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THE FOREIGN TERM-LENDING ACTIVITIES OF U.S. BANKS

by

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I. Introduction

In recent months some observers have commented upon the increase in the foreign lending activities of internationally oriented banks in general, and in particular of the increased term-lending activities of U.S. banks through their foreign branch networks. An increase in term lending activity, <u>certeris paribus</u>, is sometimes considered to be risky for individual banks and the world financial system in accordance with the traditional view that banks are not expected to have too wide an "intermediation gap" between their long-term assets and their short-term sources of funds.

A second potential cause for concern in the term-lending area is entry by new participants who lack adequate experience and expertise. In particular it has been suggested that smaller banks are plunging into the field of international term-lending without a complete understanding of the various pitfalls involved.[1/]

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1/ This argument overlooks the institutional fact that many of these term-loans are negotiated and arranged by one or two of the largest U.S. banks and are then participated out to various smaller banks. Therefore these smaller banks, which are often quite large in terms of total assets, rely heavily on the expertise of the banks initiating the loan.

The entry by relatively inexperienced participants is sometimes felt to result in loans being extended to "exotic" borrowers, i.e., less developed countries, countries with doubtful political stability, and smaller corporations, on terms which do not adequately protect the borrowers against the risk of default.

This paper will present the available evidence on the foreign term-lending activities of U.S. banks. The principal conclusion from this empirical investigation is that although the foreign term-lending activities of U.S. banks have been growing rapidly, particularly at the foreign branches, these activities remain highly concentrated among a few of the largest U.S. banks which have an established record in term-lending to foreign borrowers.1/

1/ This paper will only consider term-loans extended by the foreign branches and domestic offices of U.S. banks. In particular, it does not consider term-loans extended by the merchant bank subsidiaries or other subsidiaries and affiliates of U.S. banks. From a theoretical standpoint the loans by these institutions do not constitute any threat to the safety of the banks' deposits. Although the U.C.B. (Basle) case indicated that a U.S. bank would pay a considerable price to protect its corporate name in the event of a failure of a subsidiary (for which it was not legally liable), it is highly unlikely that any bank would assume (even if permitted by the regulatory authorities) any nonbinding liability which might imperil its ability to meet its deposit liabilities. Also, from a practical point of view, the size of the operations of these institutions is still rather small.

II. Some Analytic Considerations

Before presenting the empirical evidence on the recent growth in the foreign term-lending activities of U.S. banks, it is useful to examine the reasons why and the conditions under which this increase in foreign term-lending by U.S. banks might be a cause for concern. It is also important to analyze the role of the foreign branches of U.S. banks since a great deal of the concern over the increased foreign term-lending by U.S. banks is focused on the activities of the branches.

In general, any lengthening of the terms on which a bank lends money which are not matched by a lengthening of the maturity of its liabilities imposes some risk on the bank. This increased risk occurs because banks which have long-term loan commitments may find their deposit liabilities withdrawn or may subsequently have to pay higher interest rates to attract sufficient deposits to finance these loans. Banks have sought to insulate themselves from this risk by lending money at floating rates based upon some index of the cost of money plus a premium for other factors.1/ The use of a floating rate on bank loans

1/ One interesting new variant on this approach is the "cap" loan where the interest rate is specified as the prime rate plus a markup. However, the loan agreement carries a maximum average interest rate which the bank will charge its corporate borrower. This capping of the average interest rate protects the borrower against excessive swings in interest rates.

does not fully insulate the bank from the risks of rising interest rates since the probability of repayment of any given loan is not necessarily independent of the effective interest rate.

The foreign branches of U.S. banks are often considered to be particularly susceptible to risks associated with longer term-lending than the domestic offices of U.S. banks. These branches operate without stable deposit bases (often termed "hardcore" funds) in many foreign countries and are often dependent upon short term funds secured in the interbank market or advances from branches of their parent bank in other countries to finance their long-term credit activities.

This view of the inherent instability of the financial position of the foreign branches of U.S. banks is based on the implicit assumption that each foreign branch of any U.S. bank should be treated as an individual bank. This assumption is no more valid than the assumption that each domestic branch of a U.S. bank should be treated as an individual bank. Any foreign branch of a U.S. bank has the resources of its domestic parent bank and the other foreign branches of its parent in other countries to fall back upon in case of emergency. It is valid to state that at the margin, if everything else is held constant, any foreign branch which extends long-term credits with short-term funds is adding a measure of instability to the financial status of its parent bank and that bank's branch network.

