



MORTGAGE LENDING IN MEXICO

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President

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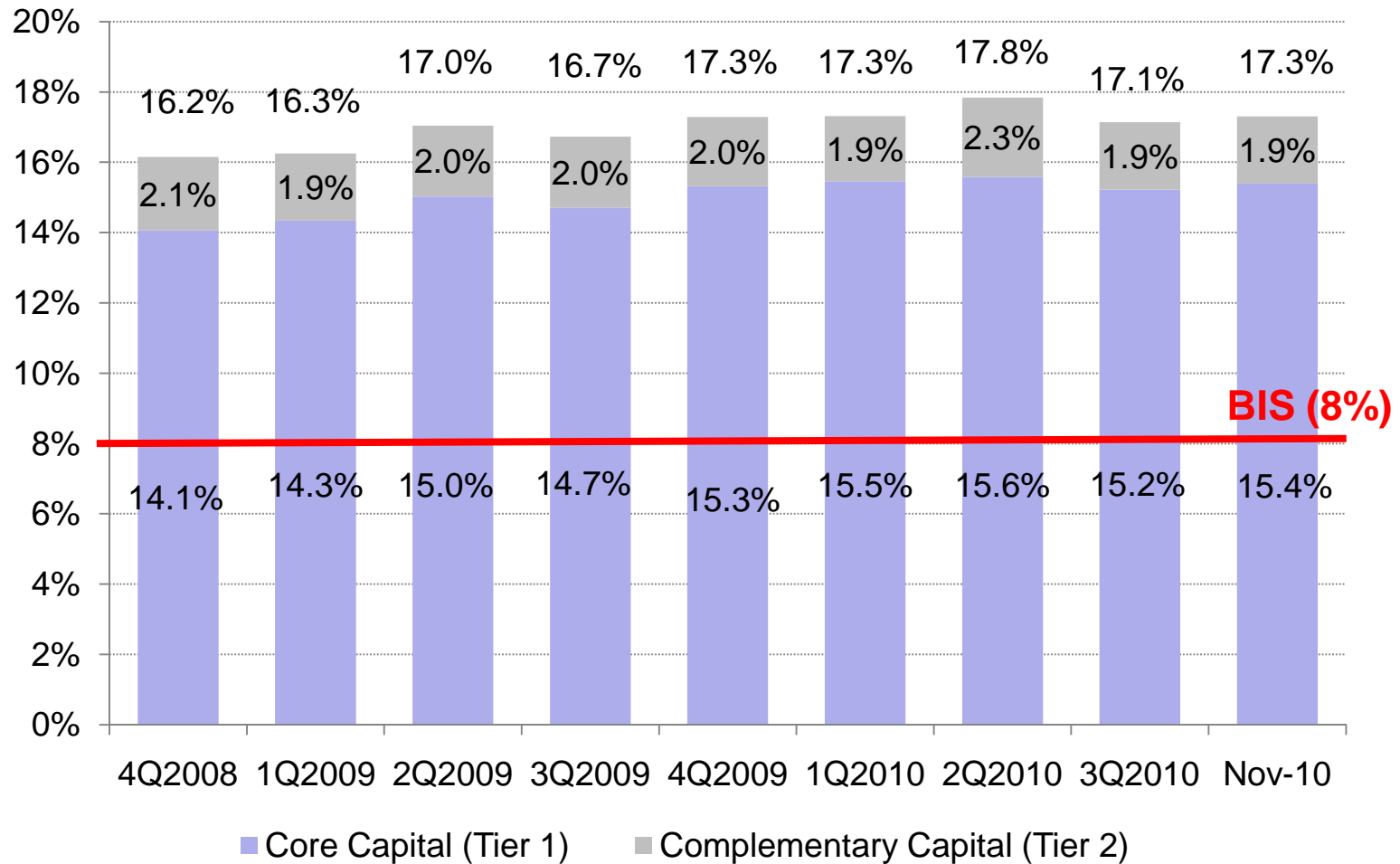


- **The Mexican Banking Sector**
- **Mortgage Market in Mexico**
- **Perspectives and Conclusions**



The Mexican Banking Sector remains strong

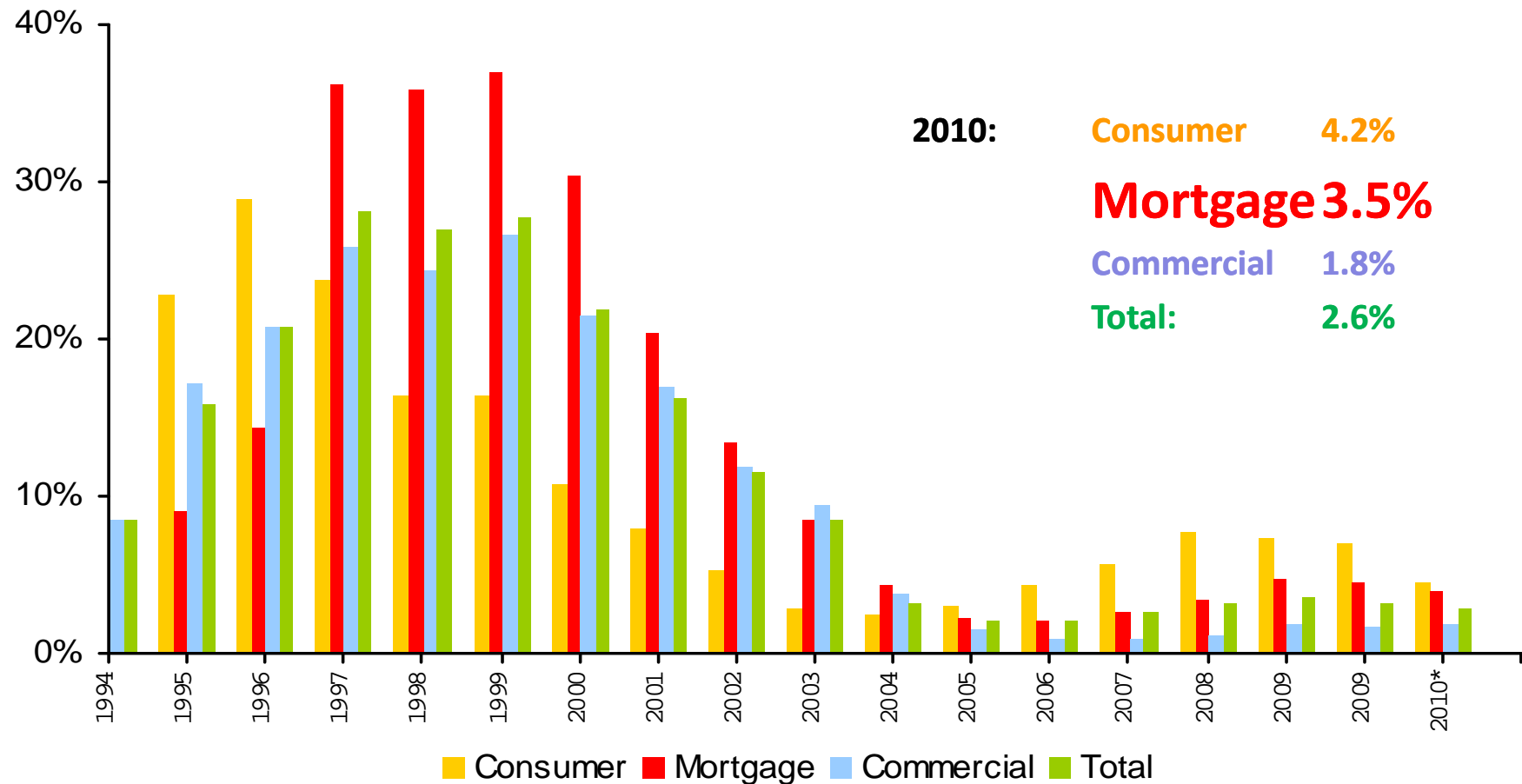
Capitalization Ratio of the Mexican Banking Sector





Delinquency is now in pre crisis levels

Nonperforming Loans / Total Loans



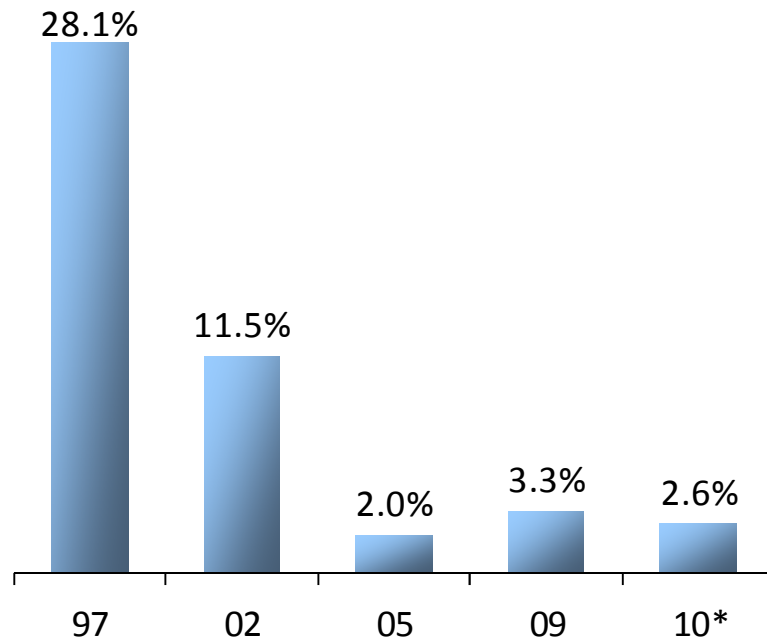
* Preliminary.

