



INFONAVIT

February, 2008

*INFONAVIT, tu derecho a vivir mejor
Fifth Annual Mexican Housing Day*





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INFONAVIT Overview



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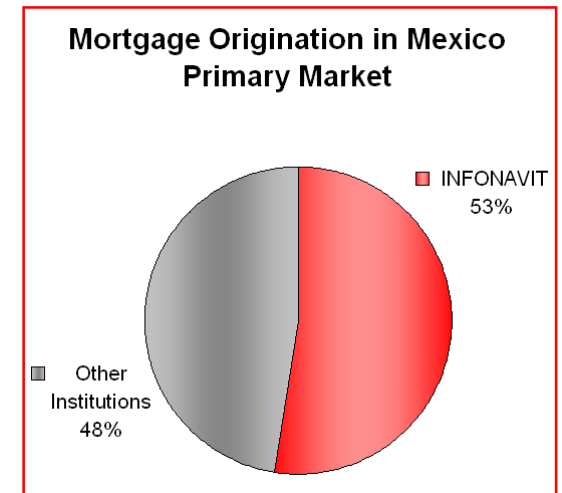
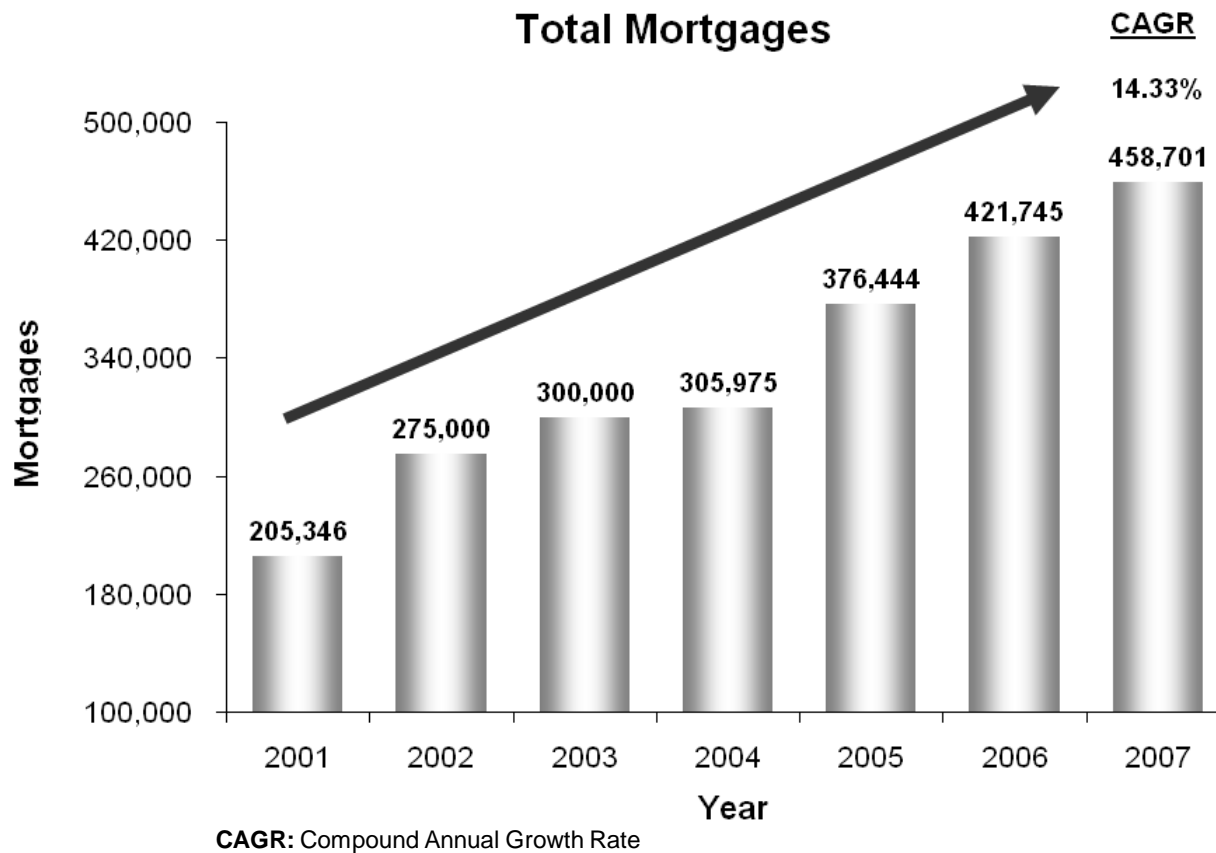
INFONAVIT Overview

- INFONAVIT, founded in 1972 by the president of Mexico, is an autonomous institution in which the corporate government comprises equal representation of the labor sector, the employer sector, and the Federal Government.
- INFONAVIT has a dual nature:
 - Pension Fund Manager: since 1992 it is part of the National Pension System (SAR); workers' funds are held in separate individual accounts with minimum guaranteed annual returns.
 - Mortgage Bank: mortgage lender with a social mandate; up-to date, it has originated more than 4 million mortgages .
- INFONAVIT is a fiscal authority in Mexico.



INFONAVIT Overview

- INFONAVIT has more than doubled the number of loans originated since 2001 and currently provides 53% of all mortgage loans in Mexico.



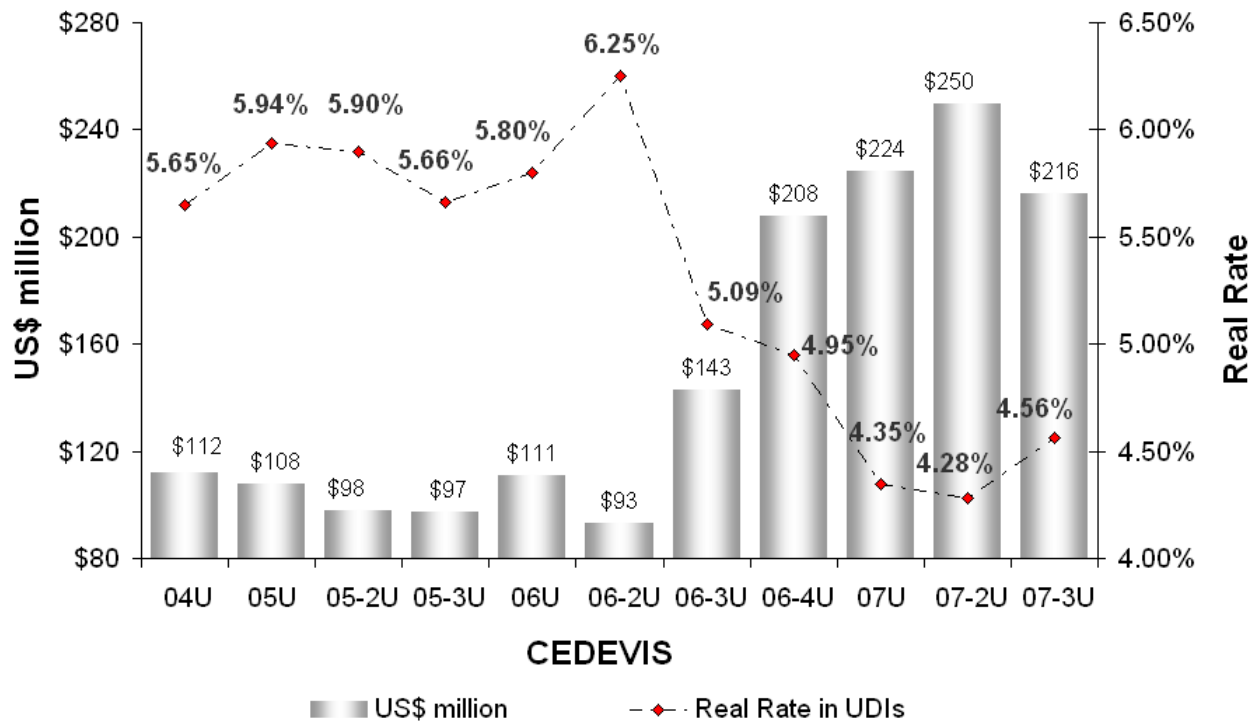
Source: Adquisición de Vivienda, Comisión Nacional de Vivienda (CONAVI), 5to bimestre 2007.



