

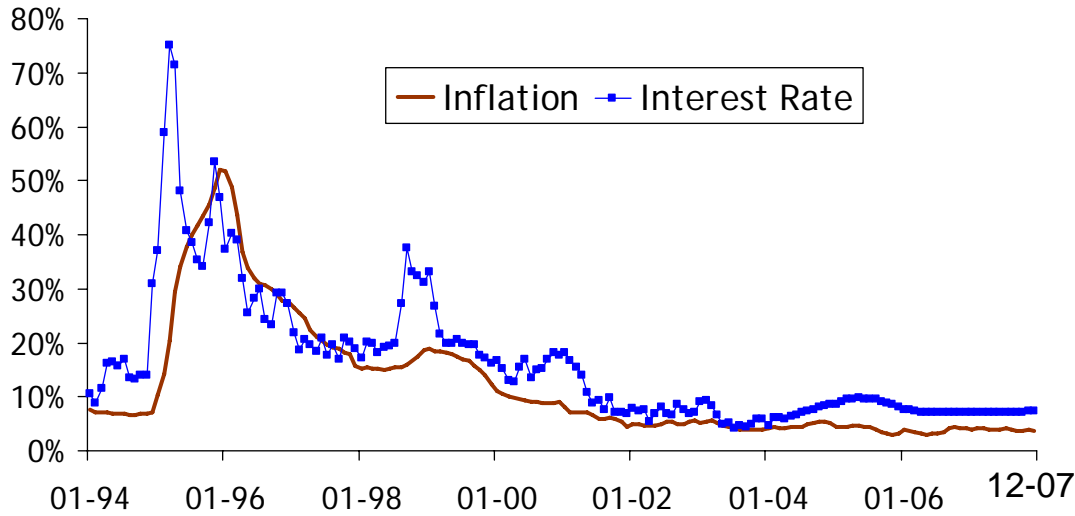
MORTGAGE LENDING IN MEXICO

Enrique Castillo
President
Mexico's Bank Association

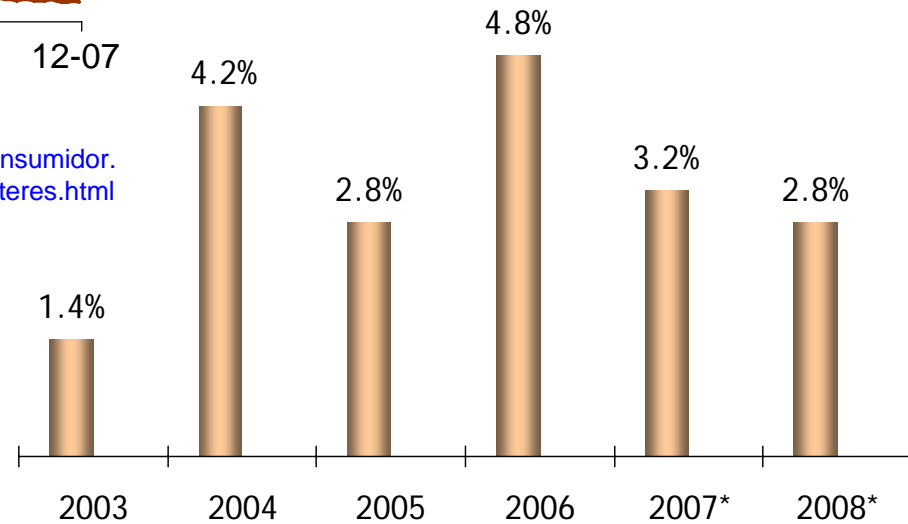
February 2008

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

Inflation and Interest Rate (CETES 28 days)



Real GDP – Annual Growth



Source: Banco de México

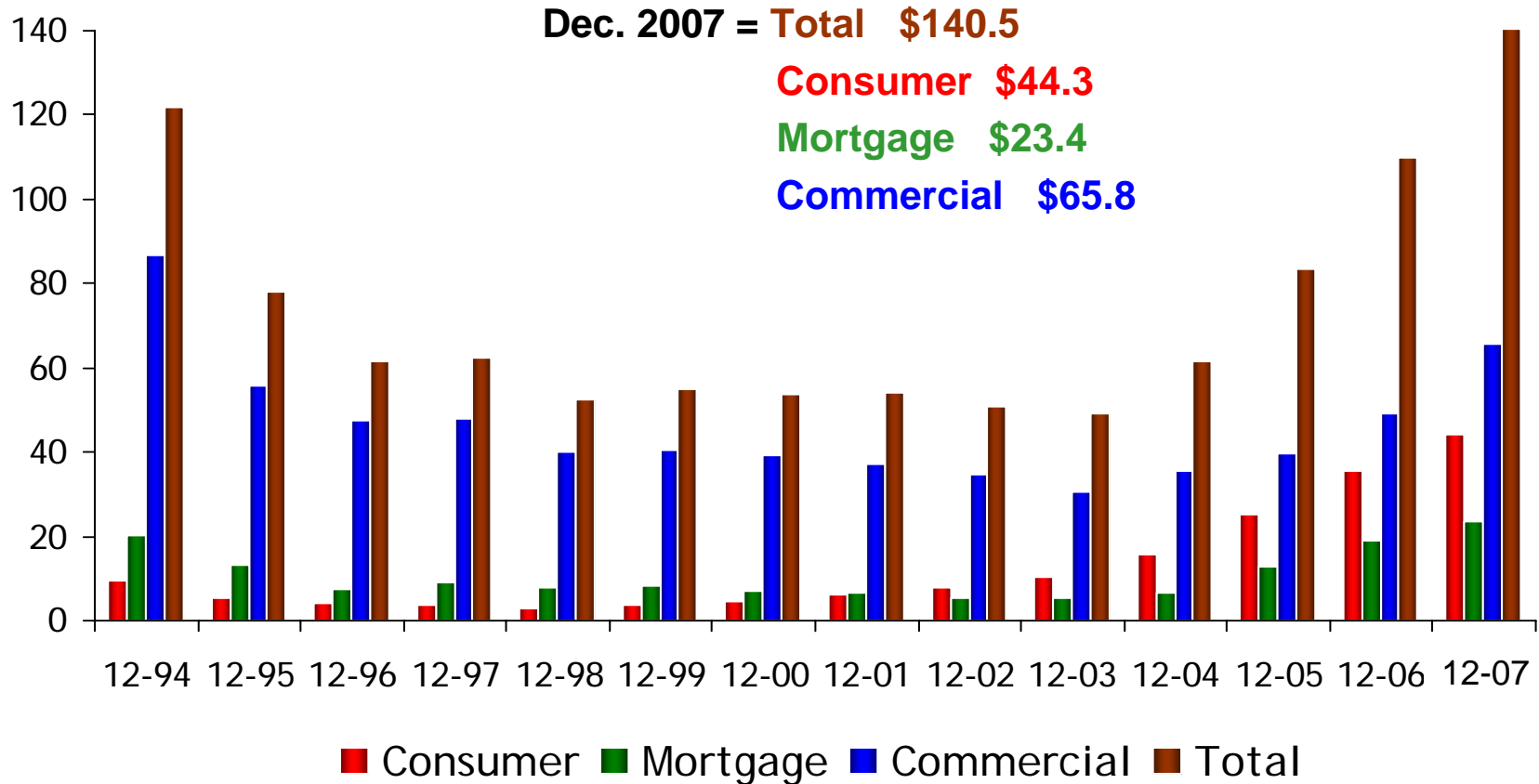
<http://www.banxico/polmoneinflacion/estadisticas/indicesPrecios/indicesPreciosConsumidor.html> and <http://www.banxico/polmoneinflacion/estadisticas/tasasInteres/tasasInteres.html>