However, the appropriate focus for regulatory attention is on the bank's total position and not the position of any one branch office.

By the same reasoning, it is not appropriate to focus on the activities of all the branches of U.S. banks in any particular country. For example, it is not necessarily risky if branches of U.S. banks in Japan are extending term-loans without having a stable deposit base in Japan if the parent banks have stable sources of funds either at their head offices or other foreign branches which can be transferred to their branches in Japan if needed. Although it may be useful to examine the consolidated balance sheets of all branches of U.S. banks operating in a particular country to determine the effects of operations in that country on the stability of the foreign networks of U.S. banks, a high concentration of term-loans at the branches of U.S. banks in any given country is not itself a cause for concern since the liquidity of branches in any country is determined by the overall position of their parents.

In considering the position of the entire bank it is important to note that the banks' foreign branches extend both dollar and non-dollar denominated credits. In a world of freely convertible currencies this distinction would not be meaningful since a U.S. bank could obtain any desired currency to meet its short-term liabilities. In a world of exchange crises, controls, and limited convertibility this distinction is valid since a U.S. bank might have limited access, or access only at extremely high costs, to nondollar sources of funds. Presumably a large position in dollar-denominated term-loans at the foreign branches is not necessarily risky since the branches have access to the domestic dollar resources of their parents, which in turn have access to the Federal Reserve as the lender of last resort. In terms of non-dollar-denominated transactions the situation is not fully analogous since it is less clear that foreign central banks would provide their currencies to branches of U.S. banks during exchange market crises.1/ Therefore, it is important to distinguish a bank's position in dollars from its position in nondollar currencies.

A further set of factors to be considered in analyzing the term-lending to foreign borrowers by U.S. banks is policies in the United States which have affected the size and composition of bank loans to foreigners from domestic offices of U.S. banks. It is well known that the VFCR ceilings on bank loans to foreigners

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1/ One could counter this statement with the argument that branches of U.S. banks should cover themselves in making term-loans in currencies other than the dollar. The empirical section of this paper will show that foreign branches of U.S. banks have in fact about three times as much in liabilities to nonbank foreigners compared to term-loans to foreign borrowers and appear to be more than adequately covered in nondollar-denominated currencies.

have restricted the growth in credits to foreigners from domestic offices of U.S. banks. The VFCR guidelines have also affected the types of credits extended. The VFCR guidelines request domestic offices of U.S. banks not to extend any new nonexport term-loans to residents of the developed countries of continental Western Europe. Also, the Interest Equilization Tax (IET) is applied to nonexport term-loans to foreign borrowers in the developed countries which has the effect of raising the interest cost on such loans by about 1 per cent. Finally, the regulations of the Foreign Direct Investment Program (FDIP) permit U.S. direct investors to increase their investments in affiliated foreign nationals if the funds for these investments are borrowed abroad.1/

Given the provisions of the VFCR, the IET, and the FDIP, a rational U.S. bank would be expected to reallocate its portfolio of term-claims on foreign borrowers from its domestic offices to its foreign branches. The data in Table 1 offer confirmation of this hypothesis.2/ Between December 1969 and June 1972, term-claims on nonbank foreign borrowers at domestic offices of U.S.

1/ A survey by the Office of Foreign Direct Investment indicated that on December 31, 1971 foreign branches of U.S. banks had about $1.5 billion in outstanding term-loans to overseas finance subsidiaries of U.S. direct investors. Since most of these loans carry the implicit or explicit backing of the U.S. parent corporation, they are more analogous to domestic than foreign credits for economic analysis.

2/ The data in Table 1 and subsequent tables are drawn from two different reporting forms using different definitions. The Appendix section discusses the problems associated with using data from two different sets of reports.

Table 1

Term-Lending to Foreign Borrowers by U.S. Banks
(In millions of dollars)

Date	From Head Offices	From Foreign Branches	Total	Loans from Branches as Per cent of Total
Dec. 1969	1,642	2,228	3,870	57
Dec. 1970	1,716	3,005	4,721	65
Dec. 1971	2.076	4,656	6,732	70
June 1972	2,033	5,528	7,561	73

banks grew only about $0.4 billion, or by slightly less than one quarter. The increase in these term-loans reflects in part long-germ export credits which were exempted from coverage by the VFCR revisions announced in November 1971.

