

The background of the slide is a photograph of a modern residential development. It features two long, symmetrical rows of two-story townhouses or small apartment units. The buildings have light-colored facades (possibly white or light beige) with dark brown or terracotta accents around the windows and doors. The units are arranged in a U-shape, with a paved road or walkway running down the center. The sky is overcast and grey. The overall scene is clean and organized, suggesting a well-planned housing project.

Recent Developments in the Mexican Mortgage Market and the Role of SHF over the Coming Years

**Mexico Housing Day
New York, NY February 9, 2007**

A photograph of a modern, multi-story residential building with a mix of white and brick facades, set against a clear blue sky.

SHF's mandate according to its law

A photograph of a residential building under construction, showing brick walls and a concrete structure, with a ladder leaning against the side.

“...to promote the development of primary and secondary markets for residential mortgages...”





SHF's strategy over the coming years will concentrate on:

1. Promoting a more efficient and competitive residential mortgage market for those segments already being served through housing loans.
 2. Sponsoring affordability for those households that have not yet been served.
 3. Promote the supply of enough social housing under a sustainable urban surrounding.
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1. Promoting a more efficient and competitive residential mortgage market for those segments already being served.



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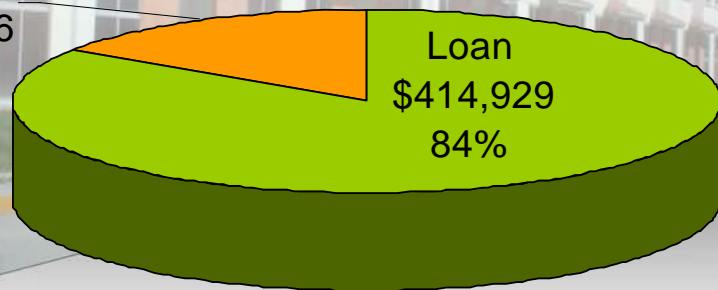
SHF's housing programs have been drifting to more affordable housing and lower downpayment loans...

Average Housing Price for Loans Funded by SHF^{/1}

Loans Originated in 2003

Housing Price
\$492,105

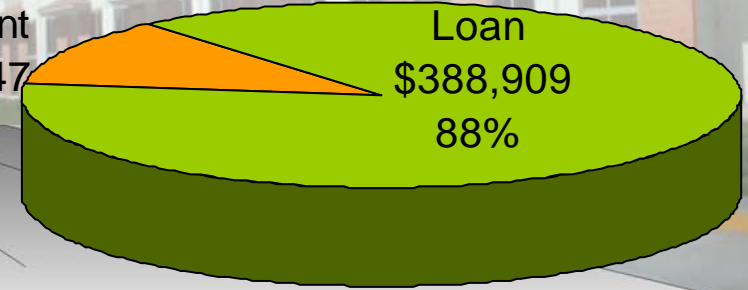
Down
Payment
\$77,176
16%



Loans Originated in 2006

Housing Price
\$441,656

Down
Payment
\$52,747
12%

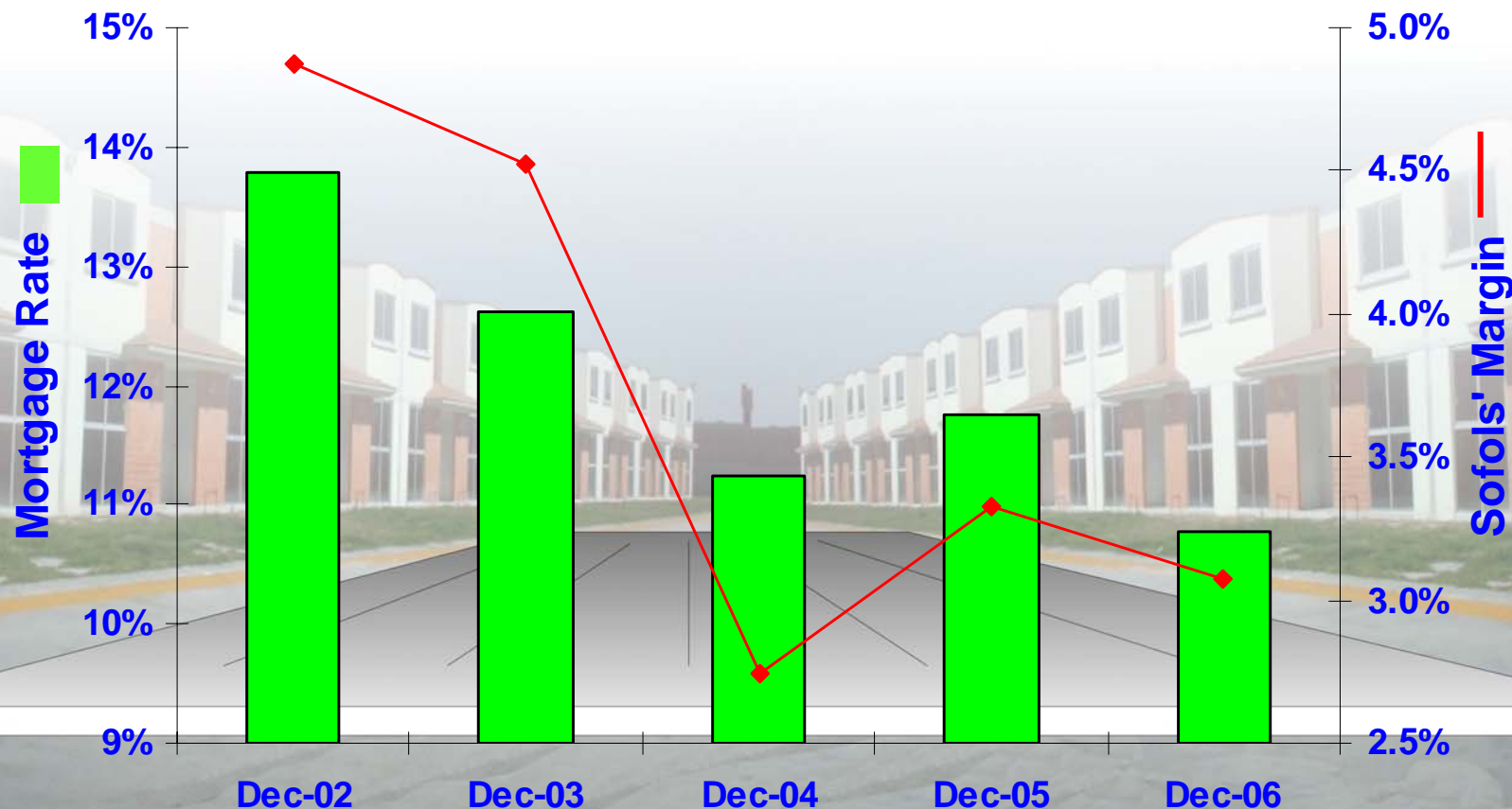


^{/1} Prices expressed in real terms in pesos of Dec-2006

1. Promoting a more efficient and competitive residential mortgage market for those segments already being served.

... due to the reduction in mortgage rates ...

Mortgage Rates and SOFOLS' Margins on Loans Funded by SHF (25 year UDI-denominated loans for affordable homes)

