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Congress Pressures Executive to Overhaul Bank-Bailout Program

by LADB Staff
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Facing pressure from an opposition-led Congress, President Ernesto Zedillo's administration is contemplating changes in the government's bank-bailout program (Fondo Nacional de Proteccion al Ahorro, FOBAPROA), whereby responsibility for dealing with overdue loans would be transferred back to the banking sector. Under current policies, FOBAPROA acquires overdue debts from banks that fail to meet the required capitalization levels of 10%. The debts acquired via FOBAPROA are valued at about 152 billion pesos (US$18.37 billion).

According to sources at the Secretaria de Hacienda y Credito Publico (SHCP), the government is considering resale of overdue debts purchased from banks. Chamber of Deputies seeks tight limits on bank-rescue program Meanwhile, the Chamber of Deputies has adopted proposals calling for strict limits to FOBAPROA expenditures. In conjunction with this plan, Congress has created a special subcommittee to monitor FOBAPROA operations.

The pressure to change the federal government's banking policies is promoted by members of the center-left Partido de la Revolucion Democratica (PRD), but the move is supported by many members of the Chamber and the Senate. In particular, legislators have criticized the Zedillo administration for failing to comply with its obligation to inform Congress of FOBAPROA's total expenditures on an annual basis. According to Deputy Marcelo Ebrard, the government failed to disclose its FOBAPROA-related expenditures to protect some banking executives who benefited from the government bailout. "We know how the money was spent," said Ebrard, who is not affiliated with any political party. "FOBAPROA supported Carlos Cabal Peniche at Banco Union, Angel Rodriguez at Banpais, and Jorge Lukenau at Confia." All three executives are under investigation for bank fraud.

In the Senate, legislators have also criticized the executive for failing to offer timely information regarding a special program to restructure overdue housing and mortgage loans. The program, announced in May 1996, offered borrowers more certainty by measuring loan principal and interest rates in investment units (unidades de inversion, UDIs). At a hearing held by the Comision de Desarrollo Urbano y Vivienda in mid-November, Sen. Oscar Lopez Velarde of the governing Partido Revolucionario Institucional (PRI) accused the Comision Nacional Bancaria y de Valores (CNBV) of failing to provide relevant statistics on a timely basis. Lopez Velarde said the delay has prevented the Senate from determining whether the program has actually served the needs of the population. "We need to know whether the current scheme requires legal or operational adjustments," said Lopez. "Otherwise, we could face a political crisis."

Another key advocate in the Senate for debtors' rights is Juan Jose Quirino Salas of the PRD. Quirino, who won his seat in the July elections, has been one of the key national leaders of the debtors' rights organization Asamblea de Deudores de la Banca, also known as El Barzon. In
addition to seeking legislation to protect debtors' rights, Sen. Quirino said El Barzon will intensify its legal defense of more than 80,000 Mexicans who are facing legal problems because of unpaid debts from mortgages, credit cards, and agricultural and business loans. Private analysts caution against brusque banking overhaul Some private and government financial analysts are cautioning Congress to proceed slowly with any legislation to reform the banking system.

According to CNBV vice president Javier Gavito, the government's decision to assume 40% of the overdue debt reduced the possibility of a major crisis within the banking sector. "The government's management of overdue debt was a healthier course of action than allowing the banking sector to go bankrupt," said Gavito. In addition to the policies regarding overdue debts, the banking sector in general has been accused of ignoring some of the poorer regions of Mexico, particularly southeastern states.

According to a study produced by Grupo Financiero Bancomer (GFB), the southeastern region has an average of five banks per 100,000 residents, while the national average is eight banks per 100,000 residents. The study said the number of banks in the southeastern region is even lower if more economically developed states such as Yucatan and Quintana Roo are left out of the total. The GFB attributed the low bank presence in the southeastern states to depressed economic conditions, but said the situation is beginning to change with the growth of tourism and other industries in the region. (Sources: The News, 10/03/97; Excelsior, 10/07/97, 10/09/97, 10/07/97; El Universal, 10/10/97; El Financiero International, 11/10/97; Novedades, 11/11/97)