During this same period, term-loans to nonbank borrowers on the books of the foreign branches grew by $3.2 billion to $5.5 billion, compared to only $2.3 billion at the end of 1969. Although a precise quantitative estimate is clearly impossible, it appears certain that a large proportion of the growth in the term-loans at the branches reflects a reallocation of these loans from the head offices to the branches induced by the VFCR, IET and the FDIP. Such a reallocation need not constitute a special problem unless it can be shown that the term-loans placed on the books of the branches receive less careful scrutiny than such loans at the head offices. The available evidence in this general area suggests that for a sample of large U.S. banks the losses (in percentage terms) on foreign loans have been slightly less than on loans to domestic borrowers. One reason for this lower loan loss ratio to foreign borrowers is that some of these loans are export credits which carry the guarantee of the Export-Import Bank, or are insured by the Foreign Credit Insurance Association.[1/]

1/ Although precise data are unavailable, it is estimated that between $1 and $2 billion in foreign term-loans at U.S. banks carry some form of Eximbank guarantee or FCIA insurance.

III. The Recent Growth of Term-Lending by Foreign Branches of U.S. Banks

As noted above the recent growth record of the term-loans by the branches has been quite rapid. However, a different picture emerges when this growth record is compared to the growth of the total assets of the branches. Term-loans to nonbank foreign borrowers as a per cent of total assets of the branches, (net of intrabank claims) have actually declined from slightly less than 12 per cent in December 1969 to 10 per cent in June 1972.

Aside from examining the general growth of the term-lending activities of the branches, this growth should be related to other balance sheet data. It would be particularly interesting to relate their term-lending activities to some measure of their "hardcore" stable deposit sources of funds. Unfortunately, no valid statistical measure exists on the stable "hardcore" deposits for the foreign branches as the concept itself is somewhat difficult to define with any degree of precision. One possible proxy would appear to be liabilities to nonbank foreigners. Liabilities to nonbank foreigners represent the funds obtained primarily from deposit sources rather than in the interbank market and would appear to be less likely to be quickly withdrawn in the event of interest rate movements.

An examination of the data comparing the growth in term-claims relative to liabilities to nonbanks indicates two distinct trends. In the case of dollar-denominated claims and liabilities,

Table 2

The Foreign Term-Lending Activities of the Foreign Branches of U.S. Banks
(In millions of dollars)

Date	Term-Claims on Nonbanks Outside U.S.			Liabilities to Nonbank Non-U.S. Addressees			Ratio of Claims to Liabilities		
	Dollar Denominated	Nondollar Denominated	Total	Dollar Denominated	Nondollar Denominated	Total	Dollar Denominated	Nondollar Denominated	Total
Sept. 1969	1,457	792	2,249	4,214	1,728	5,942	0.35	0.46	0.38
Dec. 1969	1,460	768	2,228	4,851	1,763	6,614	0.31	0.44	0.34
Mar. 1970	1,448	695	2,143	4,953	1,800	6,759	0.29	0.39	0.32
June 1970	1,787	704	2,491	4,964	2,105	7,069	0.36	0.33	0.35
Sept. 1970	1,893	834	2,727	4,936	2,500	7,436	0.38	0.33	0.37
Dec. 1970	2,119	886	3,005	4,877	2,500	7,377	0.43	0.35	0.41
Mar. 1971	2,944	1,006	3,950	4,794	2,587	7,381	0.61	0.39	0.54
June 1971	3,220	870	4,090	4,775	2,946	7,721	0.67	0.30	0.53
Sept. 1971	3,322	910	4,232	4,792	3,659	8,451	0.69	0.25	0.50
Dec. 1971	3,447	1,209	4,656	4,953	3,833	8,786	0.70	0.32	0.49
Mar. 1972	3,838	1,311	5,149	5,428	4,118	9,546	0.78	0.32	0.54
June 1972	3,956	1,572	5,528	5,447	4,785	10,232	0.73	0.33	0.54

the term-claims of the foreign branches have been growing much more rapidly than their dollar-denominated liabilities to nonbank foreigners. With respect to nondollar-denominated claims and liabilities the growth record has been exactly the opposite. Nondollar-denominated liabilities to nonbank foreigners have been growing more rapidly recently than nondollar-denominated term-claims on nonbank foreigners so that on June 30, 1972 such claims were only one-third as great as the liabilities compared to a ratio of almost one-half in September 1969.

