



**SOCIEDAD HIPOTECARIA FEDERAL**

**Outlook for Mexican housing industry and  
SHF role and perspectives**

**Mexican Housing Day**

**February, 2011**



**SHCP**

# Index



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## I. Economics of the Mexican Housing Market

## II. SHF's Role in the housing market

- a. Liquidity Provider
- b. Products for Construction Loans
- c. Attending the underserved population
- d. Developing the RMBS market
- e. Self-sustainable Housing Environment (DUIS)

## III. Final Remarks



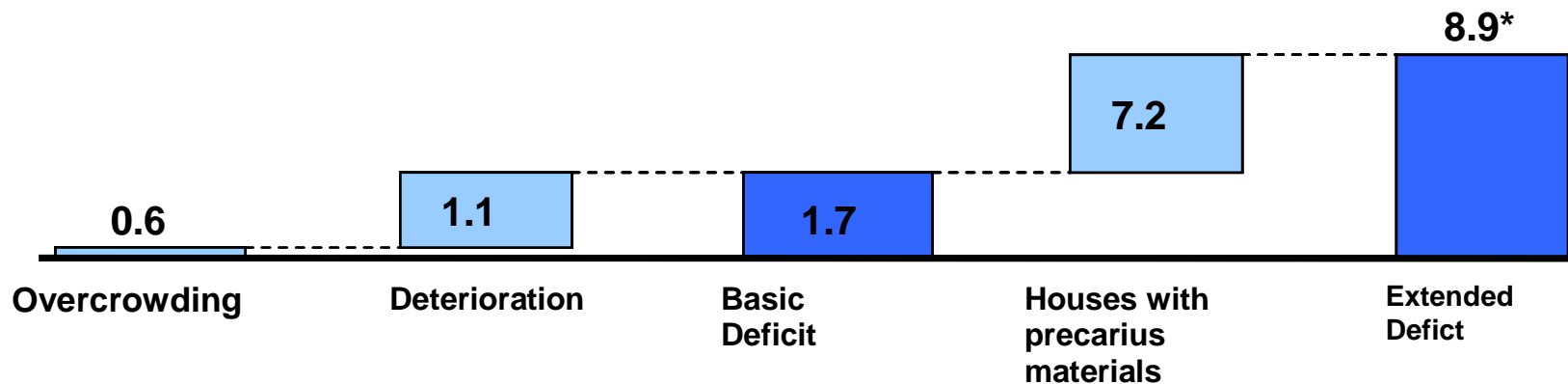
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# I. Economics of the Mexican Housing Market: Housing deficit.



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- The Mexican population includes 26.7 million households.
- 17.8 million already own a dwelling in an adequate house.
- 8.9 million represents the housing deficit of the population, either because they do not have a house or that do not have a adequate house.



\* Housing deficit for 2011 under estimation process, based on recent INEGI census of 2010.

# I. Economics of the Mexican Housing Market: 2011 Estimated Demand



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- In 2011, **603,000** new households will be formed of which around **51%** are able to demand a loan.
- There are 4 components that together generate the annual housing demand.

## Estimation of the Housing Demand in 2011

Componentes	2011	%
Reduction of housing deficit (Families without a proper house/**)	691,613	62.5%
New Households/*	309,027	27.9%
Households Demanding a better house	79,700	7.2%
Households that improve their economic situation and can demand a loan now	26,334	2.4%
<b>TOTAL</b>	<b>1,106,674</b>	<b>100%</b>

\*/ Comprise households who are able to obtain a loan due to their income level & geographic location.

\*\* Proper house: Houses made of adequate materials.

