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Collapse of Another Private Bank Sets Off Panic in Nicaragua

by LADB Staff

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The failure in November of the privately owned Banco del Cafe (BANCAFE) set off a bank panic and demands in the National Assembly for legal action against bank officers and major stockholders held responsible. The quick sale of BANCAFE and promises to compensate depositors in full blunted a rapidly growing protest and may have restored some confidence in the battered financial system.

Nicaragua is going through its second bank scandal in three months, throwing the banking system into its worst crisis in decades. Four other banks have failed in the past four years, most recently the Banco Intercontinental (INTERBANK), which collapsed in August. The failure was largely the result of bad loans to businesses run by brothers Alex and Saul Centeno Roque. The Superintendencia de Bancos (SIB) took over INTERBANK Aug. 7, but a court absolved the brothers of fraud and other charges (see NotiCen, 2000-09-28).

On Nov. 17, SIB took over BANCAFE, citing various irregularities affecting 45,000 depositors. The head of SIB, Noel Sacasa, said examiners found improperly approved loans, loans made to unidentified borrowers, and conflicts of interest in bank operations.

In all, BANCAFE lost US\$50 million, US\$18 million of which were losses traced to loans granted to the Centeno Roque brothers, according to estimates made in early November by Central Bank president Noel Ramirez. Sacasa said BANCAFE's troubles were caused both by the bad loans and by massive withdrawals by depositors reacting to the uncertainties set off by news of SIB's investigation.

The run on BANCAFE spread to the Banco Nicaraguense de Industria y Comercio (BANIC) as rumors circulated that it would be the next bank to fail. Minority shareholders in BANCAFE said that several financial institutions, including Servicios Financieros, Promotora de la Pequena Empresa, Bancard, Facturinsa, Casa Linda, and Servicios Agropecuarios all of which took out BANCAFE loans were responsible for much of the losses. All but two of these institutions had failed by the time of the takeover. Furthermore, BANCAFE officers had personal connections with those institutions.

On Nov. 21, SIB sent a report to Attorney General Julio Centeno Gomez on the irregularities and violations of banking laws committed by BANCAFE president Francisco Mayorga and other officers and major stockholders. Among the irregularities, the bank failed to identify some of its debtors, bank officers approved loans to entities with which they had ties, loan applications were incomplete or were supplied after the loans were approved, and bank officers assumed overdue obligations held by others.

SIB also found an excessive concentration of risky loans to the Centeno Roque brothers' business interests. As of July, their Grupo Consagro's outstanding loans totaled more than US\$12 million. The attorney general said he would order all members of the bank's board who were mentioned in the report to remain in the country. He also assembled a special commission to begin an investigation of the bank's collapse. SIB investigators became aware of BANCAFE'S troubles at the time of the INTERBANK failure. SIB's critics are now asking why Sacasa did not move to put the bank in receivership in August. Sacasa explained that SIB lacked the necessary funds. However, SIB had enough funds to resolve the INTERBANK crisis just a month later.

Naming Carlos Matus Tapia to the bank liquidation board also raised questions since he was manager of BANCAFE at the time of his appointment. Banking law prohibits bank officers from sitting on SIB liquidation boards. Depositors demand compensation The Central Bank decided to pay US\$750 to compensate depositors with account balances of US\$1,500 or less. The rest would be paid when the bank liquidation process was complete, Ramirez said.

Depositors quickly organized and announced a boycott of the banking system to protest the Central Bank's failure to fully back all deposits. A group of depositors demonstrated at the Central Bank, demanding the same treatment that INTERBANK depositors received. In the INTERBANK case, the Central Bank made US\$80 million in credit available to compensate depositors.

Much of the public regards the bank collapse as a form of theft. Bishops in Nicaragua called for the government to punish both bank robbers as well as those who "without a gun in hand but with silk gloves rob the national treasury of the people of Nicaragua."

In the National Assembly, the Anti-corruption Committee began an investigation of the banking mess. Deputy Eliseo Nunez of the governing Partido Liberal Constitucionalista (PLC) said that "thieves wearing ties" were moving into banking and the people were assuming the losses. The judiciary, he said, showed "a total and absolute incompetence when it freed all those involved in the INTERBANK case, forgetting about the US\$50 million paid out by the Central Bank to compensate the depositors of that institution." He blamed the deputies for failing to pass a new legal code that could have put guilty INTERBANK and BANCAFE officers in jail.

FSLN Deputy Miguel Angel Casco said the bank failures were a symptom of a general decay in the financial system. President Arnoldo Aleman's initial response to the crisis was to blame it on the private banks and reject any government responsibility for protecting the depositors. However, Aleman said he would send the Assembly a bill providing for bank- deposit insurance.

President Aleman moves to sell bank

Four days after the bank collapsed, Aleman moved to restore confidence in the banking system. He announced a plan to auction off BANCAFE assets, with the Central Bank guaranteeing deposits. Aleman has also promised to take those involved in the bank's collapse to court. After a quick auction, the Banco de Finanzas (BDF) took over BANCAFE assets and debts. The takeover meant that depositors would have full access to their deposits through BDF, backed with a line of credit from the Central Bank. Ramirez said the INTERBANK and BANCAFE failures cost the Central Bank

US\$100 million, and while the losses had affected banking operations, they had not weakened the Central Bank's international reserves.

Furthermore, as of Nov. 27, the banking system had begun to recapture some of the deposits withdrawn during the panic, Ramirez said. Even before the decision to compensate depositors in full, authorities said SIB's handling of the crisis would improve Nicaragua's chances of acceptance in the World Bank's debt-reduction program, the Initiative for Heavily Indebted Poor Countries (HIPC).

Foreign Minister Francisco Aguirre Sacasa, who is also an alternate delegate to the World Bank and the Inter-American Development Bank (IDB), said IDB president Enrique Iglesias was impressed with the government's intervention in BANCAFE. Aguirre Sacasa said the "professional and serene manner" in which SIB had acted would strengthen Nicaragua's chances of entering HIPC. [Sources: Notimex, 11/20/00, 11/21/00, 11/23/00; La Prensa (Nicaragua), 11/18/00, 11/20/00, 11/21/00, 11/24/00, 11/25/00, 11/26/00, 11/28/00, 11/30/00; El Nuevo Diario (Nicaragua), 11/20/00, 11/21/00, 11/22/00, 11/23/00, 11/25/00, 12/01/00]

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