

FRBSF WEEKLY LETTER

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Rebound in U.S. Banks' Foreign Lending

The attitude of U.S. banks toward foreign lending appears to have changed in the last few years. In the wake of the 1982 debt crisis among less developed countries (LDCs), U.S. banks were cautious about foreign lending, because of the large losses they had to absorb and because of the uncertain economic outlooks for many countries. Since the end of 1990, however, U.S. banks' exposure to foreign borrowers has been increasing—especially in Latin America, in rapidly developing countries in Asia, and in the European Community.

This *Weekly Letter* examines the recent rise in U.S. banks' overseas lending on a region-by-region basis. The data for this examination are from the Federal Reserve System's *Country Exposure Lending Survey*, which tracks the debts foreign borrowers owe to U.S. banks.

Foreign lending in the 1980s and 1990s

In 1983, the U.S. banking system's exposure to overseas borrowers reached a high of \$357.3 billion, or 28.6 percent of total U.S. bank loans. However, after the LDC debt crisis, U.S. banks scaled back overseas lending dramatically: They aggressively wrote off loans, they swapped and converted loans for debt and equity, and they sold loans on the secondary market. By year-end 1990, overseas lending had fallen to \$189.3 billion, or just 9.0 percent of loans.

Since then, interest in lending to the emerging market economies has begun to rebound, as have the data on U.S. foreign loans. From December 1990 to December 1994 the foreign loan exposure of U.S. banks grew by \$43.2 billion. While the current level of exposure remains well below the 1983 peak, it does raise the percent of foreign loans relative to total U.S. bank loans from 9 to 10 percent. The patterns of foreign lending in the 1990s are consistent with the recovery in the world economy, the growth in trade, and what

appears to be improved credit quality in some emerging-market nations in Latin America and Asia.

Before proceeding to the region-by-region analysis, two points should be made. First, the players in the U.S. banking market for foreign lending tend to be the nation's twenty or so largest banks. For example, at year-end 1994, 17 of the largest banks accounted for almost 85 percent of country or foreign loan exposure at U.S. banks. For more than half of these banks, foreign lending represents a significant part of their assets—anywhere from 25 percent to over 50 percent. Second, the exposure of banks in California, as well as in the rest of the Twelfth District, has not increased as fast since 1990 as it has for banks nationally. In part this can be traced to the pullback in foreign activity by Security Pacific Bancorp. Only two large California banks had a significant share of foreign assets (25 percent and 6 percent) in 1994.

Latin America. During the U.S. banks' retrenchment on foreign lending in the 1980s, there was a major contraction in loans to Latin American countries—loans fell from over \$73 billion at year-end 1984 to a low of \$33 billion in 1991. Since then, however, lending to Latin American and Caribbean countries has surged, and in 1994, loans from U.S. banks to this area rose to \$55.4 billion, amounting to almost 24 percent of U.S. banks' overseas lending.

At least through most of 1994, improvement in the fundamentals of many Latin American economies, along with international efforts to reduce their debt burdens and to lower their risk ratings, all appear to have helped revive bank lending to the region. For example, after hitting lows in 1990, Latin America's composite country credit rating from *Institutional Investor* had been rising along with the region's share of U.S. trade.

WESTERN BANKING

developments in the Twelfth Federal Reserve District. It is published in the *Weekly Letter* on the fourth Friday of January, April, July, and October.

Western Banking is a quarterly review of banking developments in the Twelfth Federal Reserve District. It is published in the *Weekly Letter* on the fourth Friday of January, April, July, and October.

Another development that reduced the risk of direct lending in this region was the greater use of third-party guarantees, which minimize the loan risk faced by U.S. bank lenders. In Latin America, the share of loans with third-party guarantees rose from 14.3 percent in 1990 to 21.6 percent in 1994.

