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SHCP

**MÉXICO
2010**
Reconstrucción Independiente - Continuidad Resiliente



SOCIEDAD HIPOTECARIA FEDERAL



Vivir Mejor

Index



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Reconstrucción Subordinada Crédito al Beneficio

I. Economics of the Mexican Housing Market

II. SHF's Role in the housing market

- a. Products for Construction Loans
- b. Attending the underserved population
- c. Developing the MBS market



I. Economics of the Mexican Housing Market

General Structure

- The Mexican Housing Market has a unique structure due to its different participants, the role they play and to its general economics.
- Main market participants:
 - Strong Government and Cuasi-government mortgage institutions.
 - Private financial institutions: Banks and Sofoles.
 - Private housing developers market.
- General economics
 - Large unattended demand.
 - Households demanding their first home.
 - Stable market prices with no signs of a “bubble” market.
 - Improvement in housing finance products and competition.
- Strong federal government support, and consolidated coordination among all public and private players.



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I. Economics of the Mexican Housing Market

Government and cuasi-government Housing Institutions



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- Previously FOVI (Established in 1963). SHF was created in 2002 as a government federal development bank, enjoying the full faith and credit of the Mexican government, with the purpose of attending the low and medium income sector of the population by providing mortgage loans and guarantees at market conditions. It acts as a Second Tier Bank, and works directly with SOFOLES (Non-bank banks) and with INFONAVIT, FOVISSSTE, and Banks.



- Created in 1972, governed by Board representing Government, Labor and the Private Sector. Represents near 60% of the total of originated mortgages. It's an institution with a double role: it acts as a housing finance organism and as a pension fund for private sector workers. It receives a 5% obligatory deduction of the wage income of private sector affiliated workers (14 million workers) and collect mortgage payments mandatory through the payroll. INFONAVIT has granted around 4.5 million mortgage loans.



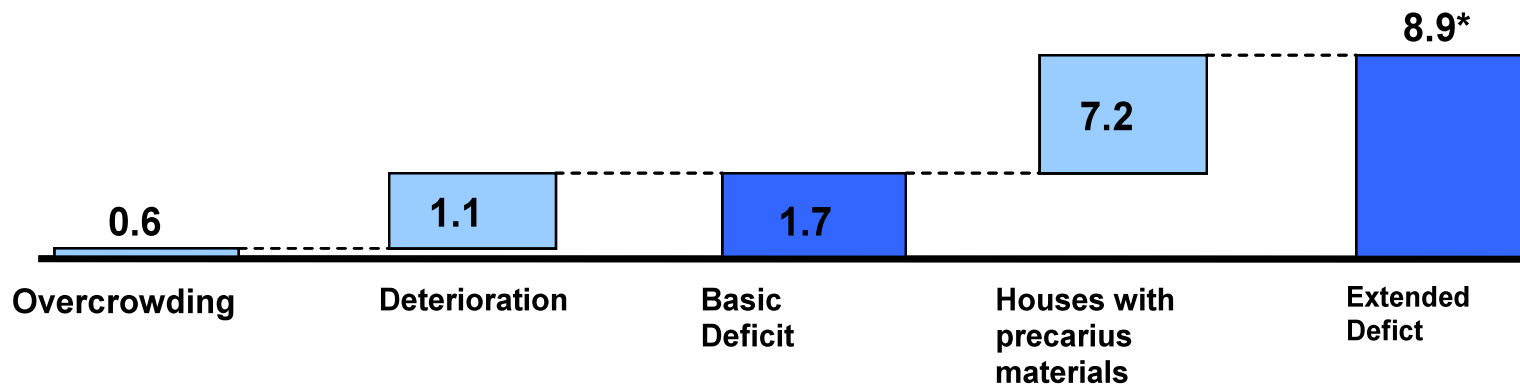
- Created in 1973. Represents 7.5% of the total loans granted in the mortgage market. It's an institute focused on attending state workers (around 2.5 million workers) with mortgages and acting as a pension fund. It also receives 5% of the wage income of its affiliates. Works in association with banks and SHF.



