

# 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.<sup>1</sup>

## 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

<sup>1</sup>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.

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.