

Banorte grants the first rated structured loan to a city government

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Navojoa, Sonora, July 7, 2005. Grupo Financiero Banorte announced today the first rated structured bank loan to a City Government in the Mexican financial system. The funds will be used to restructure the City's public debt contracted in UDIS.

The operation enabled the city of Navojoa, Sonora to receive Ps 96 million from Banorte, with an increasing amortizations profile, for a 15-year term and various features that allow the municipal government to substantially reduce the current financial cost of liabilities payments and consequently, greater budget flexibility in the future.

To service this loan an Administrative and Payment Source Trust was set up, from which the monthly payment will be taken. Such payment will be either the equivalent sum of the 33% of federal contributions or two million pesos, whichever is higher.

The loan structure is reinforced with a 4 percent reserve fund over the outstanding balance to cover possible contingencies, and contemplates a 20% cap for the next 5 years to control the risk of an extraordinary increase in interest rates, by contracting a credit derivative.

Navojoa has a rating of "BBB(mex)" given by Standard & Poor's and Fitch Rating, while the loan structure rating, once it was evaluated, was "A+(mex)" - a 4-level improvement over the city's debt rating.

The Government of the State of Sonora, which successfully restructured its debt with a similar scheme late last year, provided counseling in structuring the operation.

This operation is also useful to create a new way to access the bank financing market for which city governments do not currently have the proper credit rating to finance their productive public works or to refinance their debts in an effort to reduce financial costs.