



MORTGAGE LENDING IN MEXICO

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February 2009

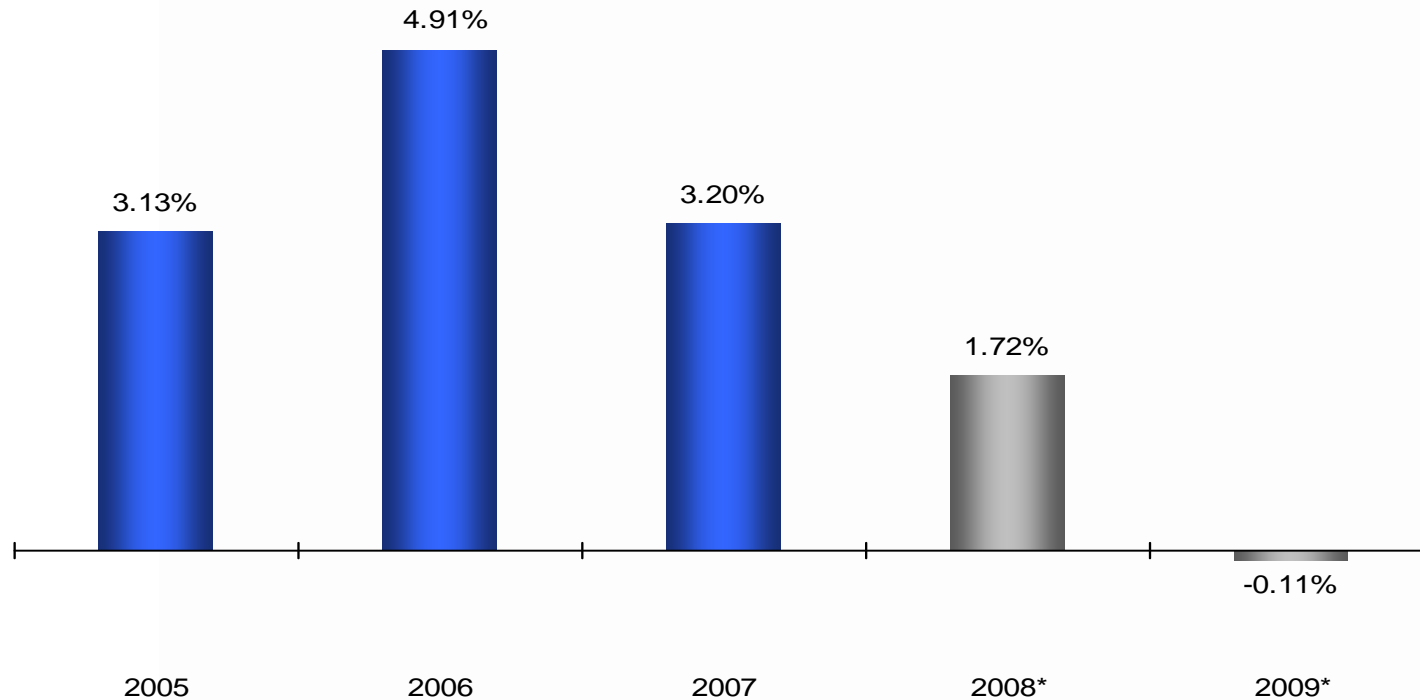


Content

- Economy and Financing
- Mortgage Market in Mexico
- Perspectives and Conclusions

In Mexico, the economic slowdown is reflecting the effects of the global crisis.

Mexico Real GDP – Annual Growth

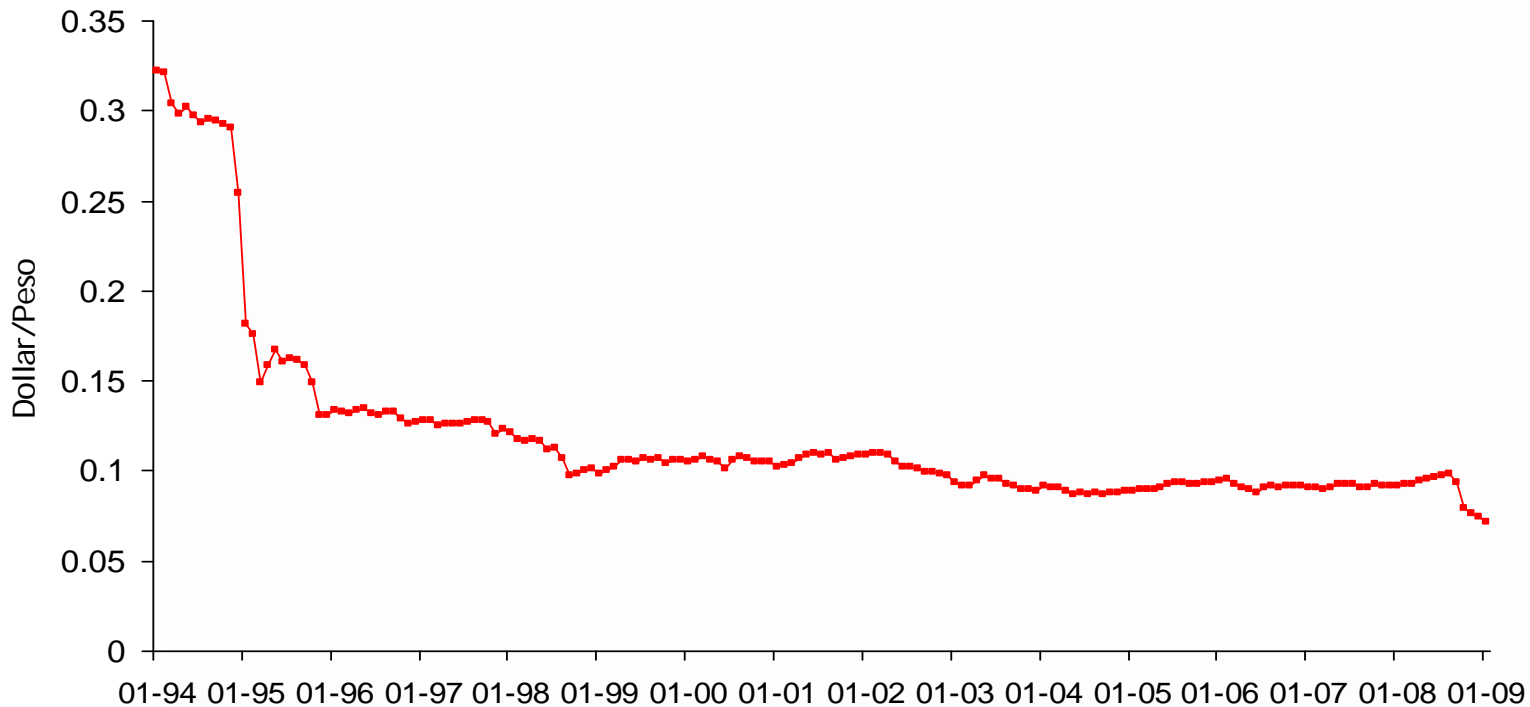


Source: INEGI
<http://dgcnesyp.inegi.gob.mx/cgi-win/bdieintsi.exe/NIVA10010000100070#ARBOL>

* Projections: BANXICO's Survey of the Expectations of Private Sector Economic Specialists (December 2008).

