The Michigan National case

Regional U.S. banks want to pull out of syndications; Latin America has even more reason to halt debt payments.

Michigan National of Detroit, one of the United States' 50 largest banks, announced Aug. 11 that it had taken the unheard-of step of bringing a lawsuit against Citibank of New York, in order to pull out of a $5 million participation in a $45 million syndicated loan to Mexico's national oil company. The case now constitutes a "time bomb" in the U.S. credit system, which may or may not trigger a global response.

Across the United States, regional banks' legal departments are watching the suit carefully. As one Latin American loan officer explained the standpoint shared at his bank in Ohio:

"Michigan National has a reputation for doing destructive things. [The bank has been a maverick on setting its prime rate]. . . . But a lot of the banks are now going through their documentation to see if they could hypothetically do the same thing. We don't openly support Michigan National, but if they win this suit, we might just try to repeat what they're doing."

A worried *Wall Street Journal* reported Aug. 12, "Although the credit is a small one, the Michigan National suit could have wide repercussions. The syndicated loans through which billions of dollars have been extended to Mexico, depend, in effect, on the unanimous consent of many large and small lenders. If any one lender in a syndicated loan refuses to accept major provisions, such as postponement, the entire credit structure could unravel."

August 18, New York's *Journal of Commerce* appealed to the "solidarity" of the regional institutions to stick with the major multinational banks—even though it is obvious that the smaller banks "would like to get out of the international lending game" the editorial noted. The *JOC* referenced other cases where regional institutions have found leeway to pull out of international loan syndicates: "To the extent that the smaller institutions have any choice in the matter, they are not going along. That was certainly the case in the effort by Bankers Trust to get banks to build up their interbank loans to Brazil. So many wouldn't help Bankers Trust that the whole approach had to be changed."

There is some speculation that Citibank may try to quietly pay off Michican National and put the suit to rest. If the syndicate breaks apart, however, or Michigan National is allowed to win, the daisy-chain of payment obligations upon which credit lines to Latin America are based would quickly fall apart, unleashing a full-scale, global banking crisis.

Furthermore, for years, with loan syndicates at their disposal, Wall Street, London and Geneva banks, in coordination with the genocidal International Monetary Fund, have demanded that Third World nations accept murderous austerity in exchange for paltry amounts of new money. Even if the suit doesn't spread, the case has already served to expose the big New York banks' vulnerability: the Wall Street banks don't have the money, and *don't want to take the risk* of lending to Ibero-America by themselves. Thus, the suit encourages the Ibero-American countries to halt payments.

In its suit, filed in Detroit federal court, Michigan National reported it had joined a Citibank-led $45 million loan syndicate to Mexico's state oil company, Petroleos Mexicanos (Pemex) on May 3, 1982. The loan was to run 90 days. Pemex was unable to pay the loan back, and Michigan National extended the loan three times. But after July 26, Michigan National refused to refinance, and when Citibank refused to let Michigan National out of the loan syndication, Michigan National sued.

In early August, a frightened U.S. government official commented on the case that the Michigan National suit opens "a small but potentially deep crack" in the "coordination and cooperation that has developed over the past year in dealing with illiquidity in some countries."

Wall Street banks have thus far used blackmail to keep the regional banks in loan syndications. A southern regional bank chairman has reported that when he telephoned the chairman of one of New York's Big Five to report that he intended to withdraw from a loan to Mexico, the answer he received was: "We'll let you do that if you want to, but the next time your bank comes to New York to try to borrow some money, don't expect to find any."

At the same time, in return for their support for his renomination this July, the New York banks have wrung from Fed chairman Paul Volcker his secret agreement that he will bail out the money center banks in the case of Third World loan defaults. The regional banks have not been cut in on this deal—and thus are all watching the Detroit case very carefully.