

Un nuevo



ISSSTE

para servirte mejor

# FOVISSSTE

**Manuel Pérez-Cárdenas**

Chief Executive Officer

February 6, 2009



## Agenda

- I. What is FOVISSSTE?
- II. The First 34 Years
- III. FOVISSSTE in President Calderon's Administration (2006-12)
- IV. Twelve Main Accomplishments 2007-08
- V. Program for 2009 and for the Second Half of the Administration
- VI. Final Remarks



## What is FOVISSSTE?

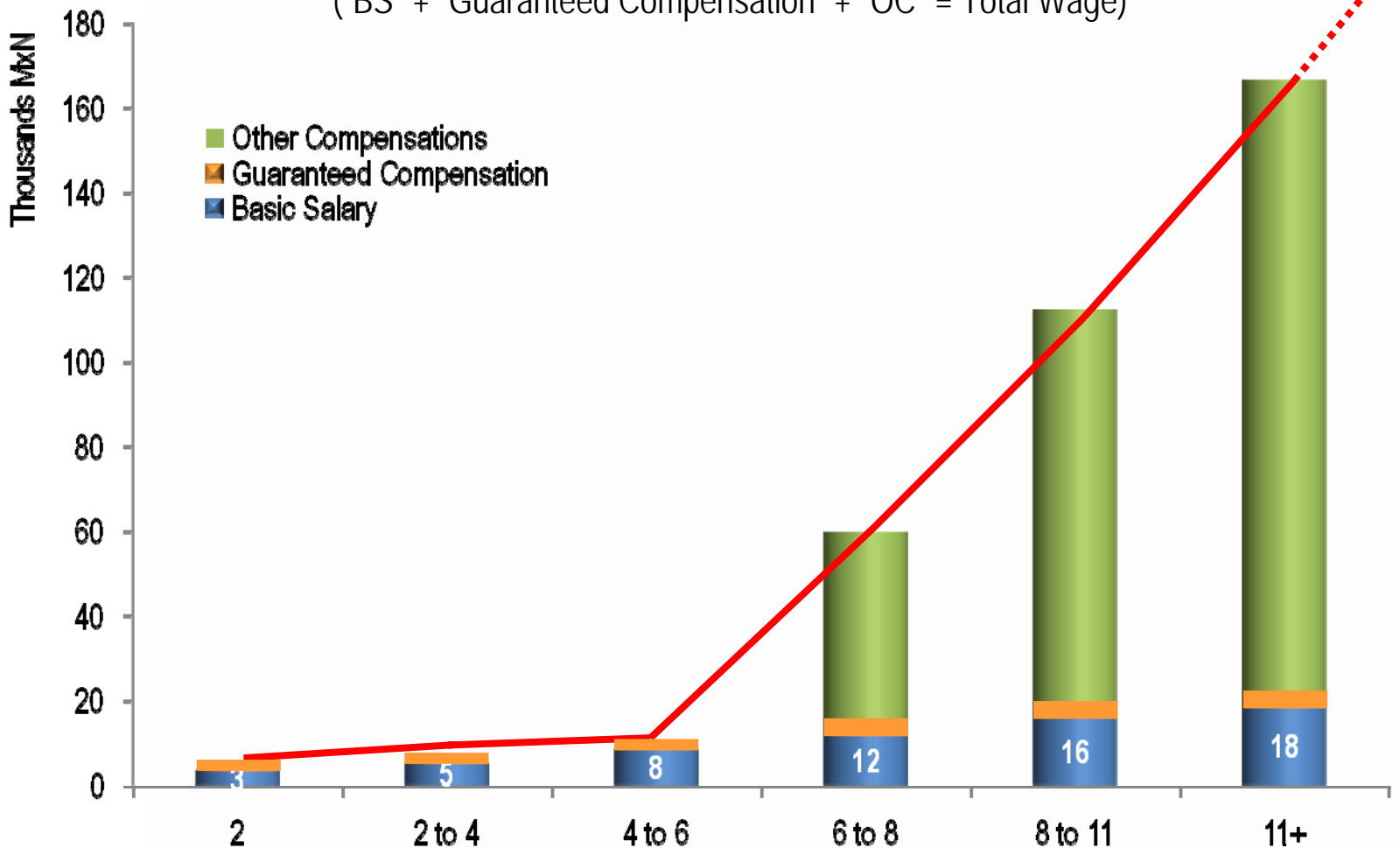
- FOVISSSTE was created in 1972, to operate a financing system that allows the State employees to obtain an “accessible and sufficient” credit by means of a loan with a mortgage guarantee
- From the legal point of view, FOVISSSTE is a dispersed institution ordered to manage a fund “owned by the workers” formed with the contributions made by the government agencies on behalf of their employees (FOVISSSTE does not represent a fiscal burden)
- From the social point of view and related with the housing for workers who benefit from a social security system, FOVISSSTE is, along with INFONAVIT, a key institution of the Mexican social security
- FOVISSSTE’s collection process discounts a fixed 30% of the base salary of the worker directly from payroll on a bi-weekly basis, and an additional 5% of base salary made by the government agencies on behalf of their employees
- Each FOVISSSTE loan is tied to a life and property insurance policy



## Basic Salary and Total Wage

As higher is total wage, the lower in % is the basic salary

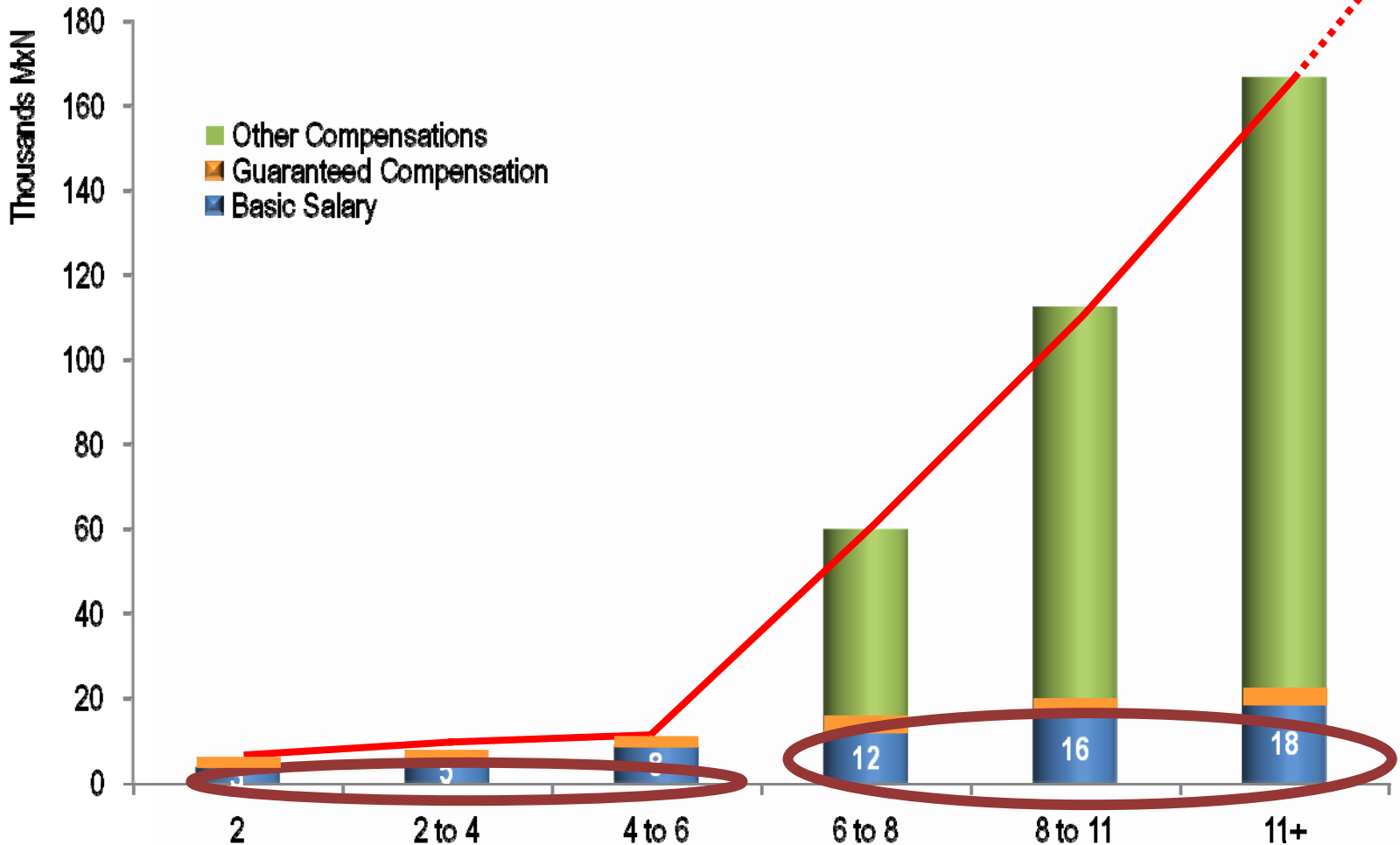
("BS" + "Guaranteed Compensation" + "OC" = Total Wage)\*



\*/ FOVISSSTE determines the maximum loan amount, and collects, only from basic salary.