- Created in 2001. This commission is in charge of designing, coordinating and promoting public policies for the housing market. Conavi also manages de subsidies program that help Mexican families attain adequate housing.

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

- The Mexican population includes 26.7 million families
- 17.8 million already own a proper 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.



Source: SHF based on Population and Houses Census 2000, CONAVI and ENIGH.

I. Economics of the Mexican Housing Market: 2010 Estimated Demand

- Yearly 530,000 new households are formed of which around 60% are able to demand a loan.
- There are 4 components that together generate the annual housing demand.

Estimation of the Housing Demand in 2010

Componentes	2010	%
Reduction of housing deficit (Families without a proper house/**)	587,400	58.5%
New Families/*	319,029	31.7%
Families Demanding a better house	77,008	7.7%
Families that improve their economic situation and can demand a loan now	21,505	2.1%
TOTAL	1,004,942	100%

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

** Proper house: Houses made of adequate materials.



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Index



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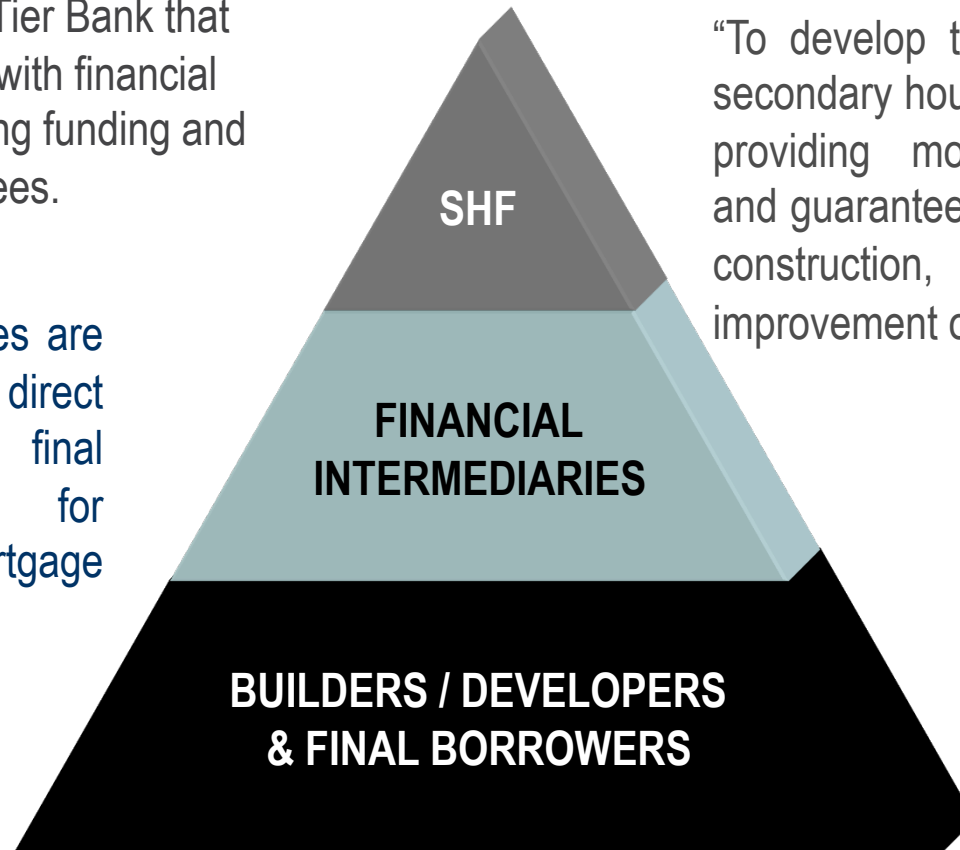
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II. SHF's role in the housing sector

SHF: Mandate, Activities, Mission and Vision

SHF is a Second Tier Bank that operates directly with financial institutions, providing funding and guarantees.

