

CHILE LOAN HELD RISKY FOR BANKS

JUN 14 1976

Rep. Reuss Cites Danger in
\$125 Million Deal for
16 Major Lenders
NYTimes JUN 14 1976

By ANN CRITTENDEN

A recent \$125 million loan to the Government of Chile by 16 major New York, California and Canadian banks carries "a very substantial risk" for the banks involved, Representative Henry S. Reuss, Democrat of Wisconsin, has warned in a letter to the Comptroller of the Currency, James E. Smith.

Representative Reuss released the letter and Mr. Smith's reply yesterday, with a statement criticizing the Comptroller for failing to consider seriously several questions raised by the Chilean credit.

Mr. Reuss cited new evidence about the precarious state of the Chilean economy to support his contention that the unsecured loan could involve excessive risk.

He noted that since November 1975 the monthly inflation rate has nearly doubled, to 13.5 percent in March, and that, according to the World Bank, Chile's debt-service payments this year will amount to 38 percent of export earnings, up from 27 percent in 1975.

Most of Chile's major European creditors hold the largest share of the Chilean debt falling due after 1976, Mr. Reuss noted, and are currently refusing debt relief.

Although the letter of commitment for the Chilean credit, signed last January, was made explicitly contingent on Chile's obtaining a stand-by loan from the International Monetary Fund—signaling that the nation's economic policies were supervised by the I.M.F.—the Chilean Government and the I.M.F. failed to agree on the terms of the stand-by loan, and the loan was made without it, Mr. Reuss said.

Official's Reply

In view of the fact that the bank syndicate, led by the Morgan Guaranty Trust Company, went ahead with the credit in spite of these circumstances, Mr. Reuss asked the Comptroller to examine the truth of allegations that both the State Department and Treasury Department encouraged the American banks to proceed and to what extent the loan was made to protect assets already invested in Chile.

Mr. Smith, in his reply, said that this could not have been a factor, since the most recent examination reports of the 20 largest national banks indicated that "the largest percentage of Chilean loans at any of these 20 banks will be only 1.685 percent of gross capital funds. Aside from the largest twenty, one national bank carries 4.76 percent of its capital in loans to Chile."

The Comptroller also said that he was unaware of any allegations that the American Government had encouraged the banks to make the loan. He said the banks informed the I.M.F. that, in view of the steady increase in the price of copper, Chile's primary source of foreign exchange, the loan was warranted without an I.M.F. stand-by.