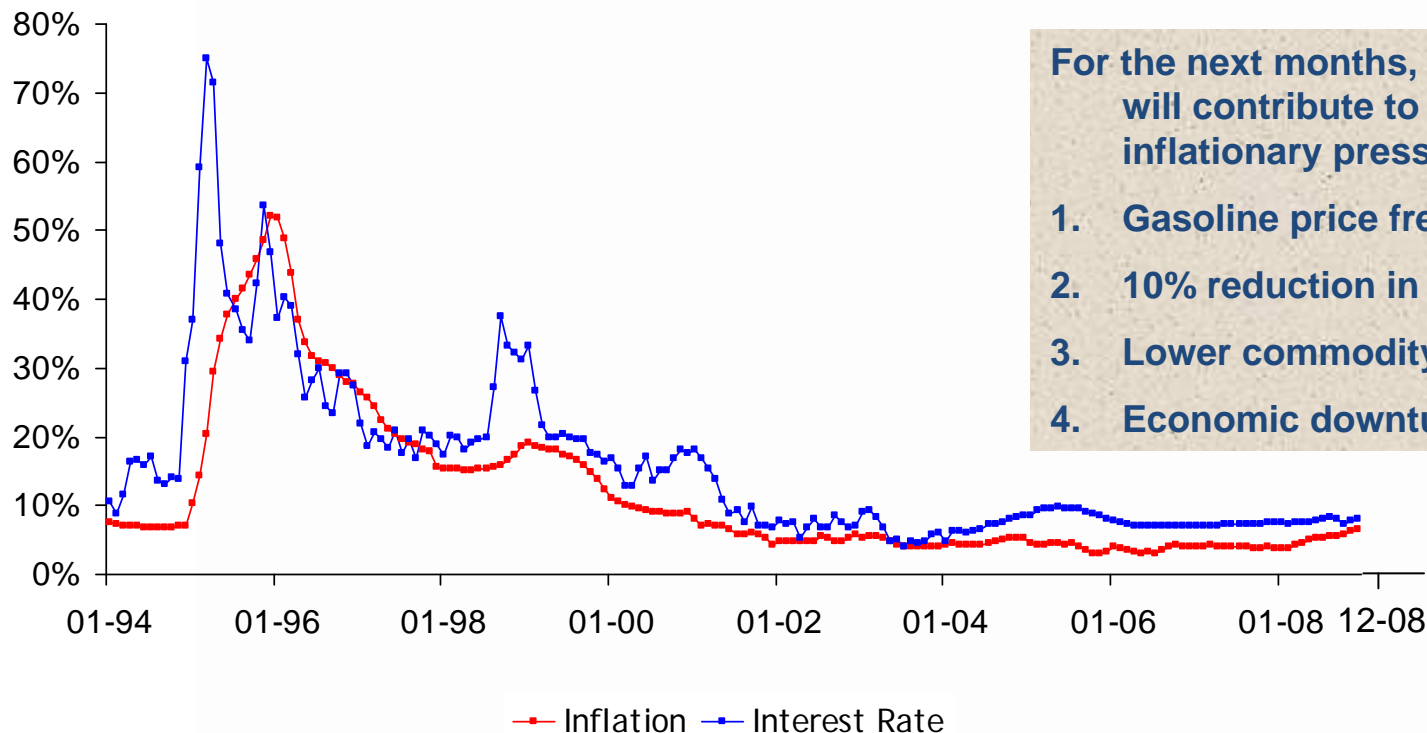
The exchange rate has reacted to the higher risk aversion, but has added competitiveness to Mexico

Exchange Rate



The inflation increase is a result of the upward trend of commodity prices and the increase of gasoline prices.

Inflation and Interest Rate (CETES 28 days)



For the next months, several factors will contribute to lowering inflationary pressures:

1. Gasoline price freeze (regulated)
2. 10% reduction in the price of gas
3. Lower commodity prices
4. Economic downturn

Source: BANXICO

<http://www.banxico/polmoneinflacion/estadisticas/indicesPrecios/indicesPreciosConsumidor.html> and

<http://www.banxico/polmoneinflacion/estadisticas/tasasInteres/tasasInteres.html>

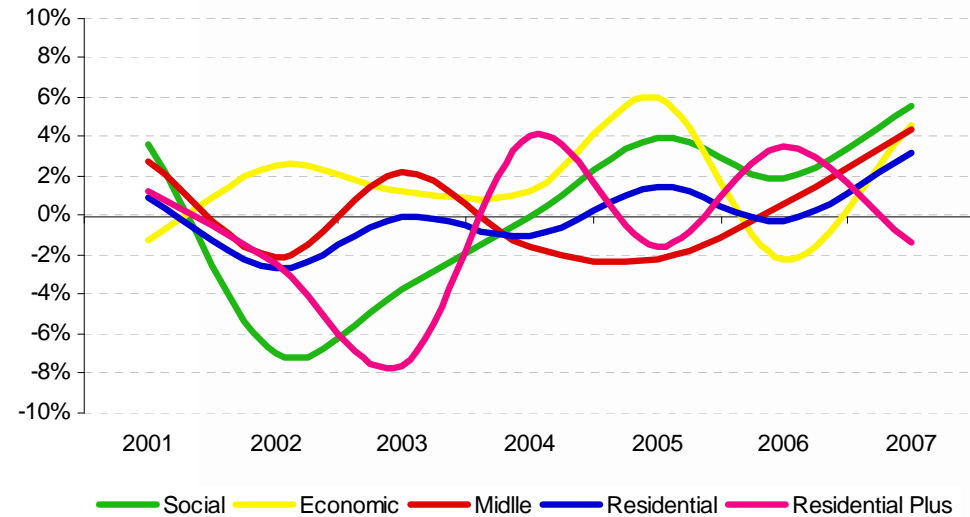


Vivir Mejor

Housing prices in México have experienced a reasonable growth, therefore we do not expect a material price drop.