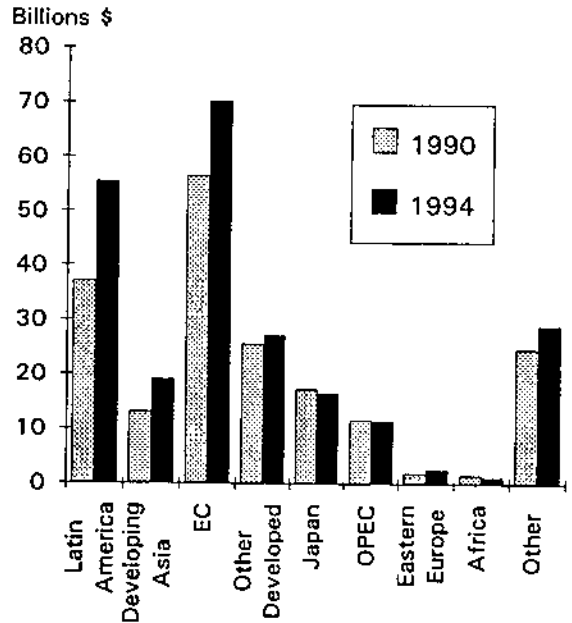
The Mexican peso crisis that began in late 1994 may alter the attractiveness of future lending in this region, but, by the end of 1994, it had not had a noticeable impact. As Figure 1 shows, borrowing by Latin American nations increased \$18.3 billion, or 49.1 percent, since the upturn in international lending in 1990. By 1994 borrowing by both Argentina and Mexico had grown by more than 50 percent since 1990. In contrast, exposure to Brazil, which had not achieved the economic stability shown by other countries in the region, has only increased about 2 percent since 1990, although it has grown substantially since 1992.

Asia. From 1990 to year-end 1994, U.S. banks' lending to developing Asian markets rose from around \$13 billion to about \$19 billion—an increase of roughly 45 percent. In fact, U.S. bank lending to developing Asian countries exceeded lending to Japan. The increase in lending is consistent with the strong growth and rapid expansion of trade with emerging market nations throughout much of the region. The largest borrower was South Korea (\$5.9 billion) followed by Thailand, Taiwan, and the Philippines (each less than \$3 billion). Malaysia, China, Thailand, and India recorded especially large increases over the 1990–1994 period, as did offshore banking centers in the region, like Hong Kong and Singapore.

Developed Countries. From 1990 to 1994, total borrowing by developed countries increased almost 15 percent. For U.S. banks, this group of countries represents the largest exposure in foreign lending—\$113.9 billion out of a total of \$232.5 billion; within this group, the European Community (EC) makes up the largest share—\$70.2 billion at year-end 1994, or over 30 percent of all foreign lending. The largest single borrowing nation in the EC was the U.K. (\$31.2 billion). Other major borrowing countries among the developed nations and key U.S. trading partners are Japan (\$16.6 billion) and Canada (\$9.6 billion).

Other Countries. Not every region of the world has seen increases in lending from U.S. banks.

Figure 1
U.S. Banks' Foreign Loan Exposure



Since 1990, borrowing by OPEC nations actually has declined slightly, and exposure from developing African nations has fallen by almost 29 percent. Despite the opening of Eastern Europe in 1989 and the pressing need for capital to rebuild those economies and clean up their environmental problems, U.S. bank lending in this region fell sharply between 1990 and 1992. However, since 1992 Eastern European borrowing has more than doubled, reaching \$2.6 billion at year-end 1994. The share of Eastern European loans with third-party guarantees has increased from 6.5 to 15.8 percent since 1990.

Conclusion

Between 1990 and 1994, U.S. banks have renewed their interest in international lending. While the dollar amount of the increase is sizeable, the expansion has been measured. Even though the share of foreign loans to total loans rose by 1 percentage point, overseas loan exposure has continued to decline relative to capital.

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REGIONAL BANK DATA

MARCH 31, 1985
(NOT SEASONALLY ADJUSTED, PRELIMINARY DATA)