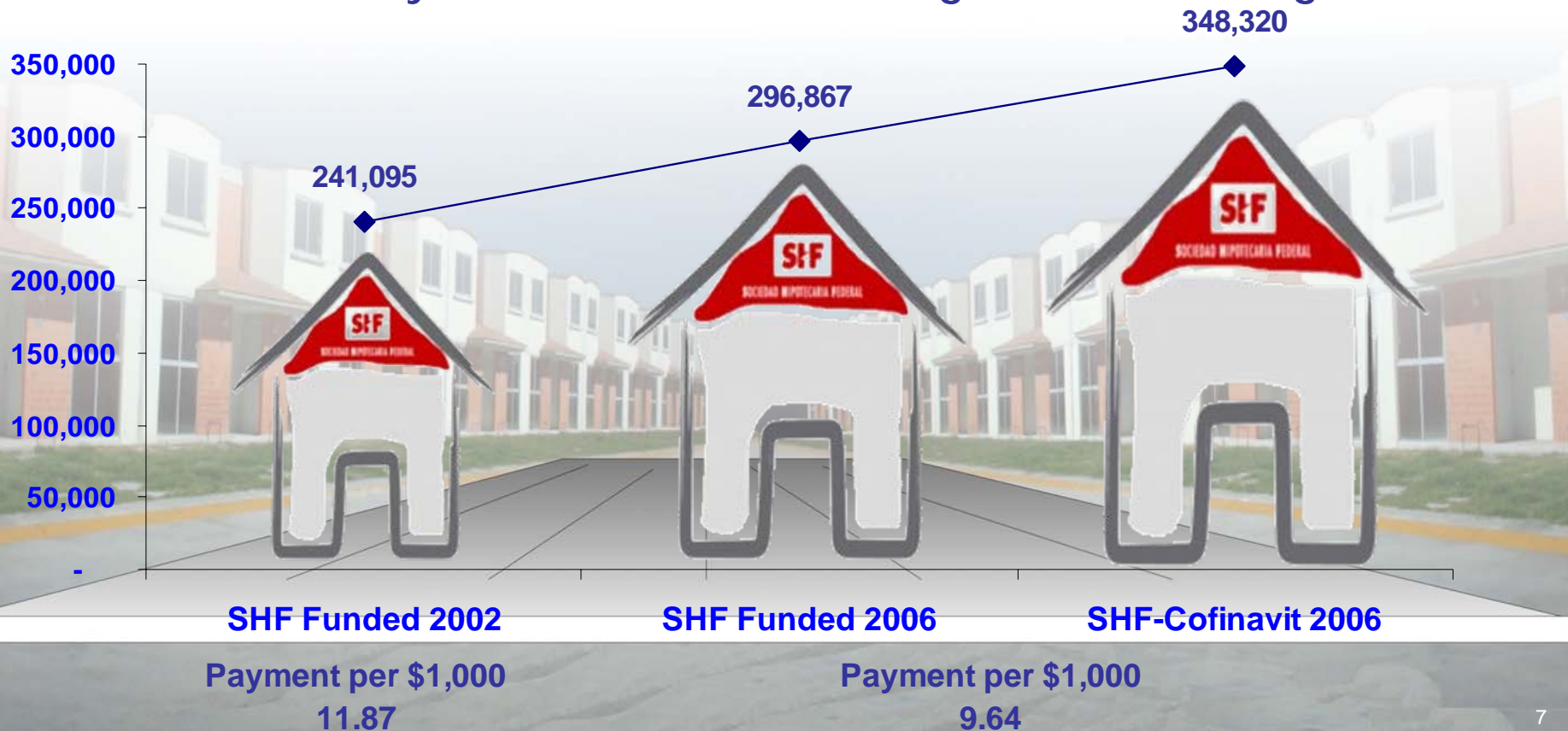


1. Promoting a more efficient and competitive residential mortgage market for those segments already being served.

... and to the introduction of new products.

For a household earning the equivalent of 7 minimum wages, purchasing power increased by 23% between 2002 and 2006 due to the reduction in mortgage rates by 44% if that household could get the loan through a Cofinanciamiento.

Affordability for a Household Earning 7 Minimum Wages



1. Promoting a more efficient and competitive residential mortgage market for those segments already being served.

As a result, the proportion of households served under 7 minimum wages has increased significantly.

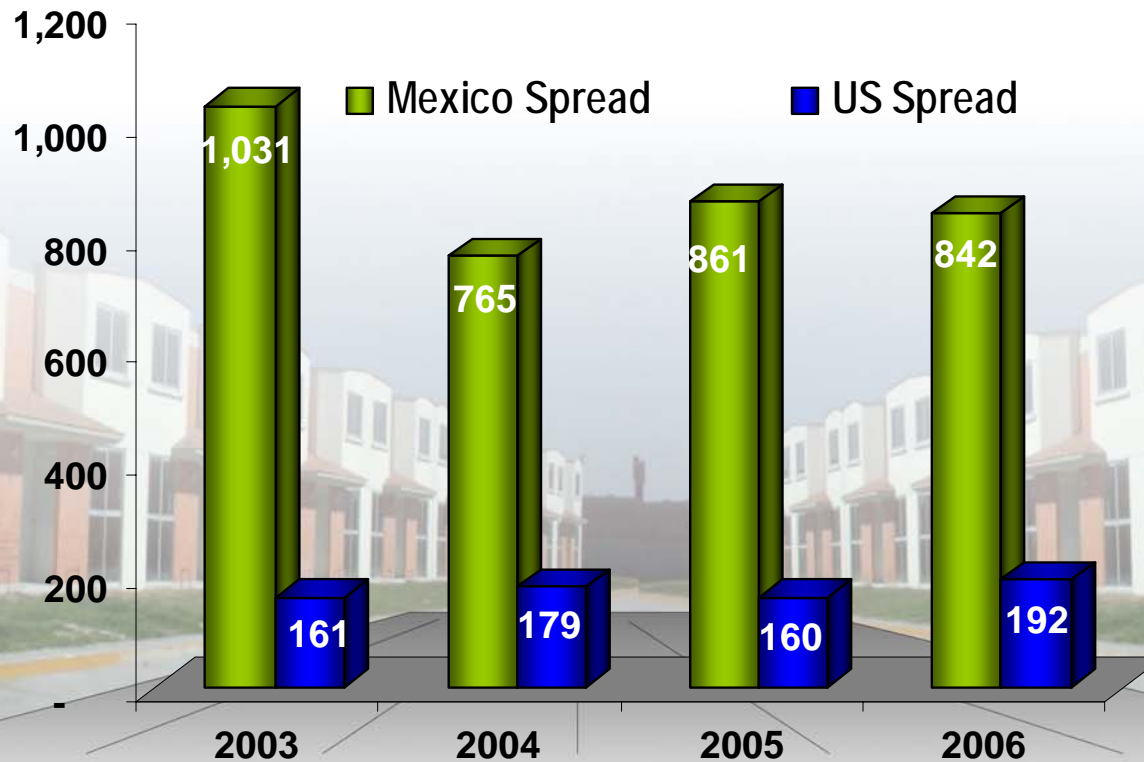
Frequency Distribution of Borrower Incomes Loans Funded by SHF




1. Promoting a more efficient and competitive residential mortgage market for those segments already being served.

The spread between the effective mortgage rate offered by banks and sofoles and the riskless rate is still too large for affordable homes.

Differential between Effective Mortgage Rate and Risk-Free Rate in Mexico and the US



- Risk free rate.- in the case of Mexico 10 year Udibono and for US 10 year Treasury rate
- For US the rate used as Total Annual Mortgage Cost was the Effective Mortgage Rate published by The Federal Housing Finance Board and corresponds to the observed average in fixed rate 30 year loans including origination fees and monthly expenses for a ten year period.

Three vertical panels of images are positioned on the left side of the slide. The top panel shows a row of modern, two-story residential buildings with white facades and dark window frames. The middle panel shows a brick building under construction with a ladder leaning against it. The bottom panel shows a construction site with wooden formwork and rebar for a concrete foundation.

