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In mid-June, the national banking and securities commission (CNBV) and the Finance Secretariat (SHCP) announced a rescue package for Mexico's third-largest commercial bank, Grupo Financiero Serfin. Under terms of the agreement, which was actually proposed by Serfin, the two government agencies will assume about 4.3 billion nuevo pesos (US$687 million) of the bank's overdue debt, in exchange for a promise by stockholders to raise new funds to help capitalize the bank. The CNBV and the SHCP will use funds from the savings protection fund (Fondo Bancario de Proteccion al Ahorro, Fobaproa) to assume Serfin's bad loans. Serfin would still be responsible for about 20% of the risky loans and will continue efforts to collect payment on behalf of the government.

In return for the government assistance, Serfin stockholders and executives agreed to issue the equivalent of 2.17 billion nuevo pesos (US$347 million) in capital markets. About 1.2 billion nuevo pesos (US$192 million) of the total will be raised through the sale of additional shares of all series of common stock. Serfin will raise the remaining 970 million nuevo pesos (US$155 million) through a convertible bond offering. According to financial analysts, the greatest burden for raising the needed funds to capitalize Serfin will fall on Serfin's principal shareholders, the Garza and Sada families of Monterrey. This is the second time in less than a year that Serfin has asked shareholders to participate in a move to capitalize the bank. In late 1994, before the devaluation of the peso, the bank asked for assistance from stockholders both to inject about 1.24 million nuevo pesos (US$198 million), and to participate in the issue of about US$152 million in convertible bonds in order to help cover overdue debt.

Financial analysts said the government's rescue of Serfin is expected to restore financial stability to the bank. For example, the US-based broker Bear Stearns went as far as to suggest that the rescue package will make Serfin the "most viable" financial group in the Mexican financial sector. But Bear Stearns also warned that the impact of the rescue package will not be immediately apparent. In addition, the company's analysis suggested that Serfin still must overcome a number of obstacles, including a loan portfolio that was already in poor shape even before the devaluation of the peso in late 1994. Other analysts were less optimistic than Bear Stearns, warning that the federal government's rescue package lacks enough incentives to attract fresh capital to the bank, which is necessary to create long-term financial stability. Additionally, they suggested that many investors will be disappointed by the fact that the reorganization plan left the bank in the hands of the same management team that caused current problems, namely by providing loans too easily.

A larger question, analysts said, is whether the Mexican government has the necessary financial resources to rescue the long list of troubled commercial banks in Mexico. The government has already used about 19.6 billion nuevo pesos (US$3.13 billion) from Fobaproa to rescue 10 Mexican banks. This total includes the funds used in the Serfin rescue. The Serfin rescue was the second time the CNBV has agreed to assume bad loans from a commercial bank in order to restructure the

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institution financially. In a previous case, the government assumed about US$783 million in overdue debt from Multibanco Mercantil Probursa in order to facilitate the sale of a majority share to Spain's Banco Bilbao Vizcaya (see SourceMex, 06/07/95).

For their part, Mexican government officials have attempted to attract foreign buyers to acquire shares in Mexican banks but have only succeeded partially. Many potential investors are concerned that the Mexican financial crisis has yet to hit bottom. One potential buyer is Canada's Bank of Nova Scotia, which has shown strong interest in acquiring a share of Grupo Inverlat. Agustin Legorreta, president of Inverlat's administrative council, said the sale of a partial share of Inverlat to the Canadian bank is one of the options the bank is considering in order to help deal with the current financial crisis. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on July 6, reported at 6.26 nuevo pesos per US$1.00] (Sources: Reforma, Wall Street Journal, 06/14/95; El Norte, 06/16/95; El Financiero International, 06/19/95; New York Times, 06/28/95)

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