As a final point, although it is not meaningful from an economic point of view to consider the location of the loans, there are supervisory reasons to suggest that a geographical breakdown may be useful.1/ On June 30, 1972, of the $5.5 billion outstanding in term-loans to foreign borrowers extended by the branches, branches in the United Kingdom accounted for $2.6 billion, while lesser amounts were recorded at branches in the Bahamas ($1.0 billion), Japan ($0.6 billion) and Panama ($0.4 billion), leaving only $0.9 billion on the books of the branches in all other countries. Thus

1/ In many cases the branch where the loan is recorded is not the same branch which originated the loan transaction or the branch where the credit analysis was performed. Practically all of the branches in the Bahamas are an extreme example of a case where all the loan transactions are arranged and negotiated by either the head office or a foreign branch of the same parent bank in another country. No data are currently collected on the country of residence of the borrower of the funds from the branches.

it is apparent that the booking of the term-lending activities of the foreign branches takes place largely at the branches in a very small number of countries and the decision making may in fact be even more highly centralized.

IV. The Foreign Term-Lending Activities of Individual U.S. Banks

Earlier analysis has suggested that the proper framework for analysis is to examine the foreign term-lending activities of individual U.S. banks from both their head offices and foreign branches to determine the bank's degree of involvement in term-lending to foreign borrowers. For empirical purposes a sample of nine of the largest banks with established international departments was selected.1/ These nine banks account for approximately four-fifths of the foreign term-lending of all U.S. banks.2/ Since these banks dominate the overall figures, then any observations for this sample will parallel the results in the previous section.

1/ The list includes: The Bank of America, Chase Manhattan Bank, First National City Bank, Manufacturers Hanover Bank, Morgan Guaranty, Bankers Trust, The Chemical Bank, Continental Illinois Bank and The First National Bank of Chicago.

2/ In fact a smaller sample of only five large banks had 63.5 per cent of the foreign term-loans of all U.S. banks on June 30, 1972. On that same date the largest 20 U.S. banks had 87.8 per cent of all term-loans to foreigners. If this list is expanded by six institutions which are also active internationally, including Allied Bank International, American Express, Bank of America, N.Y., The National Bank of North America, Marine-Midland-Western, and Franklin National Bank, these 26 institutions account for over 90 per cent of all term-loans to foreign borrowers.

A. The Distribution of Term Lending to Foreign Borrowers Among U.S. Banks

Table 3 presents information on the distribution of term lending to foreign nonbank borrowers among U.S. banks and indicates that the foreign term-lending activities are highly concentrated among the nine large banks. Although the share of the total term-lending to foreign borrowers at these banks has declined slightly since 1969, the most recent data indicate that these nine banks still account for almost four fifths of the total term-loans to nonbank foreign borrowers.

As noted earlier, the policies in the United States to restrain capital outflows have restricted the growth of term lending to foreigners from the domestic offices of U.S. banks. Brtween December 1969 and June 1972, the total term-loans to non-bank foreign borrowers on the books of the domestic offices of the nine large banks grew by only about $250 million; during this same period these loans from their foreign branches increased by about $2.6 billion.

As well as being highly concentrated among a small number of banks, the geographical distribution of the branches of these banks which have extended these loans is also highly concentrated. The data in Table 4 indicate that about four-fifths of the term loans at the foreign branches of the nine banks are on the books

Table 3

Term-Loans to Nonbank Foreign Borrowers from U.S. Banks
(In millions of dollars)

Date	Term-Loans to Foreign Nonbank Borrowers from Domestic Offices			Term-Loans to Foreign Nonbank Borrowers from Foreign Branches			Total Term-Loans to Foreign Nonbank Borrowers		
	Nine Large Banks	All U.S. Banks	Nine Large Banks as % of Total	Nine Large Banks	All U.S. Banks	Nine Large Banks as % of Total	Nine Large Banks	All U.S. Banks	Nine Large Banks as % of Total
Dec. 31, 1969	1,143	1,643	87.2	1,876	2,228	84.2	3,308	3,870	85.5
Dec. 31, 1970	1,472	1,716	85.9	2,424	3,005	80.7	3,898	4,721	82.6
Dec. 31, 1971	1,773	2,076	85.4	3,703	4,656	79.5	5,476	6,732	81.3
June 30, 1972	1,685	2,033	82.9	4,224	5,428	76.4	5,909	7,561	78.2

