

Banking by Kathy Burdman

No such thing as a free lunch

Major U.S. banks may soon write off bad Latin American loans the FDIC "can't afford to eat."

This reporter obtained exclusive information Aug. 17 that a whole new shakeup is pending at bankrupt Continental Illinois, which may force major U.S. banks to write off entire chunks of their rotten Ibero-American loans. The pending third quarter write-offs could be much larger than those in June.

Meanwhile, a new Argentine debt crisis is looming for Sept. 15, and so is the debtors' cartel, set to meet and get serious on that date in Argentina.

Bank regulators, led by the bloodthirsty Paul Volcker and the Comptroller of the Currency C. Todd Conover, are about to get even tougher on Conti, one of my best official sources revealed. Originally, under the July 26 nationalization, Conti was split into two banks, placing bad loans into a bankrupt "bad bank" to be written off, and good loans in a "good bank" slated to be supported by the FDIC as the survivor. Conti was allowed to leave its Latin loans in the "good bank" because to recognize these as bad would have forced all other banks to do so.

Now, Conti will be forced to "reassess its portfolio," my source revealed, because the Latin America loans are "the stuff Uncle Sam [the FDIC] can't afford to eat." These loans apparently are so big that they cannot be left in the good bank, for which the FDIC is responsible, without undermining it.

Well aware of some problem, depositors are still fleeing Conti, which has continued to lose more than \$1

billion in deposits since you and I became its owners July 26.

"This will force the other banks to also write them down," said my source, of Manufacturers Hanover, Chemical, and other big banks.

My source is predicting that the big losses in the Latin debt, as well as a major shakeout for S&Ls going under, will come after the election, in the spring—but I'm not so sure. Argentine officials declared Aug. 15 that they cannot pay \$750 million in interest arrears due Sept. 15, which is "too large to be drawn from the country's foreign reserves." Nor will they agree to an IMF program by that date. The banks will surely demand the money, as they did this week when Argentina was forced to make a \$125 million payment. Confrontation is likely.

The oracle of Switzerland, the *Neue Zürcher Zeitung*, reported from Buenos Aires Aug. 15 that the debtors' cartel is about to "politicize the debt" and get tough with the banks. The text of "Preparation of Follow-up Conference to Cartagena" follows.

"At the level of undersecretaries, an experts group from the eleven most indebted countries of Latin America met in Buenos Aires . . . in order to prepare the convening of a followup conference of the group that met in the second half of June in . . . Cartagena. The goals of this highly-indebted group of states come rather close to the purpose—always denied—of forming a 'debtors club.' The second ministerial conference of the eleven most-indebted countries of Latin America will take

place at Mar del Plata, Argentina's Atlantic sea resort, on Sept. 13 and 14. . . .

" . . . In Cartagena, the economic ministers of these countries analyzed the entire position of these countries in the area of foreign indebtedness, and in a common declaration, announced their willingness to cooperate towards a solution of this problem.

"The expert conference in Buenos Aires took place behind closed doors. . . . But the fact alone that the experts met under the chairmanship of a high-ranking official of the Argentine foreign ministry increases the impression . . . that the most important Latin American debtor countries are aiming for more than merely an exchange of information. . . .

"According to reliable sources in Buenos Aires, the conference at Mar del Plata will be attended by foreign ministers as well as economics ministers. The experts group has agreed that the ministerial group should work out concrete plans toward the goal of raising the debt problem out of the purely economic-financial realm to the political plane. According to the same sources, there was excitement about a proposal for a summit conference on the debt problem. The heads of state of the seven largest industrial nations, as well as the 11 'Cartagena countries,' would take part.

"The most important agenda item would be the already-mentioned points, i.e., long-term indebtedness from the standpoint of 'realistic capacity to pay,' and 'well-monitored interest rate conditions,' but also preconditions for stable markets and prices for Latin American exports. From this viewpoint there would be—and there is no further official elaboration of this—necessarily a requirement that the debt problem would have to have a political solution, not merely a technical one."