

Mexican Housing Day 2009

Mortgage Market in Mexico: Evolution, Strategy and Challenges Ahead

February 09



Vivir Mejor

Contents

- I. **Background**
- II. SHF's Role in the housing market
- III. Housing finance market evolution
 - a. Results of 2008
 - b. Perspectives for 2009
- IV. Final remarks

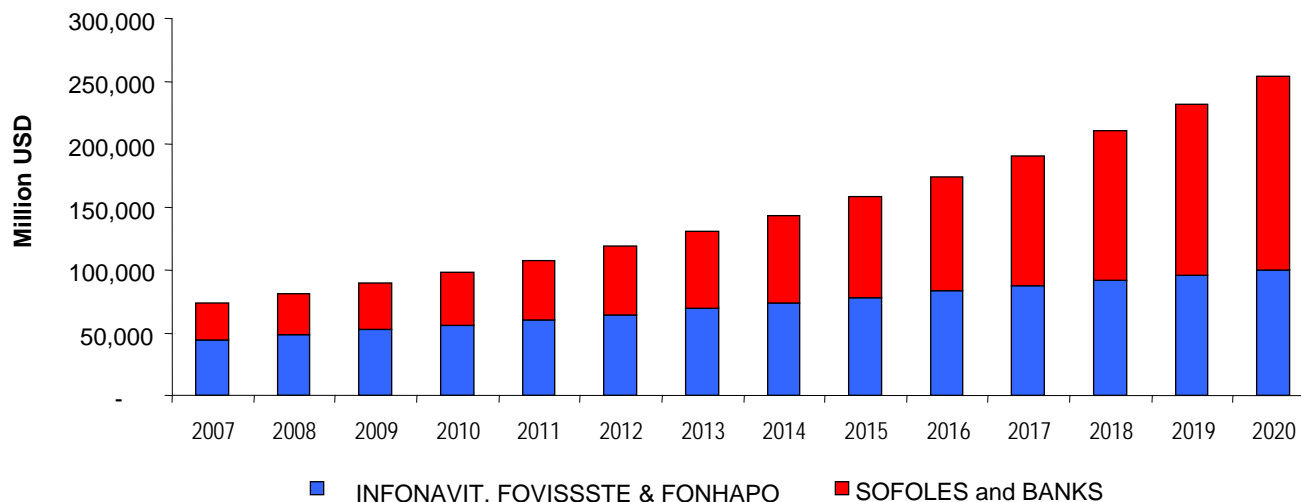


I. Background

Mexican Housing Market

- Taking into account the recent dynamics of the mortgage market and the projected demand for housing, SHF estimates that the mortgage outstanding will evolve from USD \$86,257 million USD in 2007 to USD \$254,209 million in 2020.

Mortgage Outstanding Balance in Mexico, 2007-2020



Assumptions:

- 2007: observed data. 2008: participation as of the third quarter.
- Average growth of portfolio is 10% per year, equivalent to the observed growth over the past 8 years.
- In 2020 the percentage of participation is equal to the registered figure in 2000, given a higher participation of Banks and Sofoles.
- Fixed exchange rate of \$12.8 MXP per USD, result of the average expected rate from different institutions for 2009, 2010 and 2011.

I. Background

Mexican Housing Market

- The flow of financial savings in the country will not suffice to finance the growth of mortgage portfolios. The sale of mortgage portfolios to domestic institutional investors as well as foreign investors is needed to maintain the growth of the mortgage sector.

ACCUMULATED NET FLOW NEEDED TO FINANCE



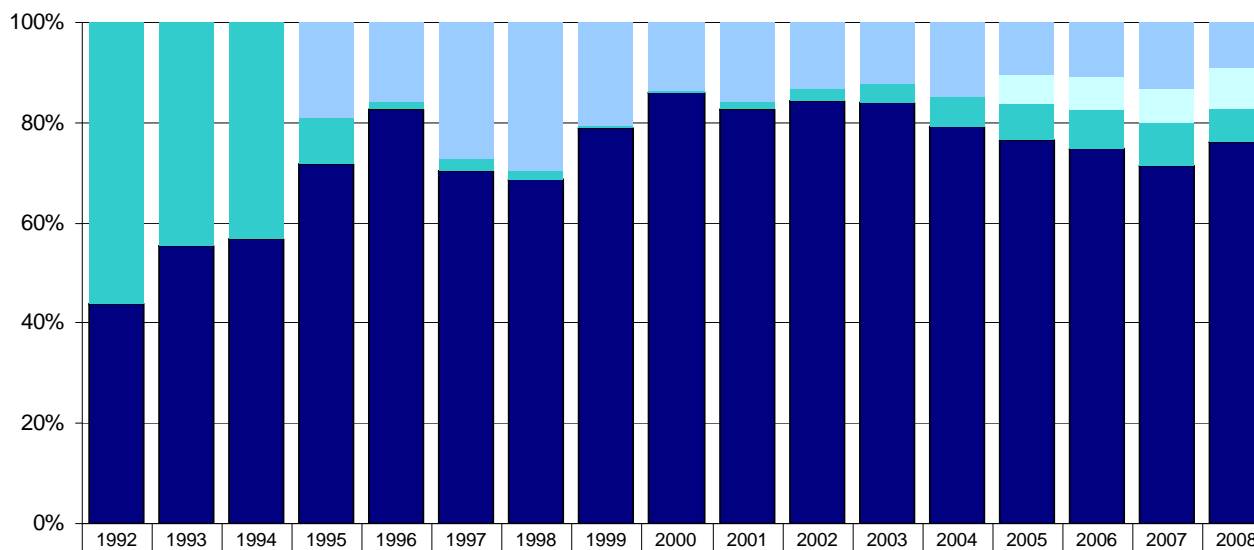
A challenge and opportunity in the mortgage market

