

EXECUTIVE

FIR
ST
LG

THE WHITE HOUSE
WASHINGTON

January 3, 1972

Dear Dr. Biondolillo:

FRANK J.

The President has asked me to thank you for and to respond to your recent letter regarding a federally subsidized bank for economic and environmental development.

As you know, the President has been concerned for some time about the vitality of state and local government. On the one hand these governments are increasingly being asked to provide services to our citizens but on the other they are facing critical revenue shortages. The result is only too predictable. The President's general and special revenue sharing proposals are designed primarily to meet this fiscal crisis, and he is confident that they will be enacted by Congress.

The Bank of State and Urban Development that you propose is a novel idea that merits full consideration; however, passage of the general revenue sharing bill will provide substantial funds (\$5.3 billion in Fiscal Year 1973) to localities which could be used for capital improvements. Also, the President has proposed in the Urban Community Development Revenue Sharing bill \$100 million for state planning and management programs and technical assistance which will substantially help the states direct their economic growth.

The President believes that the general and special revenue sharing proposals, when enacted, will allow long-term planning for state and local governments and permit the necessary capital improvements if that is the direction a state or locality wishes to move.

However, your Bank of State and Urban Development is certainly an interesting and useful suggestion, and I have taken the liberty of forwarding it to those in the Department of Treasury and Housing and Urban Development closest to the problems and best able to evaluate and study it.

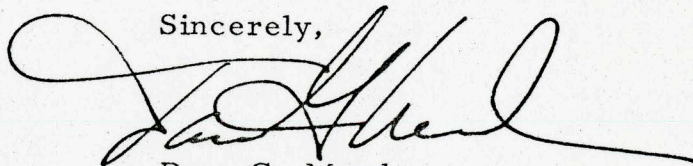
Thank you for sharing your ideas and concern, with the President

VED
JAN 4 1972
CENTRAL FILES

Page 2

on this important matter.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Dana Mead', with a large, looping initial 'D' and a long horizontal flourish extending to the right.

Dana G. Mead

Staff Assistant to the President
for Domestic Affairs

Dr. Frank J. Biondolillo
Councilman-at-Large
City of New York
Room 6, City Hall
New York, New York

THE WHITE HOUSE

WASHINGTON

letter to Mr. Brundolillo
sent to © 1-4-72.

THE WHITE HOUSE OFFICE

REFERRAL

To: Mr. Bob Strauss
Main Treasury
Room 3025

Date: December 9, 1971

ACTION REQUESTED

- ☒ Draft reply for:
☒ President's signature.
☐ Undersigned's signature.
- ☐ Memorandum for use as enclosure to reply.
- ☐ Direct reply.
☐ Furnish information copy.
- ☐ Suitable acknowledgment or other appropriate handling.
☐ Furnish copy of reply, if any.
- ☐ For your information.
- ☐ For comment.

NOTE

Prompt action is essential.

If more than 72 hours' delay is encountered, please telephone the undersigned immediately, Code 1450.

Basic correspondence should be returned when draft reply, memorandum, or comment is requested.

REMARKS:

Description:

☒ Letter: ☐ Telegram: Other:
To: The President
From: Dr. Frank J. Biondolillo
Date: November 3, 1971
Subject: His proposal for a federally subsidized bank for development and states and municipalities

By direction of the President:

Dana G. Mead
Staff Assistant to the President
for Domestic Affairs

Room 167 OE.O.B.



CITY COUNCIL
CITY OF NEW YORK

DR. FRANK BIONDOLILLO
ROOM 6, CITY HALL

COUNCILMAN AT LARGE
5 REEGANS LANE
STATEN ISLAND, N. Y. 10308

November 3, 1971

EM
Honorable Richard M. Nixon
President of the United States
The White House
Washington, D.C.

Dear Mr. President:

In searching for a viable way to provide economic aid to our states and cities; to provide guide lines for long term planning; and to possibly allow for complimenting the "Revenue Sharing Proposals", I have briefly outlined a plan that may or may not be worthy of consideration and further study.

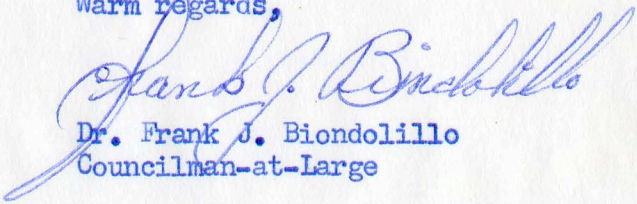
I have met with some of the leading bankers in the City of New York and it is the general consensus that the proposal should be brought to your attention.

Needless to say I am proud of the way a Republican is leading our nation out of war and toward economic stability.

I must always add that your visit to Staten Island on behalf of our candidacy in 1966 shall always be a high point for me and my family and shall never be forgotten.

Best of health and continued success.

Warm regards,


Dr. Frank J. Biondolillo
Councilman-at-Large

FJB/bc



CITY COUNCIL

CITY OF NEW YORK

DR. FRANK BIONDOLILLO
ROOM 6, CITY HALL

COUNCILMAN AT LARGE
5 REEGANS LANE
STATEN ISLAND, N. Y. 10308

STATE AND MUNICIPAL AID BANKING PROPOSAL

I am proposing a federally subsidized bank for the economic and environmental development of states and municipalities - to be known as Bank of State and Urban Development. The principle purposes of the bank could be summarized as follows:

- 1) To assist in the economic social and environmental development of its member states and municipalities by facilitating the investment of capital thereby promoting long - range attacks on our environment and improvement of living conditions.
- 2) To promote private investment by guarantees of and participations in loans and other investments made by private investors.
- 3) When private capital is not available on reasonable terms, to make loans for production purposes out of its own resources or funds borrowed by it.

The bank would obtain its funds for loans from an initial federal appropriation much like our contribution to the World Bank or International Monetary Fund; from borrowing in the capital markets of the world and from net earnings. Sales to investors of portions of the bank's loan portfolio and repayments of loans to the bank, while representing only a recovery of funds originally derived from one of the above sources, have the same effect as new capital in that they reduce the amount the bank would otherwise have to obtain from other sources.

Since the bank is primarily a source of long-term loan capital, its resources will be used largely to assist in the financing of investments for which large amounts of long - term loan capital are required and for which this method of financing is appropriate.

One can readily see the advantage of this type of institution which could consolidate most existing federal loans and grants and place them in an atmosphere of sound business and banking procedures. (highways, pollution controls, parks, schools, sewage treatment etc.)

TECHNICAL ASSISTANCE

In addition to financial assistance the bank, as a service to its member states and municipalities would furnish technical assistance in connection with the loan. The purpose being to survey need and development potentialities and problems of the states or municipalities and to make recommendations designed to assist the local governments in formulating long term programs, also priority determinations.



CITY COUNCIL

CITY OF NEW YORK

DR. FRANK BIONDOLILLO
ROOM 6, CITY HALL

COUNCILMAN AT LARGE
5 REEGANS LANE
STATEN ISLAND, N. Y. 10308

CAPITAL STRUCTURE

The banks original capital authorization could be \$30,000,000,000 derived from a federal appropriation and from subscriptions by its member states and municipalities. Members subscriptions would be in general in proportion to their economic resources. Of the original federal appropriation only 20% would be in cash; the other 80% would remain on call and would serve to support the bank in its borrowing operations in the money markets. The effect would be to provide massive additional resources to serve as backing for the banks sale of bonds and notes to investors.

In addition to directing borrowing the bank sells to financial institutions securities it receives from borrowers in connection with its loans. In this way as well as by its own borrowing the bank acts as a channel for the flow of private capital into state and urban investment.

Interest and other charges are on a nondiscriminatory basis without distinction among borrowers. The interest would consist of 3 components: a) estimated cost of borrowing to bank, b) 1% commission levied by bank creating a reserve against losses; c) small fraction for administrative costs.

ADMINISTRATIVE ORGANIZATION

I) Board of Governors

- a) The governor of each state and mayor of each city with over 1 million population. This board meets approximately once a year and all powers are invested in it.

II) Board of Executive Directors.

- A) Most powers are delegated to it by Bd. of Governors
- a) Five executive directors - appointed by the president.
- b) Five executive directors - appointed by the senate.
- c) Five executive directors - elected by governors and mayors of the remaining states and municipalities.

III) The president is ex-officio chairman of the Bd. of Directors. He is selected by the executive directors and is the chief executive officer of the bank. Subject to their general direction on questions of policy, he is responsible for the conduct of the business of the bank and for organization of its staff.



CITY COUNCIL

CITY OF NEW YORK

DR. FRANK BIONDOLILLO
ROOM 6, CITY HALL

COUNCILMAN AT LARGE
5 REEGANS LANE
STATEN ISLAND, N. Y. 10308

MISCELLANEOUS

- A) Federal government annual appropriations would cover the difference in interest charged and bank solvency.
- B) Answer to revenue sharing - takes the politics out of reclamation of our environment - capitol school construction - highways - etc. and also as a priority guide.
- C) High interest rates which states and municipalities must pay--which in turn depletes expense budget and would facilitate long term planning.
- D) All municipalities are eligible to make loan applications regardless of whether or not they had representation on the executive board.
- E) Interest rates to be determined by Secretary of Treasury with concurrence of 2/3 majority of voting directors.

19
51
EXECUTIVE
ME 3/17
FED
FG 11-4
CO 1-9
CO 119
January 3, 1972

X
The incentive which Inter-American Savings and Loan Conferences have given toward the creation of viable thrift and home ownership institutions throughout Latin America is highly to be commended. This tenth meeting, held at the birthplace in Lima of this very significant movement, is an important milestone in the already considerable accomplishments it has realized.

The United States looks forward to being your host for next year's Conference, and on behalf of all my fellow citizens, I wish you Godspeed in these deliberations and good luck in the months ahead.

X
Sent to: Honorable John A. Hannah
Administrator
Agency for International Development
Department of State

6-11-72
RN:Hasek:lrc
cc: Rose Mary Woods/J. Warren/M. White/E. Hasek/CF
DUE: ASAP
EVENT: JANUARY 22, 1972
Approved by Ray Price
Requested by Mr. Hannah
9
70

Pw
EXECUTIVE

FIR

LG/ATLANTA

January 3, 1972

Dear Senator Talmadge:

This will acknowledge and thank you for your December 30 letter to the President indicating your support of the proposed move of the Fourth District Bank to Atlanta, Georgia. You may be assured your position will be brought to the President's early attention.

With cordial regards,

Sincerely,

Bill

William E. Timmons
Assistant to the President

✓
Honorable Herman E. Talmadge
United States Senate
Washington, D.C. 20510

Paul
bcc: w/incoming to Peter Flanigan - FYI
bcc: Tom Korologos - FYI

WET:VO:vo
5

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JAN 5 1972
CENTRAL FILES

17
RUSSELL B. LONG, LA., CHAIRMAN

CLINTON P. ANDERSON, N. MEX. WALLACE F. BENNETT, UTAH
HERMAN E. TALMADGE, GA. CARL T. CURTIS, NEBR.
VANCE HARTKE, IND. JACK MILLER, IOWA
J. W. FULBRIGHT, ARK. LEN B. JORDAN, IDAHO
ABRAHAM RIBICOFF, CONN. PAUL J. FANNIN, ARIZ.
FRED R. HARRIS, OKLA. CLIFFORD P. HANSEN, WYO.
HARRY F. BYRD, JR., VA. ROBERT P. GRIFFIN, MICH.
GAYLORD NELSON, WIS.

TOM VAIL, CHIEF COUNSEL

113
United States Senate

COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510

December 30, 1971

BT

The President
The White House
Washington, D. C.

Dear Mr. President:

I want to commend the decision of the Federal Home Loan Bank Board to move the Fourth District Bank to Atlanta, Georgia.

As you know, Atlanta is the hub of the growing Southeast with excellent communication and transportation facilities with the region it serves. In addition, it will be in close proximity to other regional offices of the Federal Government and is consistent with your directive to decentralize government offices to selected regional cities.

If there is anything I can do to expedite the transition, I stand ready to do anything that is requested of me.

With every good wish, I am

Sincerely,

Herman E. Talmadge

RDC
BB

C.F.
F12

January 5, 1972

PERSONAL AND CONFIDENTIAL

MEMORANDUM FOR

Mrs. Lois Hobson
Africa Bureau
Agency for International
Development
Department of State

FROM: Bob Brown

I have enclosed a confidential copy of a response I just received from the Federal Home Loan Bank Board which you can pass on to W. B. Muse of the Imperial Savings and Loan Association, Martinsville, Virginia.

Thank you.

PERSONAL AND CONFIDENTIAL

RJB:PL:rm

January 5, 1972

MEMORANDUM FOR

Honorable Preston Martin
Chairman
Federal Home Loan Bank Board

FROM: Robert J. Brown

This is just a note to say thank you for your prompt and complete reply on the matter of the Imperial Savings and Loan Association.

Your consideration is appreciated.

RJB:PL:rm



PRESTON MARTIN
CHAIRMAN

FEDERAL HOME LOAN BANK BOARD

WASHINGTON, D. C. 20552

101 INDIANA AVENUE, N. W.

FEDERAL HOME LOAN BANK
SYSTEM

FEDERAL HOME LOAN
MORTGAGE CORPORATION

FEDERAL SAVINGS & LOAN
INSURANCE CORPORATION

January 3, 1972

The Honorable Robert J. Brown
Special Assistant to the President
The White House
Washington, D. C. 20500

Bob:
Dear Mr. Brown:

In response to your inquiry of December 22, 1971, I am pleased to supply you with the following information on the application of Imperial Savings and Loan Association of Martinsville, Virginia.

The Federal Home Loan Bank Board is the agency empowered to grant insurance of accounts for savings and loans. In this regard, the Board considered the application for insurance by Imperial Savings and Loan in November of 1971.

The Board denied the application for several reasons. Since its inception in 1929, the applicant has attracted less than \$600,000 in savings. This is a very small amount of savings growth. Imperial has been marginally profitable in recent years only because the managing officer works part-time at a reduced salary. For a number of years the applicant was losing money. As of today, it is questionable if Imperial is profitable.

An important criteria for judging the operating record of a savings and loan is by checking the ratio of operating expenses to gross operating income. Imperial, with only part-time management, had operating expenses for 1970 of over 32 percent. This is an extremely high figure. It is estimated that the ratio would increase to 39 percent if a full-time management was hired.

The thorough investigation of Imperial Savings which was conducted by the Board's Supervisory Agent and Office of Housing and Urban Affairs, revealed that the applicant has a high percentage of scheduled items, a very poor location, and possible conflicts of interest in terms of business dealings that certain directors have with their outside businesses.

The Honorable Robert J. Brown
January 3, 1971
Page Two

Staff members from the Federal Home Loan Bank Board met with the Board of Directors of Imperial Savings and made suggestions such as moving the office to a more suitable location and actively soliciting more savings accounts. To date, the office has not been moved and savings subscriptions attracted only a little over \$50,000.

When all these facts were taken into consideration by the Bank Board it was determined that the lack of management policies and standards of operation were not consistent with eligibility standards.

I hope this has been of assistance and if I can be of some further help, please let me know.

Sincerely,



Preston Martin

*forward a copy of
for you info
copying sent to bank on 12/1/71
cc for H. Brown 2/2/71*

cc for Hobson state

Confid copy to pass on to Mr. Muse
for his info

Plum & Confid

BRASSON MATLIN

(507)
Sincerely,

Thank you very much for the information.

I hope this has been of assistance and if I can be of some

assistance.

and assistance of operation were not consistent with the principle
bank board it was determined that the lack of management policies
when all these facts were taken into consideration by the

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such as moving the office to a more suitable location and
the board of directors of Federal Savings and Loan Associations
staff members from the Federal Home Loan Bank Board met with

Page Two

January 3, 1951

The Honorable Robert L. Brown

BB
MEMORANDUM OF INFORMATION FOR THE FILE

DATE 1/5/72

6
EXECUTIVE

FID

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FG124

FG11-4

LETTER, MEMO, ETC.

TO:

Lairi Hobson, AID

FROM:

Bob Brown

Murphy, M. B.

SUBJECT:

**Imperial Savings and Loan Assoc.*

Memo to: Preston Martin, FHLBB

CORRESPONDENCE FILED CENTRAL FILES - CONFIDENTIAL FILE

January 10, 1972

EXECUTIVE

FA
AD

AGL

FTS

FG 6-15

FG 2-4

FOR JOHN WHITAKER

Conte. on National Growth Policy

TOTAL AMERICAN Community Living

Attached is a letter which Secretary Romney has forwarded to the President regarding TACLE and the National Community Development Bank. ENVIRONMENT

The National Community Development Bank

Regarding the Bank, John would appreciate it if you would solicit the views of Arthur Burns, George Shultz and the Council of Economic Advisers.

TACLE

Per your conversation with Ken Cole this morning, John would like you to brief the Vice President and let us know what his views are concerning this proposal.

There is a schedule proposal requesting time for a meeting between the President and Secretary Romney on Thursday. Ehrlichman feels that it is essential that we know the positions of the above-mentioned people prior to Romney's meeting with the President.

John, I know the fuse is short, but I would appreciate your help.

Tod R. Hullin

Attachment

Orig. material from Romney to the President
January 4, 1972

RECEIVED
JAN 11 1972
CENTRAL FILES



THE POSTMASTER GENERAL
Washington, DC 20260

January 11, 1972

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JAN 12 11 41 AM '72

EXECUTIVE

FI2

FC 295

FC 6-11-1/Flanigan,
Peter

Dear Peter:

I would like you to join me for lunch in my office next week. I have a previous appointment on Monday, but any other day next week at noon would be suitable.

This will allow us an opportunity to discuss the letter I received earlier today from you, plus several other matters.

I hope your schedule will make it possible for you to join me.

Sincerely,

Ted

E. T. Klassen

Honorable Peter M. Flanigan
Assistant to the President
The White House
Washington, D. C. 20500

RECEIVED
JAN 26 1972
CENTRAL FILES

cc/

January 10, 1972

Dear *Lid*:

I thought you might be interested in the attached article on the ^xFederal Financing Bank. It was published in the January 3 "Weekly Bond Buyer," a major financial industry paper. On the whole, it presents a very favorable view of the Bank.

I was unhappy however to note Mr. ^xFalvey's comments. We went a long way to meet the requests of the Postal Service, and cured the specific objections raised by Jim Hargrove. As a result, I thought I had an understanding with Merrill Hayden that the Service would not oppose the legislation which we feel is essential. If there still are problems here, I would like to discuss them with you as soon as possible.

I hope the New Year is treating you well.

Sincerely,

Peter M. Flanigan
Assistant to the
President

Honorable E. T. ^xKlassen
The Postmaster General
Washington, D. C. 20260

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MAY 3 1972
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EXECUTIVE

FGIR

FIR

January 11, 1972

Dear Henry:

Thanks for your note of January 6. All of us here are greatly relieved that my understanding as to the position that you and your colleagues will take is also your understanding.

Regarding my statement concerning the modifications which we made in the Bill, that was not meant to suggest that all your recommendations were accepted. One would hardly expect that the analysis of a modified bill which you sent to me would address itself to changes that had already been made.

Looking back over the past three years, I am sure you would agree there has been a considerable degree of cooperation between the Ex-Im Bank and the White House. That every request of the Ex-Im has not been met is certainly true. Apparently your definition of cooperation is 100% agreement with your every wish, and anything else is categorized as a "one way street". Needless to say, I find that a disappointment.

Sincerely yours,

Peter M. Flanigan
Assistant to the
President

Honorable Henry Kearns
President of the Export-Import
Bank of the United States
Washington, D. C. 20571

cc: Jim Loken
Dick Erb

PMF:hc

EF

4

MEMORANDUM OF INFORMATION FOR THE FILE

DATE 1-14-72

EXECUTIVE

FA
H12
FG12
F12

LETTER, MEMO, ETC.

TO: Charles E. Walker

FROM: George Crawford

SUBJECT: Assistance to Spanish-speaking Americans

CORRESPONDENCE FILED CENTRAL FILES - CONFIDENTIAL FILE

galt
RDC

Jones
C. F.

FI 2

4
January 17, 1972

CONFIDENTIAL

MEMORANDUM FOR:

GEORGE P. SHULTZ
HERBERT STEIN

FROM:

PETER M. FLANIGAN

Attached is a memorandum from Frank Wille regarding the Bank of the Commonwealth. You will note that the proposed re-capitalization will be announced on Tuesday, January 18. While this requires a 2/3 vote of both preferred and common shareholders, there is every expectation that this will be received.

There is a danger between the announcement date and the vote of the stockholders on February 28 of massive withdrawals by depositors because of a belief that shareholders will not approve. However, I believe the actions taken by the FDIC and the Fed to assure this plan's success and to provide a contingency plan, are appropriate to the situation and have so informed Wille.

Attachment

JAN 23 1972

gah / (5)
MEMORANDUM OF INFORMATION FOR THE FILE

DATE

1/17/72

EXECUTIVE

FI 2

FG 6-16

FG 6-3

FG 120

FG 131

~~LETTER~~, MEMO, ETC.

TO: Geo. Shultz & Kurt Stein

FROM: Mr Flanigan

SUBJECT: ^xBank of the Commonwealth

CORRESPONDENCE FILED CENTRAL FILES - CONFIDENTIAL FILE

8

EXECUTIVE

FG12-7
FG12-10

January 18, 1972

BROOKS, MARY
FI2

McLEAN, GORDON A.
AMERICAN BANKERS ASSOCIATION
X
ROMONA BANUELLOS
SP7

MEMORANDUM FOR:

FROM:

PATRICK E. O'DONNELL

The 53rd^x Midwinter Trust Conference in New York this year will include a women's breakfast in the Empire Room of the Waldorf-Astoria at 9:00 a.m. on Tuesday, February 8. The audience is expected to consist of 500 or more ladies from all parts of the country. The Conference attendees will represent banks with trust departments which administer assets in excess of \$300 billion. In addition, the Conference attracts to New York representatives of the legal profession, insurance industry, stock brokers and investment bankers as well as financial officers of corporations.

We would appreciate your considering the possibility of addressing this group of wives on the morning of the 8th. They are looking forward to hearing from a well-known Administration woman and this is certainly a unique opportunity to touch base with an impressive meeting of the financial minds in the country.

Many thanks.

EXECUTIVE

FI 2

FG 6-11-1/ErB, Richard

FG 24

(3)

THE WHITE HOUSE

WASHINGTON

January 24, 1972

MEMORANDUM TO: PETER M. FLANIGAN

FROM: RICHARD D. ERB RDE

I attended the ^xNew Community Development Bank meeting at which businessmen from the financial community were invited to give their reactions to the Bank idea. The response was mainly one of "it's a good idea" (no one knocks social objectives these days) but there was a good deal of scepticism. Romney initially put a great deal of emphasis on the point that the Bank would invest only in projects that met normal business risk-return criteria and that its equity and debt would not be subsidized by the government. The business people said that's what they do already and why do they need a federally chartered bank to do what they already do. Then Rockefeller modified Romney's position somewhat by saying that anyone providing equity or debt capital would be doing so to satisfy their social investment obligations. The question remained: How much more risk would the bank take in order to achieve social objectives and would financial institutions be willing to accept that extra risk for social reasons?