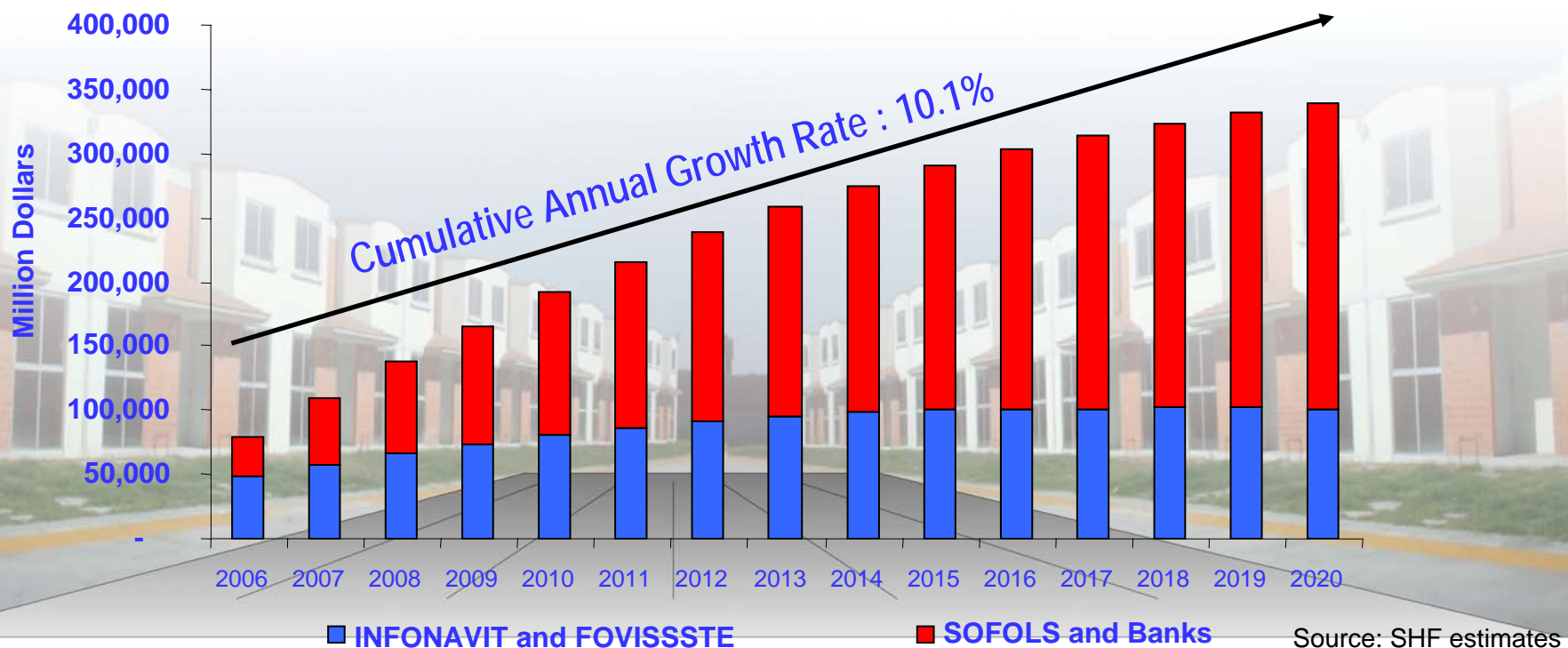
In order to *“Promote a more efficient and competitive residential mortgage market for those segments already being served”*, SHF will work to:

- 1.1 Foster the development of secondary residential mortgage markets.
- 1.2 Increase the involvement of private intermediaries and their exposure to risk in the residential mortgage markets and attract the participation of more intermediaries.

1.1 Foster the development of secondary residential mortgage markets.

Even under very conservative assumptions, SHF estimates that the residential mortgage portfolio will grow from USD \$79,600 million in 2006 to at the very least USD \$338,300 million in 2020.

Mortgage Portfolio in Mexico



The projections of the mortgage portfolio are based on potential estimated demand assuming an 3% annual growth rate for GDP and the same levels for mortgage rates than those of 2006.

1.1 Foster the development of secondary residential mortgage markets.

The flow of financial savings in the country will not suffice to finance the growth of mortgage portfolios. Tapping into the savings of domestic institutional investors and foreign investors is an absolute must to maintain the growth in the mortgage sector.

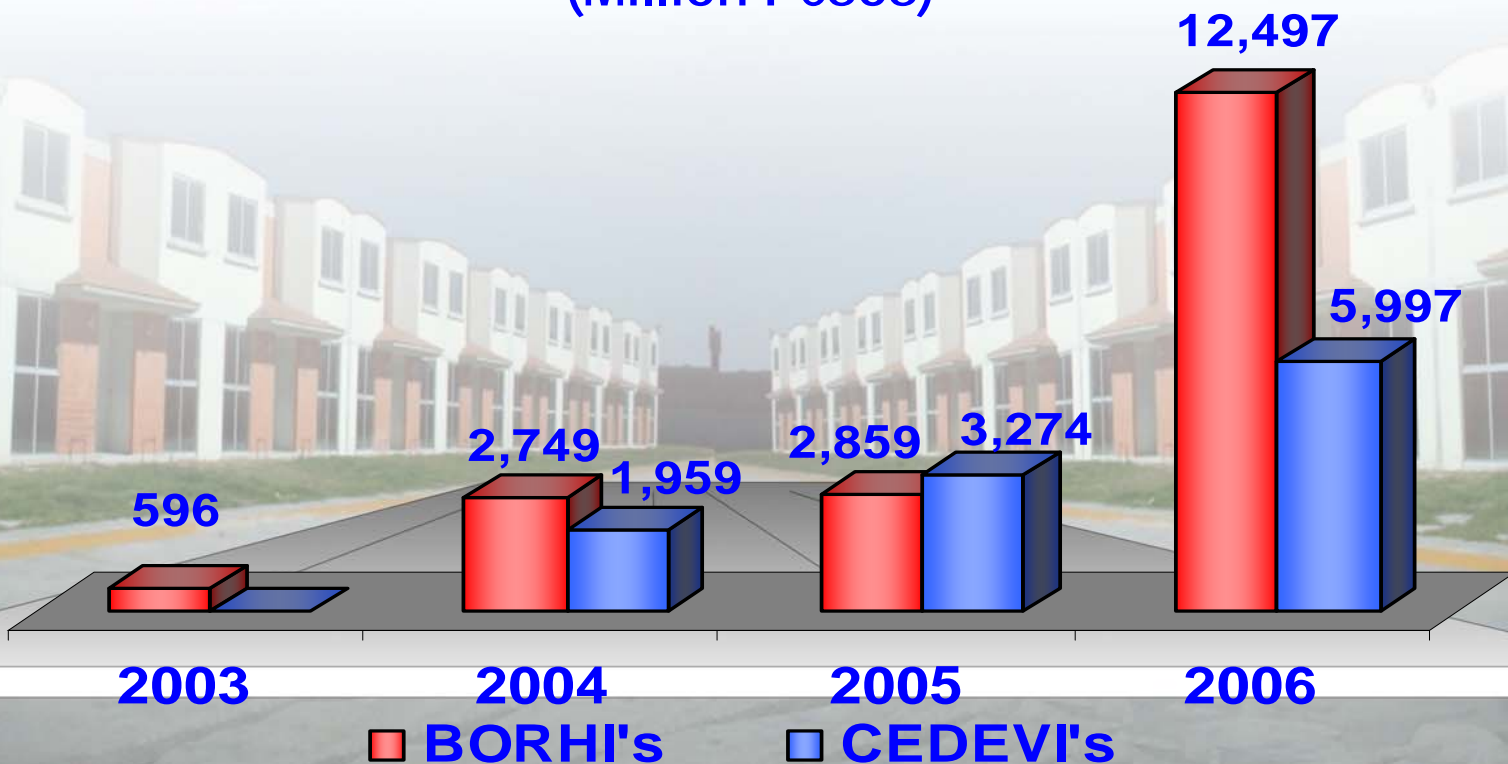
Accumulated Net Flow of Mortgage Loans Granted by the Private Sector and Siefores and Banks Savings Billion Pesos of 2006