I. Background

Mexican Housing Market

- From 2000 to 2007 the private sector, through banks and sofoles, increased its market share in housing finance in the mortgage market up to 26%. This trend was reversed in 2008 due to liquidity and credit restrictions.
- In order to have a balanced funding in the mortgage market, the private sector has to recover the previous trend.

Mortgage financing by type of institution (million pesos)



| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| SOFOLES | - | - | - | 35,662 | 25,318 | 46,688 | 55,425 | 59,118 | 46,704 | 47,555 | 47,186 | 56,122 | 73,637 | 61,685 | 84,792 | 105,35 | 72,483 |
| HIPOTECARIA NACIONAL | - | - | - | - | - | - | - | - | - | - | - | - | - | 35,320 | 51,104 | 53,130 | 65,335 |
| BANKS | 154,00 | 123,35 | 125,30 | 17,503 | 2,317 | 4,588 | 3,269 | 865 | 1,101 | 3,707 | 8,685 | 15,755 | 29,206 | 41,793 | 60,563 | 65,292 | 50,574 |
| PUBLIC | 119,64 | 152,96 | 163,89 | 134,65 | 131,66 | 121,19 | 129,48 | 225,72 | 294,12 | 244,54 | 303,91 | 381,03 | 391,28 | 453,48 | 581,29 | 562,18 | 605,00 |

I. Background

Foundations of the Mexican Housing Market: Demand

The Mexican population includes 26.5 million families:

- 17 million already own a proper house.
 - 4.5 million represents the population without a house.
 - In addition to the 4.5 million above, there are 5 million that do not have a proper house. These add up to 9.5 million families*.
 - Yearly out of 500,000 families 60% are able to demand a loan.
- There are 4 components that together generate the annual housing demand.

Estimation of the Housing Demand in 2009

| Components | 2009 |
|--|------------------|
| New Families /* | 294,735 |
| Families without a Proper House /** | 692,152 |
| Families Demanding a Better House | 69,418 |
| Families who Improved their Economic Situation and Can Demand a Loan Now | 20,585 |
| TOTAL | 1,076,890 |

•/ Enclose families who are able to obtain a loan due to their income level & geographic location

**/ Proper house: houses made of adequate materials

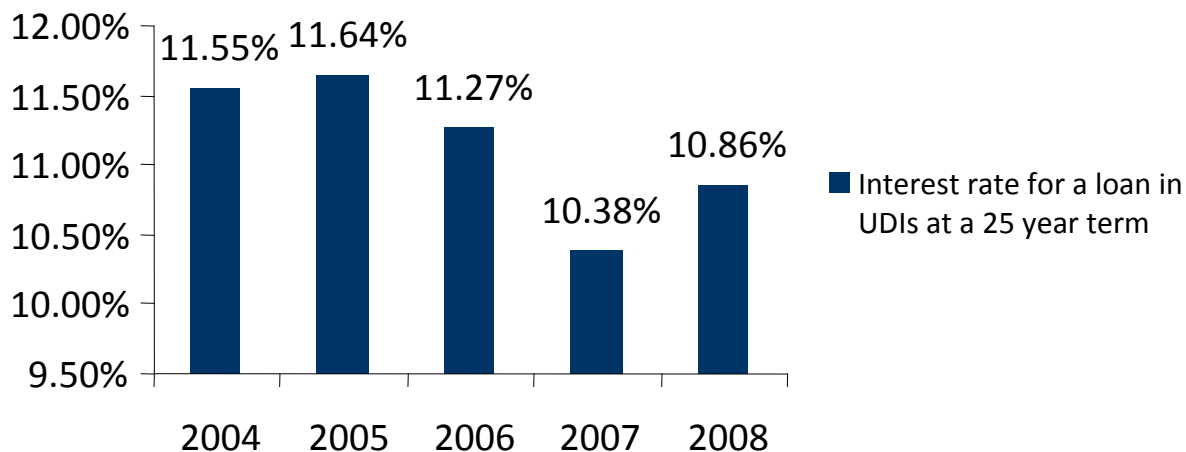
I. Background

Foundations of the Mexican Housing Market

Macroeconomic stability and competition in the financial system has improved the access to mortgage loans through:

- Lower **rates** that reduces the payment made by families.
- Longer **terms** of loans: up to 20 years in UDIS and 25 years in pesos.