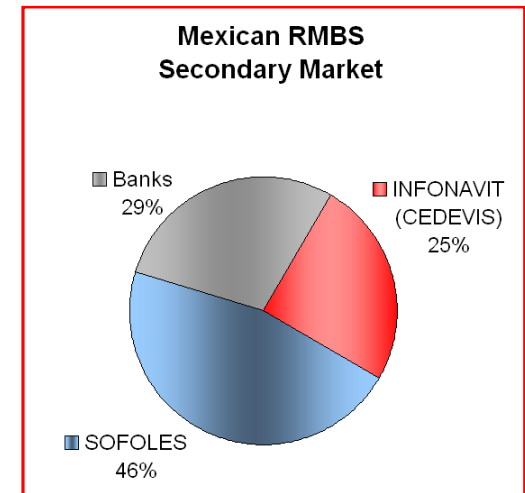
INFONAVIT Overview

- INFONAVIT is the largest issuer of mortgage-backed securities in Mexico, currently holding 25% of the market

Total Amount Issued vs. Real Rate in UDIs



*Close price SPOT 02/01/2008: MXN\$/US\$ 10.81.
Source: INFOSEL



Source: INFONAVIT and Sociedad Hipotecaria Federal (SHF), 2007.

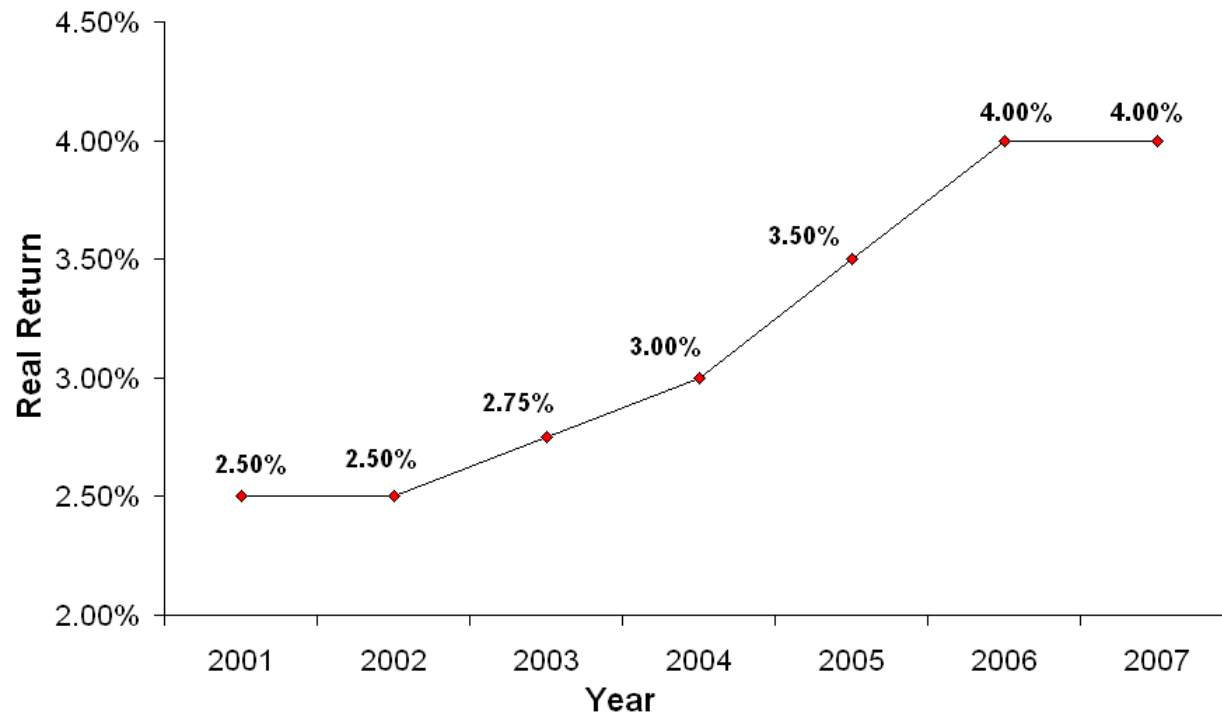
Securitized portfolio represents 4.5% of Total Assets.



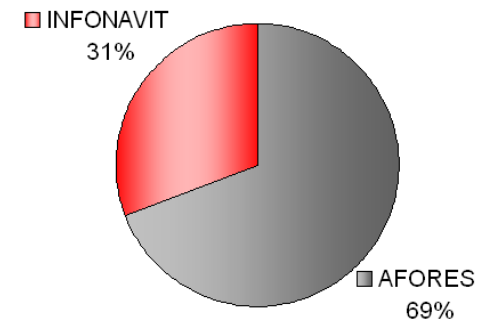
INFONAVIT Overview

- INFONAVIT is also the largest manager of retirement savings in Mexico, with 31% of all assets under management; real return paid to these funds has increased significantly since 2001

Real Return of Housing Account



Retirement Savings in Mexico



Source: CONSAR, December 2007

*AFORES also includes the small percentage managed by Retiro ISSSTE and FOVISSSTE.