Source: Banco de México



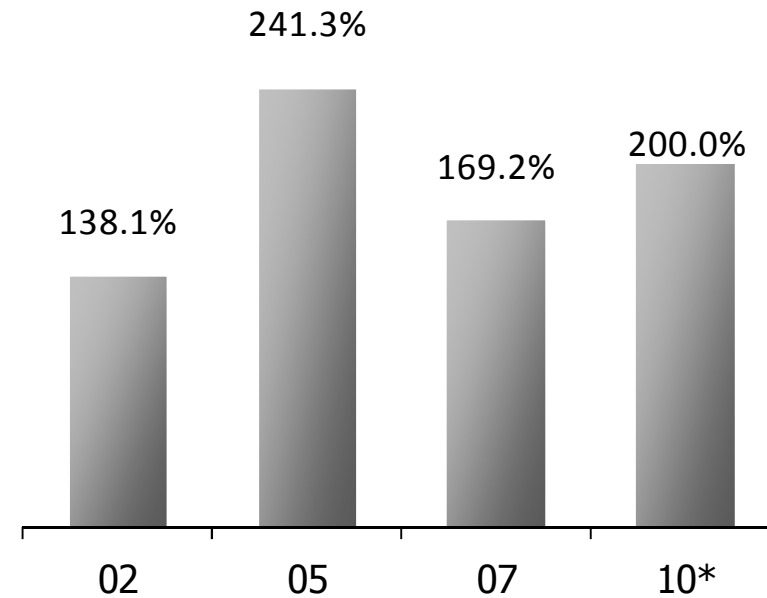
High Provision Coverage Ratios are maintained

Nonperforming Loans / Total Loans



Source: Banco de México. * Preliminary Dec-10

Provisions to Nonperforming Loans



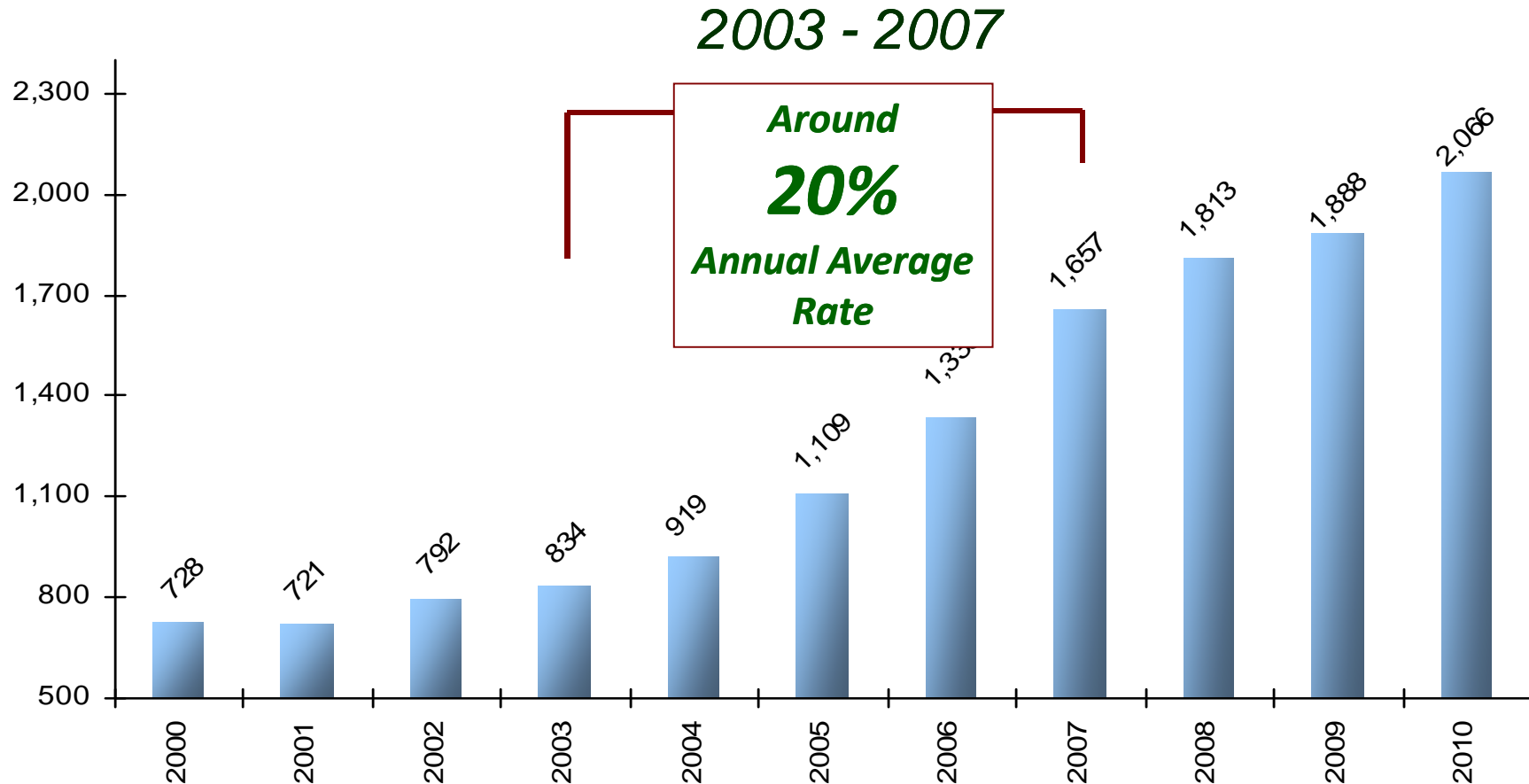
Source: CNBV * Preliminary Dec-10



Mexico has a strong credit growth in last 10 years

Total Financing

Total outstanding balance ('000 million Ps)



Note: The graph does not include Nonperforming Loans.

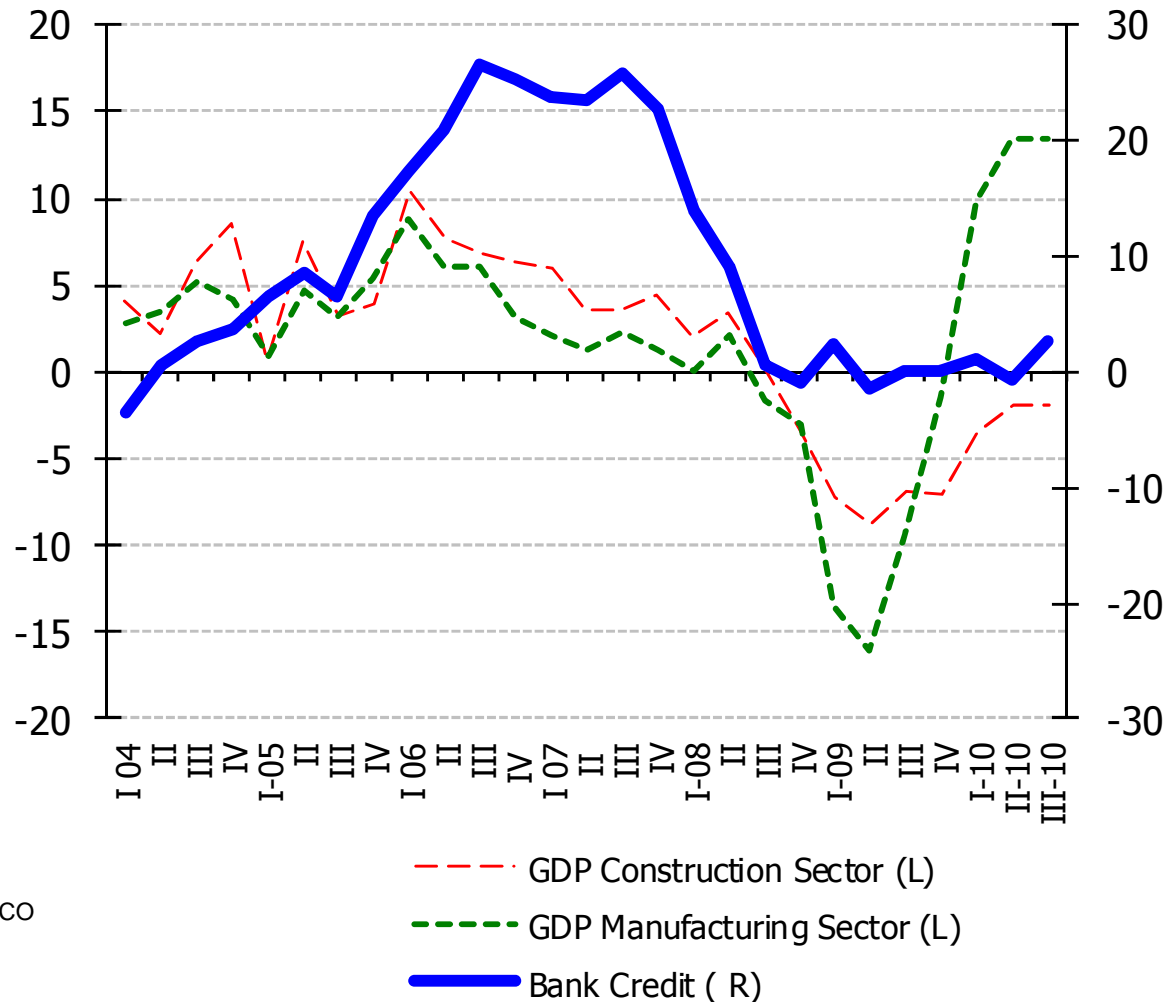
Source: Banco de México.