Basically, Rockefeller is looking for a safe vehicle for financial institutions to invest in in order to satisfy their "social investment" criteria -- criteria which they are under pressure from the outside to meet. Romney leaves himself open to the criticism that it's all a sham if he puts as much emphasis as he does on the fact that the bank will take normal business risks to get normal business return.

THIS IS A COPY
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RECEIVED
FEB 8 1972
CENTRAL FILES

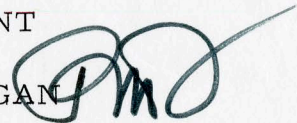
THE WHITE HOUSE

WASHINGTON

January 26, 1972

THE PRESIDENT HAS SEEN...
✓

MEMORANDUM FOR THE PRESIDENT

FROM: PETER M. FLANIGAN 

SUBJECT: Savings and Loan Deposit Rates

According to Chairman Preston Martin, deposits at savings and loan associations continued to grow at a rapid pace this month. In addition, the S&Ls are making a large volume of commitments to provide future mortgages at a rate of interest between 7 and 7-1/4%. These rates are considerably below the 7-3/4 rate which was common only a few months ago.

Martin is hoping that S&Ls will lower their savings deposit rates so that they can continue to lower mortgage rates. There is however a reluctance among the associations to be first to lower the savings rate for fear of losing depositors. Martin will be making an effort during the next few weeks to publically encourage S&Ls to lower both mortgage and deposit rates.

mb
EXECUTIVE

FI 2

HV 2

JANUARY 26, 1972

PR 16-2

FOR BOB BROWN

John read the attached with great interest and thought it had some merit. He would appreciate your handling it.

Many thanks.

Tod R. Hullin

P.S. Could you let us know what your plans are for this project?

Attachment:

January 17 letter to E from
Ann Wooster^x Bedell, President

^xPriorities Research, Inc.

333 East 69th St.,

NYC 10021

re Minority Bank Deposit Program

^x

RECEIVED
JAN 27 1972
CENTRAL FILES

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

January 21, 1972

MEMORANDUM FOR JOHN EHRLICHMAN

FROM: LEN GARMENT

SUBJECT: Suggestion from Ann Wooster Bedell, Priorities
Research, Inc.

I think Ann Bedell's idea is an excellent one and should be proposed
to the President.

*Brown to
move in
on it + in
Brown on 8*

THE WHITE HOUSE

WASHINGTON

January 19, 1972

MEMORANDUM FOR TOD HULLIN

FROM: ROBERT J. BROWN

RJB

SUBJECT: Letter from Ann W. Bedell to John Ehrlichman

The idea expressed in Ann Bedell's letter of holding a press conference to highlight the Administration's program to place deposits in minority owned banks is most excellent. This program, which includes very considerable private sector support, is one we should be proud of and advertise widely. We should decide who is going to stage manage this affair and get it promptly underway.

Mr. John D. Ehrlichman
Page 2
January 17, 1972

Enterprise; the Executive Director of the National Bankers Association and the Chairman of Capital Formation, who ran the Program.

Corporate response to the President and his Program has been fantastic. The White House sent letters to the chief executives of 300 major corporations and letters in the name of the President went to the chief executives of 1,500 corporations. The chief executives responded because the President supported the Program and the public statement should be developed to reaffirm and to thank them. The effect and symbol of the transfer of this money into the banks in the minority community is clear.

If there is any way in which we can help put this together, I can be reached at our firm's office in New York, 333 East 69th Street, (212) 249-5919 or (212) 757-7070. This same information and suggestion has been delivered to Herb Klein.

I look forward very much to seeing you and Jean in Washington very soon.

Sincerely,


Ann Wooster Bedell

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

January 27, 1972

TO: PETER FLANIGAN

FROM: RICHARD ERB *REB*

I called Frank Wille and he indicated that on January 25 there was a slight run-off in deposits, occurring mostly in the suburban branches. It is too early to know whether this was a one-day aberration. At the end of this week he will prepare another report on the situation and send it to us. When that report arrives, I will send it FYI to Herb Stein and George Shultz.

EXECUTIVE
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FG/20

File 293f 0

JAN 30 11 35 AM '72
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FEB 8 1972
CENTRAL FILES

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JANUARY 27, 1972

Office of Leonard Garment

EXECUTIVE

FILES TO CENTRAL FILES

1 Full Box

Black Banks

x Listenings

2 Files

FGG-11-1/GARMENT, LEONARD

F12

RED TAPE

Appendix

Volume A

Appendix A -1

Appendix A-B-C

Enclosures filed in
Oversize Attachments # 7662

EF
EXECUTIVE

FI2

FG131

FG120

BE2-2

February 3, 1972

TO: PETER FLANIGAN

FROM: RICHARD ERB

The Fed is currently tracking down the BOC preferred ownership position of the Union Commerce Bank in Cleveland. It may be that the Cleveland Bank sold 90% of its participation to the Union Bank in L.A. Wille will let me know tomorrow what the ownership situation is.

J.L.
Ely Broad is looking for a better deal, but is not sure of his position. Broad visited Governor Robertson today and Robertson took a hard-nosed attitude and said that if the vote was favorable, the Fed and FDIC would step in the next day. Apparently this shook Broad (knowing Robertson I'm sure it did). Too much direct White House interest might persuade Broad that since this is an election year, he can strike a better deal. However, if we can convey indirectly that under no circumstance would a compromise be allowed, Broad's resolve might be further weakened.

FDIC is working on a contingency plan which would provide for a take-over or merger should an affirmative vote not be obtained. This could occur over a weekend without interrupting the business of the bank of the depositors.

RECEIVED

MAR 9 1972

CENTRAL FILES

FG6-11-1/ERB, RICHARD

FG131

FI9

FI2

February 4, 1972

Dear Bob:

I enjoyed talking to you Friday and look forward to seeing you again. The primary reason for wanting to visit the New York Fed is to learn more about the institutional and operational aspects of the exchange markets, with particular reference to the role of the Central Banks. In addition, I would hope to be able to talk about the general monetary issues, but that is of a secondary importance. When I go to New York, I will probably also try to arrange to visit the foreign exchange operations of one or two commercial banks.

I appreciate your help on this request, but if it creates any problems I would rather not pursue it. Having been at the Fed, I recognize the sensitive aspects of the New York operations.

Sincerely,

Richard D. Erb
Staff Assistant
to the President

Mr. Robert Solomon^x
Advisor to the Board
Federal Reserve Board
Washington, D.C.

February 14, 1972

MEMORANDUM TO: PETER FLANIGAN
FROM: RICHARD ERB
SUBJECT: Bank of Commonwealth

According to Wille's letter of February 7, the deposit situation at the bank remains very much under control.

Wille indicated that it might be possible to buy out the 42% held by Broad, Kaufman, and the Union Bank of L. A. Chase might also be persuaded to sell some of their holdings of preferred stock, giving a perspective purchaser control of a billion dollar bank for a relatively small amount of money -- less than \$8 million, according to Wille's estimate. Do you know anybody who wants to buy a bank?

EXECUTIVE 15

TA

F8999

FG6-16

FI 2

FG12

February 28, 1972

MEMORANDUM FOR:

PETER M. FLANIGAN

FG6-20

FROM:

GEORGE CRAWFORD

FG21

Domestic International Sales Corp

Attached is a request from George Shultz for guidance in the handling of a DISC problem. OMB staff has suggested to Ken Dunn, who passed it on to Shultz, that commercial banks were not expected to set up DISCs, and that Treasury is considering allowing banks to do so. The OMB staff man suggests that OMB should coordinate development of a position on this matter, which Treasury seems to regard as entirely within its own province.

It seems to me that the DISC is the Administration's chief new export expansion device, apart from currency realignment, and it should be coordinated by CIEP. As a tax matter, it is primarily a Treasury program, although the Commerce Department is heavily involved in publicizing it. If we want a different perspective, so that we can be more useful in the middle, I suggest we could include the State Department and set up an ad hoc group for the coordination of DISC policy. This would provide a handle and a lead for CIEP, which could use OMB assistance. I would suggest sending the attached memorandum to George Shultz.

G. Crawford; lm; 2-25-72

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MAR 1 1972
CENTRAL FILES

EXECUTIVE

FI 2

FG 120

FG 12

FG 6-16

FG 6-3

Log # 50084

WHC (5)

MEMORANDUM TO:

SECRETARY CONNALLY
DIRECTOR SHULTZ
CHAIRMAN STEIN

FEB 29 1972

FROM:

PETER M. FLANIGAN

SUBJECT:

Status Report on Bank of Commonwealth

On February 28, 1972, the required number of shareholders approved a plan for the adjustment of the bank's capital structure necessary to meet bank regulatory requirements. Very briefly, the plan involved:

- 1) A substantial reduction in the par value of both the bank's preferred and common stock in order to create capital surplus against which future potential write-offs will be made.
- 2) The issue and sale of capital notes of up to \$60 million to the FDIC in order to restore capital funds of the bank against which charges are to be made in the case of potential losses.

The FDIC now estimates that at the maximum it will need to buy notes of up to only \$45 million and not the original \$60 million. In addition, the amount most likely to be bought will be substantially less than the \$45 million.

Since the announcement on January 19, the changes in deposits appear to be seasonally normal. Total deposits are only slightly below the level of \$1 billion as of December 31, 1971.

P Flanigan: RERb: ljs

2nd rewrite -- 2/29/72 x ccs: Connally Shultz,
Stein, E/S

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MAR 2 1972
CENTRAL FILES

500824

*New memo
being sent
2/25/72*

MEMORANDUM TO:

SECRETARY CONNALLY
DIRECTOR SHULTZ
CHAIRMAN STEIN

FROM:

PETER M. FLANIGAN

SUBJECT:

Status Report on Bank of Commonwealth

On February 28, 1972, a shareholder meeting will be held for the purpose of voting on a plan for the adjustment of the bank's capital structure necessary to meet bank regulatory requirements. On January 19, 1972, a proxy statement was sent to shareholders outlining this plan. Very briefly, the plan involves:

- 1) A substantial reduction in the par value of both the bank's preferred and common stock in order to create capital surplus against which future potential write-offs will be made.
- 2) The issue and sale of capital notes of up to \$60 million to the FDIC in order to restore capital funds of the bank against which charges are to be made in the case of potential losses.

The adoption of the plan requires approval of two-thirds of the outstanding common stock and two-thirds of the outstanding preferred stock and two-thirds of the current noteholders.

BOC now has in hand proxies to vote approximately 41% of the total outstanding preferred stock. Three major investors from Los Angeles, controlling approximately 42% of the preferred shares, attempted to negotiate a better deal with the FDIC and the Fed but were not successful. The L.A. group is currently exploring with the BOC management alternative plan modifications which would probably be accepted by the regulatory agencies. It would appear that the L.A. group intends to maintain and exercise their position of control over the bank's affairs and this implies a vote of 'yes' on February 28.

The bank already has the two-thirds affirmative vote required of common shareholders and the bank is confident that it will obtain the approval of the current noteholders.

While the FDIC expects the final outcome of the reorganization plan to be affirmative, they cannot be assured of this and are thus continuing their contingency planning. One plan would provide for a take over of merger should an affirmative vote not be obtained. This could occur over a week-end without interrupting the business of the bank or the depositors.

Since the announcement on January 18, the changes in deposits appear to be seasonally normal. Total deposits are only slightly below their level of \$1 billion as of December 31, 1971.

cc: Connally, Shultz, Stein

PMFlanigan:RErb:lj 2/24/72

5-0084

THE WHITE HOUSE

WASHINGTON

MEMORANDUM TO: SECRETARY CONNALLY
DIRECTOR SHULTZ
CHAIRMAN STEIN

FROM: PETER M. FLANIGAN

SUBJECT: Status Report on Bank of Commonwealth

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MEMORANDUM TO:

SECRETARY CONNALLY
DIRECTOR SHULTZ
CHAIRMAN STEIN

FROM:

PETER M. FLANIGAN

SUBJECT:

Status Report on Bank of Commonwealth

On February 28, 1972, a shareholder meeting will be held for the purpose of voting on a plan for the adjustment of the bank's capital structure necessary to meet bank regulatory requirements. On January 19, 1972, a proxy statement was sent to shareholders outlining this plan. Very briefly, the plan involves:

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The adoption of the plan requires approval of two-thirds of the outstanding common stock and two-thirds of the outstanding preferred stock and two-thirds of the current noteholders. As of February 25, it appears that the bank management possesses the necessary votes in all categories.

The FDIC now estimates that at the maximum it will need to buy votes of up to only \$45 million and not the original \$60 million. In addition, the amount most likely to be bought will be substantially less than the \$45 million.

Since the announcement on January 19, the changes in deposits appear to be seasonally normal. Total deposits are only slightly below their level of \$1 billion as of December 31, 1971.

PFlanigan:RErb:ljs

rewrite/2/25/72

ccs: Connally, Shultz, Stein
Exec Sec. 2 ccsRECEIVED
MAR 8 1972
CENTRAL FILES

COUNCIL ON INTERNATIONAL ECONOMIC POLICY

NAC,

Attached are

1st drafts of this memo -
the final version of
which was sent 7/29
& which you already
have cpy. Pls. att.
these to the mailed
cpy. Thanks.

CIEP CORRESPONDENCE PROFILE

DOC		RECD		LOG NBR		INITIAL ACTION OFF	
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TO: PRES _____ FROM: _____

Flanigan _____ Flanigan

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Other Connally, Schultz, SteinAction Required ☒SUBJECT: Status Report on Bank of Commonwealth
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Executive Secretary

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Bill Mazzocco

Jim Loken

Jon Rose

Gus Weiss

Larry Brady

George Crawford

PMF

ACTION

INFO

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FOR

ACTION REQUIRED

MEMO FOR PMF..... ()

MEMO FOR PRES..... ()

REPLY FOR _____ SIGNATURE..... ()

Review And Sign () ☒

MEMO _____ TO _____ ()

RECOMMENDATIONS..... ()

Refer to _____ ()

ANY ACTION NECESSARY..... ()

CONCURRENCE..... ()

DUE DATE: 2/28/72

COMMENTS: (Including Special Instructions)

em

DATE	FROM	TO	ACTION REQUIRED	Init
2/24	Exec Sec	PMF	Review And Sign	
	PMF	Exec Sec	OBE - new memo being sent out	
2/29/72	ES	E/S	retyped memo	
3/1/72	ES	PMF	Review And Sign	
3/1/72	PMF	ES	Filing	

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Subj. File _____

Case File _____

Other _____

May 6, 1972

MEMORANDUM FOR

JOHN EVANS

Page 18 of the May 4 News Summary carries an item with regard to the first entirely Black-operated bank in the Wall Street area which will open in the next few months. Would you look into this please to determine whether or not we should be involved in the opening. My thoughts are that it might be something that the President would be interested in doing, or perhaps Secretary Peterson.

Please advise.

KEN COLE

CC: John Campbell
Dave Parker

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

May 10, 1972

GENERAL

ME 7

FLR

(5)

MEMORANDUM FOR: ELISKA HASEK
FROM: PAT VERDISCO
SUBJECT: Congratulatory Telegram

Mr. John Grant, a D.C. attorney phoned me to request that a telegram of congratulations be sent to the Vanguard National Bank 49 North Franklin Street, Hempstead, New York upon the opening of their bank in New York. Vanguard is the first minority bank to open on Long Island and the second in the State of New York.

The bank is inter-racial with a majority of black directors. Vanguard was recently granted its charter and will open officially May 12, 1972.

There is a VIP reception being held tomorrow night and it is expected that Jack Weidler, the Congressman for that district will be in attendance.

As far as Mr. Grant knows, Sen. Buckley and Sen. Javitts will be sending telegrams of congratulations.

If a telegram is sent through the Secy. of the Treasury it should be addressed to Mr. Herald Trent, Chairman of the Board, Vanguard National Bank etc. (see above address). I would imagine it should be sent tomorrow afternoon. If there are any other questions, you might want to contact John Grant. His telephone number is 333-2700. He has given me suggested remarks which I will attach. Thanks.

EXECUTIVE

FI2

Tower, John

50679

(2)

JOHN SPARKMAN, ALA., CHAIRMAN
WILLIAM PROXMIRE, WIS.
HARRISON A. WILLIAMS, JR., N.J.
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BILL BROCK, TENN.
ROBERT TAFT, JR., OHIO

DUDLEY L. O'NEAL, JR.
STAFF DIRECTOR AND GENERAL COUNSEL

United States Senate
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

May 24, 1972 PM 5 56

EXECUTIVE SECRETARIAT
CIEP

Honorable Harrison A. Williams, Jr.
Chairman, Securities Subcommittee
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D. C.

Dear Mr. Chairman:

As you are aware, the Securities Subcommittee has completed hearings in recent months on three areas of great importance for the future soundness and fairness of the securities markets--namely, negotiated commission rates, institutional membership on securities exchanges, and operational problems of the securities industry. A number of bills in these areas are pending in the Subcommittee, and I think that it would be appropriate for the Subcommittee to take the bills up in an executive session in the very near future, in view of the urgency of the policy questions involved.

It appears that the Subcommittee could probably agree without much problem on legislation in the operations area. There appears to be some difference of opinion as to proposals in the areas of negotiated rates and institutional membership. From the positions established by Committee members to this time, it appears that the issues reduce to two fundamental questions: first, should there be a statutory requirement that the level for negotiated commission rates be lowered to \$100,000 by a certain date; and, second, should Congress impose a public business requirement on the exchange membership privilege, and, if so, should the effective date for such a requirement be tied to the attainment of a \$100,000 negotiated commission rate level?

Regarding the question of negotiated commission rates, Chairman Casey has affirmed to the Committee, as you know, that the Commission expects to continue to move toward the \$100,000 level as a goal. As long as the process of gradually lowering the level does not run into serious problems and the market itself does not lose substantial volume in the meantime, the \$100,000 figure may well be reached within about two years, not very much more time than the December 31, 1973 date that you have specified in your bill, S. 3169,--even in the absence of a statute to that effect. The objection that the SEC has, and that I have, to statutorily limiting the SEC's discretion in deciding the

extent of and timing of further reductions in the negotiated rate level is that the attainment of that figure will be compatible with the maintenance of a sound market system and the public interest therein only to the extent that seriously adverse developments do not occur as the SEC tests out the various negotiated rate levels. Further action in this field should be left to the judgment of this regulatory agency, under a general charge from Congress to move to the \$100,000 level as expeditiously as it appears feasible so to do, with due regard for the need to maintain public confidence in the securities markets and to avoid a repetition of the 1970 crisis.

The second question that needs to be resolved by the Subcommittee is that of determining whether and when to impose a public business requirement on the exchange membership privilege. Senators Sparkman and Bennett have introduced a bill, S. 1164, which would impose such a requirement upon enactment, although appropriate transitional provisions are contemplated. You have previously expressed opposition to the imposition of any such requirement on the exchange membership privilege by either the SEC or Congress, without a provision tying such a requirement to the attainment of a \$100,000 level for negotiated commission rates. For my part, I do not believe that the vital decision as to whether the fundamental purpose of the exchanges should be to serve the public investor or to serve the interests of their own membership should be dependent in any degree upon the timing of the eventual move to a \$100,000 level of negotiated rates. The decision on the extent and timing of this downward movement in the negotiated rate level is essentially an independent economic one, depending upon the ability of the securities industry to adjust to and survive under the substantially reduced revenue situation they face in the process--this adjustment being necessary not for the sake of existing exchange members as individuals but for their aggregate importance to the soundness of the securities markets and therefore for the economy and the American public. But the decision regarding institutional membership is not dependent on such an economic development; it is the decision that Congress must make regarding whether the exchanges are to exist to serve the public or to act as private clubs for institutions to utilize to gain investment advantages over non-institutional investors and non-members. No one blames the institutions for attempting to maximize their trading advantages and minimize their costs, within the bounds of the present law, and, in fact it may actually be their fiduciary duty presently to seek exchange membership; however, this merely serves to point up the fact that Congress must act affirmatively in this area if the presently unclear public policy regarding exchange membership is to be resolved.

As you know, the SEC is planning to institute the appropriate legal action to affirm judicially their belief that the Commission has statutory authority to impose a public business requirement on exchange membership, but this process will take at least two years. In the meantime, the situation is so uncertain for all parties concerned that no securities firms or institutions can plan in a reasonably secure manner for the future. This lack of certainty about the future nature of exchange membership requirements is debilitating to the businesses involved on either side of the question of membership, and delay in resolving this question can only serve to destabilize investor confidence in the market and impair the capital allocation mechanics of our economy.

The argument has been made that the tying of a public business requirement for institutional membership with the attainment of a \$100,000 negotiated rate level is necessary in order to treat institutional investors equitably with the traditional exchange brokers. This argument really assumes that there is no economic justification for a transitional period of fixed rates on the \$100,000-to-\$300,000 transaction range. But the economic need for such a transition has been outlined by the SEC to the Committee; the essential fact is that the loss of the large amounts of revenue involved necessitates a transitional period for a substantial adjustment of costs to suit reduced revenue conditions. Without such a period, the prospect of widescale brokerage house failure again looms large before us, with all the attendant consequences for the investing public and the economy as a whole.

What we are dealing with here is a change in legislative-regulatory policy regarding the nature of competition in the securities industry. Formerly, it was thought by Congress and the SEC that sales-force and service competition under a fixed-rate commission structure was the competitive structure needed for a sound securities market system. Now, the SEC and most members of Congress believe that price competition in commission rates is essential to a properly functioning securities market. This change of policy is being accomplished through a gradual reduction in the level of negotiated commission rates. As long as the SEC and Congress feel that gradualism is required here in the public interest, we cannot also say that the charges associated with fixed-rates on the \$100,000-to-\$300,000 transaction range are unjustified, or in some sense unfair to institutional investors. By the very fact that we recognize an economic need for gradualism in this process, we are attesting to the fact that the fixed charges

May 24, 1972

associated with it are justified for the good of the securities markets as a whole and ultimately for the good of every investor, until the securities industry has sufficiently adapted to the changing revenue conditions to make negotiated rates at the \$100,000 level feasible.

Consequently, there is no reason to tie any other critical policy determinations that we must make with regard to the nature of the securities markets to the timing of further reductions in the negotiated rate level. It seems to me that support in Congress has been developing rapidly for the SEC's basic determination that exchange membership should carry with it the obligation to do a public business. This basic, structural policy decision is fully capable of being implemented at the present time, without reference to developments in the level of negotiated rates. The related bills also pending before the Committee, dealing with trading restrictions and increased powers for the SEC over industry activities, should be taken up and considered at the same time we consider these other key issues, for they can also be considered apart from the timing of the negotiated rate decisions.

I understand that Congressman Moss, Chairman of the House Subcommittee on Commerce and Finance, has expressed his view that he would prefer to deal only with the operations area this year. Clearly this is a priority area that deserves the earliest possible action by Congress, and I think that we should definitely send the House an operations bill this year. However, as I have outlined above, I cannot agree with the premise that timely resolution of the membership question is not also a high-priority matter that should be accomplished in the present session of Congress. In order for the House to have adequate time in which to consider these matters, I think that the Senate must act on these bills before the recess for the Democratic Convention at the end of June.