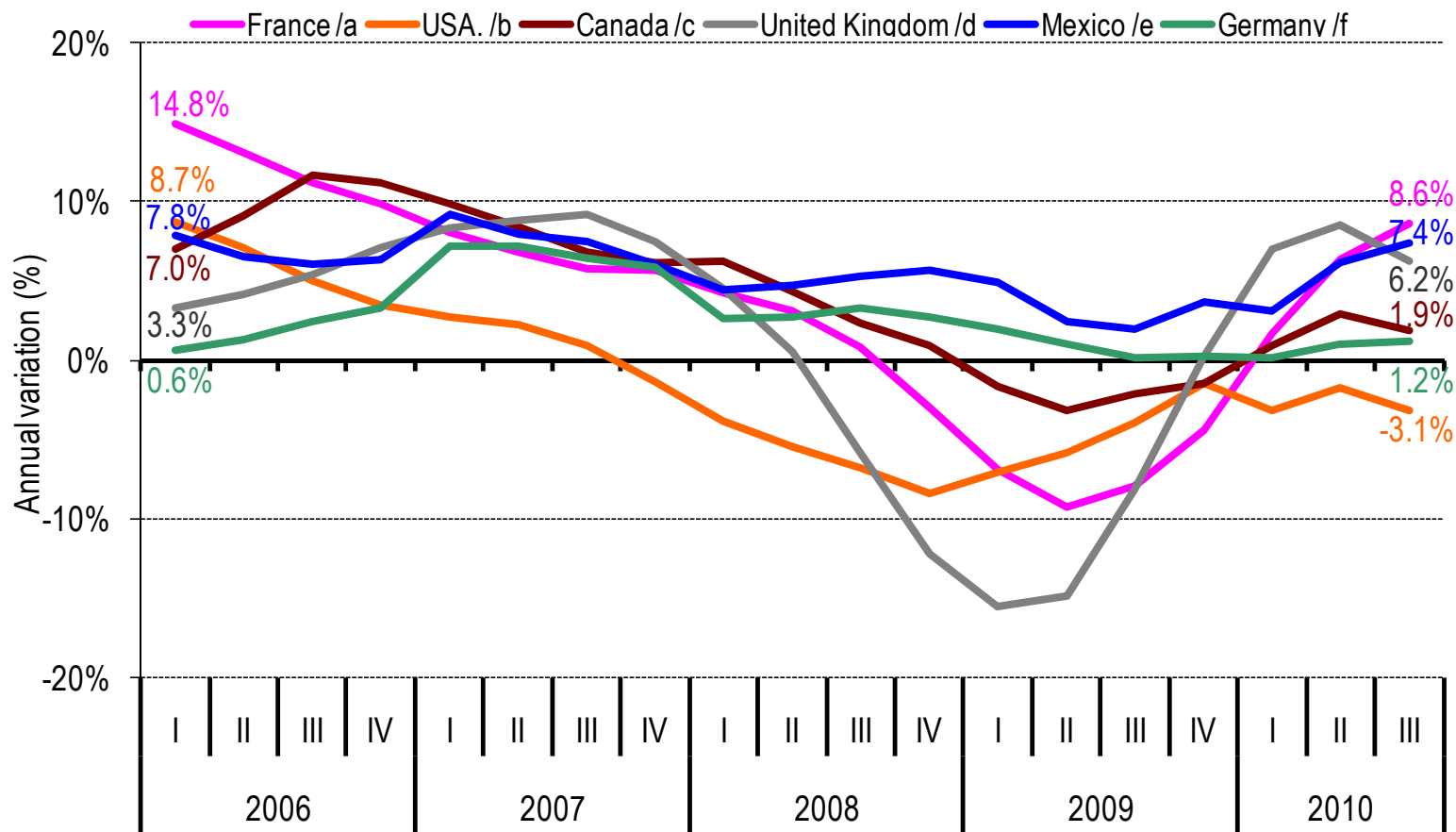
# I. Economics of Mexican Housing Market

## SHF House Price Index



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- In 2009 SHF published “SHF House Price Index” (HPI), which confirm the lack of a “bubble” in prices in the Mexican market.



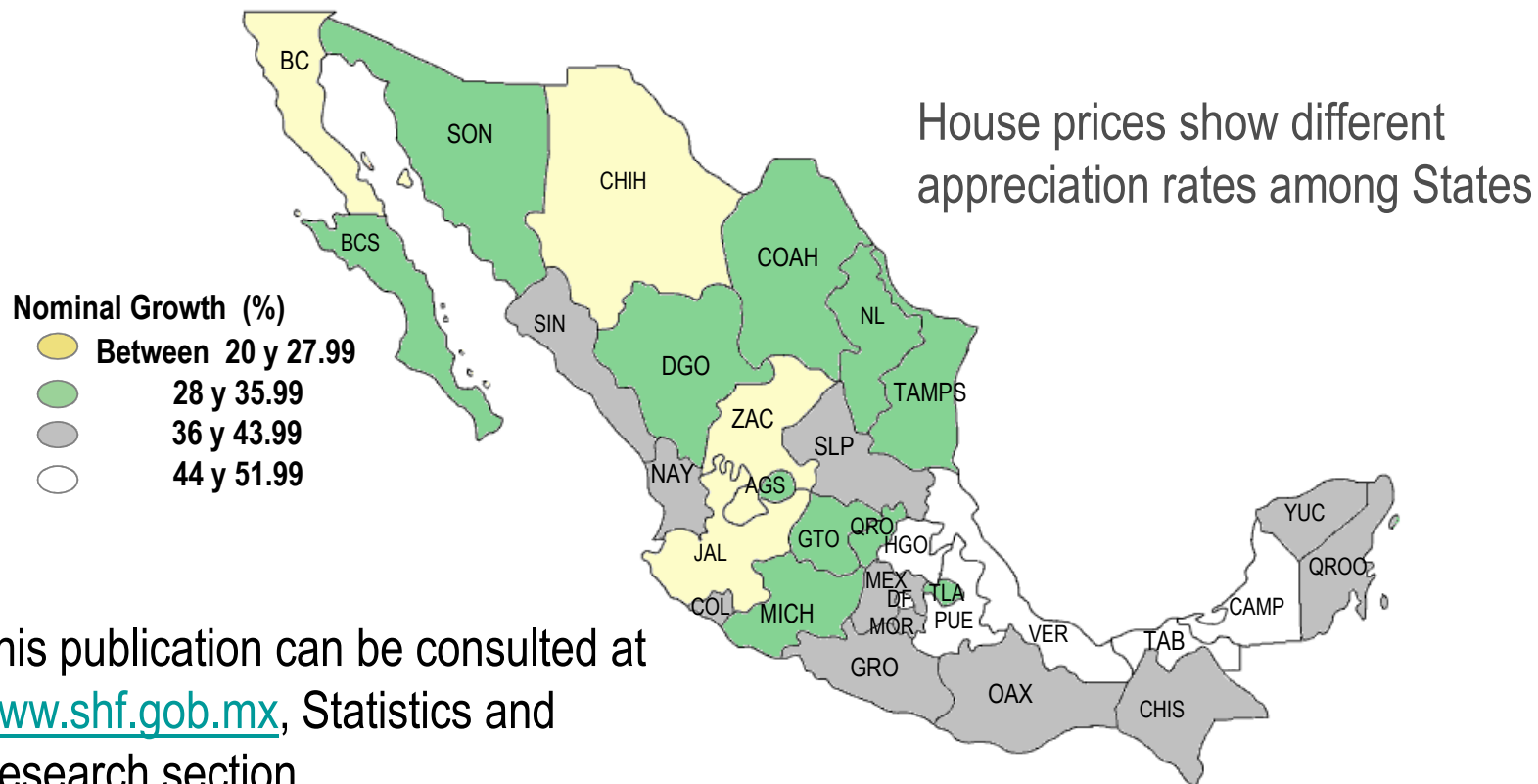
# I. Economics of Mexican Housing Market

