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## **Savings Protection Institute Might Take Over Mexico's Third Largest Bank**

*by LADB Staff*

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In mid-June, the newly formed savings protection institute (Instituto de Proteccion al Ahorro Bancario, IPAB) announced a plan to rescue Banca Serfin, pending a decision by the bank's board of directors on July 8. Serfin, Mexico's third-largest financial institution, was one of the banks that received government assistance through the controversial Fondo Bancario de Proteccion al Ahorro (FOBAPROA). But the FOBAPROA rescue of Serfin in June 1995 covered only 52% of the bank's assets (see SourceMex, 1995-07- 05).

Stockholders were unable to raise sufficient capital to help the bank fully emerge from its financial crisis, thus requiring a new rescue operation under the IPAB. Under the plan proposed by IPAB, Serfin stockholders will have to decide at their July meeting whether they are in a position to inject fresh capital into the bank. If the stockholders decide they cannot raise enough funds to fully capitalize Serfin, which is likely, then IPAB will assume 100% control of the bank and stockholders would lose their full investment of US\$13 billion pesos (US\$1.37 billion).

Under this scenario, IPAB would inject sufficient funds to keep Serfin operating while the institute looks for a potential buyer. Legislators oppose Serfin rescue As expected, a wide range of Mexican politicians, both from opposition parties and from the governing Partido Revolucionario Institucional (PRI), immediately criticized the proposed Serfin.

PRI Deputy Marcos Burcio, a member of the finance committee (Comision de Hacienda) in the Chamber of Deputies, said the government should have considered other options besides injecting federal funds into Serfin. "Our position is that IPAB should have capitalized the bank by attracting new investors," said Burcio.

The two major opposition parties also strongly criticized the Serfin rescue. Deputy Dolores Padierna of the center-left Partido de la Revolucion Democratica (PRD) called the IPAB action a "fraud" intended to protect the "fat cats" that have supported the PRI. "All the banks provided funds for the presidential campaign of Ernesto Zedillo in 1994," she said.

In a recent interview with The Miami Herald, fugitive banker Carlos Cabal Peniche said FOBAPROA was used to launder contributions to Zedillo's presidential campaign and to the 1994 Tabasco gubernatorial race (see SourceMex, 1999-06-09). Padierna said the Chamber of Deputies will take a close look at the final FOBAPROA audit produced by Canadian auditor Michael Mackey to determine if the government committed any violations in the Serfin rescue in 1995.

Deputy Eduardo Mendoza of the center-right Partido Accion Nacional (PAN) raised concerns that the Serfin rescue could end up costing the government much more than the 13 billion pesos (US

\$1.37 billion) required to capitalize the bank. "The Serfin (rescue) will be one of the most costly and most scandalous in public memory," Mendoza told reporters. PAN and PRD legislators also questioned the total cost of bank-rescue operations scheduled for this year.

In addition to Serfin, IPAB faces completing the bailout of Banca Promex, Banco del Atlantico, and Bancrecer, which benefitted from a partial rescue under FOBAPROA and which remain in financial difficulties. Responding to the criticisms, the Secretaria de Hacienda y Credito Publico (SHCP) said the government decided to proceed with the Serfin rescue because this option would be cheaper than allowing the bank to fail. "Studies conclude that keeping Serfin operating and cleaning it up would have a lower cost than liquidating the institution," the SHCP said, without offering details. Institute may have to borrow money to fund rescue Banking-industry analysts had a mixed reaction to the Serfin rescue.

Some analysts said the rescue of Serfin, Promex, Atlantico, and Bancrecer could eliminate the last vestiges of the banking crisis caused by the devaluation of the peso in 1994. Mexico's banking system ranks as the ninth worst on a list of 74 countries compiled by rating company Moody's. But those analysts raised concerns about the government's ability to raise the funds necessary to perform an adequate rescue of Serfin and the other institutions. "I don't know how the government is going to [raise these funds]," said Ursula Wilhelm, a specialist at the Mexico City office of Standard & Poor's.

Wilhelm said IPAB could take out loans from several sources: the Banco de Mexico, foreign trade bank Banco Mexicano de Comercio Exterior (BANCOMEX), development bank Nacional Financiera (NAFIN), or multilateral lenders. There is also some uncertainty about whether Serfin could attract sufficient interest from solid investors. "If the government injects only about US\$1.37 billion, I don't think they will find a buyer," said Phil Guarco, a banking analyst at Moody's Investor Services.

Guarco said the addition of US\$1.37 billion would simply take Serfin's accounts to zero. He added that IPAB would have to inject US\$3 billion into Serfin simply to bring the bank in line with other operating banks in Mexico. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on June 30, reported at 9.45 pesos per US\$1.00] (Sources: La Jornada, 06/18/99; Proceso, 06/27/99; El Universal, 06/17/99, 06/18/99, 06/28/99; Reuters, El Economista, 06/28/99; Excelsior, 06/17/99, 06/28/99, 06/29/99; Novedades, 06/18/99, 06/28/98, 06/30/99)

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