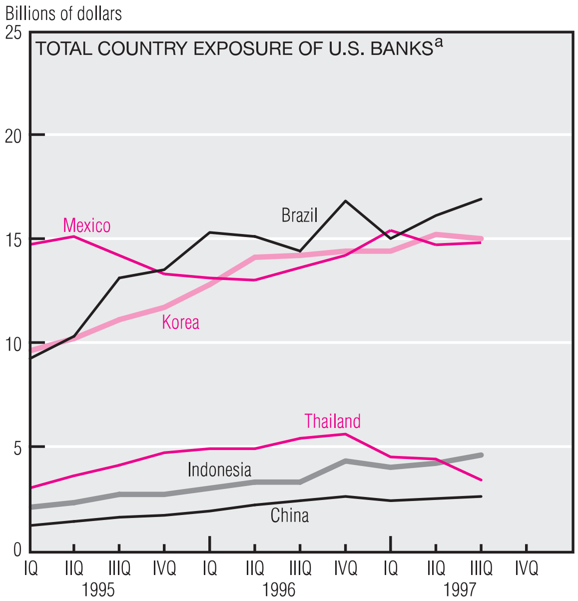
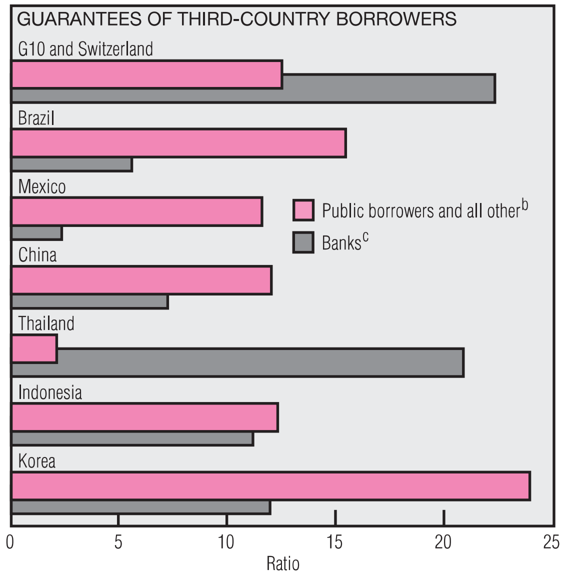
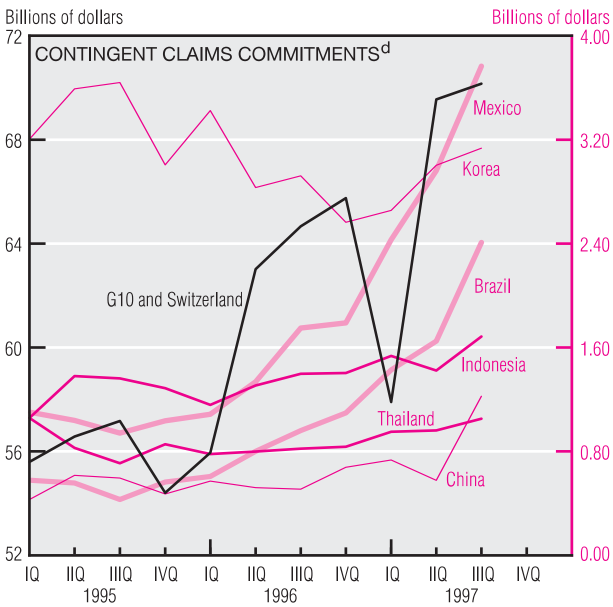
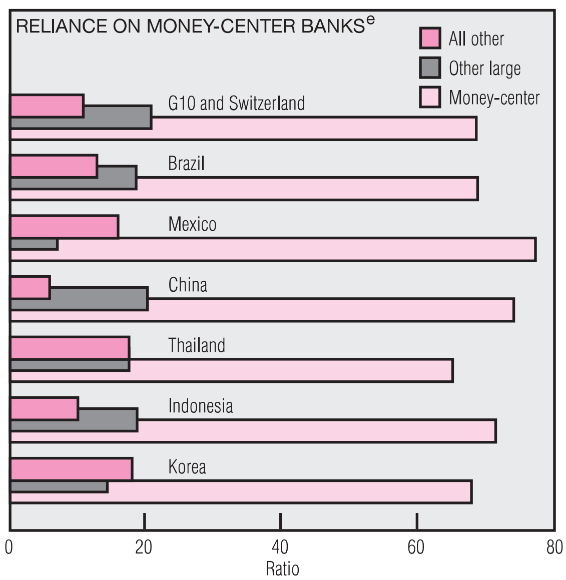
U.S. Banks' Foreign Lending Exposure









a. Total amount owed by borrower country after adjustment for guarantees and external borrowing (except derivative products).
b. Ratio between guarantees by a country's banks for other countries' borrowing from U.S. banks and the total amount owed to U.S. banks by the guarantor.
c. Ratio between guarantees by a country's public borrowers (and other nonbanks) for other countries' borrowing from U.S. banks and the total amount owed to U.S. banks by the guarantor.
d. Commitments of cross-border and nonlocal-currency contingent claims after adjustment for guarantees.
e. Bank size category shares of the total amounts owed to U.S. banks after adjustment for guarantees and external borrowing (except derivative products).
SOURCE: Federal Financial Institutions Examination Council, Country Exposure Lending Survey, various issues.

Despite recent financial turmoil, the latest data show that U.S. banks' exposure to Southeast Asia and Latin America did not lessen much in 1997:IIIQ. Exposure to Thailand has been declining since early 1997, well before the country's currency faltered. Such delays in reporting, however, are not the only obstacles to assessing exposure.

Under current conditions, assets' book value might not equal what they could fetch on the open market. Many are loans, which, not being standardized, cannot be sold as easily as equities. This makes it hard, even in a normal market environment, to determine banks' true condition. In the present circumstances, however, there are practically no markets for many bank assets, so no market prices exist for valuing them.

The riskiness of U.S. banks' liabilities to foreign countries depends not only on direct loans, but also on those countries' participation in third-party credits. Thai banks, like their counterparts in large, industrialized countries, often guarantee U.S. loans to other developing countries. Public agencies in Korea and Mexico frequently provide similar guarantees for U.S. loans. When an economic crisis hits, the quality of these guarantees weakens, and U.S. banks' foreign risks rise.

Recent growth in off-balance-sheet commitments also complicates the regulatory task. Paradoxically, it is often assumed that a bank reduces its risk by using derivative contracts.

Emerging markets are no longer the exclusive domain of money-center banks. Other banks account for more than 20% of U.S. banks' exposure to Southeast Asia and Latin America, as well as to industrialized nations.