## SHF House Price Index



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- The total nominal appreciation between 2005.I and 2010.III was 36.7%, equivalent to a **1% annual real increment**
- Quarterly Publication: 68 records: 1 national level, 32 states and 35 counties.



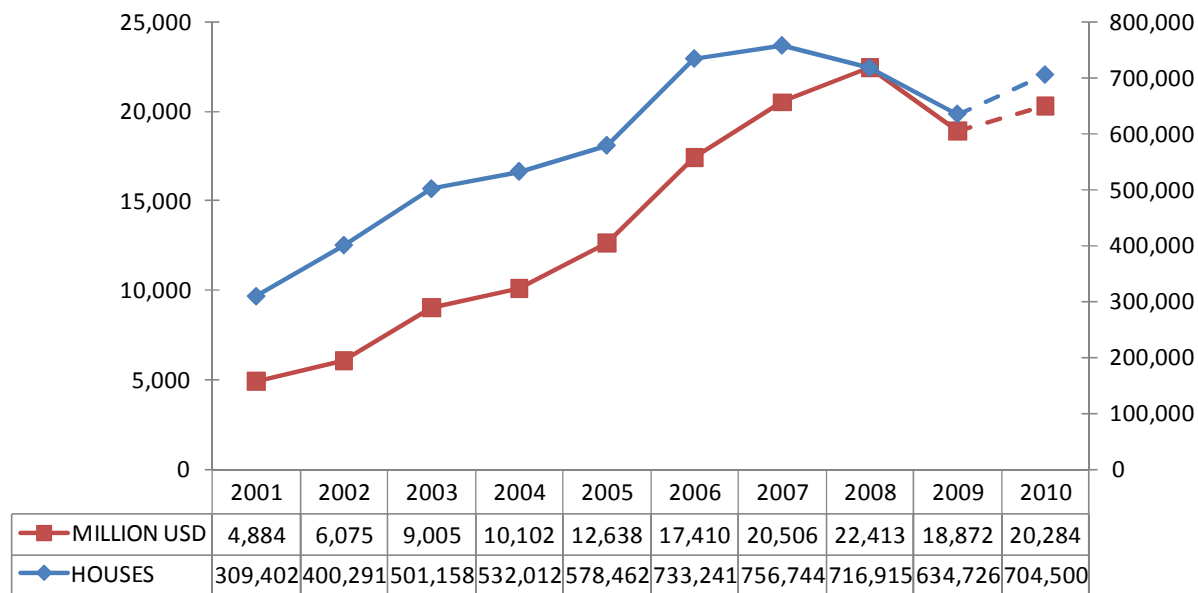
# I. Economics of the Mexican Housing Market



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- The last decade was the most dynamic in Mexico's history.
- 2008 was the peak in terms of investment, with a growth of 358% for the period 2001– 2008.

Recent development of the Housing Sector



----- 2010 Estimated Forecast

- During the liquidity crisis there was a slow down in the growth rate.
- 2010 showed the beginning of the recovery.