**AVERAGE INTEREST RATE FOR UDI DENOMINATED LOANS
(in nominal terms)**



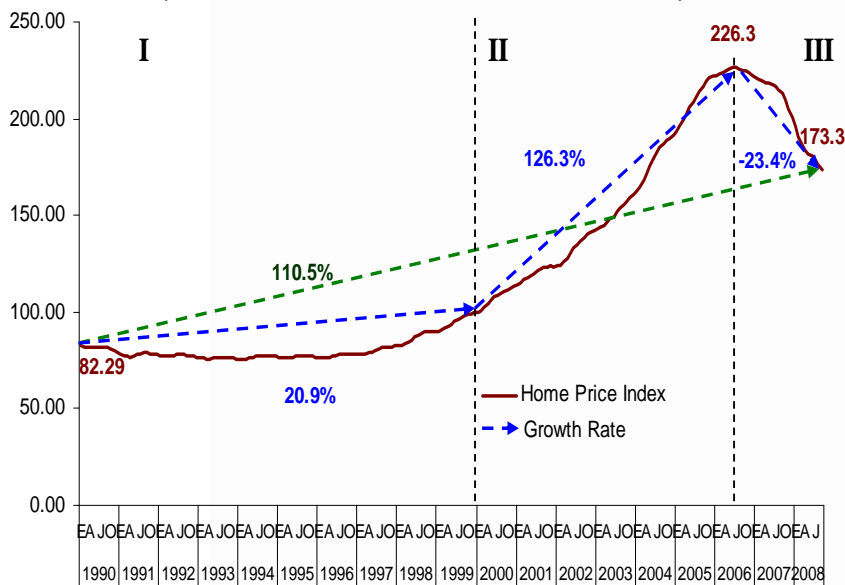
The recent interest rate levels are equivalent to those observed as recently as the end of 2006 and affect only the new originations

I. Background

Foundations of the Mexican Housing Market: Prices

- Prices in United States rose 110.5% between January 1990 and September 2008 (see Chart 1).
- On the other hand, Mexican housing prices decreased 52.7% during the same period. However, from January 2000 to September 2008, they grew 69.8% (see Chart 2).

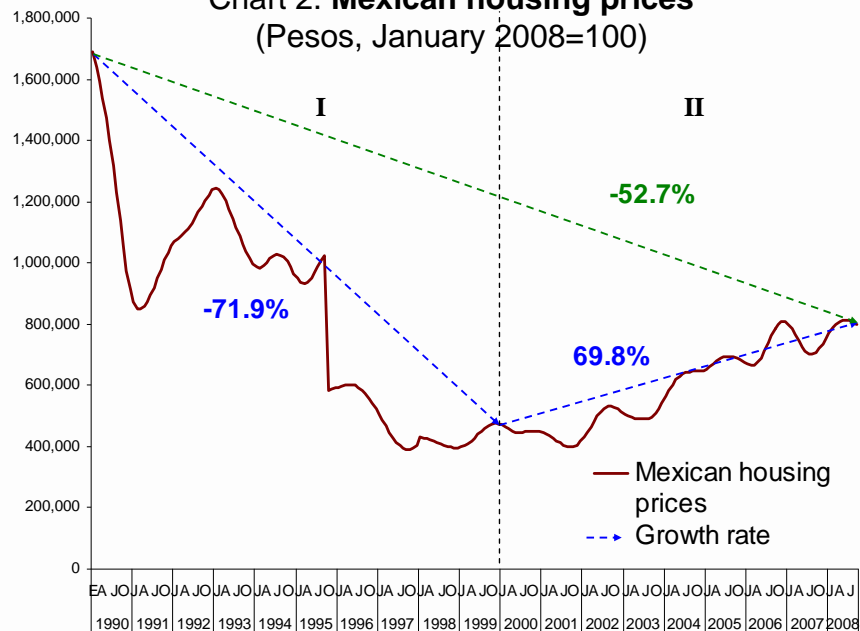
Chart 1. U.S. Housing prices.
(S&P/Case-Shiller Home Price Index)



Three phases:

- I. Moderated Growth.
- II. Fast Growth (Bubble generation).
- III. Bust.

Chart 2. Mexican housing prices
(Pesos, January 2008=100)



Two phases:

- I. Fall associated to macroeconomic crisis.
- II. Growth based on supply and demand basis.