1.1 Foster the development of secondary residential mortgage markets.

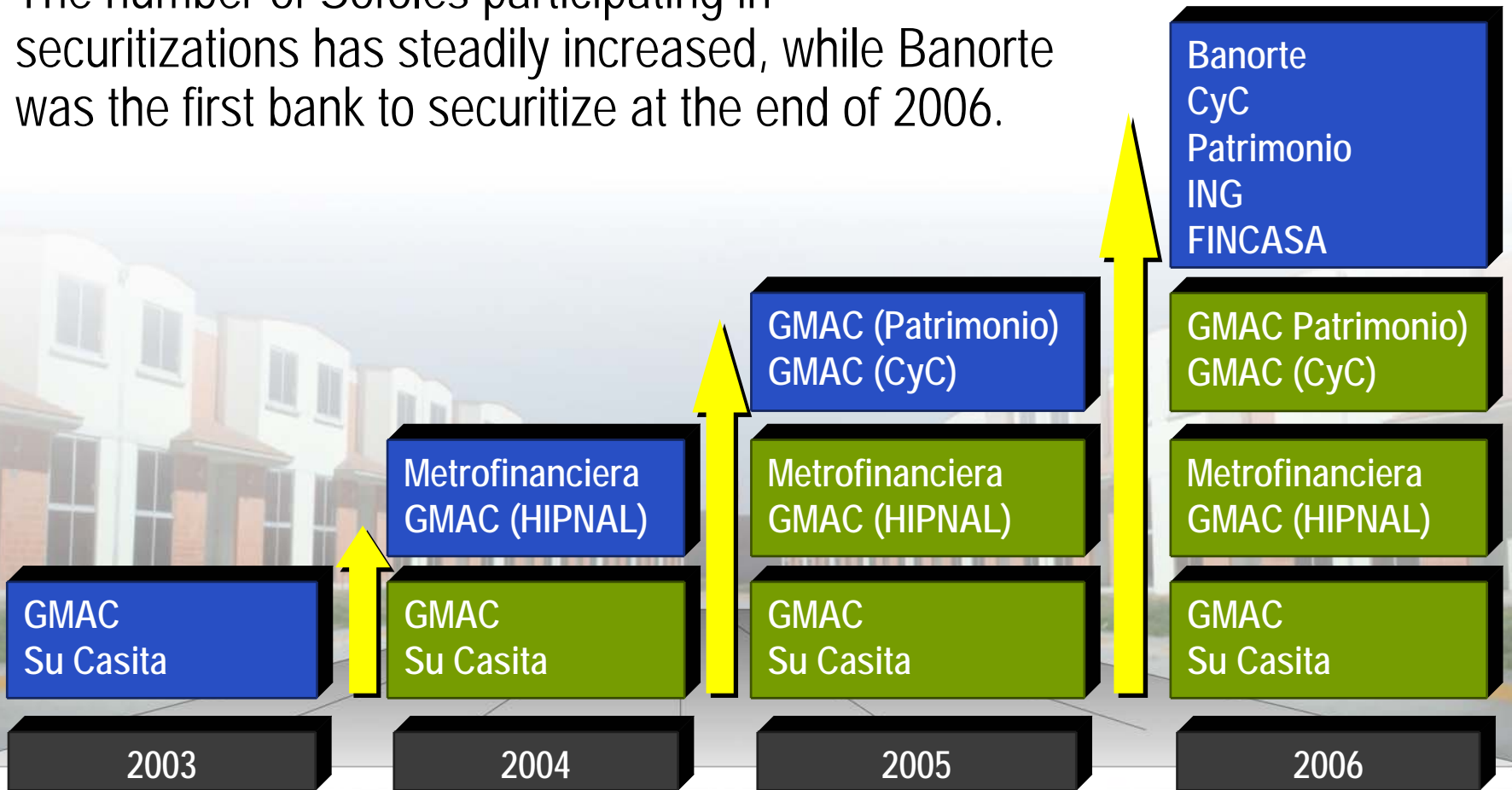
Securitization of residential mortgage portfolios increased dramatically in 2006, although it still represents only a fraction of the yearly funding needs in the sector.

Amount of RMBS Issued in the Mexican Market (Million Pesos)



1.1 Foster the development of secondary residential mortgage markets.

The number of Sofoles participating in securitizations has steadily increased, while Banorte was the first bank to securitize at the end of 2006.



1.1 Foster the development of secondary residential mortgage markets.

Considering that more banks will start issuing MBS, the expected amount offered for this year will be 2.5x the amount issued in 2006, including some cross-border deals.

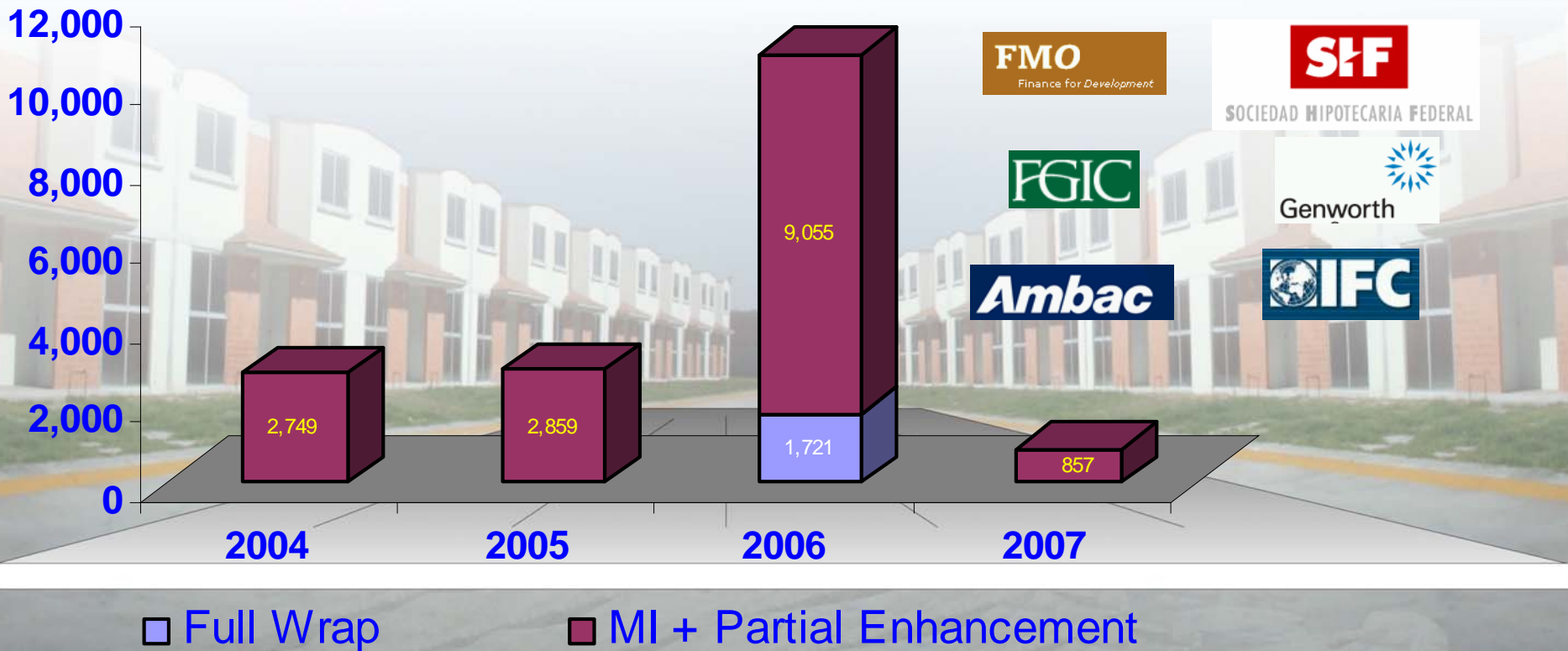
Accumulated Amount of BORHIS Issued by Sofoles and Banks (Expressed in USD millions)



1.1 Foster the development of secondary residential mortgage markets.

In every BORHIS issued so far there have been enhancements provided by strong financial specialized third parties, either in the form of Mortgage Insurance (MI) or of Financial Guarantee Insurance (Full-Wrap).