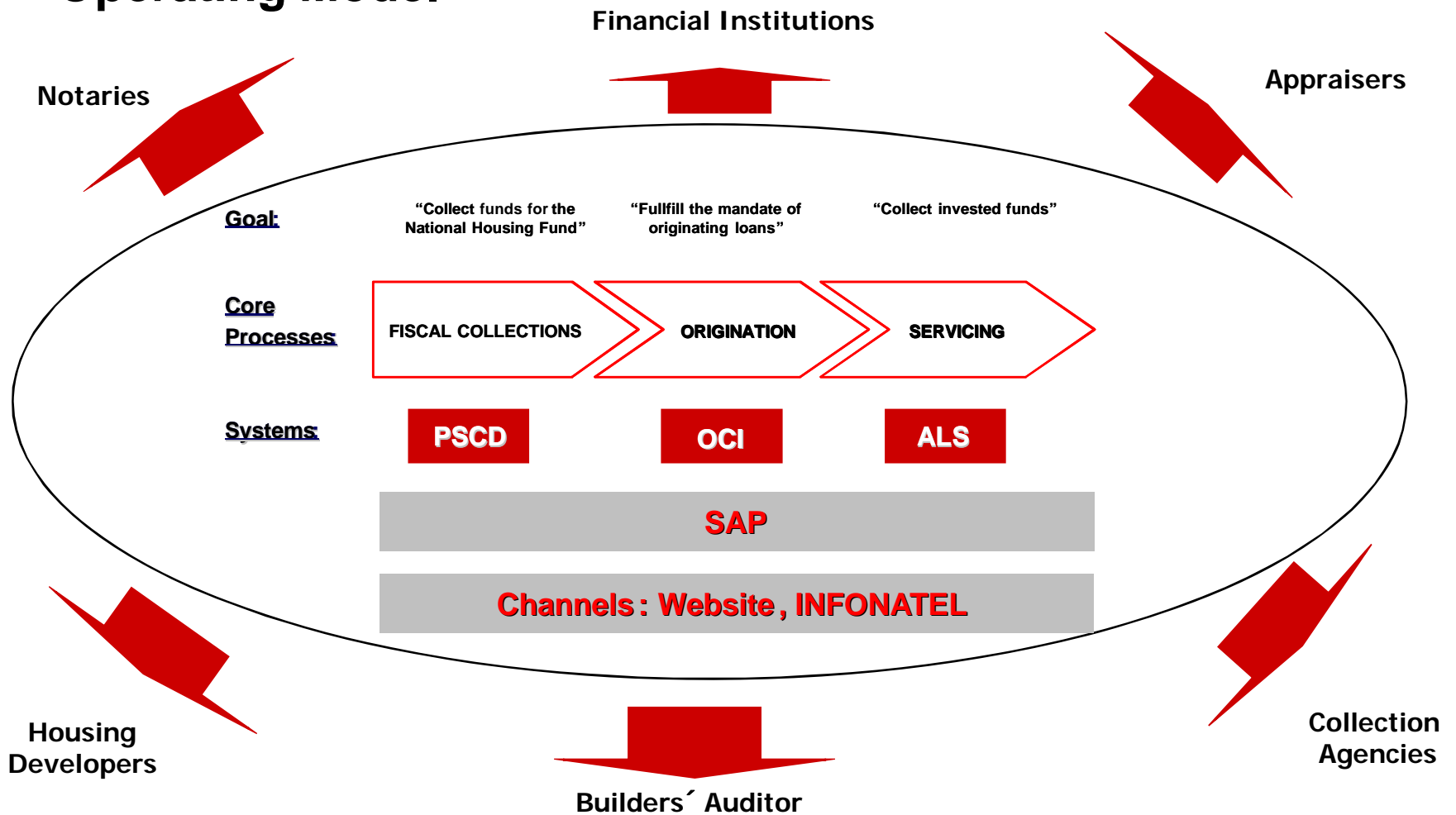
INFONAVIT Overview

- Chief Executive Officer appointed by President of Mexico and ratified by INFONAVIT's Assembly
- Tripartite corporate government, with equal representation of federal government, employers and workers
 - Assembly, board of directors, and committees
- INFONAVIT Law was reformed in Congress in June, 2005 to strengthen corporate governance:
 - Better practices of Corporate Governance
 - Prevention of conflicts of interests, code of ethics for senior officers, ombudsman
 - Control and supervision responsibilities
 - Supervision from CNBV, auditing and risk committees, and external auditor
 - Accountability to Mexican society
 - Compulsory report to the Mexican Congress regarding operations and financial situation, disclosure of financial statements and Committee on Information Disclosure



INFONAVIT Overview

Operating Model





INFONAVIT Overview

- **Operating capabilities: US\$ 200 million invested since 2001**
 - Fiscal Collection System PSCD-SAP
 - Loan Administration System ALS
 - Lending System OCI
 - Financial and accounting System SAP
 - Process certification ISO 9001 for loan administration, origination and fiscal collections.
 - Remote channels:
 - Infonatel, Web Site, 72 branches (Cesis) nationwide, Kiosks, Aclara-net, Micasa.gob, SIG
 - Operating Volumes
 - Mortgages Originated (2007): 458,701; 117 by employee
 - Loans Managed (2007): 2,927,779; 748 by employee
 - Average Internet Monthly Transactions: 3 millions
 - Average Infonatel Monthly Calls: 1 million

