LOOK WHO'S MAKING THE WORLD A BETTER PLACE!

For I was hungry and you fed me,
I was thirsty and you gave me drink;
I was a stranger and you invited me in,
naked and you clothed me;
I was sick and you took care of me,
in prison and you visited me.

The above scripture verse from Matthew is what **Restoration Ministries** was founded on, and represents the spirit by which it continues to be guided. Through 28 programs and 450 volunteers, **Restoration Ministries** annually serves 7000 individuals including recovering addicts, ex-criminals, at-risk youth, lonely seniors and families in need. Two of their flagship programs are the Harvey House (for men) and the Tabitha House (for women). Both programs provide a Christian based, life-changing recovery program for recovering addicts. The programs are for 12-24 months and provide counseling, help with re-building family relationships, education, and the overall tools their residents need to transition into happy and productive lives.

I've visited **Restoration Ministries** more than once and have witnessed many of their success stories. The passion and ability they bring to the table in helping the underdogs of society to achieve a better life has inspired me, as I know it would any of the readers of this newsletter.

If you are interested in helping, or learning more about **Restoration Ministries** please contact its **Director of Development, Karen Vrdolyak** at:

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SUMMER 2009

The Community Lender

from FOSTRIAN | Business Capital Corporation

Fostrian Business Capital is a commercial lender specializing in working capital loans to emerging companies through the factoring of their accounts receivable.

From Jeff:

The Latin American Debt Crisis is probably too involved to write about in a concise newsletter like this one, but I've given it a go anyway. My piece is rudimentary but hopefully somewhat informative. I chose to write on The Latin American Debt Crisis because I find it extremely interesting, educational from a lender's perspective and lastly because there are many parallels between what happened then, and what's going on in today's banking crisis.

Please also take a look at the second installment of the newsletter's section titled "Look Who's Making The World A Better Place" where we've highlighted a great philanthropic organization, Restoration Ministries, that is doing great work in Chicago's Southland.

Have a great summer everybody!

THE LATIN AMERICAN DEBT CRISIS

(Lessons Never Learned?)

What Happened? / Causes of The Crisis

On August 12, 1982 the nation of Mexico defaulted on its foreign debt. This was day 1 of the Latin American Debt Crisis, the severity of which had the potential to bring down the world's financial system.

By year-end 1982, a total of 40 nations were in arrears on their foreign debt. These nations were LDCs (Less Developed Countries) from all parts of the globe, but the highest concentration of problem loans were to Latin American nations. Most of these loans were from the 8 largest U.S. banks, and at one point in the crisis, U.S. banks had loans outstanding to these nations that represented 233% of the banks' equity capital plus reserves….. an ominous statistic.

You could say that it was a perfect storm that got the banks and LDCs to the point of crisis. Latin American nations had strong growth in the 1960s and 1970s, and thus became attractive credits to international lenders. They also had a need for capital to fuel continued growth. U.S. banks at the same time were/had been expanding internationally as the result of a burgeoning world economy and to make up for lost business domestically (family savings accounts were migrating to investment vehicles with better returns and traditional working capital loans were being lost to the emerging commercial paper market). These U.S. banks were also flush with deposits from the oil producing nations that had enormous sums to invest because of the oil price hikes of the 1970s. Thus a marriage was born and U.S. banks began lending heavily to Latin America.

The LDCs need for borrowing, and thus their debt load accelerated even more rapidly in the years leading up to the 1982 blow-up. At the same time the debt became more expensive, and the LDCs' balance of payments ratio (and overall ability to pay back these loans) was decimated. Several factors were the cause:

1. The oil shocks of 1973 and 1979 increased the price of LDC imported oil.
2. The depressed world economy of the 70s and early 80s was disastrous to the LDCs' economies in general, and more specifically caused a reduction in prices to the LDCs' commodity exports, which they as a group were heavily dependent on.
3. Interest rates charged on these loans were floating rates, and thus hit the sky with market interest rates exceeding 20% in the early 1980s.
4. The LDC loans had to be re-paid in dollars. With U.S. interest rates increasing, the value of the dollar increased thus making the loans more expensive for the LDCs to re-pay.

Like in the months/years leading up to our crisis of today, it was clear to many back then that the situation was a disaster in the making. But vexingly, banks continued to lend right up to the day Mexico defaulted in August, 1982. In fact the banks were in a lending frenzy as LATIN AMERICAN DEBT DOUBLED BETWEEN 1979 AND 1982! (see our current mortgage/banking crisis). Just as vexing was the fact that U.S. Regulators, BECAUSE OF POLITICAL PRESSURE, relaxed international lending regulations below standards for domestic lending. In fact the Federal government, IN FURTHERANCE OF ITS FOREIGN POLICY, WAS ENCOURAGING THE BANKS TO LEND TO LDCs! (see our current mortgage/banking crisis). Lastly the bond rating agencies and the stock market did not provide any warning signs, as they did not discount these obvious problems into the ratings/prices of the banks' securities until after 1982. (see our current mortgage/banking crisis).

The Fix

Between about 1983 and 1989 the banks worked with the LDCs to re-structure their debt, providing some relief in return for some structural adjustments to their economies (reduced spending, tax reform, trade liberalization, privatization of industry, deregulation of domestic industry, better fiscal discipline, better monetary policy, etc.). At the same time the U.S. Regulators allowed the banks to gradually reserve for these impending losses, as opposed to forcing the banks to reserve for these problems all at once, which would have resulted in the banks (on paper) having to be categorized as insolvent, and for sure precipitating a financial panic/meltdown. In 1989 a more formal and comprehensive plan was promulgated (The Brady Plan) under the Bush administration. The administration realized the LDCs could not grow and payback the full amount of their debt at the same time, so the plan called for some debt forgiveness by the banks, along with lending from the IMF and World bank to the LDCs, with more structural adjustments put on the LDCs' economies in return.

While the structural adjustments imposed on the LDCs were/are controversial, the consensus is they helped to strengthen the LDCs' economies, and put them on a path to recovery. By sometime into the 1990s the LDCs' economies were as a group growing, and the banks' books were cleared of the non-performing LDC loans.

Lessons

It's amazing to me some of the parallels between today's economic problems, and what happened during the Latin American Debt Crisis: During the Latin American Debt Crisis banks went on a lending frenzy that didn't stop (it accelerated) when clear signs of problems arose. The same thing can be said about many (not all) banks in the current crisis. The federal government in the 1970s/80s put its nose into a situation where it didn't belong, and for political reasons used its influence to push banks to make loans for reasons other than the ability of the borrower to pay back the loan. Fast-forward to today's crisis and we see that through Fannie Mae/Freddie Mac, HUD, the FHA and the CRA the federal government again overstepped and pressured banks to make loans it shouldn't have made. The stock market and bond rating agencies of today (like during The Latin American Debt Crisis) failed to recognize our problems, and price/rate the pertinent securities accordingly. And lastly, then and now, borrowers (LDCs then, consumers now) continued to use more borrowing as a way to get themselves out of trouble, where the actual result was that more borrowing put them into a deeper hole.

I love history…. one reason being history teaches us a lot. It's my opinion that as a society we'd do well to put a higher priority on teaching and learning about history. We'd do well to do a better job of taking the bounty of lessons available from history and incorporating them into our lives, into our public policy and into our society in general.

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