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John Neagle

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U.S. Commercial Loans To Argentina Declared Value Impaired

by John Neagle

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During a closed-door meeting in New York this week, an inter-agency committee comprised of the US Treasury, Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC), reclassified US bank loans to Argentina as "value impaired." The immediate effect of the decision was a 20% reduction in loan value by the banks. Banks cover such losses with reserves or by reducing quarterly profits. New bank loans from US banks for Argentina will be impossible until a refinancing agreement is completed, and terms for refinancing will be more onerous as a result of the reclassification. If such agreement is not worked out within six months, another 20% of loan value would be declared a loss. On June 6 in Buenos Aires, a spokesperson for the Argentine Economy Ministry told reporters that the reclassification was applied only to refinanced public sector loans. The spokesperson also emphasized that the value impaired status was relevant only to such loans from US banks. An unidentified banking source in New York told Notimex that the regulators' decision was hardly surprising since the Argentines knew this would happen eventually. Argentina has suspended interest payments for over a year, and negotiations with creditors have been all but suspended as well. The three New York-based banks with the greatest exposure in Argentina are Manufacturers Hanover Trust (\$1.4 billion), Citibank (\$1.1 billion), and Chase Manhattan (\$900 million). Argentina's total foreign debt is estimated at \$60.8 billion. In a related development, the General Accounting Office (GAO), a research arm of the US Congress, issued a report on Third World nations' debt to US banks. According to the GAO, arrears in loan payments to US banks by developing countries total about \$70 billion. The report asserted that US regulatory agencies must require commercial banks to establish larger reserves to protect depositors against loan defaults. The GAO estimated Argentina's overdue interest payments to US commercial banks at over \$8.5 billion. Buenos Aires has not made interest payments on its foreign debt for over a year. Other countries whose loans have been declared value impaired by US regulatory agencies in recent years include Poland, Bolivia, Peru, Zaire, Nicaragua and Liberia. [Basic data from Notimex, ADYN (Argentine newspaper collective), AP, 06/06/89]

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