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Government, Bankers Extend Period For Borrowers To Renegotiate Overdue Debt

by LADB Staff

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In mid-January, the bankers association (Asociacion de Banqueros de Mexico, ABM) reached an agreement with the Finance Secretariat (SHCP) to extend the period of amnesty for borrowers with overdue debt to renegotiate their debts until the end of April. The banking industry's amnesty program for debtors dubbed the Acuerdo para el Apoyo de Deudores (ADE) was originally announced in August 1995 as a means for individuals and businesses to renegotiate their current and overdue debts (see SourceMex, 08/30/95). When the program was first announced, the ABM and the government established a deadline of Oct. 31, 1995, for enrollment and Jan. 31, 1996, for renegotiation of debts. By the original enrollment deadline, only 60% of debtors had signed up for the program (see SourceMex, 11/15/95).

This prompted the government and the ABM to negotiate new deadlines, extending enrollment to Jan. 31, 1996, and setting April 30 as the new date for debtors to renegotiate a repayment schedule. According to statistics compiled by the federal banking and securities commission (Comision Nacional Bancaria y de Valores, CNBV), almost 1.55 million overdue debts had been restructured through the ADE as of the end of 1995, representing a total of 145.9 billion pesos (US\$19.6 billion). The number of debts restructured accounted for roughly 74% of the target of 2.10 million in overdue debts that was set when the ADE was announced in August of last year.

The deadline was extended to provide time for more holders of overdue debt to renegotiate their loans. However, despite the extension of the amnesty, a number of civic organizations have continued to strongly criticize the ADE as a token effort on the part of the banking sector. According to the civic groups led by El Barzon Mexican bankers continue to shut off access to new loans to a majority of the Mexican population by charging exorbitant interest rates and retaining an overly strict policy toward those who request loans. El Barzon took advantage of the announcement of the ADE extension to hold a massive rally in Mexico City in mid-January to call attention to the plight of debtors. To demonstrate their displeasure with bankers, the protestors dressed up as vampires and held signs that read, "The banking sector is sucking our blood."

El Barzon an organization created by middle-class farmers in 1993 has managed to attract support in urban areas, including credit-card holders and owners of small business. Additionally, the organization has gained the support of groups that represent subsistence farmers. At the rally, held in front of the SHCP headquarters, El Barzon officials criticized President Ernesto Zedillo's administration for providing billions of dollars in assistance to the banking sector while ignoring the needs of many other productive sectors, such as agriculture and manufacturing. "Not one cent has been used for direct assistance to debtors," said Gerardo Fernandez, a member of the El Barzon board of directors. Another lesser-known organization, the citizens assembly of bank debtors (Asamblea Ciudadana de Deudores a la Banca), held its own press conference during January to denounce the policies of some banks that have illegally seized the properties of some debtors.

At a rally in front of the main building of the Interior Secretariat (Secretaria de Gobernacion, SG), the organization criticized the ADE's extension as a "masquerade" that fails to address the long-term problems of debtors. "This extension does not serve as a negotiating tool," the organization said in a statement presented to the SG. Meantime, the ABM claims that the huge increase in unpaid overdue debt is causing extreme economic difficulties for the banking sector. At a press conference in January, ABM president Jose Madariaga said the total amount of overdue debt as of the end of 1995 stood at 113.5 billion pesos (US\$15.2 billion), or the equivalent of 17.6% of the 642 billion pesos (US\$86 billion) in total capital that the banking sector has loaned out.

A study conducted by the Wall Street Journal suggests the percentage of overdue debt could have been twice as high if the banking sector had chosen to apply stricter rules, similar to those used in other countries. Indeed, according to banking and financial specialists, the Mexican banking sector remains in a very perilous position because of the problems with overdue debt. The government thus far has spent at least US\$10 billion to rescue 10 banks, and according to some estimates this total could increase to US\$12 billion. A portion of the assistance provided to the banking sector has been provided through the savings protection fund (Fondo Bancario de Proteccion al Ahorro, FOBAPROA) and the temporary capitalization program (Programa de Capacitacion Temporal, PROCAPTE) to allow banks to comply with the capitalization levels required by the government.

In fact, CNBV vice president Javier Gavito Mohar told reporters in late June that the government will probably have to allocate more financial resources to Inverlat, Bancomer, Banamex, Mexicano, and Confia over the next several months. According to the Wall Street Journal, the cost of rescuing the Mexican banking sector could ultimately cost the government more than the US\$12 billion obtained from the privatization of the institutions. A rough estimate by the Journal was that mounting costs would amount to 12% of Mexico's GDP for 1995. Several of the banks that have received financial assistance have been sold or are in the process of being sold to other domestic or financial institutions.

For example, Grupo Financiero InverMexico and the mining company Minera Autlan have both filed the necessary paperwork to bid for Banca Cremi. The government took control of Banca Cremi in September 1994. According to some estimates, Cremi could be sold for as much as US\$100 million. Similarly, in late January, Canada's Bank of Nova Scotia finalized an agreement to gain control over Mexico's Inverlat. According to the terms of the agreement, the Canadian bank will increase its share in Inverlat to 51% from the previous 8.5%. Federal authorities assumed control over Inverlat in November of last year because of a lack of capital on the part of the bank. Also, Grupo Financiero Bancomer, Mexico's second largest bank, expects to raise more capital by selling a share of the company to Canada's Bank of Montreal. According to the Wall Street Journal, the shares will be sold for about US\$600 million.

Meantime, in late January, Mexico's third largest bank, Grupo Financiero Serfin, announced a plan to raise US\$500 million in capital. Roughly 25% of the capital will come from shareholders, while the bank will employ other methods to raise the remaining 75%. Serfin sources said the bank also plans to make funds available through FOBAPROA to increase its capitalization levels. Bank of Nova Scotia and the Bank of Montreal are the latest in a list of foreign banks expected to form partnerships with Mexican banks in the near future, since the Zedillo administration is expected to

continue to encourage foreign investment in Mexico's banking system as one way to rescue troubled institutions.

The first foreign financial institution to gain access to the Mexican banking sector via this method was Spain's Banco Bilbao Vizcaya, which in June 1995 acquired a majority share in Multibanco Mercantil (see SourceMex, 06/07/95). Additionally, more than two dozen US, European, and Japanese banks have either established branches or announced intentions to start operations in Mexico, under a program to open financial services in Mexico to foreign investment. The first permits for foreign banks were announced in October 1994. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Feb. 5, reported at 7.45 pesos per US\$1.00] (Sources: El Financiero, 01/17/96; Agence France-Presse, 01/11/96, 01/31/96; Inter Press Service, 01/31/96; Reforma, 01/05/96, 01/11/96, 01/17/96, 01/18/96, 01/23/96, 02/01/96; Excelsior, 01/15/96, 01/18/96, 01/24/96, 01/30/96, 02/02/96; Notimex, 02/05/96; La Jornada, 01/26/96, 02/02/96, 02/06/96)

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