Source: INEGI <http://dgcnesyp.inegi.gob.mx/cgi-win/bdieintsi.exe/NIVA10000200040020#ARBOL>

*Estimated SHCP

Direct Financing from Banks: Total Loans

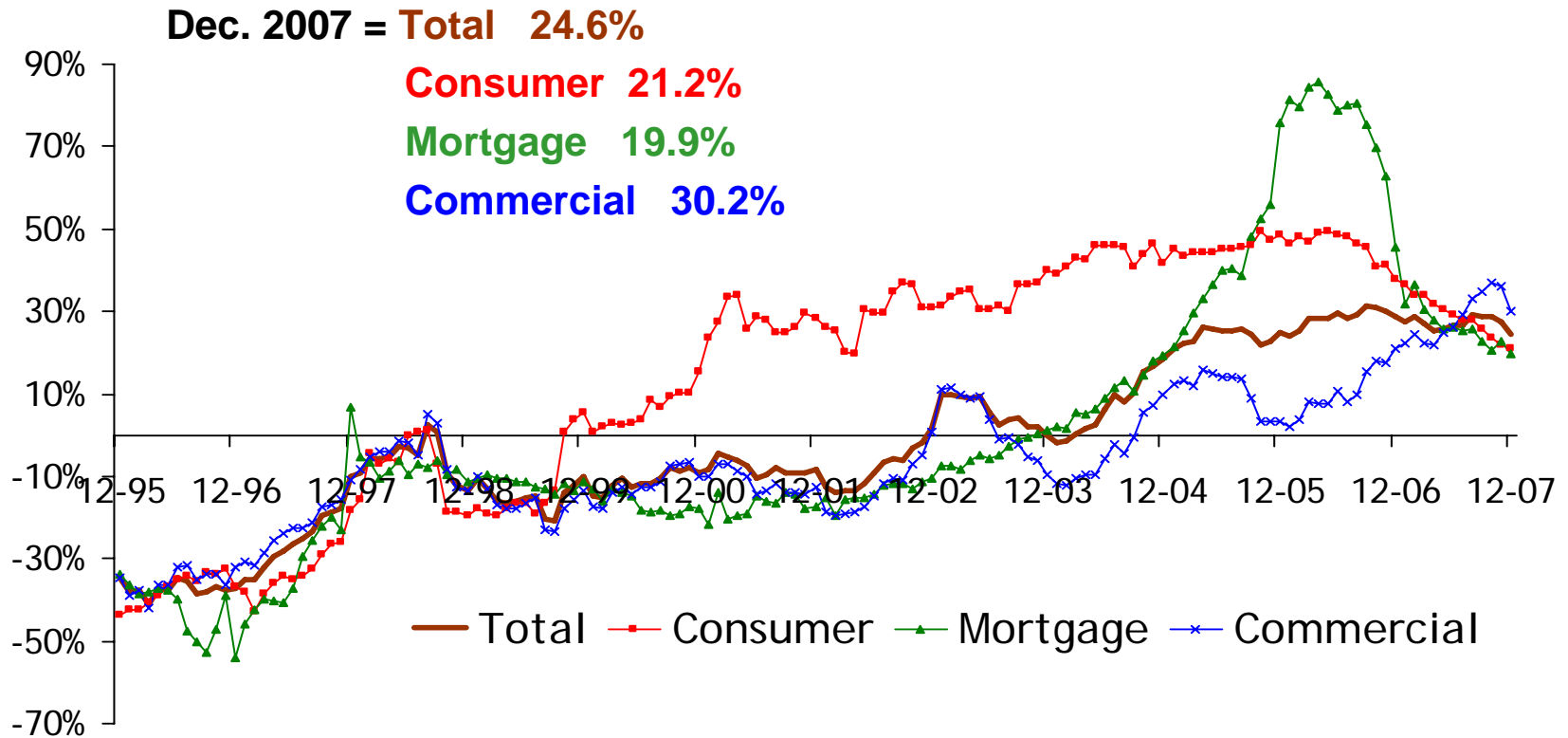
Billions of Dollars



Source: ABM analysis based on Banco de México data

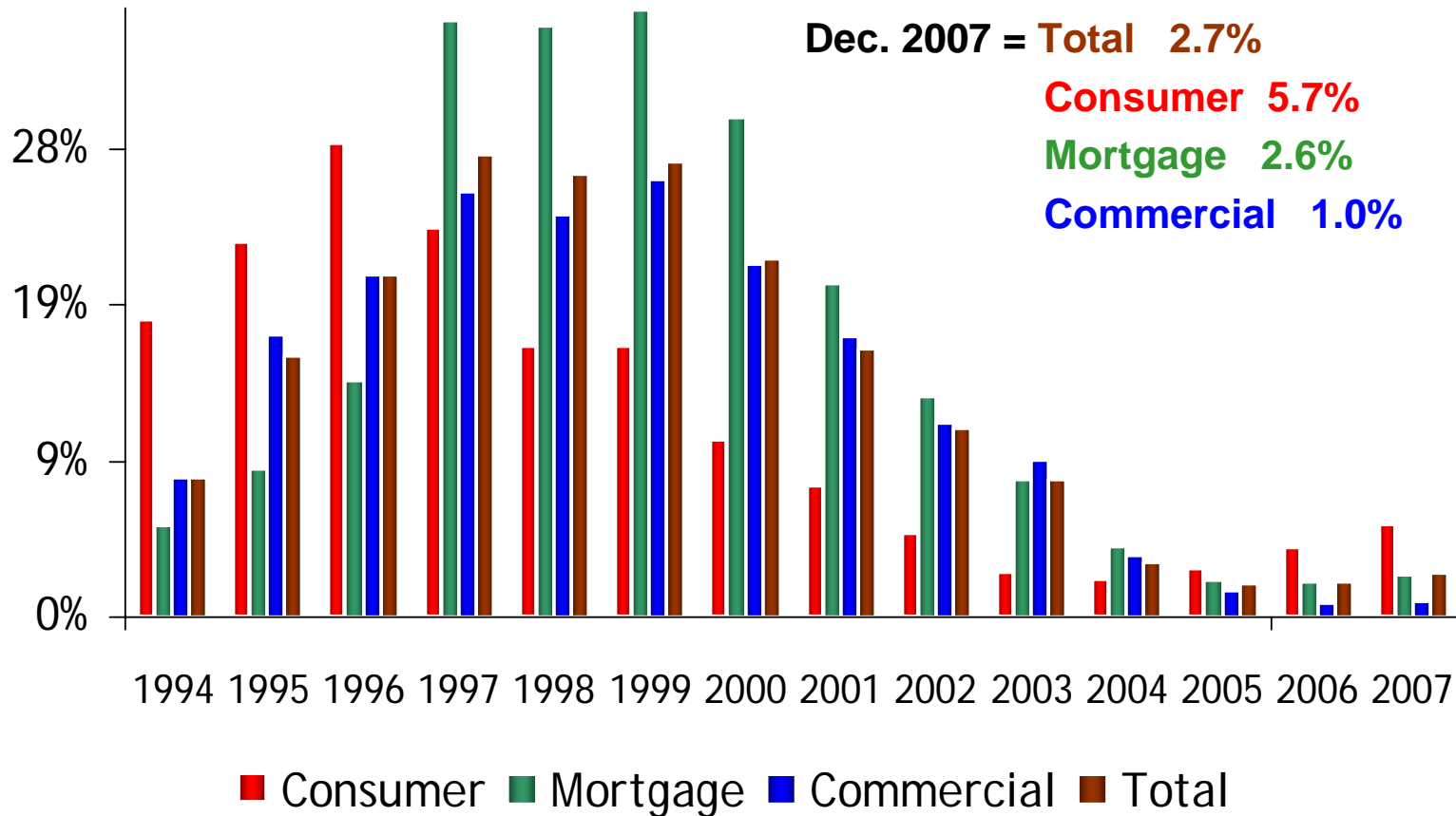
Direct Financing from Banks: Total Loans

