

Dr M chastises banks for

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'pound of flesh' attitude

KUALA LUMPUR, Mon. — The inflexible attitude of some banks which are bent on exacting "every pound of flesh" from clients when recovering old loans should be discarded, the Prime Minister said tonight.

Datuk Seri Dr Mahathir Mohamad said some banks adopted this attitude even if it meant jeopardising the recovery of their clients' business or losing them as customers.

Saying he had heard of how some banks had been "too insistent" on recovering old loans, he said they had even refused to waive the penalty interest or part of it for borrowers who wanted to repay the original loan and the accumulated interest.

He said this kind of short-

term thinking did not reflect well on the maturity of the banking industry.

Dr Mahathir also related the experience of some borrowers who were shocked with the amount they owed when they went to clear their loans.

Penalties

"During the recession, interest had accumulated because borrowers could not get the cash to service their loans. On top of that, the banks had imposed heavy penalty interests for defaults," he said in his speech at the joint annual dinner of financial institutions.

"When things improved, borrowers who came forward to repay got a shock when they were informed

of the amount owed."

Dr Mahathir said the banks and the country would not gain from such acts.

"We need businessmen who are able and honest enough to pay their debts as soon as they can. They are responsible debtors. They should be rewarded rather than penalised."

He said as Malaysia was short on good businessmen and paymasters, it was in everyone's interest to rehabilitate these people.

He hoped banks would be more business-like in dealing with these borrowers as "the faster they recover and get on with their businesses, the better it will be for our economy as a whole."

Dr Mahathir said many

borrowers could have been rescued from bankruptcy if banks had been willing to give them sufficient time.

This was because their collateral would have appreciated with the economic recovery.

"But they have been made bankrupts and are now unable to repay the banks. They are now useless to the banks, to themselves and to the nation. It is such a waste."

He made it clear that those who had misused funds deserved to be declared bankrupts, but "those businessmen who failed through property depreciation during the

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Banks urged to buy into firms

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recession do not deserve to be so punished"

Dr Mahathir also noted that clients themselves recover very little from the appreciation of their collateral while "bankers paid themselves off with interest and penalties".

"While repayment in instalments should be charged the full penalty, repayment in full warrants a reduction or writing off of the penalty; indeed, even interest deserves to be reconsidered."

He also urged banks to rely less on collateral and more on the soundness of company management and profitability of projects, especially when dealing with new enterprises and products.

"If these enterprises are not given loans because they have no collateral and no track record, how are there going to be new businesses and entrepreneurs?"

He hoped banks act on a suggestion made by him a few years ago that they take up shares and actively participate in business.

"As I remember, the suggestion was welcomed by the banking fraternity. But I know of no banks which have actually taken shares in companies and participated in their management."

Banks should also go beyond pure money lending operations and consider financial support for new manufacturing businesses and the recruitment of officers knowledgeable in modern technology.

The insurance industry was also urged to seriously consider providing commercial insurance coverage to sectors it had traditionally considered risky, — crop, livestock and fisheries.