



March 8 & 12

### **MORTGAGE LENDING IN MEXICO**



Asociación de Bancos de México

### Index

### 1. The Mexican Banking Sector

- 2. Mortgage Market in Mexico
- 3. Outlook and Conclusions



#### Introduction

- 1. The Mexican economy has shown resiliency to international volatility; inflation and public finances are under control. The Mexican banking system is sound and it is ready to respond to the economy's financing requirements.
- 2. The mortgage market is non speculative, flexible, with several product options to satisfy increasing demand and increasingly sophisticated customers' needs.
- 3. Several factors come into account (demographic trends, institutional synergies, financial innovation and public policies) that support sustainable, steady and long term growth.

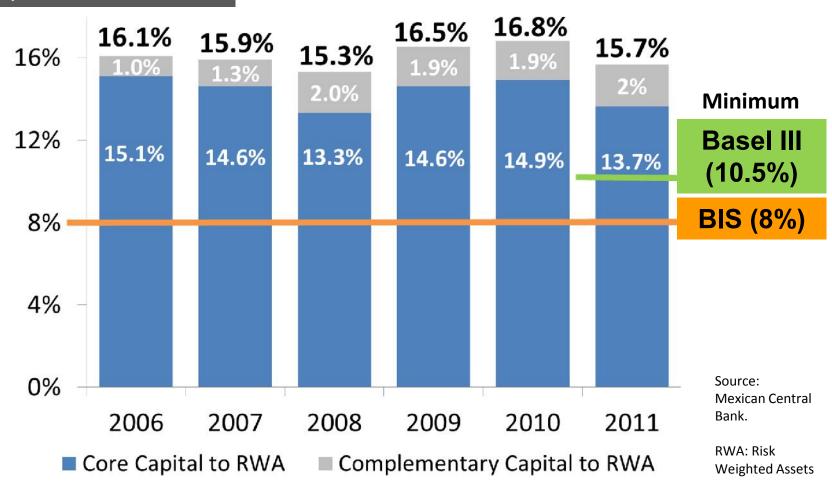


## In a complex international environment, the Mexican Banking Sector is sound

1 The Mexican Banking System is sound

### **Capitalization Ratio**

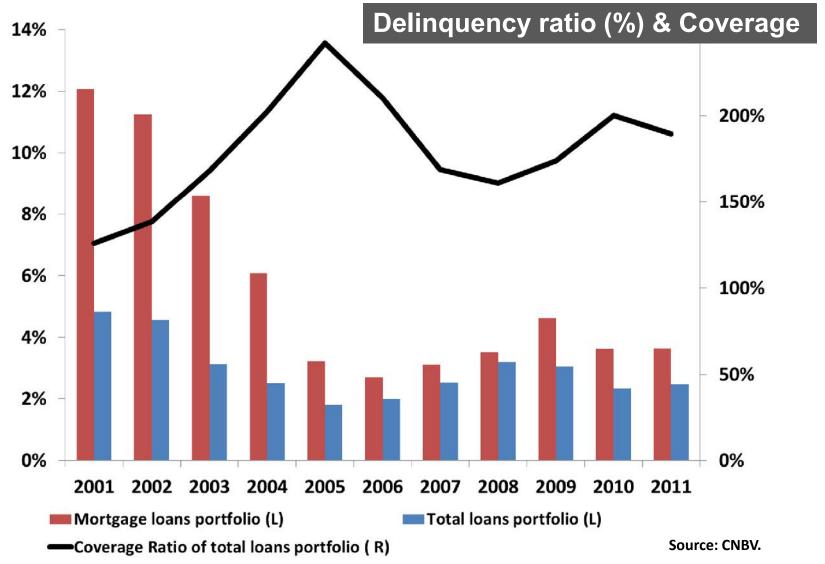
Percentage points





## Delinquency trends during pre crisis levels & a high provision coverage ratio are maintained

#### 1 The Mexican Banking System is sound



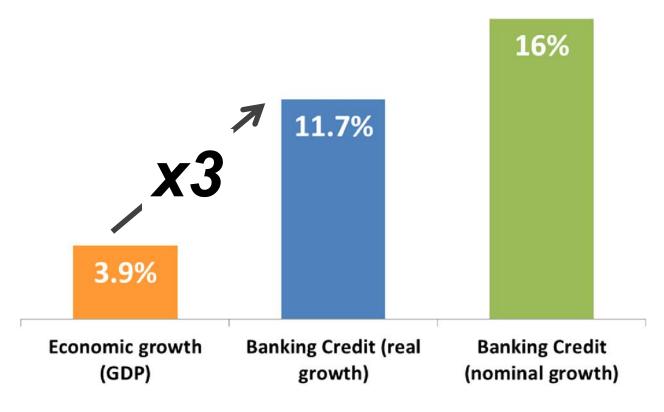


## Credit activity has a maintained a steady positive rate of growth

1 The Mexican Banking System is sound

### **Economic & Credit Growth**

Real Growth rate in 2011



In 2011 the bank credit growth three folded the economy growth.

