The New Market Takes off

There was now no holding back the syndicated loan business. It took off like a rocket. In the first year, $1bn of loans were assembled. By 1972, less than three years after the Iranian deal, banks had put together nearly 200 loans totalling over $11bn. While many of the early borrowers were from Europe and Asia, US companies soon identified it as an important new source of funds. MHL was the largest single player with 39 loans totalling $2.3bn; its second $250m loan for IMI held the market record for size. This was a marvellous new line of business for the banks because the operating costs were small, the rewards attractive and the credit risks non-existent insofar as none of the borrowers defaulted on their repayments. It was particularly good for smaller and less well-connected banks because they could take participations in loans without having to drum up the business themselves, or develop the high-level contacts needed to originate them.

The market at the time was, in the jargon of bankers, "asset-hungry". By 1972, there were nearly 200 foreign banks in London, and dozens of them participated in syndicated loans. Among the fastest growing were the Japanese who first treated the new market with caution but later, having received the go-ahead from their authorities, entered it with enthusiasm. Minos was keen to encourage this trend because it added depth to the supply. He struck up with Masaru Hayami who ran the Bank of Japan's London office and took to sending newly-arrived Japanese bankers round to MHL for initiation. Before long, the Long-Term Credit Bank of Japan bought a five per cent holding in MHL to give it a direct foothold in the new market. Hayami returned to Tokyo where he eventually became Governor of the Bank of Japan. Recalling his early encounters with Minos, he said: "His contribution to the international financial community should be highly valued."

If lenders were opening their wallets, borrowers were queuing up in droves. In the early days, these were mainly large European and US corporations: household names such as Allis Chalmers, Occidental Petroleum, Alcoa, Philips and AEG Telefunken. But very quickly the net expanded to include companies from Latin America, Africa and the Asia Pacific, as well as sovereign borrowers who eventually came to dominate the market[16]. Eurolending thus became a key source of credit for a huge range of borrowers from all around the world, providing funds for economic development, business expansion, sovereign finance, and more homely causes such as mortgages and agriculture. For those who could access it, it became the market of choice.

Nor did these loans simply replace other forms of funding because credit on this scale could not have been obtained anywhere else. Without Eurolending, most of these borrowers would have had to resort to ordinary banks in their home markets which would have trouble coming up with such large sums, particularly in a "hard" currency like the dollar. Alternatively they could have tapped the bond

[16] *In the first three years of syndicated lending, loans were taken out by more than two dozen sovereign borrowers: Algeria, Argentina, Bulgaria, Canada, Colombia, Comecon, Congo, Denmark, East Germany, Greece, Hungary, Indonesia, Ireland, Italy, Kenya, New Zealand, Peru, Romania, South Africa, South Korea, Spain, Sweden, Venezuela, Yugoslavia, Zaire, Zambia.*

markets, but these were very small outside the advanced economies and, as we have seen, they were out of bounds in the US.

A further point was that growing countries often needed funding not just to build roads and dams, but to finance gaps in their external payments. This sort of money was not available from banks. Such countries could try the IMF or the development banks, but their funding usually came with strings attached and was certainly not as flexible as a Euroloan. As Minos told a London conference organised by the *Financial Times* in 1971, the Euroloan business "is a legitimate market, and its appearance should not be viewed as an unwelcome phenomenon. On the contrary, it helps to fill great gaps in international money needs created by the deficiencies of the existing monetary system."

Even though the number of banks and borrowers who flocked to this new market in its early years was remarkable, not everyone felt comfortable about it. For one thing, few people really understood what Eurodollars were. How could a currency exist outside its own country and acquire different characteristics while preserving its value?[17] What if the US decided that they posed a threat, and tried to crack down? Did Washington have the power to control Eurodollars? The answer was that it did insofar as it controlled interest rates and currency movements in and out of the US – and there were times during the crises of the 1970s when it used these powers. But it could not control its very existence.

There were also worries about banks funding long term loans with short term money, and of US banks getting into lines of business which were illegal back home. Some banks preferred to steer clear, like Deutsche Bank whose stern chairman Hermann Abs would have nothing to do with it. (Deutsche Bank did eventually become a major player in the market, but initially only through a Luxembourg subsidiary.) When in 1972, Minos put together a loan for the Gas Council, one of the UK's strongest state-owned businesses, not a single British bank would participate, citing the funding risks.

Indeed, many non-US banks without dollars of their own feared to participate in a loan where they would have to go back to the market every three or six months to raise fresh money. What would happen if they failed? Minos was keenly aware of this problem, and spent hours on the phone reassuring banks that ways

[17] *In June 1966, an article in Time Magazine entitled 'E$ for hire' described the Eurodollar thus: "A mysterious form of currency to many, Eurodollars flit about the Continent by the billions, escaping a precise definition by economists and an exact count by statisticians. Most simply a Eurodollar, or E$, is an American dollar that has been deposited in a European bank or the European branch of an American bank."*

would be found to secure funds, even hinting that if it came to the worst, MHL might lend them the money itself. As it turned out, no bank ever failed to obtain funding, and Minos was never called on to deliver his unspoken promise. Even so, he felt it prudent to issue a warning. At a London conference in 1972, he said that because of the short-term nature of funding "institutions operating in this market will need to exercise the utmost caution in evaluating the creditworthiness so as not to land themselves and others in ugly situations as they switch to new clients in their legitimate attempts to maintain their level of earnings." As things turned out, these were prophetic words.

There was a further concern for more traditionally-minded bankers, those brought up to see banking as being about "relationships" rather than just "transactions". The relationship school held that banks should take a long-term view of their clients' interests and do what was best for them. The syndicated loan was the exact opposite: it was opportunistic business in which bankers lent money to borrowers they scarcely knew, and borrowers did not seem to care. Nonetheless, this new market certainly contributed to the erosion of relationship banking and, in the view of traditionalists, responsible banking as well.

As for the authorities, they watched the currency markets with close interest. The US took a fairly relaxed attitude. At this stage, the markets posed little inflationary threat, and the Administration even welcomed the fact that part of the supply of dollar credit had moved abroad and taken pressure off domestic markets. The Germans and Swiss were more watchful, but there was little they could do to control what people did with their currencies outside their borders, other than urge their own banks not to disturb the markets.

The authorities were also concerned with safety. Most immediately, this was a matter for the Bank of England since the great majority of banks who were active in the Euromarkets were either British or the UK subsidiaries of foreign banks, therefore also British. But Jim Keogh became increasingly supportive. After all, the borrowers that Minos and his banks were bringing to market were all high quality: top international companies and sovereign entities. Moreover, as the trickle turned into a flood, it was also bringing valuable business to the UK whose finances were in a sickly state. For the UK, it was all jam. Although the influx of the Americans brought competition for European banks, it also carried with it a wave of new technology and business know-how. Minos was gratified to find himself dubbed by the *Financial Times* as "the financial engineer", and he began to be asked by the newspaper to chair their burgeoning Euromarket conferences.

However, Minos was alert to concerns that the authorities might have about the markets he had helped initiate, and he kept in close touch, calling on foreign central banks to explain what was going on, and inviting himself in to lunch with officials at the Bank of England. With hindsight, it is greatly to the credit of the various authorities, particularly the Bank, that they allowed these important new markets to flourish with so little intervention. But the Bank could see the benefit. In March 1970, its *Quarterly Bulletin* reported that the new market "has clearly proved effective in attracting capital from all parts of the world and channelling it for investment in a wide range of countries." The market also "enabled many borrowers to tap scarce capital, generally at a cost in interest terms which is modest compared to that of alternative sources." This was an extraordinarily positive assessment for such a young and controversial market.