Contents

- I. Background
- II. SHF's Role in the housing market**
- III. Housing finance market evolution
 - a. Results of 2008
 - b. Perspectives for 2009
- IV. Final remarks

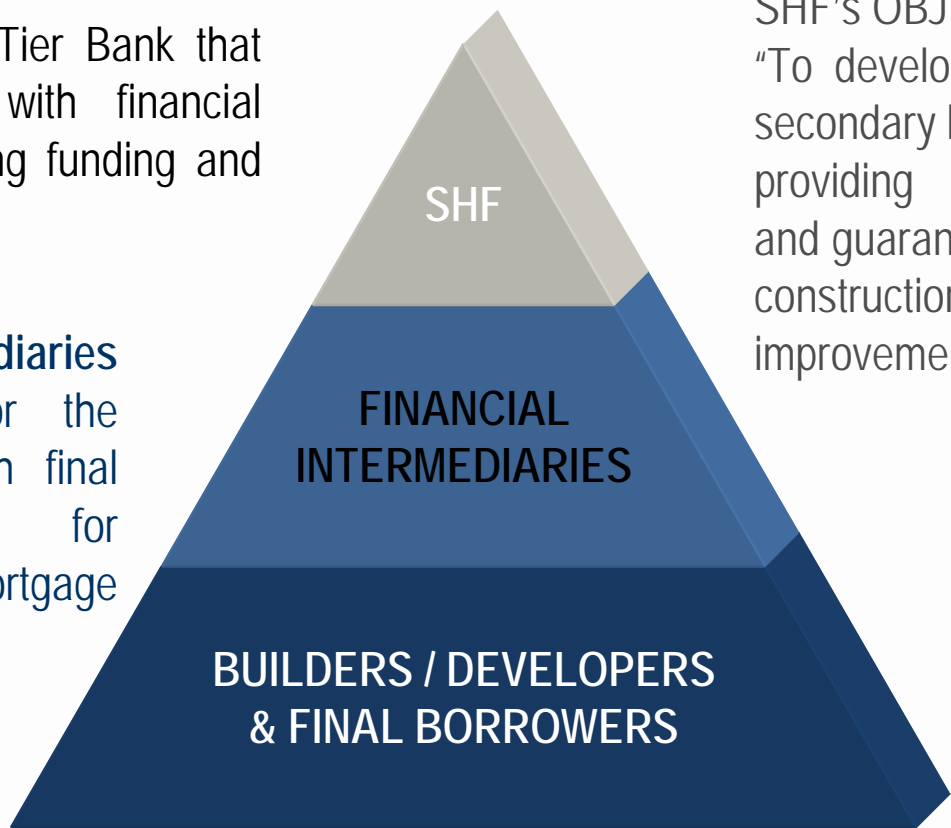


II. SHF's Role in the housing market

SHF: Mandate, Activities, Mission and Vision

SHF is a Second Tier Bank that operates directly with financial institutions, providing funding and guarantees.

Financial Intermediaries are responsible for the direct operation with final borrowers (both for construction and mortgage loans).



SHF's OBJECTIVE:
"To develop the primary and secondary housing markets by providing mortgage funding and guarantees focused in the construction, acquisition and improvement of housing."

SHF has developed alternative funding tools for financial intermediaries. SHF provides credit enhancements focused in the development and promotion of these alternative ways.

II. SHF's Role in the housing market

- SHS's Law was reformed last May through a senate initiative approved by the Congress and it's most relevant element was:
 - ⇒ the elimination of the restriction of ending the SHF funding in 2009.

Thus the **three main roles** of SHF in order to develop the primary and secondary housing markets are:

1. Develop the housing markets for the **underserved sectors**: low income and rural population.
2. Develop a healthy **mortgage backed securities market** in order to attract institutional investors to complement the need of funds.
3. Provide the **liquidity** to the market under stress situations.



II. SHF's Role in the housing market

- The housing market in Mexico relies on solid foundations:
 1. Existent **demand** for the next ten years, and,
 2. House **prices** remain stable,
- These factors and the availability of sufficient sources of financing from private and public institutions, will make possible to reach the Federal Government's goal to grant sufficient mortgages to the population.
- The participation of a specialized development bank such as SHF in the housing sector provides **certainty** about the availability of funds to finance each stage of the **housing production chain**:

Stage I: Construction loans for social housing

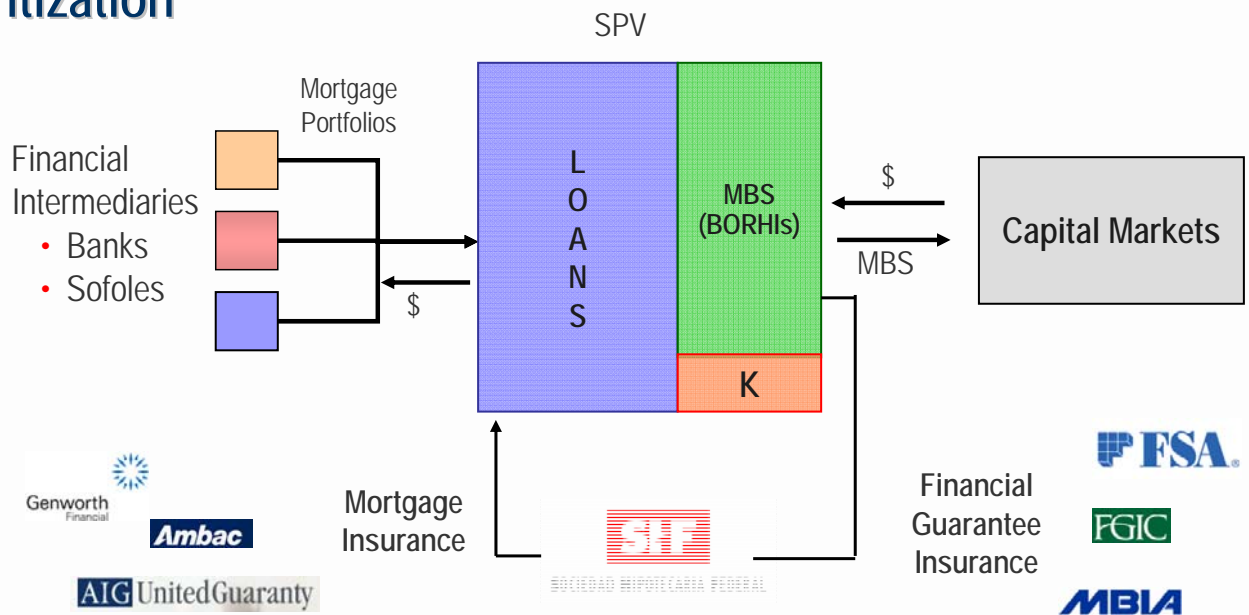
Stage II: Individual loans

Stage III: Securitization



II. SHF's Role in the housing market

Securitization



SHF participates on this stage by:

- **Reviewing** any issue of BORHIS to make sure they comply with the eligibility criteria and requirements,
- Providing **Financial Guarantees**,
- Providing **Mortgage Insurance**, and
- As an **Investor** on the Securities.

II. SHF's Role in the housing market

- In addition to continuing promoting traditional housing, SHF will focus its strategy in the promotion of **Self-Sustainable Housing Environments (DUIS for Desarrollos Urbanos Integrales Sustentables in Spanish)** and in the re-densification of urban zones.
- The housing infrastructures has become an obstacle to maintain the expansion of housing, especially the social kind.
 - ⇒ The participation of SHF, along with other institutions from the Federal, Local, and Municipal Governments, is required in order to promote DUIS that will allow a greater production of quality housing for the low-income sectors.
- The large projects of housing over the past years have detonated expansive and segregation processes in the main cities, causing risks of a inadequate social, environmental and economical patterns.
- DUIS must not be seen through the perspective of housing conglomerates (satellite cities where people can only go to sleep), but as the engine for regional development, where housing, infrastructure, services, equipment, commerce, other products, constitute the support for strategically economic projects.



II. DUIS

Several Federal government institutions have worked together to develop a public policy by define eligibility criteria's to determine the DUIS that will receive fully their support

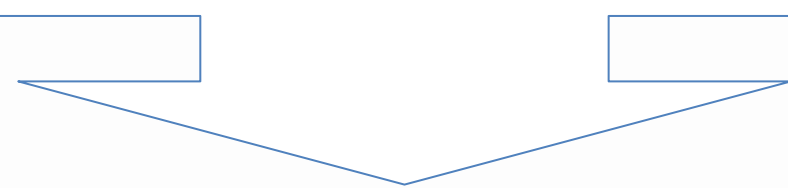


SOCIEDAD HIPOTECARIA FEDERAL

- **SEDESOL:** Transport, solid residues, Urban Development regulation on a national scale. (Densities, mixed uses, urban norms and guidelines).
- **SEMARNAT:** Definition of criteria for environmental sustainability.
- **SENER:** Supply and efficient use of electricity.
- **CONAVI:** Subsidies, guidelines, and sustainability advice for housing developments.
- **BANOBRAS:** Financing or guarantees for infrastructure and public services.
- **INFONAVIT:** Grant mortgages to acquire the finished houses.
- **FOVISSSTE:** mortgages to acquire houses.
- **SHF:** Development of financial schemes to fund each phase of DUIS.