Annual real percentage change



Source: ABM analysis based on Banco de México data

Nonperforming Loans / Total Loans



Source: ABM analysis based on Banco de México

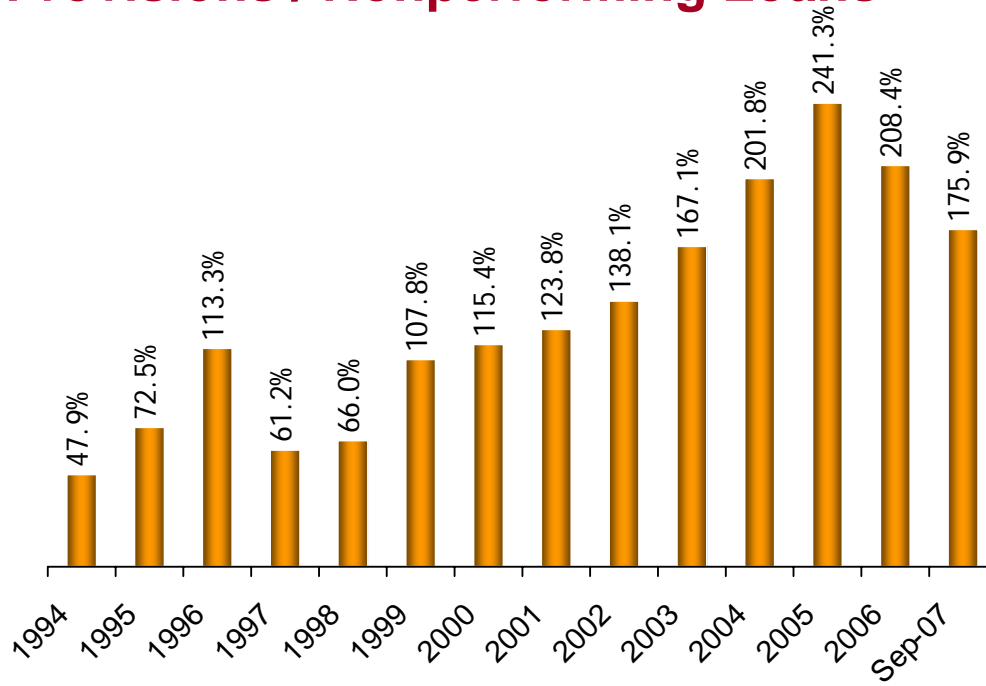


The Mexican banking system is in a good shape to support economic growth



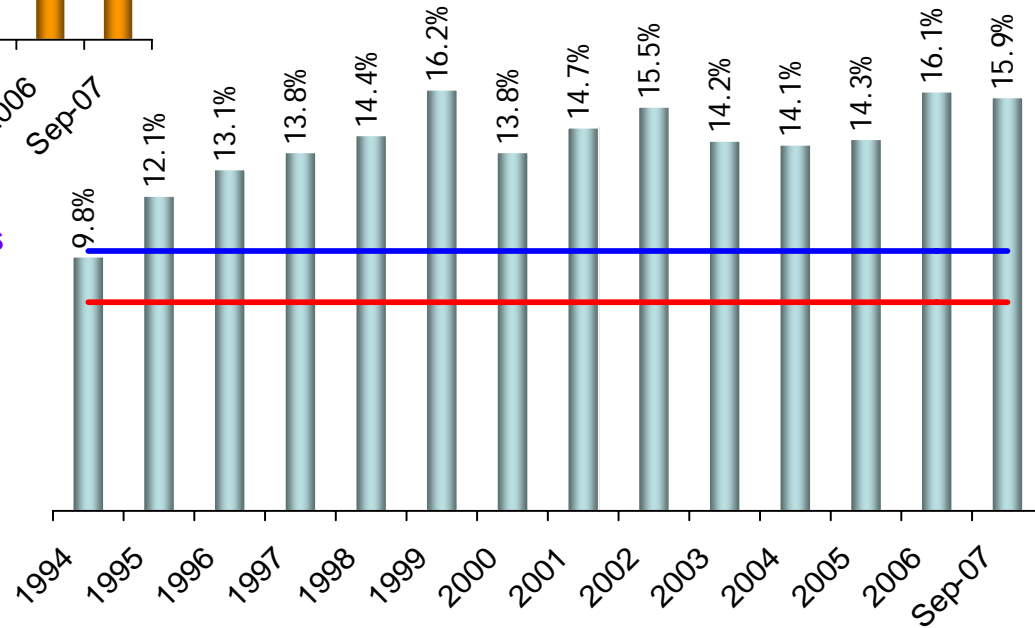
México

Provisions / Nonperforming Loans



