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Forbes: European Banks Have \$10 Trillion in Claims Against US Rivals

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European banks hold as much as \$10 trillion in claims against their U.S. counterparts, which reflects how vulnerable the North American financial system is to Europe's debt crisis, Forbes reports, citing Princeton University research.

For two years now, the European Union has managed to prevent countries like Greece and Italy from defaulting, which could send financial shockwaves to the U.S.

The crisis, however, rages on and continues to threaten financial stability worldwide.

European banks have made direct loans to U.S. businesses but also hold U.S. money-market deposits and U.S. mortgage securities.

So while U.S. banks might not hold too much sovereign debt issued by troubled European governments, should a default in Europe take place and banks there go under, they could take U.S. financial institutions with them due to counterparty exposure.

"Permissive financial conditions are easily transported from continent to continent when trouble arises as they do today, with vastly under-capitalized European banks owing American banks trillions — at the very moment they need an injection of trillions in Europe so as not to cause a run to default by sovereign nations or the giant banks themselves," Forbes National Editor and former investment banker Robert Lenzner writes.

"In other words, we are bloody well in this together; our crummy banks holding tons of lousy mortgage loans — and Europe's banks holding tons of lousy loans to Italy, Greece, Portugal, France and Ireland. Hands across the sea! Trillions of dollars across the sea!. Massive obstacles to the smooth running of global financial markets across the sea."

Other experts agree that counterparty risk merits watching.

"You may not be holding any problem debt yourself, but your counterparty could be experiencing distress, and the relationship is no longer on firm footing," says John Jay, senior analyst at Aite Group, a financial research firm, according to the Huffington Post.

"If you're an American bank, and global in nature, undoubtedly you are dealing with someone who holds that sovereign risk."

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