II. SHF's Role in the housing market: DUIS

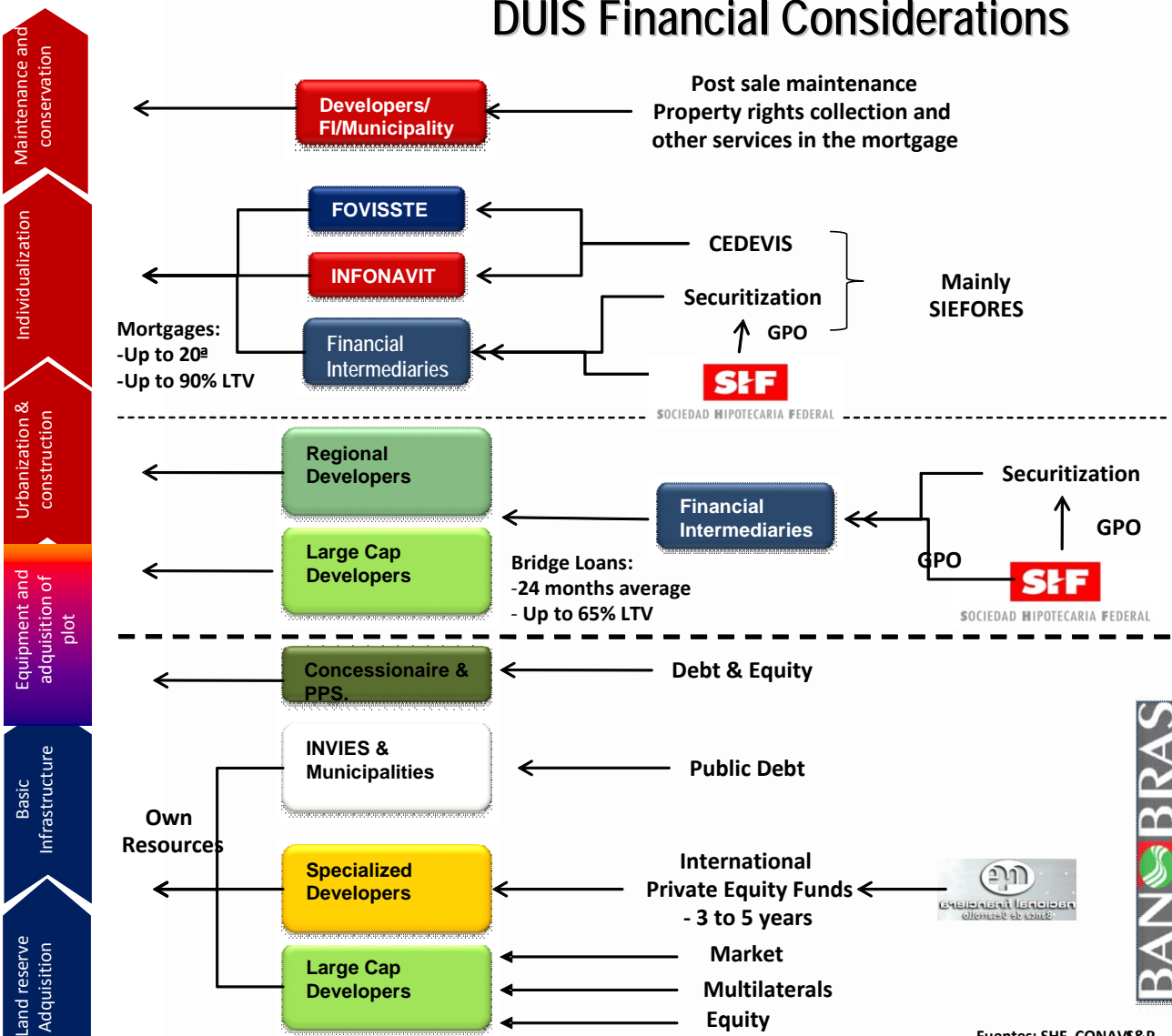
- Once the eligibility criteria (at least 40% of social houses) and the support from the Federal government are defined, DUIS, sponsored by different entities, present their project to the Evaluation Group, so that the external consultant will perform an integral evaluation of the project.
- This consultant can also make recommendations to support the Evaluation Group, which will be presented in a summary to its members, does bringing transparency to the project.



- Once that a DUIS is approved it will received the support form all the agencies involved.
- The consultants will supervise the evolution of the project making sure it conforms to the plan approved and that the governmental agencies provide the support.

II. SHF's Role in the housing market

DUIS Financial Considerations



Private and multilateral participation must be promoted in order to eventually reduce development banks participation.

Fuentes: SHF, CONAVIA, S&P



II. SHF's Role in the housing market DUIS

- There are **24 projects** being developed in 18 States of Mexico, from the private and public sector.
- These projects represent to the economy:

- **1,635,634 houses**
- **6,558,710 population** benefited
- **In a surface of 43,274 acres**
- **Total investment of \$261,590 million pesos**