Capitalization Ratio

Early Warnings
CNBV 10%
Minimum BIS
8%

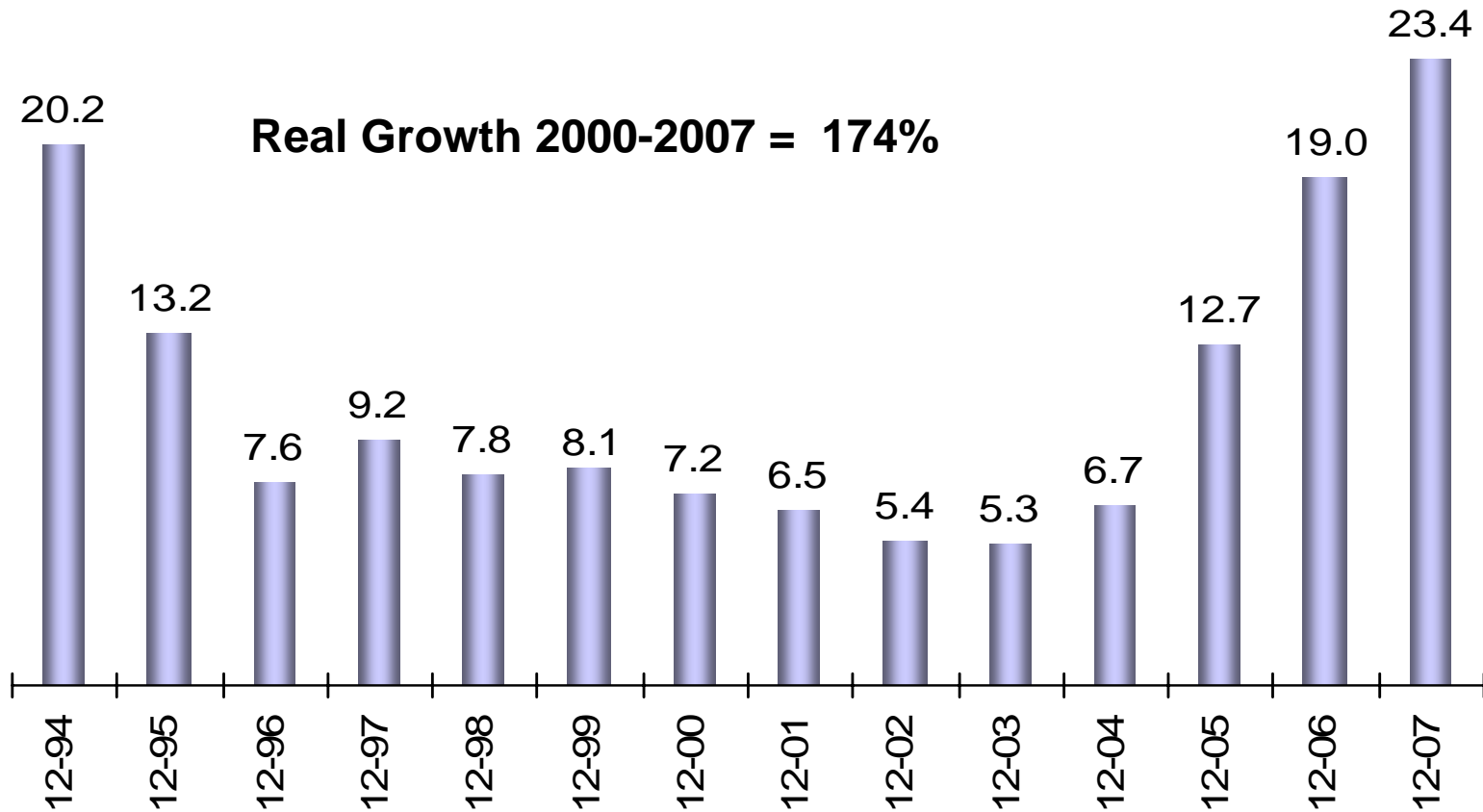


Source: CNBV

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Mortgage Loans

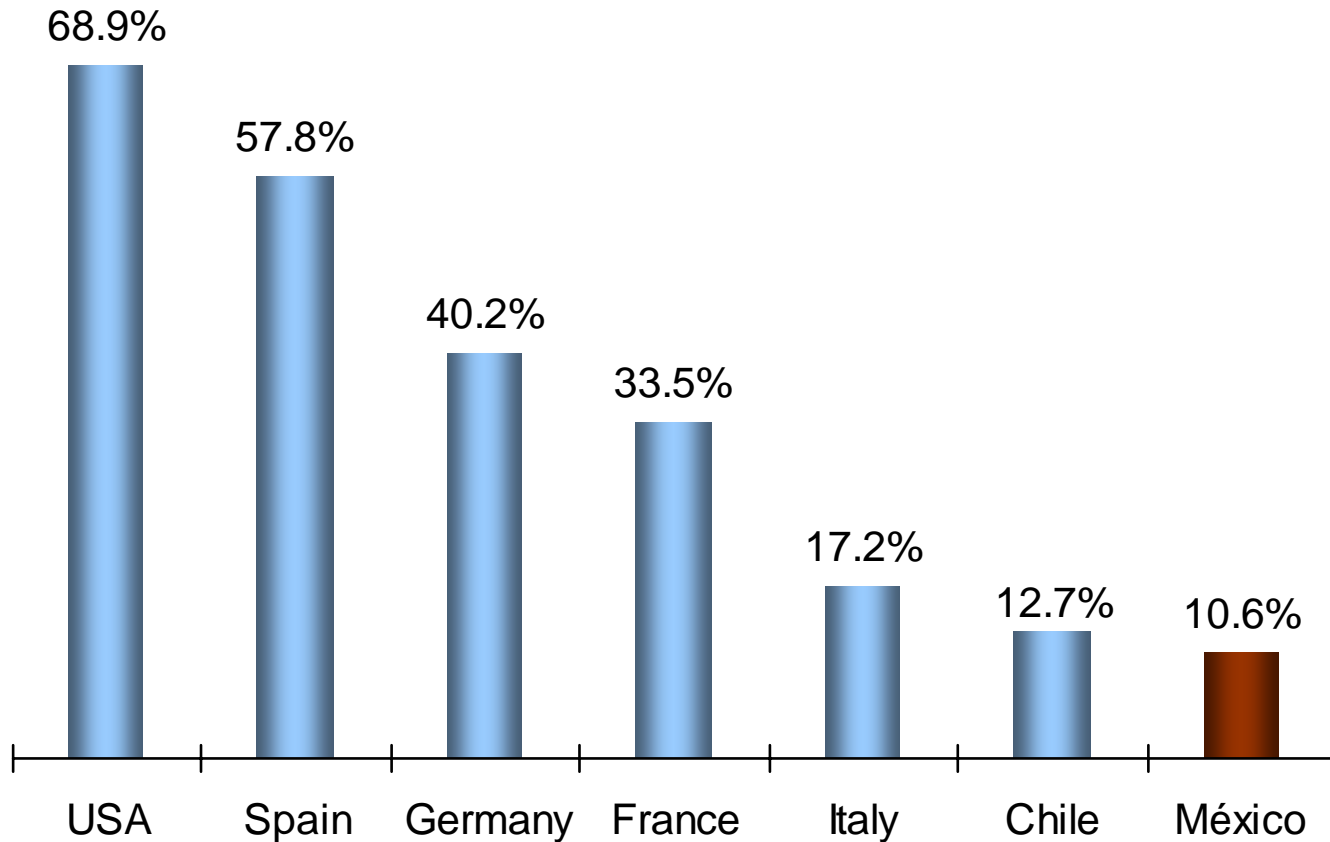
Billions of Dollars



Source: ABM analysis based on Banco de México

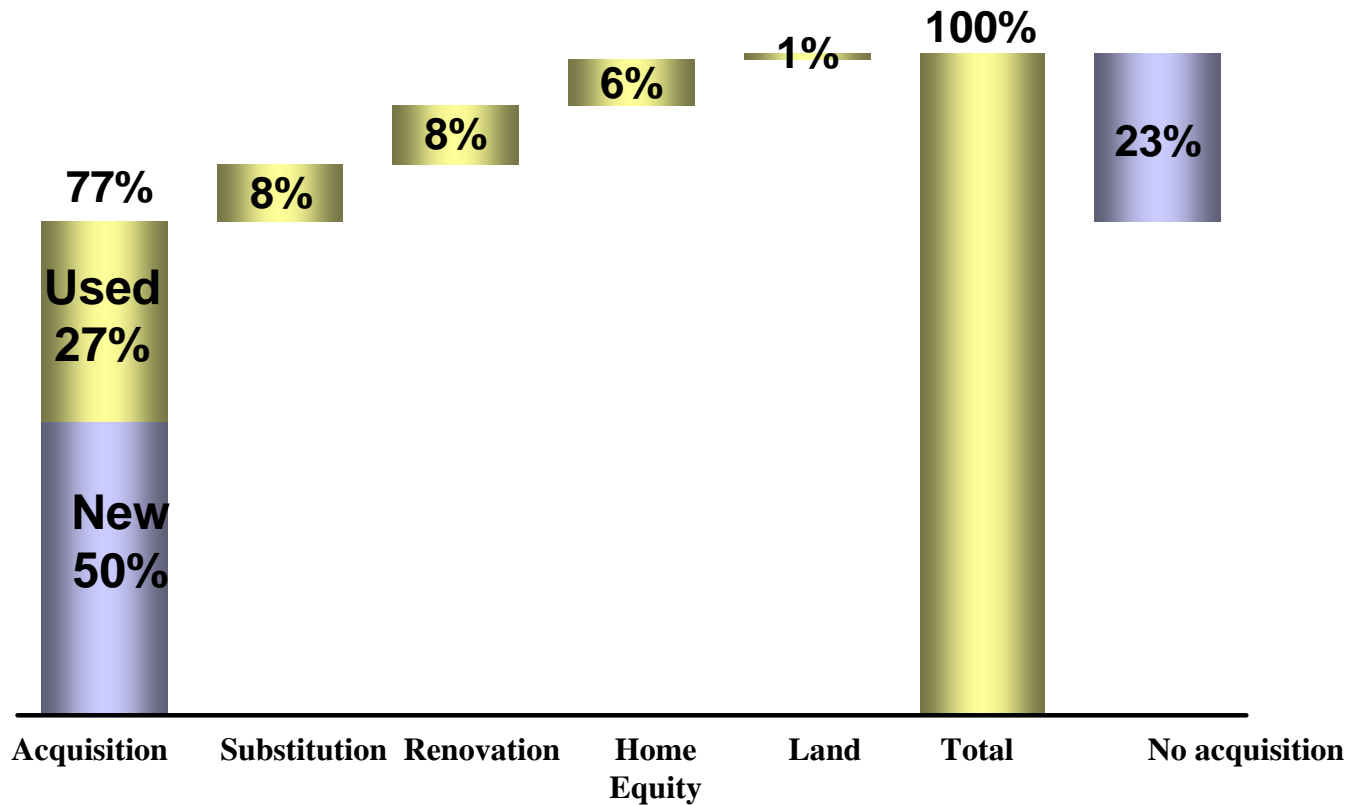
