

Domestic Credit by Lydia Schulman

Foreign aid for Chrysler

While Japanese banks stretched out little-known loans under pressure, some Senators still want to shut down the whole works.

After much delaying, the government's Chrysler Loan Guarantee Board decided last week to release \$1.5 billion in federal loan guarantees to the Chrysler Corp., paving the way for a new infusion of credit to the ailing automaker. While this event was capturing the headlines, a number of other developments surfaced which bear on the nature of the "rescue" package and on the fate of Chrysler.

On May 6, *Keizai Shimbun* (Japan Economic Journal) reported that Chrysler Corp. is asking seven Japanese banks to accept deferred payment on \$30 million in dollar-denominated bonds that were privately placed in the Tokyo capital market in December 1972. The bonds in question have a 15-year maturity and were to have been redeemed at a yearly rate of about \$3 million starting in 1979.

According to an April 22 report in *Nihon Keizai*, the seven banks were previously pressured into accepting a stretchout of \$156 million in short-term trade credits into nine-year loans to help out the cash-starved Chrysler. The authoritative Japanese economics weekly reported:

"There was strong speculation last week that such a change in credit status, rare in the banking business, was worked out under political pressure at a time when there is considerable friction in Japan-U.S. trade relations over Japanese car sales in the U.S., which

could be an issue when Prime Minister Ohira meets with President Carter during Ohira's forthcoming visit to Washington in May."

Until several months ago the Japanese banks, which include Mitsubishi Bank, the Industrial Bank of Japan, and the Bank of Tokyo, had been providing trade credits to finance the import into the U.S. of subcompact cars and light trucks made by Mitsubishi Motors Corp., in which Chrysler has a 15 percent interest. At one point last winter, the Japanese banks were considering suing Chrysler to recover their \$156 million as unidentified European banks have apparently done. Then came the political arm-twisting.

The existence of the Japanese credits was only hinted in the voluminous documents on the financial condition of Chrysler submitted to Congress by Treasury.

In another development, Sen. Lowell Weicker (R-Conn.), Sen. William Proxmire (D-Wisc.), and other critics of Chrysler are seeking to challenge the Loan Guarantee Board's decision to release the guarantees by attaching an amendment to the \$1.5 billion appropriations bill. The amendment would make the actual appropriation contingent on meeting the exact conditions specified by the loan guarantee act passed by Congress last December—namely, that Chrysler's creditors extend it new unsecured loans and that Chrysler

plan a sale of new stock to the public. These conditions were waived by the Loan Guarantee Board last week.

An aide to Senator Weicker said in an interview that Chrysler's domestic bank creditors must make good on \$159 million in loan commitments to the automaker that were still outstanding as of last fall.

"There won't be any money in the till if Chrysler goes belly up and defaults on the guaranteed loans, unless the banks agree to the letter of the law now ... Some time ago the marketplace decided that it wouldn't support Chrysler any more by buying its commercial paper, because it is not a prudent investment." Sens. Weicker, Proxmire, et al. would like to see Chrysler go "belly side up" with no more adue.

Complaints that the loan guarantee package is just an elaborate debt rollover—and one of more benefit to Chrysler's creditors than to the automaker—are valid, however. Chrysler's own financial reports show that between December 1978 and December 1979, the corporation's outstanding commercial paper, its unsecured IOUs to large investors, dropped from \$1.65 billion to only \$62.4 million. The loan guarantees package would simply substitute high-risk short-term debt that Wall Street rejected with other debt bearing the government's imprimatur.

The release of the loan guarantees substantially altered the dim outlook for Chrysler. The corporation is expected to have to tap \$500 million of the loan guarantees by the end of May and another \$600 million before the end of 1981.