Contents

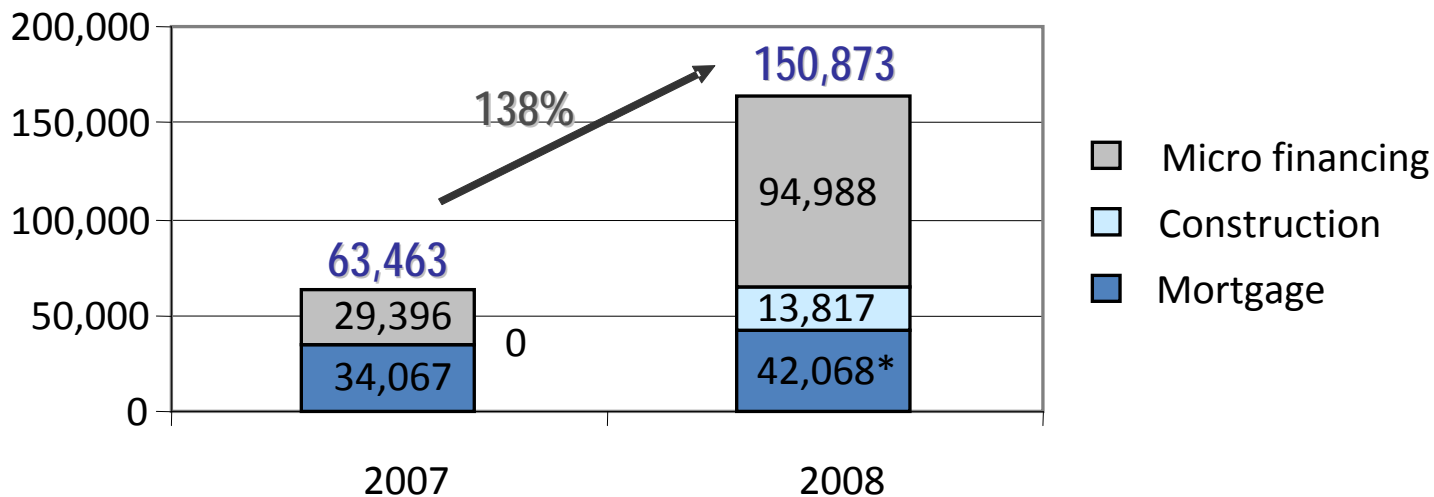
- I. Background
- II. SHF's Role in the housing market
- III. Housing finance market evolution**
 - a. Results of 2008
 - b. Perspectives for 2009
- IV. Final remarks



III. Housing finance market evolution Results of 2008

- During 2008 the houses financed with SHF's resources represent **138%** of the total observed in 2007, reaching a total of **150,873**.

HOUSING RELATED FINANCING (as of December 31st)



* These 42,068 include 33,392 mortgages and 8,676 liquidity loans.

III. Housing finance market evolution

Results of 2008

In 2008, the funding contribution of SHF to the Mexican housing market was:

| | | | |
|-------|-----------------|------------------|----------------------|
| + | Direct funding | \$ 28,907 | million pesos |
| | Induced funding | \$ 7,092 | million pesos |
| <hr/> | | | |
| | TOTAL | \$ 35,999 | million pesos |

Additionally SHF participated on the mortgage back securities secondary market with **\$8,293 million pesos**



III. Housing finance market evolution

Securitization of mortgages (BORHIs)

- During 2008 the securitization of 51,620 mortgages accounted for \$20,787 million pesos.

| Total Mortgage Backed Issuances | | | |
|---------------------------------|------------------------|-----------|-----------------------|
| Year | Amount (million pesos) | Issuances | Mortgages Securitized |
| 2003 | 596 | 1 | 1,979 |
| 2004 | 2,749 | 3 | 9,562 |
| 2005 | 2,859 | 5 | 8,359 |
| 2006 | 12,497 | 14 | 35,293 |
| 2007 | 26,376 | 18 | 60,041 |
| 2008 | 20,787 | 8 | 51,620 |
| Total | 65,864 | 49 | 166,854 |

| Outstanding Balance (million pesos) | |
|-------------------------------------|------------------|
| Pesos | \$ 23,170 |
| UDIS | \$ 25,438 |
| Total | \$ 48,608 |

* Figures as of January 21st, 2009



III. Housing finance market evolution

Measures to consolidate the securitization market

1. Widen the percentages of investment regimes of pension funds and insurance companies.
2. Equity retention from Servicers of securitized loans to align the incentives for all participants of these transactions.
3. Additions to CNBV's regulation regarding Issuers of Securities:
 - ⇒ Standardize and improve timely information for investors: monthly information of the evolution of the loans is being required.
 - ⇒ Trustees and servicers will comply with the Securities Market regulation.
 - ⇒ Public calculators to price these securities properly.
4. Minimum criteria for substitute servicers.
5. Require a collection account that concentrates the payments from borrowers.
6. Revelation of information by a third party denominated Master Servicer¹.

1/ SHF will associate with GMAC to offer this service.

III. Housing finance market evolution

Securitization of construction loans

- The securitization of construction loans were issued mainly by Sofoles / Sofomes for a total of \$23,585 million pesos.
- The structures can finance loans for construction, land or infrastructure development.

Construction loan securitization

| Year | Issued amount (million pesos) |
|--------------|-------------------------------|
| 2002 | \$1,172 |
| 2003 | \$3,460 |
| 2004 | \$4,147 |
| 2005 | \$2,248 |
| 2006 | \$3,575 |
| 2007 | \$6,474 |
| 2008 | \$2,507 |
| Total | \$23,585 |

- The nominal current outstanding is \$16,506 million pesos

III. Housing finance market evolution

Securitization: Construction loans (BORHI-Puente)

SHF is promoting standardization and improvement of the criteria for securitizing construction loans, aiming to bring back liquidity to these type of assets:

- The new rules of BORHIs will also apply to BORHI-Puente:
 - Periodic information reporting by a third party (Master Servicer)
 - Sanctions to Trustees and Servicers
 - Servicer substitution
 - Collection concentrating account
 - Servicer keeps part of the equity

- Once this new asset class is created, in order to promote standardization of construction loan securitizations, SHF will offer the following benefits to issuers:
 - Purchase of 20% during primary offer at market price.
 - Up to an additional 30% at higher rates
 - Secondary market.
 - Partial credit guarantees to structures



III. Housing finance market evolution

National Program for the Modernization of the Public Property Registry

2008

- A budget of \$416.7 million pesos was assigned, and all of the States (32) were incorporated to this Program with matching funds. 23 States now count with a State Modernization Plan (MP)

2009

- For 2009 the Guidelines for the Program in 2009 establish a federal budget of \$374.4 million pesos for the year that will be match by the states.
- At the end of the year all of the remaining States (9) will have their own Modernization Plan.