Therefore, I would like to request that a Subcommittee Executive Session be called on these issues and the relevant bills now pending, during the open week of June 19-23, so that if the Subcommittee and Committee decide to report legislation in these areas, the Senate will have time to act on it before the recess. That would then leave the House Subcommittee time between the two conventions to consider the measures which the Senate might pass, and if it and its parent Committee saw fit to act favorably on such measures, they could still have time to bring them to the House floor after the Republican Convention in August and before adjournment. I cannot presume, of course,

May 24, 1972

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Honorable Harrison A. Williams, Jr.

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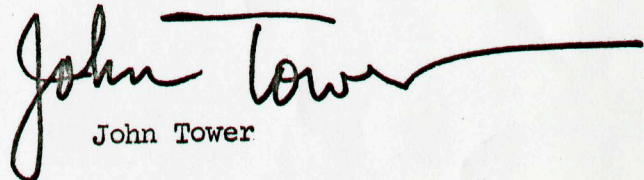
May 24, 1972

to advise the House Subcommittee as to what action it should or should not take in this regard, but I do believe that the Senate should provide a vehicle for consideration of these pressing questions. We should allow sufficient time for the House Subcommittee to move the legislation through to enactment, if the House members should so desire.

Since the full Committee is scheduled to meet on June 1 to discuss various matters pending in the Committee, that would seem to be an appropriate time to discuss the possibility of scheduling a Securities Subcommittee Executive Session in June and to determine the general feelings of Committee members on the urgency and importance of this legislation at that time. If any supplemental hearings are thought to be necessary on any of these issues, there would be adequate time to hold these in the first three or four days of the week of June 19-23, with an Executive Session at the end of the week.

With best regards,

Sincerely yours,



John Tower

JT:mb

CC: Members of the Senate Committee
on Banking, Housing and Urban Affairs

Members of the Subcommittee on Commerce
and Finance of the House Committee on
Interstate and Foreign Commerce

BCC: Peter M. Flanigan, Ass't. to the President

CIEP CORRESPONDENCE PROFILE

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SUBJECT: Senator recommends action on securities markets matters

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Jon Rose			
Gus Weiss			
Larry Brady			
Dave Gunning			
Dick Erb		☒	
John Schaefer			

ACTION REQUIRED

MEMO FOR PMF..... ()
MEMO FOR PRES..... ()
REPLY FOR _____ SIGNATURE..... ()
MEMO _____ TO _____ ()
RECOMMENDATIONS..... ()
Refer to _____ ()
ANY ACTION NECESSARY..... ()
CONCURRENCE..... ()
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COMMENTS: (Including Special Instructions)

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Bill
EXECUTIVE

FG6-11-1 / EHRlichman, JOHN D.

FIR

PRI0

June 7, 1972

MCGREW, Edward N.

Dear Bill:

This is to confirm my conversation with your secretary on June 5 that John Ehrlichman would be able to speak at the July 25 luncheon of the Government Securities and Federal Agencies Committee here in Washington. If you could drop me a note prior to that time with all of the particulars, I'd be most appreciative.

Also, if your offer still stands, I plan to come over with John. While I have a good idea of what he'll say, I'd like to say hello to you again and meet the members of the group.

With all good wishes,

Sincerely,

Kenneth R. Cole, Jr.
Deputy Assistant to the President
for Domestic Affairs

Mr. William Simon
Partner
Solomon Brothers
1 New York Plaza
New York, New York 10004



BANKERS LIFE NEBRASKA

WHITE HOUSE
WASHINGTON

50728

OFFICE OF THE CHAIRMAN
AND CHIEF EXECUTIVE OFFICER

1972 JUN 9 PM 5 28

EXECUTIVE

EXECUTIVE SECRETARIAT
CIEP

FG6-11-1/ FLANIGAN, PETER W.

June 7, 1972

FI 2
IS
PRIO

COOK, GEORGE E

Dear Peter:

You look great on television. I think the President and all of his staff have done a terrific job in both China and Russia. Many people say it is luck but when you're right so many times it proves the fact that our President and the Administration are brilliant.

In line with our conversation, I have been asked if you would be willing to set up a meeting between some of the Administration and the members of the Joint Committee on Economic Policy, which is composed of chief executive officers of member companies of the American Life Convention and the Life Insurance Association of America. The present membership of the Committee is as follows:

J. Henry Smith, Chairman, President, The Equitable Life Assurance Society of the United States, New York, New York

William H. Abell, Chairman of the Board, Commonwealth Life Insurance Company, Louisville, Kentucky

Gerhard D. Bleicken, Chairman of the Board, John Hancock Mutual Life Insurance Company, Boston, Massachusetts

Franklin Brieze, Chairman of the Board, The Minnesota Mutual Life Insurance Company, St. Paul, Minnesota

R. Manning Brown, Jr., Chairman, New York Life Insurance Company, New York, New York

Earl Clark, Chairman of the Board, Occidental Life Insurance Company of California, Los Angeles, California

EXECUTIVE

FI 2

FL 131

50768

JUN 23 1972

Dear Arthur:

Many thanks for your note of June 19 and the document on central banking. The information will be most helpful and I certainly appreciate your sending it along.

With warmest regards,

Sincerely,

PETE

Peter M. Flanigan
Assistant to the President
for International Economic Affairs

Honorable Arthur F. Burns
Chairman of the Board
Federal Reserve System
Washington, D.C. 20551

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CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

June 19, 1972

Dear Peter:

The enclosed document presents information on central banks which, while incomplete and somewhat dated, will probably suffice for your purpose.

Sincerely yours,

A handwritten signature in dark ink, appearing to be "A. F. Burns", written in a cursive style.

Arthur F. Burns

The Honorable Peter Flanigan
The White House
Washington, D. C.

Enclosure

EXECUTIVE SECRETARIAT
CIEP

1972 JUN 20 AM 8 35

THE WHITE HOUSE
WASHINGTON

88th Congress }
1st Session }

JOINT COMMITTEE PRINT

ECONOMIC POLICIES AND PRACTICES

PAPER No. 1

COMPARATIVE FEATURES OF CENTRAL BANKS IN SELECTED FOREIGN COUNTRIES

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



Printed for the use of the Joint Economic Committee

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LETTER OF TRANSMITTAL

OCTOBER 15, 1963.

To Members of the Joint Economic Committee:

Transmitted herewith are materials comparing features of central banks in selected countries of Western Europe, Canada, and Japan. This is one of a series of brief studies being planned as aids to an increased understanding of economic policies and institutions in the various industrial countries. While no precise pattern will be followed in releasing this series, I believe that, by making data on various national policies and practices more readily available, members of the committee, other Members of Congress, and the U.S. reader in general, will be aided in understanding our international economic problems within the framework of the enterprise and free market "rules of the game" as practiced in the leading industrial nations.

The summary outlines and country memorandum have been prepared at the Joint Economic Committee's request by the staff of the Board of Governors of the Federal Reserve System, particularly its Division of International Finance. A somewhat similar compilation was prepared by the Division of International Finance for this committee in connection with our 1958 studies on economic policy in Western Europe. The present compilation adds data on additional countries and brings up to date this earlier material. The cooperation of the Board of Governors and its staff is much appreciated.

Faithfully,

PAUL H. DOUGLAS, *Chairman.*

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COMPARATIVE FEATURES OF SELECTED FOREIGN CENTRAL BANKS

OWNERSHIP

Belgium.....	50 percent Government owned since 1948 (remaining shares freely traded on stock exchange).
Canada.....	100 percent Government owned since 1938.
France.....	100 percent Government owned since 1946.
Germany.....	100 percent Government owned since incorporation in 1957.
Italy.....	Majority of shares is held by savings banks, and remainder by several large commercial banks, insurance companies, and social security institutions.
Japan.....	Since the Bank's establishment in 1882, the Government has always owned at least half of the stock. As of March 1962, ownership was divided as follows: Minister of Finance, 55 percent; financial institutions, 3.9 percent; and others, 41.1 percent.
Netherlands.....	100 percent Government owned since 1948.
Sweden.....	100 percent Government owned since 1668.
Switzerland.....	Joint stock company; 55 percent owned by cantons and cantonal banks, remainder by a large number of private shareholders.
United Kingdom.....	The entire capital stock of the Bank has been held by the Treasury since Mar. 1, 1946.

SELECTION OF GOVERNOR

Belgium.....	Appointed by Crown for 5-year term.
Canada.....	Appointed by Board of Directors, with approval of Government.
France.....	Appointed by Government decree for an indefinite term.
Germany.....	Appointed by the President of the Republic after consultation with the bank's council of directors.
Italy.....	After being approved by the Government (in practice the Ministry of the Treasury), the governor, general manager, and vice manager are appointed by the superior council, which is composed of the governor and the 12 elected directors from the bank's 12 main branches.
Japan.....	The Governor and Vice Governor are appointed by the Cabinet, each for a term of 5 years.
Netherlands.....	Appointed by the Crown for a 7-year term on nomination at a joint meeting of governing board (appointed by Crown) and the Board of Commissaries (appointed by Minister of Finance).
Sweden.....	Elected by the Board of Directors from among its seven members. However, chairman of Board of Directors, rather than Governor, appears to be policy head.
Switzerland.....	A board of 3 directors appointed by the Cabinet on recommendation of Bank Council is responsible authority for operation of Bank.
United Kingdom.....	The Governor and the Deputy Governor are appointed by the Crown upon recommendation of the Prime Minister for 5-year renewable terms.

SELECTION OF BOARD

Belgium -----	Appointed by Minister of Finance based on nomination and selection by Bank's council of regents made up of industrialists, professors, trade unionists, and other nonbankers.
Canada -----	Appointed by Government.
France -----	4 ex officio heads of principal Government financial institutions, 7 appointed by Minister of Finance to represent various economic interests, and 1 representative of the Bank's staff.
Germany -----	Same as governor.
Italy -----	The 12 directors are elected by the stockholders.
Japan -----	Direction of the Bank of Japan is entrusted to 2 executive bodies, the policy board and the board of directors. 4 members of the policy board are appointed by the Cabinet with the consent of both Houses of the Diet; 2 nonvoting members are selected by the Government, 1 from the Ministry of Finance and 1 from the economic planning agency. Members of the board of directors (a minimum of 3, but in practice 7) are appointed by the competent Minister (generally the Minister of Finance) from among persons recommended by the Governor.
Netherlands -----	The Governing Board is appointed by the Crown for a term of 7 years and is responsible for the day-to-day operation of the Bank. The Board of Commissaries supervises the administration of the Bank.
Sweden -----	Board of directors consists of 7 members; chairman is appointed by Cabinet, other 6 directors are chosen by Parliament.
Switzerland -----	A Bank Council of 40 members, 15 elected by stockholders and 25 by the Cabinet, results in considerable governmental influence in decisions and management of Bank.
United Kingdom -----	A Court of Directors of 16 members is appointed by the Crown upon recommendation of the Prime Minister for 4-year renewable terms. The terms of 4 Directors expire each year on Mar. 1. No more than 4 Directors at any time may be employed by the Bank of England.

DISPOSITION OF PROFITS

Belgium-----	Stockholders receive an annual dividend of 6 percent of capital stock. Any remainder is divided 4 ways and allocated to the Government, the stockholders, the Bank's personnel, and the Bank's reserves.
Canada-----	Since reserves ("rest fund") reached statutory limit in 1956, all profits are remitted to Receiver-General of Canada.
France-----	Committed to amortization of advances made by the bank to the Treasury in 1957.
Germany-----	20 percent to legal reserve until it amounts to 5 percent of note circulation; 10 percent to other reserves up to amount of original capital; 40,000,000 deutsche marks (approximately \$9,500,000) for purchase of certain Federal indebtedness; any remainder transferred to Federal Government.
Italy-----	After allocation of not more than 20 percent of profits to the ordinary reserve, an annual dividend is paid of not more than 6 percent of capital stock. Additional profits may be allocated to the extraordinary reserve (in an amount not to exceed 20 percent of profits) and used to pay a supplementary dividend of not more than 4 percent of capital stock. All remaining profits revert to the Government.
Japan-----	After deductions from surplus for prescribed reserve funds and dividends, the remainder is paid to the Government.
Netherlands-----	All profits transferred to the Government.
Sweden-----	Distribution of net profit determined by Parliament. In recent years, annual net profit has been divided between the Treasury and the Bank's foreign exchange adjustment account.
Switzerland-----	A portion of the gross profit not exceeding 2 percent of the capital stock is paid into the Bank's reserves. A dividend amounting to a maximum of 6 percent of the capital stock is distributed amongst the shareholders. The remainder of the profit is then divided as follows: the cantons receive 80 centimes (22 U.S. cents) per inhabitant; any remaining profit is divided up between the Confederation and the cantons, the Federal Government receiving one-third and the cantons receiving two-thirds.
United Kingdom-----	Paid to the Treasury, to be used exclusively for making interest payments on the national debt.

RELATION TO FINANCE MINISTRY

Belgium -----	Minister of Finance has right to control all operations of bank, and a Government-chosen commissioner supervises operations to insure that they are conducted in the public interest. Strong personalities in the governor's chair have on occasion demonstrated considerable independence and even influenced trends in Government finance.
Canada -----	Deputy Minister of Finance sits as non-voting member of Board of Directors and its Executive Committee.
France -----	In practice the Government in power influences monetary policy through the National Credit Council of 43 members, including its president, who is a Minister designated by the Government, and its vice president, the Governor of the Bank of France. 17 members represent Government departments or public financial institutions and the remaining 24 are appointed by the Minister of Finance on basis of nominations by economic interest groups. Although formal powers of council are advisory, it effectively determines broad lines of policy.
Germany -----	By law the Bundesbank is "independent of instructions of the Federal Government" although bound "to give due consideration to the general economic policy of the Federal Government and to support such policy within the scope of its tasks."
Italy -----	Subject to Treasury control insofar as Treasury approves appointment of Governor.
Japan -----	The Bank is subject to the central government's authority as exercised through the Ministry of Finance. The Minister of Finance is legally empowered to issue orders to the banks, although this power has not been exercised; and certain matters, such as a change in commercial bank reserve requirements, require his approval.
Netherlands -----	The Minister of Finance is empowered to issue directives to the Netherlands Bank but the Bank has the right to appeal to the Crown in case of disagreement. This would lead to a further careful consideration of the issue by the Government as a whole.

CENTRAL BANKING IN BELGIUM

1. HISTORICAL SETTING

From the fall of the French Empire (in 1815) until 1830, Belgium was part of Holland. To promote the establishment and use of fiduciary money in Belgium, King William of Holland created at Brussels, in 1822, the "General Society for the Promotion of National Industry," with a limited right of note issue; and for 3 years after Belgium became independent of Holland, in 1830, the Société Générale remained the only bank of issue in Belgium. Owing to difficulties between it and the Belgian Government, the latter, in 1833, established the Bank of Belgium, with the right of issuing notes to the amount of its capital. Competition between the two banks became intense. The combination of excessive lending by both, and the run on banks caused by the French Revolution of 1848, produced crises for both institutions in that year.

The need for a change became evident, and the National Bank of Belgium was created by law on May 5, 1850, with a capital of 25 million Belgian francs (\$5 million), and a 25-year franchise. The law did not endow the bank with a monopoly of note issue, but the privilege was never subsequently given to any other bank, and that of the National Bank of Belgium was successively renewed. In participating in the capital of the National Bank the Société Générale and the Bank of Belgium agreed to withdraw their notes from circulation.

On the whole, the formal status of the National Bank was little changed until 1948. There was, however, a gradual evolution—speeded up in the 1930's—both in the Bank's conception of its task, and in public awareness of the important role of the central bank in economic stabilization.

2. OWNERSHIP AND CONTROL OF THE CENTRAL BANKING INSTITUTION

From 1850 until 1948, the National Bank of Belgium was privately owned. The law of July 28, 1948, which strengthened the Government's control over the Bank, provided, *inter alia*, for an increase in the Bank's capital from 200 million (a figure to which it had been gradually increased from its initial capital of 25 million in 1850) to 400 million Belgian francs, of which half would be subscribed by the Government.

The change in ownership, together with certain other changes in the 1948 legislation, clearly strengthened the Government's control of the Bank; it has been said that under the 1948 legislation the Bank was "seminationalized." However, the Government has always had strong influence over the Bank. Since its inception, the Governor has been appointed by the Crown (for a 5-year term), and a Government commissioner supervised operations to insure that they were

conducted in the public interest. Article 29 of the pre-1948 statute, which remained unchanged in the 1948 law, provided that "The Minister of Finance has the right to control all operations of the Bank. He can oppose the execution of any measure which would be contrary to law, to the statutes (of the Bank), or to the interests of the state."

3. RELATION OF THE CENTRAL BANK TO THE GOVERNMENT

The Government-Central Bank relationship in Belgium has normally been one of harmonious and effective cooperation. The general view appears to be that the Government has seldom abused its control over the Bank; and the latter has spoken out or acted vigorously on many occasions, including several since 1948. One example was the Bank's unsuccessful fight in 1950 to have the "profit" on revaluation of the gold reserve used to reduce Treasury debt to the Bank rather than for new expenditure. Another example was the Bank's adroit handling of the situation which arose in October 1957 when the Government overdrew its account. The Bank secured repayment of the excess in the next few months, and also appears to have used the occasion to force through a reform of certain weaknesses in the capital market and in the banking system which were directly related to Government finance. However, these examples do not prove that the Government's veto power has never been abused, or that its mere existence has not inhibited independence of Bank action. The two examples cited evidence mainly the fact that since 1945 the Bank has had strong personalities in the Governor's chair.

4. RELATION OF THE CENTRAL BANK TO THE COMMERCIAL BANKS

The National Bank of Belgium is empowered to discount, buy, and sell commercial paper, to discount, buy, sell, or make advances against short-term and medium-term Government or Government-guaranteed paper, and to buy and sell long-term Government securities quoted on the stock exchange. While the organic law of the Bank does not require that its activities along these lines be confined to dealings with credit institutions and Government agencies, its operations are largely with such institutions and agencies. Discounts by credit institutions at the National Bank are subject to ceilings established by the Bank.

5. POWER OF THE CENTRAL BANK OVER THE INSTRUMENTS OF MONETARY POLICY

The National Bank's main instruments of monetary policy have been changes in the discount rate and moral suasion. It has not been necessary to use changes in rediscount ceilings as a means of affecting overall bank lending. Bank reserve requirements are established by the Banking Commission. To contain credit expansion, in 1946 the banks were required to keep a high proportion of their deposits in cash and Treasury bills. To increase the ability of the banks to finance the private sector, these requirements were relaxed and modified at the beginning of 1962 and again at the beginning of 1963. Since the beginning of 1962 the Banking Commission has been em-

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powered to impose compulsory cash reserve requirements for banks upon the proposal of the National Bank of Belgium; so far, this power has not been implemented.

Open-market operations in Belgium are carried out by the Securities Stabilization Fund (*Fonds des Rentes*), which obtains part of its resources via advances from the National Bank. The scope of the Fund's activities was greatly enlarged in 1957 when it was allowed to issue its own certificates and to deal in short- as well as long-term Government obligations. The National Bank nominates three of the six members of the governing body of the Fund; the other three are nominated by the Finance Minister. Any disputes are referred to Parliament.

6. CHANNELS OR SOURCES SUPPLYING BUSINESS CAPITAL

As in most other European countries, reinvestment of profits is an important source of business capital in Belgium. Another very important source is (or has been) the banks; close connections between banks and industrial enterprises were very highly developed in Belgium, this system tracing back to the early activities of the *Société Générale*, which was also the first bank of issue in Belgium. During the 1920's and the early 1930's, there was a rapid concentration of Belgian banks, and an intensification of business and banking affiliation, with the result that bank portfolios became heavily loaded with industrial securities. A strong movement toward reform of the banking system culminated in adoption of the banking reform law of 1935, the main purpose of which was to do away with "mixed banking," generally defined as the holding of industrial securities by banking organizations. In substance, and with few and limited exceptions, the reform law of 1935 made it unlawful for any banking corporation to own stocks or bonds issued by other corporations. However, the separation of banking and industry achieved under the 1935 law appears to have been more apparent than real.

Belgium has a number of specialized institutions for assisting in the provision of business capital. Important among these are the Institute for Rediscount and Guaranty, which can discount banking assets not eligible for rediscount with the central bank (which, however, may rediscount bills guaranteed by the IRG); the National Industrial Credit Company (SNCI), which assists in financing new industries, new products, and modernization programs, as well as credit margins in bilateral payments agreements. There is also a National Fund for Credit to Trade and Industry (to provide special credit for small- and medium-sized enterprises), a fund to provide Government guarantees for exports (i.e., guarantees of convertibility of foreign exchange proceeds), a fund for agriculture, and a fund for the provision of mortgage for low credit-cost housing.

CENTRAL BANKING IN CANADA

1. HISTORICAL SETTING

The Bank of Canada, established by statute enacted in 1934, was the fourth central bank to be set up in the British overseas dominions, being preceded by South Africa (1920), Australia (1924), and New Zealand (1933). Although the event occurred in the depths of the great depression, it was not motivated by any immediate banking crisis or so much as a single bank failure. Instead, it reflected the rising official involvement in economic affairs, for the Bank was specifically charged from its beginning to "regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment."

2. OWNERSHIP AND CONTROL

Originally founded as a privately owned corporation, ownership passed in two stages to the Government of Canada and since 1938 the Minister of Finance has held the entire \$5 million of share capital. The 12 Directors, appointed for 3-year terms by the Minister with the approval of the Governor-General in Council, in turn appoint the Governor and Deputy Governor of the Bank for 7-year terms. The Deputy Minister of Finance sits as a nonvoting member of the Board and its Executive Committee.

3. RELATION OF THE CENTRAL BANK TO THE GOVERNMENT

In its capacity as fiscal agent, the Bank of Canada operates the Government's deposit account through which flow virtually all Government receipts and expenditures. Responsibility for debt management policy rests with the Government, but the Bank arranges for the sale of new Government securities and manages all work connected with the outstanding public debt. Similarly, in the field of foreign exchange, the Minister of Finance carries responsibility for policy but the Bank handles the Government's foreign-exchange business, including the transactions of the exchange fund account. Through Board contact with the Deputy Minister of Finance as well as less formal relationships, the Bank is well placed for close and continuous consultation with the Government in the interest of maintaining suitable and properly coordinated monetary, fiscal, and debt-management policies, while maintaining its preeminent responsibility in monetary affairs.

Following a recent period of strained relations between the Bank and the Government, the newly appointed Governor of the Bank issued a clarifying statement on his view of their respective areas of authority. In the day-to-day conduct of monetary policy, the Bank

must be sufficiently independent to withstand pressures from any source. But "if there should develop a serious and persistent conflict between the views of the Government and the views of the central bank with regard to monetary policy which, after prolonged and conscientious efforts on both sides, cannot be resolved," the Government's view would have to prevail and the Governor, if he could not in good conscience carry out the Government's directives, would be under obligation to resign.