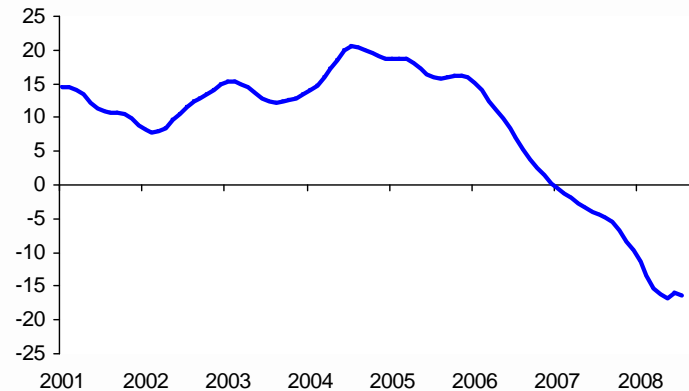
Housing Prices in Mexico

Annual Real Growth



Housing Prices in US

S&P/Case-Shiller Home Price Index Annual Growth

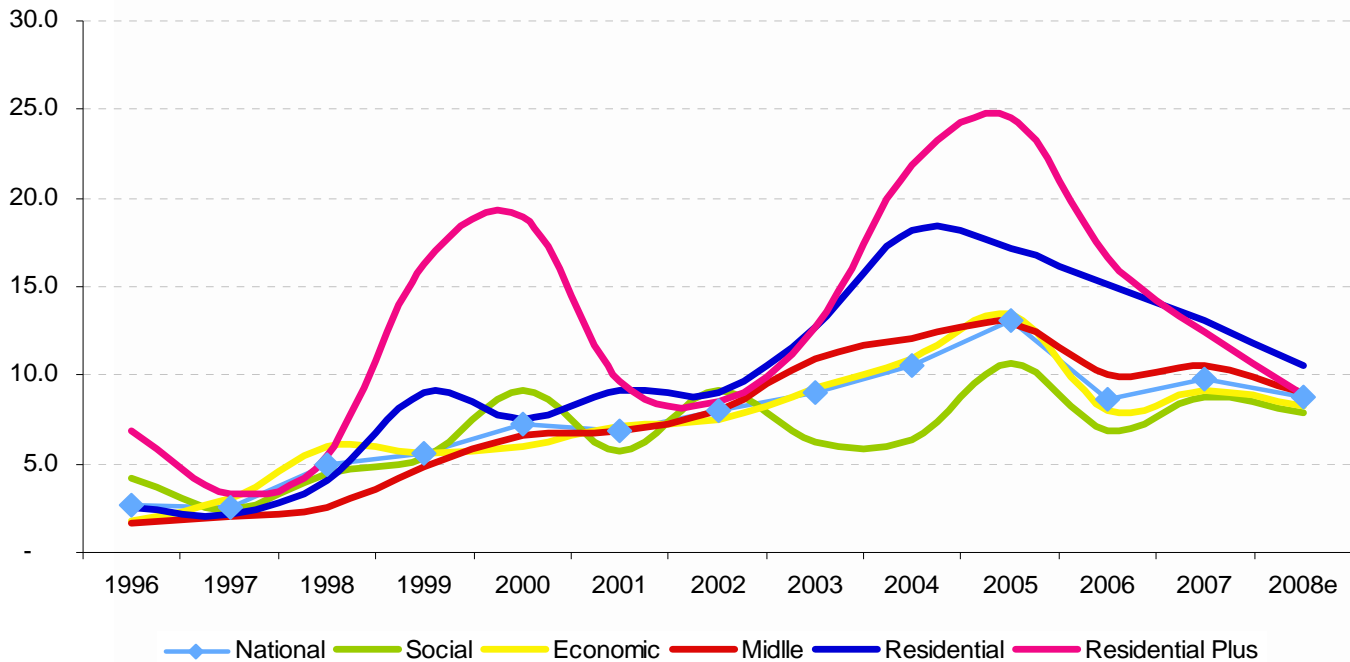


Source: Softec y Bloomberg

There is no oversupply of new housing. Industry forecasts inventory will be below 6 months by mid 2009

Inventory by Segment

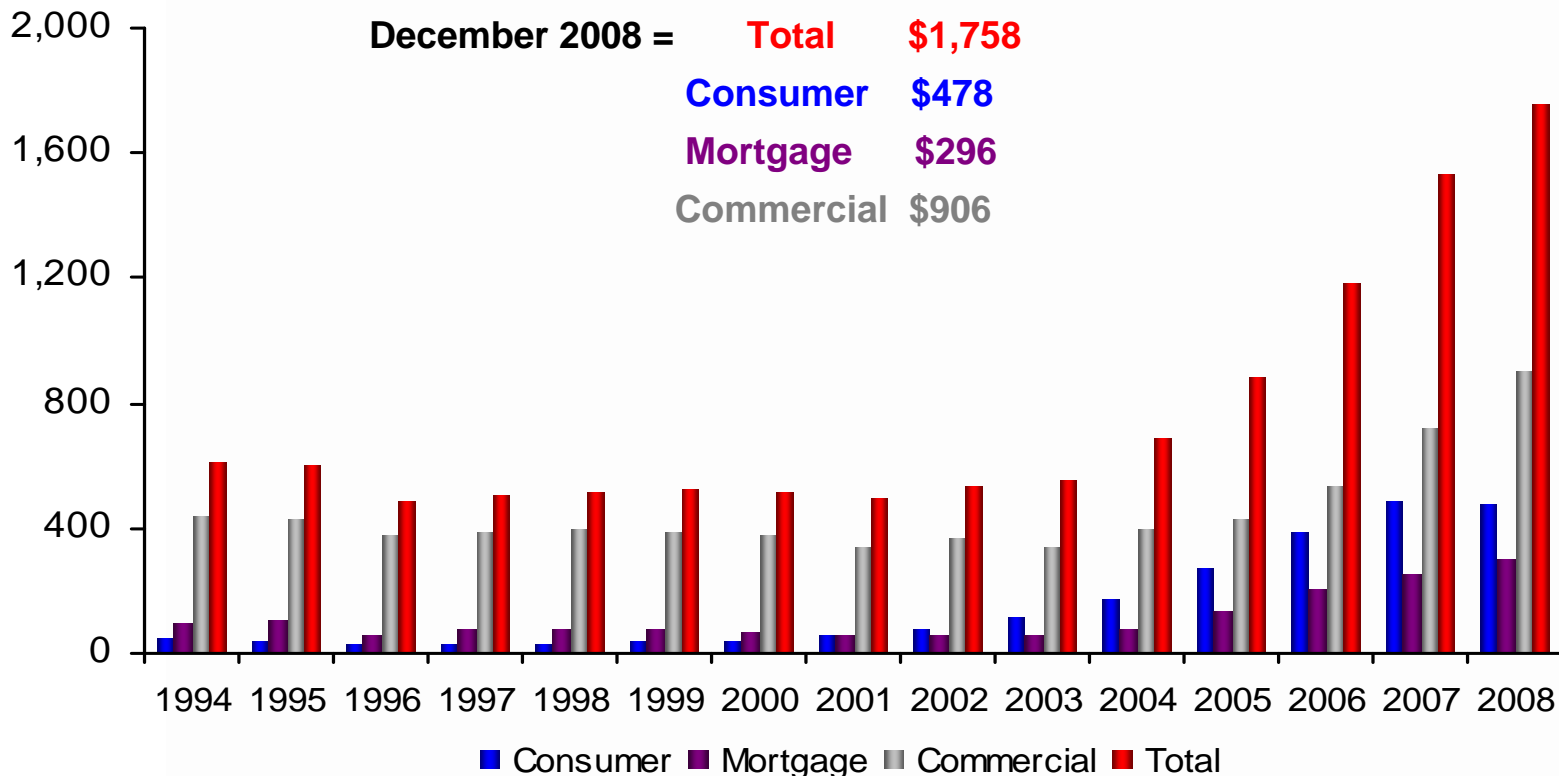
Housing Inventory



This fact support that the prices do not fall in the next months.

