

JOINT CONFERENCE ON REMITTANCES

12-13 September 2005

ADB, Manila, Philippines

Presentation

REMITTANCES FOR HOUSING: THE MEXICAN EXPERIENCE

JOSE OLIVARES

**Deputy Director of Housing Studies
Sociedad Hipotecaria Federal, Mexico**

The views expressed in this paper are those of the author and do not necessarily reflect the views and policies of the Asian Development Bank (ADB). ADB does not guarantee the accuracy of the data presented. The country(ies) referred to in this paper does not imply any views on ADB's part as to sovereignty or independent status or necessarily conform to ADB's terminology.



SOCIEDAD HIPOTECARIA FEDERAL

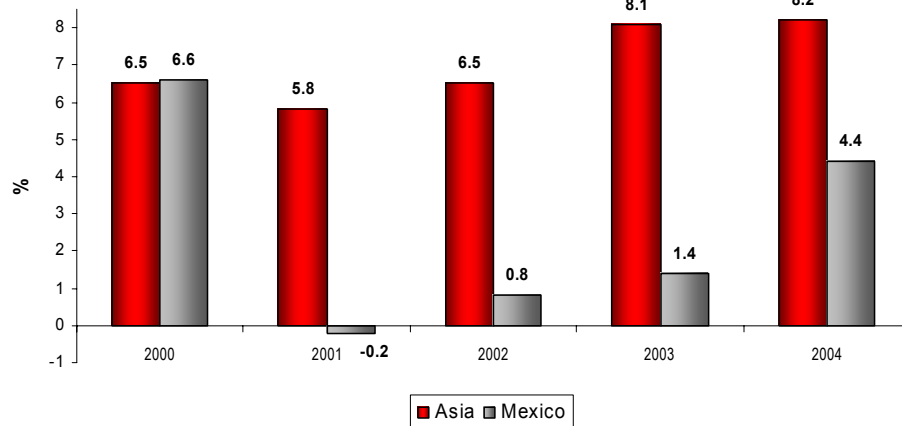
**REMITTANCES FOR HOUSING:
THE MEXICAN EXPERIENCE**

September 2005

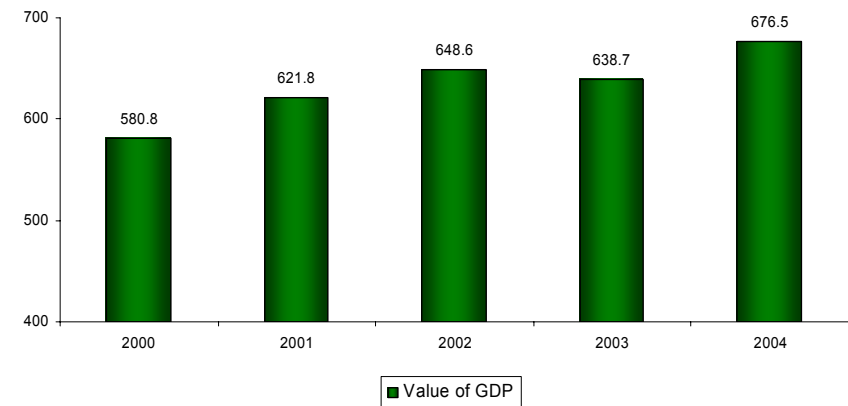
A SNAPSHOT OF MEXICO

Mexico is a developing country, classified as the 10th largest economy in the world by the World Bank. Mexico's economy is not as dynamic as the Asian developing countries.