Financial Intermediaries are responsible for the direct operation with final borrowers (both for construction and mortgage loans).



SHF's OBJECTIVE:

"To develop the primary and secondary housing markets by providing mortgage funding and guarantees focused in the construction, acquisition and improvement of housing."

SHF has developed alternative funding tools for financial intermediaries.

SHF provides credit enhancements focused in the development and promotion of these alternative ways.



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Economía Independiente Comercio Beneficio



Vivir Mejor

Index



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2010
Reconstrucción Subordinada Crédito al Beneficio

- I. Economics of the Mexican Housing Market
- II. **SHF's Role in the housing market**
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II. SHF's actions to consolidate the housing sector

c. Attending the underserved population.

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

Extended Housing Deficit*	Economically Active	8.08 90.8%	Wage earner	6.35 71.4%	Affiliated	2.25 25.4%
					Non- Affiliated	4.10 46.0%
			Non-wage earner	1.73 19.4%	Affiliated	0.05 0.4%
					Non- Affiliated	1.69 19.0%
	Economically Inactive	0.87 9.7%	Wage earner	0.01 0.1%	Affiliated	0.00 0.0%
					Non- Affiliated	0.01 0.1%
			Non-wage earner	0.86 9.6%	Affiliated	0.01 0.1%
					Non- Affiliated	0.85 9.5%

- 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.



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II. SHF's actions to consolidate the housing sector

c. Attending the underserved population.

- 36.3% of economically active workers (1,483,512 households), wage earners, non-affiliated to social security earn more than 4 SMM (Monthly minimum wage).
- Around 22% (191.578 households) of economically active workers, non-wage earners, non-affiliated to social security earn more than 4 SMM (Monthly minimum wage).
- This represents a potential market of more than **1,675,000 households** that belong to the unattended segment.
- There are additional 4,000,000 households with wages below 4 SMM that will can be address with adequate mortgage products and the subsidy program of CONAVI.



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II. SHF's actions to consolidate the housing sector

c. Attending the underserved population - SHF Products

- In order to promote a general housing access, SHF will focus on funding and guarantees of the following products:

	TYPES OF PRODUCT	OBJECTIVE	
Funding	Credit Lines	Mortgage loans	Mainly Addressed to the unattended market: Low Income and without social.
	Short Term	Housing Improvement / Enlargement	
	Mid Term	Assisted Self-construction	
	Long Term	Housing Acquisition New or Used	
	Construction Loans	Finance to housing production	Developers
Guarantees	Mortgage Insurance	Credit risk transfer	Financial Intermediaries
	Partial Credit Guarantee		



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II. SHF's actions to consolidate the housing sector

c. Attending the underserved population

- For the acquisition of a house with a long term mortgage, SHF has created two products as **proof of income** and as a way to generate a down payment for two sectors:
 1. **Non-affiliated to social security**
 - **Savings Program.**
 - **Leasing with the Option to Buy**
 2. **State or municipal workers that do not count with FOVISSSTE nor INFONAVIT.**
 - **Pay roll through a bank account.**
- For the low income segment SHF is promoting two different housing solutions. the offer of **housing microfinance (HMF)** for improvement and enlargement of houses and **Assisted Self-production housing..**



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II. SHF's actions to consolidate the housing sector

c. Attending the underserved population – Assisted Self - Production Housing & Housing Microfinance

To better serve the housing needs of:

Low income families that don't have the capacity to pay a mortgage and have to build, improve and/or expand their homes over the years.

Non-affiliated households that don't have access to mortgage loans offered by Infonavit or Fovissste.

Rural and semi-urban households that have low quality housing conditions and that have little access to the traditional housing supply.