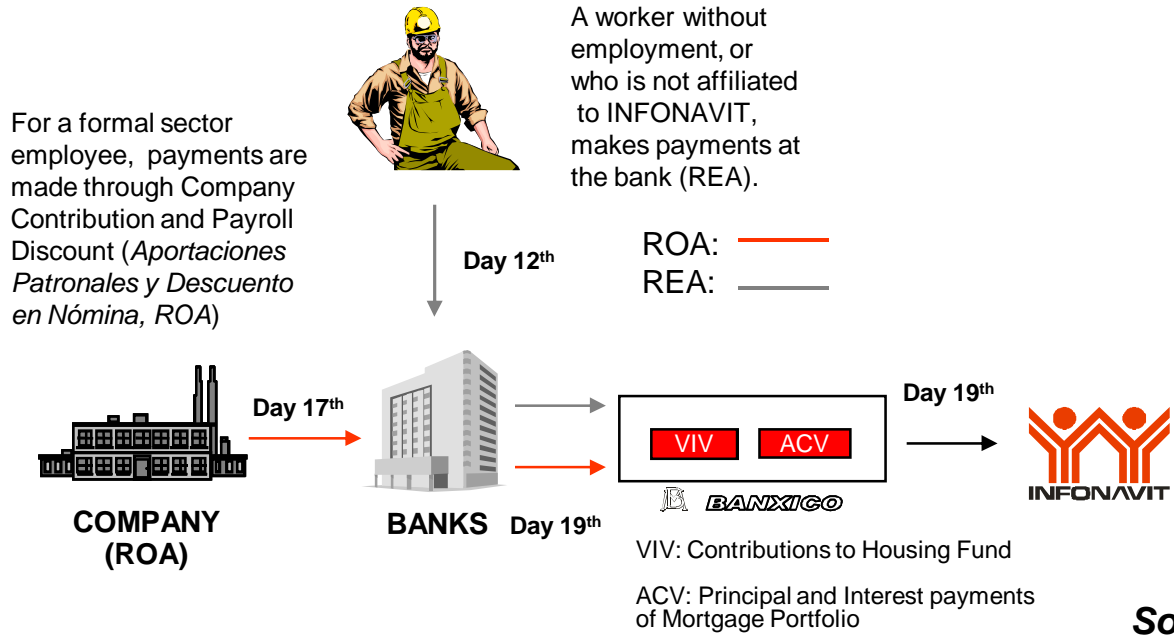


INFONAVIT Overview

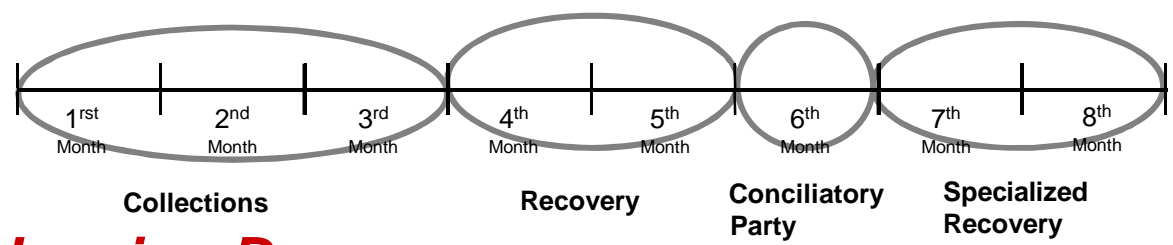
■ Collections Process

Rating Moody's SQ1(-)

Ordinary Collection Process



Social Collection Process (Work Out)



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INFONAVIT Overview

Financial Highlights

Rating S&P mxAAA

	2000	2007*	Var.
▪ NPL Ratio	21.7%	4.2%	-17.5pp ²
▪ Total Assets	US\$ 18,011 ¹	US\$ 42,833 ¹	138%
▪ Cash inflows	US\$ 3,537 ¹	US\$ 7,417 ¹	110%
▪ Expenses (% Loan Program)	6.61%	5.40%	-1.21pp ²
▪ Loan Loss Provisions	80.6%	339.1%	258.5pp ²
▪ Securitization	\$0	US\$ 906 ¹	

*INFONAVIT, Quarterly Financial Statement, September 2007.

¹ US\$ million. Close price SPOT Feb/01/2008: MXN\$/US\$ 10.81.

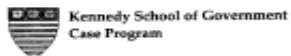
Source: INFOSEL

² pp. Percentage points.



INFONAVIT Overview

- The transformation of INFONAVIT since 2001 has been a case study for prestigious schools of business and public policy in Mexico and US.



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INSTITUTO PANAMERICANO DE ALTA DIRECCIÓN DE EMPRESA
UNIVERSIDAD PANAMERICANA
(P)EE-161 A
Agosto, 2004

Scale without Growth:
INFONAVIT's Expansion in the Mexican Mortgage Market

Introduction

On December 18th 2006, Víctor Borrás was reappointed to his position as Director General (Chief Executive Officer) of INFONAVIT, the Mexican public mortgage fund that had issued 376,444 mortgage loans¹—more than half of all the mortgages issued in the country—in 2005 and one and a half times the number issued by INFONAVIT in 2000, the year before he took office. During this same period of expansion INFONAVIT had: reduced its defaulted loan rate from 21.7 percent in 2000 to 6.6 percent in 2005; increased its productivity from 51 loans granted per employee to 98 per employee through outsourcing and the modernization and streamlining of operations; launched a new *estrato vivienda* (affordable housing) program to target the majority of its members who owned less than four times the minimum wage (MIMN); helped jump start a nascent housing development industry; increased the real return to the pensioners' funds from two percent to 3.5 percent per year; and issued approximately \$4.5 billion in mortgage-backed bonds. All this by an organization that the World Bank recommended be closed—or at least “marginalized”—in 2006.²

Despite those successes, challenges remained. Its non-performing loan (NPL) rate was still high in comparison to INFONAVIT's US counterpart, Fannie Mae. Its productivity was below that of mortgage corporations in the US when one included outsourced work. While ongoing administration expenses had decreased per amount lent, various adjustments had pushed the fund's total costs up, making them higher per amount lent in 2005 than they were in 2000.

¹ INFONAVIT, *Comunicación de Prensa* (2006)

² “Mexico—A Comprehensive Development Agenda For The New Era,” World Bank (2006), pp. 10 (Synthesis Chapter) and pp. 232-233.

This case was written by Marco Lopez and Paulina Campos for Professor Guy Stuart, Associate Professor of Public Policy, John F. Kennedy School of Government, Harvard University. Funding for this case was provided under a collaboration agreement between the Instituto Tecnológico y de Estudios Superiores de Monterrey and the John F. Kennedy School of Government (18604).

INFONAVIT*
Parte A

“La vivienda es asunto de justicia y motor que empuja la economía.”

— Vicente Fox Quesada, Presidente de México, abril 2001

Caso elaborado por Sergio Raimond-Kedihac Navarro y Leonel Arias González, con la colaboración de Luis Alonso Silva Pérez, del Área de Entorno Económico, del Instituto Panamericano de Alta Dirección de Empresa, para servir de base de discusión y no como ilustración de la gestión adecuada o inadecuada de una situación determinada.

De 1995 al 2000 el crecimiento económico de México fue del 2.5% anual promedio. El INFONAVIT en el 2001 había cambiado de administración y se enfrentaba al reto de satisfacer la demanda de vivienda para los trabajadores; sin embargo, las fuentes de financiamiento del Instituto no eran seguras y su cartera vencida era del 22%. El objetivo del Instituto era dar crédito barato y suficiente para que los trabajadores mexicanos pudieran tener una vivienda digna. Para muchos empresarios existía la percepción de que las aportaciones que se realizaban por cuenta de los trabajadores para el pago del INFONAVIT eran un gasto y un impuesto adicional a fondo perdido.

1972-1992

A principios de la década de los setenta, Fidel Velázquez en su condición de líder general de la Confederación de Trabajadores de México (CTM) propuso al entonces Presidente de México, Luis Echeverría Álvarez, que sobre un aumento salarial que se estaba negociando de (X + 5%), el 5% se destinara a la construcción de vivienda para los trabajadores, los patrones por cuenta de los empleados

- INFONAVIT just signed a new labor agreement supported by two parameters:
 - Base increase ⇨ inflation
 - Additional increase ⇨ productivity