Annual change in GDP Developing countries



Mexico: GDP in billions USD



Source: Banco de Mexico

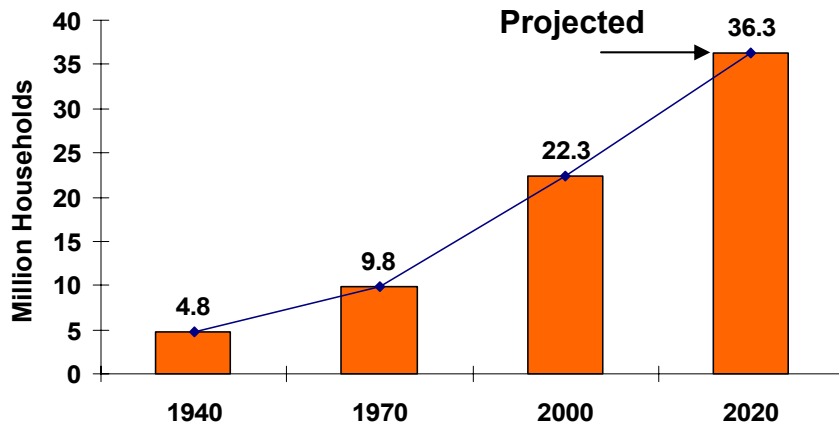
MEXICO'S ECONOMIC INDICATORS

GDP per capita (in USD)	6,120.2
-------------------------	---------

Average annual growth 1997-2003

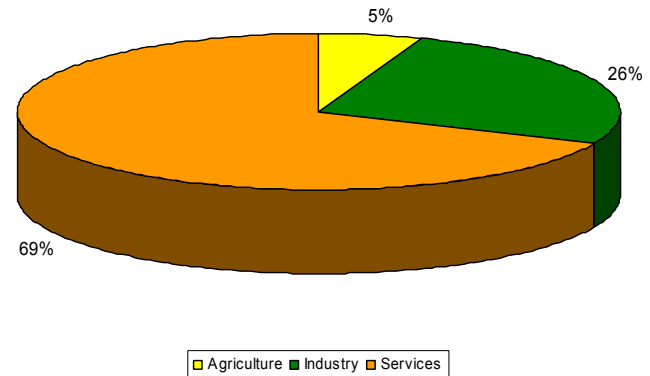
Population (%)	1.4
Labor force (%)	2.4

Number of Households in Mexico



Source: CONAPO

% of GDP of economic sectors in Mexico 2004



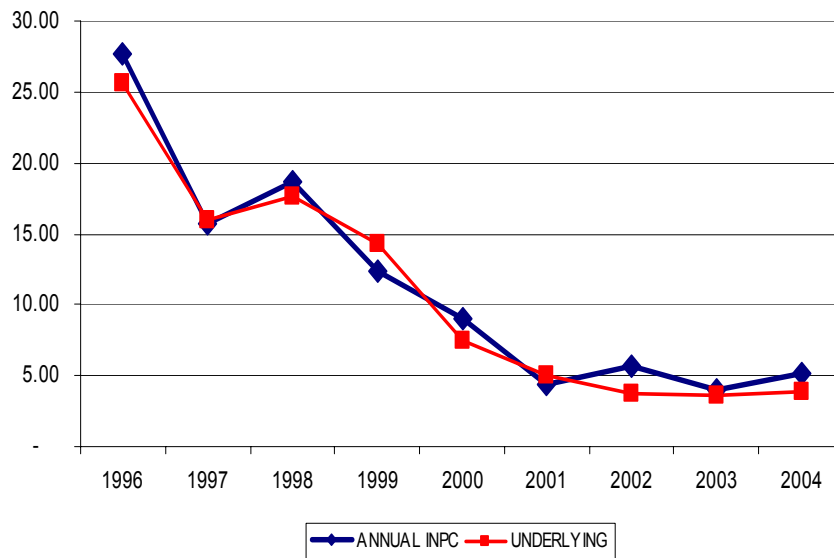
Source: Banco de México

MEXICO'S ECONOMIC INDICATORS

The annual inflation rate has decreased from 27.70% in December 1996 to 3.98% in December 2003. On the other hand, the annual underlying inflation rate in December 2004 was 3.80%.

Interest rates on short-term government debt have decreased in the last six years.

