

**Banco Azteca Bikers Reach Out to Mexico's Poor**  
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**By Lorraine Orlandi**

MEXICO CITY (Reuters) - Every day, 3,000 men ride on motorcycles into Mexico's roughest neighborhoods to check on loans made to taxi drivers, maids and street vendors.

The men aren't loan sharks, they're loan officers for upstart Banco Azteca, the banking arm that grew out of the credit operations of electronics retailer Elektra.

Despite initial market doubts, the bank has seen rapid success as it taps Mexico's vast informal economy, thanks to Elektra's long record of serving the working class.

"The difference between Elektra and more established banks is that Elektra has a much better collection system," said Joaquin Lopez-Doriga, an analyst with Deutsche-Ixe. "If you want to address the market that Elektra is addressing, you have to know it very well. That's very labor intensive."

Banco Azteca is another brainstorm of Ricardo Salinas Pliego. A brash entrepreneur who took on broadcast heavyweight Televisa with TV Azteca, Salinas has used Elektra to push his beeper and mobile telephone services.

Riding motorbikes popularized by pizza delivery boys, the loan officers work the frontier of financial services in Mexico, targeting low-income consumers other banks ignore.

Mexico's credit market is wide open. Stung by a wave of defaults following the 1995 peso devaluation, banks are still reluctant to make loans. At just 11 percent, the loan penetration rate is low even among developing economies.

The launch of Banco Azteca last October was a "pre-emptive strike" against other banks that might target Elektra's core market, Lopez-Doriga said.

Azteca holds the first banking license granted to a Mexican institution since the devaluation and now has a credit portfolio of 5 billion pesos (\$500 million) and some 4 million clients. It plans to offer mortgage and used-car loans soon.

Past due loans are 3 percent of its credit portfolio, at the low end for Mexican banks. That's noteworthy because consumer loans are harder to collect than corporate and housing loans, which form the bulk of bank portfolios in Mexico.

### **INFORMAL ECONOMY**

Loan officers make house calls to investigate potential customers and to ensure they make payments once a loan is approved. Sometimes they repossess items that are resold at Elektra's Bodega de Remates discount stores, typically at prices higher than the amount due on the loan.

On a recent afternoon Azteca loan officer Manuel Monroy hopped on a Honda 125 to visit Blanca Guevara at home in a working-class neighborhood of Mexico City. The 48-year-old widow had applied to buy a sewing machine for 2,174 pesos (about \$210) on credit at Elektra the day before.

Guevara said she could pay 41 pesos a week over 53 weeks, after a 141-peso down payment. But as an off-the-books house cleaner, she had no proof of income.

Once her mother-in-law, who owns their house, agreed to back the loan, Monroy looked over property and identification papers and recorded the information on a hand-held computer.

The software analyzed the information and within minutes a verdict flashed on the computer's tiny screen: "Approved." He pressed another button to produce a ticket from a printer on his belt for Guevara to present at the store.

House calls don't always go smoothly. Most of Monroy's day is spent visiting customers who fall behind in their payments, perhaps offering extra time to catch up.

"I try to talk to them. I say, 'I know we're in Mexico and there's no cash, but what can we do here?'" he said.

## **RECORD EARNINGS**

Analysts feared the bank's costs would affect cash flow and debt at Elektra's retail operations. In June, Moody's Investors Service downgraded the retailer's debt, citing changes in debt structure from the creation of Banco Azteca.

But Elektra posted record earnings before interest, taxes, depreciation and amortization (EBITDA) of 805 million pesos in the second quarter.

Its shares are up around 51 percent this year at 39 pesos, compared to a rise of about 28 percent for the IPC benchmark stock index . Elektra's American depositary receipts in New York are trading at about \$14, the highest since October.

Azteca built on Elektra's experience selling appliances like washing machines, stereos and cell phones on credit. Bank branches opened in Elektra stores and Monroy, like most Azteca employees, moved over from Elektra's credit department.

What's new is the hand-held computer technology, fully implemented in April, which saves time and frees up loan officers to make more client visits.

Their salaries are based on the size of their credit portfolios and on loan repayment rates, an incentive to keep accounts current.

The bank's business model fits Elektra's strategy of targeting low-income Mexicans -- those earning less than \$850 a month. Accounts start at 50 pesos, about \$5, well below minimum balances at Mexico's big banks.

"Of course they want to save, but if no one will accept their 500 pesos how can they?" Azteca's Director Carlos Septien said.