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Market Overview

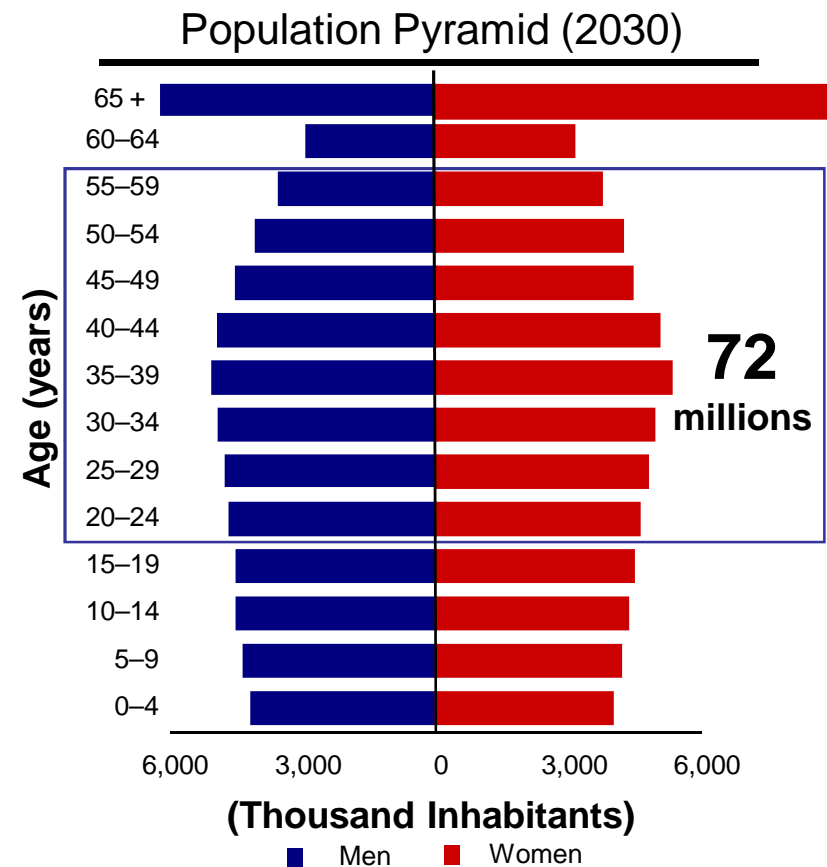
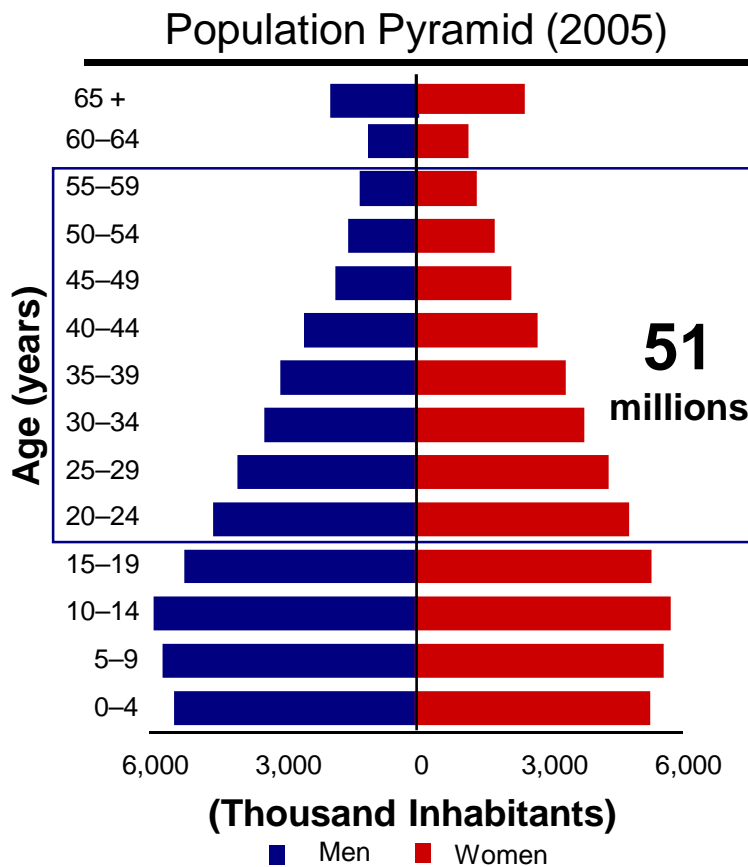


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Market Overview

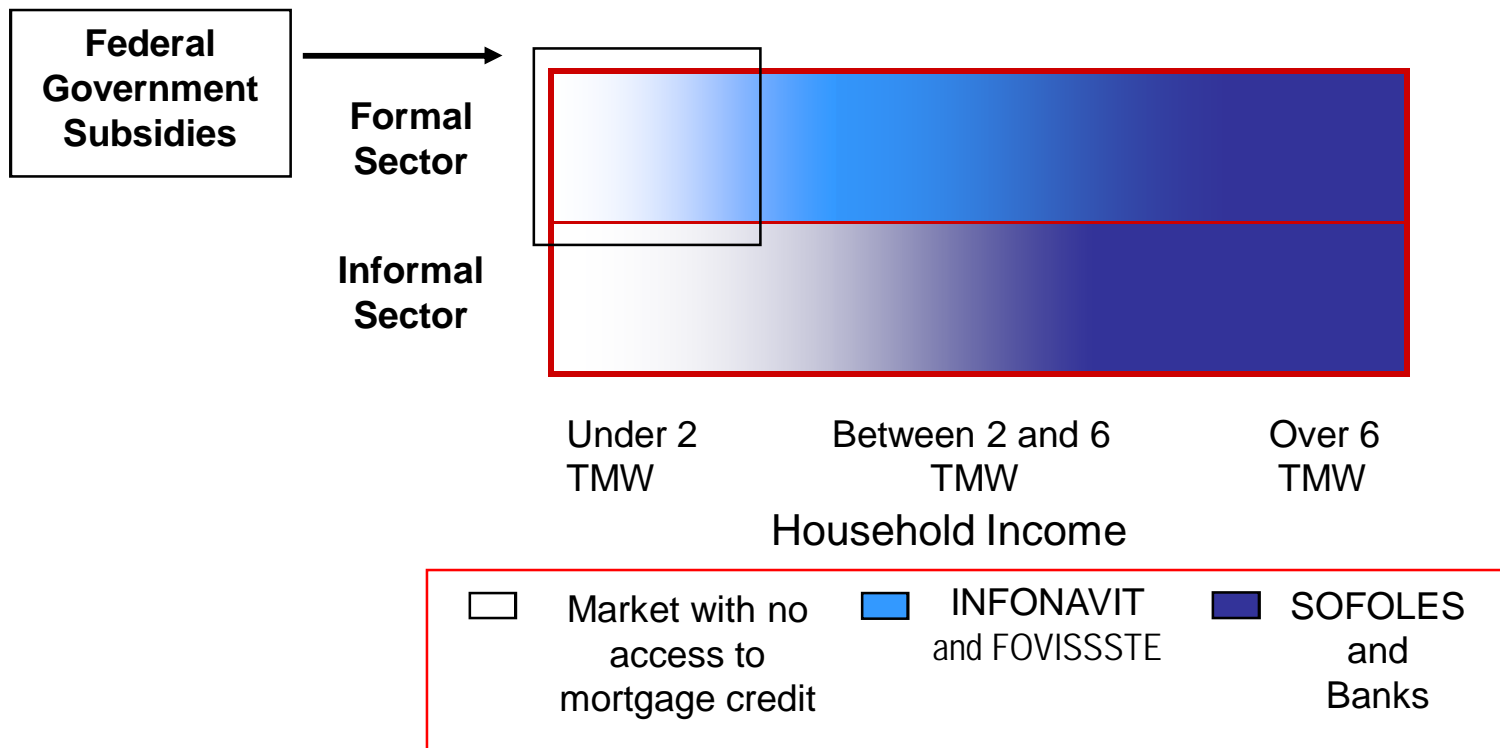
- The demographic structure of the Mexican population shows that the next 20 years will present high household creation and thus, demand for mortgages