Inflation and Underlying Inflation Rate Mexico



Interest Rates in Short-Term Government Debt

(cetes 28 days)

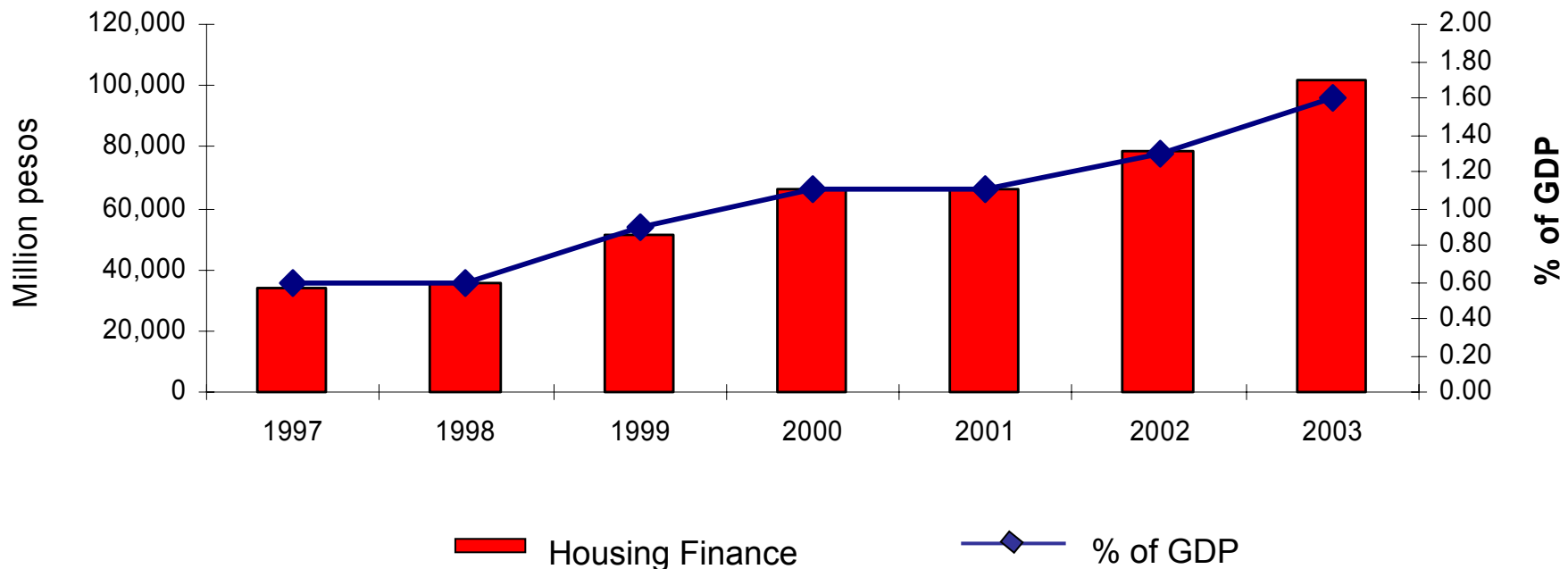


Source: Banco de México

HOUSING SECTOR OVERVIEW

Housing finance in Mexico as percentage of Gross Domestic Product is still low, but the efforts of the government and the macroeconomic stability have produced a positive trend.