		DISTRICT	ALASKA	ARIZ.	CALIF.	HAWAII	IDAHO	NEVADA	OREGON	UTAH	WASH.	
		ASSETS AND LIABILITIES -- \$ MILLION (ALL COMMERCIAL BANKS)										
ASSETS	TOTAL	553,166	5,270	42,853	355,489	22,098	11,698	23,672	28,631	17,479	45,976	
	FOREIGN	50,245	1	0	47,965	2,213	0	0	1	0	65	
	DOMESTIC	502,921	5,269	42,853	307,525	19,885	11,698	23,672	28,630	17,479	45,911	
LOANS	TOTAL	378,552	2,837	29,322	235,549	14,895	8,750	16,928	21,280	11,180	35,820	
	FOREIGN	34,810	5	0	33,067	1,475	0	0	1	0	82	
	DOMESTIC	341,952	2,832	29,322	202,481	13,421	8,750	16,928	21,279	11,180	35,758	
	REAL ESTATE	173,914	1,328	9,967	118,843	7,873	2,927	3,284	8,838	4,858	16,195	
	COMMERCIAL	68,187	815	3,531	40,547	3,721	1,836	998	5,767	1,936	8,038	
	CONSUMER	65,818	535	11,898	20,635	1,142	2,784	12,322	4,452	3,801	8,149	
	AGRICULTURAL	5,929	3	397	3,026	34	770	16	462	167	1,054	
	OTHER LOANS	28,104	151	3,429	19,431	652	433	310	1,759	618	1,322	
INV. SECURITIES	TOTAL	77,184	1,933	8,257	46,372	4,523	1,732	3,546	3,182	3,648	3,992	
	U.S. TREASURIES	20,728	846	1,633	13,267	1,384	431	958	742	527	842	
	U.S. AGENCIES, TOTAL	21,967	487	2,500	12,817	1,470	573	881	914	1,568	758	
	U.S. AGENCIES, MBS	13,958	389	2,150	8,082	866	234	531	665	702	368	
	OTHER MBS	3,767	137	242	3,013	19	39	60	12	80	166	
	OTHER SECURITIES	30,722	463	3,882	17,276	1,650	689	1,650	1,514	1,473	2,126	
LIABILITIES	TOTAL	506,109	4,573	39,053	326,898	20,213	10,753	21,011	25,996	15,848	41,765	
	DOMESTIC	455,865	4,572	39,053	278,933	18,000	10,753	21,011	25,995	15,848	41,700	
DEPOSITS	TOTAL	407,378	3,908	31,219	270,780	13,735	8,789	8,798	21,507	12,291	35,351	
	FOREIGN	46,810	0	0	44,281	2,068	0	0	0	162	89	
	DOMESTIC	360,788	3,909	31,219	226,500	11,667	8,789	8,798	21,507	12,129	35,252	
	DEMAND	94,790	1,086	7,078	63,548	2,328	1,739	3,156	4,997	2,508	8,371	
	NOW	41,651	362	3,769	24,100	1,317	1,050	1,484	3,312	1,597	4,661	
	MMDA & SAVINGS	127,418	1,351	11,143	81,370	4,095	2,485	3,538	7,177	3,988	12,293	
	SMALL TIME	66,749	561	7,530	37,464	2,183	2,578	1,008	5,143	2,717	7,585	
	LARGE TIME	29,753	501	1,700	19,762	1,740	937	510	866	1,333	2,304	
	OTHER DEPOSITS	406	68	0	255	5	0	0	12	7	58	
OTHER BORROWINGS		30,841	590	795	16,408	3,229	1,241	728	1,780	1,943	3,927	
EQUITY CAPITAL		47,055	697	3,800	28,590	1,883	945	2,635	2,635	1,833	4,211	
LOAN LOSS RESERVE		9,867	43	680	6,849	252	123	459	392	235	634	
LOAN COMMITMENTS		304,802	804	53,183	121,872	8,026	4,368	67,594	13,802	15,357	19,797	
TIER1 CAPITAL RATIO		0.095	0.186	0.107	0.060	0.102	0.099	0.121	0.098	0.123	0.088	
TOTAL CAPITAL RATIO		0.122	0.197	0.128	0.121	0.120	0.116	0.142	0.114	0.138	0.112	
LEVERAGE RATIO		0.079	0.131	0.080	0.075	0.081	0.077	0.104	0.086	0.091	0.082	
		QUARTERLY EARNINGS AND RETURNS (ANNUALIZED) -- \$ MILLION (ALL COMMERCIAL BANKS)										
INCOME	TOTAL	13,091	118	1,107	7,810	474	265	1,048	712	468	1,090	
	INTEREST	10,136	100	897	6,133	397	225	602	545	353	884	
	FEES & CHARGES	780	6	61	507	13	16	18	54	25	80	
EXPENSES	TOTAL	10,121	94	881	5,079	386	214	743	531	390	803	
	INTEREST	3,963	38	314	2,400	198	106	228	206	152	324	
	SALARIES	2,396	27	169	1,505	89	35	81	125	71	195	
	LOAN LOSS PROVISION	447	-2	92	164	9	7	131	16	17	15	
	OTHER	3,314	32	306	1,911	92	67	303	183	161	269	
TAXES		1,175	7	94	721	34	18	110	65	30	97	
NET INCOME		1,796	18	132	1,010	54	34	197	116	48	189	
ROA (% ANNUALIZED)		1.33	1.25	1.25	1.17	0.98	1.13	3.38	1.63	1.11	1.67	
ROE (% ANNUALIZED)		15.26	9.48	13.87	14.12	11.52	14.18	29.54	17.64	11.80	17.96	
NET INTEREST MARGIN (% ANNUALIZED)		4.58	4.69	5.55	4.34	3.64	4.03	6.43	4.77	4.66	4.96	
		ASSET QUALITY -- PERCENT OF LOANS (LARGE COMMERCIAL BANKS)										
LOAN LOSS RESERVE		2.60	1.40	2.32	2.95	1.69	1.38	2.75	1.90	2.00	1.83	
NET CHARGEOFFS, TOTAL		0.36	-0.56	0.65	0.25	0.22	0.18	2.19	0.29	0.18	0.25	
	REAL ESTATE	0.29	-0.03	-0.28	0.41	0.26	0.04	0.00	0.24	-0.05	0.04	
	COMMERCIAL	-0.24	-2.22	0.22	-0.25	-0.09	-0.32	-0.42	-0.27	-0.26	-0.18	
	CONSUMER	1.75	0.61	1.43	1.95	0.99	0.68	2.96	1.16	0.79	0.99	
	AGRICULTURAL	0.17	0.00	0.21	-0.01	-0.01	0.31	0.36	-0.75	0.01	1.10	
PAST DUE & NON-ACCRUAL, TOTAL		2.58	2.46	2.19	3.02	2.84	1.47	3.58	1.53	1.65	1.65	
	REAL ESTATE	3.83	2.47	1.98	4.68	2.94	1.13	2.67	1.54	1.41	1.84	
	CONSTRUCTION	10.96	4.98	2.54	17.29	2.40	3.64	6.01	3.83	3.00	5.59	
	COMMERCIAL	5.13	3.14	4.65	6.56	2.94	0.72	3.61	2.28	1.29	1.91	
	FARM	4.72	0.00	10.49	4.46	6.67	5.62	0.00	5.78	12.15	2.90	
	HOME EQUITY LINES	1.39	0.89	0.73	1.51	1.93	0.23	1.58	0.42	0.48	1.24	
	MORTGAGES	2.37	1.83	1.12	2.74	3.64	1.00	1.39	0.94	1.24	0.98	
	MULTI-FAMILY	9.91	0.88	2.30	14.51	1.88	0.00	0.05	0.48	0.23	0.11	
	COMMERCIAL	1.84	2.41	1.42	1.85	3.22	1.45	3.34	1.77	2.04	1.11	
	CONSUMER	2.55	2.05	3.10	2.20	2.76	1.49	3.90	1.36	1.94	1.84	
	AGRICULTURAL	2.98	0.00	3.37	2.32	22.59	3.57	0.00	2.46	1.68	4.12	
NUMBER OF BANKS		687	8	33	395	16	19	22	42	45	87	
NUMBER OF EMPLOYEES		222,840	2,685	27,438	129,134	8,438	4,894	9,081	13,185	8,559	18,428	