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- III. Final Remarks



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## II. SHF's role in the housing sector

### Mortgage Sofoles and Sofomes Market

- The 2009 economic crisis resulted in a reduction of the GDP, as well as liquidity constraints and pressures in the job market.
- These affected financial intermediaries that operated with SHF, as access to private alternative funding was cut and their loan portfolio deteriorated.
- **2010 was a year of transformation for the Mortgage Sofoles and Sofomes (MSS) -Mexican Non-Bank Banks-.** Most of them strengthen their financial conditions, either through capital injections (ING, Vértice and Crédito Inmobiliario) or through mergers and acquisitions (Casa Mexicana with Apoyo Integral and FinCasa/IXE with Banorte). The weakest participants went through a process of orderly resolution.
- It is **expected that in 2011 the MSS play a more significant role in funding housing production and mortgage for the non-affiliated sector.**
- To **continue strengthening the MSS they will have to migrate to a regulatory environment.**

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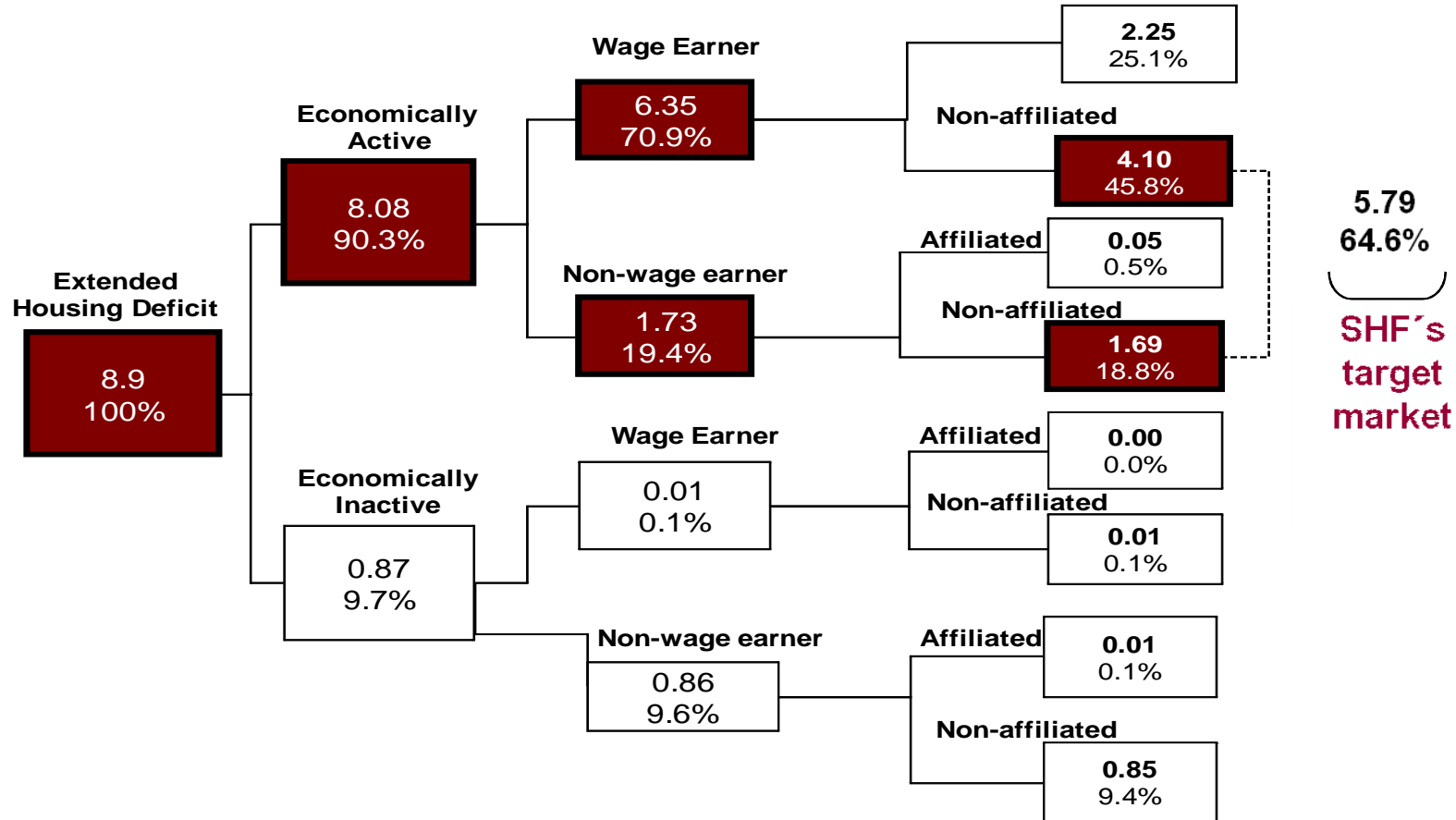
## II. SHF's actions to consolidate the housing sector

### b. Attending the underserved population.



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- The 8.9 million households that conform the housing deficit are distributed:



- SHF will focus its strategy on economically active workers, wage earners, non-affiliated to social security which represents 45.8%; and economically active workers, non wage earners, non-affiliated which represents 18.8% of extended housing deficit.

## II. SHF's actions to consolidate the housing sector

### b. Attending the underserved population.



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**1,483,512 households**, 36.3% of economically active workers, wage earners, non-affiliated to social security earn > 4 SMM.