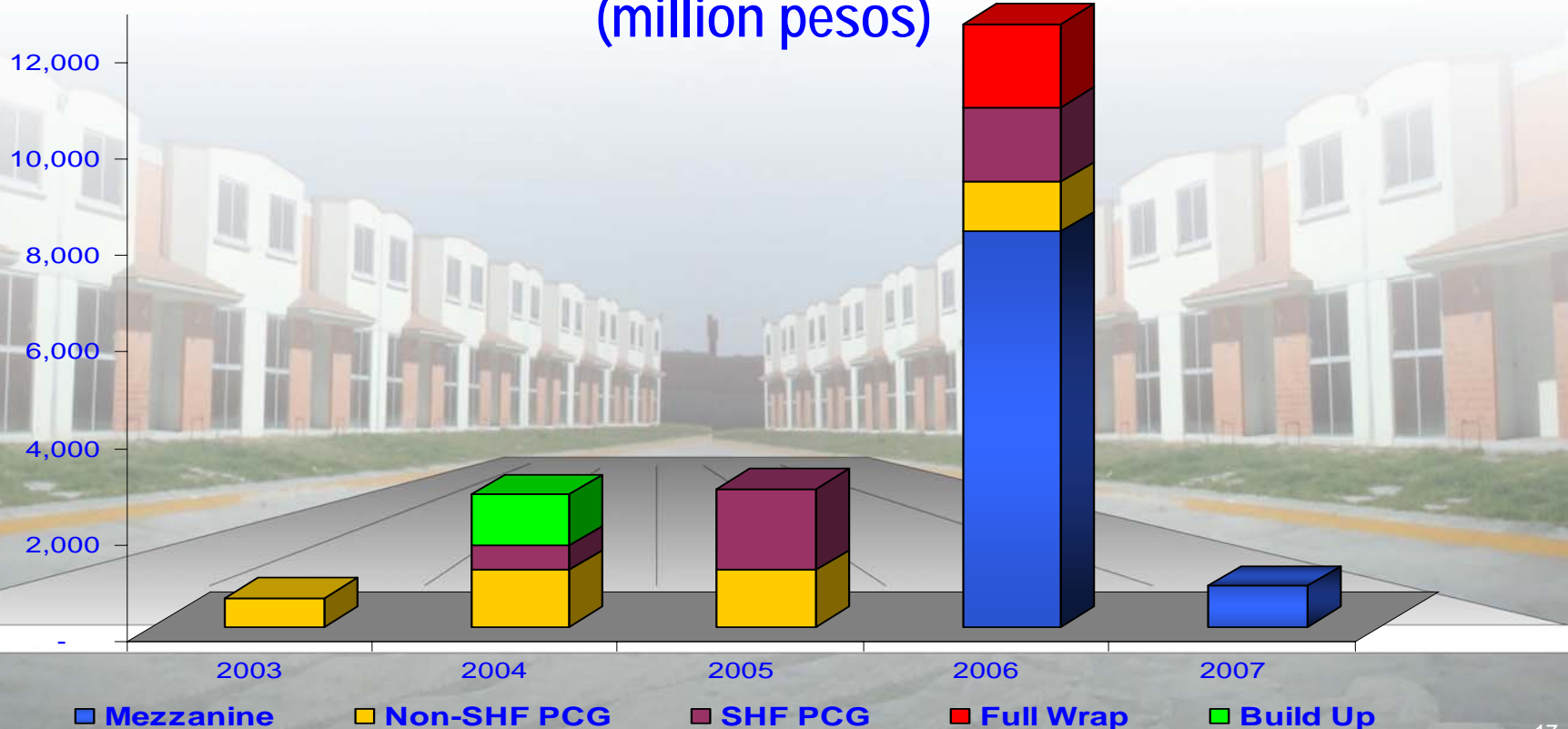
Annual Amount of BORHIS Issued (million pesos)



1.1 Foster the development of secondary residential mortgage markets.

While the market used to rely on Partial Credit Guarantees (PCGs) issued by SHF and IFC, during 2006 these were substituted to a large extent by the issuance of mezzanine bonds and full wraps provided by large international Financial Guarantee Insurance Companies.

Annual Amount of BORHIS Issued According to Enhancements (million pesos)



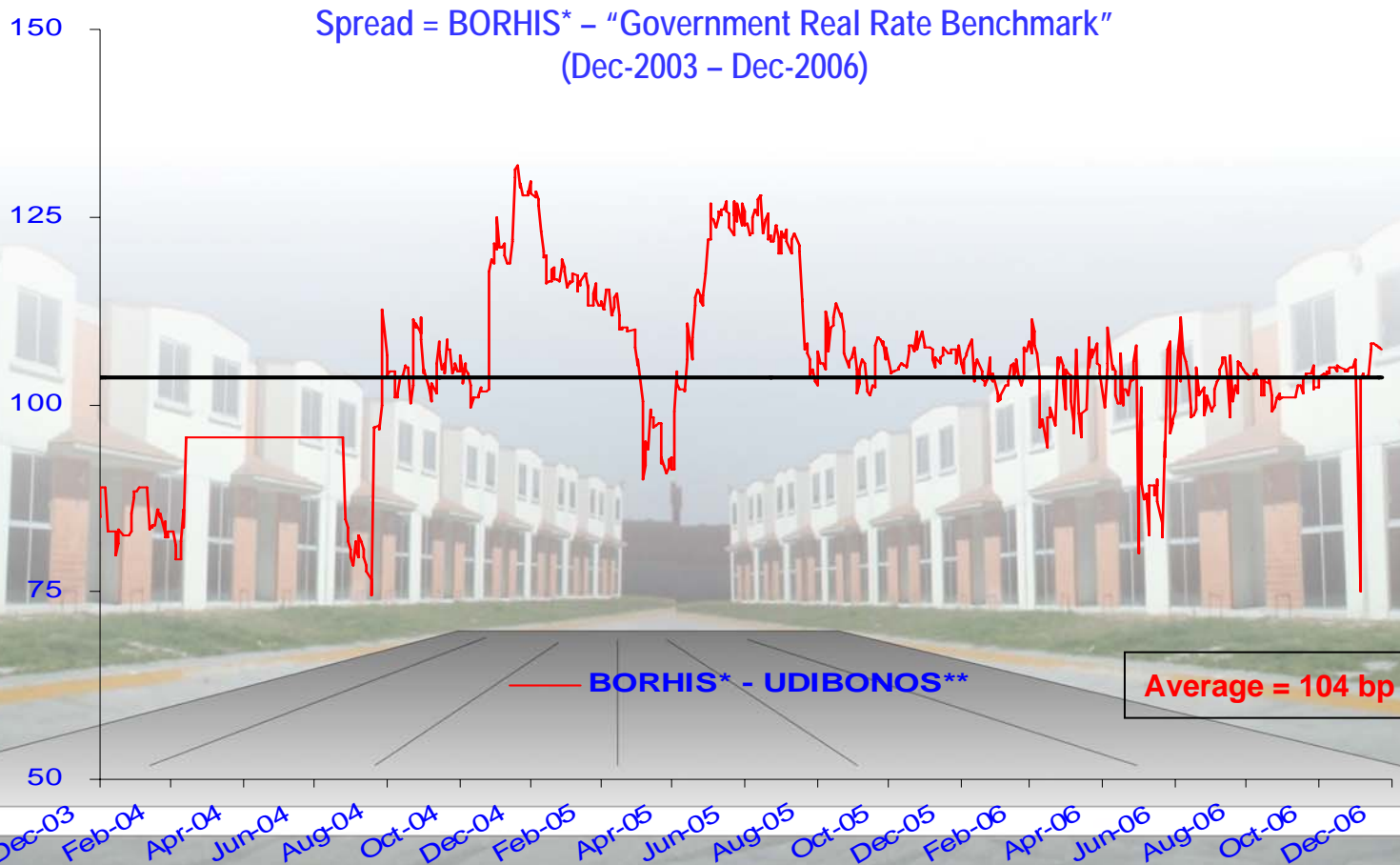
1.1 Foster the development of secondary residential mortgage markets.

Today there are 10 Market Makers participating in SHF's program to foster the liquidity of BORHIS in the secondary market.



1.1 Foster the development of secondary residential mortgage markets.

The spread of BORHIS over government securities has hovered around 100 basis points, a spread remarkably tight for a market this young.



