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Accounting for Loan Losses

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ABSTRACT (100-200 words):

Through my summer 1987 internship in accountancy at Continental Bank of Chicago, IL, I was exposed to some of the accounting-related topics that are faced by the banking industry. One of the most relevant topics to today's economy is loan loss reserves. A loan loss reserve is an estimate of the total potential principal loss inherent in a bank's loan portfolio as of a certain date. It is the role of bank management to perform the highly judgmental process of determining the amount that should be in the reserve. During the bank's annual audit, the independent auditor has the difficult role of determining the adequacy of the reserves. Both bank management and internal auditors are facing pressure from various organizations to determine the most accurate estimate. Auditors are even facing lawsuits. The reason that so much attention has been focused on this topic is the Third World debt problem. Many banks are going out of business because they have not been facing the economic realities of the debt problem through building up their loan loss reserves.

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ACCOUNTING FOR LOAN LOSSES

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ACCOUNTING FOR LOAN LOSSES

One of the most current and relevant topics to the banking industry is loan loss reserves. A loan loss reserve (or allowance for loan losses) is an estimate of the total potential principal loss inherent in the loan portfolio as of a statement date. It is the function of bank management to decide the exact level of reserves. This is a highly judgmental process. Independent auditors have the difficult role of determining the adequacy of the reserves. Both bank management and outside auditors are facing pressure from various organizations to determine the most accurate estimate — a difficult job for both groups. Currently, many outstanding loans from U.S. banks to lesser developed countries will not be collected because these countries are in deep financial turmoil. This is drawing much attention to banks' loan loss reserves from both bank management and the accounting profession.

Accounting

Banks charge to income the amount management considers necessary to bring the allowance to an adequate level to absorb expected loan losses.¹ This is done several times throughout the year to ensure that the allowance is adequate for the current loan portfolio. The actual allowance is written as a deduction from total outstanding loans on the balance sheet. Therefore the reader of the financial statements can determine what percentage of the loans are collectible in the entire portfolio. Investors can determine the quality of the loan portfolio. Loans that will not be collected are deducted from the allowance and taken off the books. This is called a "charge-off" of a loan.

There is a process used when "charging off" or "writing off" a loan as uncollectible. All loans start on an accrual basis — interest income for the bank is accrued over a period of time. When the payment of interest income on loans becomes delinquent (usually 90 days), banks suspend accrual of interest income. Now revenues are recognized only when cash is received from the borrower. Placing a loan on non-accrual status does not necessarily indicate that the principal

of the loan is uncollectible; however, it does warn management to reevaluate the collectibility of principal and previously accrued interest.² At this time, management may feel the need to increase the allowance for loan losses since the chance that certain loans will not be collected has increased.

When management determines that the bank will not collect the principal on a particular loan, the bank writes off the loan by decreasing the allowance by the amount of unpaid principal in the particular loan and removing the loan from the books. An excess amount of write-offs may necessitate a debit balance in the allowance account. However, the allowance must never have a debit balance.³ If losses charged off exceed the amount of the allowance, a provision sufficient to restore the allowance to an adequate level must be charged to expense on the income statement immediately.

Because a borrower usually will not notify a bank that his/her loan will not be repaid, management must make the decision as to when is the correct time to assume a loan is actually uncollectible. Management needs to use its best judgment to determine when to charge-off a loan.

SFAS No. 5 - Accounting for Contingencies

The purpose of this thesis is not only to show how particular loans are deemed uncollectible but to explain how and why an estimate is made to determine the potential uncollectibility within the entire loan portfolio. This potential uncollectibility is a loss contingency. A contingency is defined as an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of a liability or the loss or impairment of an asset or the incurrence of a liability.⁴ Statement of Financial Accounting Standards No. 5 provides the background for understanding how and why financial institutions and other enterprises accrue estimated losses inherent in the loan portfolio. In the case of loans, the contingency is a loss

contingency that, when it is resolved, will confirm the impairment of an asset (decrease in total collectible loans).

When a loss contingency exists (a loan that may be uncollectible), the likelihood that the future event or events will confirm the loss or impairment of the asset can range from probable to remote. When the likelihood is probable, the future event is likely to occur. When the chance of the future event occurring is more than remote but less than likely, the future event is reasonably possible. When the likelihood is remote, the chance of the future event occurring is slight.⁵

Some enterprises, such as banks, now accrue estimated losses for some types of contingencies by a charge to income prior to the occurrence of the event or events that are expected to resolve the uncertainties while, under similar circumstances, other enterprises account for those losses only when the confirming event or events have occurred.