Mortgage Lending

% GDP



Source: Courtesy of BBVA BANCOMER with IMF and Central Banks data

Credit purpose



Source: Courtesy of BBVA BANCOMER



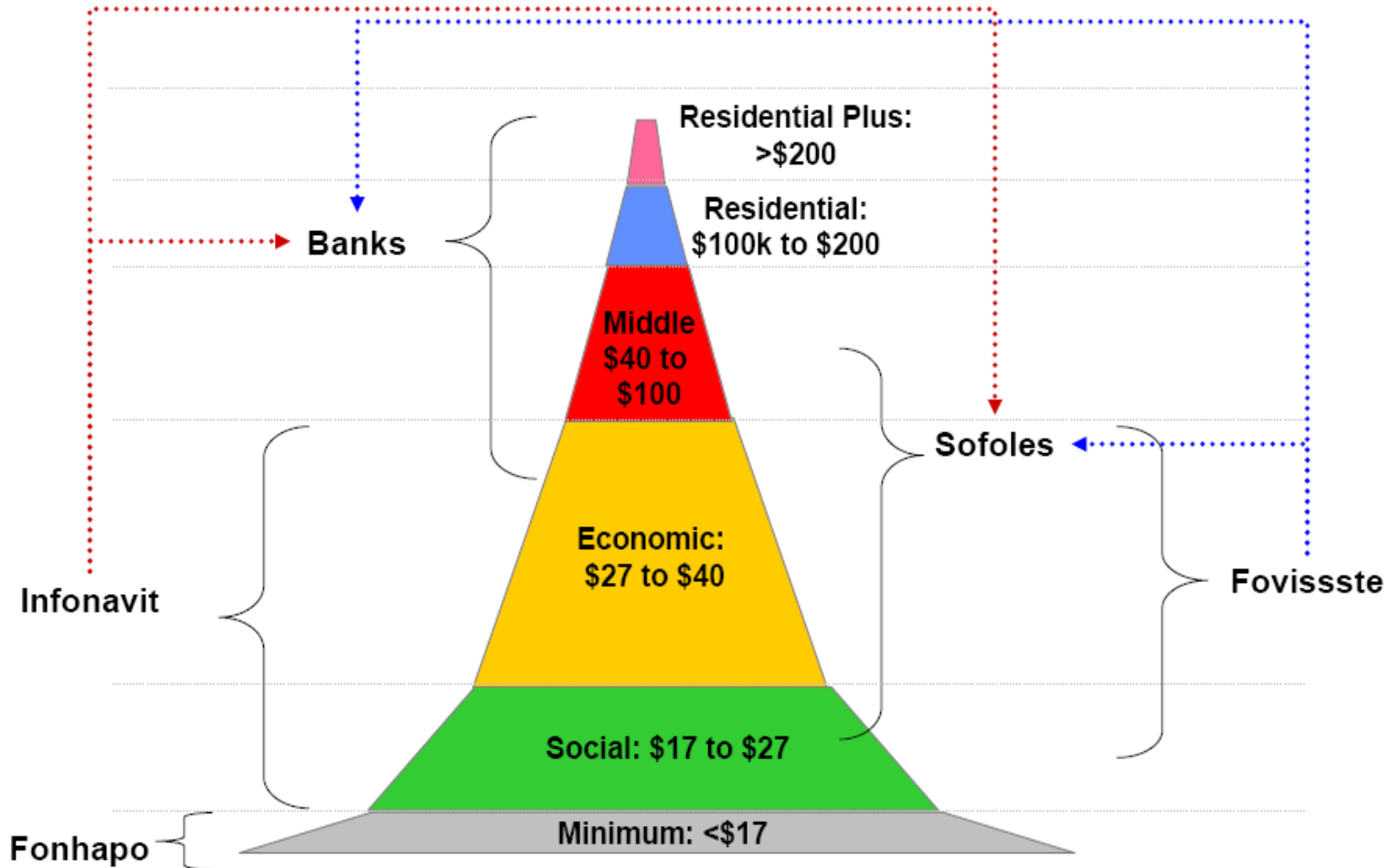
New options broaden the potential market for mortgage credits



	Before	Now	
Interest rate	Variable	Fix	
Up front fee	6%	3%-0%	
Term	10-15 yrs	Up to 30 yrs	<ul style="list-style-type: none"> ➤ Acquisition ➤ Substitution ➤ Construction ➤ Remodeling ➤ Co-financing INFONAVIT, FOVISSSTE ➤ 2nd Home ➤ Home Equity
Products	Acquisition	All uses	
Payment in thousand	\$22.0	\$9.5-\$11.0	
Down payment	+35%	20%-0%	
Unemployment insurance	NO	YES	
Interests tax deduction	NO	YES	

Source: ABM

Market Segments (US\$ Thousands)



