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Dr M chides banks for imposing strict credit terms

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PRIME Minister Datuk Seri Dr Mahathir Mohamad yesterday took to task banks which imposed strict credit conditions and said they should stop business if they do not believe in the economy.

"If they (banks) do not believe in the economy of this country, they might as well close down," he told newsmen after touring the Multimedia University campus in Cyberjaya, an intelligent city within the Multimedia Super Corridor project yesterday.

Dr Mahathir was referring to numerous complaints that the banks had asked for a 100 per cent performance bond from contractors instead of the present 10 per cent.

"I cannot understand why. Instead of the 10 per cent performance bond, they are asking for 100 per cent. If you can offer 100 per cent (performance bond) you do not have to go to the bank. You can use it by yourself.

"I don't know what the banks want ... to impose this strict condition. As far as I know, the Government did not ask them to do this," Dr Mahathir said, adding he will inform his deputy, who is also Finance Minister Datuk Seri Anwar Ibrahim on the matter.

A performance bond is essentially an instrument given by the bank to a borrower who undertakes a project whereby the latter is liable in case of a default.

In case the project runs into problems or if there is a default, the party which awarded the contract can redeem the performance bond up to the value of the contract according to the terms and conditions spelt out.

Asked why banks still ask for 100 per cent performance bond when top bankers and officials had been briefed by Economic Adviser to the Government Tun Daim Zainuddin on the need to provide credit facilities, Dr Mahathir said not all banks are cooperative regarding the suggestion.

"We explained to them (bankers) but they keep saying that they agreed with the Government and will do the necessary.

"But when we go to the ground, lots of people complained that the banks are not cooperative (in giving loans) despite the assurance from the Government," he added.

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