**191,578 households**, around 22% of economically active workers, non-wage earners, non-affiliated to social security earn > 4 SMM

**Potential Market of more than 1,675,000 households that belong to the unattended segment.**

**SHF has mapped the Potential Market by states, regions within states and income levels.**

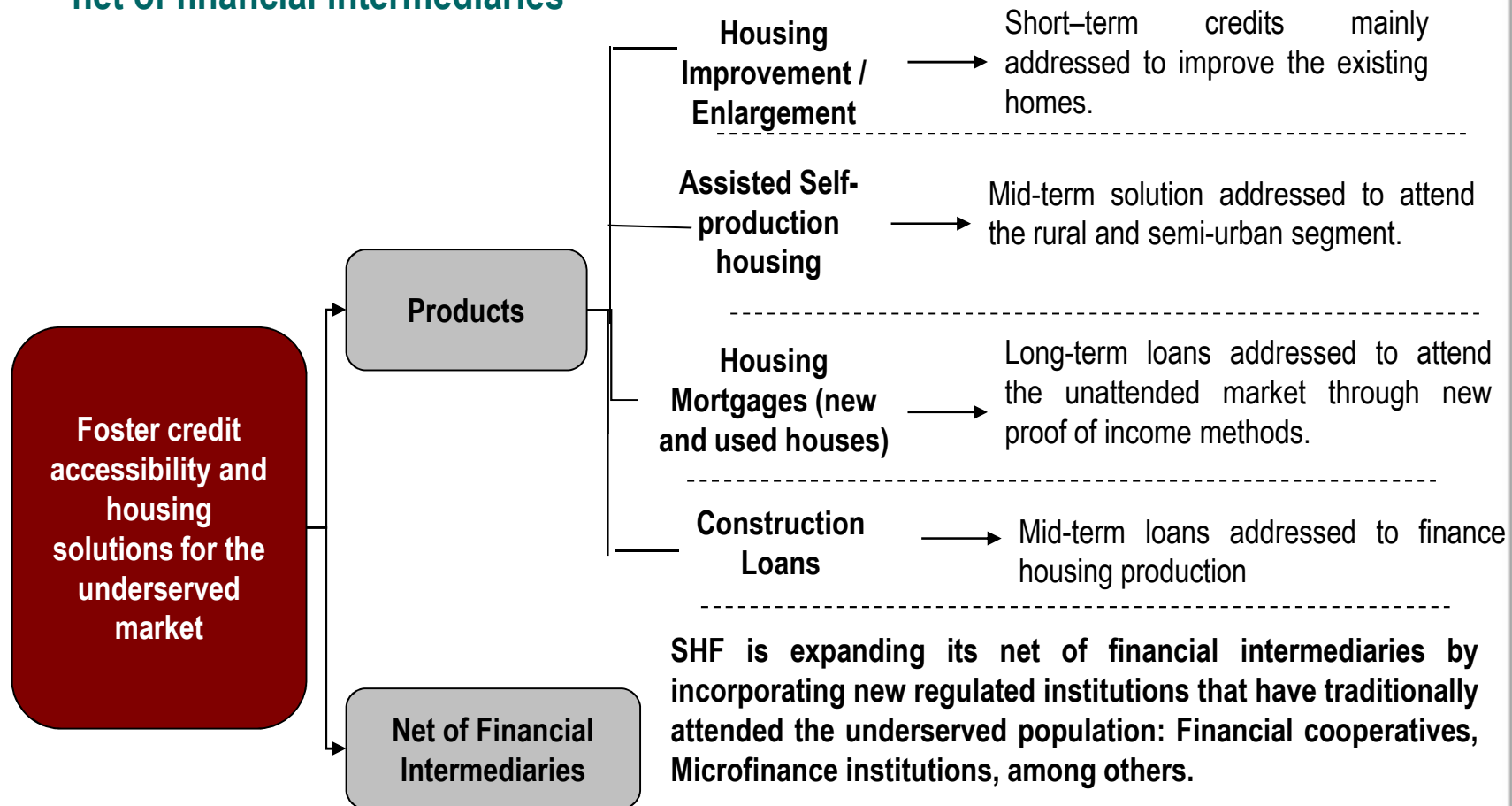
## II. SHF's actions to consolidate the housing sector

### b. Attending the underserved population - SHF Products



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- In order to promote housing access mainly to the non-affiliated segments, SHF has developed a two-fold strategy: **design funding and guarantees products and expand its net of financial intermediaries**



## II. SHF's actions to consolidate the housing sector

### b. Attending the underserved population - Proof of Income



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SHF has developed new methods of proof of income to determinate their payment capacity and to give access to housing solutions for the underserved population.

#### Type of worker

#### Proof of Income for mortgage credits

**Wage earners, non-affiliated to social security**

- They are not affiliated with any social security institute but can verify income through payroll receipts or proof of employment (state and municipal workers, etc.).

**Individuals with business**

- Tax statement, bank statements; savings, investments or checks account; contract or receipt of fees.