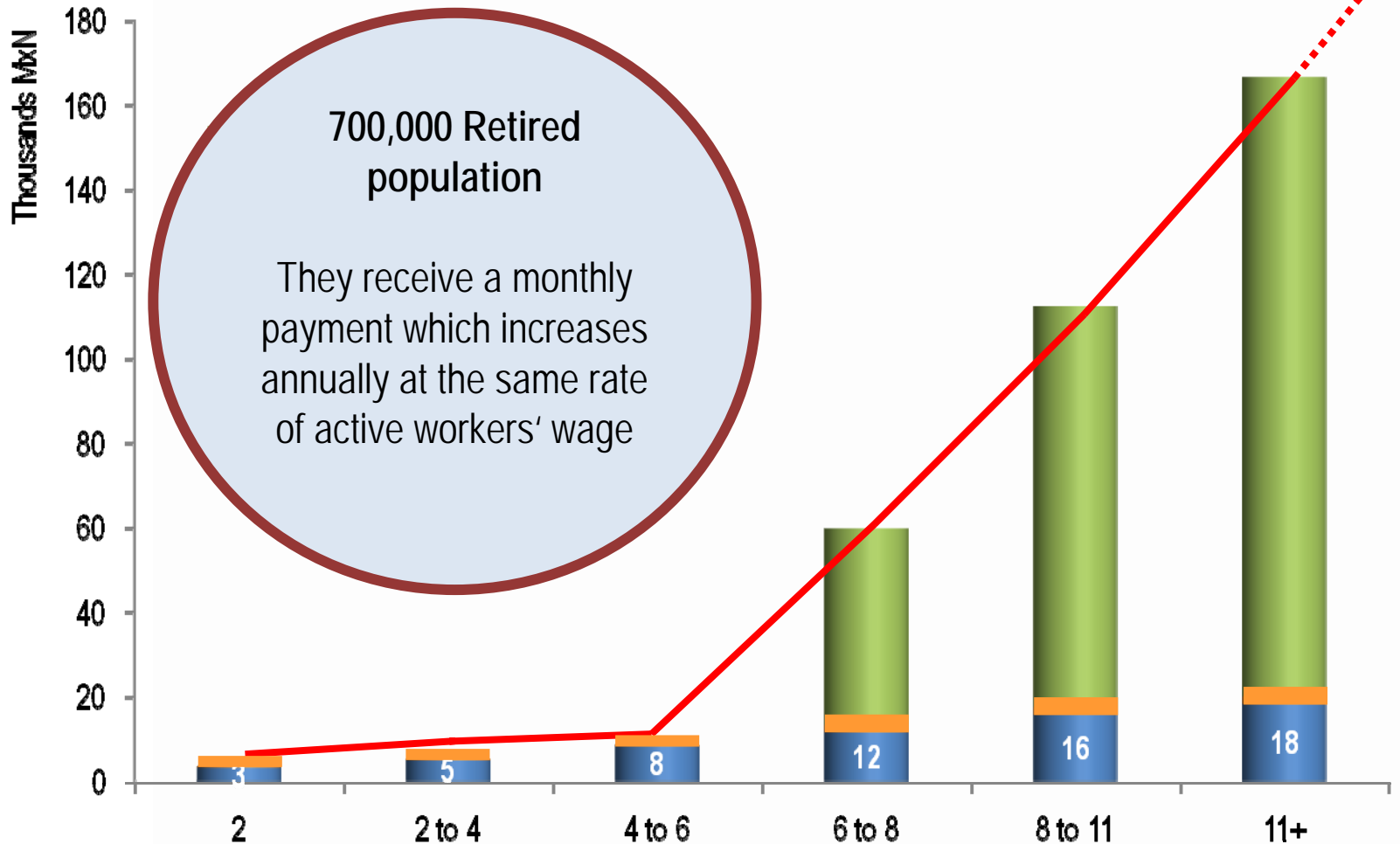
## Maximum Loan Amount and Collection = 30% of Basic Salary "Traditional", "Conjugal" and "With Subsidy" Schemes



\*/ FOVISSSTE determines the maximum loan amount, and collects, only from basic salary.

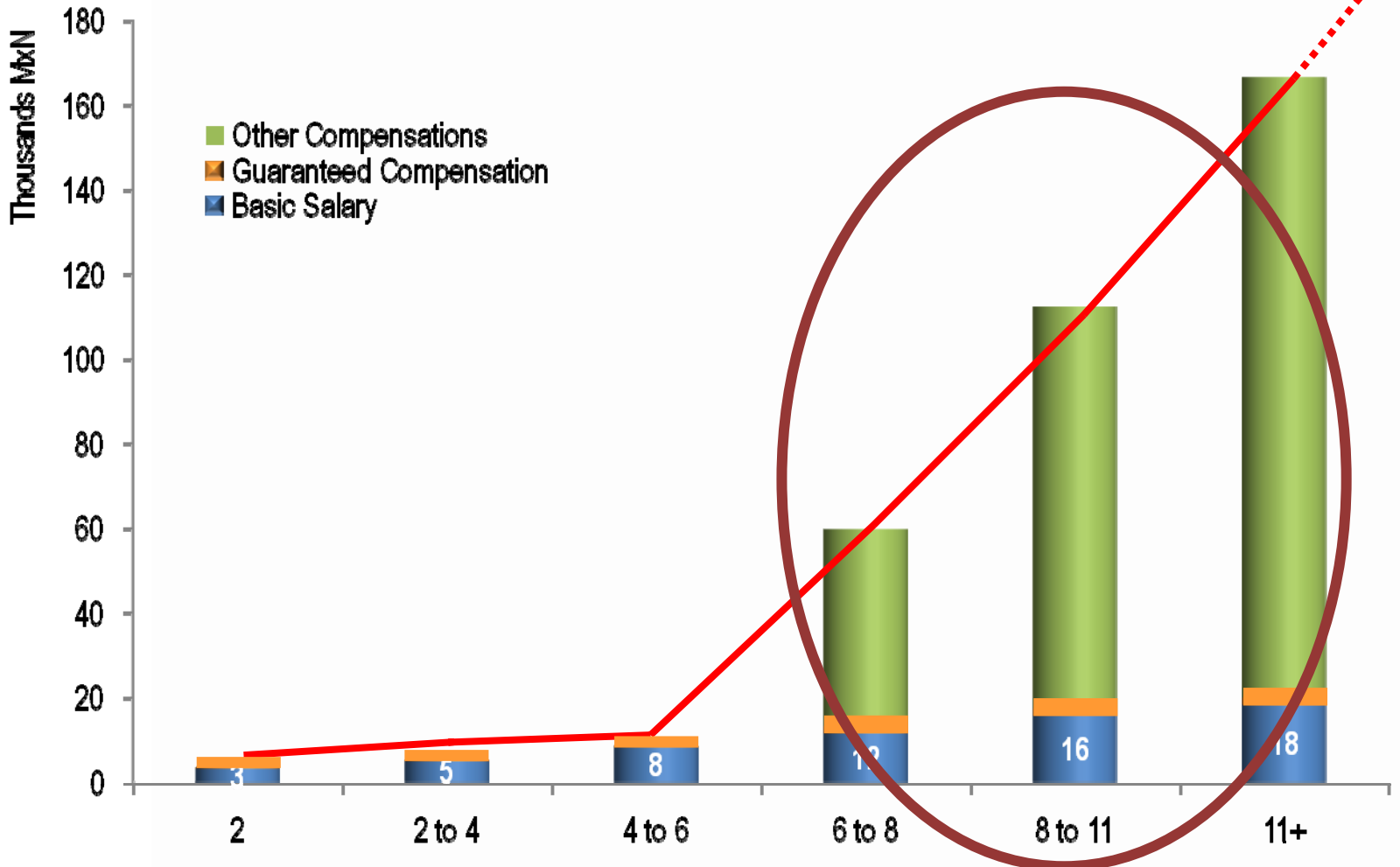
## Retirees' Scheme

Maximum Loan Amount and Collection = 20% of Pension



\*/ FOVISSSTE determines the maximum loan amount, and collects, only from Pension.

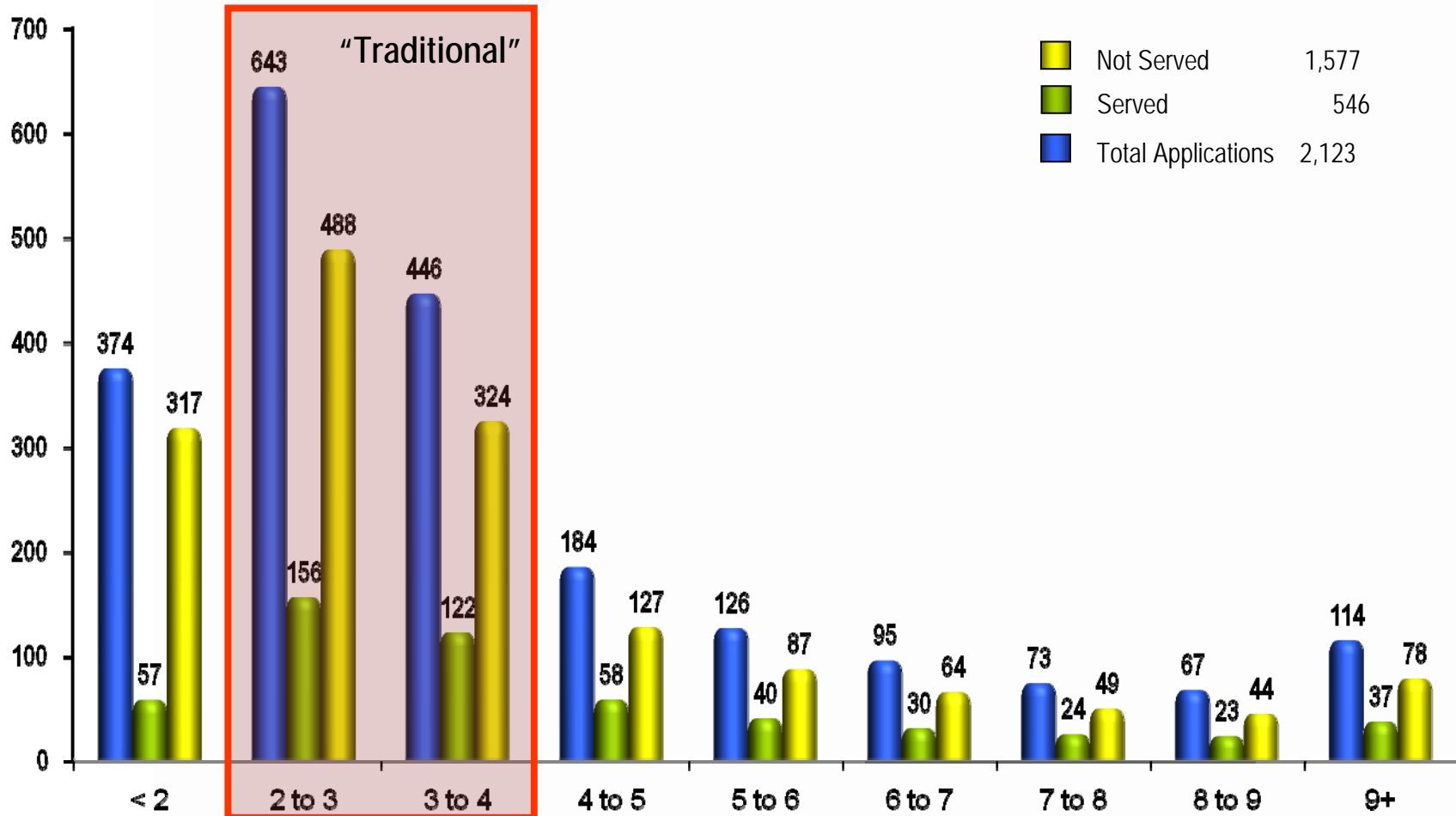
## Co financed Schemes, Based on Total Wage\*



