 402	3, 213

[1] 3 agencies are included in the aggregate data which are excluded from the discussion on the ground that they are not "foreign banks." These are: American Express Co., Thomas Cook & Son, and International Banking Corp. Source: Annual Report of the Superintendent of Banks, State of New York, No. 91, 1966, pp. 196–197.

[2] Includes loans to brokers and dealers in securities: Sept. 30, 1965, $881,000,000; Dec. 31, 1964, $951,000,000; Dec. 31, 1963, $914,000,000; and Dec. 31, 1962, $686,000,000.

[3] Excluding acceptances held for account of own head offices and branches.

Exhibit 5

Agencies of foreign banks, 1966

IN NEW YORK STATE

Name	Headquarters	Number of offices
Banco de Bilbao	Bilbao, Spain	1
Banco di Napoli	Naples, Italy	1
Banco Nacional de Mexico, S.A.	Mexico, D.F., Mexico	1
Bank of China	Taipeh, Formosa	2
Bank of Kobe, Ltd	Kobe, Japan	1
Bank of Montreal	Montreal, Province of Quebec, Canada.	1
Bank of Nova Scotia	Halifax, Nova Scotia, Canada	1
Bank of Tokyo, Ltd	Tokyo, Japan	1
Canadian Imperial Bank of Commerce	Toronto, Ontario, Canada	1
Dai-Ichi Bank, Ltd	Tokyo, Japan	1
Fuji Bank, Ltd	do	1
Hongkong and Shanghai Banking Corp.	Victoria, Hongkong	1
Midland Bank, Ltd	London, England	1
Mitsubishi Bank, Ltd	Tokyo, Japan	1
Mitsui Bank, Ltd	do	1
Nippon Kangyo Bank, Ltd	do	1
Philippine National Bank	Manila, Philippines	1
Royal Bank of Canada	Montreal, Province of Quebec, Canada.	1
Sanwa Bank, Ltd	Osaka, Japan	1
Standard Bank, Ltd	London, England	1
Sumitomo Bank, Ltd	Osaka, Japan	1
Tokai Bank, Ltd	Nagoya, Japan	1
Toronto-Dominion Bank	Toronto, Ontario, Canada	1
Total agencies in New York State.		24

IN CALIFORNIA

Name	Headquarters	Number of offices
Bank of Tokyo, Ltd	Tokyo, Japan	2
The Mitsubishi Bank, Ltd	do	1
The Chartered Bank	London, England	2
Bank of Montreal	Montreal, Canada	1
Barclays Bank, Ltd	London, England	1
Canadian Imperial Bank of Commerce	Toronto, Canada	1
The Hongkong and Shanghai Banking Corp.	Hongkong, British Crown Colony	1
The Sanwa Bank, Ltd	Osaka, Japan	1
Swiss Bank Corp	Basle, Switzerland	1
Total agencies in California		11

APPENDIX

Laws Pertaining to Foreign Banking in the Various States (April 1966)

At present eight States [1] specifically prohibit foreign branch banking. Washington allows only limited operations,[2] and Maine and South Carolina have statutes which refer to foreign banking in a very limited sense, neither defining the "powers" of a foreign bank within the State nor defining the term "foreign banking corporation." The attached chart best indicates the nature of foreign banking in California, New York, Massachusetts, Hawaii, Oregon, and Washington, the States which allow foreign branching. The chart is divided into three primary categories: type of institution permitted, powers of foreign banking offices within the State, and the duration of the license grant. The remaining States have made no provisions which specifically apply to foreign banks.

State	Type of foreign bank [1]		Powers					Duration of license	
	Agency	Branch	Receive deposits	Buy, sell, collect bills of exchange	Issue letters of credit	Transmit money abroad	Loans	1 year	Indefinite
California	X	X	X [2]	X	X	X	X	X	
New York	X	X	X	X	X	X	X	X	
Massachusetts	X	X	X	X	X		X	----	X
Hawaii	X	----	----	X	X	X	X	----	X
Oregon	X	X	X	X	----	----	X [3]	----	X
Washington	----	X [4]	----	----	----	----	----	----	

[1] Branch may receive deposits. Agency or representative may not receive deposits.
[2] Must get FDIC approval which has not been given to date.
[3] Limited to mortgage loans.
[4] Has 1 branch under a grandfather clause.

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[1] Connecticut, Delaware, Illinois, Minnesota, New Jersey, Rhode Island, Texas, and Vermont.
[2] The buying and selling of exchange, coin, bullion, or securities.