Market Overview

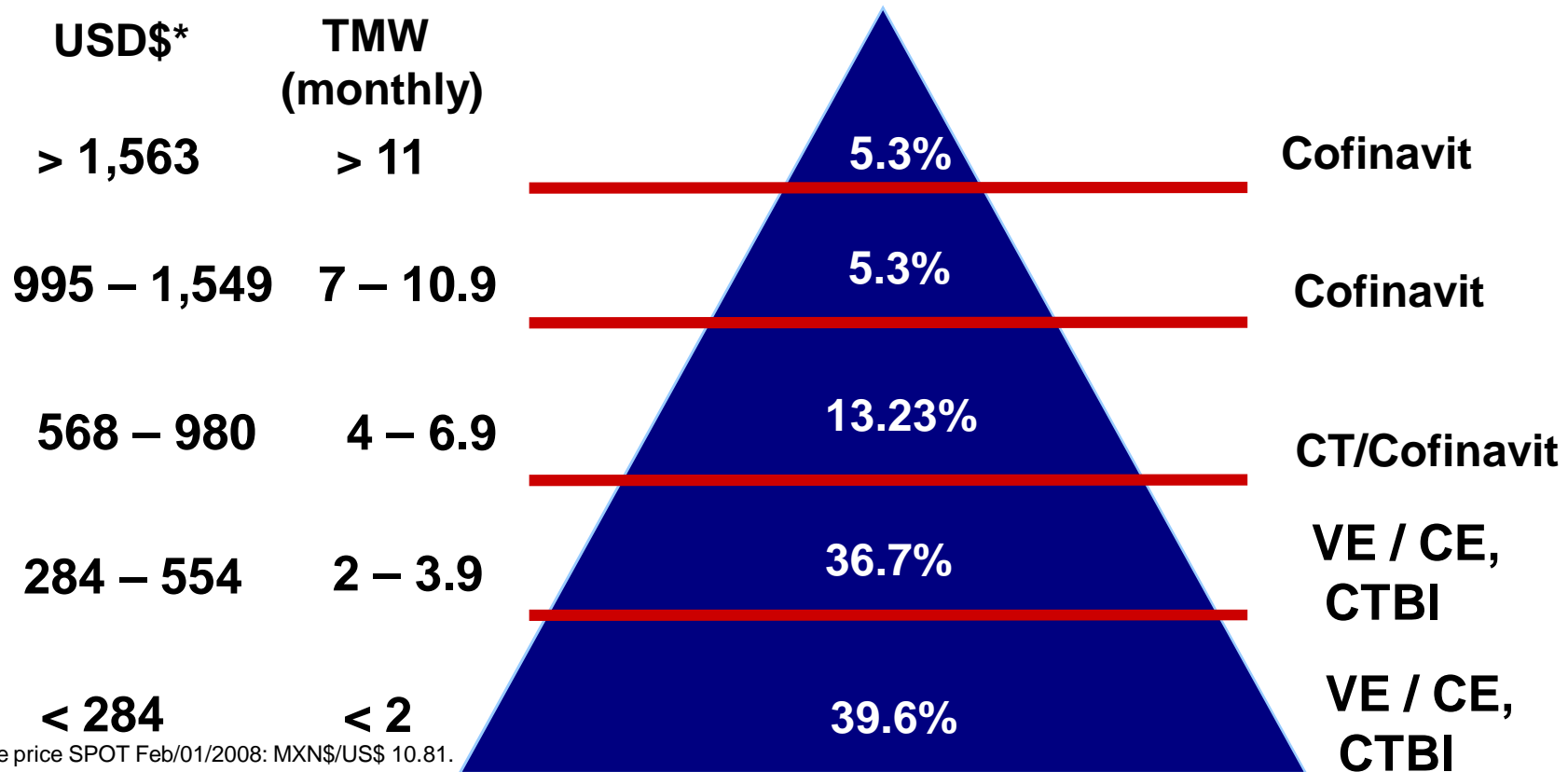
- INFONAVIT's mandate is to facilitate access to housing to formal private sector workers
 - Lower income brackets: 100% funding
 - Mid-high income brackets: co-financing with private sector financial institutions (banks & sofoles)





Market Overview

- Total potential demand was 9.5 million workers as of 2007
- Demand increases as formal jobs are created; President Calderon's objective: 1 million jobs per year



*Close price SPOT Feb/01/2008: MXN\$/US\$ 10.81.
Source: INFOSEL



Market Overview

■ Mortgage Market Highlights

Characteristics	Mexican Mortgage Market
■ Housing Demand	Deficit of 3 million units
■ Demographics	Population: 104 million; 50% younger than 24 years old
■ Type of demand	Entry level (affordable)
■ Scoring	Employment stability and formal income information
■ Collections	Payroll deduction
■ Mortgage products	Fixed rate on Times Minimum Wage
■ Home equity loans	No
■ Housing prices	Rising in line with inflation rates
■ Loan to Value	87% average
■ Mortgage Backed Securities	Simple structures without tranches with 18% subordination retained by INFONAVIT