Flow of Housing Finance as Percentage of GDP 1997-2003

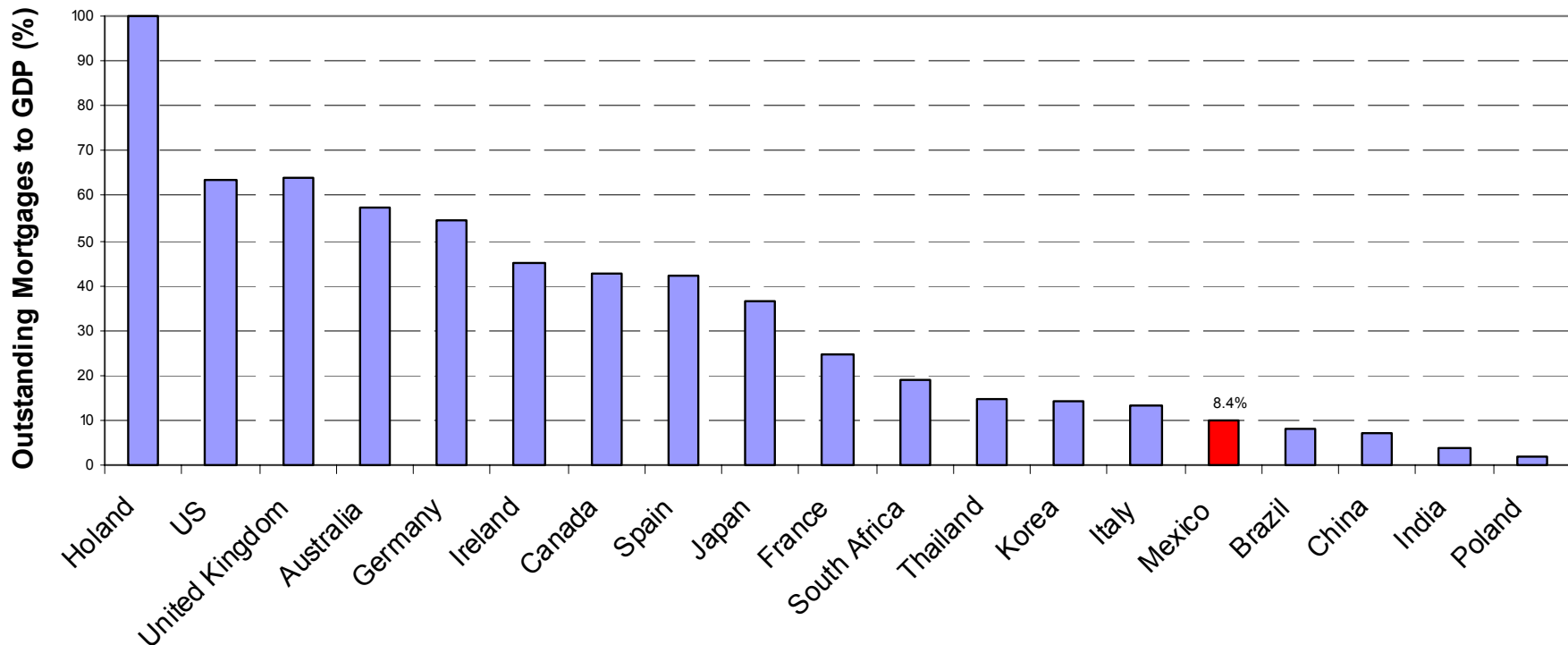


Source: SHF

HOUSING SECTOR OVERVIEW

The amount of total outstanding mortgages as a percentage of the GDP is 8.4%, low compared to developed countries. This implies that there is still plenty of room to grow.