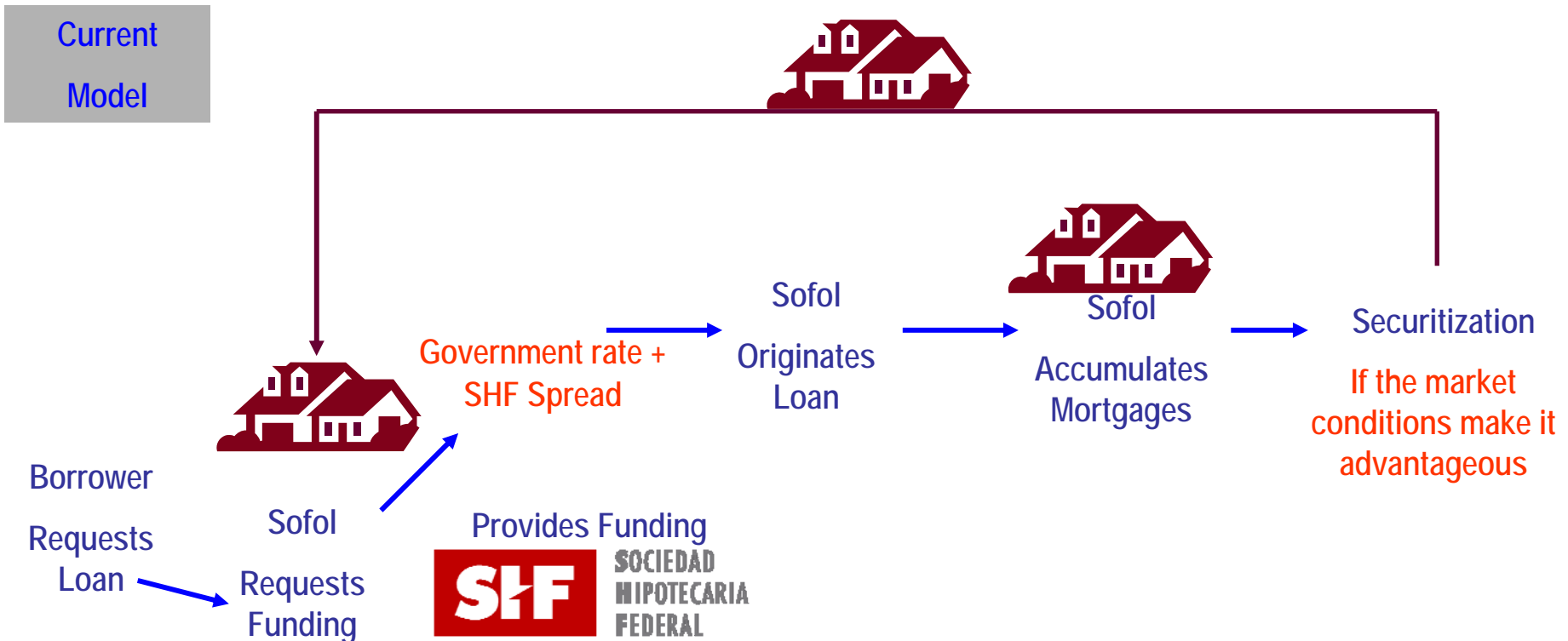
*Weighted Average of Rate (calculated, for each date, with the amount in circulation for each issuance). Source: VALMER.

** With a similar duration to BORHIS

1.1 Foster the development of secondary residential mortgage markets.

However, cheaper funding coming from the market (compared to that of SHF) has not yet translated into cheaper products for the consumer at the lower end of the income spectrum.

The process is long, more than 28 months in average



SHF and other financial intermediates have been focusing on developing the basic elements to securitize, however to date there are still no efficient mechanisms for portfolio integration.

1.1 Foster the development of secondary residential mortgage markets.

SHF will continue pursuing its two projects aimed at streamlining the process to securitize as soon after origination as possible:

- Issuance of “Fungible BORHIS” of which two already took place in 2006.
- Launch of HiTo, a company offering services to streamline the process from loan origination to securitization of portfolios.

Economist.com

Finance & Economics

Mortgages

A Danish model in Aztec dress

Jan 4th 2007

From *The Economist* print edition

One of the world's most robust mortgage systems may be exported to Mexico and other emerging markets

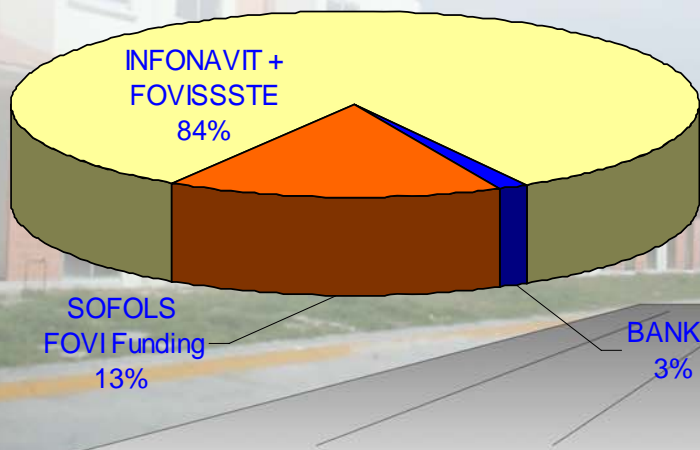
...some economists have touted the Danish approach as an ideal model for emerging-market mortgages. Mexico is about to become the first country to give it a try...



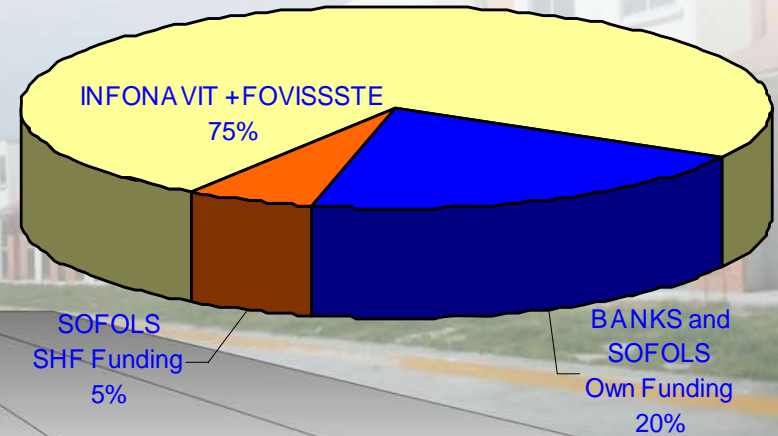
1.2 Increase the involvement of private intermediaries and their exposure to risk in the residential mortgage markets and attract the participation of more intermediaries.

About $\frac{3}{4}$ of loan originations still do not involve a private intermediary undertaking at least part of the risk inherent in the transaction.

Mortgages by Financing Source



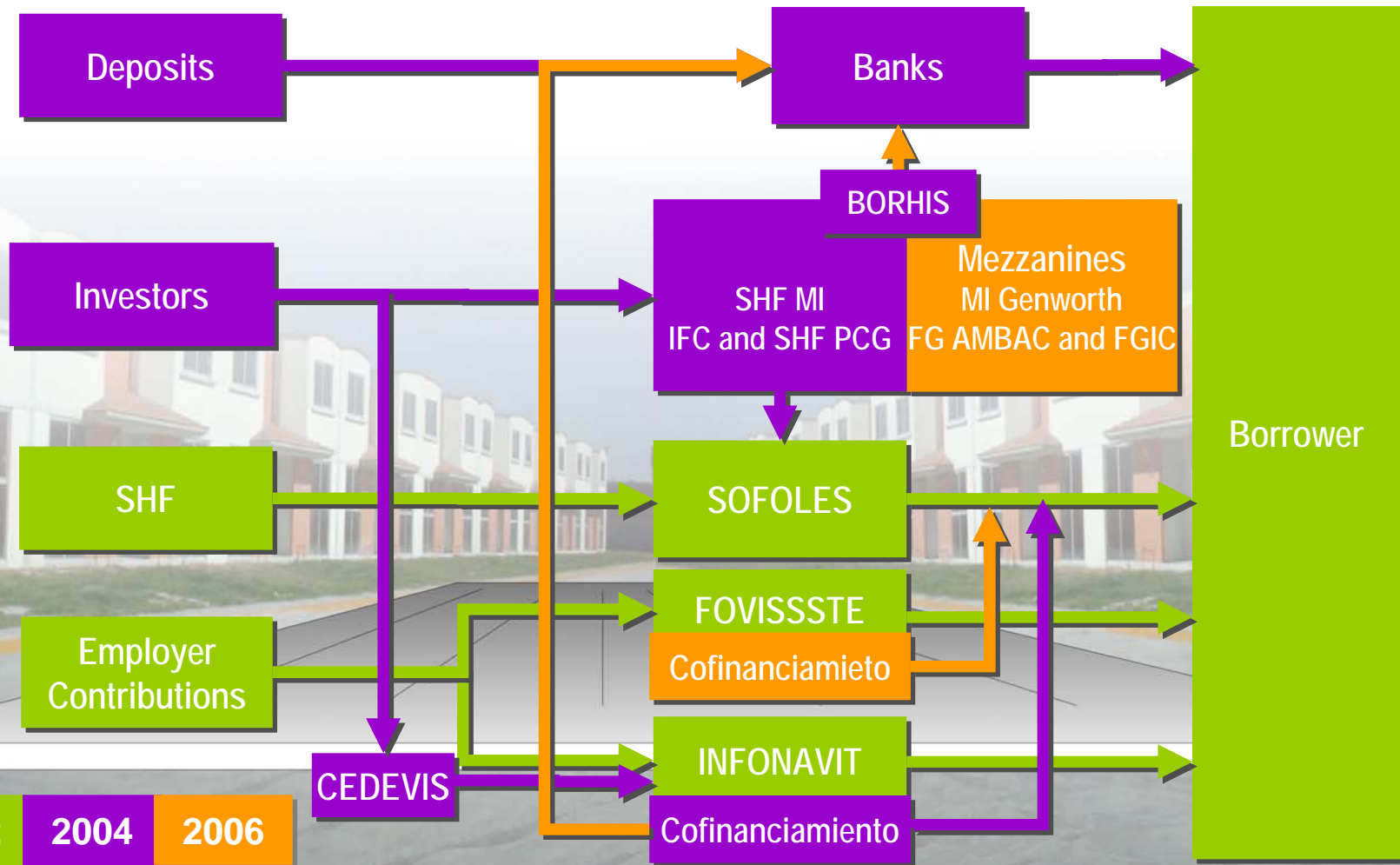
2002



2006

1.2 Increase the involvement of private intermediaries and their exposure to risk in the residential mortgage markets and attract the participation of more intermediaries.