4. RELATION WITH COMMERCIAL BANKS AND POWER OVER INSTRUMENTS OF MONETARY POLICY

Pivotal to monetary control are the reserve requirements imposed upon commercial banks. By statute, the chartered banks must maintain cash reserves (Bank of Canada notes or deposits) equal to 8 to 12 percent of the bank's Canadian dollar deposit liabilities on a monthly average basis; by agreement with the Bank of Canada in 1956, the chartered banks also maintain liquid assets (cash, day-to-day loans, and Treasury bills) at a ratio of 15 percent to their deposit liabilities. These reserve ratios are rarely altered. Prior to June 1962 the bank rate at which the central bank makes temporary advances to chartered banks (and to money market dealers under securities purchase and resale agreements) floated at one-fourth of 1 percent above the latest weekly average tender rate for 91-day Treasury bills. Within this framework, changes in the Bank of Canada's holdings of Government of Canada securities, through their effect on the cash reserves of the banking system, provided the chief instrument by which the central bank sought to ease or tighten monetary conditions. As part of the austerity program announced on June 24, 1962, the Treasury bill yield ceased to be linked with the bank rate and the latter has assumed an independent role in monetary policy. Moreover, in a banking system where three chartered banks account for 70 percent of total bank deposits, "moral suasion" has a larger role to play than under U.S. conditions.

5. CHANNELS OR SOURCES SUPPLYING BUSINESS CAPITAL

Exceptions to the longstanding rule against lending upon security of real property, incorporated in the Bank Act in 1944 and 1954, allow the Canadian chartered banks to participate in Government-guaranteed loans to farmers and fishermen, for housing constructed under the National Housing Act, and to lend to oil companies on the security of oil "in, under, or upon the ground" and production equipment. Provision of working capital to business enterprises has been a traditional function.

The Industrial Development Bank, established in 1944 as a subsidiary of the Bank of Canada, may extend financial assistance to industrial enterprises, in the form of loans, guarantees, etc., in instances where credit or other financial resources would not otherwise be available on reasonable terms and conditions. Loans and investments are also extended through a complex of private financial institutions, including loan and trust companies and insurance enterprises.

CENTRAL BANKING IN FRANCE

1. HISTORICAL SETTING

The Bank of France was organized by Napoleon in 1800 as a privately owned company engaged in general banking business. In 1803 it was given a monopoly of note issue in the Paris area, and in 1848 that monopoly was extended to all of France. In 1806 a General Council consisting of a Governor and 2 Vice Governors appointed by the chief of state, and 15 regents, and 3 examiners elected by the 200 largest stockholders, was established as the chief governing agency of the Bank. This formal organizational structure of the Bank of France did not change for the next 130 years, but in the course of time actual power swung from the Government at the time of Napoleon to private interests as represented by the regents in the early 1930's. In 1936, following the victory at the polls of the "Popular Front," which had made the power of the "200 families" a major political issue, legislation was passed which gave the Government the dominant position in the management of the Bank, mainly by reducing the number of members of the General Council elected by the stockholders from 18 out of 21 to 2 out of 20. Effective January 1, 1946, the Bank of France was nationalized, the shareholders receiving negotiable Government securities in exchange for their stock.

2. OWNERSHIP AND CONTROL OF THE CENTRAL BANKING INSTITUTION

The General Council of the Bank of France consists of the Governor, the two Vice Governors, four ex officio members who head the principal Government financial institutions, seven members appointed by the Minister of Finance to represent various economic interests, one representative of the Bank's staff, and two examiners without vote on policy matters. The eight members representing economic interests and the Bank's staff are appointed for 4-year terms, which are staggered. The Governor and Vice Governors are appointed by Government decree, and have indefinite tenure.

The capital stock of the Bank is owned entirely by the state. The profits of the Bank are committed for a long and indefinite period to amortize advances made by the Bank to the Treasury in 1957.

3. RELATION OF THE CENTRAL BANK TO THE GOVERNMENT

Because the Bank of France is nationalized and because its Governor does not have tenure for a specified period, the Government has strong ultimate power over monetary policy. In practice the government in office influences monetary policy through the National Credit Council, which is the primary authority for framing credit policy and banking controls. The National Credit Council was established in December 1945 by the same law that nationalized the Bank of France. The

Council has 43 members, including its President, who is a Minister designated by the Government, and its Vice President, the Governor of the Bank of France. Seventeen members of the Council represent Government departments concerned with economic problems, or are heads of public or semipublic financial institutions. The remaining 24 members represent various economic and financial interests, and are appointed by the Minister of Finance or the Minister of National Economy on the basis of nominations by organizations representing those interests, such as chambers of commerce and labor federations. The policies of the government in office are presented to the National Credit Council by the Director of the Treasury who, though not a voting member, is required by law to attend all meetings of the National Credit Council and its committees. The President of the Council, who is usually the Minister of Finance, rarely attends its meetings, and the presiding officer is normally the Governor of the Bank of France.

The National Credit Council has extensive power to regulate the operations of all classes of banks, this power being exercised through the agency of the Bank of France. In matters of monetary and credit policy the Council formally has power only to advise the Government and the Bank of France. In practice, however, it appears that the broad lines of monetary policy are laid down in the National Credit Council, although it is important to bear in mind that the Governor of the Bank of France has a key position in that body.

4. RELATION OF THE CENTRAL BANK TO THE COMMERCIAL BANKS

The Bank of France is empowered to discount commercial paper and Government securities for private individuals and enterprises, all classes of banks, and public and semipublic financial institutions provided that maturities do not exceed 3 months and the commercial paper bears three signatures. The Bank rediscounts short-term paper for the commercial banks and buys from them limited amounts of money market paper. It rediscounts medium-term (2 to 5 years) paper for public and semipublic credit institutions; in most instances, these latter institutions have previously rediscounted such paper for banks. Transactions with individuals and business enterprises have nearly disappeared. Paper exceeding 3 months' maturity is divided into a series of 90-day instruments before being rediscounted by the Bank of France.

5. POWER OF THE CENTRAL BANK OVER THE INSTRUMENTS OF MONETARY POLICY

Within the policy framework established in the National Credit Council, the General Council of the Bank of France makes the important decisions of the Bank. The twin pillars of French credit controls are (1) the terms applied to rediscounts of short-term commercial paper, and (2) the minimum liquidity coefficient of the banks. The Bank places ceilings on rediscounts of short-term commercial paper, and penalty rates higher than the basic discount rate are applied to rediscounts in excess of the ceilings. Changes in both the rates and the ceilings have been frequent. There are no ceilings on rediscounts of export paper or medium-term paper. The liquidity

coefficient, first introduced in early 1961, is the relationship between deposit liabilities and certain assets, mainly cash and equivalents, Treasury bills, medium-term paper, and export paper. A subsidiary requirement of the banks, dating from 1948, stipulates a minimum ratio of deposits to holdings of Treasury bills alone.

The Bank of France's open-market operations are of marginal importance and are totally different in character from those known in the United States. Under this head the Bank of France stands ready to buy from banks, up to fixed limits, Treasury bills, bankers' acceptances, and other types of money market paper. It also intervenes in the market on its own initiative but only to smooth out daily fluctuations.

6. CHANNELS OR SOURCES SUPPLYING BUSINESS CAPITAL

Apart from banks, the securities market and retained earnings, there are three important sources of medium- and long-term business capital in France. One of these is the Bank of France, which since World War II has rediscounted medium-term paper for the public and semipublic credit institutions. Most of this paper originates with the banks, which rediscount it with the aforementioned credit institutions.

Second, the public and semipublic credit institutions extend large amounts of financing with their own resources as well. The *Crédit Foncier de France* and its subsidiary, the *Sous-Comptoir des Entrepreneurs*, extend credits almost entirely for construction. The *Crédit National* makes equipment loans to industry, and the *Caisse Nationale de Crédit Agricole* is concerned with agricultural credit. The *Caisse des Dépôts et Consignations* extends credit for housing and industrial equipment and also rediscounts a large amount of credits initially granted by the other public and semipublic institutions. This organization is the repository of all the funds deposited in French savings banks; besides making loans to business and rediscounting it also makes funds available to the local authorities and the Treasury. In addition to savings deposits, the main sources of funds for the public and semipublic credit institutions are contributions from the budget, public bond issues, and retained earnings.

Finally, the Treasury itself is a very large lender of funds for housing and the equipment needs of industry.

CENTRAL BANKING IN GERMANY

1. HISTORICAL SETTING

The Reichsbank, Germany's first central bank, was established in 1876, but because Federalist forces in Germany insisted upon the right of other banks to continue to issue bank notes it was not until 1935 that the Reichsbank obtained the note issue monopoly. Following the First World War, the Reichsbank was reorganized under the auspices of the Dawes Committee, largely to make it more independent of the Government, and it continued to operate, as reorganized, until 1948. In 1948, the Bank deutscher Laender was set up as an interim bank, pending the founding of a new German state. The Bank deutscher Laender maintained no branches and the Landeszentralbanken, the central banks of the individual German Laender (States), carried out its functions, including that of note issue. It was not until August 1957 that the current German central bank, the Deutsche Bundesbank, was established. The Bank deutscher Laender then ceased to exist and the Landeszentralbanken became branches of the Deutsche Bundesbank.

2. OWNERSHIP AND CONTROL OF THE CENTRAL BANKING INSTITUTION

The capital stock of the Bundesbank totals DM290 million and is owned entirely by the Federal Government.

The main organs of the Bundesbank are the Central Bank Council, the Directorate, and the Boards of Management of its branches, the Landeszentralbanken. The Board of Management of each Landeszentralbank directs all transactions and administrative business of the Bank in its area. The Directorate of the Bundesbank is composed of the President, the Vice President and no more than eight additional members possessing special professional qualifications, all of whom are appointed by the President of the Federal Republic after consultation with the Central Bank Council. The Directorate is responsible for the implementation of the decisions taken by the Central Bank Council and generally administers the Bundesbank. The Central Bank Council, which consists of all the members of the Directorate and the presidents of the Landeszentralbanken, determines the monetary and credit policies of the Bundesbank.

3. RELATION OF THE CENTRAL BANK TO THE GOVERNMENT

The Bundesbank is legally an autonomous Federal institution. The law states that the Bank "insofar as is consistent with its functions, shall be bound to support the general economic policy of the Federal Government," but that in the exercise of its legal powers it "shall be independent of instructions of the Federal Government." **Members of the Federal Government are entitled to participate in the**

deliberations of the Central Bank Council. They have no vote but they may introduce motions and force the delay of a decision, but for not more than 2 weeks.

It is the duty of the Bundesbank to advise the Federal Government on all matters of importance in the area of monetary policy and to furnish information to the Government upon request. Furthermore, the law which established the Bundesbank states that the Federal Government must include the President of the Bundesbank in its deliberations on matters of importance in the field of monetary policy.

The Bundesbank must limit the amount of credit which it extends to the Federal and Laender Governments and to the Federal Government's special funds.

4. RELATION OF THE CENTRAL BANK TO THE COMMERCIAL BANKS

The Bundesbank does not normally deal directly with the general public but only with credit institutions and certain public agencies in Germany as well as various international institutions.

5. POWER OF THE CENTRAL BANK OVER THE INSTRUMENTS OF MONETARY POLICY

The Bundesbank has at its disposal a number of instruments which it can use to control the availability of credit and the liquidity of the banking system.

The Bundesbank has the power to set and to change the discount rate and the rate it charges for advances on eligible paper. Furthermore, the quantity of open-market paper which the Bundesbank stands ready to rediscount is subject to definite limits which, although not published, is believed to be three times the liable capital plus the reserves of any given institutions.

The Bundesbank may establish minimum reserve requirements for credit institutions at any level up to a maximum of 30 percent for sight liabilities, 20 percent for time liabilities, and 10 percent for savings liabilities. Credit institutions which fail to meet reserve requirements are subject to a penalty surcharge which usually stands 3 percent above the rate charged by the Bundesbank on advances.

The Bundesbank may engage in open-market operations and may use for this purpose bills of exchange meeting certain requirements stipulated by law, Treasury bills and bonds, and other bonds admitted to the official stock exchange.

Relatively recently, the Bundesbank developed a new technique which increases its scope for influencing the liquidity of the banking system. By making it more expensive or less expensive for German commercial banks to make covered investments on the foreign exchange markets, the Bundesbank can discourage or encourage the placement of banking funds abroad, thereby increasing or decreasing the supply of funds available to the domestic money market.

6. CHANNELS OR SOURCES SUPPLYING BUSINESS CAPITAL

The Bundesbank does not and legally cannot finance the capital development of business. Two Government institutions, the Kreditanstalt fuer Wiederaufbau (Reconstruction Finance Corporation) and

the Industrie Kreditbank (a semiofficial agency utilizing both public and private funds) engage in this kind of operation. A rough division of the source of funds for the financing of small business would be one-third internally financed, one-third from the big commercial banks or the institutions mentioned, and one-third from the local county or municipal banks.

CENTRAL BANKING IN ITALY

1. HISTORICAL SETTING

The central bank of Italy, the Banca d'Italia (Bank of Italy), was founded in 1893 as a result of a financial crisis, and was created by the merger of three joint stock banks. Over the next half century it evolved gradually into a true central bank. It initially shared the right of note issue with the Banco di Napoli and the Banco di Sicilia, but was made the sole bank of issue in 1926. As a private stock bank, the Bank of Italy engaged in a substantial private banking business until the reform of 1936. In that year it was made a bank of "public law" and its shares were redistributed among savings banks and other financial institutions. As of that time also the Bank limited its discount operations to rediscounting only for other banks. It financed the Treasury on a heavy scale in World War I and in the years 1936-47, and has administered exchange controls since 1935. By manipulation of its lending rates the Bank very early acted as a regulator of the money market, but its control over credit creation has been greatly increased since World War II.

2. OWNERSHIP AND CONTROL OF THE CENTRAL BANKING INSTITUTION

Since 1936 the capital of the Bank of Italy has been held by savings banks (which hold most of the shares), the larger commercial banks, insurance companies, and social security institutions. The management of the Bank is conducted by the Superior Council, composed of the Governor and 12 directors who are elected by the shareholders for renewable 3-year terms. The Governor, General Manager, and Vice General Manager are appointed or dismissed by the Superior Council, with the approval of the Government.

Net profits are used for transfer to reserves (20 to 40 percent of profits) and to pay dividends (6 to 10 percent of paid-up capital). Remaining profits go to the Treasury.

3. RELATION OF THE CENTRAL BANK TO THE GOVERNMENT

Although its three highest officers must be approved by the Government, the Bank of Italy is not a subservient institution. The Governor of the Bank, by virtue of his membership in the Inter-ministerial Committee for Credit and Savings—the Government body which determines the basic direction of monetary policy—and in part because of the high caliber of the men who have held the governorship, is able to exert great influence on monetary conditions. The Governor has been instrumental in the formulation of policies which halted the postwar inflation and subsequently maintained a high degree of financial stability in most years. These policies have permitted a buildup of gold and foreign exchange reserves and promoted the high

level of savings required to finance Italy's rapid postwar economic growth.

From time to time, the Bank has been under legal obligation to make advances to the Treasury, but late in 1947, when the "defense of the lira" policy went into effect, the outstanding amount of advances was frozen; and since that time the Treasury indebtedness to the Bank has been reduced. The Bank of Italy has no legal obligation to purchase Treasury paper, but it is obligated by law to make advances to the Government up to a limit of 15 percent of budget expenditure. This ceiling is high, and it could be abused; but the Treasury has in practice kept its indebtedness to the Bank far below the legal limit.

The central bank finances the Foreign Exchange Office (the Governor of the Bank of Italy is chairman of the Board of Directors of the Foreign Exchange Office) by means of advances, and it in effect administers the foreign exchange market in accordance with market requirements and monetary policy.

4. RELATION OF THE CENTRAL BANK TO COMMERCIAL BANKS

The Bank of Italy has wide discretionary power to intervene directly and indirectly in the management and administration of banks. The Inspectorate of the Bank carries out detailed audits and investigations of banks. The Bank's consent is required for many individual loans by banks to their customers, and in 1962 the Bank was empowered to determine banks' investment portfolios. The principal transactions of the central bank with commercial banks have been advances against Government securities, rediscounts (mainly of bills to finance the Government-sponsored pooling system for certain crops), and the holding of banks' compulsory reserves of cash and Treasury bills.

The Bank of Italy also extends short-term credit to the medium- and long-term credit institutions. Its advances to private customers have dwindled to almost nothing.

5. POWER OF THE CENTRAL BANK OVER THE INSTRUMENTS OF MONETARY POLICY

The initial establishment of compulsory bank reserves in cash and Treasury bills in 1947 was a cornerstone of the program that halted the postwar inflation, but the level of the requirement remained unchanged until it was lowered in early 1962. While rediscounts of crop pooling bills must be granted automatically, advances and other rediscounts are granted at the discretion of the Bank. Changes in the Bank's rates on advances and rediscounts have been very infrequent. There is as yet no developed money market in Italy, and open-market operations have not been used to govern bank liquidity.

The main continuing instruments of monetary policy in Italy have been moral suasion and the determination every 4 months of the size of banks' lines of credit with the Bank of Italy. Since 1959 the Bank has also influenced internal credit expansion by actions affecting the foreign borrowing and lending of Italian banks (which is centered on the Euro-dollar market). This has been accomplished mainly through

(1) regulations concerning the amount of net foreign borrowing which banks are allowed to engage in, and (2) short-term swaps of lire for dollars between the central bank and the commercial banks.

6. CHANNELS OR SOURCES SUPPLYING BUSINESS CAPITAL

The Bank of Italy does not directly finance business, but it does extend short-term accommodation to banks and to the many official and semi-official institutions which supply medium- and long-term credit to business. The latter (known as special credit institutes) have resources equaling about one-third of those of the commercial and savings banks. The institutes extending industrial credits are the Istituto Mobiliare Italiano (IMI), Mediobanca, Efibanca, and Mediocredito (which also rediscounts paper for regional medium-term credit institutes). Others of these institutes specialize in real estate credit, agricultural credit, and the financing of electric power plants. About one-half of the resources of the special credit institutes are obtained by bond issues; the other sources include state funds, short-term bank credit, capital stock, and foreign loans to IMI.

CENTRAL BANKING IN JAPAN

1. HISTORICAL SETTING

The Bank of Japan was established during the era of the Meiji government (1868–1912) when the country was transformed from a feudal to a modern industrial state. Excessive issues of inconvertible bank notes by the Government and later by a system of American-type national banks threatened the nation's monetary stability in the 1870's and 1880's. It was primarily with the aim of retiring these notes and issuing new convertible ones that the Bank of Japan was established in Tokyo on October 10, 1882. Other objectives included nationwide regulation of money and banking, supply of funds to financial institutions to meet temporary shortages, lowering of interest rates, handling of Government funds, and rediscounting of foreign exchange bills. Given the exclusive power of note issue, the Bank of Japan began to issue new convertible bank notes in May of 1885 and by 1899 the task of retiring the earlier inconvertible notes was completed.

The 1882 Bank of Japan Act was patterned after the 1850 law establishing the National Bank of Belgium. This was because the Japanese believed the Belgian system, which was established later than the British and French, benefited from a study of the merits and defects of other earlier central banking systems. Except for a provision allowing the Government to share in the Bank's profits after June 1932, no substantial changes were made in the 1882 law until 1942 when wartime pressures prompted fundamental revisions in the organization and functions of the Bank. The net effect of a new Bank of Japan law enacted in that year, and patterned after Nazi Germany's Reichsbank law, was to make the bank more subservient to the Government and to expand sharply the field of its business activities. A further substantial change occurred in June of 1949 when a new Policy Board was established as the supreme policy-making organ of the Bank.

In addition to the head office in Tokyo, the Bank of Japan has branch offices in 30 major cities in Japan, and 14 minor offices in other cities. The bank also maintains about 1,680 agencies throughout the country for handling Treasury funds or Government bond transactions, and a permanent representative in New York and London.

2. OWNERSHIP AND CONTROL OF THE CENTRAL BANKING INSTITUTION

The Bank of Japan was established as a quasi-joint stock company with initial capital stock of 10 million yen. Half of this was subscribed by the Government and the other half by the private sector. The Bank's authorized capital was increased subsequently in 1887, 1895, 1910, and 1942. In 1942 the Bank was converted from a joint stock company to a special corporation with a total capitalization of 100 million yen. The Government committed itself to subscribing

55 million yen (which was later paid in on April 24, 1948) and the private shareholders provided 45 million yen, the paid-up capital of the bank at the time. The new Bank of Japan law in 1942 deprived shareholders of their right to vote and they thereby became merely subscribers. Currently there has been no real participation by the private sector in the Bank's activities even though the ownership of the Bank's stock in March of 1962 was divided as follows: Minister of Finance, 55 percent; financial institutions, 3.9 percent; and others, 41.1 percent.

Since 1942, dividends on stock subscriptions have been limited to a maximum of 5 percent per annum. Bank profits after dividends and appropriate allocation to reserve funds are transferred to the Government.

From the beginning of the Bank's establishment the management has been appointed by the Government. In the 1942 reorganization, the Assembly of Officers was deprived of its vote privileges and complete authority was vested in the Governor of the Bank. During the early postwar years, the Bank's management was vested with the Governor, Vice Governor, and the eight members of the Board of Directors. In 1949 the present system involving a seven-man Policy Board was established to decide the operational and monetary policies of the Bank as well as to regulate the nation's money and credit. This Board is composed of the Governor of the Bank of Japan serving *ex officio*, four members appointed by the Cabinet with the consent of both Houses of the Diet from men experienced in banking, industry, commerce, or agriculture, one nonvoting representative from the Ministry of Finance, and one nonvoting representative from the Economic Planning Agency. Although the law does not require it, the Governor of the Bank of Japan has thus far always been elected Chairman of the Policy Board. Under the new arrangement, the previous management has become an executive board, carrying out the policies determined by the Policy Board.

3. RELATION OF THE CENTRAL BANK TO THE GOVERNMENT

Since its establishment the Bank of Japan has always served as fiscal agent for the Government. Besides providing the Government with deposit and lending facilities, it has assumed over the years a wide range of activities including the handling of public receipts and payments, Government debt, Treasury accounts, and the buying and selling of foreign exchange. In order to carry out its extensive operations in this field, the Bank was maintaining at the end of 1961, 531 Treasury agents, 5,113 revenue agents (to receive revenue payments only), 1,412 debt agents and also oversea fiscal agents for the servicing of foreign loans.

Throughout its history the Bank has advanced funds to the Government, particularly in times of emergency such as the great earthquake and fire of 1923 and the financial disturbances in 1927. After the Second World War the Bank of Japan helped finance postwar reconstruction by accepting large amounts of short-term debentures issued by the Reconstruction Finance Bank.

The Bank of Japan law allows the Bank to subscribe to, or take up, Government debt issues. Most short-term Government securities, although issued through public offerings, are held either by the

Bank of Japan or the Government since the private financial community has found the low, Government-established interest rate on these securities unattractive. They consist primarily of short-term bills for financing the Government's foreign exchange fund and food-stuff control account. Various laws, including the Finance Law of 1947, restrict the Government as to the amount and type of long-term borrowing in which it may engage, however, the Bank of Japan does buy and sell long-term Government securities in the market. Since the early postwar years, the Bank has held a substantial volume of both short- and long-term Government securities, although the amount has fluctuated sharply over short periods of a few months.

During most of its life, and particularly since 1942, the Bank of Japan has been subject to the central government's authority as exercised through the Ministry of Finance. Present statutes permit the Minister of Finance to issue orders to the Bank, although this power has not been exercised, and many matters, such as a change in commercial bank reserve requirements, require his approval.

