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LE DROIT / PREMIÈRE 110
THE CITIZEN / VALLEY 111
THE GLOBE AND MAIL / NATIONAL 115
Code 7
Page B-14

Chemical New York adds $1.1 billion to reserves to cover Third World loans

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Chemical New York Corp. says it is adding $1.1-billion (U.S.) to its reserve for bad loans, becoming the latest major U.S. bank to admit it expects big losses on loans to developing countries.

Chemical, the fourth-largest U.S. bank holding company, said the addition will give it a second-quarter loss of about $1.1-billion and a loss for the year of about $710-million.

It indicated it is taking the step because of similar moves other big banks, including Citicorp, BankAmerica Corp. and Chase Manhattan Corp., and because of uncertainty over how global economic conditions will affect the debtor countries' repayment ability.

"We have carefully examined our loan-loss reserve position in light of recent announcements by other major financial institutions and believe an increase is appropriate at this time," said Walter Shipley, Chemical's chairman and chief executive.

Citicorp, the biggest U.S. bank holding company, last month became the first major U.S. bank lender to the Third World to make a major addition to its loan-loss reserves for covering those loans. It added $3-billion to its reserves and said it expected to post a $2.5-billion second-quarter loss as a result.

The most recent of the big banking companies to take the step was BankAmerica, which late Monday announced it was adding $1.1-billion to reserves to cover potentially bad Third World loans. BankAmerica, which lost $855-million over its past two fiscal years, said it expects a $1-billion second-quarter loss because of the addition to reserves.

In boosting reserves, the banks have stated they do not plan to use the entire amount for writing off foreign loans as uncollectable. However, the huge additions are seen as admissions that billions of dollars in Third World loans will not be collected or will have to be disposed of at a loss.

Nevertheless, the reserve additions generally have been seen as positive steps by shareholders and investors, because any future losses can be taken from the reserve, rather than from current profits.

Shares of Chemical, which disclosed its reserve addition after the close of trading, were up 87 cents to $44.75 on the New York Stock Exchange.

Like other banks that have recently raised reserves, Chemical indicated it will continue paying its common stock dividends.

The $1.1-billion reserve increase includes an $80-million reserve increase at Texas Commerce Bancshares Inc. in Houston, which merged with Chemical on May 1.

Chemical indicated that the addition will increase its total allowance for bad loans to about $2.1-billion, or about 4.1 per cent of total loans outstanding.

The total reserve amounts to about 25 per cent of its $5.9-billion in loans outstanding to developing countries that have restructured their loan payments to creditor banks.

Chemical stated that its second-quarter loss included $80-million in previously deferred tax benefits that now cannot be realized in the near term.

It expects to gain income from tax benefits stemming from the reserve addition, as well as asset sales, the deferred tax benefits and profit from its basic businesses.

"Chemical is well positioned to carry out this action of strengthening its reserves while at the same time continuing to meet its strategic business objectives," Mr. Shipley said.

29

556