\*/ Co financed schemes based on total wage: "Alia2" and "Respalda2". In general, FOVISSSTE contributes with 1/3

## The New Strategy (2007-12): loans for everybody

(Thousands of workers and Basic Salary in MMWT\*)



As of December 2006, Source: AVC ISSSTE

\*\*/ Minimum Salary = Salario Mínimo Mensual General Vigente en el Distrito Federal (Monthly Minimum Salary for the Federal District)

     Zone of greatest historical attention

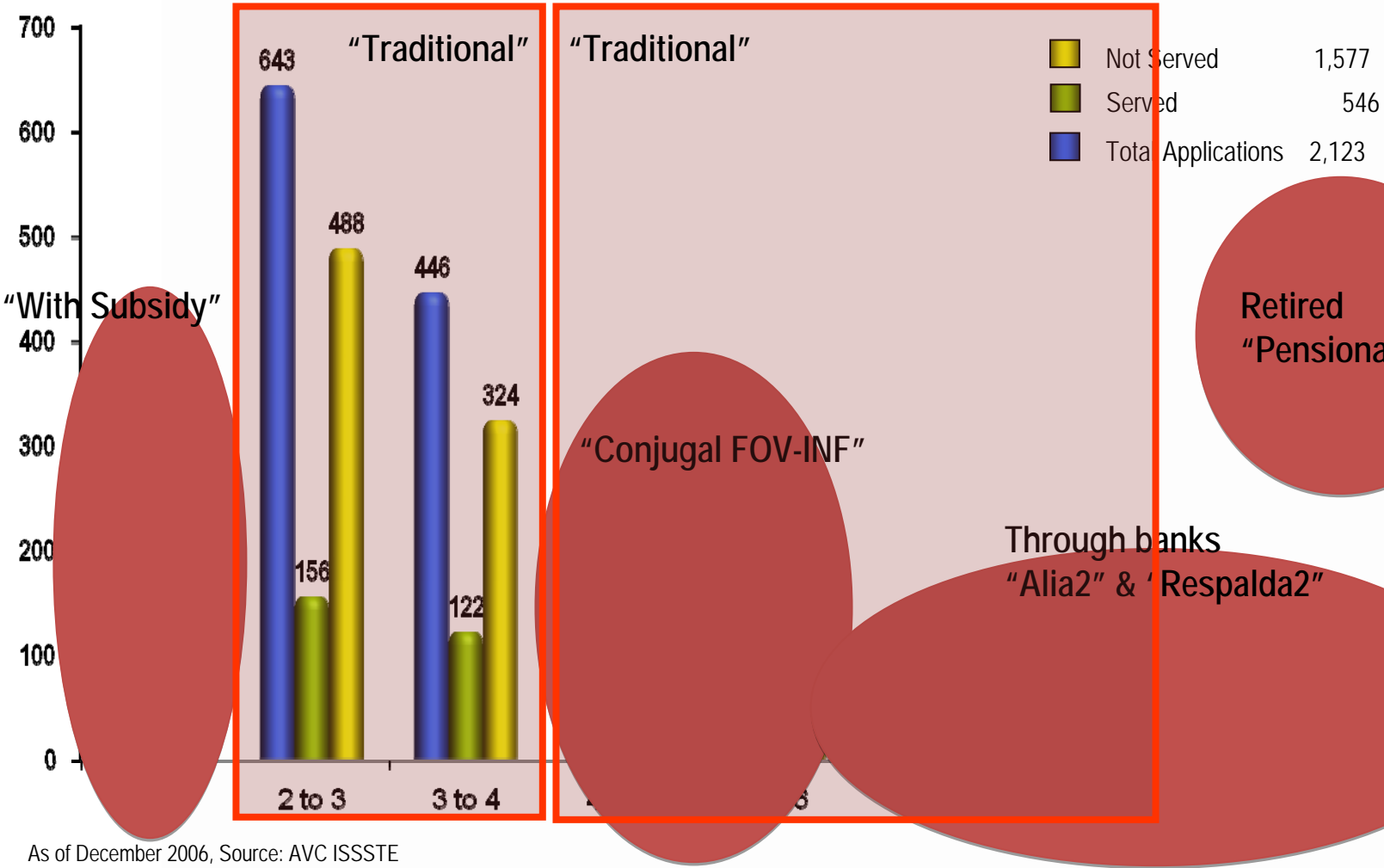


Vivir Mejor



## The New Strategy (2007-12): loans for everybody

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Zone of greatest historical attention



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## The First 34 Years

- From 1972-2006, FOVISSSTE operated a single credit product (the traditional credit) which benefited 793,079 workers
- For planning purposes, the current administration separated these 34 years in two stages:
  - From 1972 to 2001 (29 years), “FOVISSSTE Builder”
  - From 2002 to 2006 (5 years), “FOVISSSTE-SOFOLES”
- From the outstanding balance as of December, 2008:
  - The stage “FOVISSSTE Builder” represents 24% in number of loans and 23% in value
  - The stage “FOVISSSTE-SOFOLES” represents 60% and 50%, respectively
- In the 1972-2006 period a large majority of workers benefited from the fund, but a series of operational issues left negative balances that the current administration has solved through the program “*Terminemos tu casa... con la suma de todos*”, expected to be completed during 2009

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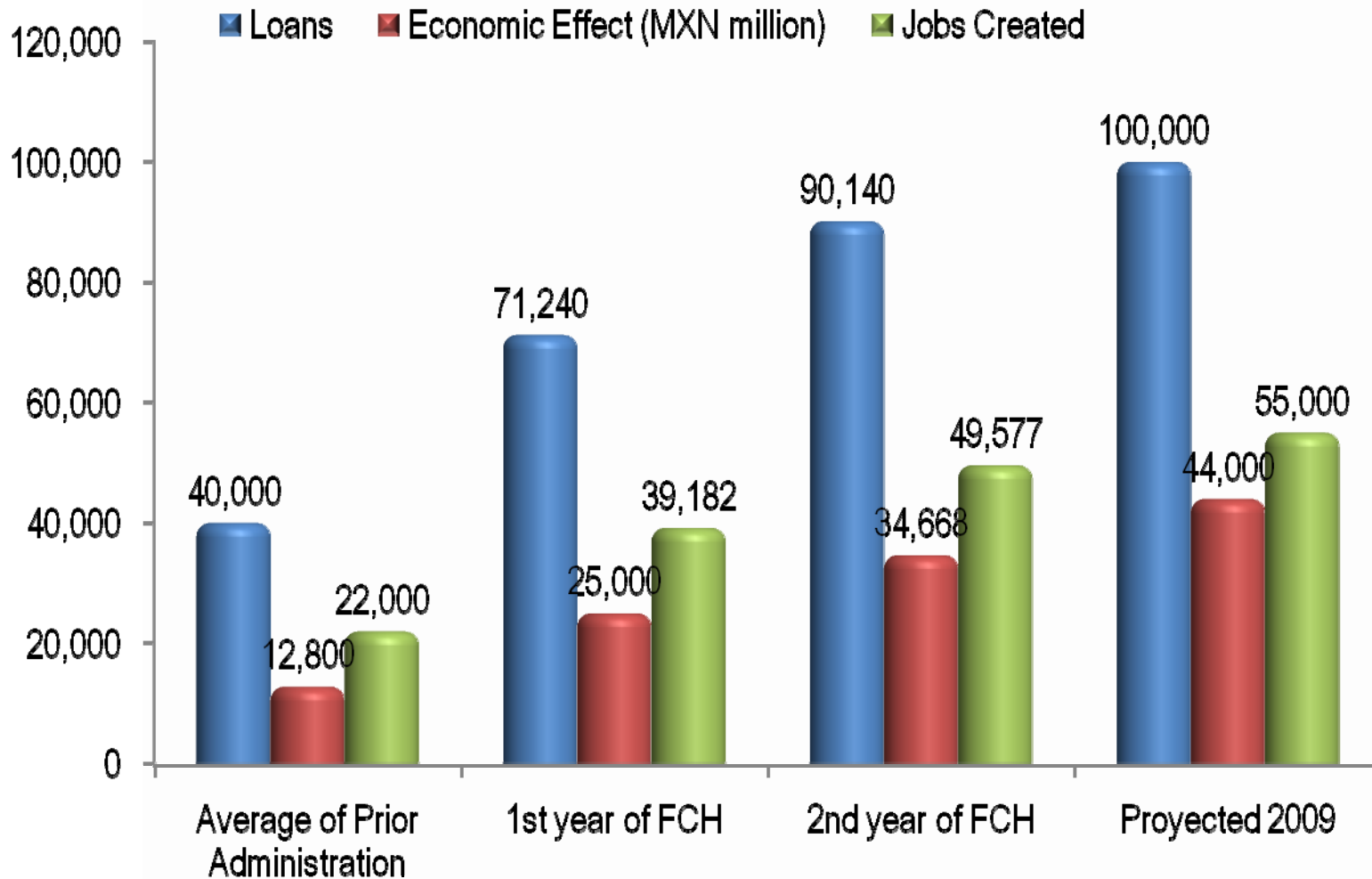
## FOVISSSTE and President Calderon's Term (2006-12)