The Ministry of Finance, in conjunction with the Bank of Japan, also plays an important role in determining the level and structure of interest rates in Japan. The Ministry's authority for this role stems in part from the Temporary Money Rates Adjustment Law of 1947. Although the situation has changed somewhat since then in the direction of more voluntary regulation by the financial community, the Ministry continues to exercise close control over interest rates through powers of moral suasion. Official control is further enhanced by the policy of the Japanese Bankers' Association of automatically raising or lowering the structure of commercial bank lending rates in consonance with changes in the Bank of Japan's basic discount rate.

A difference of opinion regarding the degree of independence that the Bank of Japan should have from the Government was underlined as a result of a study conducted between 1957 and 1960 by a Government research committee on Japan's financial system. One view held that the Government must have the right to give direction to the bank and the other argued for bank independence from the Government. Because the committee's opinion was split on this point, no action has been taken by the Ministry of Finance on a proposed revision of the Bank of Japan law.

4. RELATION OF THE CENTRAL BANK TO THE COMMERCIAL BANKS

The Bank of Japan is empowered to carry out a wide variety of activities with commercial banks and other financial institutions. These include receiving deposits, making loans, discounting bills and notes, and buying and selling bills and securities. Because of the relative scarcity of financial capital in Japan, commercial banks have turned to the central bank, not only for temporary or seasonal needs, but also as a ready source for current funds. Since the passage of a new Bank of Japan law in 1942, the Bank has explicitly been allowed to make loans secured by stocks, shares, and corporation bonds, as well as merchandise. As a result of these conditions, Japanese commercial banks are heavy borrowers from the Bank of Japan, and at the end of 1962, 6.4 percent of their total liabilities consisted of debt to the Bank. Most of this reflected Bank of Japan loans rather than discounts.

Although the amount of commercial bank borrowing from the Bank of Japan is substantial, the Bank has attempted during the past decade to restrain such borrowing in order to foster general monetary stability. A form of moral suasion, usually termed "discount window guidance" by the Bank, has been practiced. This has consisted of monthly meetings with the city bank managers, at which time the banks are given advice and recommendations by the Bank of Japan on their borrowing plans. Since November of 1962 the Bank has increased its reliance on the use of open-market operations and in May of 1963 the Bank announced that it was discontinuing the "window guidance" program.

Supervision and examination of commercial banks in Japan is carried out both by the Ministry of Finance and the Bank of Japan. The Ministry is empowered to require any bank to furnish whatever financial information is necessary in order to provide the Ministry with complete knowledge of the financial condition of the bank. Japanese law requires that banks be examined at least twice in every 2-year period.

5. POWER OF THE CENTRAL BANK OVER THE INSTRUMENTS OF MONETARY POLICY

Largely because of the financial structure of the Japanese commercial banks, central bank discount policy has played an important and effective role in maintaining general economic stability. Open-market operations and reserve requirements have been of only minor importance in the past, though recently their importance has been increasing.

Central bank effectiveness in using discount policy can be related to three factors. First, the commercial banks are heavily dependent on credit from the Bank of Japan and the money market to meet their financial needs. A restriction of central bank credit has an immediate and significant impact on commercial bank lending and investing activities. Second, the policy of "window guidance" mentioned earlier has in effect constituted a form of rationing of central bank credit. Although this technique has been used extensively in the postwar period, there has been some debate regarding its effectiveness. While some believe that it has been a key factor in the restoration of economic equilibrium, others, including some officials of the Bank of Japan, have disagreed with this assessment. As noted earlier, the program was discontinued in May of 1963. Third, a system of penalty discount rates for banks borrowing large amounts from the central bank in relation to the quotas established for each bank has also been effective in restraining excessive commercial bank credit expansion. During the three business cycles of the past decade, monetary policy has been used successively in restraining excessive expansion and restoring both domestic and international economic equilibrium.

Until recently, open-market operations have been confined largely to absorbing the excessive seasonal liquidity of local banks and the Central Cooperative Bank of Agriculture and Forestry. In periods of seasonally tight credit, the Bank has also bought from commercial banks moderate amounts of Government-guaranteed debentures. Since November of 1962 the Bank has expanded its buying operations,

both in terms of volume and the variety of securities, and at the same time has been reducing its discount operations.

Although Japan had been anxious for many years to establish reserve requirements for commercial banks, the extremely low liquidity of the banks seemed to preclude such a step. These reservations were finally overcome in September of 1959 when relatively low reserve requirements, ranging from 0.25 to 1.5 percent, were established. Since reserve deposits account for only a very small part of total bank deposits and the banks at the same time are heavily in debt to the central bank, the reserve requirements are not yet very effective as an instrument of bank credit regulation. In March of 1963 the reserve requirement system was extended to apply to mutual loan and savings banks, and credit associations.

6. CHANNELS OR SOURCES SUPPLYING BUSINESS CAPITAL

In recent years in Japan about one-third of new industrial funds have been derived from internal sources (retained earnings) and the other two-thirds from external resources. Both operating and equipment funds have been provided by four types of banks, viz, city, local, trust, and long-term credit banks. The main sources of industrial funds include bank loans and funds from other financial institutions. Of lesser importance are new issues of stocks and debentures. A substantial part of city and local bank credits consist of medium- and long-term business loans. These banks are also an important source of small business financing.

Because of the strong business demands for financial capital from the banking system and the relatively low capitalization of most banks, Japanese banks, particularly the large city banks, at times find themselves in an "overloan position." Although this term has various meanings, it generally refers to a condition where a bank's loans are in excess of its deposits, debenture issues, and capital. The banking system as a whole has not been in an overloan position in the above sense since the early 1950's, but during the 1950-62 period, the large city banks were "overloaned" except in 1955, 1956, 1959, and 1960.

Japan also has a wide variety of other financial institutions for financing a broad range of economic activities. These include six types of financial institutions for financing small business, agriculture, and forestry; insurance companies; call loan and foreign exchange brokers; investment trusts; corporations for financing securities; and some 13-odd Government financial institutions.

CENTRAL BANKING IN THE NETHERLANDS

1. HISTORICAL SETTING

The Netherlands Bank (De Nederlandsche Bank), was chartered as a joint-stock company in 1814, and retained this form under successive renewals of its charter until the Bank was nationalized in 1948. The Bank's original charter gave it the note issue monopoly for 25 years; and the Government subscribed to part of the Bank's capital stock. The Government disposed of its stock in 1847, while the Bank's note issue monopoly was formally withdrawn in 1863. With successive renewals of its charter, however, the Bank took on added responsibilities as agent for the Government; and as the note issue out privilege was not given to any other institution after 1847, the Netherlands Bank retained a de facto monopoly.

2. OWNERSHIP AND CONTROL OF THE CENTRAL BANKING INSTITUTION

The capital stock of the Netherlands Bank has been entirely owned by the state since nationalization of the Bank by the act of April 23, 1948. The shareholders received Government securities in exchange for their shares. All of the profits of the Bank are transferred to the Government.

The Governing Board of the Netherlands Bank, which consists of the President, the Secretary, and from three to five Executive Directors, is appointed by the crown for a term of 7 years on the basis of nominations by a joint meeting of the Governing Board and the Board of Commissaries. The Board of Commissaries "supervises the administration of the Bank and approves and adopts the yearly profit and loss account."

3. RELATION OF THE CENTRAL BANK TO THE GOVERNMENT

Although the Finance Minister is empowered to issue directives to the Netherlands Bank, the latter has the right to appeal to the Crown in case of disagreement, which would lead to a further careful consideration of the issue by the Government as a whole. Traditionally, the Netherlands Bank does not support the Government long-term bond market, although it is legally empowered to do so.

4. RELATION OF THE CENTRAL BANK TO THE COMMERCIAL BANKS

The act on the supervision of the credit system, passed in January 1952, empowered the Netherlands Bank to issue "general instructions" to credit institutions concerning the maintenance of minimum reserves, maximum extension of credits, maximum size of individual credits, and prohibition of limitation of specific kinds of credits and investment, with the general exception that under no circumstances could a credit institution be compelled to hold Treasury paper. The act also empowered the Bank to require credit institutions to submit

periodic statements and such other information as the Bank should deem necessary. Before issuing an instruction the Bank must consult with the representative organizations of the credit institutions, and if their agreement is not obtained, the instruction in question becomes void unless it is approved by the legislature within 3 months of promulgation.

Since 1951, the discount rates of the Netherlands Bank have been higher for private customers than for banks, and this differentiation has tended to reduce the importance of the Bank's private business.

5. POWER OF THE CENTRAL BANK OVER THE INSTRUMENTS OF MONETARY POLICY

Subject to the veto power of the Finance Minister and the machinery for appeal mentioned above, the Governing Board of the Bank has full power to set its discount rates and conduct open-market operations. The Bank is empowered to buy and sell bills of exchange, and debenture bonds of the Netherlands Government, or bonds guaranteed by it, provided such bonds are quoted on the Amsterdam Stock Exchange. In practice the maturities of securities traded in open-market operations have been from 1 to 5 years. Since open-market operations were begun in 1952, they have played a significant role in the monetary policy of the Netherlands Bank. For the most part they have been used to offset changes in commercial bank liquidity arising from seasonal fluctuations and changes in the foreign balances, but open-market sales have at times been undertaken with the object of exerting pressure on the money market.

The Netherlands Bank is empowered under the terms of the "gentlemen's agreement" of March 1954 to raise the cash reserve requirements of the commercial banks to 15 percent of total deposits; the ratio has been as low as 4 percent and as high as 10 percent. The Bank has the power, on a "standby" basis, to require minimum liquidity ratios of cash, call loans, and short-term securities to total deposits.

6. CHANNELS OR SOURCES SUPPLYING BUSINESS CAPITAL

One semipublic institution established in the Netherlands in the postwar period provides long-term financing to business. The Reconstruction Bank (*Maatschappij tot Financiering van het Herstel*)—commonly referred to as the *Herstelbank*—was established in 1945 in order to finance reconstruction. The *Herstelbank* may not supply risk capital but may make loans involving more than normal risk if the loan carries a Government guarantee. The Government holds more than one-half the capital stock of the *Herstelbank*. The Netherlands Participation Company (*Nederlands Participatie Maatschappij*) is a subsidiary of the *Herstelbank* (which holds over 30 percent of its stock) established in 1948 to provide risk capital to small- and medium-sized firms, which it does by investing in shares listed on the stock exchange or by direct participations.

The *Nederlandsche Middenstandsbank*, an institution originally formed to grant commercial credit to shopkeepers, small craftsmen, and members of the professions—the so-called middle classes, as is implied by the name of the bank—also makes loans for periods up to 10 years when these loans are guaranteed by the Government.

CENTRAL BANKING IN SWEDEN

1. HISTORICAL SETTING

The Bank of Sweden (Sveriges Riksbank) is the oldest central bank in the world. It was organized in 1668 as a state-owned bank responsible to the Swedish Parliament (Riksdag), after the failure in that year of a predecessor institution, the Bank of Stockholm (Stockholm Banco), chartered as early as 1656 and considered to be the first bank to issue ordinary bank notes. It is noteworthy that the Bank of Stockholm, although a private enterprise, was for many practical purposes regarded as a state institution; and, from its beginnings, important questions pertaining to the Bank were referred to the Swedish Parliament. The tradition that the central banking institution is responsible to the national legislature—a tradition which has been embodied in a formal provision of the Swedish Constitution—is thus of very long standing.

The Bank of Sweden acquired the attributes of a modern central bank only very gradually in the 19th century. It was for a long period a state commercial bank and the leading credit institution in the country. In 1897 the Bank of Sweden was given the note issue monopoly, and the private banks' right to issue notes expired at the end of 1903. Operations of the Bank of Sweden were restricted almost entirely to those of a central banking character by the 1897 legislation, so that the transformation of the Bank of Sweden into a central bank in the modern sense was completed at the turn of the century.

2. OWNERSHIP, CONTROL, AND RELATION TO THE TREASURY

The Bank of Sweden is state owned. Legally responsible to the Swedish Parliament, it operates under legislation which expressly prohibits Directors of the Bank from receiving instructions from anyone except the Parliament and its Banking Committee. For example, the Minister of Finance may meet with the Directors of the Bank, but no decisions may be taken in his presence.

The Bank of Sweden is administered by a Board of Directors consisting of seven members, of whom the Chairman is a Government appointee named by the King-in-Council; the other six Directors are chosen by a joint group of electors from both Houses of the Swedish Parliament. Current administration of the Bank of Sweden is handled by a Board of Management consisting of the Governor of the Bank, a Deputy Governor, two Directors, and several Managers. The chief executive officers of the Bank—the Governor and Deputy Governor—are elected by the Board of Directors from among its members.

The operational independence of the Bank of Sweden was seriously impaired during the 1930's, when the ruling Social Democrats subordinated monetary policy, then in disrepute, to the general economic policy of the Government. The subordination of monetary policy

continued into much of the postwar period—as it did in many European countries, although this phase was perhaps somewhat more prolonged in Sweden than elsewhere—and the Government continued to pursue cheap money conditions as an integral part of its full employment and social welfare policies. Starting with the resignation of Gov. Ivar Rooth in 1948, three successive Governors of the Bank of Sweden reportedly resigned in part in protest against the monetary policy which the Government continued to enforce into the mid-1950's. Serious conflict between the central bank and the Government last occurred in July 1957, after the Bank of Sweden raised the discount rate without informing the Government in advance. Although the Government forced the resignation of its appointee, the Chairman of the Board of Directors, the higher discount rate was not subsequently altered by Parliament.

3. INSTRUMENTS OF MONETARY POLICY

Throughout most of the postwar period the Swedish economy labored under persistent inflationary pressures, to which successive budget deficits and a large Government-sponsored housing program contributed significantly. For a fairly extended period after the war the Bank of Sweden played an essentially passive role. Until 1955 the Bank pegged the Government bond market—although it did so at progressively higher interest rates toward the end of the period—in order to permit flotation of the large volume of bond issues necessary to finance the budget deficits and the housing program. Because of the consequent impossibility of satisfying the high level of demand for long-term funds, the Bank of Sweden also exercised capital issues control, under which applications to float long-term securities were screened to assure that loans for priority sectors, i.e., the central government and the housing market, received preferential treatment.

Monetary policy began to play a more active role in 1952, when the Bank of Sweden obtained authority to impose effective minimum liquidity ratios on the commercial banks. The liquidity requirements, which are differentiated by size of bank and which have been changed from time to time, have been embodied in voluntary agreements, usually negotiated each year, between the central bank and the commercial lending institutions. At times, the agreements have contained elements of selective credit policy, such as guiding lines for the allocation of credit to designated sectors or recommendations for the restriction of credit for speculative or otherwise undesirable purposes. During one brief period (1955–57), the agreements also included an absolute ceiling on bank advances imposed by the Bank of Sweden. Along with the agreements concluded with the commercial banks, the Bank of Sweden's controls have also extended to the savings banks and insurance companies, in the form of requirements that these institutions reserve specified portions of new money for priority borrowers.

While capital issues control remains in effect, a condition of relative balance has emerged on the Swedish capital market since about 1960. Two factors are responsible for this rather dramatic transformation. The emergence of budget surpluses after a decade of chronic deficits—resulting from the introduction of a national sales tax—has substantially reduced the Government's borrowing needs. The operation

since 1960 of the compulsory national pensions scheme has also produced a large increase in savings in the public sector, and a sizable portion of the resources of the new general pension fund has been invested in long-term loans to the business sector. As a result, the traditional queue of long-term borrowing applicants to the Bank of Sweden has been virtually eliminated.

The renaissance of Swedish monetary policy has been accompanied by the evolution of an interesting combination of tax measures, fiscal policy devices, and labor market practices designed to meet the needs for policy instruments which can be fairly quickly adapted to changing economic conditions. This is especially true of the much-publicized system of investment reserves, which is designed to spread private investment activity more evenly over the business cycle. In an expansionary period, business enterprises are encouraged, by tax incentives, to set aside specified portions of gross profits, which are deposited in the central bank; when the authorities later consider that the economic situation requires some stimulus, these reserves may be released at the discretion of the Labor Market Board to finance certain types of business investment.

4. CHANNELS OR SOURCES SUPPLYING BUSINESS CAPITAL

Traditionally the Swedish commercial banks have engaged in long-term financing of industry; in addition, they act as underwriters for bond issues and hold large portfolios of bonds and housing mortgages. In part this investment behavior reflects the stability of bank deposits and the tendency for a large share of savings to be kept in the form of bank deposits.

The Ship Mortgage Bank is a semiofficial institution which grants long-term loans on the security of ship mortgages. In 1953 the commercial banks founded Svensk Fartygskredit AB for the purpose of financing loans to shipowners. The Industrial Credit Bank was organized in 1934 jointly by the Government and a few leading commercial banks for the purpose of giving medium- and long-term loans to industrial firms which were too small to have ready access to the bond market. The loans of this institution have never reached large proportions.

CENTRAL BANKING IN SWITZERLAND

1. HISTORICAL SETTING

The Banque Nationale Suisse (Swiss National Bank) was established in 1907 after nearly 20 years of political dispute as to the legal form of the Bank and its location. The Bank was set up as a joint stock company with an authorized capital of 50 million Swiss francs, only half of which has been paid in. As of a recent date, 55 percent of the capital was held by the cantons and the cantonal banks and the remainder was widely distributed among private holders.

The Swiss National Bank has two main offices. The securities and the foreign exchange departments and the office of the Bank's Board of Directors are located in Zurich, the capital market and foreign exchange trading center of Switzerland. However, the departments concerned with note issue, the Government account, the management of the central bank's gold supply, and the central bookkeeping are located in Berne, the seat of the Federal Government. The Bank has 8 branches and 15 agencies in the major cities and towns of Switzerland.

The Swiss National Bank has the sole right of note issue. Furthermore, according to the revised national bank law of 1953, the central bank is responsible for the supervision of the money circulation, the regulation of currency and credit policies, facilitating domestic payments, and advising the Federal Government on currency matters.

2. CONTROL OF THE SWISS NATIONAL BANK

A Bank Council of 40 members, 15 elected by the stockholders and 25 by the Federal Council (the Swiss Cabinet), is the organization with general supervisory control of the Bank. The Bank Council is required to have adequate representation of commerce, industry, and agriculture. An Executive Committee of 10 members, elected by the Bank Council, is responsible for the close supervision of the management, and it must meet with the latter group at least once a month. A Board of Directors consisting of three members appointed by the Federal Council, after recommendation by the Bank Council, is the responsible authority for the day-to-day running of the central bank.

3. RELATION OF THE CENTRAL BANK TO THE GOVERNMENT

Through its powers of appointment and otherwise, the influence of the Government with the central bank is considerable, and from time to time the Federal Council has prescribed monetary policies for the Bank to follow. The Bank has permissive power to purchase both Federal and cantonal government securities for the temporary investment of funds, and it "cooperates" in the placing of new Federal and cantonal funds. The Bank is required to rediscount acceptances for financing strategic stocks at the minimum applicable rate.

4. RELATION OF THE CENTRAL BANK TO THE COMMERCIAL BANKS

The Swiss National Bank is not prohibited from dealing with financial institutions other than banks of deposit, but virtually all of its business, other than that with the Federal and cantonal governments, is with banks of deposit.

5. POWER OF THE CENTRAL BANK OVER THE INSTRUMENTS OF MONETARY POLICY

Although the central bank has the power to change the rates on rediscounts and advances, the bank has made little use of this power because rediscounting and resort to advances figure little in operations of Swiss commercial banks. Banks rarely go to the Swiss National Bank in order to improve their liquidity positions primarily because of the large sums flowing to them from foreign depositors and speculators. Furthermore, the Swiss National Bank does not have the power to adjust reserve ratios, for such control is held to be unconstitutional. Open-market operations cannot be carried on because the central bank has no portfolio of appropriate securities.

Left without any of the traditional powers of monetary and credit control, the Swiss National Bank has developed two other methods of regulating the degree of liquidity in the Swiss economy that have proven eminently successful. The basis of Swiss monetary control is the traditional willingness of its commercial banks to listen to the urgings of the central bank and to enter into ad hoc arrangements—"gentleman's agreements"—designed to maintain continued sound economic conditions.

Second, the currency swap technique, a relatively new development in the area of Swiss monetary control, is simply a Swiss adaptation of the corresponding practice introduced in the past several years in the area of international payments. On a number of occasions since 1961, the Swiss National Bank has entered into short-term swaps with Swiss commercial banks. By swapping U.S. dollars (or other currencies) with the commercial banks for Swiss francs, the central bank has been able to reduce the liquidity of the banking system by removing francs from circulation. When the central bank has wished to increase liquidity, the process has merely been reversed. In the final analysis, however, the Swiss National Bank could not make use of this method of credit control if the commercial banks were not as cooperative and as open to moral suasion as they have traditionally proven to be.

The Federal banking law does prescribe liquidity requirements for all banks, but the banks are under no penalty if they are temporarily deficient. These requirements are based upon a rather complicated formula involving various ratios of liquid assets to liabilities. The liquidity requirements are supervised by the Banking Commission, a group appointed by the Federal Council, and independent of both the Swiss National Bank and the Treasury.

6. CHANNELS OR SOURCES SUPPLYING BUSINESS CAPITAL

The Swiss National Bank cannot finance capital development. The commercial banks of Switzerland are "department store" banks, meaning that they engage in all types of banking business. Small businesses which are members of the credit unions (Raiffeisen Banks), a well-developed and wide spread movement in Switzerland, are able to obtain development financing through their local organizations.

CENTRAL BANKING IN THE UNITED KINGDOM

1. HISTORICAL SETTING

The Bank of England was chartered by act of Parliament in 1694. In 1844 it was given sole right of note issue. By the second half of the 19th century, the public service aspects of the Bank's activities began to eclipse its private banking business. It became the lender of last resort to the money market and the regulator of the great international gold and capital market in London.

2. OWNERSHIP, CONTROL, AND RELATION TO THE TREASURY

By 1926, relations between the privately owned Bank of England and the Government were so close that the then Governor, Montagu Norman, noted that the Bank had the right to offer advice but was always subject to the "supreme authority of the Government."

In 1946, the Bank was nationalized by act of Parliament. The Government acquired the entire capital stock of the Bank, and was empowered to appoint the Governor, Deputy Governor, and Directors of the Bank for fixed terms. The Treasury was empowered to give directions to the Bank, after consultation with the Governor. The Bank in turn was empowered, upon authorization from the Treasury to request information from and give directions to the commercial banks when it thought this necessary in the public interest.

Nationalization of the Bank was generally regarded as primarily codifying by statute an existing relationship between the Bank and the Treasury. Since nationalization, the Bank has continued to operate and to advise the Government in much the same way as before.

3. INSTRUMENTS OF MONETARY POLICY

Monetary control is exercised mainly by a combination of open market operations and discount policy. This is done on the basis of certain institutional arrangements peculiar to the British monetary system. Unlike the Federal Reserve System, the Bank of England does not lend to commercial banks but only to discount houses, whose main business is to underwrite the weekly Treasury bill issue with call loans secured mostly from the London clearing banks. These banks account for 70 percent of the total deposits of the United Kingdom's commercial banks. As a matter of traditional practice, the clearing banks maintain cash reserves (vault cash plus deposits at the Bank of England) equal to 8 percent of gross deposits and, at the same time, liquid assets (cash reserves, call loans, Treasury bills, and commercial bills) equal to 30 percent of gross deposits. In addition to these two reserve requirements, a "special deposit" scheme was announced in July 1958 and was in effect from mid-1961 to mid-1962. Under that

scheme, the clearing and Scottish banks could be asked to maintain interest-bearing deposits with the Bank of England up to as much as 3 percent of gross deposits.