Mexico has a strong credit growth in last 10 years

Credit growth and economic growth

(Real growth rates)

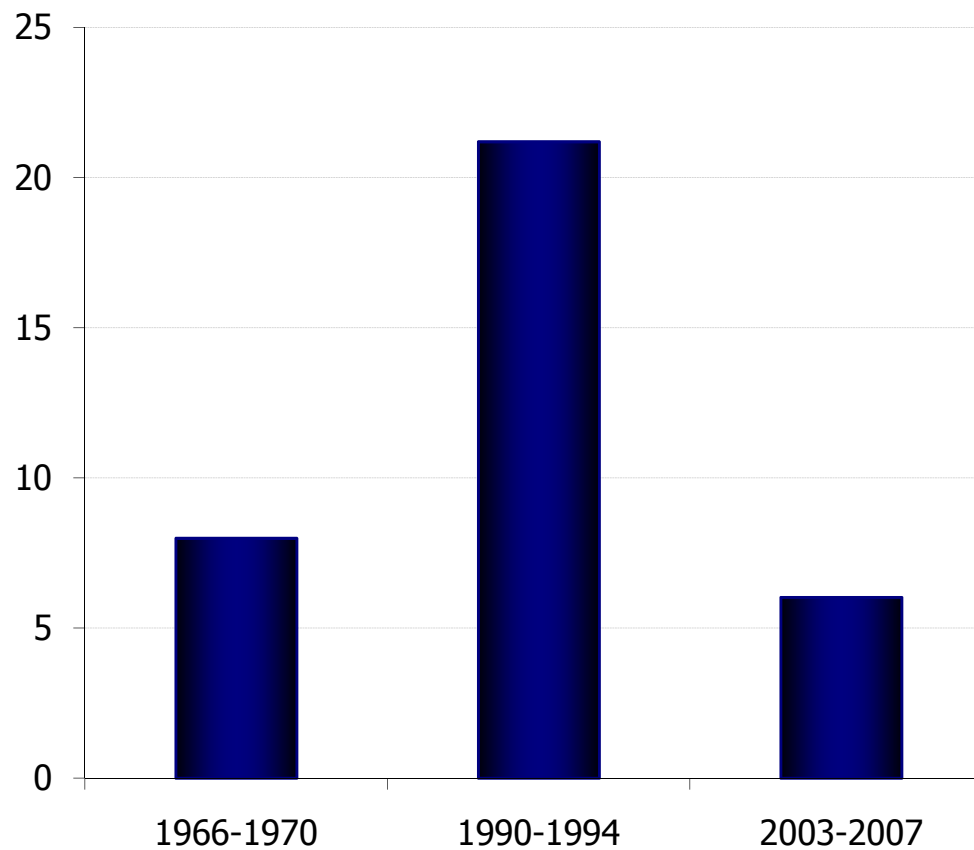


Source: BANXICO



Mexico has a strong credit growth in last 10 years

Growth of Direct Financing to the Private Sector (% of GDP)

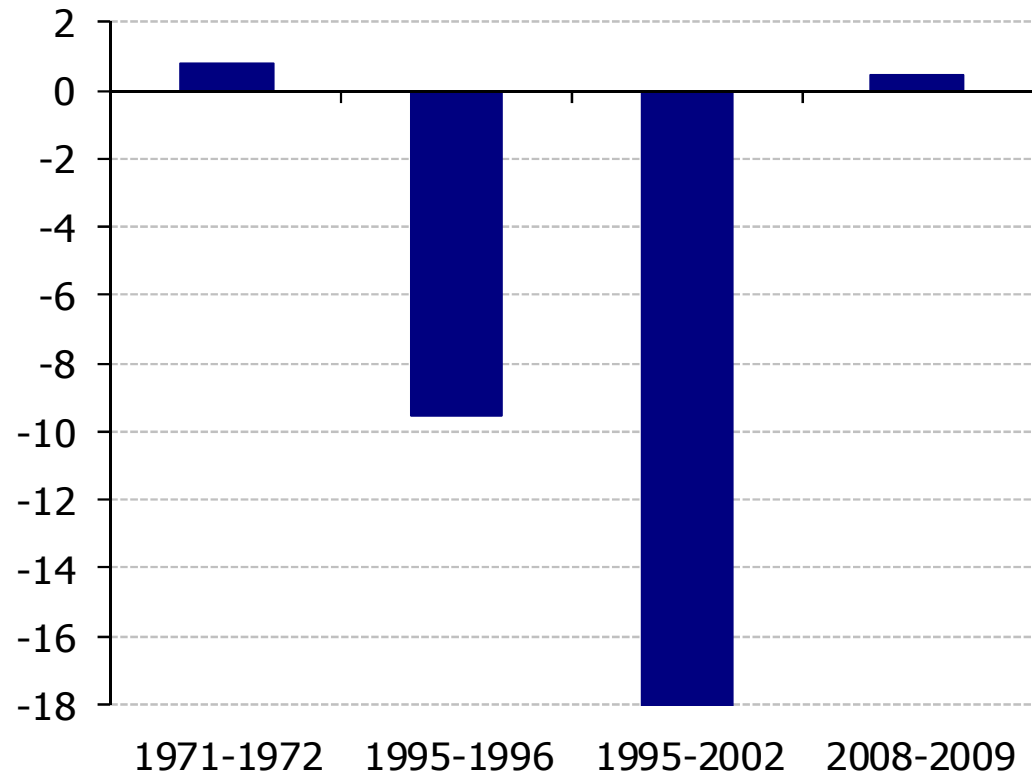


Source: The World Bank



Mexico has a strong credit growth in last 10 years

Change in the Banking Credit (% of GDP)



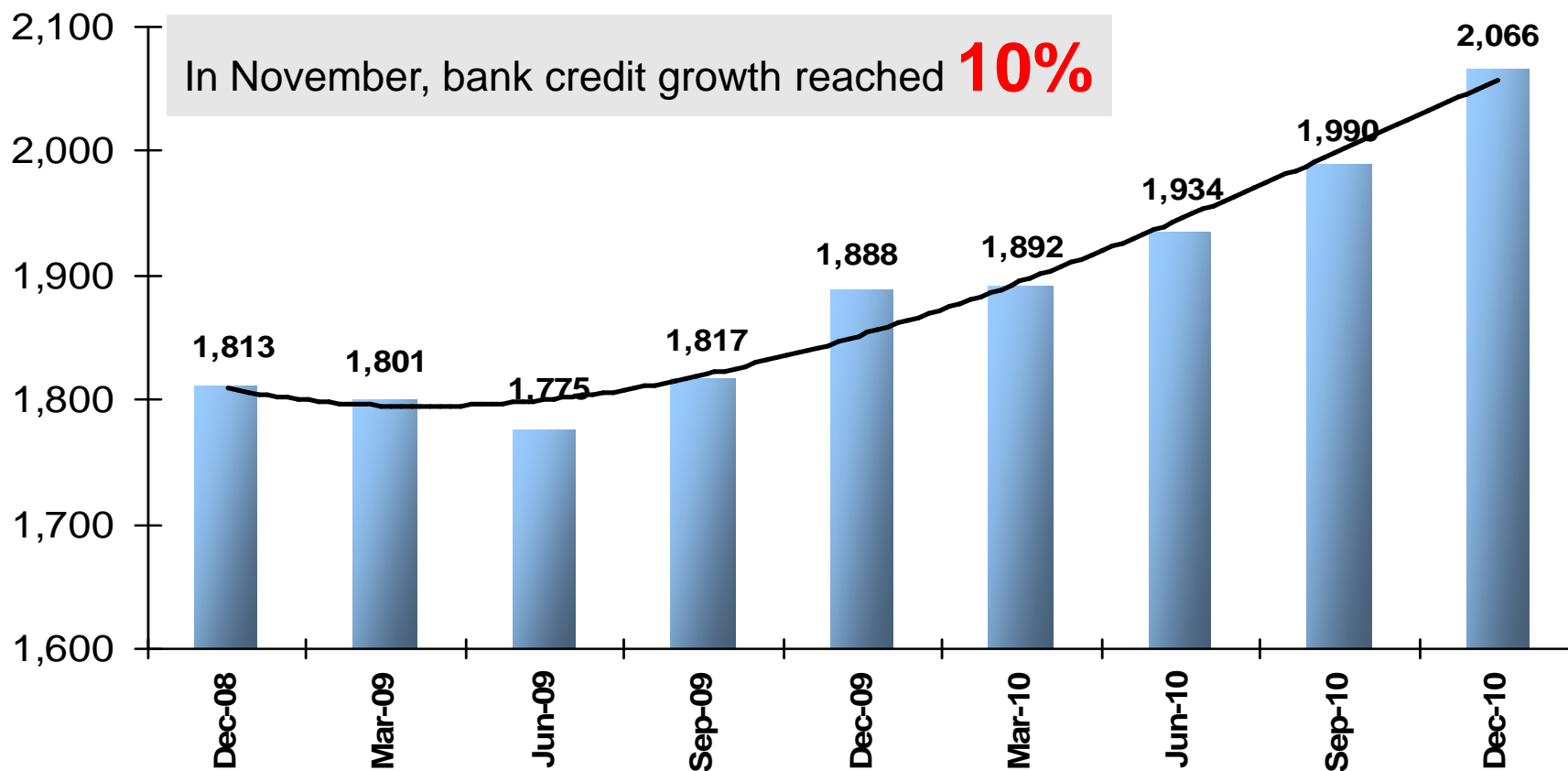
Source: Banco de México



Total Financing keeps increasing

Total Financing

Total outstanding balance ('000 million Ps)



Note: The graph does not include Nonperforming Loans.

Source: Banco de México.