- President Calderón has set out to achieve the following **Seven** basic objectives:
  1. *Foster FOVISSSTE's growth* and minimize the historical delay of credits
  2. *Diversification of credit supply*, to cater credit needs of different income layers
  3. *Solve inherited operational issues*, expecting to conclude by 2010
  4. *Modernization aimed at increased efficiency*, to increase credit supply
  5. *Implement accountability* to provide transparency in the operation
  6. *Modernize governance and establish healthy practices* to world-class standards
  7. *Strengthen its financial capabilities* through effective collection processes, operational efficiency and access to the capital markets



## FOVISSSTE's Growth

### 2000 – 2009 Operations



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## Twelve main accomplishments 2007-08

1. *We now follow a strategic planning process* that links housing demand and supply in diverse regions and cities
2. *We created and consolidated five new loan schemes to cover all income levels* (all eligible without lottery process), which complement our traditional credit
3. *In order to facilitate access to better housing*, as of September 2008 we increased in average 25% the individual size of our loans (opposite to the global trend)
4. *In 2008 we granted a historical number of 90,140 mortgage loans* (almost 19,000 more than the previous year), *which* combined with 71,240 in 2007 are equivalent to those granted during the first 18 years of existence (three presidential periods)





## Twelve main accomplishments 2007-08

5. *We simplified and reduced operational procedures* related to the income verification process and the lottery registration system. These are now based on sophisticated computer systems which provide certainty and transparency
6. *Transparency, accountability and exposure to a strict third-party supervision are now mandatory*, where norms, processes and results are open for public review
7. *We obtained the ISO 9001:2000 certification of our lottery process*, and have initiated similar revisions to the rest of substantial processes
8. *With the Special Program “Terminemos tu casa... con la suma de todos”*, we have solved 73% of credit and construction old problems, those prior to 2006



## ...Twelve main accomplishments 2007-08

9. ***The number of our financial associates has grown;*** today we have agreements with 19 Sofoles and Sofomes and 8 of the major banks, which combined represent over 9,000 points of service, nationwide
10. ***With the Mexican Notaries Association,*** we have established a successful partnership that, starting in February 2009, will benefit importantly the security of our operations and the credit disbursement process
11. ***Over the next months we expect to obtain six international ratings, from leading companies,*** which will place us as a world-class financial institution:
  - Three "AAA" portfolio ratings
  - Two "Above Average" ratings as residential loan servicer
  - One "Counterpart risk" rating
12. ***FOVISSSTE has turned into an active player in favor of the housing industry, nationwide;*** for the first time, we released in real time -through our website- the results of the 75,000 loans lottery -by city and amount of loans- in order to facilitate the decision making processes of more than 25,000 housing developers



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## Program for 2009 and for the second half of the Administration

Six lines of action to achieve our goals

1. Grant 400,000 new credits for a total of MXN 174 bn to generate 2.2 million jobs
2. Beginning in 2009, initiate a transition towards the granting of credits for viable housing in coordination with the housing developers:
  - Efficient design and technologies in the energy use, water, and waste
  - Housing with urban development
3. Consolidate the process of transformation and modernization initiated in 2007, until we obtain undisputable recognition as a world-class institution:
  - Basel criteria
  - Governance
  - Certification of quality in our processes

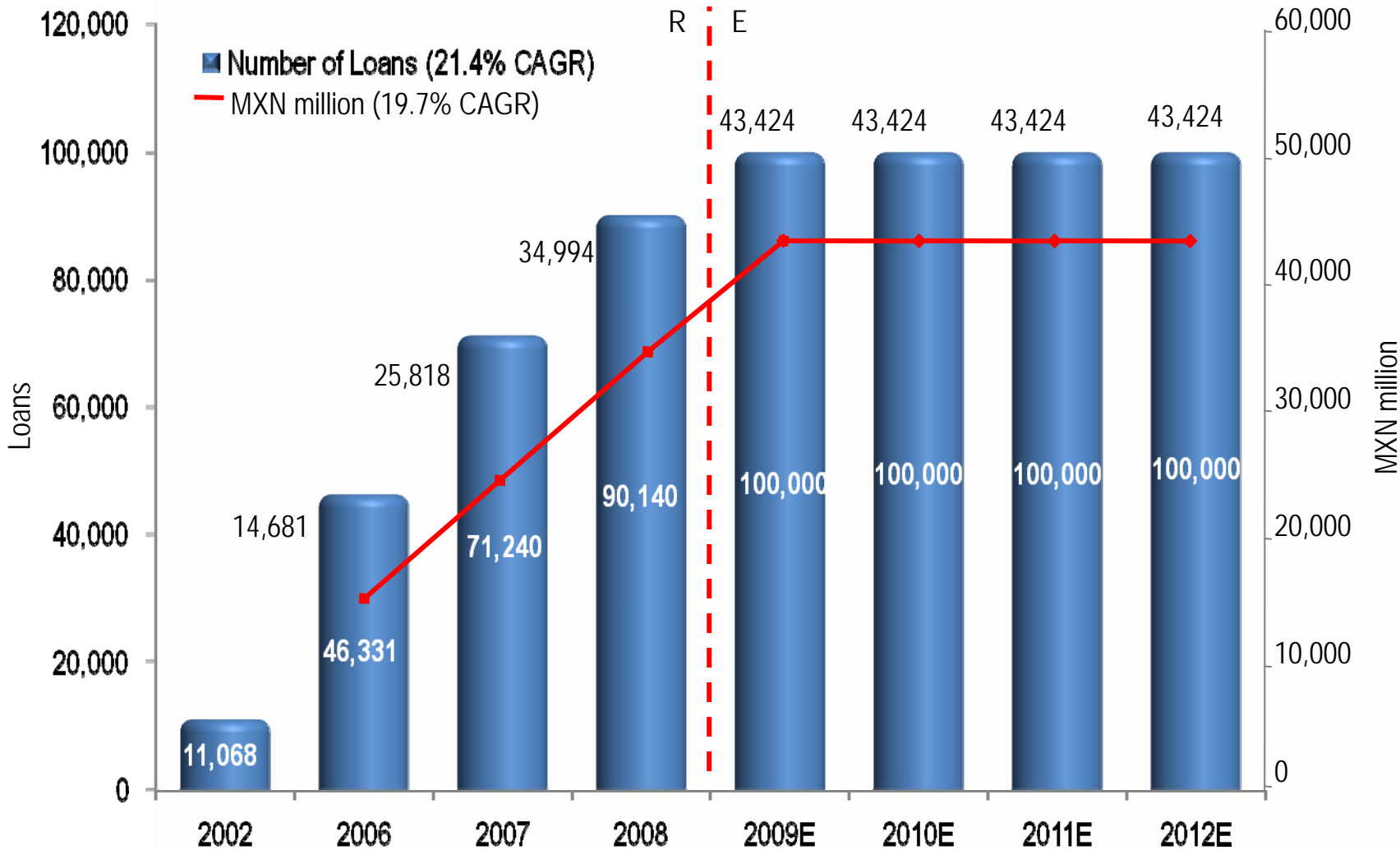


## Program for 2009 and for the second half of the Administration

4. Conclude the re-engineering of the operational areas and processes, especially regarding the new and next regional management:
  - Maintain IT at the current level of vanguard as needed to support an efficient operation
  - Adjust the occupational model to the new design of processes.
  - By means of training, to reshape the current level of abilities of the personnel to the new profiles of position
  - Create a network of regional management
5. Comply with findings and recommendations of the financial authority, international consulting companies and external auditors
6. Tap the capital markets ( up to MXN 20 bn)

**With the above, we plan to increase the coverage of demand from 7% to 43-50% of active affiliates by the end of 2012**

## Mortgage Loans Offered and Value, by Year (Real and Estimated)



## FOVISSSTE and the Mexican Housing Market Mortgage Loans

LENDER	2006		2007		2008		2009E		2009/2006 CAGR (%)	
	Loans	Amount	Loans	Amount	Loans	Amount	Loans	Amount	Loans	Amount
INFONAVIT	421,745	91,602	458,701	102,124	494,073	107,676	500,000	137,951	5.8	14.6
FOVISSSTE	46,000	14,681	71,240	24,822	90,140	34,994	100,000	43,424	29.5	43.5
SHF	-	-	61,965	11,180	131,762	11,835	189,980	19,950	75.1*	33.6*
CONAVI	-	-	117,786	3,836	226,148	4,420	190,000	5,250	27.0*	17.0*
FONHAPO	278,537	3,762	180,307	1,877	222,066	2,152	101,865	2,153	-28.5	-17.0
Banking system	166,123	82,481	212,242	104,469	244,710	96,063	203,000	95,000	6.9	4.8
Public State Lenders	264,734	10,509	82,230	6,302	64,571	8,163	60,000	7,500	-39.0	-10.6
<b>TOTAL / AVG</b>	<b>1'177,139</b>	<b>203,036</b>	<b>1'184,471</b>	<b>254,610</b>	<b>1'473,470</b>	<b>265,303</b>	<b>1'344,845</b>	<b>311,227</b>	<b>6.6</b>	<b>10.6</b>

Source: CONAVI and FOVISSSTE.