**Non-wage earners, non-affiliated to social security**

- Savings, investment or checks account statements for 6 months, Leasing with the Option to Purchase Scheme (ROC), Payment Behavior Scheme (Good Payer).

## II. SHF's actions to consolidate the housing sector

### b. Attending the underserved population



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- SHF is increasing its net of Financial Intermediaries in both, size and diversity; in order to serve more people.
- SHF is focusing on attracting financial intermediaries that:
  - Offer the type of housing solution that requires each state and regions within the states, according to the type of housing deficit.
  - Have presence in the states and regions that have the higher housing deficit.
- SHF is working now with Financial Intermediaries that have traditionally served the unattended population: **Microfinance Institutions, Financial Cooperatives, Niche Banks and Savings & Loans Financial Institutions.**

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- III. Final Remarks



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## II. SHF's actions to consolidate the housing sector

### c. Developing the RMBS Market.



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- Over the past years, a market of Residential Mortgage Backed Securities (RMBS) was developed in Mexico.
- SHF acts as a market maker, issues best practices for the market and takes positions in primary issues.
- The dynamism of this market has been an alternative source of private funds for different intermediaries and public institutions, as shown in the following chart:

MBS Million USD							
Year	BORHI	HiTo	Other MBS	CEDEVI	TFOVI	TOTAL MBS	Acummulated
2003	48	-	-	-	-	48	\$ 48
2004	223	-	-	159	-	381	\$ 429
2005	231	-	-	265	-	497	\$ 926
2006	1,012	-	-	486	-	1,498	\$ 2,424
2007	1,815	1	249	827	-	2,892	\$ 5,316
2008	1,292	5	391	1,170	-	2,857	\$ 8,174
2009	479	572	-	917	1,012	2,980	\$ 11,154
2010	-	324	-	1,114	1,498	2,936	\$ 14,090
	5,100	902	640	4,938	2,510	14,090	

# SHF's actions to consolidate the housing sector

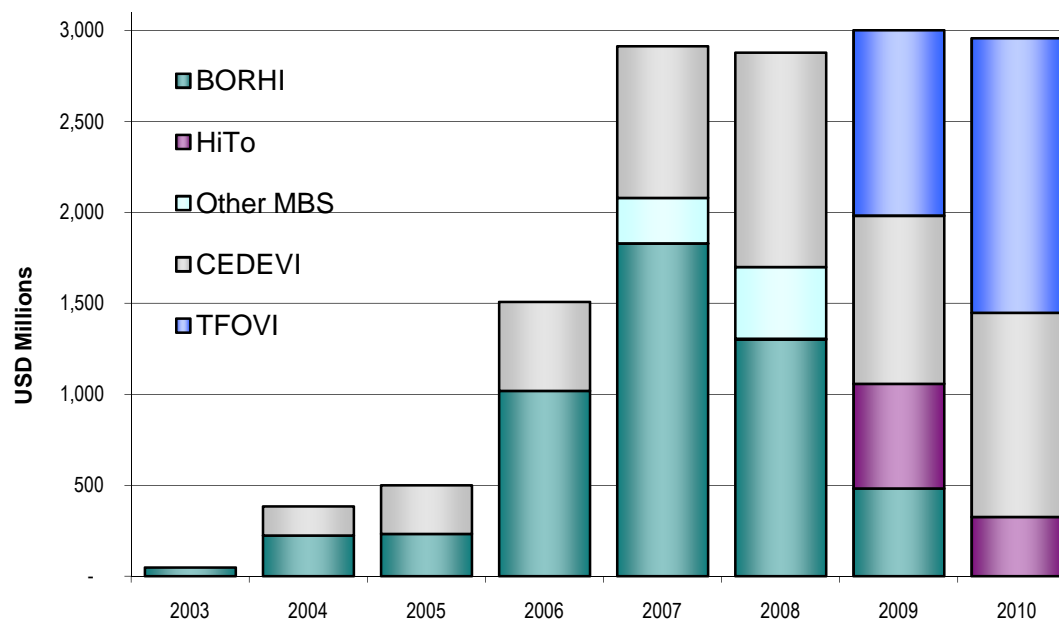
## c. Developing the RMBS Market.



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2010 Issuances:

- Private issuances through **Hito** for \$324 USD million. It's important to point out that on December an issuance with INFONAVIT collateral (HITOTAL) was made for \$122 USD million.
- **INFONAVIT** issued Cedevis for \$1,114 USD million.
- **FOVISSSTE** issued TFOVIS for \$1,498 USD million.



## II. SHF's actions to consolidate the housing sector

### c. Developing the RMBS Market.



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#### Actions taken to strengthen the securitization market

1. Modify the investment regimes of pension funds and insurance companies to widen the proportion they can invest in structured products such as RMBS.
2. Equity retention from originators of securitized loans to align the incentives for all participants of these transactions.
3. Additions to CNBV's regulation regarding Issuers of Securities:
  - ⇒ Requirements to **provide standardized and timely information** to the market on the evolution of the loans in the structure.
  - ⇒ Trustees and servicers are **regulated in terms of information**.
  - ⇒ **Analytical tools through Public calculators** to price these securities properly.