Illustrative: not to scale

Source: Courtesy of Scotiabank

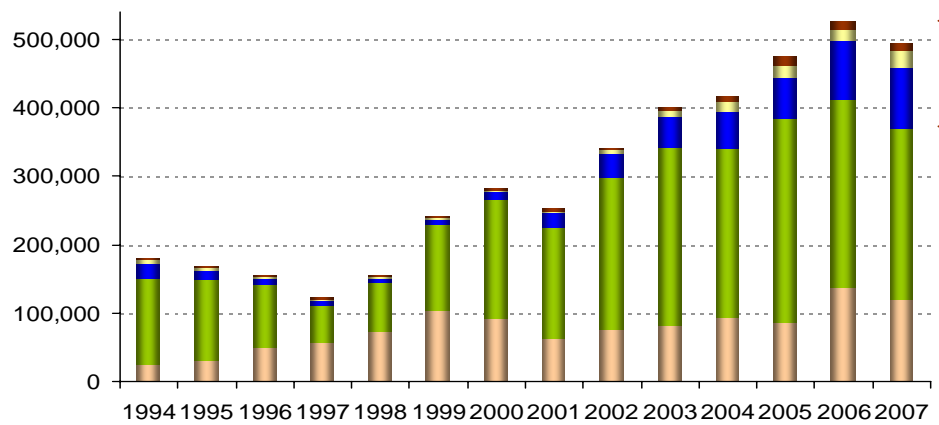


“Middle, residential and residential plus” market segments represent 25% of the units sold in 2007 but 55% of the total sales value



Market Sales by segment

Units

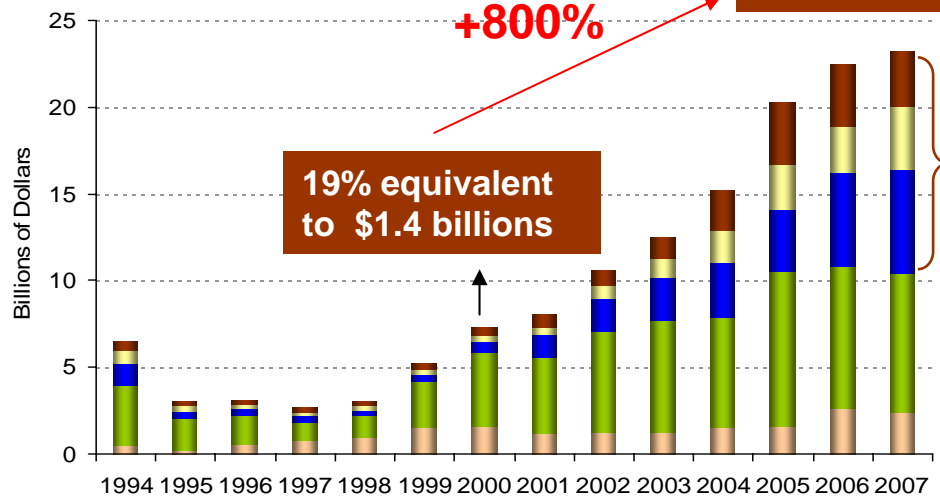


Residential Plus: 10,000 units
 Residential: 24,000 units
 Medium: 90,000 units

■ Social ■ Economic ■ Middle
 ■ Residential ■ Residential Plus

Since banks returned to mortgage lending in 2000, the segments middle, residential and residential plus have grown significantly

Sales Value



■ Social ■ Economic ■ Middle ■ Residential ■ Residential Plus

Source: Courtesy of Softec, S.C. ®

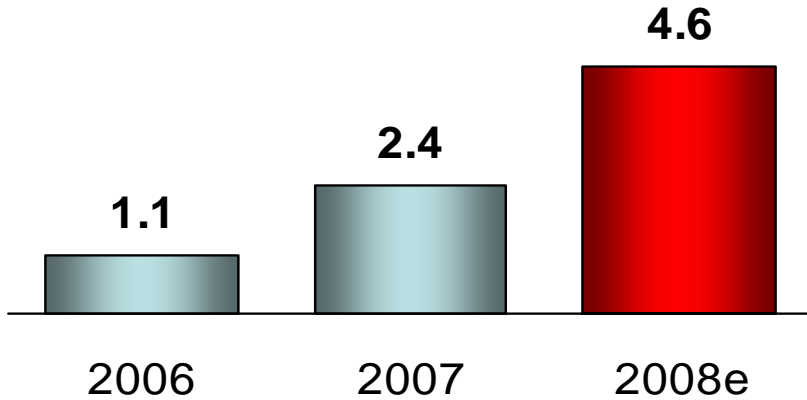


The current mortgage portfolio profile and institutional investors ensure the success of present and future securitizations



Securitization Backed by Mortgage

Billions of Dollars

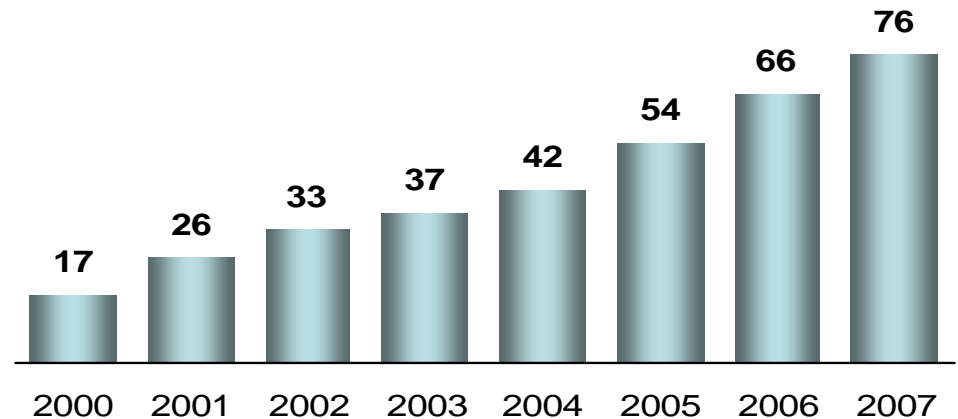


Source: ABM analysis based on SHF data. Not includes INFONAVIT and FOVISSSTE

The investment made by SIEFORES in BORHIS increased 14 times between March 2007 and December 2007 (1.24 billions of dollars)

Amounts managed by SIEFORES

Billions of Dollars



Source: ABM analysis based on AMAFORE and CONSAR data

Mexican credit aspects	Description
➤ Quality	<ul style="list-style-type: none"> • Detailed credit/risk analysis • Complete credit dossier • Credit bureau verification • Low LTV / Down payment required
➤ Low risk products	<ul style="list-style-type: none"> • Most credits are for acquisition • Fixed rates and unemployment insurance • Positive amortization always
➤ Null Subprime loans	<ul style="list-style-type: none"> • Potential clients provide official income receipts and a proper credit information • Informal sectors are not financed by banks
➤ Mortgage insurance	<ul style="list-style-type: none"> • Instruments backed by mortgages insurance are supported by federal and private institutions in order to reduce the loss in case of default
➤ Responsible Securitization	<ul style="list-style-type: none"> • Mortgage portfolio have a healthy profile