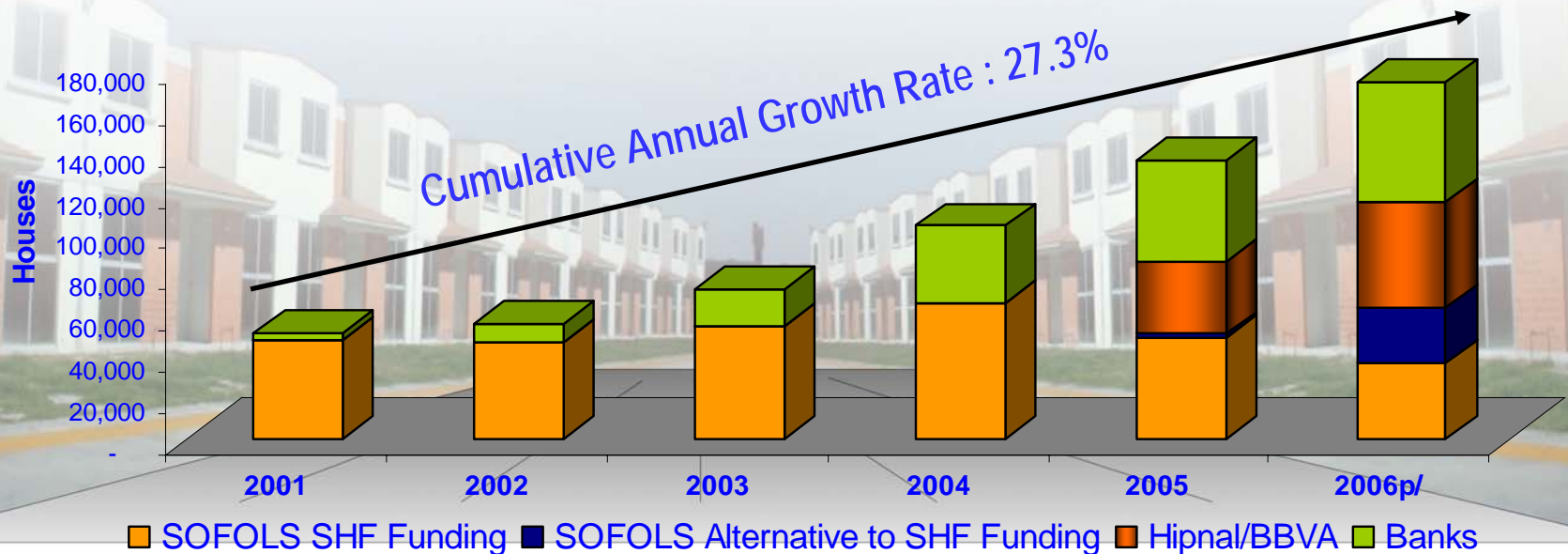
Recent Evolution of Residential Mortgage Markets



1.2 Increase the involvement of private intermediaries and their exposure to risk in the residential mortgage markets and attract the participation of more intermediaries.

The fast pace of growth shown by banks and sofoles since 2005 has been financed by sources other than SHF.

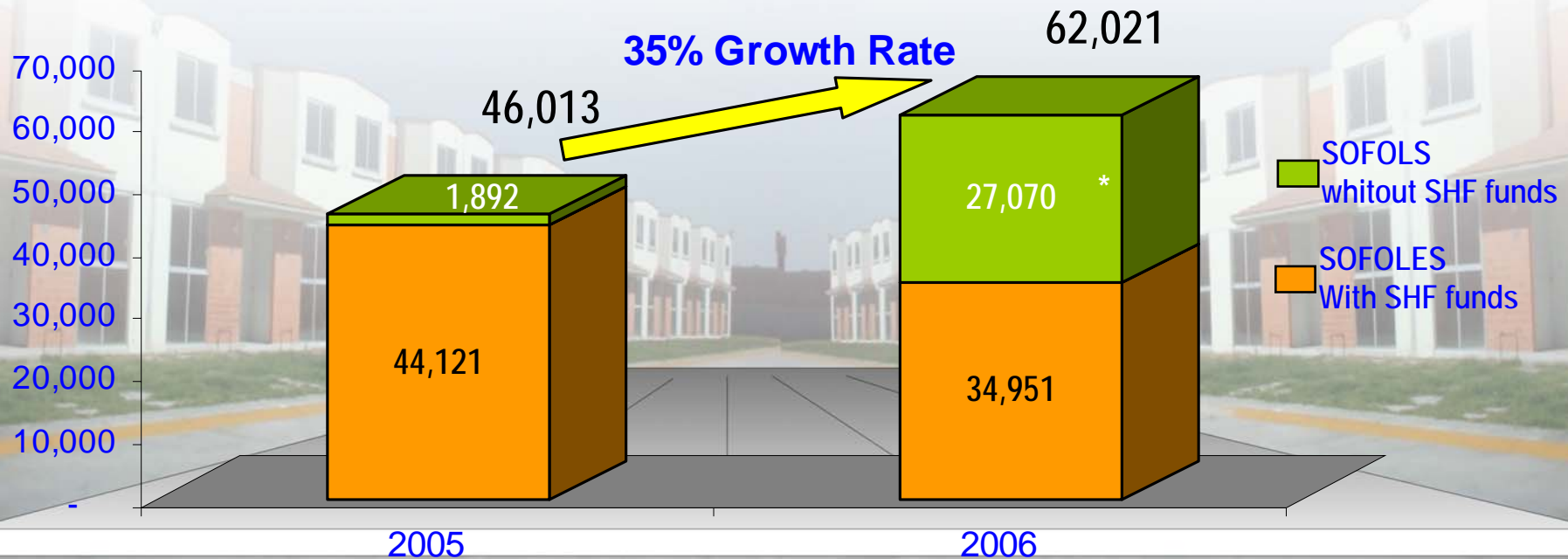
Number of Mortgages Originated by Sofoles and Banks



1.2 Increase the involvement of private intermediaries and their exposure to risk in the residential mortgage markets and attract the participation of more intermediaries.

During 2006, 44% of loans originated by Sofoles other than Hipotecaria Nacional were financed by sources different from SHF, in particular from warehousing lines of credit offered by international banks.