\* / CONAVI and SHF CAGRs are for the 2007-2009 period

## FOVISSSTE and the Mexican Housing Market

Average amount per mortgage loan (MXN)

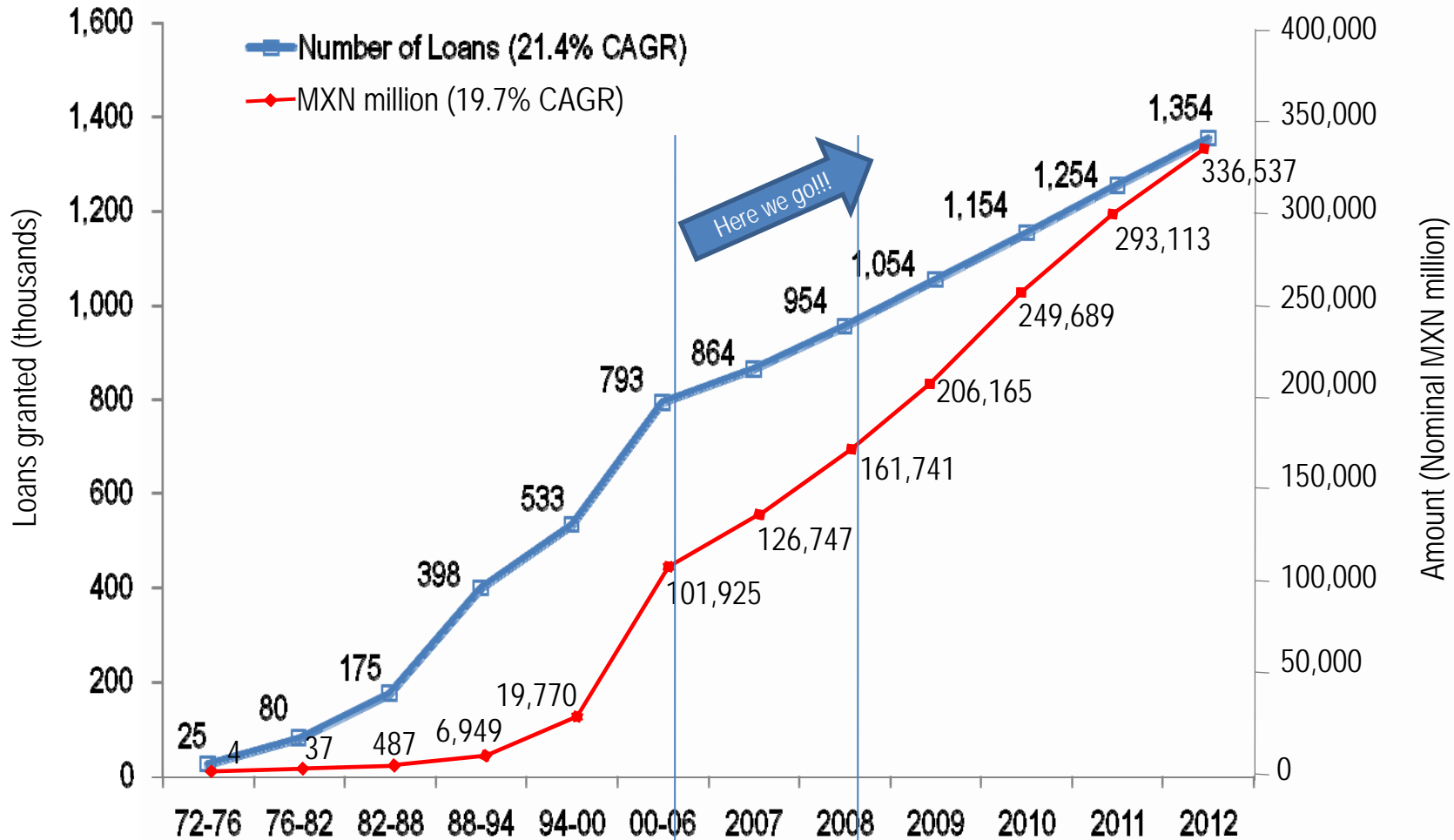
LENDER	2006	2007	2008	2009E
FOVISSSTE	319,152	348,428	388,218	434,240
INFONAVIT	217,198	222,637	217,935	275,902
SHF	-	180,424	89,821	105,011
CONAVI	-	32,568	19,545	27,632
FONHAPO	13,506	10,410	9,691	21,136
Banking system	496,506	492,216	392,559	467,980
Public State Lenders	39,696	76,639	126,419	125,000
<b>AVERAGE</b>	<b>172,483</b>	<b>214,957</b>	<b>180,053</b>	<b>231,422</b>

Source: CONAVI and FOVISSSTE.



## FOVISSSTE's Past, Present and Future

### Loans Granted



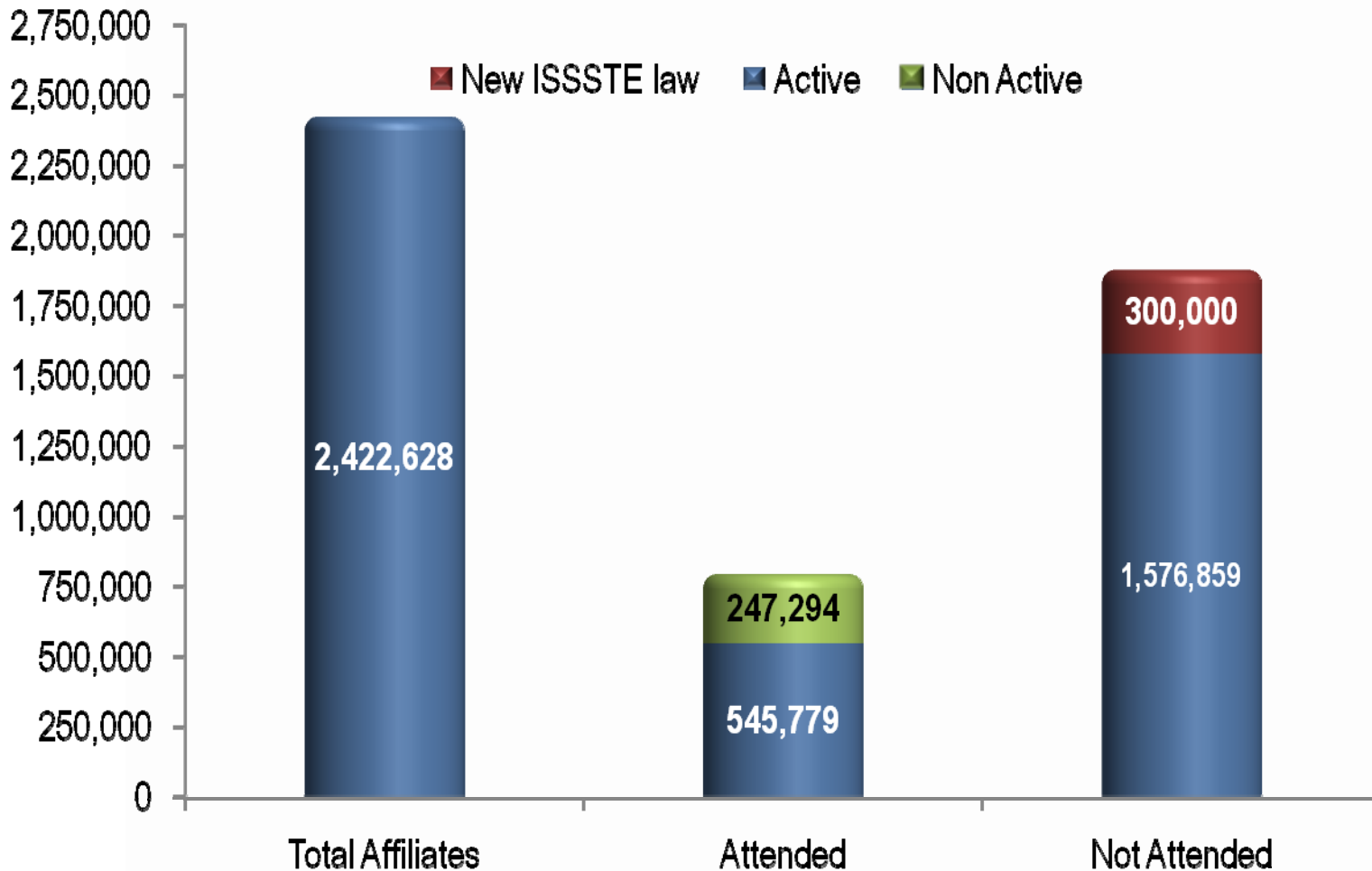
## FOVISSSTE's Past, Present and Future

- The last means that we pretend to do, only in the period 2006-2012, the equivalent of 71% the number of loans granted during the last 34 years
- We expect to book our first ONE MILLION loan in 2009, probably during the coming 2Q



