

LEHMAN BROTHERS

News Release

For Immediate Release

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**- BANK CREDIT RISK IS BEING VIEWED FROM THE WRONG ANGLE,
ACCORDING TO LEHMAN BROTHERS BANK ANALYST MICHAEL MAYO -
- Risk Is A Problem, But There's Good News In The Bigger Picture -**

NEW YORK, NY, June 21, 1996 -- Amid all the hype about banks avoiding credit risk these days, Lehman Brothers bank analyst Michael Mayo has a more rational view. He agrees that credit card losses are a significant concern, but sees the problem from a different angle. "Losses should be viewed relative to what banks are getting paid," says Mayo, "It's good for banks to manage risk in areas in which they have a specialty. Evidence that at least some banks are managing risk appropriately can be found in increased margins."

Mayo feels the reaction to consumer loan losses is overdone and that banks should "price" risk, not avoid it. While he expects credit quality to deteriorate to some degree -- which, he says, is not "new news" -- he does not expect it to reach the level of the last downturn.

In a new report to be published next week, Mayo supports this view. A preview of selected highlights follows:

- Margins are improving more significantly than they have in two years at regional banks, helping to show that at least some banks are getting compensated for higher loan losses. The business of banks is risk management, not risk avoidance.

- more -

Lehman Brothers, Michael Mayo

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- Credit card losses are up. Most banks with credit cards will have higher losses in the second quarter versus the first. But the good news is that total credit losses -- the more relevant figure -- should remain in a generally favorable range.
- We expect 10-12% year-over-year earnings growth. Results should be helped by upper single digit loan growth, good expense control, and the favorable impact of share buybacks. Results should reflect generally boring, upward progress.

“The consequence of analyzing this issue in the wrong manner,” says Mayo, “is that borrowers don't get credit, banks miss out on opportunities and it's a lose/lose situation. The focus on risk avoidance is a throwback to the regulated mind-set of many years ago and undermines the intermediation process.”

Mayo continues to expect steady earnings increases and higher long-term valuations for the industry. His top picks, with heavy consumer concentration but proven expertise, include Banc One and Norwest. To receive a copy of Mr. Mayo's new report, *Bad News Out; Good News To Come*, please call (914) 591-5599.

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