Banks have taken a conservative approach since early 2008.

Direct Financing from Banks: Total Loans Billions of Pesos

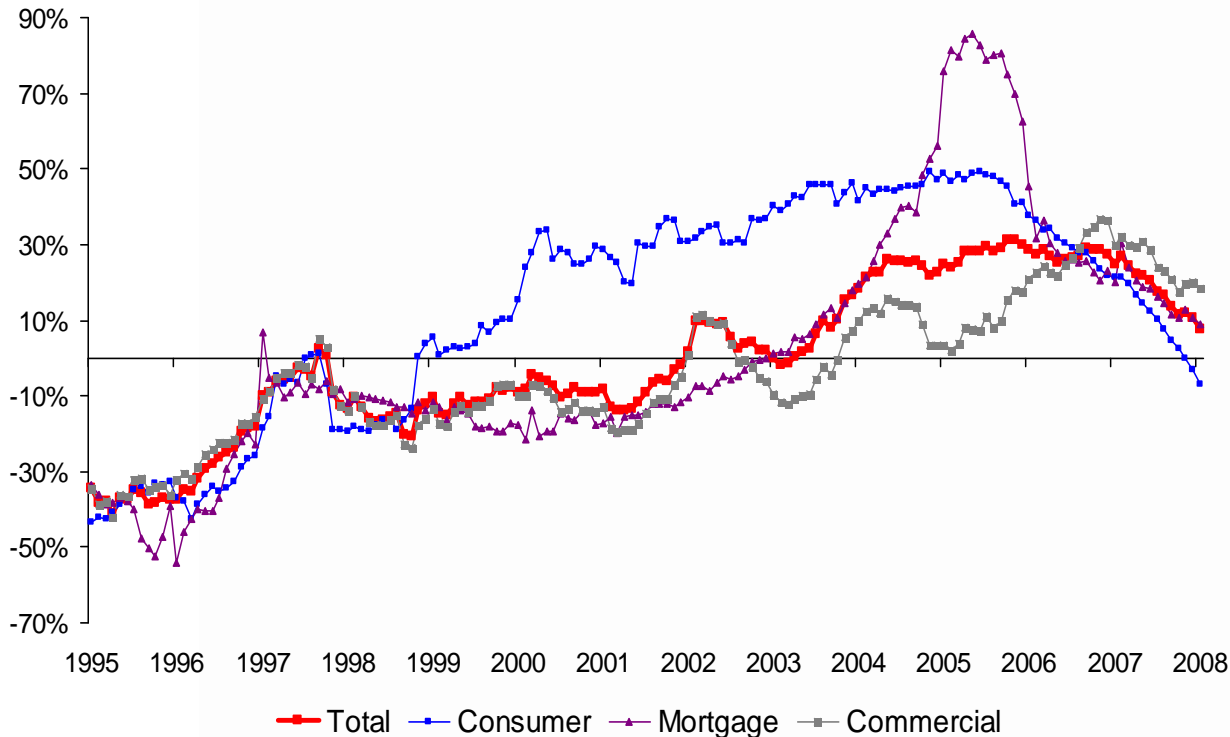


Particularly, consumer credit has registered a slowdown during the last months.

