

Banpais Gets Bailout: But Will Fobaproa Have Enough for All?

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Grupo Financiero Asemex-Banpais is the first Mexican bank whose liquidity problems have come to light since the peso crisis. The Finance Ministry has assumed its debts, but other banks may not be so lucky.

Troubled banks that join Procapte will not receive cash to honor debts. Monies provided by Procapte must be used to cover loans--not bond payments. Debt repayment under the plan is still a bank-by-bank issue. "A lot of people have said this is just window dressing, and that it won't solve the liquidity crisis or meet debt payments" said a bank analyst at a major Wall Street firm.

"Procapte recapitalizes banks without providing cash," said S&P banking analyst Donald Gabbai. "It just makes capital ratios look better."

Under the Procapte plan, the government will buy subordinated bonds, convertible into equity in five years. If a bank has not repaid Fobaproa in full after five years, the central bank will convert the debt into stock and presumably sell the shares. In addition, banks which enter the Procapte program will not be allowed to take on new debt until they have repaid all debts to Fobaproa.

The plan amounts to de-facto nationalization of banks until shares can be sold or banks can recapitalize themselves, analysts point out. "The question is: how many banks does the government wind up owning?" said one high-yield bank analyst.

"Nothing will prevent a Mexican banking crisis," said Chris Whalen, CFO of Legal Research International, a Washington-based due diligence and financial services firm. "We have to start talking about some sort of debt forgiveness. This is pretty much a replay of what you saw in Venezuela in 1994. We're going to see three-quarters of loan portfolios taken over by the government."

In Banpais's case, the Finance Ministry said all obligations will be met, including \$218 million in outstanding dollar-denominated Eurobonds and CDs, \$118 million of which mature this year.

The central bank seized Banpais on March 3, citing "irregularities" that forced the removal of top management. The entire board, headed by Angel I. Rodriguez Saez, is believed to have been removed. The Rodriguez family is the group's controlling shareholder, said sources.

These irregularities may have to do with the fact that some 60% of past due loans were reportedly extended to only three companies: Aeromexico, Mexicana de Aviacion, and Banco Union-Cremi.

Most banks are expected to join Procapte. Serfin, Comermer and Internacional are those whose low capital adequacy levels and low asset quality will imminently push them into Procapte, say analysts.

If past due loans double, only Banamex, Bancrecer, Promex, Banorte and Banoro will be able to avoid Procapte, in Salomon Brothers' view. But if past-due loans reach 16% of total loans for all banks, only Banamex will remain independent.

Salomon expects past due loans to reach 15% to 17% of Mexican banks' loan portfolios by the end of the year.

Mexico has 18 private banks, four of which--Banco Obrero, Banco Union, Banca Cremi and Banpais--have been placed under central bank management. As many as 10 will need the help of the bail-out fund.

The government will have to inject \$2.4 billion to bring the banks up to minimum capital adequacy level, Salomon Brothers estimates. It is not known how much the Bank of Mexico has committed to the plan.

Fobaproa's funding base is limited, according to a banking report by Chemical Bank's emerging market group.

The group estimates an accumulation of 4 billion pesos in emergency funding between 1990 and 1994, and notes that the fund has been depleted through interventions in Cremi-Union and Obrero.

S&P downgraded Banpais to B from BB- on March 2, the day before it was seized. The agency cited the bank's rapid loan growth, reliance on wholesale funding and loss of access to capital markets.

A stable outlook assumes regulatory support. Moody's and Duff & Phelps do not rate Banpais.

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