## II. SHF's actions to consolidate the housing sector

### c. Developing the RMBS Market.



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#### Actions taken to strengthen the securitization market

4. Creation of VIGÍA-SHF, which is a publicly available tool that provides up to date information on collateral and bond performance of all outstanding Borhis.
5. Minimum criteria for substitute servicers.
6. Requirement to have a Master Servicer to provide additional information to the market.

## II. SHF's actions to consolidate the housing sector

### c. Reinforcing the RMBS Market.



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#### Measures to consolidate the securitization market

In order to reinforce the RMBS market, SHF together with Financial Authorities and other participants are reviewing the present model to propose a new better scheme:

1. To standardize the structures with the aim of to converge in a model that will be used for new issuances from the private and public sector, regardless the type of securitization: RMBS, Covered Bonds or Danish Model.
2. Information for the sector:
  - Collateral: Loan by loan basis.
  - Additional analytic tools: VIGIA
  - An additional public calculator from SHF
3. Additional underwriting and servicing requirements taking into account the lessons learned of the sector

## II. SHF's actions to consolidate the housing sector

### c. Reinforcing the RMBS Market



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The Mexican RMBS market has several characteristics that makes attractive to international investors taking advantage of some actual trends in the market.

- The movement from sovereign, to corporate or structure bonds.
- Inflation protection products
- High origination standards and quality of the collateral.
- Improved expectations on Mexican macroeconomic perspective.

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# The housing sector in Mexico: The need to migrate to a new model .



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Stage I

Stage II

Stage III

-Need to provide housing  
 -A consolidated mortgage system  
 =Rapid growth of the sector  
 +Impelling urban development.

Three effects:

1. Speculation and rise of prices for land and territorial reserves
2. Need to seek for affordable land, far away from urban centers.
3. Increase cost of infrastructure for States and Municipalities.

Need to develop public policies:

- Environmental sustainability of integral urban development of territorial reserves of states, municipalities and land developers.
- Define urban growth.
- Efficient use of intra urban land .
- Improve the quality of housing and living standards.





# Promotion of DUIS



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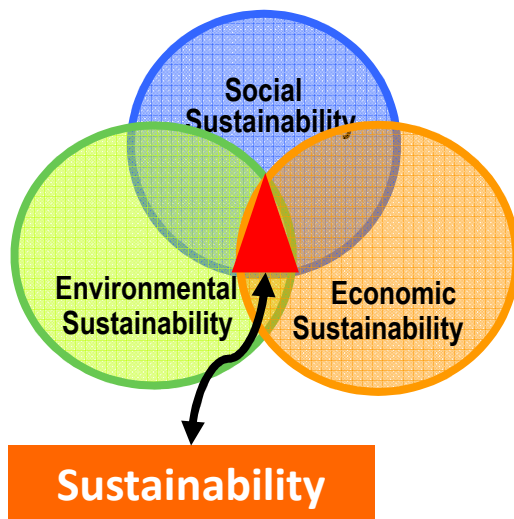
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An inter-institutional Group conformed by 5 Ministries (Hacienda, Sedesol, Semarnat, Energía and Economía) and 7 Governmental Institutions (Conavi, Infonavit, Fovissste, SHF, Banobras, Fonadin and Proméxico) was created to address the problem of sustainable urban and housing development and planning.



This Group created the concept of **Desarrollos Urbanos Integrales Sustentable (DUIS)** as a **public policy** that allow the Mexican Government to grant support and initiate the development of new Environmental Sustainability of **Regional Development Poles** countrywide.

# Definition of DUIS

**Development areas**, which are integrally planned and contribute to territorial order in States and Municipalities and promote an environmental sustainability.

**DUIS impel regional development**, through housing, infrastructure, services, equipment, commerce, education, health, industry, recreation and other attributes.

**Mixed projects**, as the Federal and State Governments collaborate with land developers and owners to integrate their constructions to this policy for urban development.



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# Types of DUIS

# Types of Sponsors

There are two types of DUIS that cover most of house and urban development needs in Mexico:

- 1) Projects of existing urban soil that plan to increase **Intra-Urban Density** in order to transform high-density areas in cities into more sustainable environments.
- 2) New development poles under **New Cities** with large land extensions aimed to big and medium developers, States and Municipalities, or **New Communities** with infrastructure promoted and sponsored by State Governments or urban developers, aimed to sell big plots to small and medium size house developers.

In general there are three type of sponsors of potential DUIS:

- 1) **Governors of States:** Planning and ordering the territories where these settlements are built, coordinating the social and private sectors.
- 2) **Urban Developers:** Developing able land for urban purposes.
- 3) **Housing Developers:** Offering housing with legal certainty, infrastructure and services.



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# Eligibility Criteria

All potential projects will be evaluated both, technically and financially, by the DUIS Group and independent consultants.