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

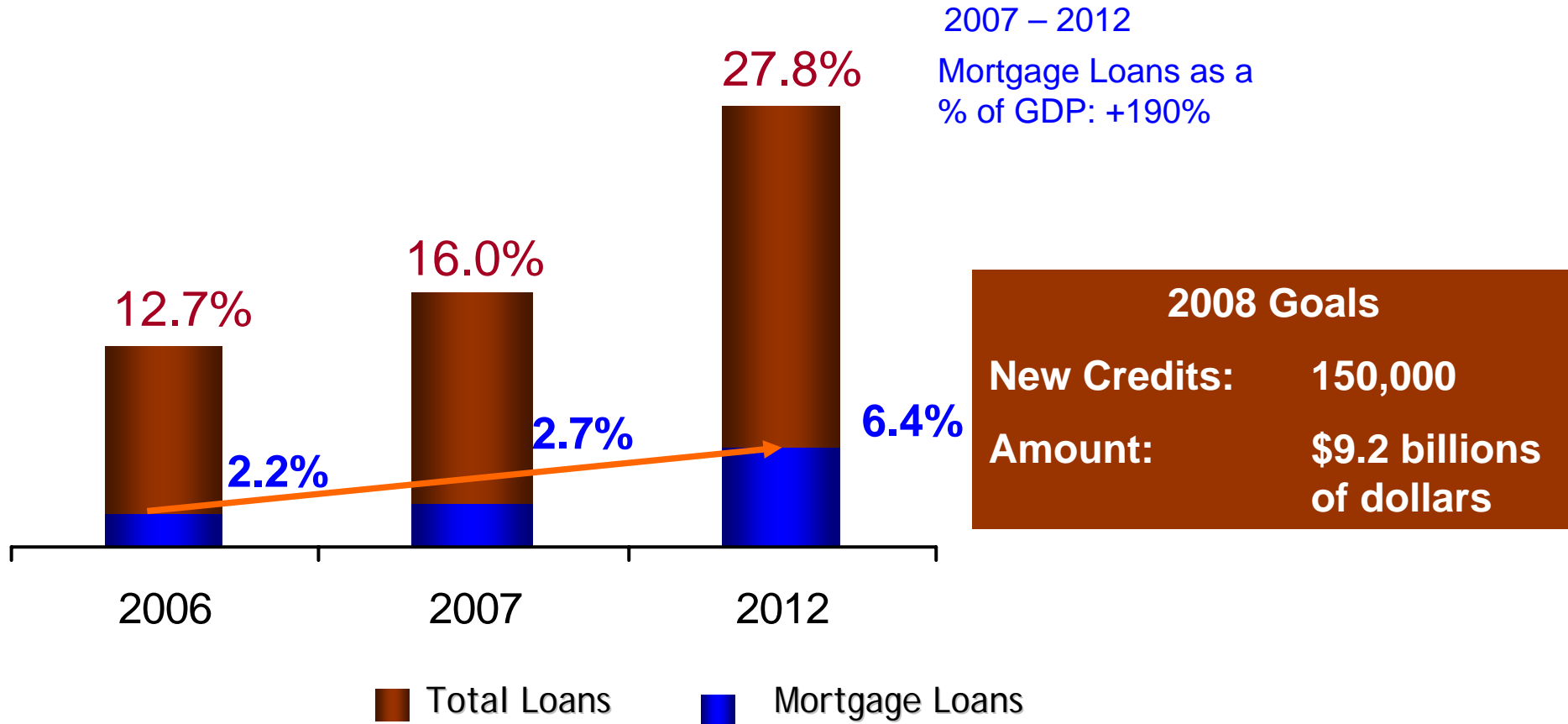
Source: Courtesy of BBVA BANCOMER

Primary effects	Secondary effects
Investors would demand less Mexican mortgage securities	<ul style="list-style-type: none"> • Lower prices and a YTM increase for securities issued • Higher cost for new mortgage issues • Major future funding cost
"Fly to quality" would reduce resources availability	<ul style="list-style-type: none"> • General increase of interest rates • Higher funding cost for all segments including banks • Impact on growth expectations
Possible lower growth of the US economy	<ul style="list-style-type: none"> • Lower expectations of growth for the Mexican economy • Reduction in demand
Possible psychological effects of Mexican lenders	<ul style="list-style-type: none"> • More strict credit allocation policies • Less offering of mortgage financing
Possible response from the Mexican financial authorities	<ul style="list-style-type: none"> • Tighter regulatory policies on credit allocation (more capitalization and reserves, additional guarantees, insurances, etc)

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Direct Financing from Banks: Total and Mortgage Loans

% of GDP



Source: ABM analysis based on Banco de México data



There are some factors that could slow down the expected mortgage market development



WEAKNESSES:

- Mexico is highly dependent on US economic factors
- Legal uncertainty in some states / Slow foreclosure procedures
- Slow modernization of Public Property Registries
- Deficient urban planning
- Insufficient infrastructure

THREATS:

- Transitory over supply in some regions and products
- New but inexperienced developers
- Indirect effects of the US mortgage crisis and economic slow down
- Significant concentration of nonperforming loans in some states, developers and economic activities

STRENGTHS:

- Macroeconomic stability
- Availability of resources (Liquidity and Securitizations)
- The banking industry acts under prudential credit policies
- Major access to credit in the history of Mexico
- Fiscal reform will provide more resources for additional investments
- Government infrastructure policies (\$40 billion dollars average annual investment)
- Government housing policies (6 million credits during 2007 and 2012)

OPPORTUNITIES:

- Demographic bonus (37% of our population is between 20 and 45 years old)
- Middle market segment on middle size cities is under attended
- Used homes segment under attended
- Vacation and retirement Housing for non residents
- FOVISSSTE modernization programs
- CONAVI subsidy programs (\$377 million dollars for year 2008*)
- 5 million housing deficit plus 700,000 each year

* Source: CONAVI Housing Policies Unit