

**IPE Case 3: Who'll Pay the Mortgage?
Argentina and the IMF**

The Homes of Argentines Are at Risk in I.M.F. Talks

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BUENOS AIRES, June 22 -- After a decade as renters, Ariel and Norma Brofman were finally able to buy a small house here four years ago. But if the Argentine government yields to International Monetary Fund pressure to rescind emergency legislation meant to protect ordinary families like the Brofmans, the couple stand to lose their home and the \$32,000 they have paid for it so far.

Like other middle-class Argentines, the Brofmans, whose household includes their two daughters, aged 9 and 13, and their widowed mothers, were severely battered by the collapse of the economy here last year. In just a few months, Mr. Brofman lost his job as an electronics technician, exhausted his scant savings and fell behind on the monthly \$555 mortgage payment on their two-bedroom, 1,000-square-foot house.

"We did not create this situation," said Mr. Brofman, 38, who now tries to make ends meet by repairing cellular telephones. "The rules of the game were changed on us from one day to the next, and we were hoping the government would take steps to defend us until this country is back on its feet and we can begin paying again."

So nearly a year ago, at the peak of the crisis, the Argentine Congress approved a bill that suspended mortgage foreclosures for 90 days on homes that were a family's "sole and permanent residence." That law has since been renewed three times, but will expire in August unless Congress extends it again.

It has, however, brought the Argentine government into conflict with the I.M.F., whose managing director, Horst Kohler, is scheduled to arrive here Monday for a two-day visit. Though Argentina now has a budget surplus and has taken numerous other steps urged by the I.M.F., government officials say that the fund is insisting that the freeze on foreclosures be lifted as a pre-condition for any comprehensive agreement.

In January, the fund agreed to reschedule payment of nearly \$7 billion that it was owed by Argentina. But that accord expires in August, around the same time as the mortgage foreclosure bill. The new president here, Néstor Kirchner, who took office late last month, wants to negotiate a long-term agreement with the fund that would restore credit lines and bring back the foreign investors who fled the country when the economy imploded.

Other issues are also on the table in the negotiations, including an even larger

government budget surplus and the end of a freeze on utility rate increases. But the foreclosure issue is the most politically explosive for Mr. Kirchner and has come to symbolize for many Argentines what they consider to be the I.M.F.'s intrusive and callous attitude.

Most mortgages here were contracted in the 1990's, when the Argentine peso was linked to the American dollar at a value of one to one as part of a policy intended to end Argentina's chronic four-digit annual inflation rate and attract investment. But that system collapsed early last year after the I.M.F. suspended Argentina's credit line, complaining, among other things, that the country had not fulfilled agreements to slash government spending. The government then in power here defaulted on most of its \$141 billion in public debt. Several months of financial chaos ensued.

Bank accounts, many of which were denominated in dollars, were frozen by government decree. For a time, banks suspended normal operations. As a result, many debtors did not have access to the money they needed to meet their obligations, and when the freeze was eased, they found that their dollar assets had been converted into pesos, which had lost more than 70 percent of their value against the dollar.

The Argentine Debtors' Association, a group that represents mortgage holders, calculates that as many as 40 percent of the estimated 5.5 million households with bank mortgage loans have fallen behind on their payments. That compares with just over 10 percent at the end of 2001, before the freeze on bank accounts and the crisis that shrank the economy by more than 10 percent last year.

Estimates vary on the number of homeowners against whom foreclosure procedures have begun and who theoretically would face evictions the day after the protective legislation is revoked. Statistics from the Central Bank suggest that 22,000 mortgage holders are in that category, though bank associations say the actual numbers are lower.

"We want to pay what we owe because we are working people, honest people," said Hilda Gumprich, a leader of the debtors group. "But it is not right that the same I.M.F. that remained silent when our savings were stolen from us is now pushing to have us thrown out of our homes."

The I.M.F. representative here, John Dodsworth, was not available to provide an on-the-record response. In a written message, an I.M.F. spokesman in Washington, Francisco Baker, said that a mission sent here early this month was trying to "quantify the scope of the stay and discuss the issue with the authorities" here, but that "we have nothing to add at this point."

But free-market advocates here who approve of the I.M.F.'s position argue that the foreclosures are necessary to guarantee investors and other creditors what they call "judicial security." The sanctity of contracts must be protected, they argue, and, unlike a natural disaster, the financial upheaval that has swept up homeowners here does not

constitute a force majeure.

"How can a market economy function without an adequate degree of contractual certainty?" asked Juan Luis Bour, the director of the Foundation for Latin American Economic Research, a leading business consultancy here. "For the past two years it has been difficult to enter into a contract here because you can't be sure that the terms can be enforced in a court if they are broken."

But even many of the banks that are presumed to be the main beneficiaries of mortgage foreclosures say they oppose so drastic an approach. While they have stopped issuing new mortgages, they are on record as favoring a system of mediation that would allow debtors to renegotiate their repayments on more favorable terms.

"This country is still in a state of emergency, and we have to recognize and adjust to that," said Carlos Heller, president of the Argentine Association of Private and Public Banks, which represents domestically owned banks here. "This crisis has severely damaged the image of banks in Argentine society, and the only way to regain that confidence is with policies that are flexible and tailored to individual cases."

Banks appear to be especially fearful of a flood of repossessed properties coming onto the market when the economy here is still reeling and demand is depressed. That would lower real estate values even further, hurt the banks' bottom lines and leave them with a stock of unsellable houses and apartments that they would have to maintain at their own cost.

President Kirchner has expressed sympathy for the mortgage holders. "Judicial security should be for everyone, not just those who have power or money," he said in his inaugural address on May 25. On a popular television program last month, he also said that he would "try to find a just and equitable solution" to the problem.

Meanwhile, the Brofmans and others like them can only wait and hope. The terms of their mortgage prohibit them from selling their house, which has lost nearly half its value as a result of the crisis.

"For the past 18 months, we haven't been able to get a proper night's sleep because we worry so much about this," Mrs. Brofman said. "The girls are afraid we will have no place to live, and are always asking, 'What is going to happen to us? Where will we go?' We feel impotent, and we are in agony."