Table 4

Geographic Distribution of Term-Lending Activities of Foreign Branches of Nine Large U.S. Banks

Date	Per cent of Total Foreign Branch Term-Loans at Branches in: United Kingdom	Japan	Bahamas 1/	Total: Three Countries
Dec. 31, 1969	49.8	19.0	13.0	81.8
Dec. 31, 11970	50.5	18.3	12.4	81.2
Dec. 31, 1971	48.3	16.9	17.3	82.5
June 30, 1972	45.6	13.1	17.4	76.1

1/ The Bank of America did not have a branch in the Bahamas on June 30, 1972 so the data in this column reflect its branch in Panama.

of their branches in only three countries; the United Kingdom, Japan, and the Bahamas. The eventual booking of the loans reveals no information of the country of residence of the eventual borrower since the branches in London and Nassau extend credits to borrowers in many other countries. From a supervisory point of view, however, the concentration of these term-loans at a small number of branches in only three countries indicates that the locus of control over these loans is likely to be highly centralized.

B. The Term-Lending at the Foreign Branches Relative to Liabilities to Nonbank Customers

As noted earlier, liabilities to nonbank customers probably represents the best available (albeit highly imperfect) measure of the branches' stable deposit base which would be less susceptible than other sources of funds to withdrawal for interest rate considerations. Table 5 shows, as expected, that the ratio of term-claims to liabilities for the nine largest banks has been increasing steadily since 1969. What is perhaps even more important than the increase in this ratio over time is the considerable differences between this ratio for the nine large banks at any given point in time. The conclusion to be drawn from these data is that a wide variation exists in the extent to which the branch networks of different banks are extending term-loans that may be unmatched by liabilities to nonbanks. Presumably any regulatory concern should probably be focused on those individual banks with high ratios.

Table 5

The Term-Lending of the Foreign Branches of Nine Large Banks Relative to Their Liabilities to Nonbank Customers

Date	Term-Loans as Percent of Liabilities to Nonbanks: All Currencies		Term-Loans as Percent of Liabilities to Nonbanks: Non-dollar Currencies	
	Nine Banks	Range for Nine Banks	Nine Banks	Range for Nine Banks
Dec. 31, 1969	28.4	10.1 - 95.2	40.1	10.5 - 93.7
Dec. 31, 1970	37.9	26.5 - 85.1 1/	33.8	0.8 - 113.3
Dec. 31, 1971	49.7	39.6 - 131.1 1/	30.5	11.8 - 78.9
June 30, 1972	49.7	23.0 - 116.9 1/	34.9	14.5 - 89.9

1/ Data for one bank are omitted because of the extremely small size of its liabilities to nonbank foreign customers.

The overall term-lending position of the foreign branches is probably not the appropriate measure to examine, since over two-thirds of these loans are denominated in dollars and the foreign branches have access to the dollar resources of their parents in the event of a crisis. Examining the position of the nine banks in nondollar currencies reveals a very different picture of activity than the overall position. Since 1969 the growth of nondollar liabilities to nonbanks at the branches of the nine banks has been faster than their increase in nondollar denominated term loans.1/ Thus it appears that the vulnerability of these branches to exchange risks on their loans has actually lessened since 1969.

C. Term-Lending to Foreign Borrowers Relative to the Capital of the Banks

A second method to analyze the foreign term-lending activities of these banks is to compare the growth of their term-loans, both from the head office and the foreign branches, to the growth of their total capital. A rising foreign term-loan to capital ratio may not necessarily be a cause for concern but it is indicative that one component of the bank's total business is growing more rapidly than the bank's capital.

1/ In examining the nondollar-denominated transactions of U.S. banks it is acceptable to consider only the foreign branch activity since only an insignificant proportion of their nondollar-denominated business is recorded at their domestic offices.

The data in Table 6 indicate clearly that term-lending to foreigners by the nine large banks has been growing more rapidly than their capital. On December 31, 1969 the foreign-term loans of these banks equaled 43.6 per cent of their capital; by June 30, 1972 this had increased to 64.1 per cent. As expected, the data in Table 6 further indicate that the increase in this ratio has occurred exclusively because of an increase in the term lending to foreigners from the foreign branches. More significant than the overall ratio of term-loans to capital for the nine large banks is the wide variability of this ratio among these banks. On June 30, 1972 the bank with the highest percentage of foreign term-loans to capital had a percentage four times as high as the bank with the lowest percentage.