## Market and Targeted Population

### Attention to Potential Demand



## Program for 2009 and for the second half of the Administration Securitization (2009 Financing Plan)

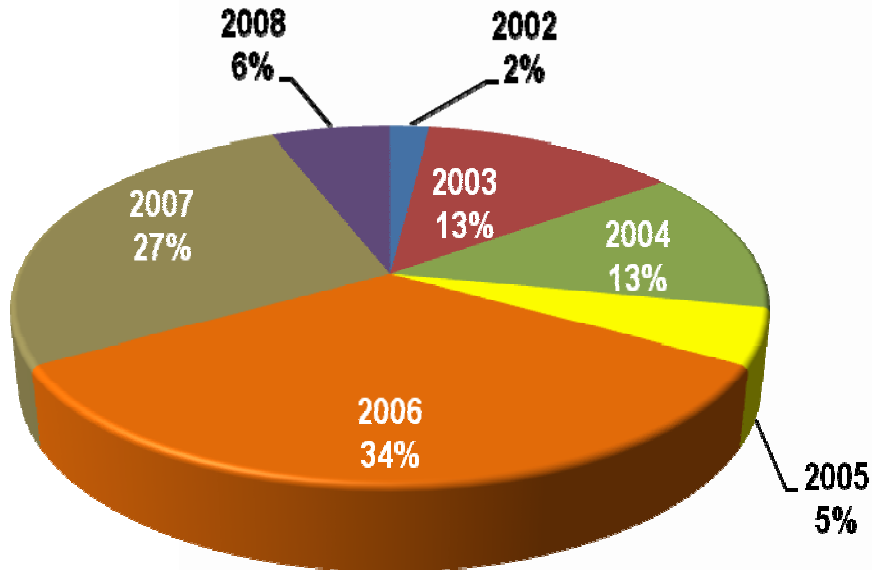
- As part of the 2009 strategy, endorsed by the labor unions' representatives, FOVISSSTE will make it's first incursion into financial markets, with a series of RMBS issuances
  - The target placement amount is approximately MXN 20 billion
  - Funds raised will be used for new loan granting
- We believe FOVISSSTE is uniquely positioned to accomplish this goal despite the current economic environment
  - Investors seek high quality instruments with adequate returns (AAA rating)
  - A high-volume program will offer liquidity in this new asset class



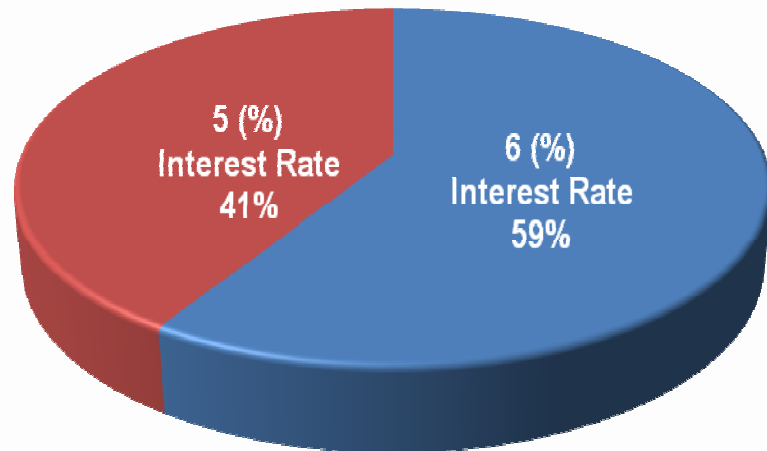
## Securitization (2009 Financing Plan)

### Key Portfolio Characteristics

Loan Portfolio 2002-2008



Real Interest Rate

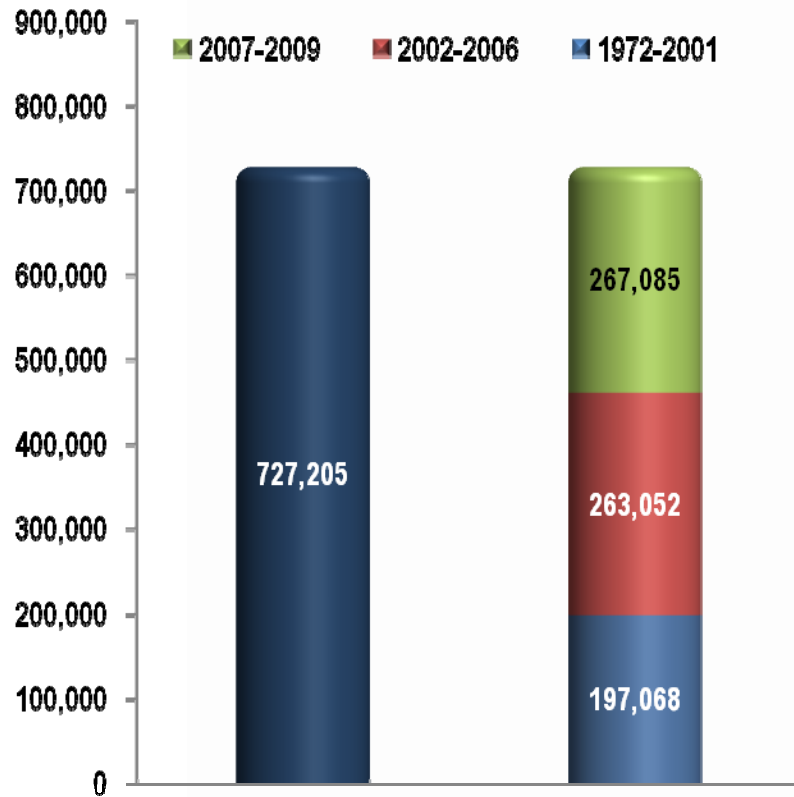


Represents a sub-set of total loans being considered for the 2009 capital markets funding program (data as of October 2008)

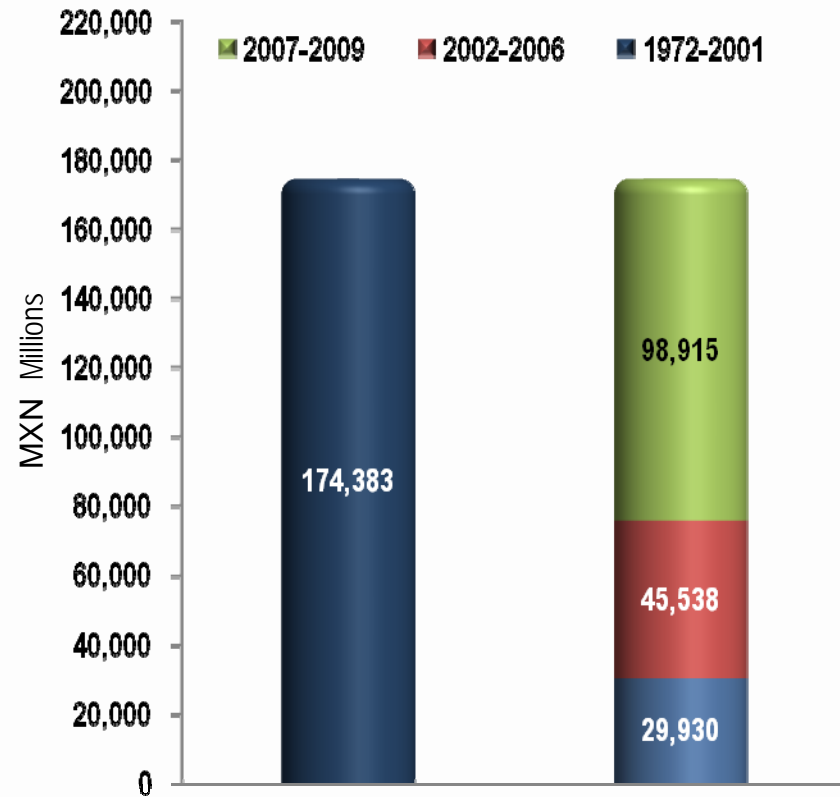
## Securitization (2009 Financing Plan)

Key Portfolio Characteristics – Value by period

Loans (1972-2009)