Source: INEGI and Mexican Central Bank.



### Total loan portfolio has grown at double digit rates since 2003

#### The Mexican Banking System is sound 2011 2004-2007 2008 2009 2010 **Jan'12 Total loans portfolio** +18% annual +10% +5% +10% +16% +15% Total outstanding balance (Billions of pesos) average 2,330 2,337 **Total outstanding balance in Jan 2012** 2,330 billions of pesos = US\$ 179 Billions 2,015 (Ps/USD = 13.00)1,834 1,585 808 768 694 2001 2002 2003 2004 2005 2006 2007 2008 2010 2011 Jan 2012 2009 Source: Mexican Central Bank.

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## Coordinated public policies and banks long term commitment have driven housing sector

2 The mortgage market in Mexico

Source: Mexican Central Bank.

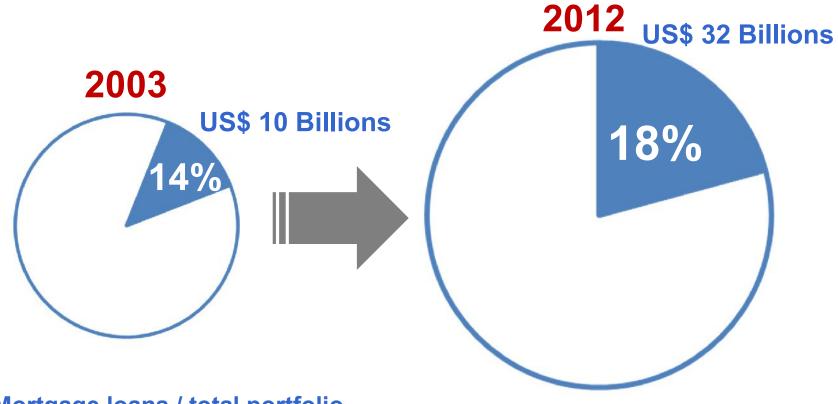
#### 2004-2007 2009 2010 2011 Jan'12 2008 Mortgage loans +13% +24% annual +12% +8% +11% +16% portfolio average Total outstanding balance (Billions of pesos) 421 **Total outstanding balance in Jan 2012** 368 421 Billions of pesos = **US\$ 32 Billions** (Ps/USD = 13.00)330 307 169 133 128 123 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 Jan 2012

# The mortgage portfolio market share increase shows the banking risk appetite for the housing sector

2 Mortgage Market in Mexico

### Mortgage loans share of total loans portfolio

Mortgage loans to total loans (%)



Mortgage loans / total portfolio

Source: Mexican Central Bank.