An estimated loss from a loss contingency shall be accrued by a charge to income if both of the following conditions are met:⁶

1. Information available prior to issuance of the financial statements indicates that it is probable that an asset (the loan) has been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the loss.
2. The amount of loss can be reasonably estimated.

Disclosure of the nature of an accrual and in some circumstances the amount accrued, may be necessary for the financial statements not to be misleading. In the case of potential loan losses, disclosure of the amount accrued is necessary to determine an accurate representation of collectible loans, otherwise the financial statements would be misleading.

The assets of an enterprise may include receivables that arose from credit sales, loans or other transactions. The conditions under which receivables exist usually involve some degree of uncertainty about their collectibility, in which case a contingency does exist. Losses from uncollectible receivables (loans are considered to be receivables) shall be accrued when both conditions mentioned above are met. Those conditions may be considered in relation to individual receivables or in relation to groups of similar types of receivables. Accrual shall be made even though the particular receivables that are uncollectible may not be identifiable.

If, based on available information, it is probable that the enterprise will be unable to collect all amounts due, the first condition for accrual is met because it is probable that an asset has been impaired. Whether the amount can be reasonably estimated will normally depend on other things such as the experience of the enterprise, information about the ability of individual debtors to pay, and appraisal of the receivables reflecting the current economy. In the case of an enterprise that has no experience of its own, reference to the experience of other enterprises in the same industry may be appropriate. The inability to make a reasonable estimate of the amount of loss from uncollectible receivables precludes accrual.⁷

The requirement that the loss be reasonably estimable before being accrued is intended to prevent an enterprise from accruing an amount that is so uncertain that the financial position of the company would be distorted. The Financial Accounting Standards Board has concluded that disclosure of the loss contingency in the notes to the financial statements is preferable to accrual when a reasonable estimate of the loss cannot be made. The disclosure shall indicate the nature of the contingency and an estimate of the possible range of loss.⁸

The result of accruing losses for financial accounting and reporting purposes is allocation of costs among accounting periods. When considering uncollectible loans, some believe that estimated losses from potential loan losses should be accrued even before available information indicates that the asset (loan portfolio) has been impaired to avoid reporting net income that

fluctuates widely from period to period. The financial statement users may be misled by those fluctuations. In this respect, the estimated losses should be accrued without regard to whether the loss relates to the current period if, based on experience, it is reasonable to expect losses sometime in the future.⁹

On the other hand, certain financial statement users have indicated that information about earnings fluctuations is important to them. If the nature of a certain business is such that losses occur in an irregular pattern and cause variations in net income, that fact should not be obscured by accruing for anticipated losses that do not relate to the current period.

Statement of Financial Accounting Standards No. 5 recognizes the first of the two views explained above in which some investors may have a preference for investments in enterprises with stable earnings, because that indicates lesser uncertainty or risk than fluctuating earnings. However, SFAS No. 5 rejects the contention that accruing estimated potential losses into a reserve protects against risk.¹⁰ Nevertheless, banks accrue potential losses to avoid reporting widely fluctuating net income. Banks do have a difficult time trying to avoid fluctuating income due to uncollectible loans. For example, it wasn't until many years after certain loans were made to Brazil that it was determined that most of them were uncollectible. How could these banks foresee that such large portions of their portfolios would eventually become uncollectible and have to be written off? This causes a sudden fluctuation in earnings. It also causes more trouble for banks because they are now seen as a more risky investment. This event can be very difficult to foresee. However, in some cases it is possible for the bank to make loan provisions in advance (charge to income the estimated potential loss) when clues arise as to the fact that the loan is becoming more uncollectible over time. In this manner, the potential loss must be probable and reasonably estimable before it is accrued.

Matching Principle

Matching is an accounting concept of recognizing expenses by associating costs with specific revenue on a cause and effect basis. This occurs when the amount of those losses can be reasonably estimated and it is probable that an asset has been impaired when trying to associate potential losses with revenue.¹¹

For uncollectible loans, the matching principle would require an "associating cause and effect" — some costs are recognized as expenses on the basis of a presumed direct association with specific revenue.¹² For banking institutions this would require a direct matching of expense for each particular loan, a practice not used today in the banking industry.