Contents

- I. Background
- II. SHF's Role in the housing market
- III. Housing finance market evolution**
 - a. Results of 2008
 - b. Perspectives for 2009**
- IV. Final remarks



III. Housing finance market evolution Perspectives for 2009

The National Program to impel Family Economies and Employment (Acuerdo Nacional a favor de la Economía Familiar y del Empleo), announced on January by president Felipe Calderon, SHF will increase the credit support to promote social housing.

With this program SHF will mobilize around 60,000 million pesos for two objectives:

- 1) Bring enough **liquidity** to the sector, particularly Sofoles and Sofomes.
- 2) To have enough funding to maintain housing production, specially **low income homes**, considering the existent demand and the population that still needs proper housing.

SHF will also fund these activities through the markets and with **two loans** that have already been approved by World Bank and IDB:



\$1,000 million USD



\$2,500 million USD

III. Housing finance market evolution Perspectives for 2009

The \$60,000 million pesos will be destined to:

- ✓ Strengthen the supply of special credit lines to face the current illiquidity situation (mortgages and construction loans).
- ✓ Continue the traditional operation financing new mortgages and construction loans and offering guarantees.
- ✓ Continue developing the development of markets and of mortgage backed securities.
- ✓ Granting guarantees (MI, PCGs)



Through guarantees SHF will induce the flow of around **\$70,000 million pesos** to this market.

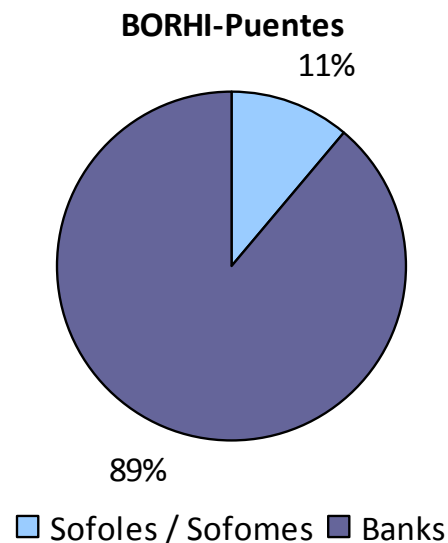
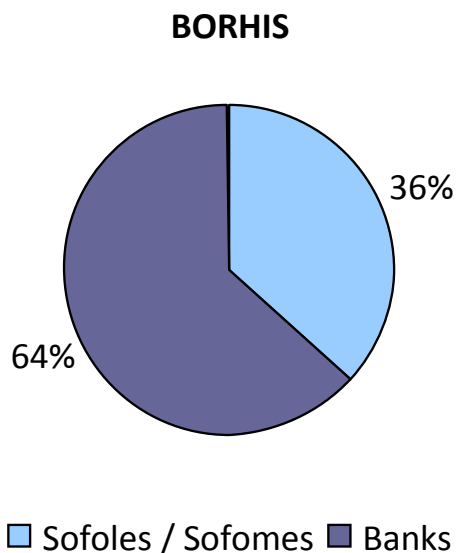
Estimated flow of resources in 2009 → \$130,000 million pesos



III. Housing finance market evolution Securitization

- During 2009, SHF expects around \$20,000 million pesos in BORHIs and 6,300 million pesos in BORHI-Puentes (Construction loans).

| | BORHIs | BORHI-Puentes |
|-------------------|--------|---------------|
| Sofoles / Sofomes | 36% | 11% |
| Banks | 64% | 89% |



Contents

- I. Background
- II. SHF's Role in the housing market
- III. Housing finance market evolution
 - a. Results of 2008
 - b. Perspectives for 2009
- IV. Final remarks**



IV. Final remarks

- SHF will attend the demand for housing for the years to come on these complex market conditions through a mixture of **loans, guarantees and securitization**.
- These actions intend to provide **liquidity** to the sector and maintain the **production** of homes.
- It is also important to continue promoting the participation of the **private sector** to finance housing for the unattended segments of the population: low income, non affiliated and rural.
- To **reach** these segments of the population, SHF is widening its network of financial intermediaries and developing adequate products for these markets: saving programs and leasing with an option to buy.
- **Sustainable and ecologic** housing will favored.
- Our efforts will also be directed to recover the **demand for Mortgage Backed Financial Instruments** from investors as an adequate source of financing for this market.



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