Thus, in February 1969, Manufacturers Hanover Limited (or MHL as it was usually known) was born, with offices on the top floor of a fine old West End building in Upper Brooke Street close to the US Embassy in Grosvenor Square. Minos bravely took out advertisements in the *Financial Times* and the *International Herald Tribune* announcing "a new concept in international finance" and giving a telephone number for further inquiries. It looked very substantial, though in reality it initially consisted only of Minos and a secretary (who was often away sick). But the next task was to build up a team. Minos needed people who could generate business, plus more technical types who could handle the detail, something Minos had little patience for. From Manny Hanny, he got Dwight Allen who came to be known as "the glue man" because he held everything together. He also hired a bright young Canadian, Michael Hamilton, who was working in London and responded to Minos' advertisements. For the legal work, he called on Jonathan Horsfall-Turner, a lawyer from Allen and Overy. He also got help from Rothschilds where Rodney Leach was able to teach people the banking ropes. Many of these people came to be lifelong associates of Minos'.

Finally, his long-nurtured plan had become a reality.

LIBOR and the First Loans

MHL was a strikingly bold move for Manny Hanny given the relatively modest profile it had at the time. For one thing, it was a bank in its own right rather than just an extension of a US business. Its brief was to become deeply involved in investment banking activities including securities, corporate finance and private placements as well as lending, which was very unusual given the regulatory constraints on US banks at the time. But more important, it set in motion some of the most momentous changes seen in the international capital markets since the war.

The reason why Minos was so keen to create MHL was that he had his eye on one particular segment of the Euromarkets where he saw an opportunity to develop new business: this was the medium-term loan market for three to seven year loans which were scarce at the time despite the strong growth in demand[13]. This was the least developed of the emerging Euromarkets, for a number of reasons.

One was funding. The 1960s were still a time when prudence required banks to "match" their loans with deposits of an equal size and maturity: a $1m one-year loan should be funded by a $1m one-year deposit. However demand from borrowers was for loans of five years or more, and five-year deposits were simply not available. Minos recalls: "No commercial bank would even consider making longer term loans to finance a project."

The second was size. While Eurobonds were typically issued in chunks of $20m, demand in the loan market was likely to be several times larger. This raised the question whether a bank could prudently take on such a large exposure single-handedly, even assuming it could fund the loan. But if, instead, it split the loan between several banks to share the risk, how would it manage a syndicate which was likely to consist of institutions from many different countries with sharply different business objectives and styles?

On the plus side, the Euroloan market, though supervised by the Bank of England, was largely unregulated. In particular it was beyond the control of US domestic regulators who kept a lid on lending by obliging banks to set aside reserves against their loans, thus adding to their cost.

Minos was not the first banker to see an opportunity here: there had been a few attempts to put together Euroloans in the mid-1960s, but they were small and in-

[13] *Short term finance was available through overdraft-type facilities, longer term finance came from the bond markets.*

consequential. What the market needed was a big pioneering move which showed that it could be done – and not just on a one-off basis.

Minos' business plan centred on two ideas. One was to create a management structure for syndicated loans that would deal with the problem of not just one but several banks participating in the loan. This would be done by appointing a lead bank to run the syndicate and an agent bank to look after the housekeeping. There would also be common documentation: a "memorandum of presentation" (effectively a prospectus) and loan agreement which everyone would sign.

The second was to overcome the funding problem by replacing the direct "match" with a system of rolling short-term deposits. Instead of matching a five-year loan with a five-year deposit, the lending bank would assemble a string of three or six-month deposits. There had been some experiments with this idea, but by single banks rather than a syndicate of many banks. Minos felt that with strong syndicate management, it could be made to work. However this was new ground. Apart from challenging the "matching" prejudices of the age, it raised further questions of its own. One was how the banks would fund the loans. Although they had committed themselves for a fixed period, up to ten years, they financed themselves in the short-term market, which created the risk that variations in interest rates could push up their funding costs and squeeze them into loss. The answer was to make the terms of the loan reflect changing market conditions by varying the rate of interest at periodic roll over dates, usually three to six months. To do this, Minos devised a formula whereby a selected group of "reference banks" within a syndicate would report their cost of funds to the agent bank shortly before the roll-over date, and the weighted average, rounded to the nearest 1/8th per cent plus a "spread" for profit, would become the price of the loan for the next period. This ingenious formula for assessing the banks' cost of funds came to be known as the London Inter-Bank Offered Rate, or LIBOR, and would prove to be one of the key innovations that got the syndicated lending market off the ground and, some years later, the huge interest rate derivatives market[14].