Direct Financing from Banks: Total Loans

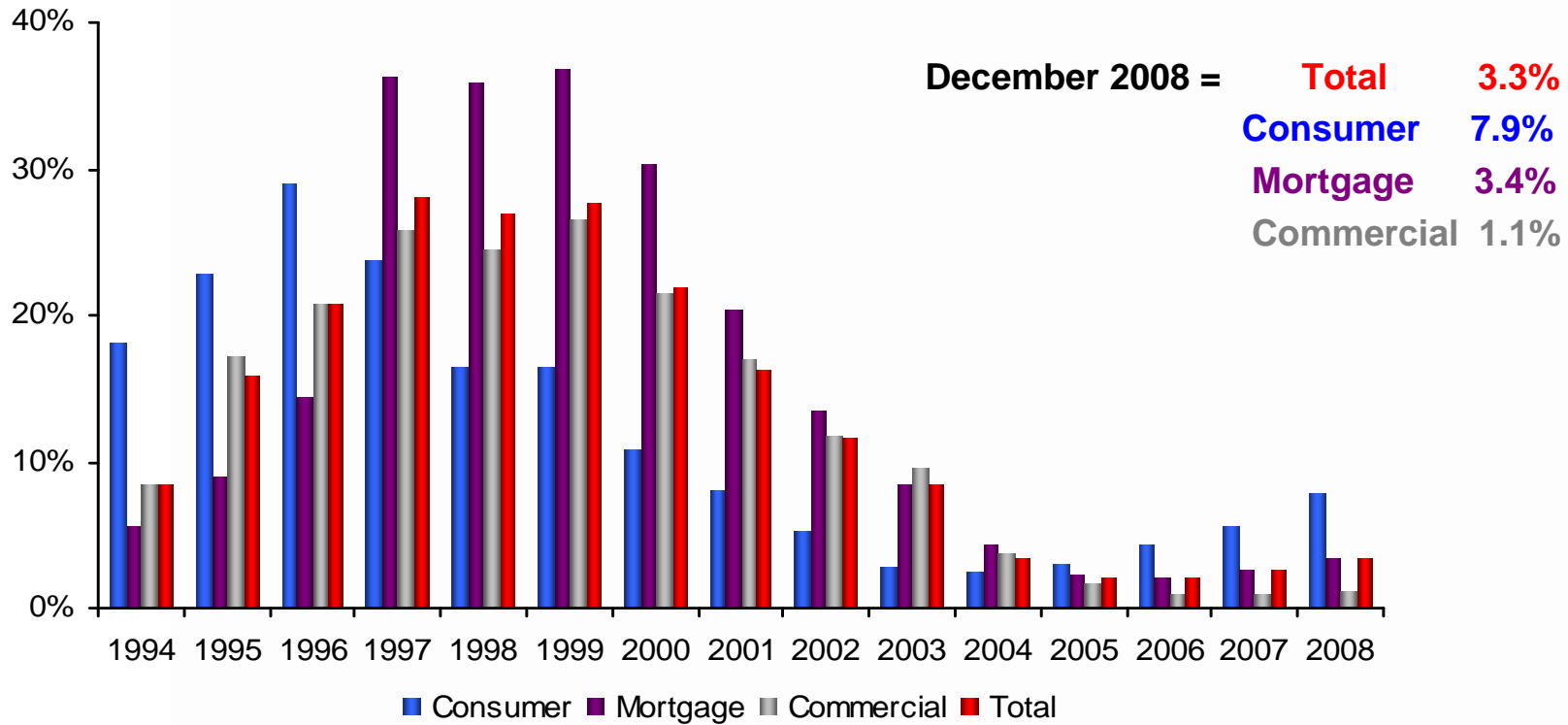
Annual real percentage change

December 2008 =	Total	7.6%
	Consumer	-7.1%
	Mortgage	9.0%
	Commercial	18.4%



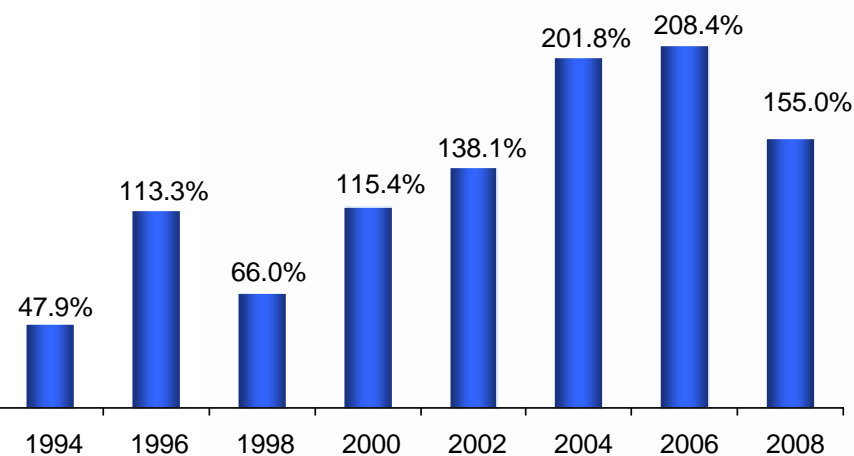
Nonperforming loans are gradually growing, due to increased consumer debt, unemployment and economic slow down.

Nonperforming Loans / Total Loans



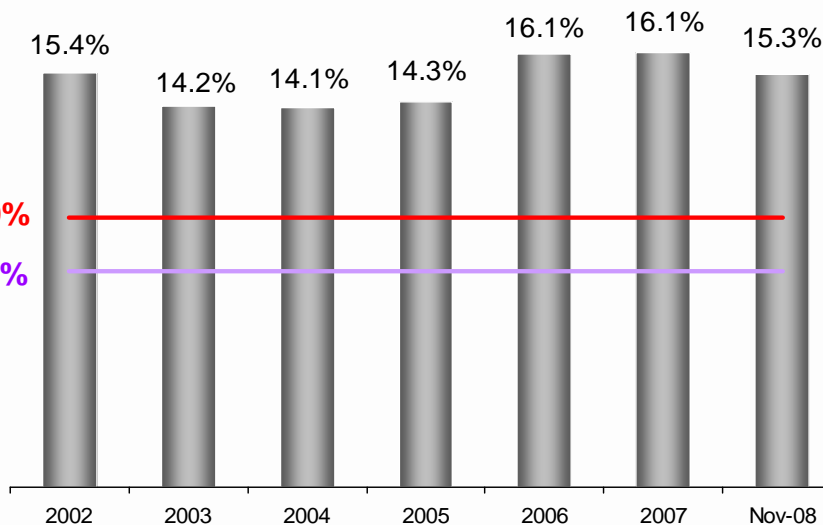
The Mexican banking sector remains solid and is prepared to confront a less favorable economic environment.

Provisions for Nonperforming Loans



Early Warnings CNBV 10%
Minimum BIS 8%

Capitalization Ratio



Content

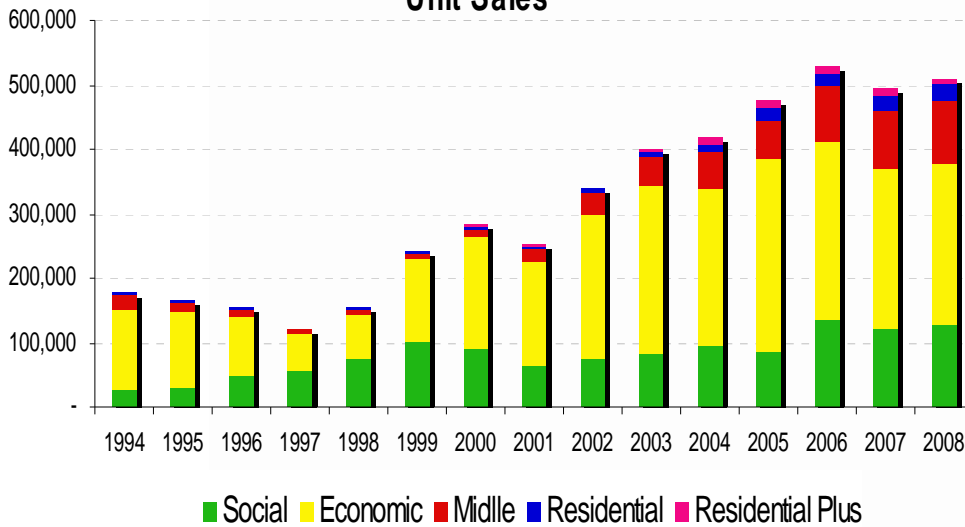
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Mexican housing market has been stable in the last three years