Financial Plan 2008-2012



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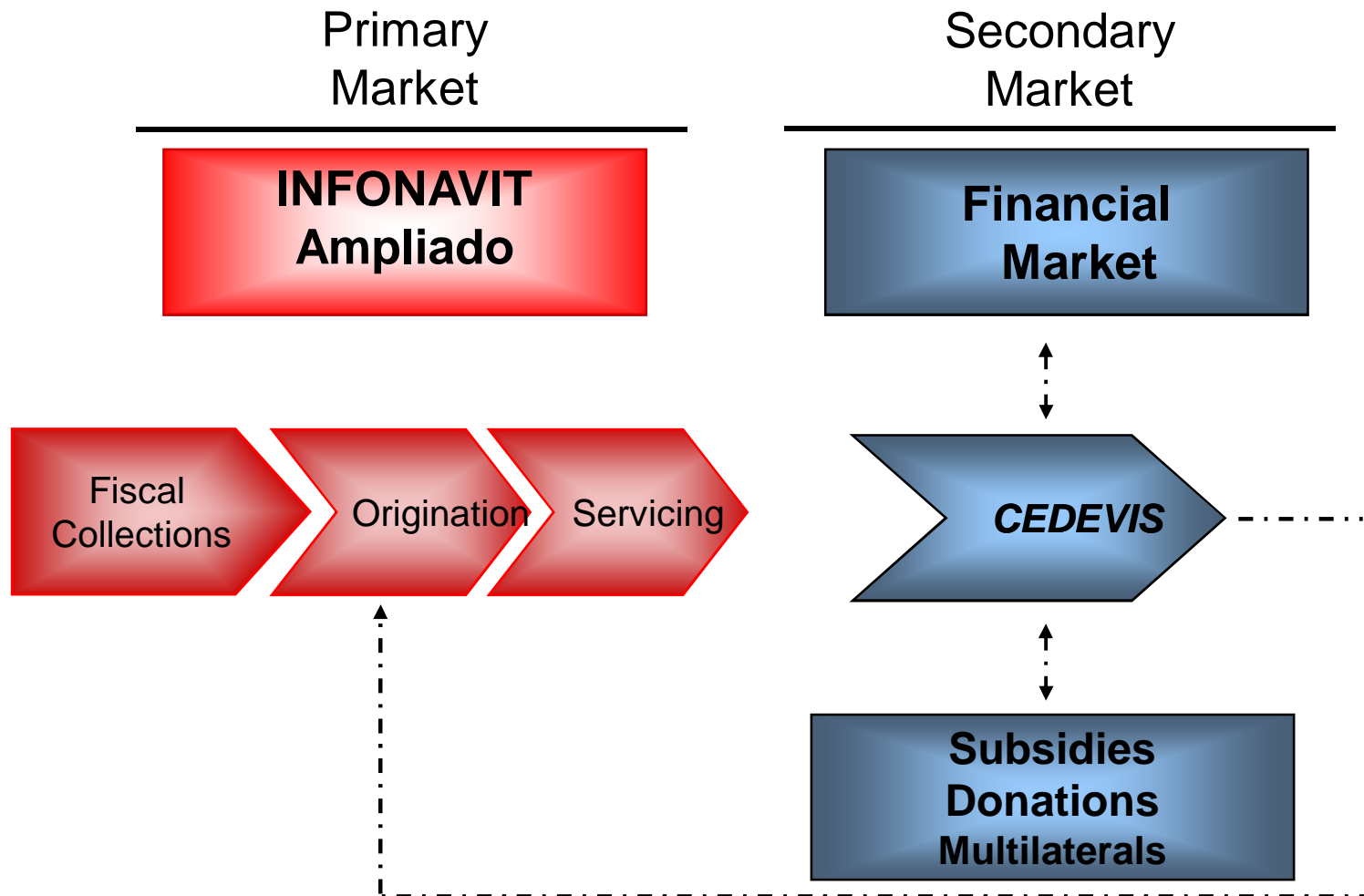
Financial Plan 2008-2012

- Origination Strategy focused on supporting asset quality :
 - Promotes housing quality ⇒ construction, sustainability, and the use of technologies that promote energy savings:
 - ICAVI, JD Power, “green” mortgages (up to US\$1,500 more per loan)
 - Strengthens housing supply ⇒ at regional level, and by income segment, pursuing the development of better urban spaces that promote a better quality of life:
 - 32 state plans with emphasis on southeast states and VE, SIG
 - Prioritizes attention to lower income segments while guaranteeing long run financial sustainability ⇒ providing funding and managing rate subsidies among affiliates, and allowing lower income workers to increase the amount of the mortgage :
 - Mortgage opportunities for affiliates with income lower than 1.5 TMW will allow them to acquire VE with a federal government subsidy
 - 62% of loans for employees with income lower than 4 TMW
 - Removal of ceilings for COFINAVIT and Apoyo INFONAVIT products
 - 33% of loans working with private sector