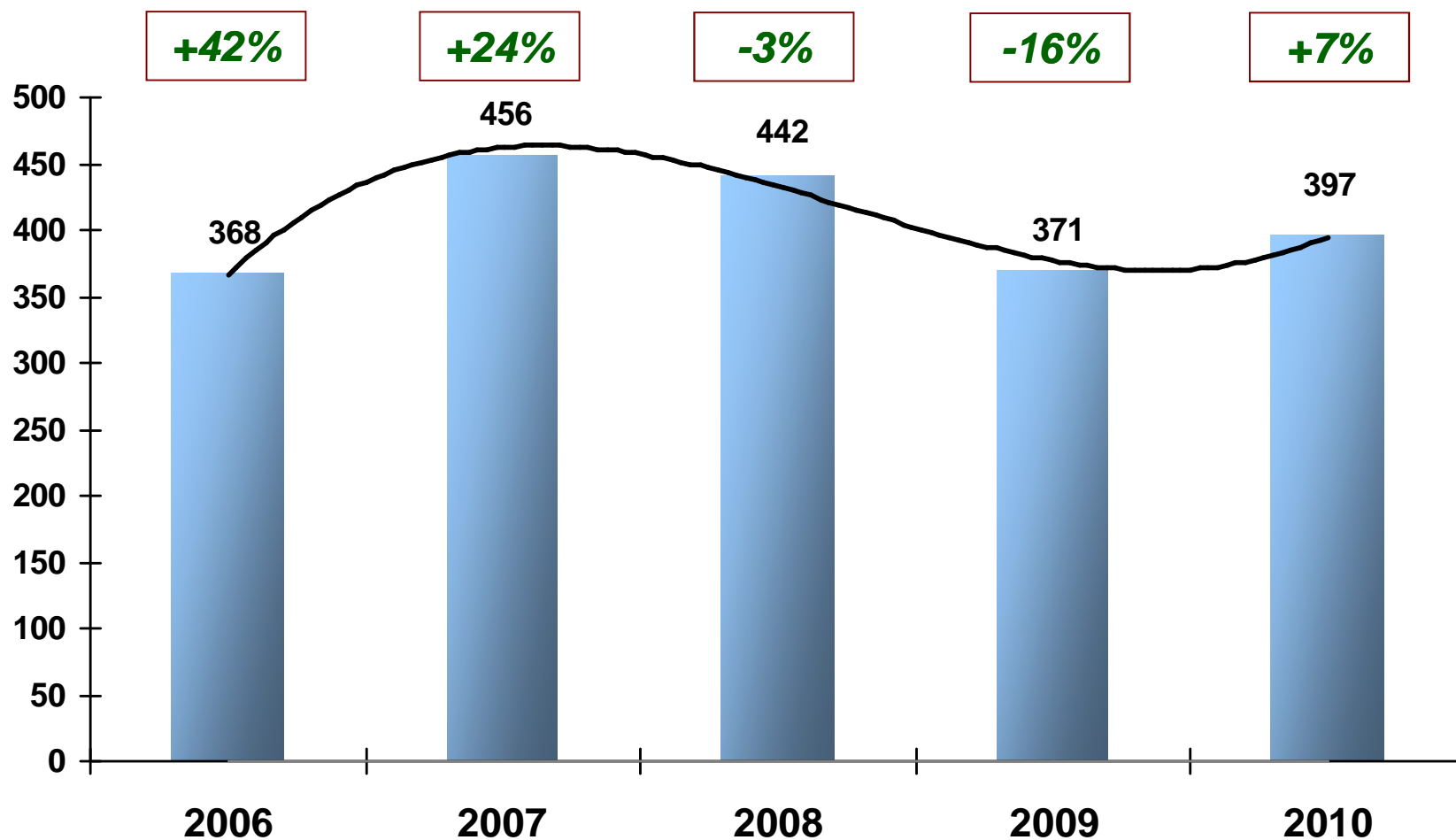


Total Financing keeps increasing

Consumer Financing

Total outstanding balance ('000 million Ps)

Annual Growth



Note: The graph does not include Nonperforming Loans.

Source: Banco de México.

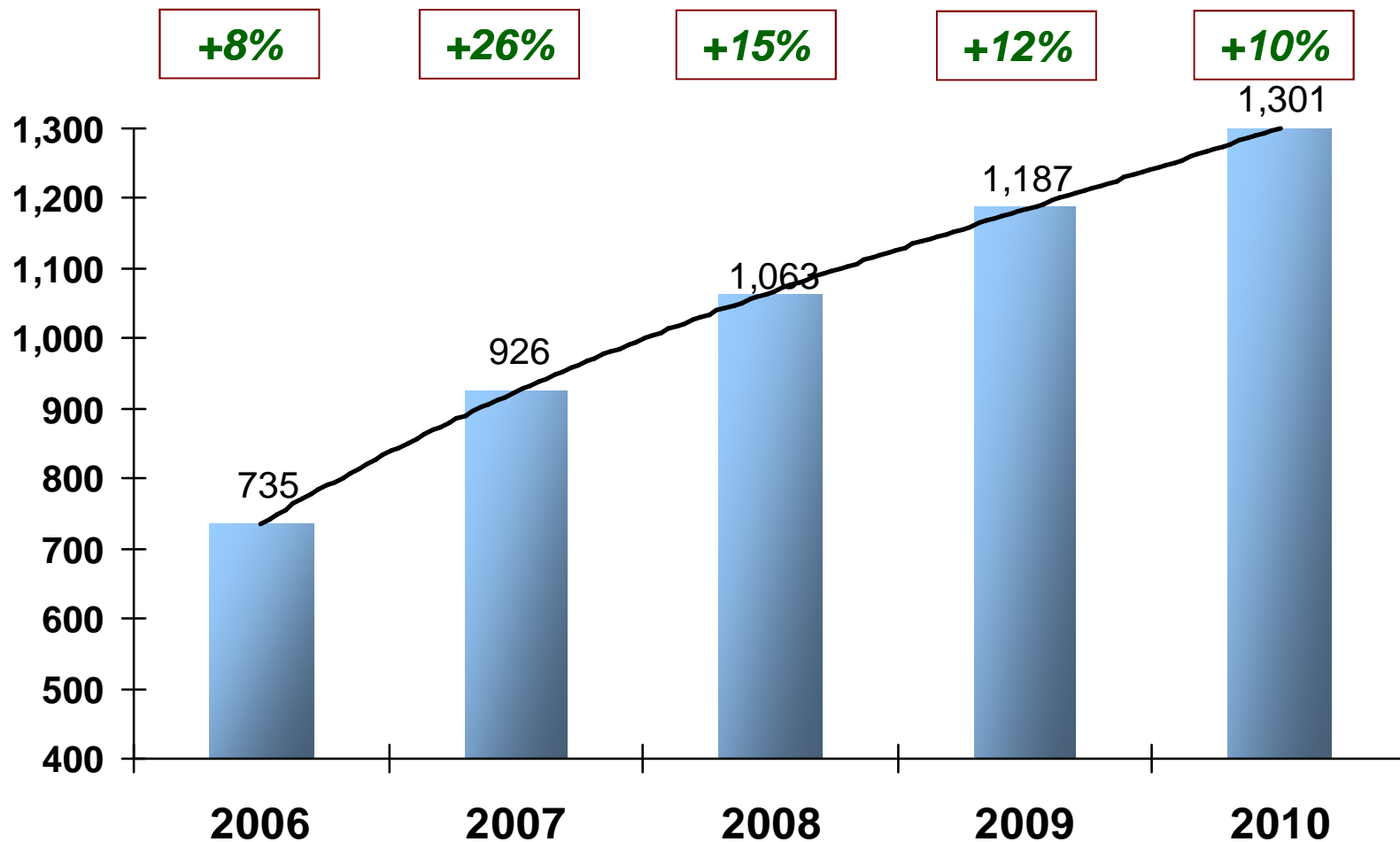


Total Financing keeps increasing

Commercial Financing

Total outstanding balance ('000 million Ps)

Annual Growth



Note: The graph does not include Nonperforming Loans.

Source: Banco de México.

