

GAO

United States General Accounting Office

Report to Congressional Requesters

May 1988

INTERNATIONAL BANKING

Supervision of Overseas Lending Is Inadequate



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United States
General Accounting Office
Washington, D.C. 20548

**National Security and
International Affairs Division**

B-207990

May 5, 1988

The Honorable William Proxmire, Chairman
The Honorable Jake Garn
Ranking Minority Member
Committee on Banking
Housing & Urban Affairs
United States Senate

The Honorable John Heinz
Ranking Minority Member, Subcommittee on
International Finance and Monetary Policy,
Committee on Banking, Housing & Urban Affairs
United States Senate

The Honorable Stephen L. Neal, Chairman
Subcommittee on Domestic Monetary Policy,
Committee on Banking, Finance & Urban Affairs
House of Representatives

The Honorable James Leach
House of Representatives

This report responds to your requests that we examine Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and Federal Reserve supervision of U.S. banks' international lending activities. As you requested, we evaluated these agencies' compliance with the International Lending Supervision Act of 1983 (ILSA) and updated our September 1982 report.

We are recommending that the Comptroller of the Currency and Chairmen of the Federal Deposit Insurance Corporation and Federal Reserve (1) require reserves for loans that currently have no reserve requirements, basing reserve requirements primarily on secondary market prices for foreign loans, (2) ensure that forecasts are made for countries very likely to develop debt servicing problems, (3) eliminate deficiencies in the information used to determine loan ratings, and (4) ensure that bank examiners comply with ILSA requirements.

Because of the importance and the widespread interest in the issues addressed in this report, we plan to distribute copies to members of Congress, appropriate congressional committees, the Comptroller of the Currency, and Chairmen of the Federal Deposit Insurance Corporation

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and Federal Reserve, and other interested parties. However, as requested by your offices we will not distribute the report until 10 days after its issue date.

for 
Frank C. Conahan
Assistant Comptroller General
