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Most Debt-Restructuring Programs Allowed to Expire Despite Broad Protests

by LADB Staff

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In late September, the Finance Secretariat (SHCP) and the bankers association (Asociacion de Banqueros de Mexico, ABM), announced that the government's massive debt-restructuring program (Acuerdo de Apoyo Inmediato a los Deudores de la Banca, ADE) would not be extended after its expiration on Sept. 30. The decision to conclude the ADE applies to most types of debt, including credit cards, personal loans, and business loans.

However, the SHCP and the ABM extended the deadline for enrollment in the mortgage-debt restructuring program (Programa de Beneficios Adicionales a los Deudores de Creditos a la Vivienda) until December of this year, partly at the request of federal legislators. According to ABM, the extension of the mortgage-debt program will benefit nearly 104,000 borrowers who are behind on their payments for their homes, apartments, and other private property. The ABM said almost 90% of the borrowers with overdue loans on housing had already enrolled in the mortgage-restructuring program as of the end of August.

Federal Deputy Jose Luis Rosas Aispuro, a member of the governing Institutional Revolutionary Party (PRI) and one of the legislators who pushed for the extension of the enrollment period for mortgage debts, said heavy enrollment during August convinced the government and the bankers that mortgage holders were serious about restructuring their housing-related debts. "The government will incur very little additional cost by extending the enrollment period by a few weeks," an SHCP spokesperson told reporters.

In addition to extending the sign-up period for mortgage debts, farmers and other agricultural borrowers are still able to negotiate a restructuring of their overdue loans. Because of the agricultural sector's long history of problems with overdue debt, the government and the banks had placed agricultural debt in a separate category than the other programs in the ADE. The ADE was created in August 1995 to provide a mechanism for borrowers with overdue debts to restructure their obligations to banks (see SourceMex, 08/30/95). Under the program, debts were converted into investment units (Unidades de Inversion, UDIs), which allowed debtors to make payments at a more stable interest rate, whose index would be tied to a daily inflation index, rather than to volatile markets.

Despite strong efforts by President Ernesto Zedillo's administration to promote the ADE, the terms of the program created significant confusion among borrowers and, therefore, very slow enrollment. As of Oct. 31, which was the first enrollment deadline, only 60% of the borrowers with overdue debt had signed up for the ADE, forcing the government to extend the deadline several times. ABM president Jose Madariaga said the extensions, which covered almost one year, allowed debtors sufficient time to restructure their debts. In fact, just days before the Oct. 1 enrollment deadline, Madariaga warned that the estimated 200,000 borrowers who failed to restructure their debt

could now face criminal penalties. "Those who failed to take advantage of this opportunity placed themselves at risk," said Madariaga. However, the ABM president offered a more conciliatory stance a few days later, suggesting that banks would not massively pursue those who failed to meet the various deadlines for restructuring. "We do not think the solution lies in adopting an inflexible stance," said Madariaga. "The banking sector will continue to reach agreements with those who express an intention to pay."

Regarding the end of the ADE, Madariaga suggested that the program had served its purpose by acting as a bridge between a period of crisis and the current period of relative stability. "The success of the program is evident beyond the actual enrollment numbers," he said. The Zedillo administration also attempted to strike a positive note on the affair. Rather than highlight the percentage of debtors who did not enroll in the program, Zedillo's chief economic spokesman, Alejandro Valenzuela, emphasized that almost 2 million of the targeted 2.1 million participants had enrolled in the ADE. Valenzuela also said the government and individual banks are developing other options to help borrowers deal with their problems of overdue debt. Still, the government's decision to eliminate most of the ADE-related programs attracted a chorus of protests from a wide cross section of interests, including borrowers-rights organizations, labor unions, business leaders, and legislators.

In a strong criticism of the Zedillo administration and the ABM, political columnist Miguel Angel Granados Chapa suggested that the problem of overdue debt will not be resolved until the government and banks make the needs of borrowers a higher priority. "There is little regard for what the debtors themselves have to say regarding their needs," said Granados Chapa. In addition, organizations such as the Workers Congress (Congreso del Trabajo, CT) and the Business Coordinating Council (Consejo Coordinador Empresarial, CCE) issued statements urging the Zedillo administration not only to extend the debt-restructuring program, but to expand its function. The ongoing problems of liquidity faced by many debtors were evident in recent statistics published by the Banco de Mexico (central bank).