The Bank of England restricts credit by selling Treasury bills or Government bonds through its "special buyer" (a discount house) or the "Government broker" (a securities dealer), thus absorbing cash from the banking system. To restore their cash and liquidity positions, the banks can withdraw their call loans from the discount houses; the discount houses in turn may be forced to borrow from the Bank of England at bank rate. In contrast with the Federal Reserve discount rate, bank rate is a penalty rate, being higher than the average yield from the discount houses' earning assets. If the discount houses are forced to borrow heavily from the Bank of England, they tend to lower their bid at the following week's Treasury bill auction. The higher rate of interest on Treasury bills, along with selling pressures generated by the Bank of England itself, tends to force up money-market interest rates generally. A rise in bank rate may then follow.

By longstanding practice, a change in bank rate is followed immediately by corresponding adjustments in commercial bank deposit and lending rates. Recently the Bank of England took a step to obtain more scope to raise London money-market rate (to attract or retain funds of nonresidents) without forcing up domestic banking charges. Reverting to a technique formerly in effect in the 1920's, the Bank on March 19, 1963, made loans to the discount houses at a rate *higher than* bank rate. On that occasion, the Treasury bill rate moved closer toward bank rate, but since bank rate was unchanged, commercial bank loans and deposit rates were not affected.

In contrast to the U.S. banking system, "moral suasion" is a significant instrument of control, as the Governor of the Bank of England meets frequently with the chairmen of the London Clearing Bankers Association and of the London Discount Market Association. Gentlemen's agreements for qualitative controls are relatively easy to establish. For example, from mid-1961 to mid-1962, the banks agreed to give priority to loan requests from export industries and not to make loans for financing personal consumption and real estate developments.

4. CHANNELS OR SOURCES SUPPLYING BUSINESS CAPITAL

The Bank of England owns 30 percent of the share capital of the Finance Corporation for Industry, Ltd., which was formed in 1946 "for the reequipment and development of major industries with a view to promoting efficiency." The Bank also has a token participation in the Industrial and Commercial Finance Corp., Ltd., also set up in 1945, which has as its main object "the provision of credit and finance by means of loan capital and share capital for industrial and commercial concerns in Great Britain, particularly in cases where the existing facilities provided by banking institutions and the stock exchange are not readily or easily available."



CIEP CORRESPONDENCE PROFILE

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From: Burns, Arthur
 TO: Pres
 PMF ☒
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SUBJECT: Fed. Chairman sends info on Central Banks

Originator's Ref. No. Xeroxing Instructions

Do Not Xerox Attachment for NSC And Info Addres

INTERNAL ROUTING AND DISTRIBUTION

ACTION REQUIRED

MEMO FOR PMF
 MEMO FOR PRES
 REPLY FOR *PMF* SIGNATURE
 MEMO TO
 RECOMMENDATIONS
 Refer to
 ANY ACTION NECESSARY
 CONCURRENCE
 DUE DATE: *6/27/72*
 COMMENTS: (Including Special Instructions)

	ACTION	INFO	REC CY FOR
ADVANCE CYS TO			
Executive Secretary		☒	
Deane Hinton			
Bob Miller			
Jim Loken			
Jon Rose			
Gus Weiss			
Larry Brady			
Dave Gunning			
Dick Erb	☒		
John Schaefer			

DATE	FROM	TO	ACTION REQUIRED	Init
<i>6/21/72</i>	<i>Erb</i>	<i>PMF</i>	<i>Signature & file</i>	
<i>6/21</i>	<i>E/s</i>	<i>PMF</i>	<i>" "</i>	
<i>6/24</i>	<i>PMF</i>	<i>E/s</i>	<i>Disposal</i>	

CROSS REF WITH _____ NOTIFY _____ DATE _____
 SEE LOG _____ DISPATCH: LETTER/MEMO _____
 JOINED BY LOG _____ COPIES: (AS MARKED ABOVE) _____

SPECIAL DISPOSITION COMMENTS

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Other	

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THE WHITE HOUSE
WASHINGTON

July 17, 1972

EXECUTIVE

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ED

JUL 18 1972

Cygnus Road

TW 7/18
2:00 p.m.

MEMORANDUM TO: JOHN EHRLICHMAN

FROM: PAT BUCHANAN

2310

*John K. * * * CECIL*
These two fellows, Wilhelm and Thompson, have some ideas which I think are worth a hearing by you for 20 minutes or so -- as the ideas may be on the "positive" side -- ones which we can utilize in the fall campaign. The most attractive politically would be this program whereby old folks could deed their houses over to a Savings & Loan, be given a lifetime additional income, for their asset -- yet remain in their homes so long as they lived. Instead of the home being a burden to old people -- forced to pay both upkeep and property taxes out of a meager income, the asset would be liquified, an additional income provided for old couples, and at death the unpaid balance would go to the heirs, with the S & L selling off the property itself. The thing to me has a hell of a political appeal to the older constituency where we are doing well. This coupled with their voucher plan, in my judgment, deserve a full hearing -- and I told them I would intercede with you to see if such could be arranged. I think a half hour invested in this would be worth our while.

Buchanan

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SEP 8 1972

FILES

THE SECRETARY OF COMMERCE
WASHINGTON, D.C. 20230

50906
THE WHITE HOUSE
WASHINGTON

1972 JUL 19 AM 8 49
July 17, 1972

EXECUTIVE SECRETARIAT
CIEP

EXECUTIVE

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FG21

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C028

WRISTON, WALTER B.

MEMORANDUM FOR: Peter Flanigan

FROM: Peter G. Peterson

You should be aware of this.

cc: Honorable William Eberle

EXECUTIVE

ME3/NA

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July 19, 1972

* *National Bankers Association*

It has been highly gratifying to follow the dynamic growth of our nation's minority banks since the launching in October 1970 of my Administration's minority bank deposit program. Deposit totals alone have increased by 108 percent since that time, and the benefits to the communities served by these institutions have been immeasurable.

Their success is one of new businesses started, old businesses rejuvenated and expanded and countless newly created jobs. It is one of more consumer loans, mortgage loans and educational loans. It is one of greater opportunity for self-help for the average citizen.

*Orig P/Up
by Ed Gannon
on 7/20
at 2pm*

As the directors of our nation's forty-two minority banks hold their first senior management seminar, I welcome the chance to applaud your impressive record of accomplishment and to express the hope that you will discuss new and better ways to make your institutions even more responsive to the need for jobs and for the stimulation of sound economic growth.

I have asked Deputy Secretary Charly Walker and his assistant, Ed Gannon, to report back to me the new ideas and recommendations that result from your sessions and that can be of assistance as the Administration seeks to further improve the ability of our minority banks to meet growing community demands.

May you have a most productive meeting.

Sent to: Mr. Edward J. Gannon
Treasury Department

15/ Richard Nixon

RN:Hasek:hja

cc: Rose Mary Woods/J. Warren/M. White/P. O'Donnell/E. Hasek/CF

EVENT: JULY 21, 1972

Requested by Mr. Gannon.

Approved by Ray Price.

JUL 22 1972

CENT

gah/

BROUGHT FORWARD

EXECUTIVE

FI 2

7-24-72

Previously filed

Date

Name Lopez, John K.

Organization _____

Same

7-31-72

New File Symbol

Date

FINAL ACTION Memo to Wm B Camp
from Max Sullivan

July 24, 1972

MEMORANDUM FOR: HENRY CASHEN

FROM: DAVID PARKER

SUBJECT: Proposal for Meeting with Officers
of the New York Savings and Loan
League

Confirming telephone conversation, the attached Schedule

Proposal was disapproved.

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THE WHITE HOUSE
WASHINGTON

file

Date: July 21, 1972

MEMORANDUM FOR: CHARLES COLSON

FROM: DAVID PARKER

RE: Officers of the New York Savings and
Loan League

The attached is being sent to you for your advice and recommendation.

Would you advise as soon as possible.

Thank you.

COMMENTS:

Dave —
Yes!
— Dick

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JUL 26 1972
CENTRAL FILES

EF

EXECUTIVE ④
FI2
PR 7
DI2/ST 32

HCD
+1/D memo
to
Cashen
High Priority

THE WHITE HOUSE
WASHINGTON

SCHEDULE PROPOSAL

Date: July 26, 1972

FROM: Henry C. Cashen II

VIA: Dwight L. Chapin

MEETING:

With Officers of the New York Savings and Loan League

DATE:

~~TUES. 7/25~~ 12 NOON
Monday, July 24, 1972

PURPOSE:

To recognize and congratulate the League on their voluntary program which assessed each of its member institutions \$200 for every \$1 million in capital, which amounted to \$2.7 million in flood relief aid to New York. This money will be made available to flood victims of Agnes on a priority basis and in the form of grants. A voluntary arrangement of this sort is the first of its nature and could establish a tremendous precedent by private industry in assisting the Federal Government in disaster situations. It might also generate similar action by commercial and savings banks to the credit of the President.

FORMAT:

- Oval Office
- Executives of the New York Savings and Loan League, as well as Mr. Glen Troop, Staff Vice President of the U. S. Savings and Loan League. (A specific list will be provided upon approval of the meeting).
- 5 minutes

SPEECH MATERIAL:

None necessary. The meeting is specifically for the President to acknowledge and congratulate the New York League.

PRESS COVERAGE:

Full press and photo coverage.

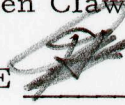
STAFF: John D. Ehrlichman, Preston Martin, and possibly George Shultz

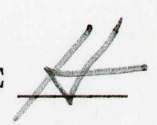
RECOMMEND: Caspar Weinberger, Dick Cook, and Henry Cashen, Colson

PREVIOUS PARTICIPATION: None

BA
BACKGROUND: None

PRESS FOLLOW-UP: To be coordinated by Henry Cashen, Dick Cook, and Ken Clawson

APPROVE 

DISAPPROVE 

GROUP IS IN TOWN TODAY!

July 31, 1972

MEMORANDUM FOR

Honorable William B. ^xCamp
Comptroller of the Currency

Your prompt response to our request is most appreciated. Mr. Ehrlichman has reviewed the draft of your response to Mr. Lopez and finds it most satisfactory. Would it be possible for you to forward an information copy of that response to Mr. Donald I. Baker of the Antitrust Division of Justice.

Thank you again for your assistance.

Tod R. Hullin
Executive Assistant to
John D. Ehrlichman

P. S. Mr. John Lopez's address is:

5 BANCO
Post Office Box 640
Cupertino, California 95014

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Office Memorandum • UNITED STATES GOVERNMENT
THE COMPTROLLER OF THE CURRENCY

JUL 29 1972

TO : Mr. Tod R. Hullin
Executive Assistant to
Mr. John D. Ehrlichman

DATE: July 27, 1972

FROM : Mr. William B. Camp
Comptroller of the Currency

WBC:rcs

SUBJECT: Banco de California del Norte (BANCO)

In reply to your memorandum of July 24, 1972, attached is a draft of a letter which I propose to send to Mr. John K. Lopez, Executive Assistant to the Board of Directors of Banco de California del Norte. The copy of Mr. Lopez' letter to Mr. Ehrlichman dated July 3, 1972 supplied to this office did not contain an address for Banco de California del Norte. Consequently, we have been unable to mail the enclosure.

Please advise whether the enclosure is satisfactory to Mr. Ehrlichman and also the address of Mr. Lopez.

Mr. J. K. Lopez
Executive Assistant to the
Board of Directors
Banco de California del Norte
Investment Corporation

Dear Mr. Lopez:

Mr. John D. Ehrlichman has referred your letter of July 3, 1972 to this office for comment and reply. You have raised with Mr. Ehrlichman the proposal that your organization Banco de California del Norte (BANCO) acquire nineteen of the existing branch offices of Wells Fargo Bank and operate said branches thereafter as offices of a new bank to be capitalized and owned by BANCO. You have advised that BANCO is a California investment corporation owned by members of Mexican-American, Black and Asian minority groups and have requested the assistance and cooperation of the Government in forwarding this undertaking.

You will recall, I am sure, the occasion of your visit some time ago to our office, at which time you met with Deputy Comptroller Richard Blanchard and myself to discuss this project. We advised you at that time that we were in full sympathy with your goals and would gladly entertain any application for a new national bank you wish ^{to} submit. The matter of the purchase of existing branch offices from Wells Fargo Bank of California is obviously not within the control of the Government. We evidently did not make this point

clear at our recent meeting and we hope that this letter will serve to clarify this point.

As you know, this office has approved a merger of the Wells Fargo Bank with the First Western Bank and Trust Company but only on the condition that prior to the merger forty-one of the branches of First Western, located in northern California, be sold to interests having no connection with either bank. Your proposal lists nineteen branches which your group is interested in acquiring. However, eleven of the nineteen are located in southern California and therefore are not required to be sold by First Western prior to the merger. The sale of those offices is therefore primarily a matter for private negotiation between yourself and the present owners, although the approval of the appropriate federal banking agency would have to be obtained pursuant to the Bank Merger Act. Also, if the purchaser is going to be a new bank, the chartering authority for the new bank (either the State of California, if the new bank is a state-chartered bank or this office, if it is a national bank) would have to be satisfied that the terms of the purchase were reasonable and capable of fulfillment by the new bank.

With respect to the eight northern California offices we assume that they are within the group required to be sold by First Western. Therefore, under the terms of the merger approval, our prior approval of prospective purchasers must be obtained. As we advised you

previously, we consider your group to be a favorable prospective purchaser. Assuming that adequate capital and management could be arranged, our office would give every consideration to an application for a new bank to take over any of the northern California offices of First Western which must be sold.

There is therefore no impasse in this office as far as any of the above matters are concerned. Whenever you are able to work out a deal with First Western and Wells Fargo, we shall be glad to receive and process promptly your new bank application and any other applications required to be obtained here.

Your reference to a governmental impasse may involve the Anti-Trust law suit which has been brought by the Department of Justice to enjoin the Wells Fargo-First Western merger. Until this suit is settled or decided, the merger cannot take place and it may be that First Western is only interested in selling some of its offices as part of a successful merger with Wells Fargo. If such is the case, your plan can only go forward as part of an overall disposition of branch offices sufficient to enable the Anti-Trust Division to permit the merger.

The question of settlement of the litigation is within the jurisdiction of the Anti-Trust Division. We are advised that a copy of your letter to Mr. Ehrlichman has been supplied to Mr. Donald I. Baker, Director of Policy Planning, Antitrust Division, Department of Justice and we would assume that you will hear from him directly with regard to this aspect of the matter.

Please be assured that this office stands ready to cooperate
in every way possible with the aims of your group.

Sincerely,

William B. Camp
Comptroller of the Currency

JW

THE WHITE HOUSE

WASHINGTON

July 24, 1972

MEMORANDUM FOR

✓ Honorable William B. Camp
Comptroller of the Currency

and

Mr. Donald I. Baker
Director of Policy Planning
Antitrust Division
Department of Justice

Attached is a letter John Ehrlichman received from John K. Lopez of the Board of Directors of BANCO. Because of your involvement in this case, Mr. Ehrlichman has asked me to request your advice on how to handle this correspondence. If you feel that a letter from him should be sent to Mr. Lopez, we would most appreciate your forwarding a draft response for Mr. Ehrlichman's signature.

If you feel that the letter should come from you, please forward a copy of your response.

Your assistance in this matter would be most appreciated.



Tod R. Hullin
Executive Assistant to
John D. Ehrlichman

Attachment

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JUL 27 1972

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HU 2
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FG 12-4

July 24, 1972

MEMORANDUM FOR

Honorable William B. ^xCamp
Comptroller of the Currency

and

Mr. Donald I. ^xBaker
Director of Policy Planning
Antitrust Division
Department of Justice

Attached is a letter John Ehrlichman received from John K. ^xLopez of the Board of Directors of ^xBANCO. Because of your involvement in this case, Mr. Ehrlichman has asked me to request your advice on how to handle this correspondence. If you feel that a letter from him should be sent to Mr. Lopez, we would most appreciate your forwarding a draft response for Mr. Ehrlichman's signature.

If you feel that the letter should come from you, please forward a copy of your response.

Your assistance in this matter would be most appreciated.

Tod R. Hullin
Executive Assistant to
John D. Ehrlichman

Attachment

July 3, 1972 ltr to JDE from
Mr. J. K. Lopez
BANCO
Post Office Box 640
Cupertino, California 95014
3

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JUL 21 1972

J. K. LOPEZ

BANCO de CALIFORNIA del NORTE INVESTMENT CORPORATION

Mr. John Ehrlichman
Assistant to the President
Office of the President
The White House
Washington, D.C.

July 3, 1972

Re: NATIONAL ECONOMY POLICY

Dear Mr. Ehrlichman:

I am sure you are familiar with the numerous direct and indirect pronouncements by Congressional Chairman, Leaders and our President, regarding increased meaningful opportunities for economic participation by the disadvantaged populations of our nation.

However, a California Investment Corporation of Mexican-American, Black and Asian ownership, Banco de California del Norte (BANCO) has had difficulty in attempts to translate these pronouncements into real actions.

Seemingly due to conflicting interpretations of the "national good" by The Comptroller of the Currency, the Anti-Trust Division of Department of Justice and the private sector (Wells Fargo National Bank and Trust Association) BANCO has been prevented from participating in "increased opportunities" as annunciated by Congressional and Administration leadership.

To wit: BANCO has made a business offer to participate in the Banking system of the nation through purchase of the assets of fourteen (14) -- nineteen (19) operating banking facilities from Wells Fargo Bank of California but has found itself frustrated and confounded by a series of attitudes by government officials.
(Detail attached)

In the case of the agencies involved, all agencies state support for our proposal but state that some agency philosophies and perogatives make resolution of our request difficult.

Our proposal has been in the hands of the executive staffs of two agencies;

- ✓(1) Comptroller of the Currency (Mr. William Camp)
- ✓(2) Anti-Trust Division-Department of Justice (Mr. Donald Baker)

The result of this impasse has been that a unique opportunity for our government to demonstrate its effectiveness in developing full economic participation by minority owner-investors has been stalemated.

It is ironic that the opportunity for minority ownership of a 14+ branch statewide banking system in a state with an immense minority population, and requesting no government subsidy of any kind, yet receiving private sector assistance, has been aborted by those public advocates of opportunity ----- the federal administration.

I sincerely hope that this situation can be resolved to the benefit of the interests of the responsible minority populations of California, as well as benefit the nations confidence in it's economic institutions.

May we hear from the President in terms of action before July 20, 1972.

Sincerely,



John K. Lopez
Executive Assistant to the Board of Directors

415-692-4756

408-245-1273

713-672-4766

PROPOSAL TO ACQUIRE NINETEEN
BRANCHES OF FIRST WESTERN BANK
FROM WELLS FARGO BANK

I. Introduction

It is proposed that in conjunction with the pending merger of First Western Bank and Trust Company (First Western) into Wells Fargo Bank, National Association (Wells Fargo) that nineteen First Western branches be transferred to Banco Del Norte Investment Corporation (Banco). The branches include five in the San Francisco bay area, three in the central valley and eleven in the Los Angeles Basin. (See schedule A attached hereto).

The transfer will be of the demand and time deposits and miscellaneous liabilities at each branch, the loans at each branch and the physical properties at each branch, together with securities and other investment assets.

II. The Purchaser

Banco is a California Corporation now formed to make this acquisition. It will be predominantly owned by persons classified as members of minority races, principally Mexican Americans together with some black, orientals and non-minority persons. This minority ownership will include several leading members of the Mexican American community in the San Francisco Bay Area.

III. The Transaction

Banco proposes to acquire assets, assume liabilities

and issue a note and pay cash to Wells Fargo in amounts stated below. Banco then proposes to transfer all assets so acquired (excluding premium or Goodwill) and all liabilities assumed (excluding the note payable to Wells Fargo) to a newly formed National Bank (New Bank). Banco proposes to immediately commence the required filing under the Bank Holding Company Act, and New Bank will commence the required filings with the Comptroller of the Currency.

Banco proposes to assume liabilities for the nineteen branches in the amount of \$180,400,000. \$107,000,000 of existing loans will be transferred. In addition approximately \$82,800,000 of cash, investment securities, fixed assets and other assets will be transferred, resulting in a total asset transfer of \$189,800,000 and therefore a capitalization of \$9,400,000 or approximately five per cent of total assets. (See Schedule B)

Banco proposes to acquire such assets and assume such liabilities from Wells Fargo at a purchase price which includes a \$2,900,000 premium in addition to net book value (capitalization) of \$9,400,000.

Banco will then transfer all of the assets at acquisition value (omitting Goodwill) to New Bank in exchange for \$9,400,000 of New Bank stock.

New Bank will then operate the nineteen branches as stated in the proforma statement attached hereto as

Schedule C

As a separate and distinct agreement but conditioned on consumation of this agreement it is proposed that Wells Fargo transfer a new branch authority issued to it for San Jose without other assets other than a lease to New Bank for nominal consideration.

IV. The Financing

It is proposed that Banco will be formed with a capitalization of \$6,000,000 in fully paid common stock. Banco will pay \$5,000,000 in cash to Wells Fargo, and will then issue its promissory note to Wells Fargo for the balance of the purchase price of \$7,300,000.

Profits will flow to Banco through non taxable dividends and will be used in part to retire the Wells Fargo Note. The proposed note will be interest only at $7\frac{1}{4}$ per cent for three years, thereafter fully amortized over twelve additional years in equal quarterly installments, including interest at $7\frac{1}{4}$ per cent per year. See Schedule D for an analysis of debt service capability.

V. The Operation

New Bank will be nineteen branches without general bank organization and administration. This will be developed by the following: First, experienced top level management is being recruited to head New Bank. An experienced president will be selected with younger and highly qualified persons to start building a management team. Second, certain routine matters will be handled by Wells Fargo Bank and Wells Data

Corporation including the broad spectrum of operations assistance and correspondent services. Third, Wells Fargo has agreed to make consultants available in the areas of asset management (investment counseling and credit and loan advice), and in routine operations.

VI. Conclusion

A review of the proforma balance sheet and operating statement indicates that a viable bank operation can be established with these nineteen branches. With the assistance of Wells Fargo and the management team selected by the founders it is our strong conviction the New Bank can become a significant and successful member of the community of National Banks providing a constructive service to the public (especially certain minority elements of the public) and a significant equity ownership in banking by members of the same minority.