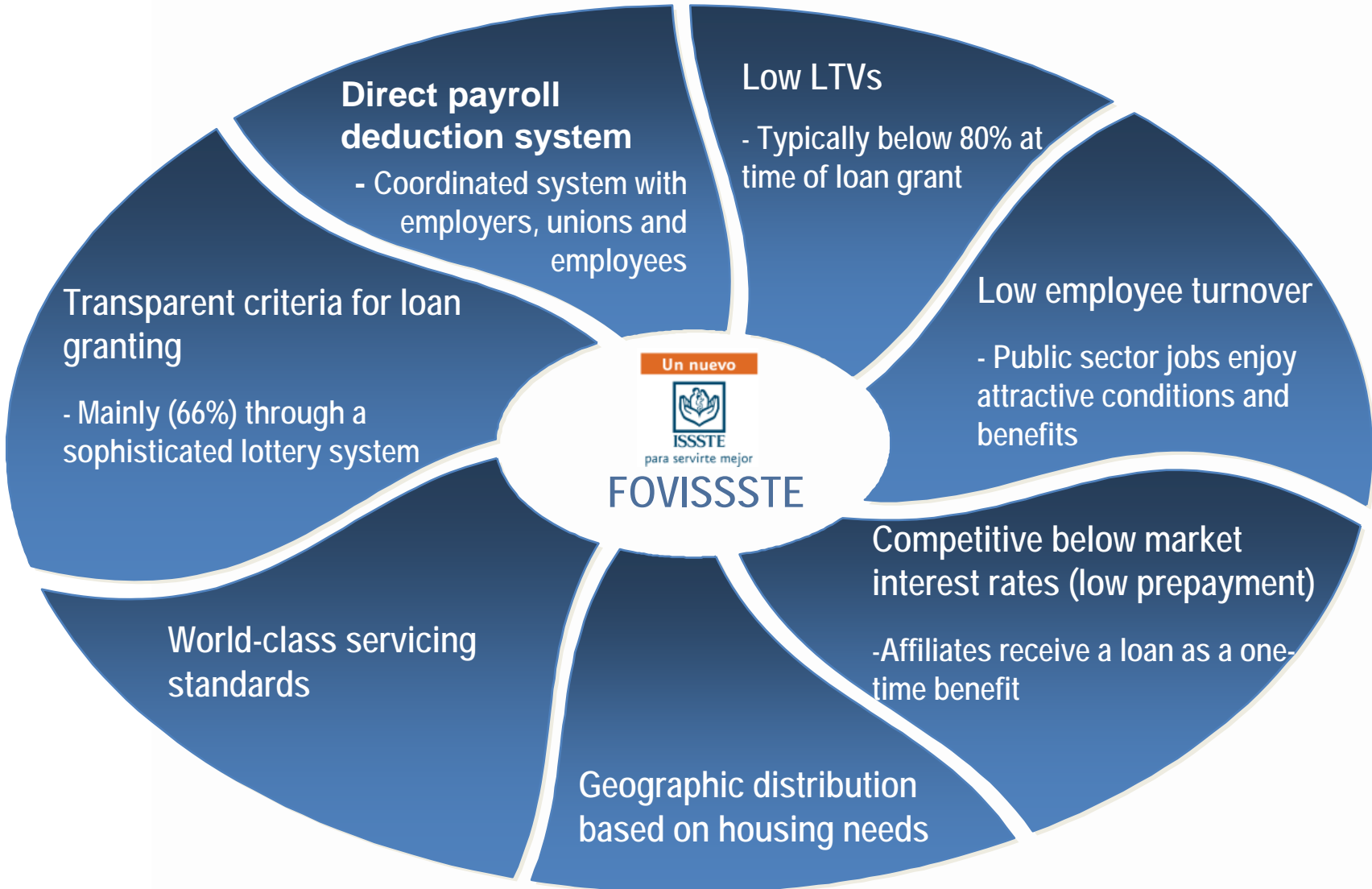
Value (1972-2009)



Outstanding balance as of 12/31/2008 + 2009E



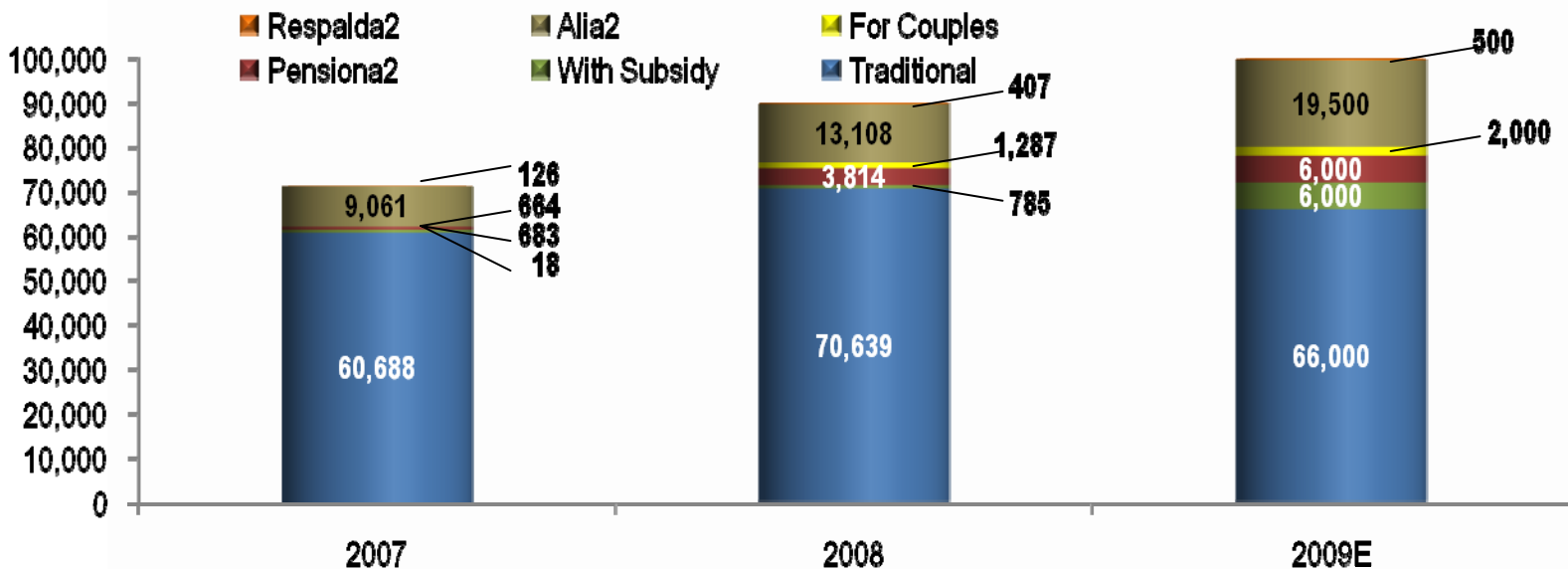
## Securitization: Portfolio Main Characteristics



## Securitization (2009 Financing Plan)

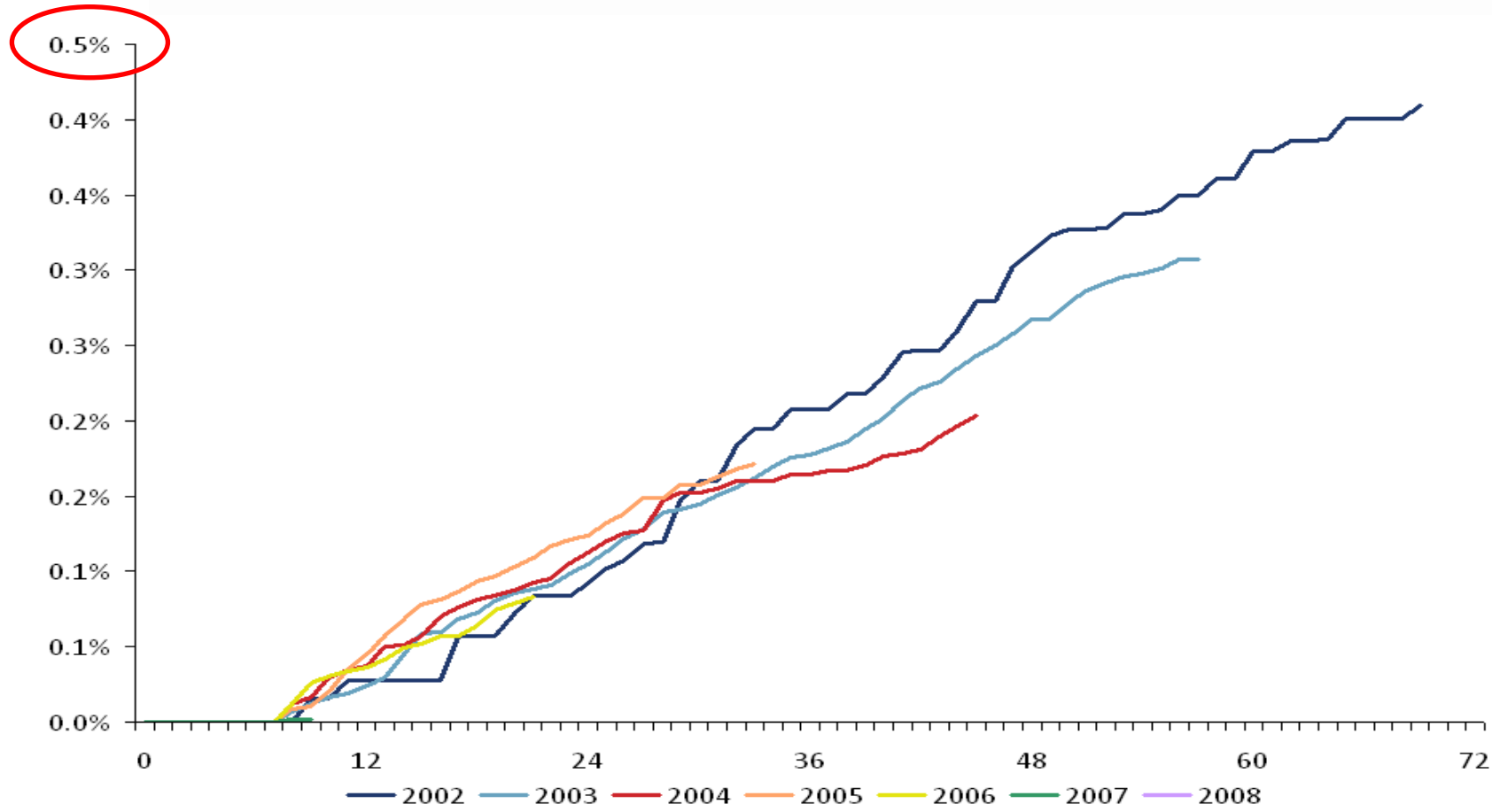
### Key Portfolio Characteristics – Loan Schemes

Product	2007	2008	2009E
Traditional	60,688	70,639	66,000
With Subsidy	683	785	6,000
Pensiona2	664	3,814	6,000
For Couples	18	1,287	2,000
Alia2	9,061	13,108	19,500
Respalda2	126	407	500
<b>TOTAL CAGR</b>	<b>71,240</b>	<b>90,140</b>	<b>100,000</b> 18.5%





## Securitization: Improving Trend in Portfolio Performance Selected Vintage Analysis-Cumulative Default Before any Recovery or Cure

