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Brazil Aid Is Rushed By Banks

$6.5 Billion Loan Package Taking Shape

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By KENNETH N. GILPIN

Scarcely six weeks after it was announced, a $6.5 billion commercial bank loan for Brazil, the biggest such package in the history of international finance, appears to be rapidly falling into place.

As of late Friday, one commercial banker said, more than 250 commercial banks around the world had committed about $4.6 billion of the loan.

The banker, who declined to be identified, said that by tonight William R. Rhodes, a senior vice president at Citibank and chairman of Brazil's 14-bank advisory committee, is expected to inform Jacques de Larosière, managing director of the International Monetary Fund, that more than $5 billion is likely to be pledged.

Some Replies Still to Come

Brazil has more than 800 commercial bank creditors. Many of them have not yet answered telexes sent out about a month ago.

But the banker added that the amount already committed would probably be enough to pursuade Mr. de Larosière to recommend to the Monetary Fund's executive committee this Friday that disbursements from the Fund's own $5.4 billion loan package be resumed. They were suspended last June, when Brazil was found out of compliance with the I.M.F. economic adjustment plan.

As bankers had predicted when the new loan was announced in late September, given the size of the loan, the number of banks involved and the magnitude of Brazil's foreign debt, raising the money has by no means been easy. Brazil's foreign debts now total $90 billion.

Intensifying Campaign Seen

The drive to get more banks to join the new package is far from over.

Over the next few weeks, pressure on banks that have not yet responded to the loan request will intensify, and many bankers are predicting that the total could rise to between $5.5 billion and $6 billion. The remaining $500 million is likely to be difficult to get.

In spite of initial reluctance, the lack of an alternative and a belief in Brazil's long-term potential has persuaded most banks to participate.

Most bankers were reluctant to be identified when asked about the new Brazilian program, which is called Phase 2. Mainly, however, they gave Mr. Rhodes and the advisory committee high marks for the way the loan was promoted.

But regional bankers in the United States and Europe, as well as representatives at major money center banks in New York, were highly

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...ish Aid for Brazil

A good chunk of money pledged under the new loan program would be used to pay off roughly $3 billion in interest payments to banks and bills due to suppliers that have piled up since last May, when disbursements from the first commercial bank loan package and loan from the I.M.F. were simultaneously halted. The rest would be applied to next year.

A Change in Banks' Attitude

The call for a sharp reduction in interest rates, a step that would ease debt service burdens and allow more money to be put to productive use, is a marked departure from the attitude held by banks last February.

At that time, banks were of the opinion that the heightened risk in lending to Brazil justified a higher interest rate. Rather than interest rate charges, the major point of resistance was the call to restore interbank credit lines to a $7.5 billion level. The failure of banks to meet that target reduced Brazil's anticipated cash flow for 1983 by $1.5 billion, and that shortfall is at least partly responsible for the size of the current $6.5 billion loan. Interbank credit lines are short-term dollar deposits in Brazilian banks made by foreign banks.

To help make up for the shortfall, as well as to spread the burden, the decision was made in September to seek participation from all of Brazil's creditors. In the first loan, by contrast, only Brazil's largest creditors were asked to participate. The 170 banks that came up with the $4.4 billion last February hold about 90 percent of Brazil's outstanding commercial bank debt.

Reluctant to Alter Status

If the rate of interest on an outstanding loan is reduced, the loan must be classified as "nonperforming," a step that major American creditors, who have billions of dollars in outstanding loans to Brazil, have thus far been loath to take.

... billion refunding, ... about $1 billion
First, the Treasury's $16 billion refunding, stretching over three sessions, attracted buying

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skeptical that Phase 2 would do [illegible] to ease Brazil's debt burden.

High Interest Rates Noted

To do that, they asserted, the [illegible] cause of Brazil's cash flow prob[illegible] — high rates of interest, which [illegible] pushed Brazil's interest payments [illegible]yond its ability to service them — would have to be addressed. [illegible] banking sources added that steps [illegible] correct that problemshould be [illegible] before Brazil returns for addi[illegible] money in what is likely to be the [illegible] six to eight months.

The emergence of a drive to [illegible]late a longer-term strategy [illegible] sharp reduction in interest [illegible]verges from the current strategy, [illegible] is directed at Brazil's immedi[illegible] financing requirements. According [illegible] this strategy, once the country's [illegible]-term problems have been addressed, confidence about the country's prospects will return and Brazil [illegible] able to raise capital on its own.

[illegible] approach appears to be [illegible] Mexico, which has [illegible] debt. But bankers are [illegible]ly convinced [illegible]ed in Brazil.

[illegible]

[illegible] passage of the wage law," said [illegible] American regional banker, [illegible] ring to the decision of [illegible] Congress to limit wage [illegible] all salaried employees to 87 [illegible] of inflation. "But this package [illegible] final solution. And if Phase 3 [illegible] addresses what the Brazil[illegible] going to need in 1985, it wo[illegible] chance in the market. [illegible] bankers want to address [illegible] four to five years, and th[illegible] do that is to address th[illegible] problem."

Oakley W. Chane[illegible] president at the So[illegible] in Miami, said h[illegible] $126 million in [illegible] acceptances to [illegible] new package.

But he add[illegible] ports begin [illegible] cost of the[illegible] not have [illegible] income[illegible]

Persist[illegible]

An [illegible] bank [illegible] said [illegible] this [illegible]

[illegible] would be [illegible] billion in interest [illegible] and bills [illegible] piled up [illegible]disbursements [illegible] bank loan [illegible] the I.M.F. [illegible] The rest [illegible] year.

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[illegible]

"We aren't [illegible] eighth of a p[illegible] said.

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He was refe[illegible] Wriston, chairm[illegible] Lewis W. Prest[illegible] Morgan Guarant[illegible]

Rush Aic for Brazil

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"Banks with relatively high exposures in Brazil would not be able to live with that sort of an approach without some regulatory changes," said Robert J. Higgins, an executive vice president at the Fleet National Bank in Providence, R.I.

But calls for lower interest rates did not fall entirely on deaf ears.

In what was characterized as a major concession, early last month a group of 14 banks, which make up Brazil's coordinating committee, decided to reduce the interest rate on the $6.5 billion loan by one-eighth percentage point from the rate charged on the $4.4 billion loan, to two percentage points above the London interbank offered rate, or 1¾ percentage points over the prime rate in the United States.

"We aren't talking about cuts of an eighth of a point," a regional banker said.

Bankers agree that the decision to reduce interest rates on existing debt, if and when such a step is taken, will not be made by the current members of Brazil's advisory committee.

"Senior vice presidents are not in a position to make the decisions that are necessary," the major money center banker said. "In order to get the interest rate problem and the regulatory problem addressed, the Wristons and the Prestons of the world are going to have to get involved."

He was referring to Walter W. Wriston, chairman of Citibank, and Lewis W. Preston, chairman of the Morgan Guaranty Trust Company.