Number of Mortgages Originated by SOFOLES (excluding Hipotecaria Nacional)

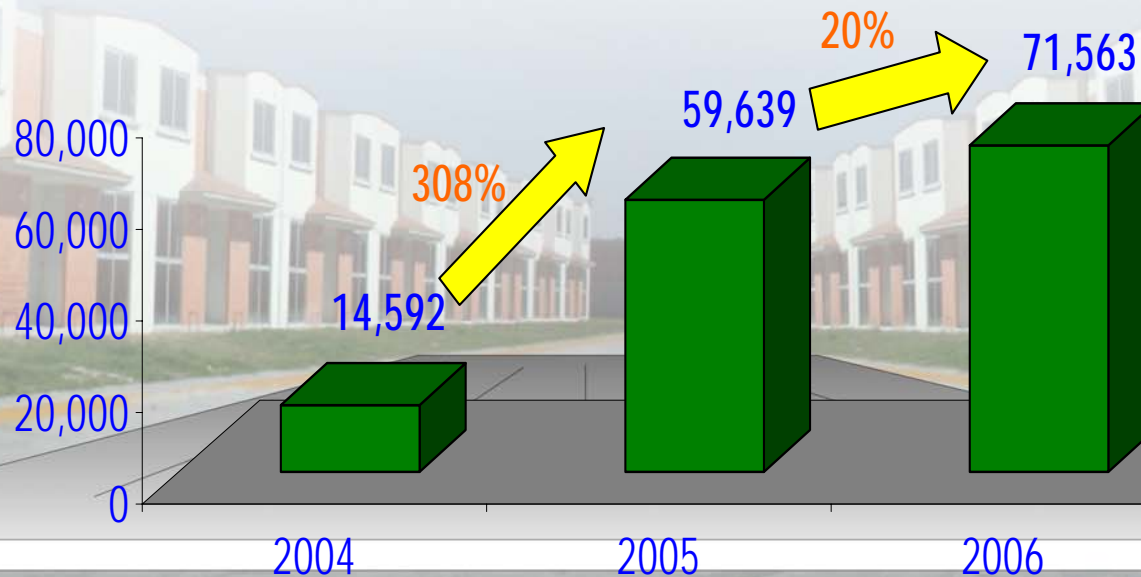


* Estimated

1.2 Increase the involvement of private intermediaries and their exposure to risk in the residential mortgage markets and attract the participation of more intermediaries.

Regarding Mortgage Insurance, SHF's program is being reinsured by Genworth and United Guaranty.

Outstanding Balance of Mortgages Covered by SHF's MI (Million Pesos)

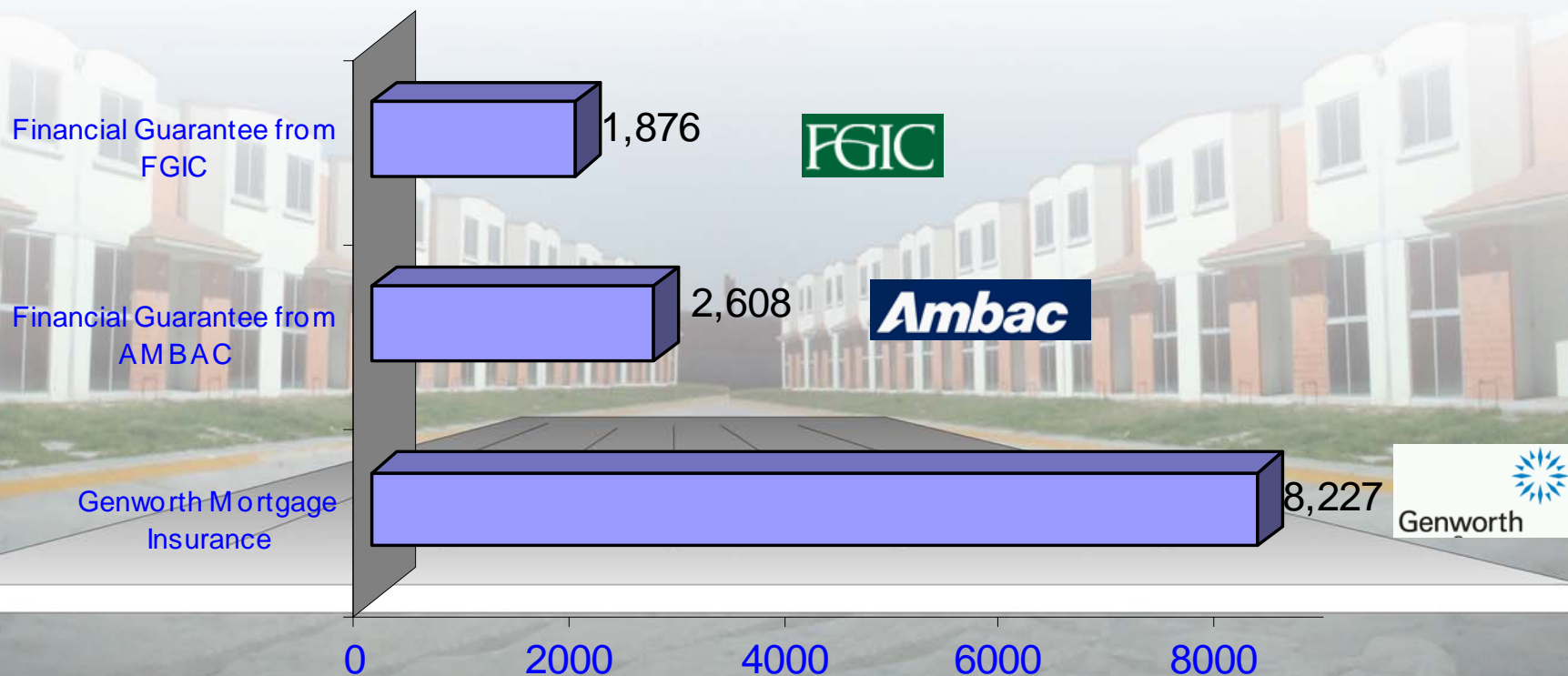


* Figures as of November 30, 2006

1.2 Increase the involvement of private intermediaries and their exposure to risk in the residential mortgage markets and attract the participation of more intermediaries.

Now that the Insurance Law in Mexico has been amended, those insurance companies that have been participating in the market will most likely open up their Mexican subsidiary.

Mortgages securitized and covered with MI and FGI provided by private insurance companies.



2. Sponsoring affordability for those households that have not yet been served.



2. Sponsoring affordability for those households that have not yet been served.

A great challenge for the following years is to bring affordability of mortgages to that segment of the population that is not being served by the system in place.

- To that end, the Government is directing the equivalent of more than USD \$350 million to housing subsidies to be disbursed along with loans granted by Infonavit, Fovissste, sofoles or banks.

Market Segmentation by Income and Labor Condition (Percentage of households living in urban areas)

	0 to 3	3 to 6	6 to 9	9 and more
Households with Social Security	5.89%	16.29%	10.45%	14.09%
Households without Social Security	23.68%	17.27%	5.66%	6.67%

Monthly Income (Number of Minimum Wages)

■ Underserved Market
 ■ INFONAVIT / FOVISSSTE
 ■ Sofoles / Banks

2. Sponsoring affordability for those households that have not yet been served.

There exist enormous challenges to reach the desired volume of operations within the subsidy program:

- The budget appropriations are enough to disburse approximately 120,000 subsidies.
- SHF believes the greatest challenges to be overcome in this program are:
 - Enough supply of social housing (the focus of the program).
 - Enough origination and servicing capacity within sofoles and banks.
 - The lack of expertise within some intermediaries and most homebuilders in originating loans for households that cannot show payroll stubs as proof of income

2. Sponsoring affordability for those households that have not yet been served.

The subsidy program entails not only an up-front subsidy, but also a 20% first-loss mortgage insurance provided by SHF at no cost to the intermediary. This should increase participation of sofoles and banks in the program.

Examples of Affordability under the Subsidy Program (Figures in pesos)

<i>House Value</i>	<i>200,000</i>	<i>155,000</i>
Total Up-Front Payment	10,000	6,200
Monthly Payment	1,666	1,113
Minimum Income in pesos	5,554	3,711
Minimum Income in Minimum Wages	3.61	2.41

3. Promote the supply of enough social housing under a sustainable urban surrounding.



3. Promote the supply of enough social housing under a sustainable urban surrounding.

The main hurdle to the production of a vast quantity of social housing is the lack of urbanized land at prices that make it feasible.

Only with the coordinated intervention of Federal, State and Municipal governments will it be possible to make available this urbanized land at prices that make social housing production possible.

Moreover, the building of infrastructure on a project by project basis is far less efficient –from the financial and urbanistic point of view– than that developed under master plans guided by local authorities.

The quality of life for people acquiring social housing may sharply improve to the extent it is built within a more rational and efficient urban planning setup.

3. Promote the supply of enough social housing under a sustainable urban surrounding.

Banobras and SHF have joined efforts to promote the development of urbanized land for social housing in coordination with States and Municipalities. The program will target the largest cities in the country throughout the rest of the administration.



Provide territorial reserves in adequate conditions to be developed as well as licenses and permits



The urbanization of land is financed by Banobras, seeking to develop private sources of funds as well.



And private intermediaries



Construction of housing and its sale will follow, linking it with the subsidy programs.



The result should be the production of social housing under a sustainable urban surrounding