Outstanding Mortgages as a Percentage of the GDP 2003



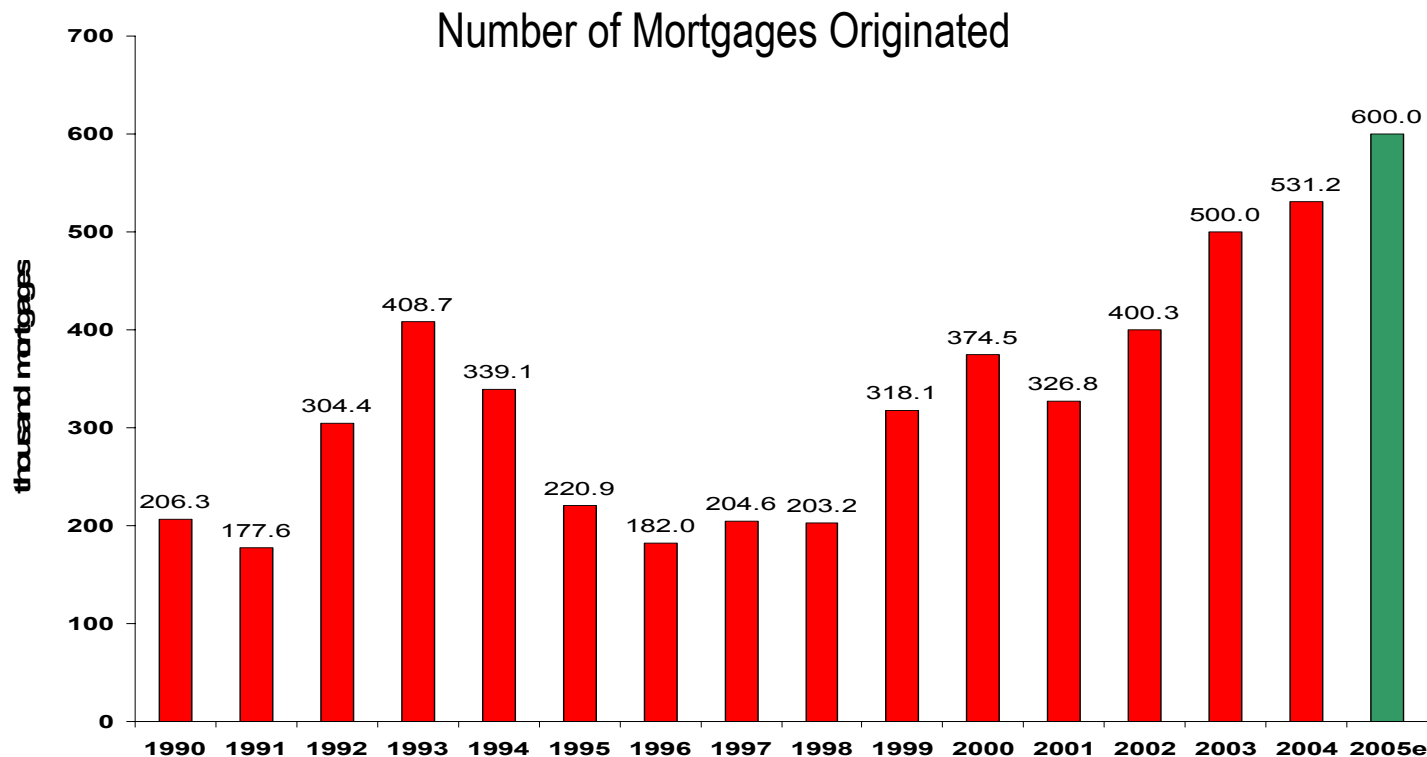
Source: IMF. World Economic Outlook September 2004, Central Bank of South Africa, CMHC, SSKI (India), Komoco (Korea), GHB (Thailand), China On-Line, SHF (Mexico), Michael Lea.

Data for 2001 for Korea, Mexico, Thailand, Brazil, Poland, China, India and South Africa

MEXICO'S OVERALL HOUSING PERFORMANCE

Between 1996 and 2000, the creation of specialized mortgage banks and operational reforms in the public housing finance system provided a solid foundation for expansion.

Starting in 2001, an aggressive housing strategy allowed housing financing to reach the 1993 historic levels in 2002 and to surmount them in 2003 and 2004.