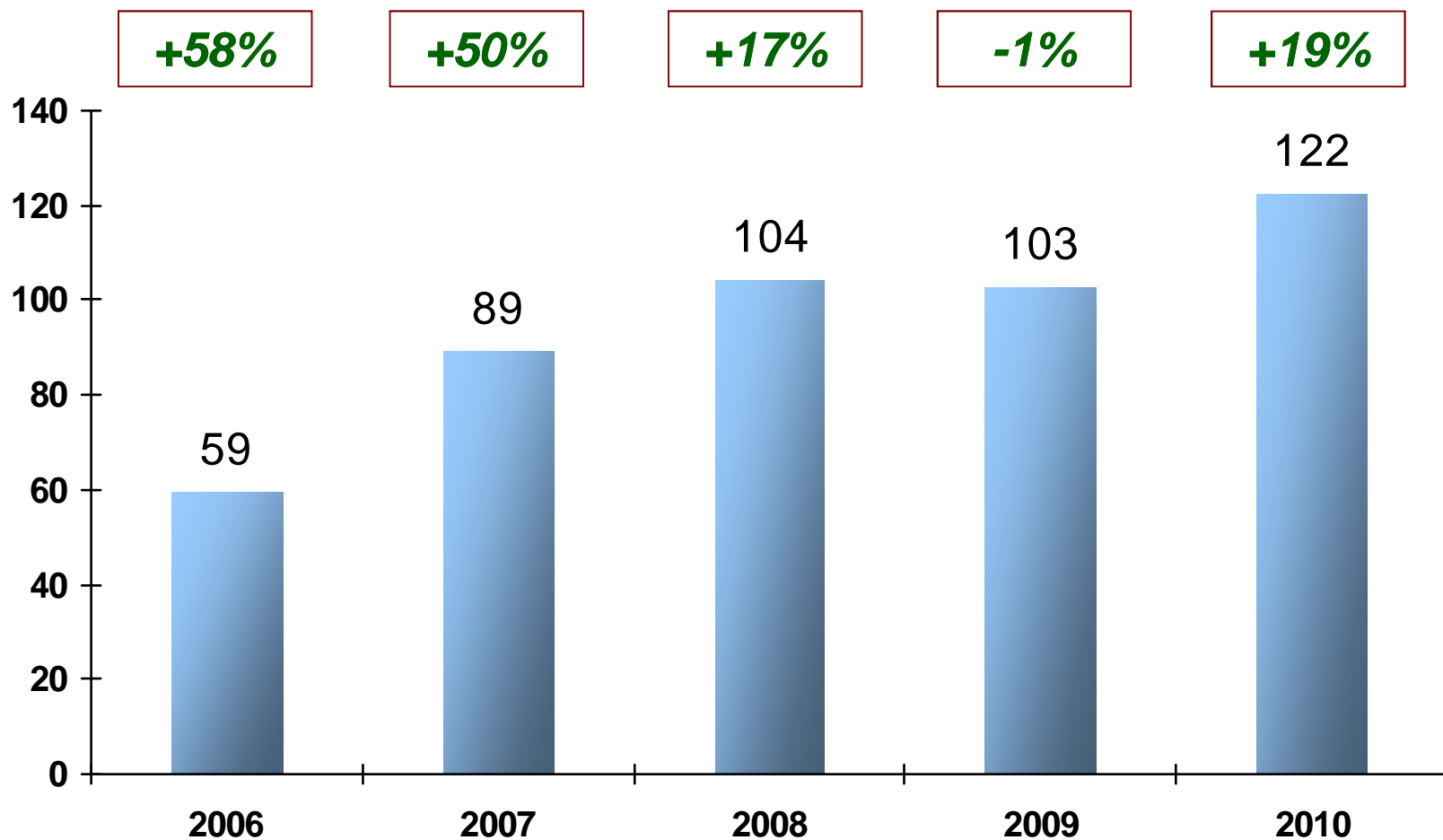


Total Financing keeps increasing

SME Financing

Total outstanding balance ('000 million Ps)

Annual Growth



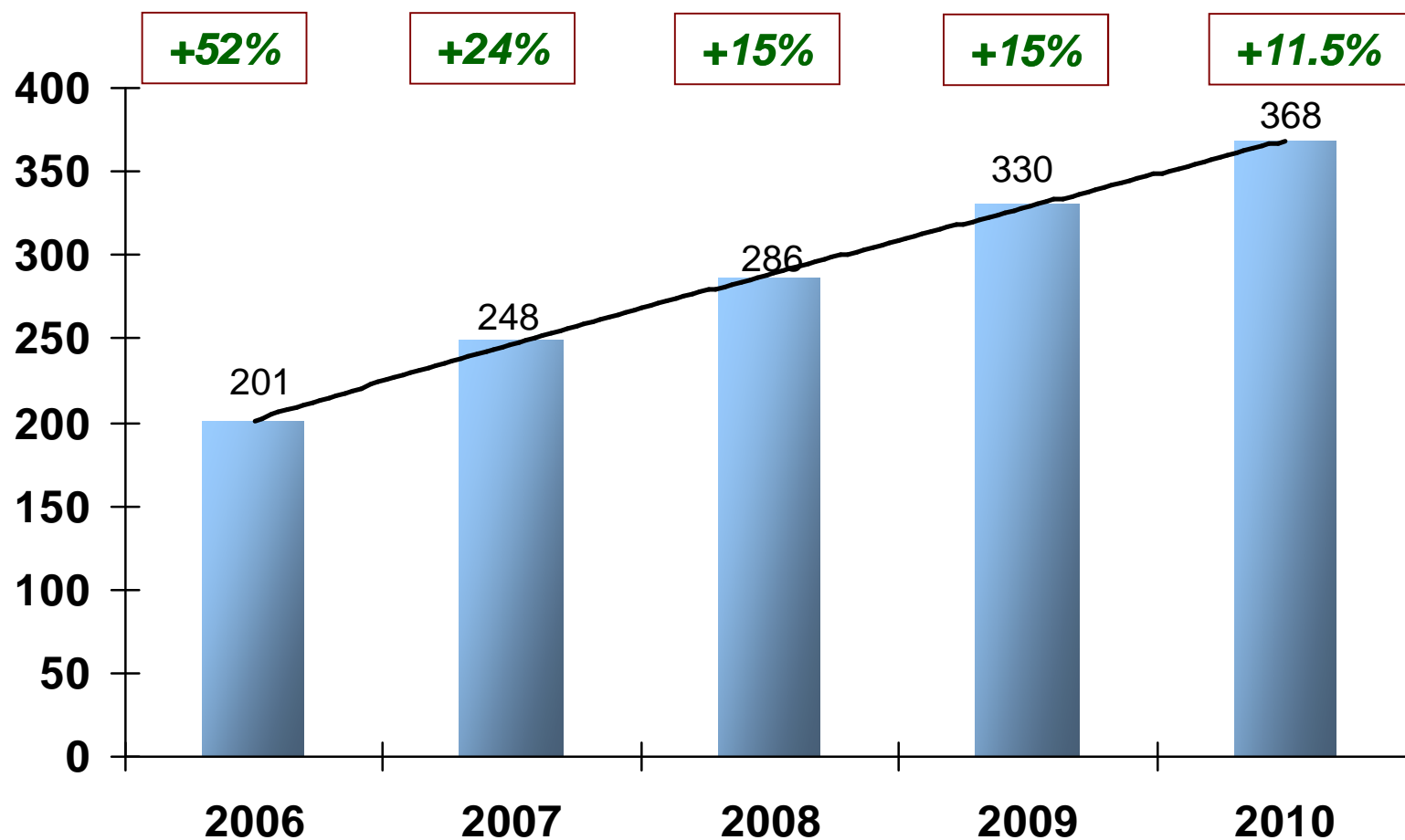


Total Financing keeps increasing

Mortgage Financing

Total outstanding balance ('000 million Ps)

Annual Growth



Note: The graph does not include Nonperforming Loans.

Source: Banco de México.