First Western Bank

Schedule of Branches

Northern California

Fruitvale
Union City
Castro Valley
Mission - San Francisco
Fairfield
Fresno - Mayfair Center
Patterson
Sacramento - Country Club

Southern California

Watts
Long Beach - Pacific
Bellflower
Pasadena - Colorado - Rosemead
Lakewood
Torrence
Alhambra - 9th & Valley
Pomona
Anaheim
Azusa - Glendora
Westwood

SCHEDULE A

NEW BANK
PRO FORMA BALANCE SHEET

<u>Assets</u>	(000 omitted)
.Existing Loans	107,000
Cash	82,800
.Reserves	
Fixed Assets	
Other Assets	
Other Investments	
Total Assets	<u>189,800</u>

<u>Liabilities</u>	
Demand Deposit)	178,000
Public Demand	
Time	
Public Time	<u>2,400</u>
Other Liabilities	
	180,400
Capital (Based on 5% of Total Assets)	<u>9,400</u>
Total Liabilities	<u>189,800</u>

SCHEDULE B

NEW BANK - 19 BRANCHES
 . PROFORMA STATEMENT OF EARNINGS
 AND CASH FLOW

	Actual 12/31/71 (000 omitted)	Proforma (000 omitted)
Revenues	\$12,500	\$12,500
Expenses	<u>9,400</u>	<u>9,400</u>
Earnings Before Overhead Allocation	3,100	3,100
Overhead Allocation	<u>2,000</u>	<u>1,600</u>
	1,100	1,500
Loan Losses and Sundry	<u>200</u>	<u>400</u>
Earnings Before Income Taxes	900	1,100
Income Tax	<u>-</u>	<u>-</u>
Net Earnings	900	1,100
Estimated Non Cash Item Principally Depreciation	<u>200</u>	<u>200</u>
Projected Cash Available for Amortization of Note and Working Capital	<u>\$ 1,100</u>	<u>\$ 1,300</u>

SCHEDULE C

NEW BANK - 19 BRANCHES

PROJECTED TERMS OF PURCHASE

(000 omitted)

Purchase Price

Net Book	9,400
Premium	<u>2,900</u>
Total	12,300

Terms of Purchase

Cash Down	5,000
Balance - 7½ note interest only for 1st three years and principal and interest over next 12 years, paid quarterly	<u>7,300</u>
	12,300

Projected Cash Requirements for Payment of Note

1st year interest only	530
2nd year interest only	530
3rd year interest only	530
4th thru 15th year	916

Projected Cash available for Payment

Based on actual operation	1,100
Based on projected operation	1,300

SCHEDULE D

ANALYSIS OF FOURTEEN FIRST WESTERN BRANCHES
AS ACQUISITION BRANCHES FOR
BANCO DEL NORTE INVESTMENT CORPORATION

Following is an analysis of fourteen First Western branches proposed to be acquired by Banco, divided between acceptable and nonacceptable, with the nonacceptable listed as (1) unprofitable, (2) impossible management situations or (3) socio-economic problems.

I. Acceptable branches are:

1. Alhambra - 9th & Valley
2. Pomona
3. Anaheim
4. Azusa - Glendora
5. Westwood Village

II. Nonacceptable branches are:

A. Unprofitable - the following branches are unprofitable according to information supplied by Wells to Banco, or in some cases their profitability is so minimal that any change in ownership, management or competition situation would guarantee an operating loss.

1. Pasadena - 4th & Colorado
2. Rancho Park
3. Century Sepulvada (this shows a book profit only due to certain large loans transferred from L.A. Main which Banco could not expect to retain).

B. Management problems - the following branches present operating or management problems which are considered insurmountable for Banco. Each is discussed separately.

1. Alhambra. The former manager of many years resigned within the last sixty days to become President of a new chartered bank in Alhambra. During his fifteen years at First Western - Alhambra, he developed a substantial following and a significant standing in the community. It is conceded by everyone familiar with this situation that he will take a substantial part of First Western's business with him. Banco could not possibly hope to effectively deal with this problem while going through its take-over process.
2. Pasadena - Colorado Virginia. This branch is one and a half miles from Pasadena - Colorado Rosemead and would draw from many of the same potential customers. With the vast area Banco is covering it does not want to bunch its own branches thus diluting its capacity to penetrate its potential market. In addition, this branch is being moved into new and very expensive offices and Banco would seriously question its profitability in the near future due to this move.

3. Pasadena - Civic Center. The same problem regarding closeness to new Banco branches exists here also. Further, this branch is in a poor location with poor parking. Banco's ability to penetrate the market here would be very limited.
4. Pasadena - Main. Again, Banco has proposed one Pasadena branch and does not feel it should take over another. Also, this branch is much larger and more complicated to operate than any other Southern California branch proposed for Banco acquisition. The trust department alone would present impossible operating difficulties for Banco at this time. Further, Banco's ability to hold much of this business would be very questionable even if it could organize to handle it.

C. Socio-economic problems. The following branches are in high class socio-economic areas with little or no minority customers or potential customers. The ability of Banco to hold deposits and loans would vary depending on a number of factors such as the notoriety of Banco's minority interest, ability to maintain management and social attitudes and prejudices of customers. However, after thorough analysis Banco is convinced that it is a near certainty that acquisition of these branches by it would result in their becoming unprofitable. They are

1. San Marino
2. Olympic - Oakhurst

EXECUTIVE

RGIR

FIR

SPT

DESHAZO, Thomas G.
HELMS, James M.
NEWMAN, Cynthia
STANHAGEN, Wm. H.

E
EXI

August 3, 1972

MEMORANDUM FOR: WILLIAM CAMP
FROM: PATRICK E. O'DONNELL
SUBJECT: The Fidelity Bank of Virginia Dedication,
Lynchburg, Virginia, October, 1972

We have been requested to secure an Administration representative to attend the dedication of the new Fidelity Bank of Virginia headquarters on an open date in October. They are most anxious that a spokesman attend and it occurred to me that you might be appropriate for this event. Would you consider adding it to your schedule when they confirm a date?

Many thanks for your consideration.

8-30-72 Called Mr. Helm who was out of town. Left word for him to return call.

9-1-72 Spoke to Helm who was delighted about De Shazo.

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SEP 10 1972

August 3, 1972

EXECUTIVE

FI 3

FI 2

BE 3

FG 335

Dear Mr. Wydman:

FG6-11-1 / EHRLICHMAN, JOHN D.

Thank you for your note of July 26 enclosing your proposed Stock Option Plan which was sent to the Pay Board on March 9 of this year.

The operation of the Pay Board is similar to the operation of a Federal regulatory agency and there are very real legal restrictions which govern contacts from the White House. The President's Legal Counsel advises us that it would be inappropriate for us to become in any way involved in a case which is before the Pay Board. I wish this response could be more positive, but unfortunately, it is not possible for us to be of assistance to you.

Sincerely yours,

John D. Ehrlichman
Assistant to the President
for Domestic Affairs

Mr. Perry B. Wydman
President
The Third National Bank
and Trust Company
Dayton, Ohio

cc: Mr. Cy Laughter
3rd National Bank & Trust Co.
34 North Main Street
Dayton, Ohio 45402

3

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AUG 7 1972
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Department of Justice
Washington

EXECUTIVE

BE2-2

FI2

FG17-14

Wilson, Bruce E.

⑥

AUG 15 1972

Mr. John D. Ehrlichman
Assistant to the President
for Domestic Affairs
The White House
Washington, D.C. 20500

AUG 16 1972

Dear Mr. Ehrlichman:

On July 24, 1972, your assistant, Mr. Hullin, requested the Department's advice as to an appropriate response to a letter which you received from Mr. John K. Lopez. Mr. Lopez' letter described a proposal by Banco de California del Norte (Banco) to acquire between 14 and 19 offices of First Western Bank and Trust Company and indicated that Banco's plan to promote "minority group" participation in banking was being frustrated by the actions of government officials. We have set out below the factual considerations involved and have prepared a draft response to Mr. Lopez for your signature.

The Department of Justice presently has a law suit pending against Wells Fargo Bank, N.A. to prevent it from acquiring First Western. The proposed sale of banking offices to Banco is part of a proposed settlement of that litigation.

The merger of Wells Fargo, the third largest commercial bank in California (June 30, 1972 deposits--\$6.7 billion), and First Western, the eighth largest such bank (June 30, 1972 deposits--\$1.1 billion) is one of the largest bank mergers ever proposed. The merger was approved by the Comptroller of the Currency, in spite of the advice of the Federal Reserve Board and the Department of Justice to the effect that the merger's effect on competition would be substantially adverse. Subsequently, the Federal Deposit Insurance Corporation concluded, on the basis of its own analyses that the competitive effect of the merger would be substantially adverse. I attach, for your information,

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AUG 16 1972
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EXECUTIVE

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FEDERAL HOME LOAN BANK BOARD

WASHINGTON, D. C. 20552

101 INDIANA AVENUE, N. W.

FEDERAL HOME LOAN BANK SYSTEM

FEDERAL HOME LOAN MORTGAGE CORPORATION

FEDERAL SAVINGS & LOAN INSURANCE CORPORATION

PRESTON MARTIN
CHAIRMAN

September 25, 1972

EXECUTIVE SECRETARIAT
CIEP

1972 SEP 26 AM 9 58

THE WHITE HOUSE
WASHINGTON

Honorable Peter M. Flanigan
Assistant to the President
The White House
Washington, D.C. 20500

Dear Peter:

Our Board has decided to lift the nine-year-old moratorium on the conversion of mutual S&L's into stockholder owned savings and loans, effective April, 1973. This is within our present authority: indeed, the legal basis for maintaining the moratorium is very slight. We will continue to press for legislation enabling a Federal stock form, since the expected small number of conversions will now result in state licensed stock institutions.

The applications we now have are, in the main, from well managed, large institutions with acute equity capital needs. Our "test case", Citizens Savings and Loan of San Francisco, went smoothly, and resulted in a capital infusion facilitating a subsequent merger clearing up a problem.

Please note that our seven month lead time gives plenty of opportunity for Congressional and industry comment and planning. The details are in the attached letter to you.

Sincerely,

(Pres)

Preston Martin

Attachment



PRESTON MARTIN
CHAIRMAN

FEDERAL HOME LOAN BANK BOARD

WASHINGTON, D. C. 20552

101 INDIANA AVENUE, N. W.

FEDERAL HOME LOAN BANK
SYSTEM

FEDERAL HOME LOAN
MORTGAGE CORPORATION

FEDERAL SAVINGS & LOAN
INSURANCE CORPORATION

September 25, 1972

Honorable Peter M. Flanigan
Assistant to the President
The White House
1600 Pennsylvania Avenue, N. W.
Washington, D. C. 20500

Dear Mr. Flanigan:

Enclosed is a copy of a Board Resolution, dated September 22, 1972, terminating the moratorium which the Board has maintained since December 5, 1963 on conversions of savings and loan associations from the mutual to stock form, effective upon the adoption of final conversion regulations. The reasons for this action are set forth in the resolution.

The Board's staff is directed by the Resolution to submit to the Board no later than October 31, 1972 draft revised regulations and forms, procedures and guidelines for processing applications for such conversions. The purpose of this letter is to advise you of the main principles which will be embodied in these draft regulations, forms, procedures and guidelines. They will be published in the Federal Register in proposed form and a comment period in excess of the minimum 30 days will be authorized. The Resolution also sets an April 30, 1973 target date for adoption of final regulations.

1. The Accountholders Own the Association: Under this principle, the Board will require that all stock issued in connection with the conversion be distributed solely to the eligible accountholders pro rata to their interest in the association. No distribution to public bodies and no preferential distribution to management will be allowed. In addition, the conversion stock must be distributed to accountholders without cost to them.

2. Full Disclosure: With respect to proxies, proxy statements, offering circulars, and similar instruments, the Board will require full and accurate notice and disclosure analogous to the procedures and requirements of the Securities and Exchange Commission.

Honorable Peter M. Flanigan
Page Two

3. Fair Pricing of Securities: The Board will require that the stock to be distributed be carefully and independently valued and that the plan of conversion include a mechanism whereby each accountholder who wishes to sell his conversion stock be able to realize it in cash at the time of conversion in a reasonably direct and efficient manner.

4. Continuity of Management: Full disclosure and fair pricing provide fundamental protections for incumbent management. In addition, the Board will require that directors of the converting association continue as directors of the converted association until the next annual meeting. The Board will also authorize the establishment of management contracts, stock options, and such other methods of insuring stability and continuity of management as are employed in corporations generally. The vote required to approve a plan of conversion will normally be two-thirds of all votes outstanding. Plans will be authorized to include an agreement by the association with the Board that Board approval will be required on changes in directors not proposed by management for a period of time following conversion.

5. Prevention of Unnecessary Shifts of Savings Funds: The Board will prohibit all advertising and promotional activities regarding conversions by associations. Eligibility to participate in the conversion distribution will be determined as of a fixed record date or dates in the past. Due to the complexity of the conversion process and the necessity of careful review, the number of approvals of conversion applications within any given time frame will be limited. The normal course of the application process will insure that approvals of conversions will be geographically dispersed.

6. Full Board Review: The Board will require that all plans of conversion be given preliminary approval by the Board prior to submission to a vote of the accountholders and final approval following the vote. The Board will exercise its full regulatory authority in monitoring the implementation of all conversion plans.

7. Coordination with State Authorities: No plan of conversion will be approved finally by the Board which has not received all requisite approvals from State authorities. The Board's forms and procedures will be designed to be in coordination with State supervisory authorities to the extent practicable.

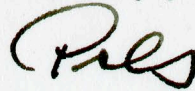
5/1/82

Honorable Peter M. Flanigan
Page Three

8. Other Provisions: Appropriate provisions will be adopted to prevent reduction of the Federal Insurance reserve and to insure that each accountholder shall receive, without any additional payment, a withdrawable account or accounts in the converted association equal in withdrawable amount to such accountholder's account or accounts in the converting association. Provisions will also be adopted to prevent insiders from being able to profit by certain deposits made within a period prior to the distribution record date.

The Board would welcome your comments on the foregoing principles and on our proposed regulations. The Board hopes to submit to you, early in the next Congress, careful and detailed statutory amendments authorizing the chartering of Federal stock associations.

Sincerely yours,



Preston Martin
Chairman

Enclosure

51182

FEDERAL HOME LOAN BANK BOARD

No. 72-1112

Date: September 22, 1972

WHEREAS, the Board has maintained, since December 5, 1963, a moratorium on conversions of insured savings and loan associations from the mutual to stock form;

WHEREAS, such period is an extensive period for the withholding of a statutorily authorized function;

WHEREAS, the Board has consistently favored a policy allowing associations to choose freely their forms of organization and the Board recognizes that the moratorium has effectively frozen the major part of the savings and loan industry into the mutual form regardless of the wishes of accountholders and management; and

WHEREAS, the Board believes that, as a result of careful study of conversions, a recently-conducted test case and review of several study applications, it now has the information and experience to be able to process conversions in a manner that is equitable and in the public interest;

NOW, THEREFORE, IT IS HEREBY RESOLVED, that the moratorium on conversions from mutual to stock form established on December 5, 1963, is terminated effective upon the final adoption by the Board of revised regulations governing conversions; and

IT IS FURTHER RESOLVED, that the staff is directed to prepare, for submission to the Board no later than October 31, 1972, suggested regulatory amendments and processing procedures for applications for such conversions with a view to final adoption of regulations and procedures by a target date of April 30, 1973;

IT IS FURTHER RESOLVED, that the Board will not accept further study applications under its announcement of July 26, 1972, but that applications received to date under such announcement will be reviewed for priority treatment following final adoption of revised conversion regulations; and

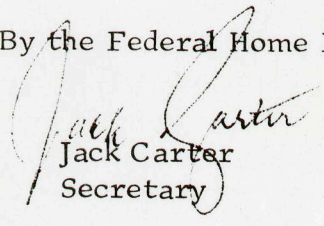
FEDERAL HOME LOAN BANK BOARD

No. 72-1112

Page Two

IT IS FURTHER RESOLVED, that the Board reiterates its concern over the inadequacies of existing statutory provisions regarding conversions, particularly the lack of authority for Federal stock associations, and the Board reaffirms its intent to submit to the Congress at an early date, detailed statutory amendments to correct such inadequacies.

By the Federal Home Loan Bank Board


Jack Carter
Secretary

CIEP CORRESPONDENCE PROFILE

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Incoming ☒
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From: PRESTON MARTIN
TO: Pres _____
PMF ☒
Other _____

Action ☒
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SUBJECT: CHAIRMAN MARTIN OF FEDERAL HOME LOAN BANK BOARD
REQUESTS COMMENTS ON PROPOSED REGULATIONS

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INTERNAL ROUTING AND DISTRIBUTION

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Gus Weiss			
Larry Brady			
Dave Gunning			
Dick Erb	☒		
John Schaefer			

ACTION REQUIRED

MEMO FOR PMF _____ ()
MEMO FOR PRES. _____ ()
REPLY FOR **PMF** SIGNATURE _____ (☒)
MEMO _____ TO _____ ()
RECOMMENDATIONS _____ ()
Refer to _____ ()
ANY ACTION NECESSARY _____ ()
CONCURRENCE _____ ()
DUE DATE: **10/2/72**
COMMENTS: (Including Special Instructions)

Note: two letters

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JAN 16 1973

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Stunzi

October 4, 1972

Dear Arthur:

It is argued in the attached papers that current laws and regulations prevent U.S. banks from serving non-residents as competitively at home as abroad. As a consequence, banks shift most of their foreign business from their domestic offices in the United States to their overseas branches. It is contended that not only does the U.S. lose employment opportunities, but perhaps more importantly, the U.S. loses the external economies that develop when financial specialists congregate. As a consequence, New York stands behind London in international banking expertise.

I would appreciate your comments on the views presented in these papers and your judgment on the proposal for changes in the laws and regulations affecting international bank operations.

With personal regards,

Sincerely,

PETE

Peter M. Flanigan
Assistant to the
President

Honorable Arthur S. Burns
Chairman
Federal Reserve Board
Washington, D.C. 20551

Flanigan:Erb:ljs 9/29/72

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THE WHITE HOUSE

WASHINGTON

October 2, 1972

MEMORANDUM FOR: PETER M. FLANIGAN

FROM: RICHARD D. ERB ROE

SUBJECT: The Stunzi paper, a letter for Burns, and related issues.

The issues raised in the Stunzi paper are just a few of many involving not only U.S. banking but also other international financial activities. During the last few months, in conversations with bankers and investment bankers, the following items have come up. Because of other priorities I have not spent any time exploring them to determine if they are issues which CIEP should do something about, but would like to do so as time permits. I have asked the Securities Industry Association and the American Bankers Association for more background on these and related issues.

In the meantime, I prepared a letter for Burns concerning the specific Stunzi proposals. I know that the Fed staff has been working on these issues.

Banking Issues

1. Foreign banks are entering U.S. markets while some foreign countries are restricting the entry of U.S. banks. Walt Wriston was upset because an application for a FNCB branch in Canada was rejected at almost the same time that the Fed was allowing a Canadian bank to enter the U.S. Clausen told me that the Japanese banks are multiplying in California while at the same time Japanese restrict U.S. banks in Japan.
2. In some ways, foreign banks are under less restrictions in the U.S. than U.S. banks. For example, a number of foreign banks have branches in several states, while U.S. banks cannot branch interstate. As another illustration, the voluntary credit restraint program is not applied as rigidly to foreign banks in the U.S. as they are to U.S. banks.
3. Foreign banks also have subsidiaries on a number of U.S. stock exchanges. (Reagan is concerned about this one.)

Securities Industry Issues

1. Firms from other countries have easier access to U.S. stock exchanges than U.S. firms have access to foreign stock exchanges.
2. Interest earned by foreigners on U.S. securities is automatically withheld. A special application must be made for the return of the interest. It is claimed that this discourages foreign investment in the U.S. bond markets.
3. When a U.S. firm establishes a subsidiary abroad, the subsidiary itself can issue stock or debt independently of the parent company. When a foreign firm establishes a subsidiary in the U.S. however, and the subsidiary wants to issue debt or stock, detailed information about the parent must be included in the prospectus. It is contended that this inhibits foreign direct investment in the U.S.

CIEP CORRESPONDENCE PROFILE

DOC		RECD		LOG NBR		INITIAL ACTION OFF	
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DOC SOURCE/CLASS/DESCRIPTION

From: PMF Action ~~PMF~~ U ~~X~~
 TO: Pres _____ Log Only ~~X~~ LOU _____
 PMF _____ C _____
 Other _____ S _____
 TS _____

SUBJECT: PMF LTR TO ARTHUR BURNS re REGULATIONS PREVENTING U S.

BANKS FROM SERVING AS NON--RESIDENTS AS COMPETITIVELY AT
HOME AS ABROAD

Originator's _____ Xeroxing _____
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SECRETARIAT DISTRIBUTION/ACTION

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Bob Miller			
Jim Loken			
Jon Rose			
Gus Weiss			
Larry Brady			
Dave Gunning			
Dick Erb		<u>X</u>	
John Schaefer			

ACTION REQUIRED

MEMO FOR PMF..... ()
 MEMO FOR PRES..... ()
 REPLY FOR _____ SIGNATURE..... ()
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 MEMO _____ TO _____ ()
 RECOMMENDATIONS..... ()
 Refer to _____ ()
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 CONCURRENCE..... ()
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 COMMENTS: (Including Special Instructions)

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EXECUTIVE

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FG12

FG6-11-1/Flanigan
Peter

October 11, 1972

MEMORANDUM FOR SECRETARY SHULTZ

FROM: PETER M. FLANIGAN

SUBJECT: Prime rate

Below are the suggested contacts to be made by you and me to urge the non-floating banks not to again raise their prime rate, regardless of actions by the floaters. In the past the non-floaters have lagged the floaters by an eighth. In addition there have been times when one or two banks have misjudged the cost of money or the demand for loans and have raised the prime rate, only to reverse the action when other banks did not follow them.

<u>Bank</u>	<u>Chief Executive</u>	<u>To call</u>
Chase Manhattan	David Rockefeller	GPS
Morgan Guaranty	Pat Patterson	GPS
Manufacturers Hanover	Gabe Hauge	PMF
Chemical	Bill Renshard	PMF
Continental	Don Graham	GPS
1st of Chicago	Gale Freeman	GPS
Bank of America	Tom Clawson	PMF
Wells Fargo	Dick Cooley	PMF
Crocker	Emmett Solomon	PMF

The floating banks are:

- 1st National City
- Bankers Trust
- Irving Trust
- Mellon
- 1st National of Boston

November 14, 1972

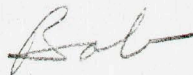
Dear Pres:

Thank you for your letter of November 10 with regard to the formal dedication ceremonies of the first all Chinese American federally chartered savings and loan association.

I will be glad to make inquiry of the appropriate individuals who work with Mrs. Nixon on her schedule to ascertain whether or not it would be possible for her to attend and let them know of my interest.

Again, thank you for calling this to my attention, and best personal regards,

Sincerely,



Robert H. Finch
Counsellor to the President

Mr. Preston Martin
Chairman
Federal Home Loan Bank Board
101 Indiana Avenue, N. W.
Washington, D. C. 20552

bcc: Dave Parker - w/incoming

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Presidential appearance

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December 20, 1972

Dear Mr. Hampton:

X
Congressman Jerry Ford passed along your letter of congratulations on the occasion of our election victory on November 7, and I want you to know how very much I appreciate your suggestions.

Over the next four years I shall do everything I possibly can to make the kind of record which all Americans, regardless of party, can look back on with pride as we celebrate America's 200th Birthday in 1976.

With best wishes,

Sincerely,

X
Mr. Robert C. Hampton
President
X Hampton Associates
117 E Street, SE.
Washington, D.C. 20003

RN:MAA:RLE:blh

cc: Bud McFarlane with complimentary copy for Congressman Ford;
HUD

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CENTRAL FILES

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EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D. C. 20571

PRESIDENT AND CHAIRMAN

December 21, 1972

Dear Peter:

The attached folders illustrate the close working relationship between U. S. private bankers and Eximbank.