Financial Plan 2008-2012

- Market Funding in line with the Operating Model

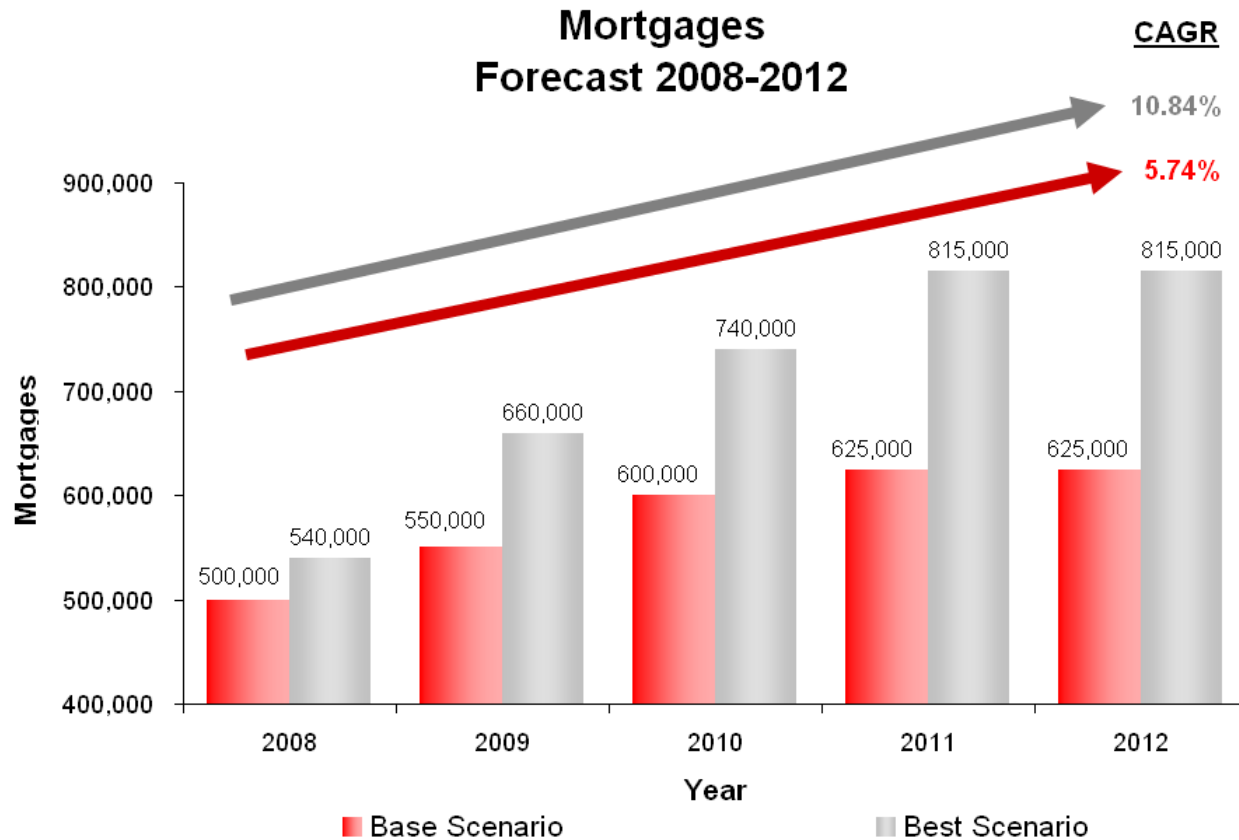


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Financial Plan 2008-2012

■ Lending Strategy



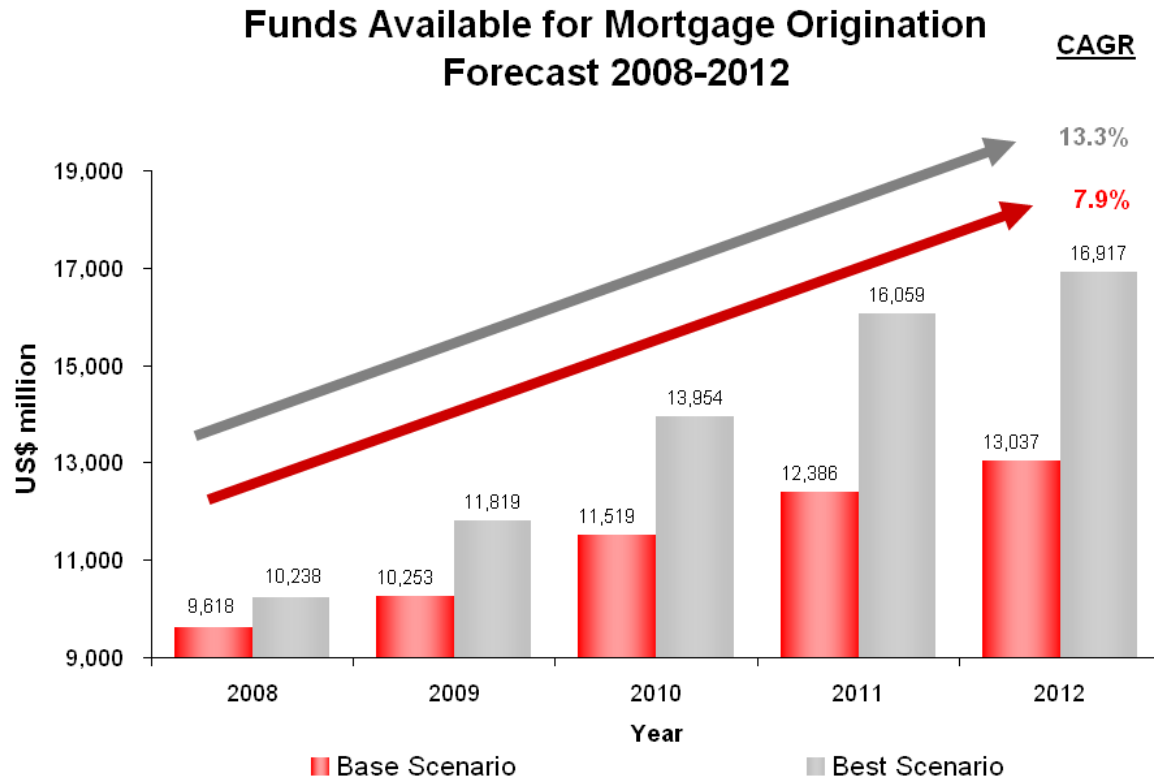
CAGR: Compound Annual Growth Rate

The difference between the Base Scenario and the Best Scenario is the availability of funds in the market.



Financial Plan 2008-2012

Financial Program in US\$*



CAGR: Compound Annual Growth Rate

*Close price SPOT Feb/01/2008: MXN\$/US\$ 10.81.

Source: INFOSEL

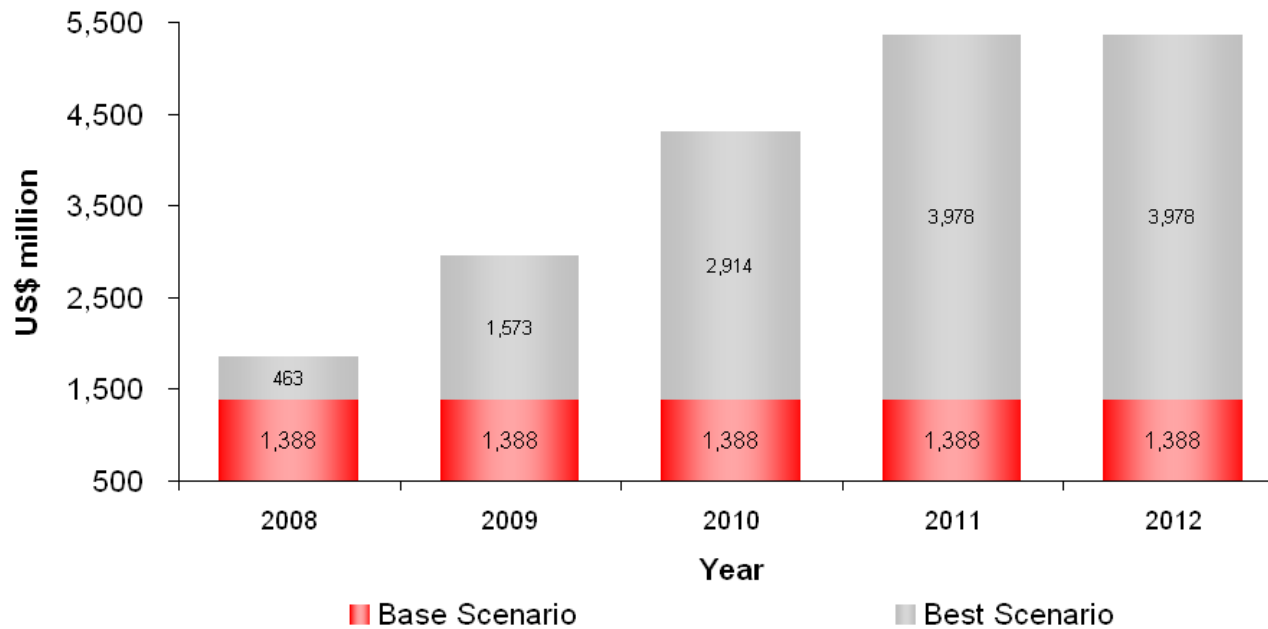
The difference between the Base Scenario and the Best Scenario is the availability of funds in the market.



Financial Plan 2008-2012

■ Funding Strategy in US\$*

Market Funding Objectives Forecast 2008-2012



*Close price SPOT Feb/01/2008: MXN\$/US\$ 10.81.

Source: INFOSEL

The difference between the Base Scenario and the Best Scenario is the availability of funds in the market.



Final Remarks



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Final Remarks: Challenges

2001-2006: Reaching international standards of profitability and efficiency while preserving the social mandate of a public institution.

2008-2012: Implementing a housing financing strategy to satisfy the demand emphasizing housing quality and equality by income segments and regions, and supporting a well planned urban development to give workers a better quality of life.



Final Remarks: Early Indicators

	Jan/2007	Jan/2008	Var.
▪ Total Mortgages	25,337	37,245	47%
▪ Cash Inflows	US\$ 1,263 ¹	US\$ 1,408 ¹	11%
▪ Housing Supply	14,235	36,610	157%

¹ US\$ million. Close price SPOT Feb/01/2008: MXN\$/US\$ 10.81.
Source: INFOSEL



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