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II. SHF's actions to consolidate the housing sector

c. Attending the underserved population – Assisted Self - Production Housing

- **Assisted Self-production housing** refers to the organized nature by which families and communities build homes and adequate living spaces, according to their income levels, housing needs and their existing cultural environment.



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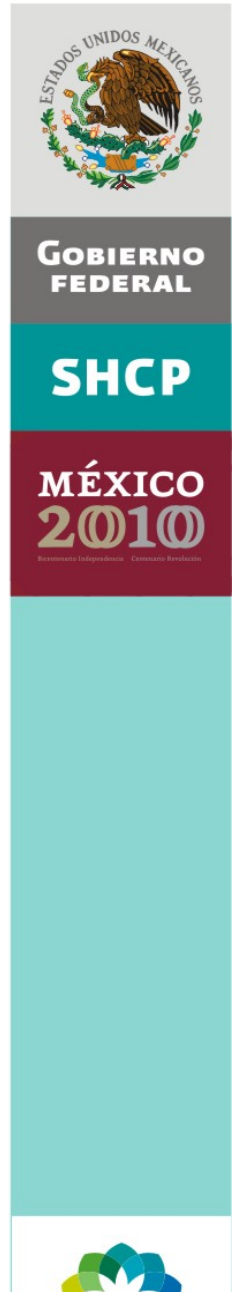
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II. SHF's actions to consolidate the housing sector

c. Attending the underserved population – Assisted Self - Production Housing

- **OBJECTIVE** → To offer a comprehensive “turn-key solution” that involves:
 - **SHF's Funding** – through an adequate product, to Financial Intermediaries that already serve low income families such as: Credit Unions and microfinance institutions.
 - **Housing Solution** - provided by a firm, a non-governmental organization, or a community based entity that's registered in SHF.
 - **Technical assistance** - during construction processes



II. SHF's actions to consolidate the housing sector

c. Attending the underserved population – Assisted Self - Production Housing

Main Features of SHF's financial product Assisted Self-Production Housing

- Families need to prove that they own a plot of land. (No legal tenure required).
- Mortgage not required.
- No downpayment required (depends on the FI).
- Loan term: up to 10 years
- Maximum individual loan: \$160,000 pesos (around 12,400 usd).
- It can be complemented with a federal subsidy of \$40,000 (around 3,100 usd).
- Low monthly payments according to clients' capacity.
- SHF will fund 88% of each credit.
- Houses have to be built in no more than 4 months, always under the supervision of a known housing producer.



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II. SHF's actions to consolidate the housing sector

c. Attending the underserved population – Housing Microfinance

- **Housing Microfinance** refers to the use of a series of small short-term credits to make marginal improvements in current housing, according to families' income and needs.



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II. SHF's actions to consolidate the housing sector

c. Attending the underserved population – Housing Microfinance

OBJECTIVE → To help meet the housing needs of low income families that already own a house but need to improve or rehabilitate it in a way that is affordable and economically viable.

- **SHF offers funding** to Financial Intermediaries that finance their clients' progressive housing processes.
- Financial Intermediaries **may or may not offer technical assistance** but typically construction responsibility lies on the borrower.



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II. SHF's actions to consolidate the housing sector

c. Attending the underserved population – Housing Microfinance

Main Features of SHF's financial product Housing Microfinance

- Product design of HMF is responsibility of the Financial Intermediary. However, SHF has established certain parameters:
 - Families need to prove they inhabit the house that's going to be improved.
 - Mortgage is not required to secure the loan. Many institutions rely on other forms such as cosigners.
 - Loan term: up to 3 years
 - Maximum individual loan: \$50,000 pesos (around \$3,900 usd).
 - It can be complemented with a federal subsidy of \$40,000 (around 3,300 usd), that's also incremental.
 - SHF funds 92% of each credit.
 - Financial Intermediaries have to ensure that clients fulfill the original purpose of the loan. SHF allows the FI to define this verification process according to their own procedures in order to avoid an increase in operation costs.



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