This is an entirely new phenomenon and might be kept in mind in your future decisions regarding Eximbank.

Sincerely,


Henry Kearns

Enclosures 2

The Honorable
Peter M. Flanigan
Assistant to the President
for International Economic Affairs
The White House
Washington, D. C. 20500

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51566

A Program to Assist You in Increasing Your Export Sales



**THE AMERICAN
BANKERS ASSOCIATION**

Would you be able to increase your export sales of capital equipment or other goods normally sold on terms longer than 180 days if you:

1. Could offer your buyer extended payment terms of up to five years enabling you to meet your foreign competition—

2. Could have your foreign medium term receivables guaranteed by the United States Government—

3. Would know in advance that your bank is prepared to purchase these receivables from you *without recourse* to you?

If your answer to these questions is affirmative, then this program is definitely for you and could assist you in achieving this goal.

The Export Import Bank of the United States has the program to do just that, by assisting banks in providing non-recourse financing for you, the exporter.

In order to be eligible, the exporter must be a corporation organized and existing under the laws of the U.S. or any state or territory thereof or the District of Columbia; or an individual or partnership resident in the U.S.; or a foreign corporation, partnership, or individual doing business in the U.S.

There are several general prerequisites:

A. Market Acceptability

The foreign country must be mutually acceptable to the commercial bank as well as the Eximbank.

B. Acceptable Terms and Conditions

The usual Eximbank terms and conditions must be complied with, such as:

1. Generally, only exports of 100 percent U.S. origin are acceptable.
2. Exports destined for military use are generally not eligible.
3. A certain percentage of the contract price, usually a minimum of 10 percent, should be paid by the buyer prior to or at the time of delivery.
4. Terms should be those customary in international trade. This depends on the type of product, size of the order and life expectancy of the goods sold. Proven foreign competition supported by a foreign government may be a reason for Eximbank to allow unusual terms.

C. Exporter Retention

The exporter must retain not less than 10 percent of the financed portion (contract price less cash payment) for his own risk. This retention is divided equally through all installments of the credit. He is allowed, however, to sell this retention to his bank with recourse to him.

D. Promissory Notes

The financed portion is generally expected to be represented by a negotiable promissory note in English and payable in U.S. dollars at a bank in the U.S.

E. Guarantee Fee

A guarantee fee is payable to Eximbank by the commercial bank at the time Eximbank actually issues its guarantee. The commercial bank normally charges a comparable guarantee fee to the exporter at the time the promissory note is purchased by his bank without recourse. These fees, which may be recouped from the buyer, are based on a classification of foreign markets into four groups from A through D. The A group represents the lowest and the D group the highest risk markets. Details regarding any market can be obtained from your bank.

To enable your bank, as well as the Eximbank, to evaluate the transaction, the following specific information must be supplied by you to your bank:

- 1. Foreign Purchaser** Complete name and address of the foreign buyer.
- 2. Guarantor(s)** Depending on the credit of the buyer, your bank and/or Eximbank may require a foreign bank or other entity to guarantee the buyer. This is especially true in cases where only limited credit information on the buyer is available.
- 3. Products to Be Exported** A complete description of the capital equipment to be sold.
- 4. Status of the Proposed Sale** You may obtain a commitment to cover a firm order or to enable you to negotiate a sale or to respond to an Invitation to Bid.
- 5. Contract Price** The total amount of the proposed sale that will be owed you by the buyer.
- 6. Cash Payment** Eximbank requires that the buyer make a cash payment of at least 10 percent of the contract price. In some countries this would not be less than 15 percent of the contract price. This payment can be made at any time prior to delivery of the equipment to the buyer.
- 7. Financed Portion** This is defined as the contract price minus the cash payment.
- 8. Exporters Participation** Eximbank requires that you retain at least a 10 percent interest in the financed portion of the transaction. In some countries this will be higher. You can sell this participation to your bank, with recourse to you, so that you only have to carry the contingent liability on your books.
- 9. Terms of Repayment** The promissory notes received from the buyer should call for approximately equal installments of principal, generally payable not less frequently than semi-annually over the term of the obligation.
- 10. Background of Purchaser** This should be a brief summary description of the buyer including your previous experience with him, if any. Also, any financial data you have available on the buyer enabling your bank and Eximbank to judge the creditworthiness of your buyer.
- 11. Date for Completion of Shipment** The approximate date of final shipment. Please note that Eximbank has no objection to partial shipments.
- 12. Completion** If repayment terms longer than those customary in international trade are needed to meet foreign government supported competition, then the alleged competition will need to be shown.

In addition to this information, you have to complete:

1. An **exporter's certificate regarding eligibility** to establish the fact that you are an eligible U.S. exporter, and
2. An **exporter's certificate of product use** to establish that guaranteed products will not end up in countries where Eximbank is prohibited to do business by law.

If the information supplied by you is complete, Eximbank's decision will be forthcoming quickly. The availability of credit information cannot be overemphasized, since the lack of it will often delay the approval of transactions.

After your bank has informed you of Eximbank's approval, you can immediately proceed with filling your buyer's order. When he makes the required cash payment is entirely a matter between you and your buyer, as long as it is received by you prior to the delivery of the goods. Often this payment is made under a letter of credit opened by the buyer in your favor.

When the shipment is ready and the necessary documentation prepared, we enter the final phase of the transaction. The documents are delivered to your bank for forwarding overseas and delivery to the buyer against the receipt of his signed promissory note and the cash payment, unless this has been received earlier.

When you have received this note, you proceed as follows:

1. Endorse it in favor of your bank:

Pay to the order of (name of your bank), without recourse

(name of company)

(authorized signature)

2. Execute an **exporter's certificate** in an original and one copy, and deliver it to your bank together with the endorsed promissory note.

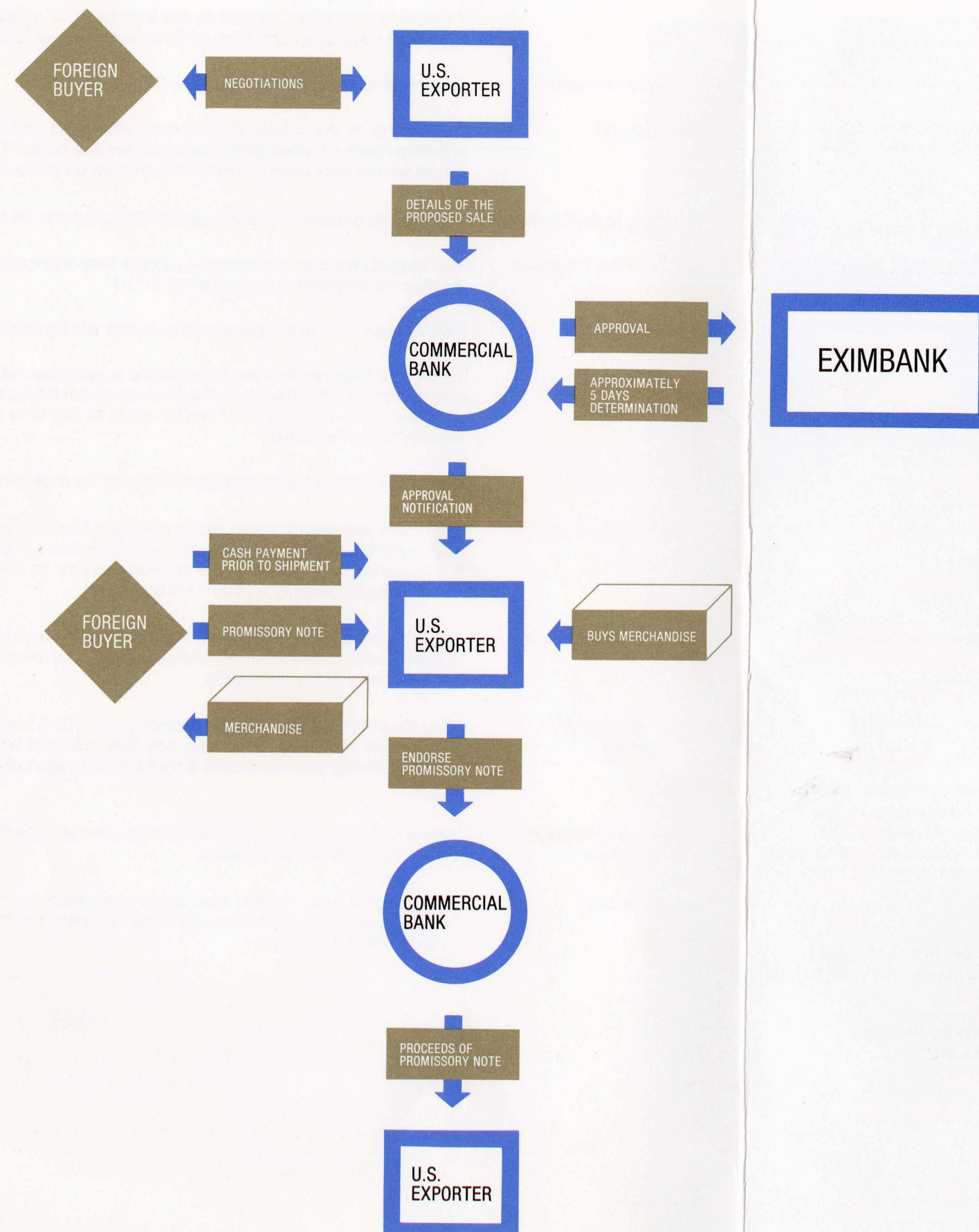
3. Pay the Eximbank guarantee fee to your bank.

Your bank will pay you the face value of the note less the portion to be retained by you (unless you sell your participation with recourse). As the installments are paid by the buyer, you will share to the extent of your percentage of participation in these payments of principal and interest. In the case that your bank had agreed to purchase your retention with recourse on you, you carry a contingent liability on your books which is reduced as each installment of principal and interest is received.

Obviously, we have not attempted here to describe every minute detail of the program, but merely to give you the highlights, and show you in a practical manner how you can benefit from it.

Your bank can supply you with any details that you may require and we urge you to contact them whenever the opportunity arises for an Eximbank guaranteed sale.

What are the steps involved in a typical Eximbank guaranteed transaction?



1. Negotiations are conducted between a foreign buyer and you, the U.S. exporter, concerning the sale of capital equipment.

2. You contact your commercial bank setting forth the details of the proposed sale. Your bank is then able to structure a financial package which would best suit the transaction under consideration.

3. Your bank will then prepare an application for a guarantee and submit it to Eximbank.

4. When Eximbank has made a determination, your bank will advise you regarding its decision and any commitment given. Prior to this written approval, your bank can generally give you an indication as to the appropriateness of the transaction. An Eximbank determination can generally be made within five working days from receipt of the application.

5. You can obtain the cash payment, ship your merchandise and receive a promissory note from the buyer against delivery of the shipping documents.

6. You endorse this promissory note in favor of your bank on a non-recourse basis and present it to your bank for purchase.

7. As the bank receives installment payments from the maker of the notes, it will pay the exporter his proportionate share based on the percentage he retained for his own risk, unless the bank had purchased this retention.

In addition to this information, you have to complete:

1. An **exporter's certificate regarding eligibility** to establish the fact that you are an eligible U.S. exporter, and
2. An **exporter's certificate of product use** to establish that guaranteed products will not end up in countries where Eximbank is prohibited to do business by law.

If the information supplied by you is complete, Eximbank's decision will be forthcoming quickly. The availability of credit information cannot be overemphasized, since the lack of it will often delay the approval of transactions.

After your bank has informed you of Eximbank's approval, you can immediately proceed with filling your buyer's order. When he makes the required cash payment is entirely a matter between you and your buyer, as long as it is received by you prior to the delivery of the goods. Often this payment is made under a letter of credit opened by the buyer in your favor.

When the shipment is ready and the necessary documentation prepared, we enter the final phase of the transaction. The documents are delivered to your bank for forwarding overseas and delivery to the buyer against the receipt of his signed promissory note and the cash payment, unless this has been received earlier.

When you have received this note, you proceed as follows:

1. Endorse it in favor of your bank:

Pay to the order of (name of your bank), without recourse

(name of company)

(authorized signature)

2. Execute an **exporter's certificate** in an original and one copy, and deliver it to your bank together with the endorsed promissory note.
3. Pay the Eximbank guarantee fee to your bank.

Your bank will pay you the face value of the note less the portion to be retained by you (unless you sell your participation with recourse). As the installments are paid by the buyer, you will share to the extent of your percentage of participation in these payments of principal and interest. In the case that your bank had agreed to purchase your retention with recourse on you, you carry a contingent liability on your books which is reduced as each installment of principal and interest is received.

Obviously, we have not attempted here to describe every minute detail of the program, but merely to give you the highlights, and show you in a practical manner how you can benefit from it.

Your bank can supply you with any details that you may require and we urge you to contact them whenever the opportunity arises for an Eximbank guaranteed sale.

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A Program of Assistance to Banks Providing Non-Recourse Financing for Exporters



**THE AMERICAN
BANKERS ASSOCIATION**

If your bank is interested in:

- 1. Adding export financing to the many valuable services that you provide to your customers—**
- 2. Earning additional revenues through the purchase of United States Government guaranteed export paper—**
- 3. Helping the United States improve its balance of payment position by enabling your customers to export more goods and services—**

We urge you to take a close look at the Program of Assistance to Banks Providing Non-Recourse Financing for Exporters, offered by the Export Import Bank of the United States.

The Eximbank devised this program to enable commercial banks to purchase their customer's medium-term export paper (180 days to 5 years) with the incurrence of only a minimal risk and thereby increase the export opportunities of U.S. manufacturers.

All commercial banks and other financial institutions, such as Edge Act Corporations, which are subject to regular examinations by State or Federal banking authorities, are eligible to avail themselves of this program.

A unique feature of this program is that the commercial bank purchases the exporter's medium-term paper without recourse on him (except for a small percentage the exporter retains for his own risk). It is this non-recourse feature which enables an exporter to expand his financial resources.

Upon approval of the first transaction, Eximbank forwards a **master guarantee agreement** to the commercial bank which details the general terms and conditions of Eximbank's guarantee and serves as the basic agreement for the operation of the program. This Master Agreement also spells out the political as well as commercial risks covered by the guarantee.

Naturally, Eximbank charges a fee for the issuance of its guarantee. The fee, payable by the commercial bank at the time the guarantee is actually issued, is normally passed on to the exporter, which in turn will recoup it from the buyer. The amount of the fee depends on the length of the financing requested and the classification of the buyer's country. Countries are classified from A to D, with A being those countries in which risks are considered the lowest and D being the most difficult markets.

Eximbank relies heavily on the credit judgment of the bank in evaluating the transaction prior to requesting a guarantee. It also allows the commercial bank to retain 25 percent of the guarantee fee to cover the cost of assembling credit and other information regarding the transaction.

When a bank has adequate experience under the Guarantee Program, Eximbank will consider giving such bank Discretionary Authority to commit Eximbank, without its prior approval, in certain specified markets and subject to prescribed conditions.

In order for an exporter to be eligible for a guarantee, he should be:

1. A corporation organized and existing under the laws of the United States or any state or territory thereof or the District of Columbia, or an individual or partnership resident in the U.S.; or

2. A foreign corporation, partnership, or individual doing business in the U.S.

There are several important prerequisites to assistance under the Eximbank/Commercial Bank Guarantee Program:

1. Eximbank Approval

Eximbank's prior approval is necessary for all transactions, except where a bank exercises its Discretionary Authority.

2. Terms and Conditions

The following terms and conditions generally apply:

A. **Eligible products**—Normally only exports of 100 percent U.S. origin are eligible.

B. **End uses**—Exports destined for military use are usually not eligible.

C. **Contract price**—This is the price negotiated between the exporter and his buyer and may include freight and insurance if they are paid in U.S. dollars.

D. **Cash payment**—The buyer is required to pay a certain percentage of the contract price prior to obtaining possession of the goods. A minimum of 10 percent is acceptable in all A, B and many C markets. In other C and D markets the minimum is 15 percent of the contract price.

3. Customary Commercial Terms

Repayment terms supported by Eximbank must be those considered customary in international trade. Exceptional terms may be considered only with evidence of officially supported foreign competition. Terms considered customary vary by type of product, but they are generally substantially less than the useful life of the product.

4. Exporter Retention

The exporter generally is required to retain for his own risk not less than 10 percent of the financed portion (contract price less cash payment). This retention is equally divided over all installments of the credit. Banks are allowed to purchase this retention with recourse to the exporter, but need Eximbank's approval if they desire to purchase the retention without recourse.

5. Debt Instrument

The financed portion of the transaction should generally be represented by a promissory note from the foreign buyer, in English, and payable in U.S. dollars at a specified bank in the U.S. *Any other* form of debt instrument needs Eximbank's prior approval.

What are the steps involved in a typical Eximbank guaranteed transaction?

1. After the exporter received his order—while he is negotiating a sale, or when he receives an invitation to bid—he will contact his bank to discuss financing possibilities. Some of the more important things the bank has to evaluate are:

A. The buyer's creditworthiness based on available information.

B. The desirability of a local guarantor in case the credit information is not considered sufficient or the buyer is not considered strong enough without a guarantor.

C. Interest rate.

The exporter should send an application to the bank together with an **exporter's certificate of eligibility** and an **exporter's certificate of product use**.

2. After the commercial bank has agreed to undertake the requested financing and has received the documents listed above, it will prepare an **application and supplementary agreement** in duplicate and send it together with the **exporter's certificate of product use** to Eximbank. The **exporter's certificate of eligibility** is retained by the bank.

Eximbank will then consider the transaction and if it approves same, one executed copy of the **application and supplementary agreement** will be returned to the commercial bank which in turn will notify the exporter to proceed with his order.

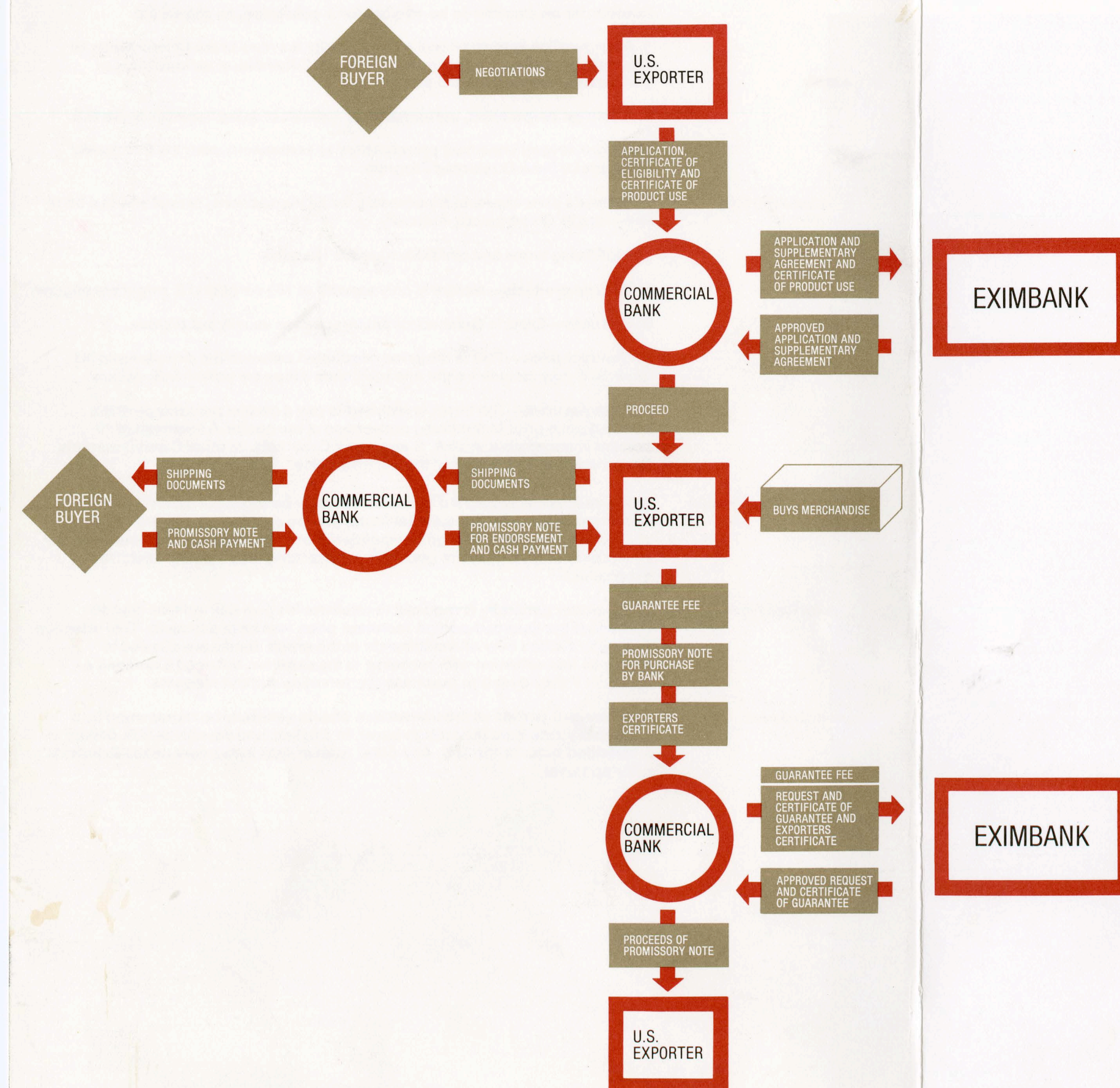
3. When the goods are ready for shipment, the exporter will deliver the shipping documents to the bank for forwarding to the buyer against receipt of the latter's executed promissory note. At this time the cash payment should also have been received. Often a Letter of Credit, opened by a foreign bank in favor of the exporter, is used for this purpose; however, this is entirely dependent upon the terms negotiated between the buyer and the exporter.

4. The exporter endorses the promissory note, without recourse, in favor of his bank and delivers it together with an **exporter's certificate** and the guarantee fee.

5. The bank prepares a **request and certificate of guarantee** in duplicate and sends both copies together with the **exporter's certificate** and Eximbank's guarantee fee to the Eximbank. At the same time the bank will purchase the note.

6. The Eximbank will return one executed copy of the **request and certificate of guarantee** to the bank.

7. As the bank receives installment payments from the maker of the notes, it will pay the exporter his proportionate share based on the percentage he retained for his own risk, unless the bank had purchased this retention.



In case any installment should be in default, the bank has the obligation to notify the Eximbank within 30 days from such default.

It has not been our intention to describe every detail of the program in these pages, but rather to describe a typical export guarantee.

We urge you to obtain and study the **instructions to banks**, which can be ordered from the Export Import Bank of the United States, 811 Vermont Avenue N.W., Washington, D.C. 20571. It describes the program in more detail and covers such specific subjects as financing:

Public Buyers
Used Equipment
Large Foreign Procurement Programs
Breeding Cattle
Agricultural Commodities—Medium Term
Fishmeal and Fishing Industries
Guarantees Limited to Shipments made on or after date of application.

Copies of the various forms referred to herein can be obtained from the Eximbank.