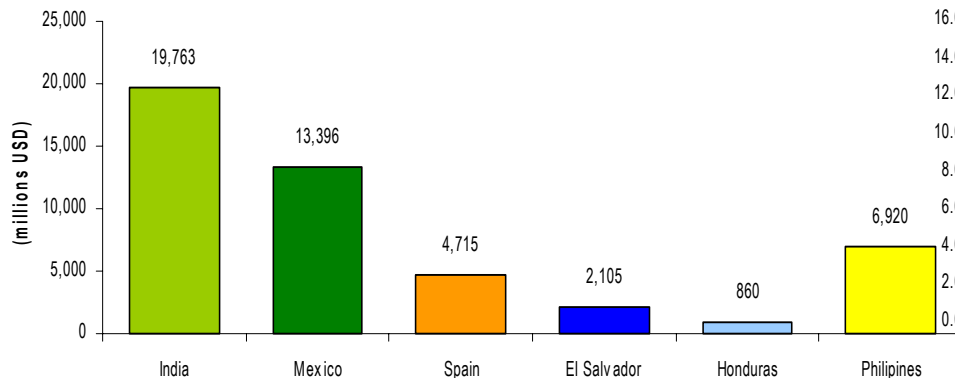


Source: SHF

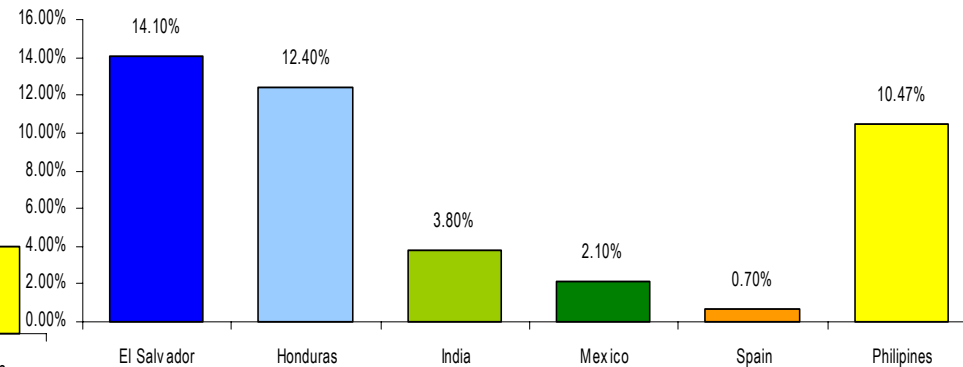
IMPORTANCE OF REMITTANCES

In 2004, the transfers account exhibited a surplus of 17.044 billion US dollars. Its main component, workers' remittances accumulated 16.613 billion US dollars (an annual increase of 24 percent). Compared to India, remittances in Mexico are still low, but Mexico receives more remittances than any other Latin American country. Remittances, however, are significant in smaller Latin American countries as a percentage of Gross Domestic Product, as shown in El Salvador and Honduras.

Remittances to selected countries in 2003



Remittances to selected countries in 2003 as % GDP

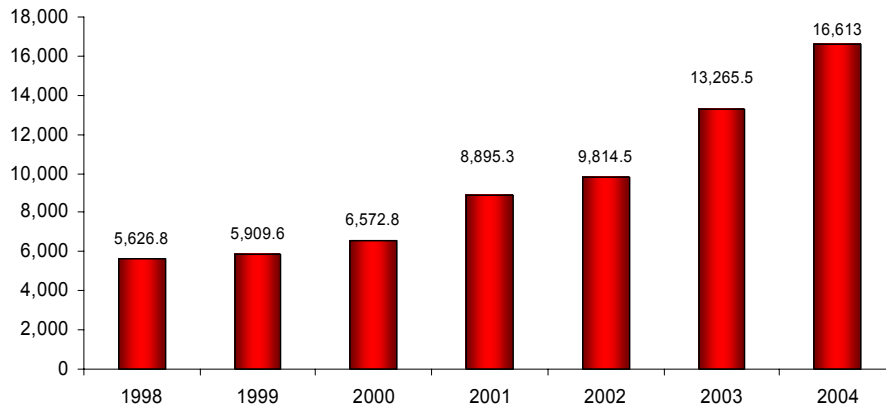


Source: Banco de Mexico

THE WORKERS' REMITTANCES

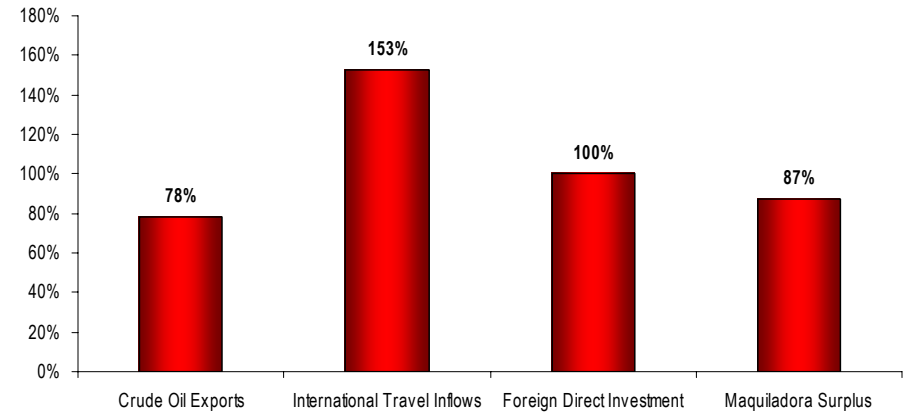
The transference of remittances in Mexico were similar to Foreign Direct Investment (FDI) during the last year, equaled 78 percent of crude oil exports and represented 2.5 percent of Gross Domestic Product. In 2004, 50.9 million transactions from remittances were carried out, each one averaging of 327 US dollars.

