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Bankers Again Extend Deadline for Borrowers to Restructure Overdue Debts

by LADB Staff

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In early May, the national banking and securities commission (Comision Nacional Bancaria y de Valores, CNBV) and the Mexican Bankers Association (Asociacion de Banqueros de Mexico, ABM) announced a new extension for delinquent borrowers to renegotiate payment schedules for their overdue debt. This was the third extension of the deadline for borrowers to take advantage of the banking industry's special debt-restructuring program (Acuerdo para el Apoyo de Deudores, ADE). The ADE, launched in August 1995, originally set separate deadlines for borrowers to enroll in the program and then to renegotiate debt payments (see SourceMex, 08/30/95 and 02/07/96).

In February of this year, the ABM announced a deadline of April 30 for those borrowers who had already enrolled in the program to renegotiate their repayment schedules. That also became the deadline for a handful of delinquent borrowers who did not take advantage of the program to enroll in the ADE. As recently as mid-April, ABM president Jose Madariaga Lomeli had threatened to take legal action against those borrowers who had either failed to enroll in the ADE or who had not yet initiated the renegotiation process by April 30.

Among other things, Madariaga suggested that the banks could place a lien on the property of delinquent borrowers. By the last week of April, the ABM softened its stance, partly because of strong pressure from grassroots organizations such as El Barzon, which represents borrowers. The organizations lobbied federal legislators and the Zedillo administration to pressure the ABM to adopt a more flexible position. By the last week of April, the ABM issued a directive to member banks to avoid legal action against delinquent borrowers and instead continue attempts to work out restructuring agreements on an individual basis. As of the end of April, about 85% of the 2.1 million in overdue debts held by the banks had been renegotiated. According to the ABM, roughly 60% of the loans that have been restructured involved credit-card debt, 17% was mortgage loans, another 18% business loans, and the remaining 5% consumer loans.

Meanwhile, President Ernesto Zedillo's administration announced a new program to restructure overdue debts on mortgages and on agricultural loans. The new program is based on a similar plan announced in April 1995 through which loan principal and interest rates were measured in investment units (unidades de inversion, UDIs). The UDIs were created to provide some certainty for debtors by restructuring debt payments at a more stable interest rate (see SourceMex, 04/05/95, 04/12/95 and 05/10/95). Unlike the plan announced last year, the new program would tie the UDIs to an index of salaries, rather than to a daily inflation rate.

According to ABM officials, the banking sector, the Mexican Congress, and the Zedillo administration were still discussing details of how the government, bankers, and debtors would divide responsibility for the program. For its part, the governing Institutional Revolutionary Party (PRI) announced in late April a separate program to address overdue debt for a wide range of

economic sectors, including agricultural producers. The proposal was unusual because the program was announced by party officials namely PRI president Santiago Onate and economic affairs strategist Julio Zamora Batiz rather than by President Zedillo or members of the federal legislature. Among other things, the proposed measures would eliminate a portion of debt owed by agricultural producers, owners of small- and medium-sized businesses, and mortgage debtors whose property has "a value to society at large."

In addition, the PRI proposal would grant borrowers with overdue debt a grace period until the end of 1997 to complete negotiations to restructure their loans under the ADE program. The PRI proposal is just one of several measures under consideration by the federal legislature. In early May, leaders of the opposition National Action Party (PAN), with the assistance of El Barzon, began pushing a proposal to create a new federal agency (Fideicomiso de Apoyo a Deudores, FAD) that would focus on resolving overdue debt. Under the PAN proposal, the FAD would remain active for a period of 20 years.

In testimony before the Senate, El Barzon leaders Juan Jose Quirino and Alfonso Ramirez Cuellar said the creation of the FAD would pressure bankers to create a more comprehensive and effective program to deal with overdue debt, rather than addressing the issue through simple extensions of the deadline for enrollment and restructuring of debt. On the other hand, the ABM opposes any proposal for an open-ended extension of the moratorium on legal action against borrowers. ABM officials told the Chamber of Deputies that they would oppose any proposals that "promote a culture of nonpayment of debts."

Meantime, some banks, such as Banca Serfin and Bancomer, have implemented a system to charge a 2% annual commission to credit-card holders. The banks argue that the commission is needed because of the high costs of financing. However, at least one bank, Banco Nacional de Mexico (Banamex), has informed customers that the 2% commission will not be charged to customers who make their monthly payments on time. (Sources: Reforma, 04/23/96, 04/26/96, 04/30/96, 05/07/96; Agence France-Presse, 04/30/96; La Jornada, 05/02/96, 05/03/96, 05/07/96; El Financiero, 04/23/96, 04/30/96, 05/07/96; Excelsior, 05/06/96, 05/07/96)

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