The Mexican Banking Sector

Mortgage Market in Mexico

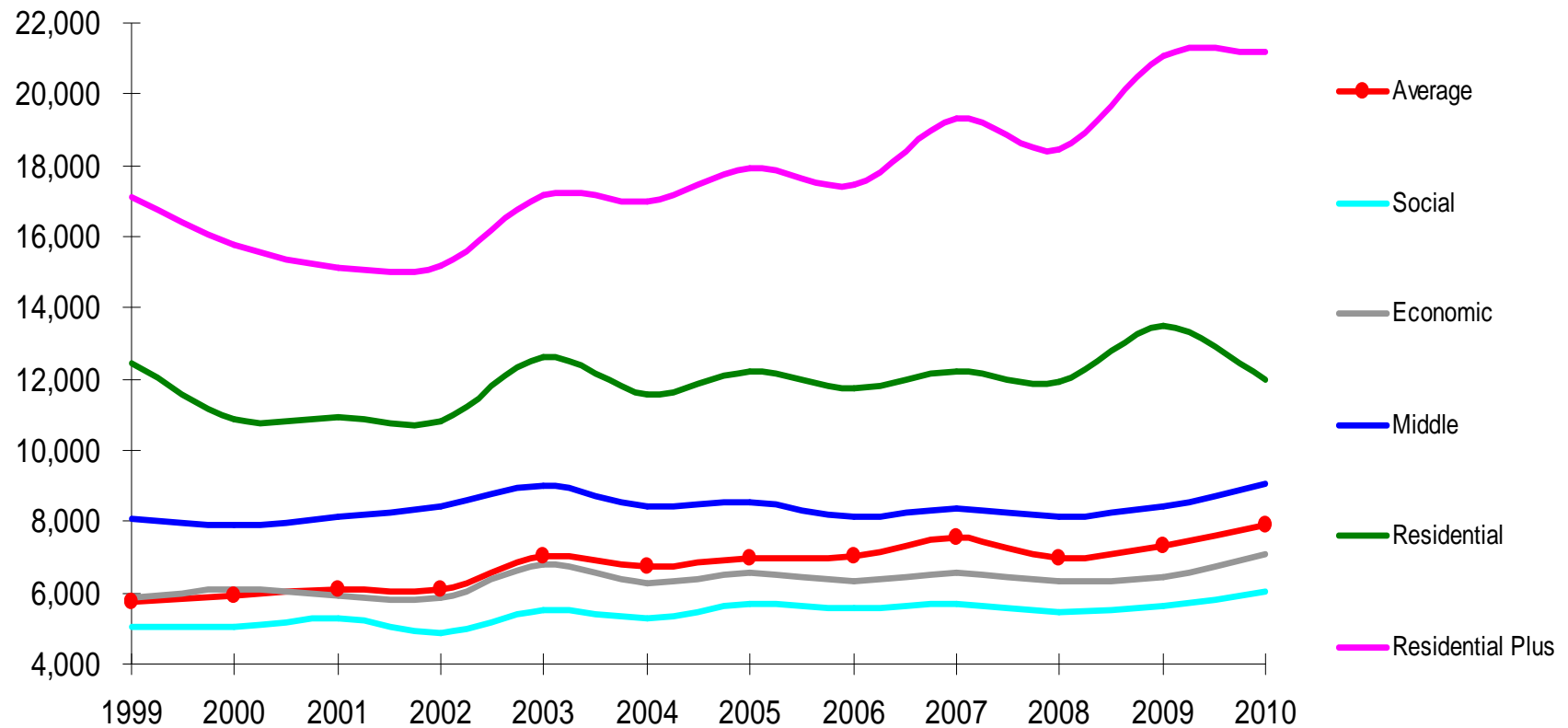
Perspectives and Conclusions



Mexico didn't experienced a bubble in housing prices

Price per Sq. Mt. by Segment

Constant pesos*



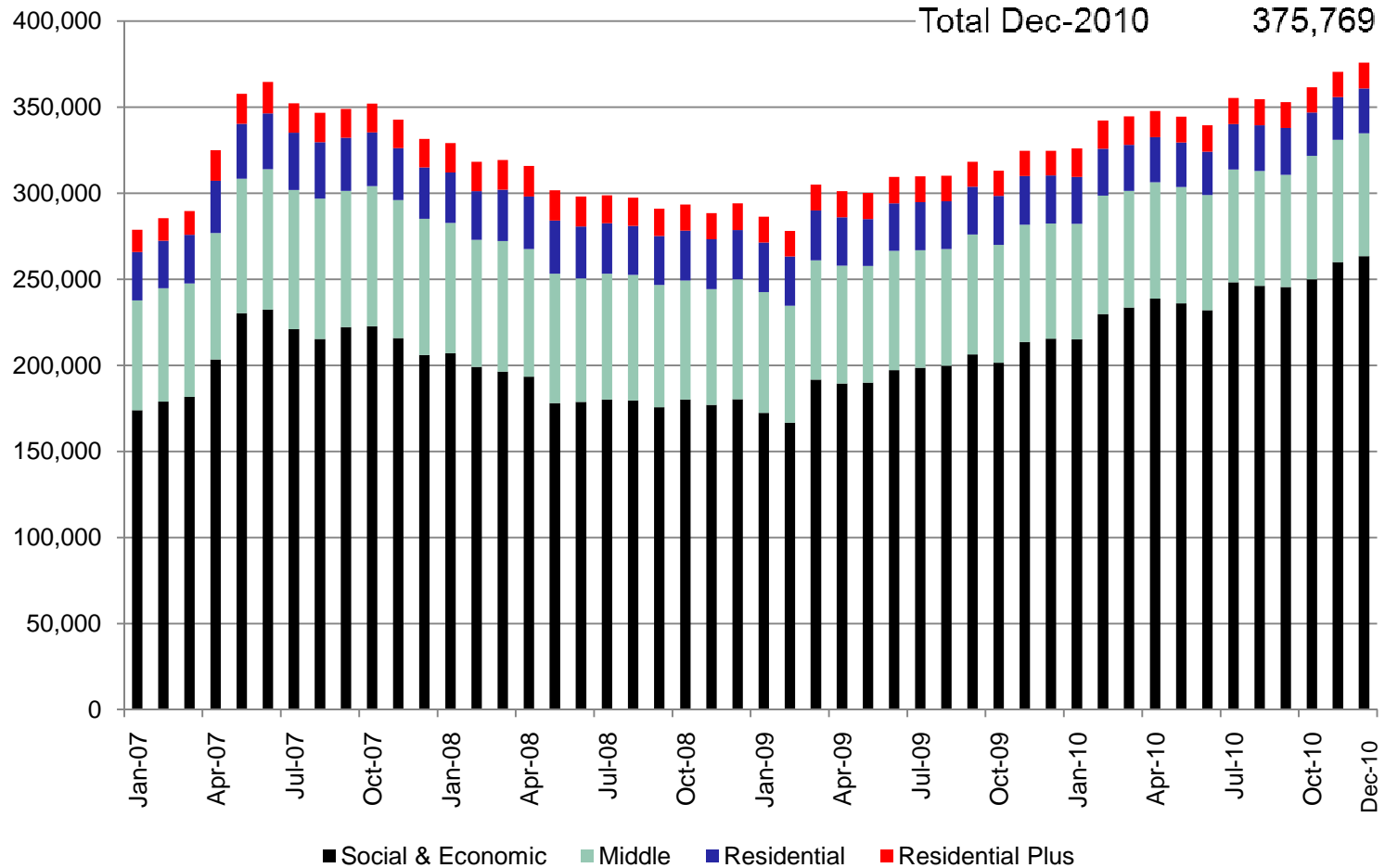
Source: BBVA Research Jan 2011.



Total Housing inventories

New houses to be sold Units

Social & Economic	263,397
Middle	71,375
Residential	26,038
Residential Plus	14,959

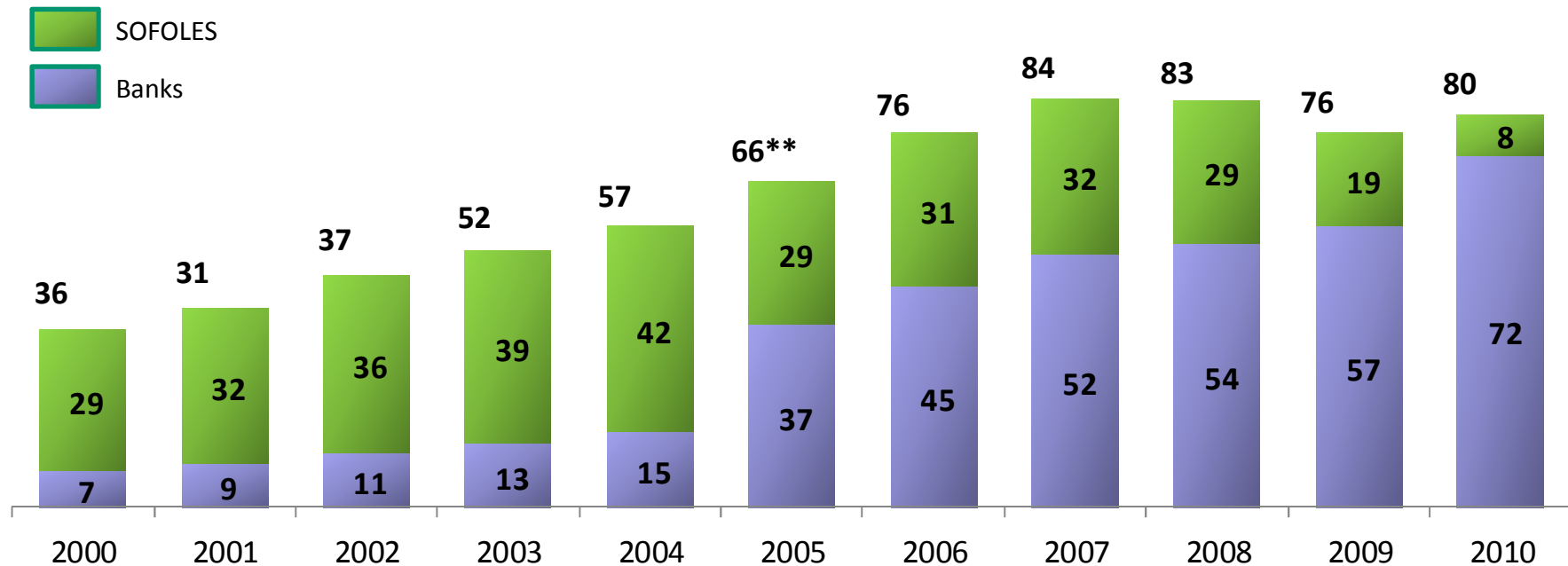




Banks and Sofoles have been the main source for financing home builders

Financing from intermediaries to home builders

Balances at the end of each year ('000 million Ps)*



Financing from Banks is growing up 2010 vs 2009 26.3%

Source: BANCA HIPOTECARIA BBVA BANCOMER, AHM * Includes credit to house developers and others

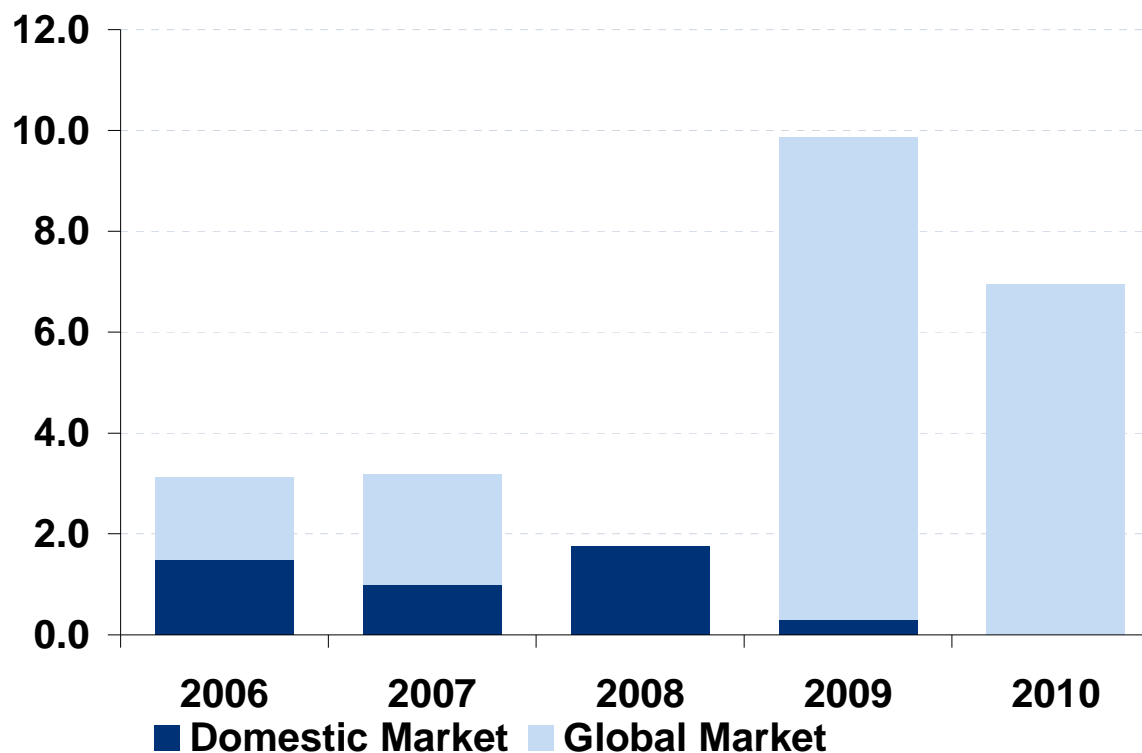
**Note: In 2005 HIPOTECARIA NACIONAL began to be part of BBVA BANCOMER, so the total placements are considered financing from banks