Conservatism

The concept of conservatism encompasses a general tendency towards early recognition of unfavorable events and minimization of the amount of net assets and net income.¹³ The conditions for accrual are not inconsistent with the accounting concept of conservatism. When estimating potential loan losses, the bank is attempting to show an early recognition towards unfavorable events. Also, when a bank creates or increases its allowance for loan losses, it is minimizing its net assets (the allowance is a contra account to total collectible loans) and minimizing net income (creating or increasing the allowance constitutes a direct charge to income). Here is the typical journal entry in its simplest form which is used to create or increase the allowance for loan losses:

Debit: Uncollectible Loans Expense

Credit: Allowance for Loan Losses

The part of the entry that is debited is shown as a deduction from income (expense) on the income statement. The credit to the allowance account goes on the balance sheet. Here is a simplified version of the balance sheet presentation for a banking institution:

<u>Current Assets</u>	
Collectible Loans	XXX
<u>Less: Allowance for Loan Losses</u>	<u>(XX)</u>
Net Realizable Value of Loan Portfolio	<u>XXX</u>

Regulations

Failure to maintain an adequate allowance for loan losses results in misrepresentation of the bank's financial condition on its financial statements. In other words, net income and net assets would be overstated. Because a bank's largest group of assets is its loan portfolio, management wants to be as careful as possible in determining the uncollectible amount. What seems to be a small error in estimate can cause a large error on the financial statements.

The Office of the Comptroller of the Currency (OCC), who supervises national banks, reminds bank management of their responsibility to maintain an adequate allowance for loan losses. The OCC can take appropriate action if it finds that a bank is under-reserved. Supervisory action includes:¹⁴

- 1) Cease and desist proceedings
- 2) Assessment of civil money penalties
- 3) Suspension or removal of responsible directors and officers of the bank.

The Securities and Exchange Commission (SEC) also plays a role by warning banks that they may violate Federal securities laws if banks fail to adjust their allowances frequently and realistically. In June 1987, the SEC charged First National Bank of Chicago with having insufficient loss reserves on its 1983 financial statement. The bank was accused of violating federal securities laws. The SEC concluded that First Chicago lacked adequate procedures for determining reserves needed for certain segments of its loan portfolio, and that the company failed to document the basis for establishing its overall reserve. In effect, First Chicago agreed to restate its 1983 and 1984 financial results, settling the SEC's charges.¹⁵

- Ratio of allowance for loan losses to average loans for several years.

Historical data provide only a portion of the information necessary to determine the appropriate allowance. An assessment of the effectiveness of the bank's lending policies and procedures and any changes relating thereto is equally important. Such information, combined with the results of periodic comprehensive reviews of the loan portfolio, provides a sound basis for estimating loan losses and assessing the effect of current economic conditions and other factors on the applicability of historical data in projecting trends.¹⁹

Estimated losses applicable to installment loans, small commercial loans, credit card loans and other similar types of credits often are based on an appropriate percentage of loans past-due more than a specified number of days. Such percentages vary based on, among other things, collateral, the bank's definition of "past-due", past experience, and an assessment of the effect of local economic conditions. The volume of such loans is such that review of individual loans past-due generally is not practicable or necessary.²⁰ This thesis concentrates on larger loan portfolios where economic conditions and past experience play a large part in determining an estimate for uncollectible loans.

Role of Independent Auditors

Bank management is not the only group concerned with the allowance; it is also a major issue for independent auditors during the annual audit. The Certified Public Accountant's (CPA) objective in the audit is to evaluate the adequacy of the allowance that was set up by bank management. The principal purpose of the audit procedures performed by the CPA is to identify individual loans or conditions that require further consideration in evaluating the reasonableness of the allowance. Factors include the following:²¹

- Current trend of delinquencies
 - Excessive loan renewals and extensions
 - Absence of current financial data related to borrowers and guarantors
-

- Borrowers experiencing such problems as operating losses, marginal working capital, inadequate cash flow, and business interruptions
- Loans secured by collateral that is not readily marketable or may deteriorate in realizable value
- Loans in industries experiencing economic instability
- Inadequately documented loans
- Evaluation of lending policies, practices and internal controls.

Loan losses, whether actual or estimated, may vary greatly, even among banks with loan portfolios of similar size, composition and quality. Therefore, information from peer group banks should be used only as general guidelines and never as the sole determining criteria for establishing an appropriate allowance.

