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Mexico Bails out Six Banks With \$957 Million Loan (Update1)

(Adds detail, rewrites throughout.)

Mexico City, March 31 (Bloomberg) -- Mexico's central bank injected 6.49 billion pesos (\$957 million) into six major banks in an effort to shore up the troubled banking industry.

The move became necessary when the capital and reserves of the six banks -- including three of the five largest -- fell below levels required by the government.

Banca Serfin SA, Banco Inverlat SA and Bitel SA -- the third, fourth and fifth largest banks in Mexico -- will take part in the program, known as Procapte, the banking commission said. The others are Banco Confia SA, Banco del Centro SA and Banco del Oriente SA.

"This is a measure the government had to take to help banks step out of their troubles," said Carlos Villagran, a banking analyst at Bancomer Casa de Bolsa SA.

Under the plan, banks will sell five-year convertible bonds to the Bank Savings Insurance Fund, or Fobaproa, the equivalent of the U.S. Federal Deposit Insurance Corp. Fobaproa will pay for the bonds using loans granted by Mexico's central bank.

The bailout comes on the same day that another major Mexican bank, Grupo Financiero Probursa SA, announced that Spanish bank Banco Bilbao Vizcaya agreed to acquire a majority interest and inject new capital into Probursa.

If it weren't for the Bilbao agreement, Probursa would have also been forced to take part in the government bailout program, government officials said.

Mexican banks have suffered since the government devalued the peso on Dec. 20, plunging the country into a 14-week-old economic crisis. Banks with dollar liabilities have had to set aside more and more capital to cover potential losses from the slide in the currency. And higher interest rates have increased the number of loan defaults by consumers and companies throughout Mexico.

The Mexican government had been saying for weeks that it planned to use part of a \$52 billion rescue package engineered by the U.S. government to help bail out the banking sector.

In addition, the Finance Ministry reached an agreement for \$3.25 billion in loans from the World Bank and the Inter-American Development Bank in early March, primarily to strengthen the nation's banking industry.

The banks agreed to take part in the program because they currently fail to meet a requirement that outstanding capital amount to 8% of total risk assets, the Banking Commission said. After selling the convertible bonds, the six banks will each have a capitalization index of 9%.

The Lion's Share

Close to half the amount allocated to the banks -- 3.2 billion pesos -- went to Banca Serfin.

``Because of the exchange rate, our dollar liabilities have sharply increased our risk capital,`` said Olga Maria Vasquez, a spokeswoman for Banca Serfin.

Vasquez wouldn't say how much the bank had in capital just before the infusion, but on Dec. 31 the bank had 4.5 billion pesos in capital.

Analysts had expected a larger number of banks to participate in Procapte. The fact that only six of Mexico's fifteen major banks got loans led analysts to speculate other banks will be added to the program later.

``I haven't ruled out that in a certain moment in the future other banks will be in need to get Procapte resources,`` said Villagran.

If another bank fail to meet the reserve and capital requirements, the government will inject capital through the program, said Banking Commission officials. As of March, the rest of Mexico's banking institutions meet those requirements.

Three banks have been seized by Mexican financial authorities in the past six months -- Banco Union SA, Banca Cremi SA and Banpais SA. With government help, those banks now meet all their financial obligations, the Banking Commission said.

Bilbao's pending acquisition of Probursa comes as analysts have suggested some Mexican banks might be ripe for takeover or heavy direct investment by foreign banks, given the attractiveness of the peso exchange rate and the weak position of the banks.

Bilbao already has a 22% stake in Probursa. The Spanish bank said it will invest about \$200 million more in the Mexican financial group to gain a controlling interest and expand the capital base of the Mexico-City based company.

The exact size of the stake and the date it will take effect have not yet been determined, Probursa officials said.

The following chart provides the amount of convertible bonds that each of the six banks plans will sell to Fobaproa. The amounts are in billions of pesos.

Banks	Amount
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Serfin	3.20
Inverlat	1.40
Bital	0.70
Confia	0.43
Del Centro	0.45
Oriente	0.31
TOTAL	6.49

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(Story illustration: for a graph of the performance of the

Mexican stock market, MEXBOL <Index> GP <Go>.

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