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MARKET SHARE STATISTICS

DEPOSITORY INSTITUTIONS REQUIRED TO HOLD RESERVES WITH THE FEDERAL RESERVE ON A WEEKLY BASIS

PERCENT OF COMBINED MARKET TOTAL FOR MAY 1995, BY REGION

DEPOSIT TYPE	DISTRICT			ALASKA			ARIZONA			CALIF			HAWAII			IDAHO			NEVADA			OREGON			UTAH			WASH		
	CB	SL	CU	CB	SL	CU	CB	SL	CU	CB	SL	CU	CB	SL	CU	CB	SL	CU	CB	SL	CU	CB	SL	CU	CB	SL	CU	CB	SL	CU
TOTAL DEPOSITS	57	35	8	71	3	25	92	1	8	50	43	7	66	23	9	92	4	4	78	17	5	77	13	10	81	3	16	57	33	11
DEMAND	91	6	3	97	0	3	98	0	2	83	7	4	95	1	4	98	0	2	97	3	0	91	6	3	92	3	5	92	7	1
NOW	68	25	10	61	5	33	87	0	12	60	32	8	66	27	5	88	4	8	77	14	9	80	10	10	81	2	18	66	20	14
SAVINGS & MMDAS	63	26	11	57	4	28	88	0	11	55	32	9	62	25	14	91	3	6	75	15	10	74	13	13	76	1	23	55	26	18
SMALL TIME	33	81	8	72	6	23	93	2	5	23	71	5	55	40	5	90	8	2	44	50	6	70	20	10	80	6	14	42	51	7
LARGE TIME	49	43	9	93	2	5	91	1	8	40	50	10	75	17	8	94	3	2	91	9	0	73	20	7	86	4	10	44	54	2