Value of remittances to Mexico
(Millions USD)



Source: Banco de Mexico

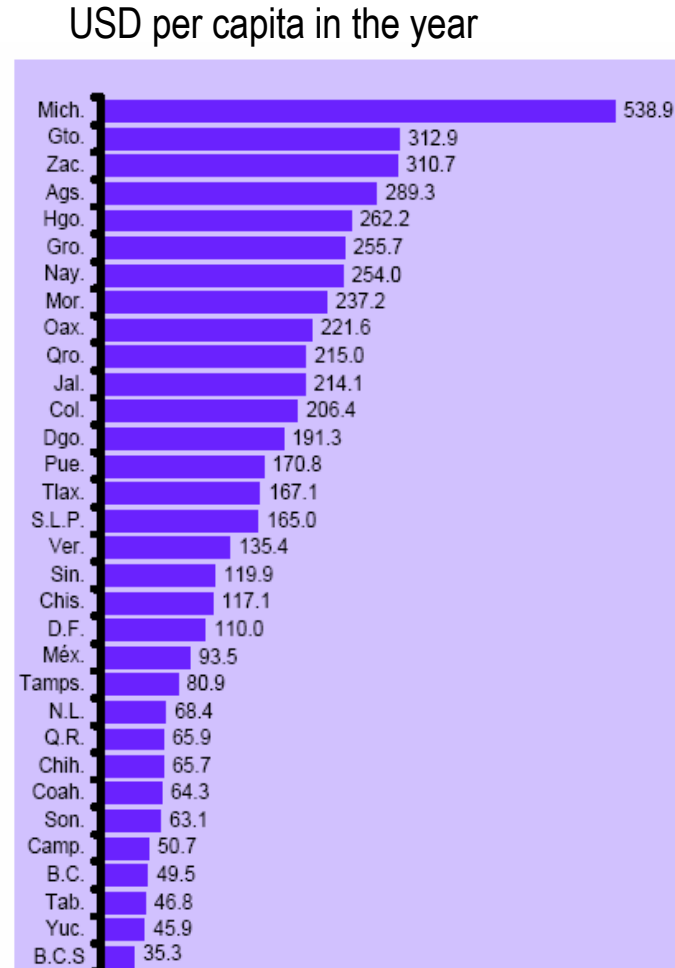
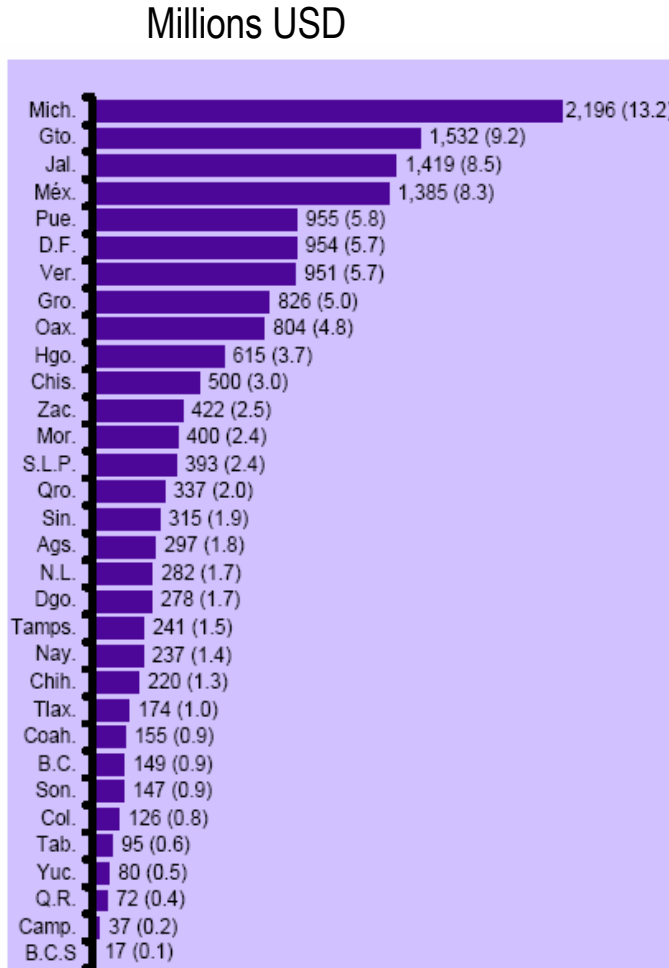
Remittances as Percentage of



