

02/12/1997

Banking on sense of fairplay

THOSE affected by margin calls from their banks today must be looking back in fondness to the time, not too long ago, when bankers seemed friendlier and the loan and credit departments went out of their way to please the borrower. While the policy of the banks then contributed in no small measure towards enabling various economic and investment activities to flourish, it also saw the financial institutions raking in sizeable profits year after year. However, signs of trouble emerged and in the blink of an eye, many of the same banks seem to have suddenly become if not less friendly then certainly more defensive.

It is understandable that banks would want to protect their interests in times of economic uncertainty. Indeed, they should always maintain a high level of prudence in terms of loans exposure and adopting sufficient safeguards against being saddled with too much bad debt, a situation which in the long term would affect the whole economy. But the current rash of margin calls, requiring borrowers to top up the difference between the loan and the collateral, is coming across as a knee-jerk reaction of sorts to the decline in share prices on the Kuala Lumpur Stock Exchange. In instituting the move against clients who have for the most part been valued growth partners in the past 10 years, the banks must realise that the impact on the economy may well be greater than the sum total of their individual decisions.

Although all financial institutions in Malaysia have been quick to make margin calls, a sufficiently large number have done so in a manner which is causing unease among investors as well as the Government. This despite the fact that all 37 commercial banks in the country managed to record substantial profits last year. Although the level of profitability may not be matched this year, the banks ought to remember that the greater interest of the nation must take precedence over individual bottom lines. Lest they come to be viewed as mere "fair weather friends", they should also take note of Prime Minister Datuk Seri Dr Mahathir Mohamad's reminder that no one wins if the economy does not do well; not the investors, not the companies, not the people and certainly not the banks.

More than any other sector, the banks have a key role in ensuring that the economy gets quickly back on track, through patience and by keeping faith in their clients as well as in the Government's handling of the problems. It serves no purpose to trigger a repeat of the mid-1980s situation where many individuals and businesses had to default on their loan obligations and consequently had to be declared bankrupt. As in the case of the recession - perhaps more so now - many borrowers are simply swept away by developments beyond their control. While there may be some who have over-extended themselves in terms of exposure to the stock market, others are genuine businesses with thriving operations. It would be sad, not only for these individuals and companies but also with respect to the implications on the entire economy, if their years of hard work go up in smoke simply because the banks no longer have any confidence in them.

In the current situation, discretion is called for, preferably on a case-by-case basis. The banks would have comprehensive credit records to help them make decisions, tough as they must be, pertaining to who should or should not be thrown a lifeline, but it should not be an entirely hard-nosed, business exercise as many of the clients deserve to be treated with

sensitivity and patience. When the good times rolled, these clients had proved themselves worthy of trust and respect. Now the tide has turned and times are not so good. The least the banks could do is to stand by them, and work with them if needed so that they, and the economy, could quickly regain their winning ways.

(END)