CB = COMMERCIAL BANKS; SL = SAVINGS & LOANS AND SAVING BANKS; CU = CREDIT UNIONS; MAY NOT SUM TO 100% DUE TO ROUNDING

INTEREST RATES ON DEPOSITS AND LOANS

TYPE OF RETAIL DEPOSIT ACCOUNT OR LOAN		FEB	MAY	AUG	NOV	MAY	AUG	NOV	FEB	MAY	
		1993	1993	1993	1993	1994	1994	1994	1995	1995	
SAVINGS ACCOUNTS AND MMDAS	U.S.	2.80	2.65	2.55	2.48	2.43	2.50	2.63	2.60	3.09	3.21
	DISTRICT	2.96	2.78	2.67	2.58	2.56	2.65	2.61	2.88	2.96	3.36
92 TO 182 DAYS CERTIFICATES	U.S.	3.08	2.98	2.86	2.92	2.93	3.28	3.61	4.22	4.83	4.93
	DISTRICT	3.01	2.88	2.85	2.81	2.83	3.03	3.34	3.84	4.47	4.61
2-1/2 YEARS AND OVER CERTIFICATES	U.S.	4.59	4.45	4.40	4.28	4.35	4.89	5.33	6.08	6.52	6.11
	DISTRICT	4.41	4.27	4.19	4.09	4.13	4.58	4.96	5.52	6.02	5.98
COMMERCIAL SHORT TERM FIXED	U.S.	4.16	3.91	4.02	3.95	4.03	4.68	5.28	5.87	6.88	6.95
	DISTRICT	4.28	4.19	4.75	4.43	4.95	6.78	5.39	6.32	6.39	7.32
COMMERCIAL SHORT TERM FLOATING	U.S.	5.85	5.59	5.53	5.56	5.49	6.32	6.83	7.36	8.50	8.88
	DISTRICT	6.36	5.40	6.48	6.46	6.36	6.38	7.34	7.78	9.17	8.94
COMMERCIAL LONG TERM FIXED	U.S.	6.43	6.02	6.21	5.38	5.41	6.17	6.66	7.30	8.20	8.87
	DISTRICT	9.19	10.88	9.05	6.82	6.58	N/A	9.82	N/A	N/A	N/A
COMMERCIAL LONG TERM FLOATING	U.S.	8.38	6.47	6.05	5.70	5.98	6.61	6.99	7.59	9.00	8.94
	DISTRICT	8.43	8.55	8.77	7.68	8.16	N/A	N/A	N/A	N/A	N/A
CONSUMER, AUTOMOBILE	U.S.	8.57	8.17	7.99	7.83	7.54	7.78	8.41	8.75	9.70	9.78
	DISTRICT	8.98	8.23	8.09	7.70	7.68	7.86	8.15	8.41	9.63	9.94
CONSUMER, PERSONAL	U.S.	13.57	13.63	13.45	13.22	12.89	12.96	13.33	13.59	14.10	14.03
	DISTRICT	12.67	13.87	12.69	13.00	12.02	12.26	13.37	12.87	14.55	14.67
CONSUMER, CREDIT CARD	U.S.	17.26	17.15	18.59	18.30	16.06	16.15	16.25	15.91	16.24	16.15
	DISTRICT	17.76	17.60	17.58	17.00	17.17	17.61	17.34	16.33	15.60	16.44

SOURCES: MONTHLY SURVEY OF SELECTED DEPOSITS, SURVEY OF TERMS OF BANK LENDING, AND TERMS OF CONSUMER CREDIT
 MOST COMMON INTEREST RATES ON RETAIL DEPOSITS, WEIGHTED AVERAGE INTEREST RATE ON LOANS