Here are some critical steps performed by the CPA auditor during the examination of the allowance for loan losses:²²

- Obtain a list of problem loans as of the examination date, that is, loans which are or may become less than 100 percent collectible, possess more than the normal degree of credit risk, are past-due, or require more than normal management supervision.
- Obtain the detailed list of classified loans identified in the various loan departments.
- Obtain a list of rebooked charged-off loans approved by the board of directors and test for completeness.
- Determine whether the allowance for loan losses has been adjusted through the most recent quarter and, if not, request that management make an adjustment.

CPA Audit

The CPA is not required to determine the collectibility of each individual loan. It would take too much time. The audit should be designed to determine the overall collectibility of the entire portfolio and should be done on a test basis.²³ The review should be directed to the separate

categories of loans that constitute the bank's portfolio. For example, the CPA will sample a group of commercial loans, a group of mortgage loans, a group of real estate loans, etc. If a certain category shows some bad loans that were previously undetected, the auditor will give more emphasis to that area. Using this information, the CPA will attempt to determine whether or not bank management has entered the adequate amount of potential loan losses into the allowance account. The auditor is looking for something substantial to actually necessitate a change in the amount of the reserve.

Although larger loans are commonly emphasized, a sample should represent a cross section of the various types of loans granted by the bank. The tests should include inspection of the executed notes, loan applications, financial statements of borrowers, and other credit information. The CPA should check for appropriate approvals contained in the loan files and in minutes of the meetings of the board of directors or loan committee.

One major question arises. How can CPA auditors, working only from published financial data, contribute to the determination of reserve adequacy, which ultimately depends on a private knowledge of each bank's loans?

The best answer is that the CPA has an outsider's viewpoint that may lead to a better analysis of the portfolio.²⁴ However, the auditor does have a major disadvantage: he/she can't test the entire portfolio. The auditor may use an unrepresentative sample when testing particular loan categories. This concept is called sampling risk in which the conclusion the auditor reaches through testing the sample is different from the conclusion that would have been reached if the auditor tested the entire loan portfolio.

Legal Problems for Accounting Firms

Outside auditors of the major U.S. banking companies are putting pressure on the banks to boost their loan-loss reserves for unstable foreign loans. However, accounting firms are in a no-win situation. A major problem is that there are no specific professional rules for treating loan loss

reserves. Auditors can insist that a bank's reserves are inadequate, but they risk creating friction with bank management and could lose lucrative business. On the other hand, the outside auditors can accept the bank's more favorable valuation of the loans, and risk lawsuits by shareholders for failing to adequately represent the financial condition of the banks in their audits.²⁵

Since 1981, major accounting firms have made out-of-court settlements totaling more than \$250 million in negligence cases filed by investors, vendors, and suppliers of companies they have audited. In most instances, the suits were filed after the CPA firms issued unqualified opinion on the financial statements of companies which soon afterward encountered severe business problems or filed under federal bankruptcy statutes.²⁶

John Shank, professor of accounting at Dartmouth College says the measurement of loan loss reserves is a "black hole" in both accounting and auditing literature. "Because it is so wishy-washy, when a crisis arises such as Brazil or Mexico failing to pay back or stopping interest payments, the auditors just don't know what to do."²⁷

There is no consistent treatment in the banking industry of loan loss reserves. Some accountants question how outside auditors have permitted some banks to initiate large reserve increases while not forcing other client banks with similar loan exposure to increase their allowance accounts. For example, Citicorp and Manufacturer's Hanover, two of the largest in the banking industry, are both clients of the Peat Marwick accounting firm. Both banks have similar loan exposure, yet Manufacturer's Hanover would nearly have to triple its allowance to equal that of Citicorp. A spokesman from Peat Marwick, Thomas Keaveney, says that the reserve amount is a "judgment call by management."²⁸ However, the auditor will have to review the reasonableness of the allowance to give the financial statements a clean bill of health.

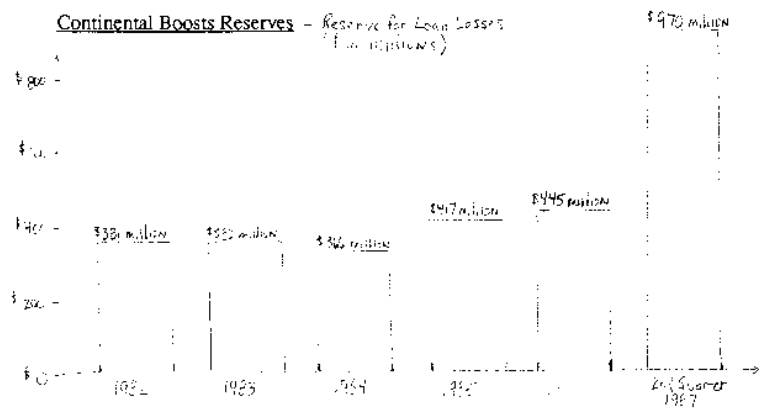
A recent event shows some renewed faith for accounting firms. In July 1987, a federal jury in Chicago dealt U.S. banking regulators a big setback in finding that Ernst and Whinney wasn't negligent in its 1981 audit of Continental Illinois Corporation.²⁹

