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**Mexico Overhauls Banks Amid Turmoil --- Takeover of Banpais Is Latest Result of Effort**

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MEXICO CITY -- Mexico's seizure of yet another ailing bank underscores a larger campaign by regulators to remake the country's banking system amid the deepest financial crisis in a decade.

On Friday, banking officials took over Grupo Financiero Asemex-Banpais, a large insurance, banking and brokerage company, citing lax management and deteriorating capital.

At the same time, the new group of tough-minded regulators is working hard behind the scenes to aid other banks before they reach a point of no return. Their work offers encouragement for Mexico's brittle financial sector, which is suffering from skyrocketing interest rates and rising loan defaults brought on by the country's Dec. 20 peso devaluation.

Averting bank failures is crucial because credit, the raw material of any economy, has dried up. Major insolvencies could make credit scarce for years, extending the economic crisis.

The new regulators, led by Eduardo Fernandez Garcia, a 40-year-old former central banker, will attempt to nudge several embattled but salvageable banks into a new "good-bank" bailout fund that will allow them to recapitalize with government funds and keep operating, though under tighter regulation. This new fund is known as the Program for Temporary Capitalization, or Procapte.

But little mercy will be shown for banks in bad condition, such as Banpais, which was seized using the resources of a separate "bad-bank" fund, which basically amounts to a government takeover. This fund is known by the acronym Fobaproa; Mexican banks have sometimes used this fund also for emergency cash needs. Banpais, the country's eighth-largest bank with total loans of 25.6 billion pesos ($4.27 billion), is the second major banking group taken over by the government recently. The other was Grupo Financiero Cremi-Union, which operated two Mexican banks. The three banks failed less than four years after the government privatized them.

Banpais shares, which were listed on the New York Stock Exchange as American depositary receipts after a June underwriting led by Bear, Stearns & Co., fell 6.25 cents, or 6.3%, to 93.75 cents Friday.

The seizures show how shallow bank managers' experience was in the early 1990s, when, after a decade of state control, the Mexican government sold some 18 banks. The new owners paid big premiums, so, in an effort to earn back their investments quickly, many were less then prudent in their lending. Loans expanded aggressively, but so did the bad ones. For all of Mexico's banks, total nonperforming loans rose to a peak of 8.26% of all loans in June, compared with 5.48% in December 1992. In the U.S., by contrast, total nonperforming loans equal about 1.5% of total loans.

Bad-loan reserves didn't keep pace. Even before the Dec. 20 devaluation, some banks' total bad loans were rising nearly to the level of their total equity. Past-due loans equaled 96.7% of Banco Internacional's equity at the end of last year, according to Casa de Bolsa Baring. (Many banks may have guarantees or collateral on past-due loans.) A spokesman for the bank, which is a division of Grupo Financiero Prime Internacional SA, couldn't be reached to comment.

What's more, at a time when analysts say banks should be retaining earnings and rebuilding capital, some are paying dividends. Grupo Financiero Serfin's Banca Serfin unit paid some 135 million pesos in dividends last year, a spokesman says. But the bank's past-due loans equaled 95.1% of equity as of December, Casa de Bolsa Baring says. (A Banca Serfin spokesman says the bank, Mexico's third-largest, was within Mexico's capitalization guidelines at the end of 1994.) Grupo Financiero Banamex-Accival, parent of Banamex, Mexico's largest bank with 109.7 billion pesos in loans, paid a dividend this January, despite a 60% earnings decline last year.

The banking system's recent track record irks Mr. Fernandez, who in April took over the national banking commission, the country's chief banking regulatory body. He wants to see simple math and hard money on banks' balance sheets. When bankers tell him they have "implicit guarantees" on loans, he tells them he would like to see "explicit guarantees."

"He is a very professional individual who has a wide view of all the problems affecting Mexican banks," says Alfonso Gonzalez Migoya, chief financial officer at Grupo Financiero Bancomer SA.

Mr. Fernandez, who declined a request for a formal interview, recently turned up the heat on banks by requiring that they set aside reserves to cover 60% of their bad loans; currently the average is about 47.5%. He also gave bankers only a few weeks to meet the rule, even though more loans are going bad every day as customers find they can't meet soaring interest payments. Many bankers have only one place to turn for the cash: the banking commission and its new good-bank bailout fund. Banking commission officials say they expect a minimum of six out of Mexico's 25 banks to participate in Procapte.

The fund isn't going to be a gift. The banking commission is urging bankers to go back to their original investors for as much fresh cash as possible. Some bankers are running to foreign partners. Grupo Financiero Mercantil Probursa is expected to be taken over by Spain's Banco Bilbao Vizcaya. Some U.S. banks, meanwhile, are considering purchasing good loans from their Mexican counterparts.

Once a bank taps the fund, Mr. Fernandez can really go to work. Mexican regulators, with the help of inspectors from the U.S. Federal Deposit Insurance Corp., the federal agency that insures U.S. deposits, are taking a hard look at loan portfolios, and especially at loans made to bank personnel.

A bank borrowing from the fund must use the proceeds to raise its capital to at least 9% of total assets, weighted for risk, a stiffer rule than for banks in general, which must meet an 8% standard. Banks participate by selling bonds to the government that are convertible into common stock with voting rights, ceding more potential control to the government.

If the bank continues to have problems, the government can take it over. If a bank can't find enough fresh capital to leave the fund within five years, the banking commission will buy it at book value. And if the banks do find enough fresh capital to buy back their convertible bonds and exit the fund, they leave with a stronger 9% capital ratio.

But Mr. Fernandez won't throw a lifeline to everybody. Concerned about apparently endemic mismanagement, he closed Banpais, fired management and threw the group into the bad-bank fund. "The banking commission isn't going to bail out everybody," says Susana Ornelas, analyst at Casa de Bolsa Baring. "They are just going to let some banks die."

--- Troubled Mexican Banks

Capital Is Low at Some Banks . . .

Capital as a percentage of assets weighted for risk, as of December 1994

U.S. Banks Avg. 13.00%

Banco Atlantico 8.73%

Banca Serfin 8.60%

Banco Internacional 8.34%

Minimum Legal Limit 8.00%

 

Multibanco Comermex 8.00%

Banco Mercantil Probursa 7.60%

And Bad Debts Are High

Past-due loans as a percentage of total loans, as of December 1994

Banco Internacional 10.61%

Banco Atlantico 9.43%

Banca Serfin 8.60%

Multibanco Comermex 7.62%

System Avg. 7.43%

Banco Mercantil Probursa 6.56%

U.S. Banks Avg. 1.50%

Note: Mexican ratios may have worsened since December, due to the Dec. 20 currency devaluation

Source: Salomon Brothers

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