Banking by Kathy Burdman

'U.S. banks undercapitalized'

The Swiss-based central bankers are screaming about risks because they want U.S. bank lending cut.

Alexandre Lamfalussy, Managing Director of the Bank for International Settlements (BIS), stated May 31 that U.S. commercial banks are in the "worst position" of any national banking sector to weather the coming international banking crisis. In a speech to the American Bankers' Association annual International Monetary Conference, in Vancouver, Canada, Lamfalussy told assembled U.S. bankers that "the excessively thin capital base of American banks must be regarded as dangerous."

Lamfalussy speaks for the central bankers of Britain, Italy, Switzerland, and their U.S. pawns at the Federal Reserve, who control the BIS, the "central bank for central bankers." For some time, the BIS has warned that commercial banks in general, led by U.S. banks, have too little capital in ratio to their assets (loans outstanding). As the quality of those assets, i.e., the increasing inability of Third World and bankrupt corporate debtors to repay the loans, has declined, the BIS has intensified its calls for banks to improve the capital/assets ratio.

Lamfalussy's comment is well taken, on the surface. U.S. bank capital *is* quite low by European standards, and has not improved much over the past three years, while loans (assets) have mushroomed. The 391 largest U.S. banks' capital/asset ratio went from 4.61 percent in 1979 to only 4.77 percent at the end of 1981, Fed figures show. Total capital of many banks could be wiped out by simultaneous international defaults.

The 35 largest banks in the country, furthermore, will need to issue $2.1 billion in new capital (stocks) during the next five years, one bank analyst estimates, just to maintain present ratios.

The BIS's Cooke Committee, made up of the bank supervisors of each central bank, called for uniform improvement of bank capital ratios last year. The U.S. Federal Reserve has already moved to enforce the BIS policy. A new Capital Adequacy Guideline issued by the Fed to commercial banks last December required community and regional banks (with under $15 billion in assets) to raise their ratios substantially.

Multinational banks were given no uniform numerical standards, but were put under intense "monitoring on an individual basis," the Fed Guidelines announced, to ensure ratios improve in the future: "The supervisory agencies are increasingly concerned about the secular decline in the capital ratios of the nation's largest banks."

"I wouldn't call it dangerous, but I would certainly say bank capital is on the thin side in the U.S.," Fed Governor Henry Wallich told a reporter June 3.

What's really afoot here, however, is not a question of "safety first," but a concerted move by the BIS and the Fed to *cut U.S. bank lending*. As one Fed official told me June 3, "the bank stock market is so depressed that banks do not have the option of increasing capital/asset ratios by issuing more stock. In fact, there have been very few attempts by banks to sell stock issues. Their only option is to reduce their rate of assets growth"—their lending rate. On May 26 of this year, the Fed did attempt to mitigate this by issuing a second capital Policy Statement to allow banks to make convertible bond issues in the Eurobond markets and count them as part of primary (stock) equity, since the bonds are to be paid back when due with stock issues.

But the BIS and Fed intend to reduce net international lending—and that is why they are shouting about "increasing risk" in the world banking system just while they are pointing out banks lack adequate capital. "It is particularly in view of the *increased risks domestically and internationally* in bank lending," the Fed's December Guidelines noted, that "policies designed to arrest the decline in capital ratios will be *modified* to insure appropriate steps are taken [emphasis added]."

So far, Governor Wallich says, the BIS and Fed have not yet moved to take new stricter measures to "modify" requirements, but have attempted to "nudge banks in the right direction" by talking up risks.

Central bankers' warnings on Polish, Argentine, and other defaults are designed "to create healthy fear," he said, adding that the U.S. threat to force Poland into default has had "some good effect on the bank capital debate, nudging banks in the direction" of cutting risky loans to the East bloc.

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