In Brief
Economic Capsules

Are Large U.S. Banks Moving International Activity Off Their Balance Sheets?

Recently market observers have drawn attention to the increased off-balance-sheet activity of banks.[1] This article finds evidence that the top nine banks are doing more international business off their balance sheets. This shift by big U.S. banks is centered in the G-10 countries.[2] Also, there is some evidence for the association of the shift with a new financial instrument.

This financial innovation, the note issuance facility (NIF), is transforming international lending. Instead of arranging a medium-term credit facility with a syndicate of banks, many borrowers now arrange a NIF. Under this facility, the borrower can repeatedly issue short-term paper through an agent or by an auction. In the event that the paper does not sell below a contracted interest rate, expressed as a spread over an interbank reference rate, the underwriting or managing banks undertake to buy the paper or to make advances. Some NIFs permit borrowing from the committed banks with no prior attempt to sell notes. The contract, which typically has a life of three to seven years, limits the underwriters' obligation to extend credit under specified circumstances that may include a deterioration in the borrower's creditworthiness Thus, the borrower may enjoy cheaper short-term funding with some assurance of its availability over the medium term.

[1]For example, see Bank for International Settlements, *Recent Innovations in International Banking* (1986)

[2]G-10, as used here, includes Belgium, Canada, France, Italy, Japan, the Netherlands, Sweden, Switzerland, West Germany, and the United Kingdom

The innovation of the NIF has an ambiguous effect on U S banks' commitments to lend. On the one hand, borrowers who have switched from medium-term syndicated credits to NIFs may rely on U.S. banks only for the commitment to lend while depending on other sources—including nonbanks—for actual funding On the other hand, borrowers who previously relied exclusively or mainly on large U S. banks for lines of dollar credit may be broadening the nationality and increasing the number of their committed banks and so lowering the cost by arranging NIFs. Thus, the market for contractually committed lines of credit is growing, but large U.S. banks may be losing market share

U.S. banks do not report international commitments to lend *per se,* but these can be approximated using data from the Country Exposure Lending Survey (CELS). Loan commitments are taken to be all contingent (off-balance-sheet) claims adjusted for guarantees, less letters of credit.[3] An increase in the ratio of loan commitments to adjusted assets (on-balance-sheet claims) is taken to indicate a shift to increased off-balance-sheet banking by U.S. banks.

The change in this ratio over three years suggests that large U S. banks are moving their international activity off their balance sheets. The top nine U.S. banks[4] have raised the ratio of loan commitments to adjusted claims from 35 percent to 43 percent between end-1982 and end-1985 for 22 OECD countries and five selected Asian borrowers—India, Indonesia, Malaysia, South Korea, and Thailand (table)[5]

The rise in commitments to lend in relation to assets is not uniform, however. The shift from on- to off-

[3]It would be better if letters of credit adjusted for guarantees were available

[4]The top nine banks' aggregate reported in the CELS continues to include Continental Illinois

[5]The most recent CELS data, from end-March 1986, show the same ratio, 43 percent

International Activity of the Top Nine U.S. Banks: Ratio of Loan Commitments to Adjusted Assets

(1) Ranking/Countries	End-1982 ratio	(2) Ranking/Countries	End-1985 ratio	(3) Percent change, 1982-85*	(4) Total NIFs arranged, 1983-85† (billions of dollars)
1 New Zealand	1 11	1 Sweden	1 69	129	9 6
2 Sweden	0 74	2 France	0 66	72	5 0
3 Australia	0 71	3 Norway	0 63	30	1 4
4 Finland	0 58	4 United Kingdom	0 60	33	4 5
5 Denmark	0 51	5 Canada	0 55	75	1 1
6 Thailand	0 50	6 Australia	0 54	−24	11 6
7 Norway	0 49	7 Switzerland	0 53	10	1 2
8 Switzerland	0 49	8 Austria	0 45	90	0 6
9 Greece	0 48	9 Netherlands	0 45	9	1 3
10 United Kingdom	0 45	10 Belgium-Lux	0 43	56	0 5
11 India	0 45	11 Spain	0 43	137	0 6
12 Netherlands	0 41	12 Ireland	0 38	81	0 3
13 Iceland	0 39	13 Finland	0 36	−39	1 3
14 France	0 38	14 Denmark	0 34	−34	1 4
15 Malaysia	0 37	15 New Zealand	0 26	−76	2 9
16 Italy	0 33	16 Iceland	0 26	−32	0 2
17 Indonesia	0 32	17 Italy	0 26	−20	1 7
18 Canada	0 32	18 West Germany	0 26	0	0 3
19 Belgium-Lux	0 28	19 Indonesia	0 24	−26	0 5
20 West Germany	0 26	20 India	0 21	−54	0 4
21 Austria	0 24	21 Greece	0 20	−58	0 0
22 Ireland	0 21	22 Thailand	0 18	−65	0 2
23 Spain	0 18	23 Korea	0 16	51	0 9
24 Japan	0 13	24 Japan	0 13	4	1 4
25 Portugal	0 12	25 Turkey	0 12	249	0 0
26 Korea	0 11	26 Portugal	0 11	−14	0 6
27 Turkey	0 04	27 Malaysia	0 08	−78	0 3
Weighted averages		*Weighted averages*			*Totals*
Overall	0 35	Overall	0 43	25	49 8
G-10 + Switzerland	0 33	G-10 + Switzerland	0 47	40	26 6
Other OECD	0 45	Other OECD	0 40	−10	20 9
East Asia‡	0 25	East Asia‡	0 18	−28	2 3

*For countries in column (2)
†Arrangements with all banks, U S and non-U S
‡Includes India, Indonesia, Korea, Malaysia, and Thailand

Sources Federal Financial Institutions Examination Council, Country Exposure Lending Survey, Bank of England, and *International Financing Review* Data on NIFs include some arrangements with partial or without contractually associated bank commitments to lend, renegotiated facilities (for example, New Zealand's) are double-counted

balance-sheet exposure is concentrated in the G-10 countries, where the ratio of total commitments to total assets rose from 0.33 to 0 47. In the G-10, the overall growth of the market for loan commitments appears to be more than offsetting any loss of share in that market by U S banks

By contrast, the balance is shifting toward on-balance-sheet financing in Asia. Whereas commitments to the five Asian borrowers stood at 25 percent of assets in 1982, they fell to 18 percent of assets in 1985. Since Japanese banks are well represented as underwriters of NIFs in Asia, U.S. banks may be losing market share there. The same loss of market share may lie behind the decline in off-balance-sheet exposure in the OECD outside of the G-10, especially in Australia and New Zealand.

In general, the countries whose borrowers have been most active in the NIF market tend to rank higher in the ratio of commitments to assets (table). Swedish, French, Norwegian, and British borrowers have been active in the NIF market and hold the top four positions,[6] Japanese, German, and Italian borrowers have been relatively less active. The relative rise of commitments to Canadian borrowers, even though Canadian withholding tax makes NIFs unattractive, shows that NIFs are not

[6]Australian borrowers have arranged a large sum of NIFs but have drawn more heavily on them than most NIF customers As a result, the Australian ratio declined over the three years

a *necessary* vehicle for the shift to off-balance-sheet banking

In summary, CELS data provide evidence that large U S banks are increasing their off-balance-sheet commitments to lend cross-border in relation to their actual international assets Further, these data locate the shift in the G-10 countries Finally, the rise in off-balance-sheet exposure appears to be associated with activity in the NIF market

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