



Barney Frank

The subprime crisis shows we need more regulation **Page 9**

The go-to banker

From Castro to Murdoch, Bill Rhodes helps them all **Page 10**



North Pole panic

What's really behind the Arctic scramble **Page 7**

World Business Newspaper

The banker who made a career out of crisis

The Monday Interview

BILL RHODES

France, Fidel Castro, Rupert Murdoch and South Korea – the Citibank chairman has helped them all, writes David Wighton

Faced with an emergency, there used to be two men that topped the list of people you should call. For an oilwell fire, it was Red Adair of Houston, Texas. For a debt crisis, it was Bill Rhodes of Citibank, New York.

In the 1980s, Mr Rhodes became the go-to guy for sovereign debt restructuring, earning him the Légion d'Honneur from the French, the Heung-in medal from South Korea and a box of cigars from Fidel Castro.

The bottom has dropped out of the debt restructuring business of late. But the Citigroup senior vice-chairman, who this week celebrates 50 years with the bank, has kept his position as probably the world's leading financial diplomat.

Mr Rhodes, 72, has seen plenty of credit cycles over the years and, in an interview at Citi's Manhattan headquarters, he cannot help mentioning that he recently warned a correction was coming. In an article in the Financial Times in March, he said: "This clearly is the time to exercise greater prudence in lending and in investing and to resist any temptation to relax standards." Many bankers did not resist temptation and may now pay the price.

Several current and former central bankers and regulators told him they agreed with his analysis and were worried about a bubble, he says. "But they were hesitant

to say anything publicly. They didn't want to be seen to provoke a serious reaction or put the needle in the bubble."

It is unclear how big the adjustment is going to be, he says. The big question is whether it will affect the consumer severely. "If it does, we'll have a real problem."

It is not the first time Mr Rhodes has called it right. In the mid-1990s, he was running Citibank's operations in Latin America and central and eastern Europe when he was asked to take on Asia as well. "It became obvious to me by the end of 1996 that banks were way overexposed in areas like financial institutions and real estate in places like Thailand and Korea. It was also obvious that regulators in those countries and others weren't on top of the situation and that, unless steps were taken, we were going to have a major crisis."

He shared his thoughts with the International Monetary Fund, the World Bank, the US Treasury and the Federal Reserve. "But just about everyone thought I was overreacting given my experiences in Latin America."

He convinced his chief executive, John Reed, that Citibank should reduce its exposures. But the regulators failed to see the threat until July 1997, when the Thai baht was devalued. Financial contagion spread through Asia and, at the end of the year, Mr Rhodes was asked to help restructure South Korea's debt.

"I spent the New Year weekend calling all the Japanese banks. I told them that, if they agreed to stop pulling their lines of credit, I would give them my word that the Europeans and other American banks would do the same. They agreed. We started negotiating in January and, at the beginning of March, we signed the deal in Seoul. It was the quickest I've ever done."

It was in Latin America in the 1980s that Mr Rhodes made his reputation. Starting with Mexico

in 1982, a string of Latin American countries were unable to service their debt and that threatened some of the largest US banks, including Citi. Mr Rhodes was asked to head the committee of banks that would try to restructure Mexico's debts.

"People said we were rearranging the deckchairs on the Titanic. The concern was the whole financial system was going to blow." The trick was to get the banks to work together. "Unlike some bankers who walk into a room and tell everyone what to do, I would always go around the room and let everybody have their say. Trust is everything. They trusted me and the countries trusted me."