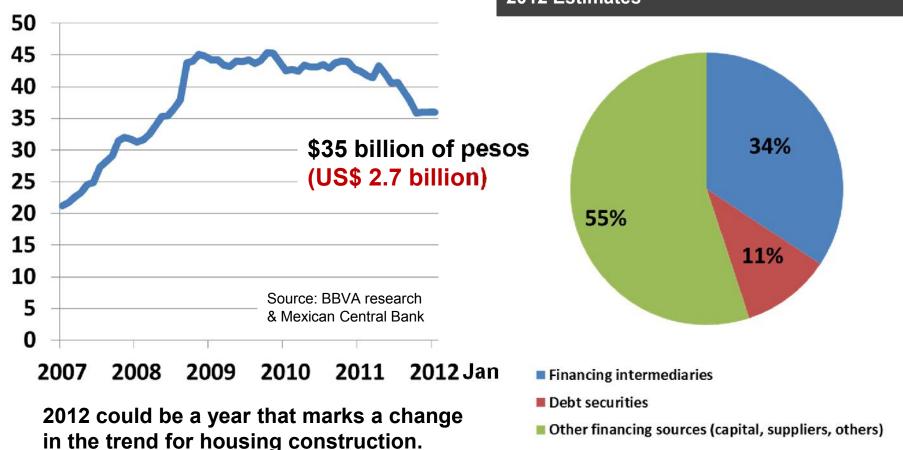


### Housing construction financing evolution and 2012 estimates

2 Mortgage Market in Mexico

**Banking financing to housing developers Outstanding balance in Billion of pesos** 

Sources of financing to housing developers
2012 Estimates

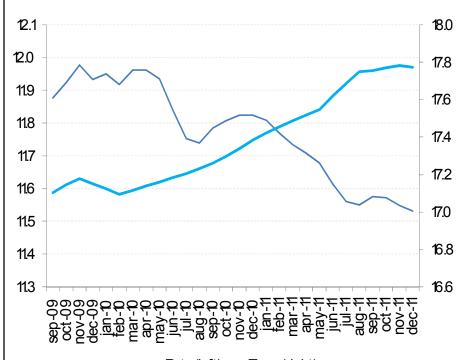




### Better credit conditions for customers without excess indebtedness

#### 2 Mortgage Market in Mexico

### Commercial bank mortgage loan portfolio: rate and term (% and years)

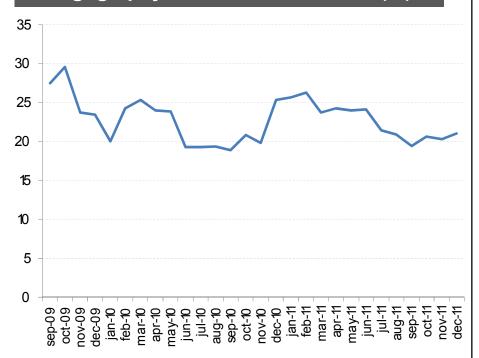


Source: CNBV —Rate (left) —Term (right)

Note: Includes Banamex, BBVA Bancomer, Banorte,

HSBC, Santander and Scotiabank.

### Commercial bank mortgage loans: mortgage payment to income ratio (%)



Source: CNBV

Note: Includes Banamex, BBVA Bancomer, Banorte,

HSBC, Santander and Scotiabank.



# Financial innovation has allowed borrowers to enjoy better conditions

### 2 Mortgage Market in Mexico

	2000	2008	2012
Interest rate	Variable	Fixed	Fixed with incentives for timely payments
Up front fees	6%	3%-0%	0%
Term	10-15 yrs	Up to 30 yrs	Up to 30 yrs
Products	Acquisition	Multiple uses	Multiple uses*
Payment pesos per thousand	\$22.0	\$9.5-\$11.0	\$10.0-\$12.0
Down payment	+35%	10%-20%	10%-20%
Unemployment insurance	No	Yes	Yes
Interests tax deductible	No	Yes	Yes

<sup>\*</sup> Acquisition, Substitution, Construction, Remodeling, Co-financing INFONAVIT, FOVISSSTE, 2nd Home, Home Equity.



### Main Factors that Caused the Mortgage Crisis in some Countries are not Present in the Mexican Market

Mortgage Market in Mexico		
<b>Factor</b>	Description	
Housing Market	<ul><li>No price bubble.</li><li>No speculation.</li></ul>	
Credit	<ul> <li>Detailed credit &amp; risk analysis.</li> <li>Full documentation and proof of income (Stated Income not accepted).</li> <li>Mandatory Credit Bureau report.</li> <li>Moderate Loan To Value (LTV) &amp; Down payment required.</li> <li>Most credits are for 1st home acquisition.</li> </ul>	
Non Toxic Products	<ul> <li>Fixed rates (No uncertain rate mortgages, no teaser rates, or negative amortization).</li> <li>Home Owners Equity Credit lines at max. 50% LTV (less than 5% of total portfolio).</li> </ul>	
Customer Insurance	<ul> <li>Mandatory Life and Property Insurance.</li> <li>Unemployment Insurance in recent loans is common.</li> </ul>	

### The supply of mortgage products on the market has increased over the period 2001 – 2011 from 13 to 41 products

### 2 Mortgage Market in Mexico

- Fixed rate during loan term (7 to 30 years).
- Multiples terms allow customers to adjust the monthly payments depending their disposable income.
  - ✓ Different payment schemes.
  - ✓ Known payment: Ease to understand.
  - ✓ Monthly payments include life and Casualty & Property insurance cost.
  - ✓ Incentives in interest rate for timely payments (reduction in monthly payment or term).
- "Risk Based Pricing" allows to improve financial conditions according to customers risk profile.
- Mortgages for non residents.
- Relief programs (extending terms, temporary monthly payment relief, etc.) has helped customers to continue paying their loans.



### Regardless of the adverse environment, the fundamentals remain sound

### 2 Mortgage Market in Mexico

#### **Demographic Factors**

- Demographic structure.
- Annual growth of 600 thousand families per year need of replacement or renewal of housing stock.
- Low penetration of the mortgage lending as a % of GDP.

#### **Institutional Factors**

- Banks are solid and open to credit under prudent criteria
- Housing policy: counter-cyclical strategy
- Coordination with Social Mortgage Institutions (Infonavit, FOVISSSTE, SHF)
- Federal Government subsidies.

#### **Product Factors**

- Fixed rates
- No toxic products
- Unemployment insurance
- Co-financing programs
- Portfolio with Life and Casualty & Property
- Mortgage insurance

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### **Final remarks**

#### 3 Outlook & Conclusions

The Mortgage Market in Mexico has a huge potential given the previously addressed strengths

- 1) A sound Banking System
- 2) Demographic trends
- 3) Institutional Synergies
- 4) Adequate Public Policies (coordinated macro economic and monetary policies have consolidated economic stability)
- 5) Financial innovation
- 6) Our outlook for 2012 is a 15% increase in mortgage lending and we will provide up to 35% of the home builders financial requirements.