Market Sales by segment

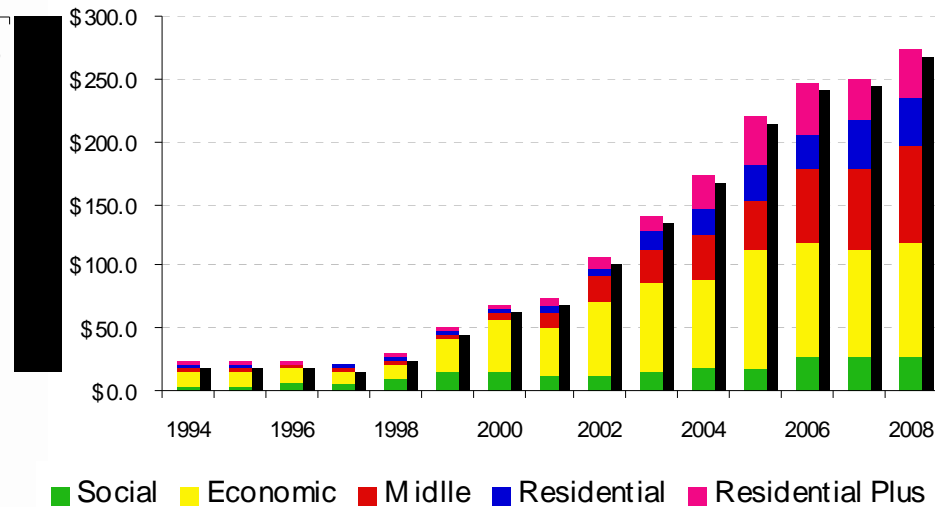
New homes built and sold by developers

Unit Sales



+3% 2007 - 2008

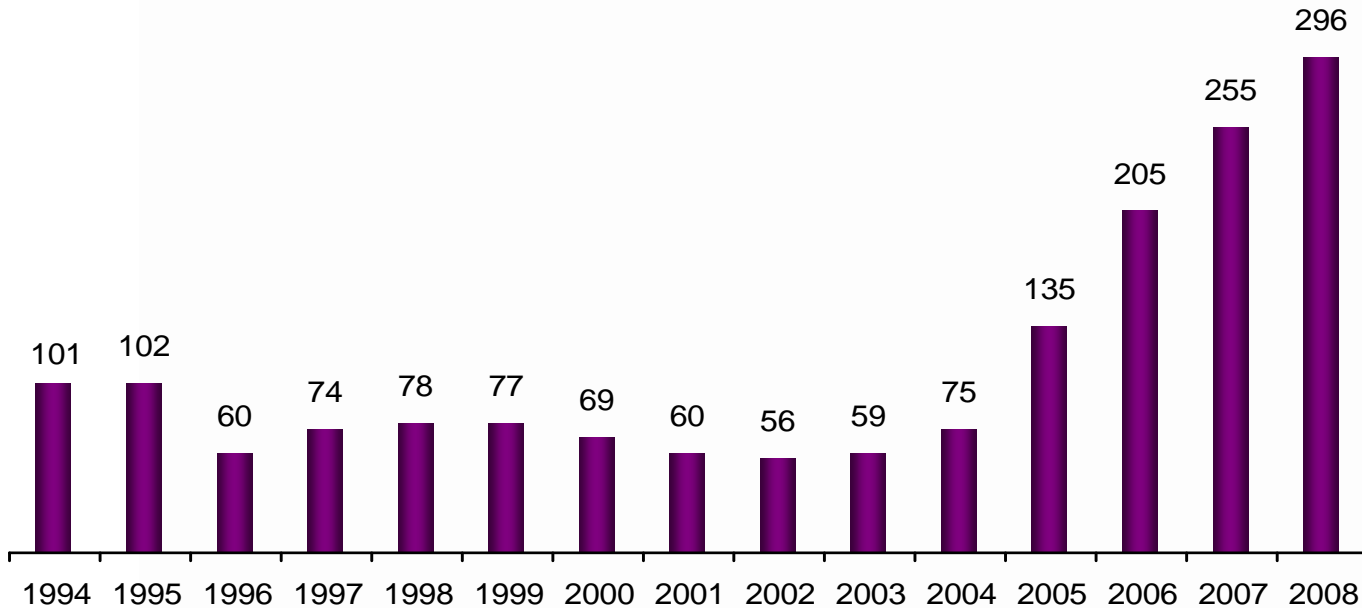
Sales Pesos\$



+9% 2007 - 2008

For 2009, Banks are able to fund similar levels of mortgage credit as in 2008.

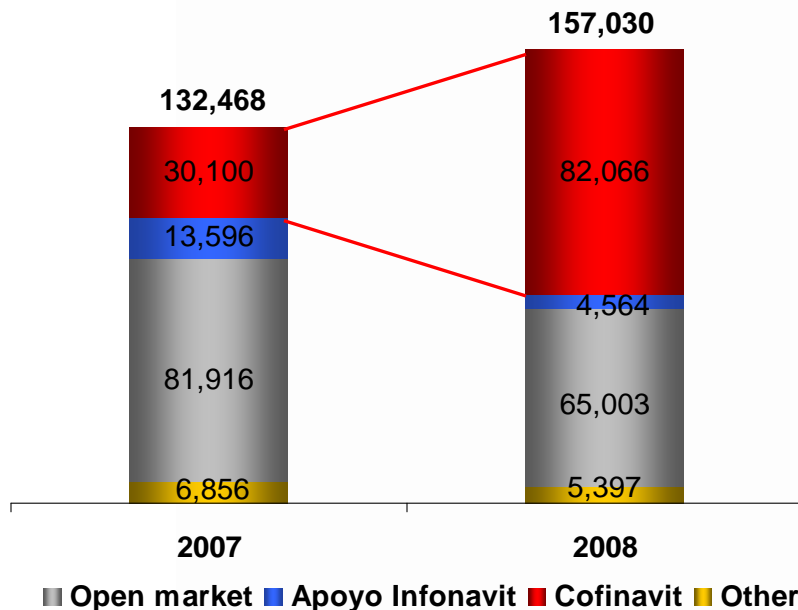
New Mortgage Loans by Banks Billions of Pesos



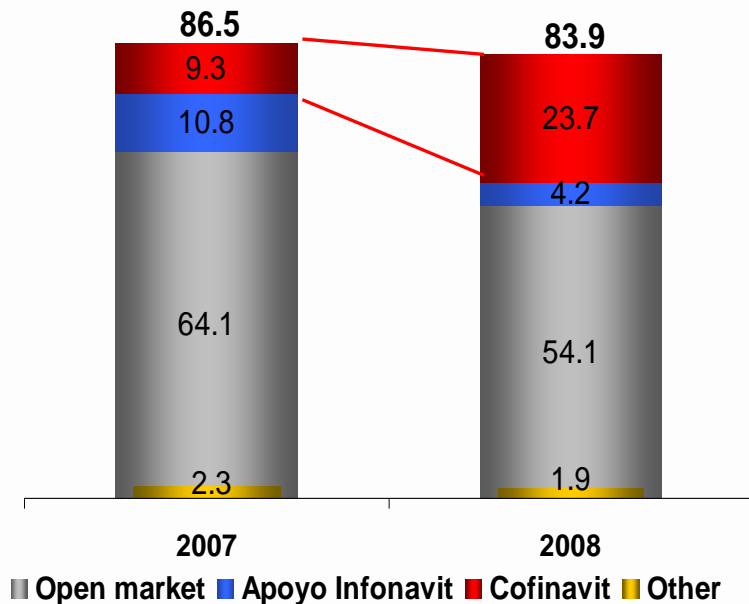
INFONAVIT Co-Financing represented a more significant share of Bank mortgage portfolios in 2008.