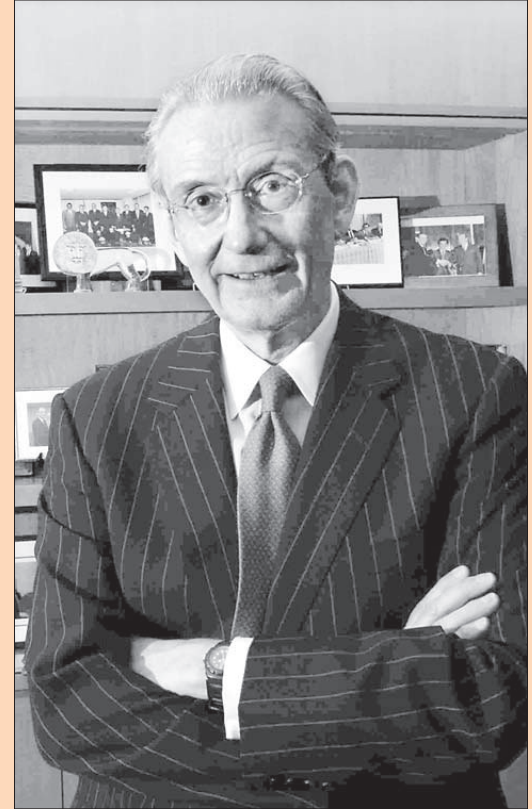
He also had the trust of Paul Volcker, head of the Federal Reserve, and Jacques de Larosière, head of the IMF, both of whom are now close friends.

In the end the banks agreed to refinance Mexico's debts and provide new loans. Mr Rhodes went on to head the bank committees for Argentina, Brazil, Peru and Uruguay. ("I turned down Ecuador – I was working 16-hour days.")

He first fell under the spell of Latin America when, as a student, he took summer jobs on freighters that steamed up and down the coasts. After taking history at Brown University in Rhode Island he was hired by Citibank to go to Venezuela. He married a local and acquired a decent Salsa technique, which he still occasionally displays despite an old knee injury from playing lacrosse.

His expertise in debt negotiations was not confined to countries. In 1991, he was called in to help persuade banks to agree a restructuring of News Corporation's debts.

"Rupert Murdoch did not have the best relations with some of his bankers. But we were in a recession year and I said to the bankers, if News Corp didn't make it, it could become systemic. I got everyone on board."



Rhodes scholarship: 'Risk, especially reputational risk, is crucial,' he says

WPN

He has played an important part in Citibank's international expansion over the past 50 years. One of the things he is most proud of is convincing the board to invest in eastern Europe after the collapse of the Soviet Union when other US banks were pulling back.

Mr Rhodes says he has worked with some of the great bankers of the modern era, including Walter Wriston and George Moore. John Reed was "a strategic visionary for moving into the consumer business", while Sandy Weill, with whom Mr Reed agreed the biggest financial merger to create Citigroup was "the best deals guy I ever met". Chuck Prince, his current boss, is "a first-class strategist" who has pushed on with the

international expansion.

As Citigroup's senior international officer, Mr Rhodes works with colleagues, clients and governments round the world and advises on strategic deals. But mentoring up-and-coming bankers, he says, is perhaps his most important role. He has learnt three big things in 50 years in banking – "the importance of people; the client pays the bill; and risk, especially reputational risk, is crucial."

Much of his attention recently has been on trade. He has been actively involved in efforts to secure US trade deals with Korea and Colombia. Both have now run into trouble in Congress.

"The key to keeping this Goldilocks economy going worldwide is trade. If we stumble into nationalism and protectionism, it will have a major impact on economic growth worldwide."

This could, of course, leave some people needing a bit of help with their debts.

The revolutionary, the lender and the box of cigars

Having helped Jamaica restructure its debts in the late 1970s, Bill Rhodes was called in to do the same for Nicaragua after the Sandinista revolution in 1979. At the first anniversary celebration of the revolution, which he attended at the request of the US government, he was taken aside by the president, Daniel Ortega.

"He said there was someone who would like to meet me. It was

Fidel Castro." Mr Castro, who had nationalised Citi's Cuban operation, now wanted advice on how to restructure the country's debts to European and Canadian banks.

He promised Mr Rhodes a box of his personal Cohiba cigars if he met the deadline for the Nicaraguan deal. The deal was agreed on schedule. But no cigars.

Years later Mr Rhodes mentioned the tale in an interview

and shortly afterwards the cigars arrived from the Cuban ambassador to the United Nations. "He said to me: 'Fidel's a busy man but he never forgets his promises.'"

