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Banking/Finance: Bank funding

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Six Mexican commercial banks applied for capital support from the Bank of Mexico through the temporary capitalization program (PROCAPTE), meeting the March 31, 1995 deadline for entry upon initiation of the program, the American Embassy-Mexico City reported on April 3:

* The banks will issue subordinated debt convertible into shares to the PROCAPTE Trust, operated by the Bank of Mexico; the capital which the banks receive in exchange will be held at the Bank of Mexico and accounted for as part of the banks' capital. The banks have up to five years in which to retire the subordinated debt. The six institutions, the amount of support they received, and how this compares to their December 1994 levels of capital and preventive reserves are presented in a table on page 23;

* The PROCAPTE support will be used to bring risk-weighted capital levels up to the required level by the end of March (9% for banks in PROCAPTE; banks not using PROCAPTE need only an 8% capital ratio) and build preventive reserves to the required 60% of the value of overdue loans;

* With this support, all commercial banks with the exception of Multibanco Mercantil Probursa meet mandatory capitalization levels. Probursa, which has a risk-weighted capitalization of approximately 7.2% and preventive reserve coverage of 48%, was given until the end of April to meet the standards to allow for the completion of negotiations with the Spanish bank Banco Bilbao Vizcaya. BBV holds a reported 22% of Probursa stock and is negotiating to bring this percentage up to between 51% to 60% (representing an additional investment of some \$200 million);

* Comment: The American Embassy-Mexico City notes that "the initial NP\$6.5 billion in PROCAPTE funds is the equivalent of 10% of the equity and preventive reserves of the 20 banks included in the statistics. The PROCAPTE support is twice the NP\$3.2 billion in 1994 net income registered by the banks, however. The number of banks entering PROCAPTE is less than the half of all commercial banks suggested by some studies. Banks which opted not to use PROCAPTE in this first round are not excluded from seeking PROCAPTE support in coming years, however."

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