The losses that year eventually led to Continental's 1984 collapse and subsequent government bailout. The suit had been brought on by the Federal Deposit Insurance Corporation and some former Continental Shareholders.

After Ernst and Whinney handed Continental an unqualified opinion on its annual audit, many oil and gas loans and some foreign loans defaulted. This apparently caused enough damage to lead to Continental's eventual collapse.

Legal experts familiar with accountant's negligence problems said the jury's exoneration of Ernst and Whinney is positive for the entire accounting profession. "It's a plus for accountants in that it renews their faith that future juries won't hold them to impossible standards," said Dan Goldwasser, a New York attorney who consults on legal matters for the New York State Society of Certified Public Accountants. Mr. Goldwasser also said that the decision will take some of the pressure off the major accounting firms in the future to settle out of court when they believe they have a good case.³⁰

The FDIC once offered to settle with Ernst and Whinney for \$20 million, and that the accounting firm offered the FDIC about \$2.5 million.³¹ This proves that the accounting firms do lack faith that the court will see things their way in that Ernst and Whinney did offer \$2.5 million which is a considerable sum of money.



The reserve for loan losses provides for the possibility that some losses not yet identifiable are inherent in the loan portfolio. The reserve is not allocated to any one customer or category of loans and is established through charges to earnings in the form of a provision for loan losses.

Continental Illinois Corporation announced June 22, 1987 that it will add \$500 million to its reserve for loan losses in the second quarter for loans to certain lesser-developed countries (LDC's). This will bring the reserve to \$970 million which constitutes approximately 5% of total loans. Continental made this provision assuming that loans to Brazil and Ecuador will remain non-performing.³²

Lesser-Developed Country Loans (LDC)

In 1987, Citicorp took the first step in recognizing the LDC loan problem by adding \$3 million to its loan loss reserve. After watching Citicorp's stock rise rather than fall after its announcement, about 50 more bank companies took the plunge, writing off another \$12 billion against earnings.³³

According to Forbes Magazine, there may be more grief yet to come. The table below analyzes the 1/2 dozen banks with the greatest LDC loan exposure that have set up special write-

offs. As you can see, marking their LDC loans to market suggests that these banks still have quite a lot to write off. Computations are based on public documents and quotes from marketmakers in LDC loans. All figures are in billions.³⁴

Bank	LDC Exposure	Indicated LDC Loan Losses At Market	LDC Reserves	Excess of Indicated Losses Over Reserves	Excess as % of Shareholders' Equity
Citicorp	\$14.85	\$6.15	\$3.80	\$2.35	44%
Bank of America	10.00	4.16	1.85	2.31	97
Chase Manhattan	8.90	3.66	2.00	1.66	74
Manufacturers					
Hanover	8.41	3.47	1.85	1.62	94
Chemical	5.95	2.43	1.51	.92	52

A new study done shows that the American banking system is worse off than anyone thought. Mexico is in debt for \$97 billion, of which \$25.2 billion is owed to U.S. banks. The study shows a growing number of banks that could soon fail if they continue to lose money at their current rate.³⁵

No major country has defaulted on a loan in decades. In practice, if a foreign country can't meet its payments, the bank rolls over the debt --- in effect, stretching out the maturity of the loan --- but insists that the interest payments continue; however this does not always occur. For example, since the new government took over in July of 1985, Peru's interest payments have stopped. The country owes \$14 billion, \$1.9 billion of that to banks in the United States.³⁶

What caused the U.S. banks to get into such a mess called the "international debt crisis"? Part of the reason is that regional banks decided to "go global". The regionals, such as Cleveland Trust, hold 43 percent of the total foreign debt owed to our banks. The top 15 banks have the rest.³⁷