**1. Prerequisites:** required indispensable information and licenses so that the DUIS group accepts to evaluate a project.

**2. Technical evaluation:** DUIS evaluation criteria consider four main scopes:

- **R**egional
  - **B**arrio (neighborhood)
  - **U**rban
  - **A**rchitectural
- } **RUBA**

**3. Financial evaluation:** if the project is technically viable, three different analysis:

- Financial and business assessment.
- Financial structure proposed by the developer.
- Consultancy for designing products to provide funding for DUIS.



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# A more precise methodology for Eligibility Criteria

## RUBA: Regional, Urban, Barrio (neighborhood) and Architectural



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The members of the DUIS Group reached a consensus about the **eligibility criteria** for these new Regional Development Poles. These criteria were designed with the support of the IDB.

REGIONAL	URBAN	NEIGHBORHOOD	ARCHITECTURAL
<ul style="list-style-type: none"> <li>Regional impact of the new development. Strategic Plan guidelines for urban and regional planning in terms of:                             <ul style="list-style-type: none"> <li>-Land,</li> <li>-Environment,</li> <li>-Economic and Social Development</li> </ul> </li> <li>Relationship to an urban system of cities.</li> <li>Infrastructure and regional facilities: hospitals, schools, etc</li> <li>Prevention of natural disasters.</li> </ul>	<ul style="list-style-type: none"> <li>Suitability of the project to the current Urban Development.</li> <li>Legal certainty of land.</li> <li>Zoning of land uses (housing, industry, commerce, health, education, sanitation, etc.)</li> <li>Structures for connectivity and mobility which will reduce the use of automobiles.</li> <li>Public transport systems.</li> <li>Energy supply.</li> <li>Connectivity between the new development and work places.</li> </ul>	<p>Primary guidelines for the neighborhood in terms of:</p> <ul style="list-style-type: none"> <li>Basic services supply (water, energy, gas, etc).</li> <li>Connectivity (roads and pedestrian system).</li> <li>Facilities (schools, parks, hospitals).</li> <li>Environmental facilities (water sanitation plants, solid waste disposal, energy production).</li> </ul>	<ul style="list-style-type: none"> <li>Diversity housing typology.</li> <li>Densification criteria.</li> <li>Bioclimatic response of the architectural project (heating reduction, solar water heater, high efficiency gas heater).</li> <li>Landscape integration.</li> </ul>



# Eligibility Criteria: RUBA methodology. Automation Process



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- To expedite the certification process, an **automation process was implemented** via a DUIS Website.
- Website will allow the sponsor to:
  - **Register a project.**
  - Obtain **reports**
  - **Project monitoring** by e-mail.
  - **Validate information** for a project.
  - Incorporate and store **digital documentation of a project.**
  - Incorporate and store los **technical evaluation reports.**
  - Incorporate and store los **financial evaluation reports.**

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# New Potential DUIS Automation Process

• Automation is important to give quickness to the process as GPDUIS today is evaluating **13 potential projects in 10 states**. In the first stage, these projects represent:

- 535,000 **houses**.
- 2,150,000 benefited **population**.
- In a surface of **14,600 hectares**.
- **Total investment USD \$9.6 billion**



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FIX Exchange Rate as of December, 31st, 2010 : 12.3496MXP /USD

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# Certified DUIS & Potential Projects

To date there are 4 DUIS projects that have been certified, which represent:

- 250,500 houses.
- 1,001,500 benefited population in 7,400 hectares.
- Estimated investment of USD \$4.2 billion.





## Next Steps in the evolution of DUIS

- **Institutionalization of the governance of DUIS.** The changes in government at different levels may represent a risk in the continuity, so there is a need for the future evolution of DUIS to define the functions, attributions and mechanisms for decision making, management and follow up, simplifying the coordination between institutions and government entities at the three levels of government.
- In order to assure the commitments of parties involved, **a set of incentives and sanctions is being developed:** integral focus on effectiveness, efficiency and distribution of incentives, including possible sanctions, with the objective of developing projects under the criteria and agreements previously defined.



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## Final Remarks

1. In 2011 the **recovery of Financial Institution and the entrance** to the housing market **of new** institutions specializing in the underserved markets, **will contribute to stimulate the dynamism of the Housing Industry** and the reduction of the housing deficit.
2. **SHF will develop new products** for this markets in coordination with other relevant players.
3. There is a need to **restore funding form institutional investors** to private financial intermediaries, through the RMBS market.
4. The successful Mexican housing market is in a transition process to migrate to a new model of Sustainable Urban Development (DUIS)
5. **New investment opportunity** will be available to stakeholders, through this model.
6. The **housing deficit will be address** not only through the construction of houses, but also by inserting them into a **sustainable environment**, which will **improve the quality of life for Mexicans families.**



**SOCIEDAD HIPOTECARIA FEDERAL**

**Outlook for Mexican housing industry and  
SHF role and perspectives**

**Mexican Housing Day**

**Thank you!**



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