Mortgage Loans by Product

Number of loans

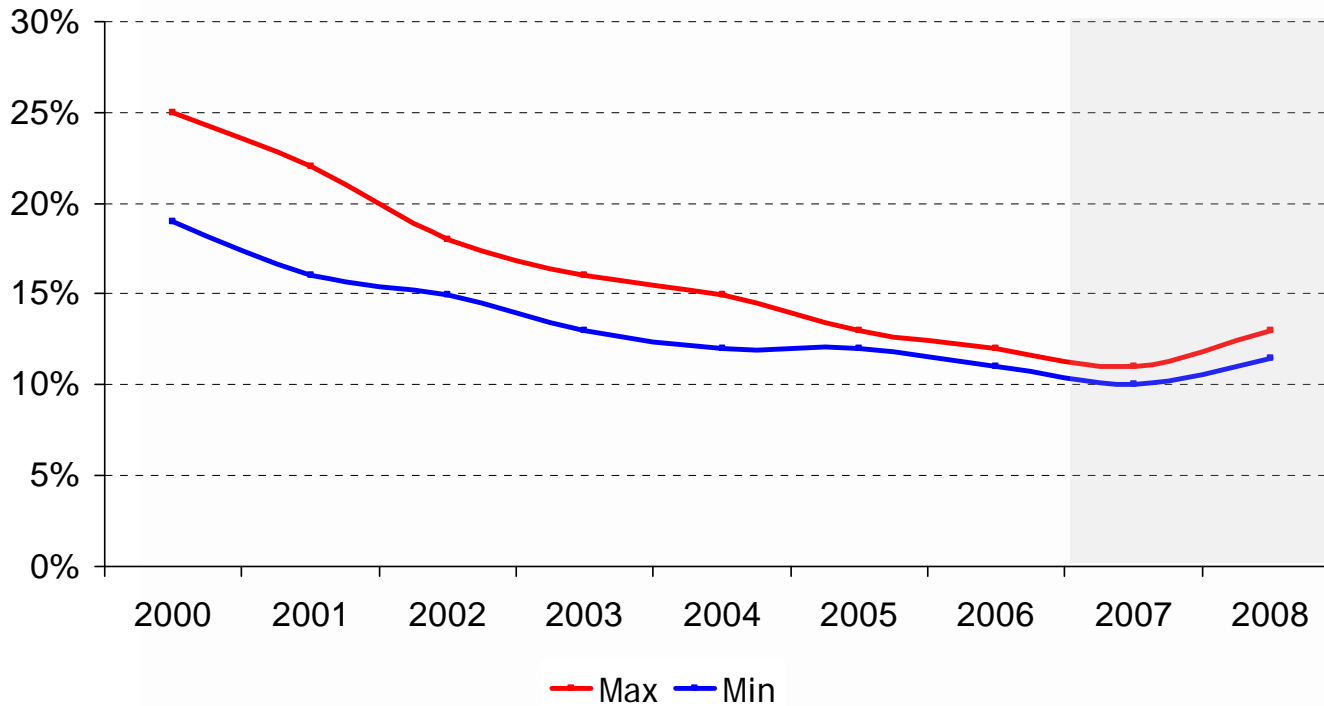


Billions of pesos



Favorable interest rate conditions for mortgage loans remain

Interest Rates –Mortgage Loans



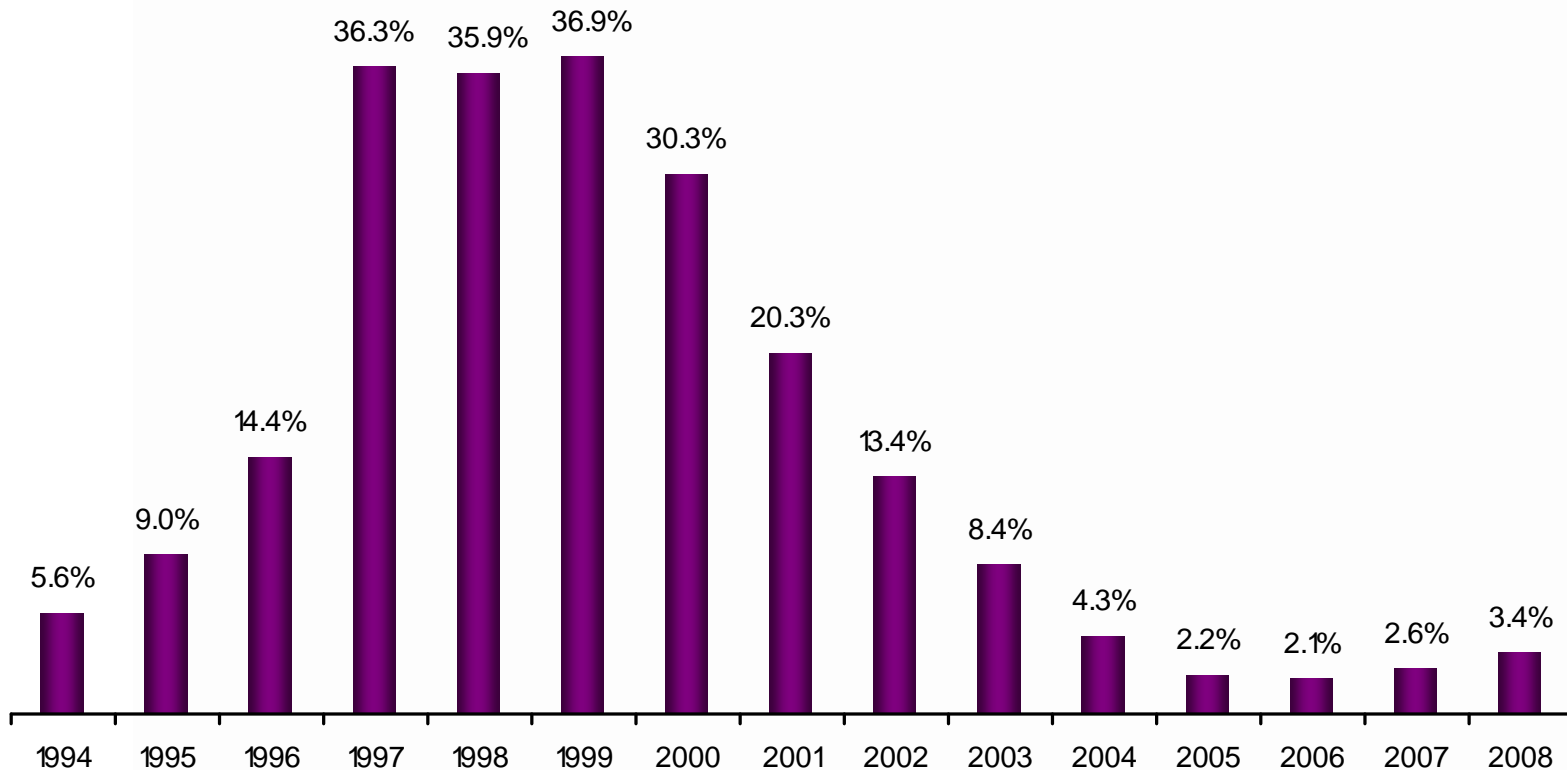
Banks have adjusted credit policies to mitigate incremental credit risk.

