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A Bank for Mexico's Working Families

By LUCY CONGER (NYT) 1298 words

MEXICO CITY -- Samuel Rico, a young father of three, recently visited an Elektra store, a downscale household goods retailer, in the sprawling lower-class neighborhood of Ciudad Nezahualcóyotl on the outskirts of Mexico City. Leaning against his 1975 Dodge Dart, he said he had come to make the weekly \$18 payment on his refrigerator. "We'll pay \$1,060" in all, he said. "It's double the normal price, but if you don't do this you don't have things."

Customers like Mr. Rico, who earns about \$70 a week working for a maker of school furniture, have been a key to Elektra's business. Sixty-five percent of the retailer's sales are made on the installment plan and 35 percent of the profits of Elektra's holding company, Grupo Elektra, stem from consumer financing, company officials said.

Now, Grupo Elektra, which also owns the retailing chains Salinas & Rocha and Bodega de Remates and has an 18 percent indirect participation in the country's No. 2 television network, TV Azteca, hopes to expand its financial offerings through a new venture, Banco Azteca.

The bank is the first and only all-Mexican-owned franchise to be licensed by the Finance Ministry since 1994. It is also the first bank to aim at Mexico's middle and working classes: the 73 million people who live in households with combined family incomes of \$250 to \$4,000 a month, a mass market largely neglected by Mexico's banking system.

Company officials talk in terms of this larger mission. "A major impediment to the growth of the Mexican middle class has been the lack of access to credit, one of the main vehicles for personal financial improvement," Ricardo B. Salinas Pliego, Grupo Elektra's chairman, said in a news release in late October of this year.

Banco Azteca opened for business at the end of October, with 815 branch offices, one inside each Elektra group store across the country.

The bank began operations by offering savings accounts that could be opened with as little as \$5. In the first month, 157,000 accounts had been opened. [By the end of December, more than 250,000 accounts had been opened.]

And the more than 819,000 accounts of clients who had saved at Grupo Elektra's stores are now managed by Banco Azteca.

In December, Banco Azteca received authorization to make loans, and has begun offering consumer financing identical to the installment plans of the Grupo Elektra retailers and has also begun offering \$500 personal loans not tied to appliance purchases. Elektra's old consumer financing operation will close down as its borrowers pay off their loans, which usually run for 53 weeks.

The group's executives say the creation of a bank offers substantial savings on financing. Banco Azteca can borrow at the interbank rate with a discount, getting access to funds at about 8 percent annually compared with the 13 percent interest rate Elektra has paid as a retailer to borrow for its consumer finance operations.

The lending business has been vital to Grupo Elektra's stores.

"Elektra couldn't make its model work without consumer credit," said, Robert Ford, a Latin America retail sector analyst with Merrill Lynch in New York.

The lending has been lucrative, with interest rates that average around 50 percent.

At one of Elektra's 20 stores in Nezahualcóyotl, a Mexican-made Mabe brand refrigerator costing almost \$440 if bought with cash ends up costing \$748 on the 53-week installment plan, a 70 percent increase. The cost of a Compac Presario 4710 personal computer rises 27 percent, to \$1,731.

Starting next year, Banco Azteca plans to introduce a range of products, including used-car and personal loans, debit cards, checking accounts and mortgages. Elektra's database of the credit payment histories of four million current and former customers will help the bank make credit decisions and cross-sell its products, analysts say.

Grupo Elektra invested \$23 million to start the bank, and will capitalize it with \$50 million in coming months, company officials said.

Executives first thought of forming a bank in the mid-1990's but backed off when the 1995 depression caused a near collapse in the banking system.

The economy, though sluggish, is much sturdier now, and company executives, emphasizing the huge potential market, have great expectations for their bank. The current two million active accounts at Grupo Elektra stores "are a small fraction of what we can do with Banco Azteca," Mr. Salinas said at a party celebrating the opening of the bank in October.

Elektra executives also hope the bank's operations will bolster shareholder value.

Though group sales have remained resilient and have outperformed competitors, analysts said, and revenues are expected to be about \$1.7 billion this year, Grupo Elektra's Mexican shares and American depository receipts have performed poorly recently.

Though analysts have generally seen much potential in Banco Azteca, many have questioned, among other things, how the bank's finances will be related to those of the other companies in which Mr. Salinas has an interest.

Last month, Moody's Investors Service downgraded Grupo Elektra's debt on concerns about lower operating profits and profit margins in the first nine months of 2002 and the pending debt obligations of Unefon S.A., a mobile phone company controlled in part by Mr. Salinas.

Elektra's rating remains on review because of concerns about the guarantors of the rated debt and capital structures of the bank and the retailer, Moody's said.

"We know an important part of the income stream is being taken away and will no longer guarantee the debt," said Marie Menendez, senior credit officer of the Moody's Corporate Finance Group, referring to the stores' consumer financing repayments. "We don't have a good handle on what's left -- the operating performance and financial condition of the retail business."

Grupo Elektra reported that the gross value of customer accounts receivable was \$416 million as of August.

As Elektra pulls out more stops, many of the group's store and hypermarket competitors are beginning to compete more assiduously on financing or on prices.

But the impact the company's bank may have on Mexico's economy is hard to predict, though Banco Azteca officials say credit will be more available to Mexico's large informal sector, the small businesses and self-employed who operate outside regulatory frameworks.

And Banco Azteca's results could show other companies that it is feasible to lend to the lower middle class, although the costs of operating small accounts are high, said Ursula Wilhelm, director of bank analysis with Standard & Poor's in Mexico City.

Elektra has worked hard in its 52 years to build a strong record in consumer finance. Its 3,000 loan agents, who now work at the bank, make home visits to verify family income and follow up on borrowers who are more than two weeks behind in their payments.

"Despite volatility in the environment, we continue to grow and be profitable," said Javier Sarro, Elektra's chief executive.

He added that only 3 percent of the loan portfolio is unrecoverable. That, however, may be one edge the company will lose with Banco Azteca.

If rigorous banking standards are applied to the Grupo Elektra loan portfolio, Ms. Wilhelm of S. & P. said, the loan delinquency rate would reach 10 to 12 percent of the portfolio -- a high level.