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Japan Urged to Attack Bad Loans

By James Brooke

GOTEMBA, Japan, Dec. 9 — Hours after Japan's Parliament gave final approval on Friday to a strengthened bad-loan agency, two visiting Bush administration officials urged Japan to use it for a quick attack on what they called the nation's main economic problem: a growing mountain of debt.

"The massive overhang of nonperforming loans in the banking sector needs to be resolved swiftly and efficiently," said Kenneth W. Dam, the deputy Treasury secretary, at a Harvard Law School symposium at this resort town near Mount Fuji. The gathering, closed to reporters, drew 100 Japanese and American financial executives and academics.

R. Glenn Hubbard, chairman of the United States Council of Economic Advisers, gave a speech calling for the bad-loan agency to conduct "rapid purchases and equally rapid sales." He added, "There is no reason why purchases and sales should not begin immediately."

The United States officials released copies of their speeches in Tokyo, saying they did so because the need for urgent action was so great. "The more quickly you can get those loans out the door," Mr. Hubbard said in an interview, "the better for the economy."

The American calls for action came as the International Monetary Fund is ready to start an assessment of Japan's finances this week. In a parallel investigation, the Financial Services Agency, the government watchdog agency, is studying the financial condition of the nation's 100 largest debtor companies. On Thursday, in what may be the first of several bankruptcies this winter, one of the companies, the Aoki Corporation, a construction company, filed for bankruptcy.

Measured as a percentage of gross domestic product, Mr. Dam said, Japan's bad-loan problem could be four to six times as large as the insolvency crisis that swept through the American savings and loan industry in the late 1980's.

"Real assets — be they real estate, capital goods or viable divisions of failed conglomerates — must be put to effective use to revitalize Japan's economy," he said. "The process is far less important than the result: putting real assets back to work in the real economy."

Under legislation approved Friday, the agency, called the Resolution and Collection Corporation, will be allowed to buy bad loans at market value, with the goal of disposing of the loans within three years.

Separately, in Sapporo on Saturday, Taku Yamasaki, secretary general of the ruling Liberal Democratic Party, said he wanted the agency to buy about \$8 billion worth of bad loans. But

some bank economists in Tokyo calculate that Japan's bad loan total is more than 100 times that amount. Just through March, Japan's 14 biggest banks plan to book loan loss charges of \$51.5 billion.

At the Gotemba symposium, which was also sponsored by the Japan Forum on International Relations, Inc., participants emerging from discussion sessions warned that Japan's new agency could prove to be slow, underfunded and subject to political pressure.

"There is nothing in the new legislation that forces the R.C.C. to dispose assets into the economy," said L. William Seidman, a Morgan Stanley debt adviser who was chairman of the Federal Deposit Insurance Corporation at the time of the savings and loan crisis in the United States. "Are they creating a warehousing company or a resolution company?"

Wilbur Ross, a New York-based financier who specializes in turning around bankrupt companies, called for a one-year limit for the new bad-loan agency to dispose of assets. "You can have a bottle of wine sitting in a cave, and it gets better," he said. "That is not the case with a loan."

Others questioned whether the new agency would have the financing or the staff to make much headway. From a staff of 20 to 30 today, the expanded agency needs "an army of 1,000 experts," said Robert H. Dugger, managing director of Tudor Investment Corporation, a fund management company.

"They need staff on a significant scale," he said, repeating points he made in a speech here today, "they need to fund it significantly, they need to set a limited life. Loans need to come in; loans need to go out. And there needs to be protection for the staff from political pressures."

Hugh T. Patrick, director of Columbia University's Center on Japanese Economy and Business, said that with representatives of the Tokyo operations of Goldman, Sachs, Merrill Lynch and Morgan Stanley Dean Witter saying here that they were interested in working on distressed debt, the government should use private incentives and market forces to clear away the bad debt.

As United States investment bankers streamed out of discussions with Japanese officials, Mr. Patrick said that foreign debt liquidators would be less vulnerable to political pressure. "This is why they want the Morgan Stanley's and the Goldman Sachs (news/quote) to come in," he said. "They can be the foreign hired guns."

Mr. Hubbard, the Bush administration economist, said the same thing, although more diplomatically. He argued in his speech that the loan agency "should not seek to become a key player in corporate workouts — its role should be limited to rapid purchases and equally rapid sales."

Hakuo Yanagisawa, a cabinet minister who runs the Financial Services Agency, addressed the group on Friday night. Although a text of his speech was not released, people who heard it said he restated the current government policy: no more bank bailouts, new limits on deposit insurance in April and faster liquidations of bad bank loans.