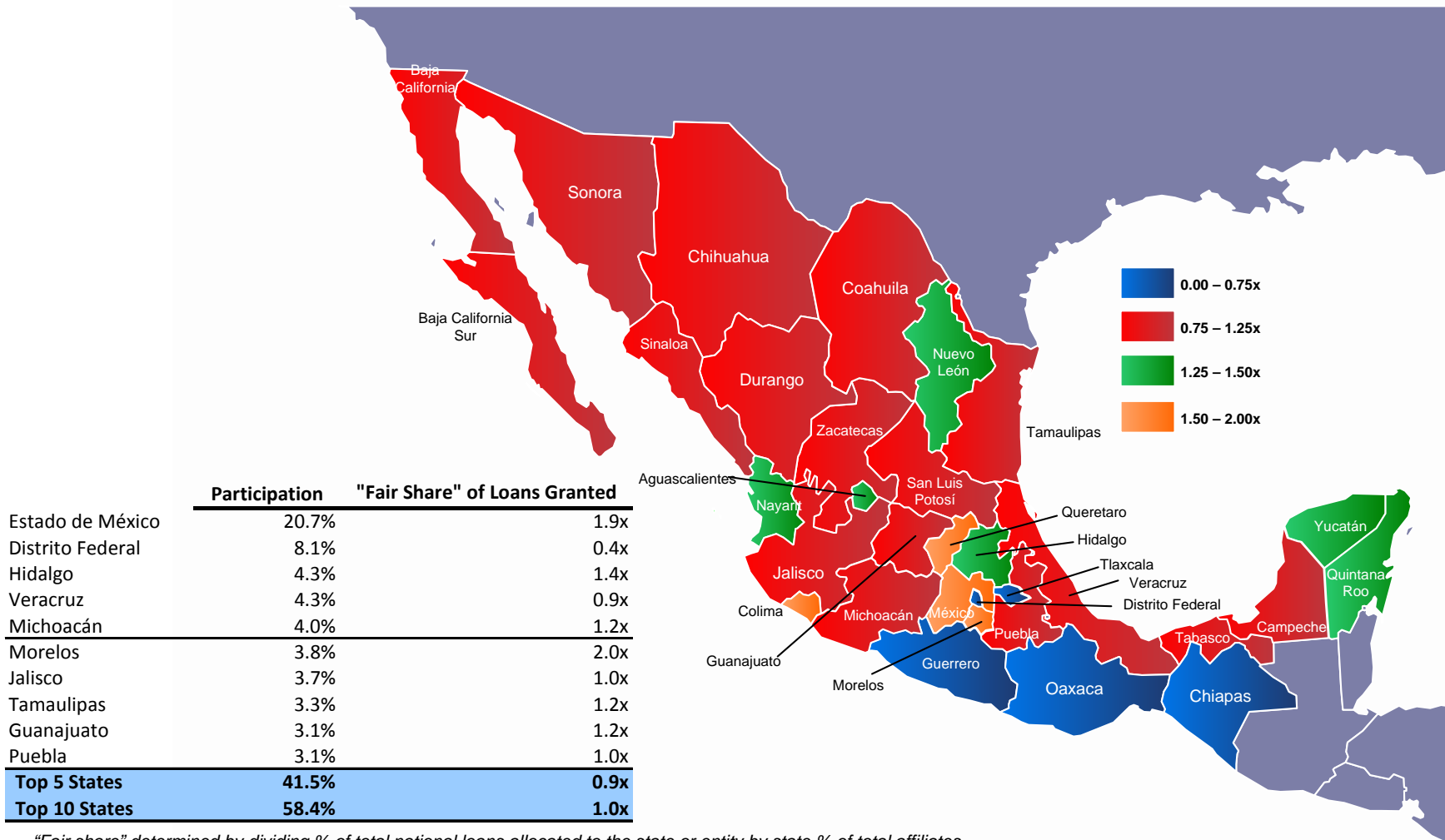


Loan defaults after 90+ days past-due. Represents a sub-set of total loans being considered for the 2009 capital markets funding program (data as of October 2008)

## Securitization (2009 Financing Plan)

### Key Portfolio Characteristics – Geographical Distribution

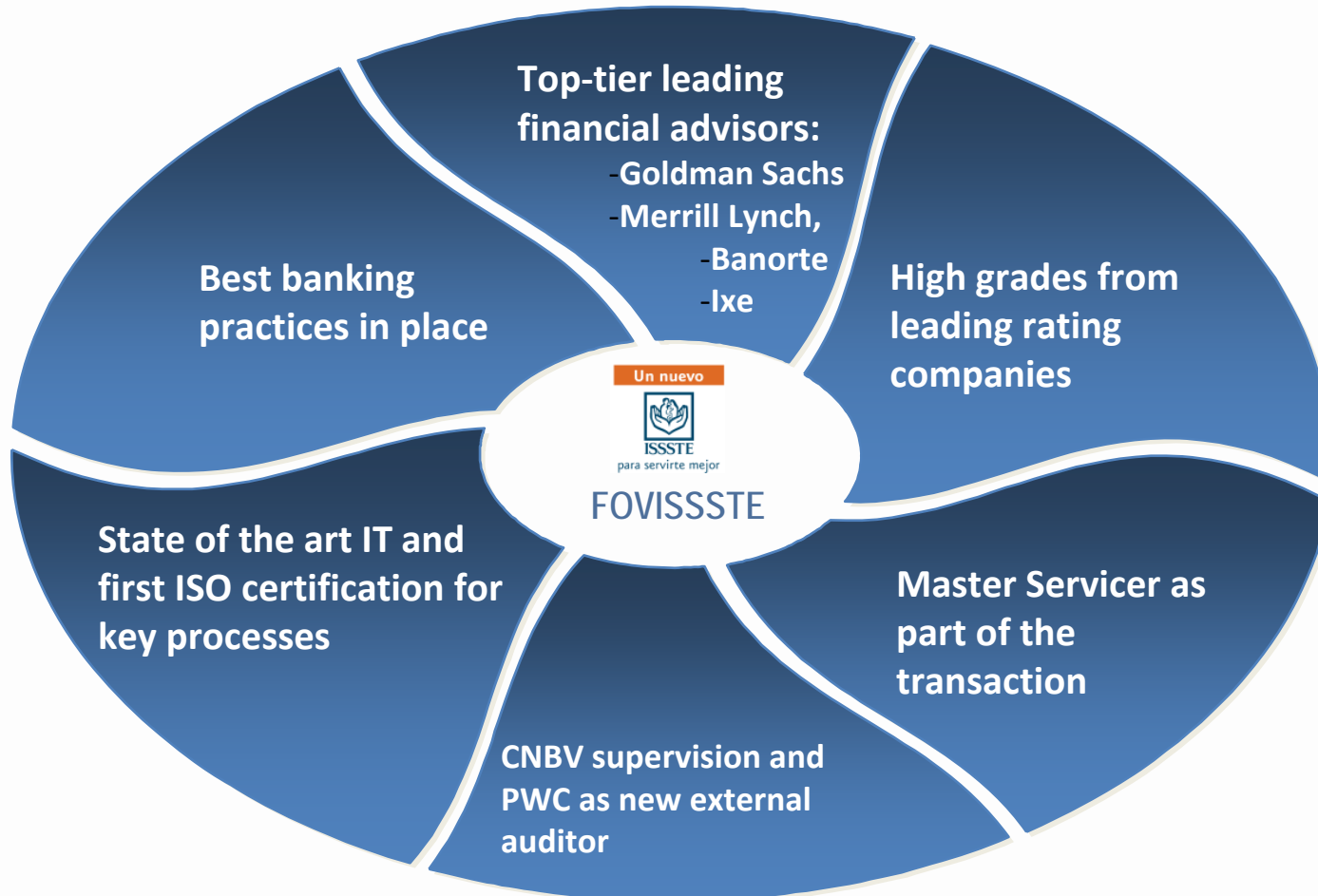
“Fair Share” of Loans Granted based on Public Workers Population (2002-2008)



“Fair share” determined by dividing % of total national loans allocated to the state or entity by state % of total affiliates

## Securitization: We are Ready !!!

- Over the course of the past two years we have solved critical issues required to tap the capital markets:



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## Final Remarks

1. As of November 2008, FOVISSSTE was ranked, for the first time, as number 223 among the 500 Mexican largest companies, by "Mundo Ejecutivo"
2. Nowadays FOVISSSTE has turned, undoubtedly, into a very influential factor of economic growth of regions and main cities, nationwide
3. FOVISSSTE's strong condition as the fund with the fastest-increasing mortgage offering in the country, strongly fosters continuous demand for the construction and sale of new homes, affecting positively the homebuilding industry. This is specially important in the prevailing worldwide economic conditions
4. FOVISSSTE will accomplish it's goal of at least 100,000 new mortgage loans targeted for 2009. As of January 16, we have already accomplished 10% of this goal, and we have over 75,000 pre-approved applications (2009 lottery), and an additional 20,500 pre-assigned loans in benefit of the same number of federal security officers, beside the 35,000 expected applicants to the other financial schemes (mostly co financing schemes)
5. We expect a successful first incursion into capital markets within 1H 2009. We are confident in the careful and diligent preparation we have done during the past year, and in the support received from prestigious global and Mexican banks

## ...Final Remarks

Ladies and Gentlemen:

We, in Mexico, are sure of what and how we are doing

Our macro economical frame is strong, despite the current crisis

In general, at least since 1996, we have done things right while others have erred. Mexico has achieved a strong and functional housing system, led by private entities, supervised by the government and supported by very special, healthy and strong financial institutions such as FOVISSSTE, INFONAVIT and SHF, as well as the Federal Congress

Unlike in others countries or regions, where the housing sector is seen negatively, in Mexico it is considered as a crucial factor of the short term economic solution, along with the infrastructure sector

We shall accomplish our goals. Thank you very much