	2000	2008	2009	
<i>Interest rate</i>	Variable	Fixed	Fixed	
<i>Up front fees</i>	6%	3%-0%	3%-0%	
<i>Term</i>	10-15 yrs	Up to 30 yrs	Up to 30 yrs	
<i>Products</i>	Acquisition	All uses	All uses	<ul style="list-style-type: none"> ➤ Acquisition ➤ Substitution ➤ Construction ➤ Remodeling ➤ Co-financing INFONAVIT, FOVISSSTE ➤ 2nd Home ➤ Home Equity
<i>Payment pesos per thousand</i>	\$22.0	\$9.5-\$11.0	\$10.5-\$12.0	
<i>Down payment</i>	+35%	0%-20%	10%-20%	
<i>Unemployment insurance</i>	No	Yes	Yes	
<i>Interests tax deduction</i>	No	Yes	Yes	



Loan delinquency rates show gradual increase.

Nonperforming Loans / Total Loans



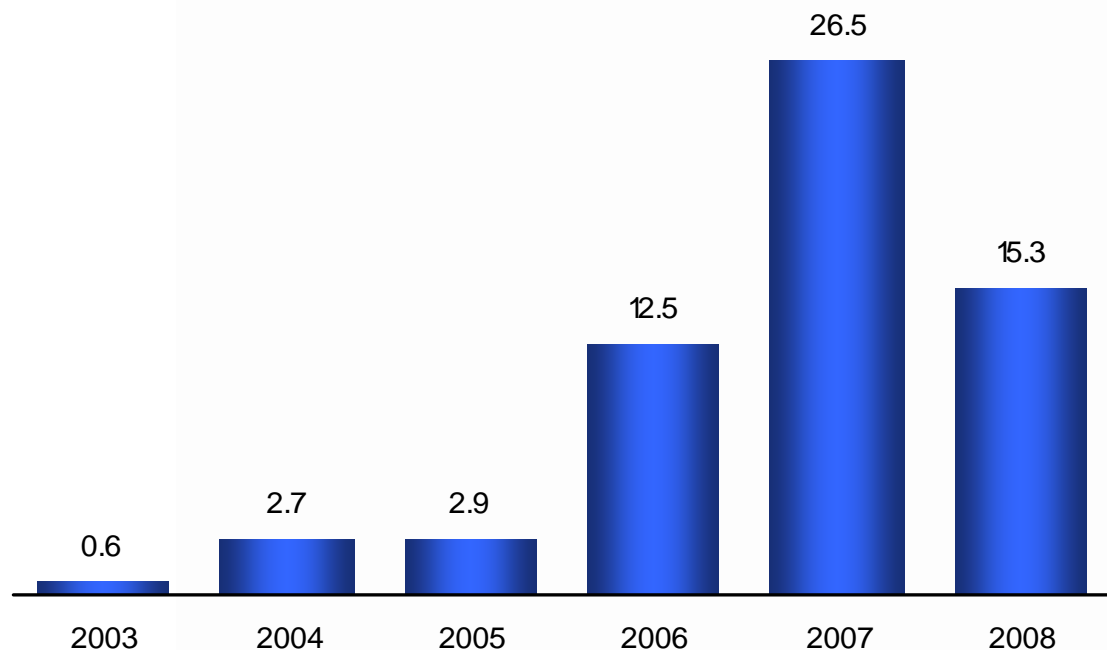
Main aspects that caused the mortgage crisis are not present in the Mexican market.

Aspect	Description
Housing Market	<ul style="list-style-type: none"> • Stable prices • No oversupply
Credit	<ul style="list-style-type: none"> • Detailed credit/risk analysis • Full documentation and proof of income (Stated Income not accepted) • Mandatory Credit Bureau report • Moderate LTV / Down payment required
Non Toxic Products	<ul style="list-style-type: none"> • Most credits are for 1st home acquisition • Fixed rates (No ARM, IO or Neg-Am) • Home Equity Loans at max. 50% LTV (less than 5% of total portfolio). No 2nd Mortgages.
Customer Insurance	<ul style="list-style-type: none"> • Mandatory Life and Property Insurance. • Unemployment Insurance in recent loans is common.
Responsible Securitization	<ul style="list-style-type: none"> • SHF standards. • Mortgage loans which support securitization have a healthy profile and maintain skin in the game from the issuer.

Global financial crisis has affected securitizations, however, we expect these effects to be temporary.

Residential Mortgage Backed Securities (BORHIS)

Billions of Pesos



Even though securitization environment for 2009 is uncertain, banking system has sufficient funding and capital to support new loans for 2009.

Source: ABM with SHF's data.

Note: Doesn't includes INFONAVIT and FOVISSSTE.

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There are some factors that could slow down the mortgage market.

WEAKNESSES:

- Mexico is highly dependent on US economic factors
- Unequal distribution of wealth
- Insufficient infrastructure
- Legal uncertainty in some states / Slow foreclosure procedures
- Delay in modernizing Public Property Registries
- Poor urban planning
- Public Safety

THREATS:

- Negative impact of the world financial crisis
- Significant concentration of nonperforming loans in some states.
- Delinquency associated with certain occupations and origination channels (developers/referral sources)
- Potential over regulation
- Groups refusing to pay or demanding payment relief (electoral year)

...however, there are factors that support the Mexican mortgage market.

STRENGTHS:

- Banking sector using prudent credit policies
- Availability of resources despite the limited capacity to securitize
- Government housing counter-cyclical strategy (6 million credits from 2006 to 2012)
Housing Industry is an internal economic engine.
- Infrastructure spending starting in early 2009.
- Government infrastructure policies (US\$40 billion average annual investment)
- Healthy public finances

OPPORTUNITIES:

- Demographic bonus (38% of our population is between 20 and 45 years old)
- 5 million unit housing deficit / demand of 700,000 units annually
- Housing demand will motivate construction sector
- Existing homes segment still under-attended by most lenders
- Modernization and increased transparency of FOVISSSTE
- INFONAVIT partnership with mortgage lenders
- CONAVI subsidy programs (US\$385 million for 2009)



The Mexican Banks are committed with their customers and with the future of Mexico

In order to support the situation individuals and corporations are facing, the Mexican banking system is committed to:

1. Offer restructure and relief programs for our borrowers suffering from unemployment or solvency problems (term extensions, interest rate reductions, frozen payments (subject to payment capacity)).
2. Promote incentives for timely payments.
3. Maintain availability of credit for all feasible applicants:

Expected Credit Portfolio growth for 2009

Total portfolio	6.5% to 8.0%
Consumer	- 2.0% to 1.0%
Mortgage	7.5% to 9.5% = 120,000 loans
Commercial	10.5% to 12.5%
Small Businesses	15.0% to 20.0%

In 2009, the Mexican Banking System will disburse from \$114 to 140 billion pesos in new loans