Bank Size and U.S. Bank Lending to Latin America

The reluctance of some regional banks to join in recent reschedulings has focused attention on bank size as a determinant in bank lending behavior. The results of our current research indicate that different size banks have behaved differently during the recent period of payments difficulties and that differential behavior during 1982 reflects fundamental differences in the patterns of bank lending to Latin America that developed during the period of 1977-81.[1]

Patterns of bank lending from 1978-81

An analysis of reported U.S. bank claims on non-OPEC Latin America from end-1977 through end-1981 reveals that the smallest banks reporting in the *Country Exposure Lending Survey* have developed patterns of bank lending distinct from those of the larger banks. The growth rates for the various size banks shown on the table indicate that small bank claims have grown faster on average throughout this period. Both the large money center banks and the medium-sized banks already had relatively large exposures in Latin America in 1977. The smallest banks in the survey thus expanded their claims at a faster rate to take advantage of newly developing profitable markets.

Claims held by small banks have been relatively more concentrated in shorter maturities. From 1977 to the present, the smallest banks in the survey have held a higher proportion of claims maturing in one year or less. The variation in the maturity structure of claims may reflect small bank preference for involvement in trade

[1]The primary data source for the analysis is the U.S. Federal Financial Institutions Examinations Council, *Country Exposure Lending Survey*. This semiannual series dates from end-1977 and provides information supplied by all U.S. commercial banks with more than $20 million in claims on residents of foreign countries. The banks are grouped according to the size of their total assets—the nine largest, the next fifteen, and all other. These groups are referred to here as large, medium, and smaller.

U.S. Bank Claims on Non-OPEC Latin America and Caribbean

*Bank size	Total claims	Claims maturing in 1 year or less	Claims on banks	Claims on public borrowers	Claims on private nonbanks
			Average annual growth rates, 1978-81 In percent		
Large	15.1	20.0	22.9	17.8	9.2
Medium ...	15.8	20.3	18.4	5.1	23.0
Smaller	21.9	25.4	28.5	5.7	30.2
			Shares outstanding at end-1981 In percent of totals for each type of claim		
Large	58.6	57.0	45.9	70.0	59.5
Medium ...	18.9	18.7	23.0	14.4	19.5
Smaller	22.5	24.3	31.1	15.6	21.0
			Growth rate for 1982 In percent		
Large	12.8	7.1	11.4	33.3	−6.6
Medium ...	19.0	21.8	27.9	23.6	7.4
Smaller	2.8	−0.3	−1.2	23.3	−5.1

*Reporting banks are divided into three groups ranked by size of total assets (the nine largest, the next fifteen, and all other reporting banks); banks in each group are referred to as large, medium, and smaller, respectively.

Source: U.S. Federal Financial Institutions Examinations Council, *Country Exposure Lending Survey*.

financing and interbank placements in Latin America.

Small bank preference for lending to the private sector became even more pronounced between 1977 and 1981, when small bank claims on both bank and nonbank private borrowers increased at an average annual rate of about 30 percent while the average annual increase in their claims on the public sector was less than 6 percent. By the end of 1981, 41 percent of claims on non-OPEC Latin America held by the small banks were claims on banks and only 23 percent of their claims were on the public sector. For the largest nine banks, only 23 percent of non-OPEC Latin American claims were held on banks while 39 percent were on public borrowers.

Payments problems during 1982[2]

In 1982 severe financial strains brought a halt to the rapid expansion of claims on Latin America. The changes in U.S. bank claims on Argentina and Mexico

[2]William J. Gasser and David L. Roberts, "Bank Lending to Developing Countries: Problems and Prospects", this *Quarterly Review* (Autumn 1982), pages 18-29, for earlier payments problems.

during 1982 indicate a withdrawal from lending by the smaller banks similar to that observed in earlier periods of payments problems for other countries. In Mexico and Argentina, banks of all sizes slowed their lending to the private sectors. But, unlike the larger banks, small banks did not offset this decrease in claims on the private sector with a comparable increase in their claims on public borrowers. This pattern was especially pronounced in Argentina and Mexico, but bank lending to the private sector was also slowing in other parts of the hemisphere.

Much of the decline in claims on the private sector can be attributed to a fall in the demand for trade credits and working capital as economies throughout the hemisphere experienced a deep recession. Thus, the demand for imports of both production inputs and consumer goods fell. Public-sector borrowers began absorbing credits that formerly went to the private sector. In addition, there were difficulties in finding financing for imports. These difficulties may remain with us in the near future as banks remain reluctant to increase their claims on the private sector. Some of this reluctance is due to the fear that private firms are no longer good credit risks and that even firms that remain solvent will have reduced access to foreign exchange during times of scarcity. Smaller banks have not only withdrawn from private-sector lending but are also hesitant to join in new loans to the public sector. This reluctance accords with the previously revealed preference behavior of these smaller banks who have not typically been attracted to the lower spreads and longer maturities of public-sector loans.

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