Mexican Home – Builders are actively engaged in debt issuance, specially in the global markets

Mexican Home-Builders' Debt Issuance 2008-2010

(Net flows, billion pesos at constant 2010 prices)

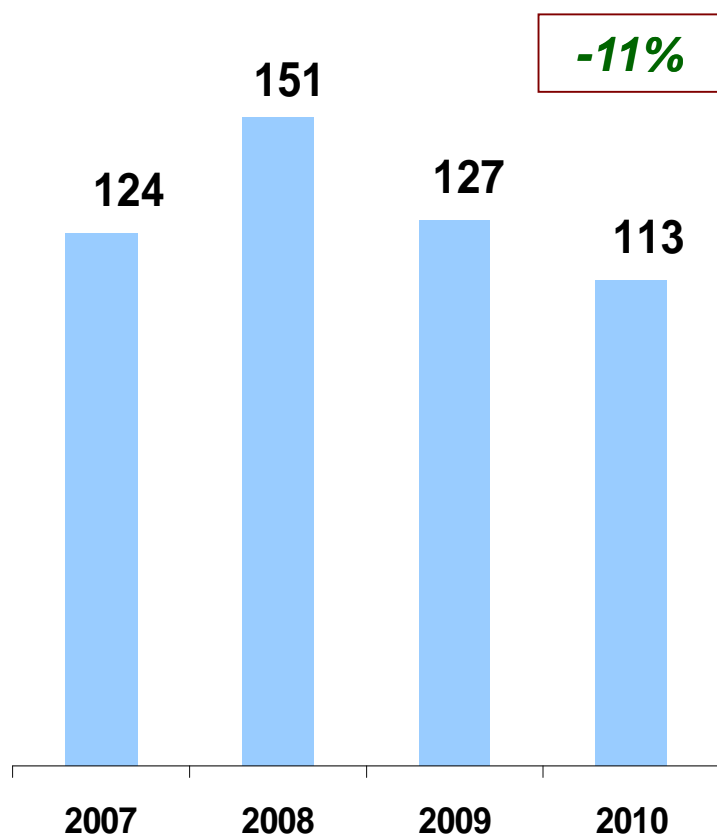




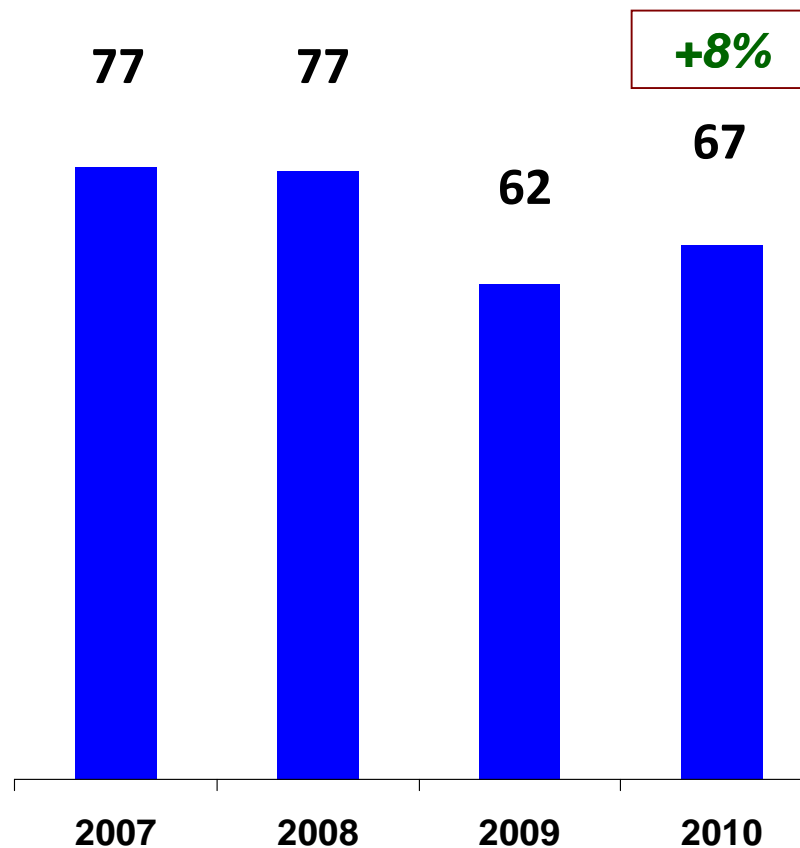
Banks are active in lending to the Households

Annual Mortgage Credit for Households

Number of loans ('000)



Annual allocation ('000 Million Ps)



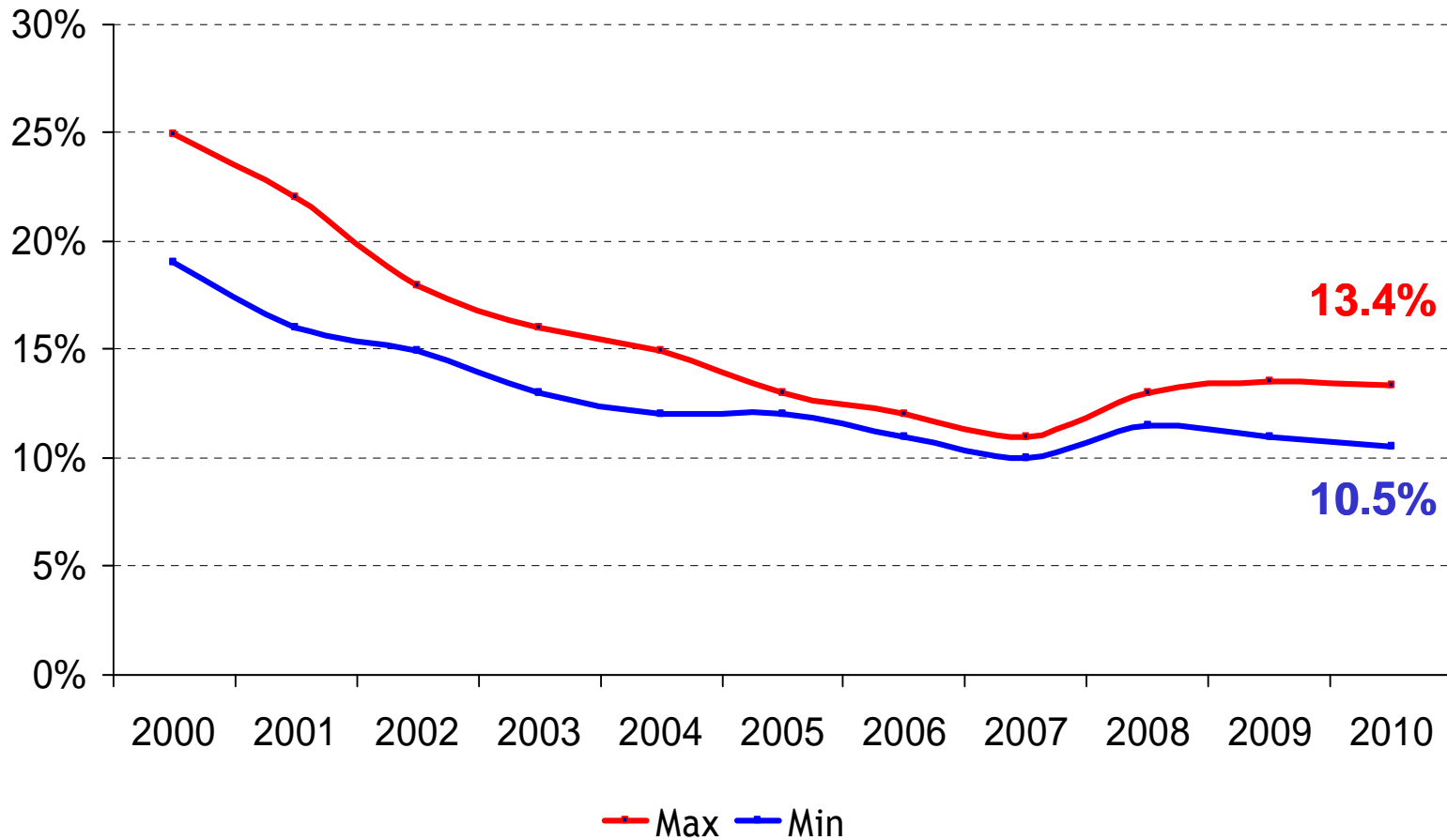
Includes: Open market, Infonavit Total, Cofinavit, Apoyo Infonavit, Fovissste (Alia2 y Respalda2).