"Going global" became imperative for these banks in the seventies because their domestic lending opportunities were limited. Interstate retail banking (mortgages, car loans, etc.) was

prohibited by the federal Glass - Steagal Act, and many states limited banks' intrastate retail lending to a single city or country. To expand, regionals turned more often to supplying loans to corporate clients. These corporate clients, of course, had customers in the Third World, and the banks soon realized they could help their U.S. clients and themselves by lending to these foreign countries. At that time, the profits on loans to the Third World were as good as, or in many cases for greater than those that could be gotten by lending in the United States.³⁸

But since the regionals were new at the game, they didn't have any personnel with international experience. S.C. Gwynne worked in the international credit department of Cleveland trust during the peak of lending to the Third World. Gwynne had a history degree, a masters from a writing program, and two years experience as a French teacher. "I did not understand how a bank worked," he reports. Neither Gwynne nor anyone he worked with in the International Lending Department knew much about the countries they were lending to. Gwynne got assigned to Latin America because he knew French. He and hundreds of others like him performed the lending chores and helped lead the world into the international debt crisis.³⁹

Bankers are under enormous pressure to become money salesmen. several new competitors are chasing the same customers banks pursue. Many large companies that were once the banker's prime clients now raise money by selling their own commercial paper. All sorts of nonbanks, from Sears to General Motors, have forced their way onto the bankers' traditional turf.⁴⁰ This could help explain why so many bad loans were made by both the regional and largest banks — desperation.

The best way to avoid lending which can lead borrowers into financial turmoil is to stick to banking's fundamental precept: Know about your customer. Bankers must rededicate themselves to their basic task of sizing up credit quality. That means scrutinizing the economic environment and the outlook for a borrower's ability to repay as well as his financial condition.⁴¹

Accounting Issues and Observations

Some experts question whether banks such as Citicorp, who added \$3 million to its loan loss reserve in 1987, overstated reported earnings in previous years and quarters by not recognizing the economic realities of LDC debt through higher loan loss provisioning as contrasted with others, such as J. P. Morgan, which dramatically built up their reserves over a long period of time. The answer is a close call. Even though Citicorp did not build up reserves early on, that bank did, in fact, place many of its loans to Brazil on nonaccrual status — the bank did show a decrease in earnings by not recognizing interest income from certain loans. However, Citicorp was still much less conservative in trying not to overstate earnings than J. P. Morgan.⁴²

Due to the extreme difficulty in evaluating foreign loans, Citicorp's outside accounting firm has acquired the use of a "basket approach" for the determination of reserves instead of the more traditional approach where reserve adequacy determined by a bottom-up, credit by credit approach. While the basket approach can be a conservative method (J. P. Morgan has larger loan loss reserves than the aggregate loss totals over the entire history of the firm), it can also be abused. Some banks may rely too heavily on pure statistical theory, which could understate reserve adequacy. Also, the SEC prefers the credit by credit approach in their reviews.⁴³ Since banks set up a reserve for a market basket of debt rather than for specific loans, it is difficult to compare loan exposure from one bank to another. The credit by credit approach consists of evaluating each loan on its collectibility, a process that many large banks deviate from due to the tedious work involved. The market basket approach uses statistical theory and the steps listed earlier in this thesis such as evaluating past experience of collectibility in determining the overall collectibility of the loan portfolio as a whole. While most banks use this method, it is difficult to compare loan exposure from one bank to another and, therefore, it is difficult to compare the quality of the loan portfolio. This poses a problem for auditors, investors, and any other readers of the financial statements.

Conclusion

With the large number of foreign loans going bad, bank management and outside auditors have their hands full. If poor judgment is used in determining the amount in the reserve for loan losses, the Securities and Exchange Commission can impose severe penalties on the bank. Also, the stockholders of the bank can sue the independent auditors for not detecting a poor estimate that was originally made by bank management. The global debt crisis has intensified during the last year which means that many banks will be facing more financial turmoil. Those banks who have already charged against income large amounts of dollars for potential loan losses are better protected than those who have not. Soon, the economic realities of the Third World debt problem will be faced by many of the banks with inadequate reserves. These banks will be forced to take on large losses in the near future, due to the defaulting lesser developed countries. Those banks with adequate reserves (there are few, if any) have already incurred losses and should be able to survive the economic ramifications of the debt problem. However, many underreserved banks may fail or be forced into bankruptcy.

Footnotes

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⁴⁰ Alex Sheshunoff, "Why Bankers Must Say No," Fortune, June 22, 1987, p. 177.

⁴¹ Ibid.

⁴² Richard J. Fredericks, "The Banking Industry's New Special Reserve Policies," Montgomery Securities, June 1987, p. 11.

⁴³ Ibid. p. 12.

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