The wide variation in the foreign term-lending activities of the nine banks relative to their total capital reinterates that it is not necessarily meaningful to focus attention on all the large banks taken as a group. Rather the proper focus is on the activities of individual large banks whose foreign term-loans relative to capital is substantially greater than the average for the sample of nine large banks.

V. Concluding Observations

The empirical evidence examined in this paper has indicated that although term-lending to foreigners by U.S. banks has increased in recent years relative to other banking magnitudes,

Table 6

The Term-Lending to Foreign Borrowers by Nine Large U.S. Banks Relative to Their Total Capital

	Term-Loans to Foreigners as a Per cent of Total Capital					
	Loans from Foreign Branches		Loans from Head Office		Total, All Loans	
Date	Per cent for Nine Banks	Range for Nine Banks	Per cent for Nine Banks	Range for Nine Banks	Per cent for Nine Banks	Range for Nine Banks
Dec. 31, 1969	24.7	10.0 - 44.1	18.8	10.5 - 29.7	43.6	15.6 - 70.5
Dec. 31, 1970	31.1	13.5 - 43.8	18.9	4.7 - 43.0	50.1	20.1 - 70.0
Dec. 31, 1971	42.4	13.2 - 73.7	20.3	4.5 - 31.1	62.8	28.7 - 104.9
June 30, 1972	45.8	10.1 - 78.2	18.2	0.9 - 26.4	64.1	25.5 - 103.8

it is still concentrated among a relatively small number of banks. A second important finding is that the lending practices and the exposure to risk through foreign term lending vary considerably among those large banks which account for the majority of these total term-loans.

Given the following empirical observations: (1) that the overwhelming majority of these loans are concentrated among a few banks, (2) in gross dollar terms the total term-lending to foreigners by U.S. banks is still a relatively small proportion of their total assets, and (3) that the loan-loss rate on foreign loans appears to be no worse than on domestic loans, it would appear that no new regulatory or supervisory policies are necessary at the present time. The recent experience of the growth of these loans combined with the projected rapid increase in international banking activities overall suggests that the long-term foreign lending activities of U.S. banks should continue to be monitored, on a bank-by-bank basis, to provide timely information on any significant developments which may have implications for Federal Reserve policy.

APPENDIX: The Sources of Data on Term-Lending to Foreigners

The data on term-loans to foreign borrowers was derived from two different reports which have different characteristics. The term-lending from the foreign branches of U.S. banks was derived from the FR 502 Form (Monthly Report on Foreign Branch Assets and Liabilities), while the data for foreign loans from the head offices were obtained from FR 416a (Commercial and Industrial Loans by Industry). Both forms are monthly, however the FR 416a reflects the close of business on the last Wednesday of the month while the FR 502 form reports activity on the close of the last business day of the month in the country of domicile of the reporting branch.

A second difference between the two series is that the FR 416a collects data on term Commercial and Industrial Loans while the FR 502 form asks for term-claims on nonbank foreigners. In practice this distinction is probably not very important since the majority of the lending business of the foreign branches is to large multinational corporations, therefore the majority of their term-claims on nonbanks reflects commercial and industrial lending activity.

A third and more significant distinction between the two forms is in the definition of a term-claim. Both forms consider a term-claim as one with a maturity of over one year. The FR 416a considers a term claim as one with an <u>original maturity</u> of over one year, while the FR 502 uses the more restrictive definition of any claim with a time to maturity of one year or more. Since the FR 416a counts those claims which had an original maturity of over one year but with less than one year to maturity remaining as term claims, the amounts reported on the FR 416a forms will tend to be relatively higher. Since the definitions of term-claims has remained constant over the period of analysis for both forms, the reported data are accurate in detailing the increased term-lending activities to foreigners from the foreign branches and the head offices of individual U.S. banks. Since the definition of term-claim is different on the two forms, the data are not very accurate for determining the proportion of term lending to foreigners from the head office or foreign branches of U.S. banks on any given date, and results of such comparisons should be analyzed cautiously.

As a final difference, the universe of reporting banks differs slightly on the two forms. FR 502 forms are filed by foreign branches of U.S. banks which meet certain modest minimum asset sizes, while the FR 416a form is filed by approximately 160 banks which report weekly to the Federal Reserve. This difference in reporting sample is not significant due to the high concentration of foreign assets among a very small number of banks which are contained in both samples.