Source: ABM



Favorable fixed interest rate conditions remain available for mortgage loans

Interest Rates on Mortgage Loans vs. Long Term Interest Rates





Banks have adjusted credit policies to mitigate incremental credit risk

	2000	2008	2009	2010	
Interest rate	Variable	Fixed	Fixed with incentives for timely payments	Fixed with incentives for timely payments	
Up front fees	6%	3%-0%	3%-0%	0%	
Term	10-15 yrs	Up to 30 yrs	Up to 30 yrs	Up to 30 yrs	
Products	Acquisition	Multiple uses	Multiple uses	Multiple uses	<ul style="list-style-type: none"> ➤ Acquisition ➤ Substitution ➤ Construction ➤ Remodeling ➤ Co-financing INFONAVIT, FOVISSSTE ➤ 2nd Home ➤ Home Equity ➤ Saving Account¹
Payment pesos per thousand	\$22.0	\$9.5-\$11.0	\$10.5-\$12.0	\$10.0-\$12.0	
Down payment	+35%	10%-20%	10%-20%	10%-20%	
Mortgage Insurance	No	For high LTV's	For risk mitigation	For risk mitigation	
Unemployment insurance	No	Yes	Yes	Yes	
Interests tax deductible 	No	Yes	Yes	Yes	

¹Income disponibility for mortgage monthly payment



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

Factor	Description
Housing Market	<ul style="list-style-type: none">• No price bubble, no speculation.• 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.• Securitized Mortgage loans have a healthy profile and maintain skin in the game from the issuer.



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2011 Perspectives: Regardless of the recent adverse environment, the fundamentals remain sound

Demographic Factors

- Demographic structure
- Annual growth of 603,500 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
- Solid Social Mortgage Institutions (Infonavit, FOVISSSTE, SHF)
- Federal Government subsidies to ecologic houses.

Product Factors

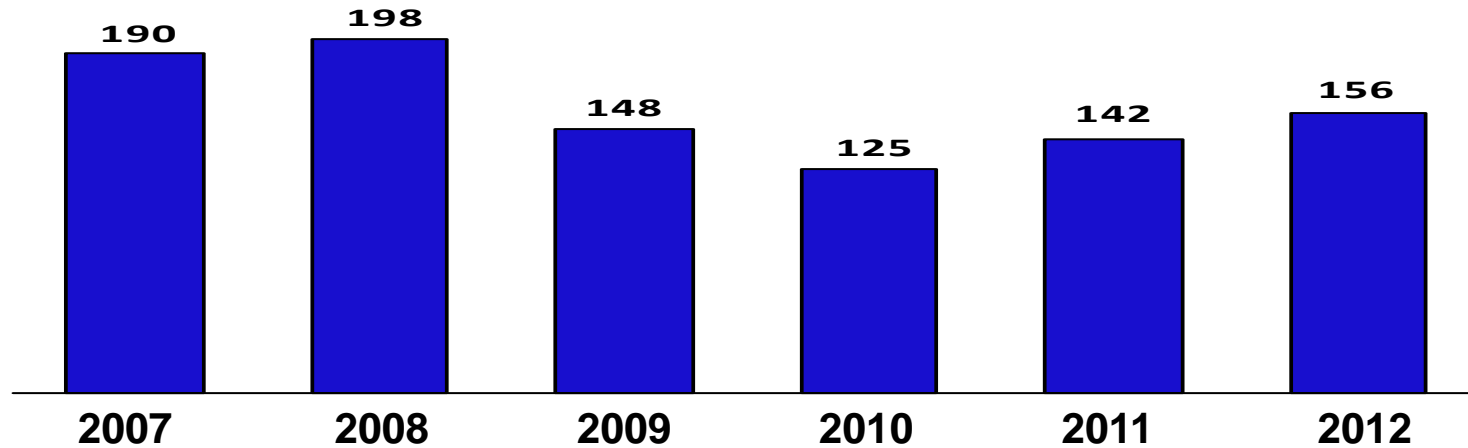
- Fixed rates
- No toxic products
- Unemployment insurance
- INFONAVIT Programs
- Co-financing programs
- Portfolio with Life and Damage insurance
- Mortgage insurance
- Securitization



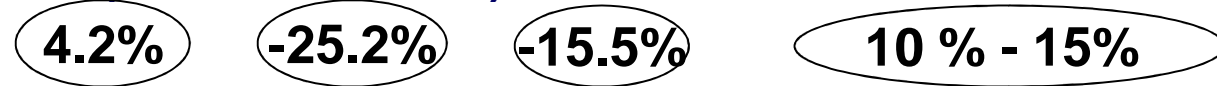
Projections: Expected volumes for 2011 - 2012

Mortgage Loans from private sector (banks and sofoles)

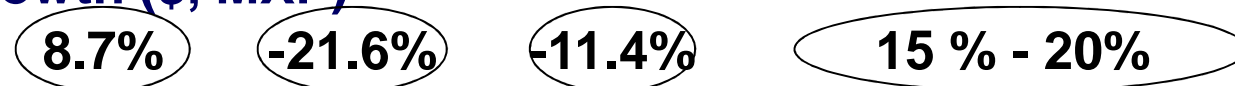
Number of loans (thousands)*



Annual growth (number of loans)



Annual growth (\$, MXP)



Change (\$, thousands of millions MXP)



Source: BBVA Bancomer / Hipotecaria Nacional estimates.

Includes: Cofinanciados Infonavit, Fovissste and Infonavit Total. The number of loans estimated for 2011 does not include additional 16,000 home improvement loans, equivalent to \$5 thousands of millions MXP.

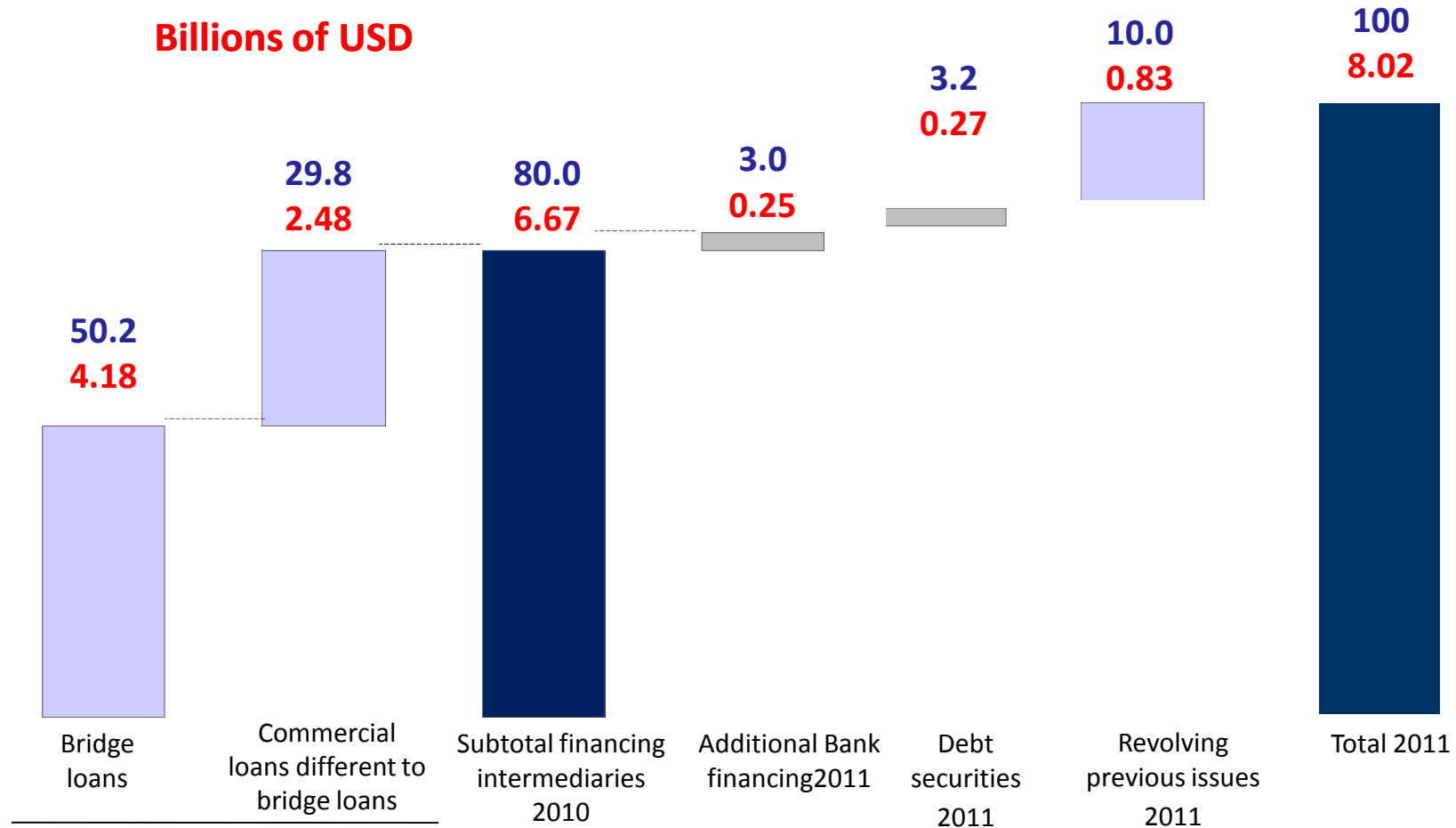


Projections: Sources and demand for Construction financing

Housing construction financing composition (Estimate for 2011)*

'000 million Ps

Billions of USD



•Banks and sofoles



CONCLUSIONS

- 1. The economic expectations for economic growth in Mexico are positive for the next years.**
- 2. The housing sector has huge potential for growth in the next decade.**
- 3. Banks, and the financial sector in general, have strong interest in the sector and will actively participate in home builders and mortgage financing.**
- 4. This is possible due to the strength of Mexico's financial sector, government's commitment to the housing industry and social-demographic engine which ensures a sustained demand.**



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