The statistics, cited by the daily newspaper *El Financiero*, showed that 15% of the 2 million borrowers who had restructured their overdue loans were still unable to keep up with their payments. Furthermore, *El Financiero* said that 17,000 borrowers many of whom had restructured their overdue debt became insolvent during the month of August alone. Indeed, a joint study conducted by the CNBV and the US-based financial consultant Securities Auction Capital (SAC) acknowledged that the ADE has made very little difference in reducing the overall level of overdue debt in Mexico, which is estimated at about 300 billion pesos (US\$39.6 billion).

The problems of overdue debt was also discussed in the Chamber of Deputies in late September, when legislators from the four major political parties issued a joint statement calling on the Zedillo administration to temporarily suspend all actions against debtors. The legislators said that despite signs of recovery in the national economy, the level of well-being had not yet reached many segments of society. "Many families and businesses continue to face an economic crisis," the statement said. The strongest protests, however, were organized by two groups dedicated to looking after the rights of debtors, *El Barzon* and the *Asamblea Ciudadana de Deudores de la Banca* (ACDB). On Sept. 30, the day most of the ADE programs expired, *El Barzon* staged a march through the major streets of Mexico City to protest the lack of commitment by banks and the government

to address the debt problems faced by many Mexicans. The march which included a caravan led by circus elephants made stops at the ABM headquarters and the main building for the Interior Secretariat (Secretaria de Gobernacion).

According to the event organizers, a total of 5,000 protestors participated in the march. El Barzon succeeded in gaining the attention of the Zedillo administration and the legislature. On Oct. 1, Sen. Carlos Sales Gutierrez, who chairs the Senate Finance Committee (Comision de Hacienda), announced he had organized a meeting for the second week of October to allow El Barzon to present its position to members of his committee and SHCP representatives. In statements leading to the Oct. 1 march in Mexico City, El Barzon leaders suggested some ways in which banks could demonstrate good faith, such as a delay in seizures of property of borrowers who have been unable to pay.

According to Alfonso Ramirez Cuellar, a leader of El Barzon in Mexico City, in just a few months banks have taken a total of 10 billion pesos (US\$1.32 billion) in homes, farm machinery, personal vehicles and other property. The demonstrations by El Barzon coincided with actions taken by the ACDB, which took its protest to Washington. Members of the organization staged a three-day fast in front of the headquarters of the International Monetary Fund (IMF) and the World Bank, charging that the policies of the two organizations toward Mexico were, in part, responsible for the country's monetary problems.

The ACDB action coincided with the annual meeting of the IMF on Sept. 30-Oct. 2. But the protest was directed at the Mexican government, which the ACDB accused of failing to promote an effective solution to the problems of overdue debt in Mexico. The protest included a sit-in at the doors of the Mexican Embassy in Washington. ACDB president Gerardo Fernandez Norona said his organization has secured a promise from the three largest political parties the PRI, the National Action Party (PAN), and the Democratic Revolution Party (PRD) to place a high priority on finding a workable solution to the problem of overdue debt.

On a related matter, a report published by Grupo Financiero Bancomer (GFB) estimates that overdue debt including the debt covered under the savings-protection fund (Fondo Bancario de Proteccion al Ahorro, FOBAPROA) represented almost one-fifth of the banking sector's total debt as of June. ABM officer Eugenio Garza Laguera said the problems of overdue debt have also had an indirect impact on the policies of the banking sector. According to Garza, many banks have adopted stricter guidelines on issuance of new loans to remain solvent and meet the government's tighter capitalization guidelines. In fact, the GFB report pointed out that six banks Serfin, Probursa, Bital, Bancrecer, Banoro and Banorte have already withdrawn funds from the FOBAPROA twice to meet capitalization guidelines. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Oct. 1, reported at 7.57 pesos per US\$1.00] (Sources: Diario de Yucatan, 09/26/96; Novedades, 09/26/96, 09/30/96; El Financiero, 09/26/96, 09/27/96, 10/01/96; El Universal, 09/26/96, 09/27/96, 09/30/96, 10/01/96 La Jornada, 09/26/96, 09/27/96, 09/30/96, 10/01/96, 10/02/96; Excelsior, 09/27/96, 09/29/96, 10/01/96, 10/02/96)

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