Minos' plan certainly addressed the problems, but would it work? How would borrowers feel about dealing with a syndicate of banks which, by its nature, could not be totally confidential? Would borrowers accept variable rate loans in an era where fixed rates were still the fashion? Would hotly competitive banks agree to

[14] *A number of people have claimed authorship of LIBOR, but there is no doubt that it was first systematically used by MHL for its early loans, and quickly became an established feature of the loan market. It was later copied by other centres, eg Paris (PIBOR) and Tokyo (TIBOR).*

work together in unwieldy syndicates and share the ups and downs? How would the banking and monetary authorities react?

Minos soon got a chance to find out. Shortly after he opened MHL's doors, he received a visit from Atta Salmanpour, one of the vice-Governors of Iran's Bank Markazi that he had helped set up. Iran needed to raise $80m for the country's Plan Organisation, could MHL do it? This was a large amount by the standards of the day. But Minos took on the commission and phoned 'round the large US banks in London which had commercial interests in Iran inviting them to participate in a loan. Very soon, he had assembled more than the required $80m, which enabled him to ask the banks to scale back their participation and impress them with the strength of demand. It was "a good message" as he later put it. The participants included banks with a Middle East presence such as Ottoman Bank, Grindlays and British Bank of the Middle East, as well as European and US banks such as Citibank and Chase Manhattan. The next step was to construct a loan agreement which would lay out the basis of the syndication and the pricing formula, and protect the interests of borrowers and lenders. The final step was to assemble the syndicate participations and complete the whole deal.

With Gabe Hauge, the chairman of Manufacturers Hanover, and John Andren, the head of the international department

The loan was an immediate success. It was celebrated with champagne and Iranian caviar at MHL's Mayfair offices and was widely reported in the financial press as a ground-breaking event. *The Economist* described it as "very cunning". Even allowing for the hype, it was a key moment. Minos had managed to put together a substantial loan on the basis of a largely untested formula. More than that: it was actually oversubscribed – and earned MHL a useful management fee of 0.5 per cent of the sum advanced: or some $400,000. Clearly demand for this type of business among the banks was potentially strong: a market was waiting to be tapped.

The success of the deal also gave Minos the personal confidence to commit himself to London, which he did by finally bringing Pia and the boys over from Rome and settling up in an apartment at 76, Sloane Street in fashionable Knightsbridge which was to become the family home for many decades.

From today's vantage point, it may be hard to see why a relatively modest-looking loan to a developing country assembled by a group of banks who were in the lending business anyway should have caused such a stir. But it was pioneering in many ways. The structure of the loan was quite complex by the standards of the times. There were a dozen banks from several different countries, and the loan agreement had to take account of their individual positions. The LIBOR formula appeared to provide an answer to the funding problem that others had been wrestling with for some time. The fact that the loan carried a variable rate of interest did not seem to have been a difficulty for the borrower.

But most remarkable was the fact that the loan was heavily oversubscribed despite the banks knowing that Iran's foreign exchange reserves, standing at $10m at the time, were barely sufficient to cover a month's imports. Would it be able to repay the loan? The creditworthiness of sovereign borrowers and the methods used by banks to assess it were later to become a highly controversial issue for the syndicated loan market. But the success of the Iranian loan reflected the deeply-rooted belief among bankers that countries are different from companies and individuals when it comes to borrowing: somehow, the money will be found, they cannot duck out by filing for bankruptcy. This view had a profound influence over the future development of the syndicated loan business.