

Mexican billionaire banking on New York's poor

Ricardo Salinas Pliego, who wants to extend his Grupo Salinas to New York, would need approval for his bank's 60% to 80% interest rates on small loans

By Jeremy Smerd

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Mexican businessman Ricardo Salinas Pliego wants to extend his banking empire to New York. But consumer advocates and bank regulators may balk at the interest rates the billionaire charges.

Mr. Salinas, whose Grupo Salinas owns Banco Azteca, would need a charter and will have to persuade the Legislature to allow the 60% to 80% interest rates his bank charges for small loans. State law prohibits lenders from charging more than 25%.

Mr. Salinas said high rates are necessary for tiny loans—his bank's 9 million outstanding loans average \$400 each—because administrative costs are the same as for large loans. Rate caps limit lending, he said.

“The do-gooders don't know this, but this is what happens,” he said. “The people who need a \$500 loan can't get it because it's illegal. So where do they go? To the sharks and the illegal economy. We see this all across Latin America.”

Sarah Ludwig, executive director of the Neighborhood Economic Development Advocacy Project, said, “There's a way to meet the credit needs of low-income people without gouging them.”

Consumer groups have beaten back previous efforts by banks and check-cashers to offer high-interest loans, she said.

Mr. Salinas takes pride in what he calls his bank's back-to-basics approach. Rather than charging depositors fees, it relies on making loans, which borrowers most often use for medical care or business expenses. He said banks like his could create competition for low-dollar customers, though given the fixed costs, interest rates could come down only so far.

“This is the traditional banking model,” he said. “Not speculation in bonds. Not derivatives. Not huge loans that go south and kill the balance sheet.”

Banco Azteca's 8,000 loan officers travel the countryside on motorcycle to collect on loans, only 3% of which are delinquent. Mr. Salinas has yet to meet with regulators at the state's Department of Financial Services but has hired uberlobbyist Pat Lynch.

“This must be a good deal because we've got 9 million customers,” he said.

But given the public's wariness toward banks these days, state legislators are unlikely to lift the cap on interest rates and let the open market determine how much banks can charge.

“I don't know if people will go for an 80% interest rate. That's just crazy,” said Monica Arias Miranda, president and CEO of Hispanic Coalition New York. “I get what he's saying, but it's not realistic.”

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