Source: IADB

IMPACT OF REMITTANCES AT STATE LEVEL

As for their destination, Michoacán, Guanajuato, Jalisco, Estado de México and Puebla received the highest amount (45 percent of the total) of remittances. In Michoacán, the remittances increased individual household income by 18 percent.



Source: Banco de México

REMITTANCES+ HOUSING = MARKET OPORTUNITY

- Due to the increasing flow in remittances, the Mexican government has created a mortgage program that helps to invest these resources so that the migrant can build a patrimony for his family.
- At the end of 2004 the remittances flow was of \$16.613 billion dollars, and is on target this year to surpass last year's total.
- Different studies that between 9% and 16% of the remittances are channeled to housing expenses. Assuming a conservative estimation of 9%, the volume would still represent enough investment to handle 185,000 mortgages*.

*It was considered a credit in pesos with 20 years, with a payment factor of 13.64 to thousand and a value of \$650,000 pesos.

WHAT IS SOCIEDAD HIPOTECARIA FEDERAL (SHF)?

- Created in 2002 as a government financial institution with the mandate to foster the development of primary & secondary mortgage markets.
- Has “full faith & credit” of Federal Government on risks taken through 2013; must be self-supporting afterward.
- Today acts as wholesale mortgage bank & guarantor.
 - ✓ SHF provides long term funding to financial intermediaries and hedges the inherent interest rate risk. SHF cannot lend directly to the public.
 - ✓ SHF offers mortgage insurance, timely payment guarantees on bonds and a cover against real minimum wage depreciation (to allow homeowners to have payments linked to changes in the minimum wage).

SHF: FINANCIAL HIGHLIGHTS (December 2004)

. Assets	USD \$8.2 bn
. Liabilities	USD \$7.0 bn
. Outstanding Portfolio	USD \$7.1 bn
. Mortgage Insurance –in-Force	USD \$3.0 bn
. Mortgage Insured Risk-in-Force	USD \$1.4 bn

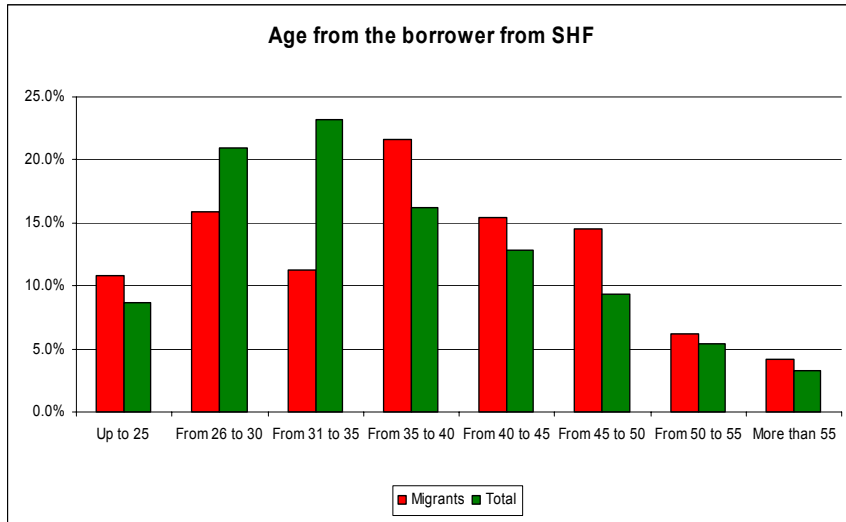
SHF PROGRAM FOR MIGRANTS

SHF program for migrants is a program created to the Mexicans living and working in the United States and Canada who are interested in purchasing a house in Mexico. Payment transactions occur in the United States and Canada; the migratory status of the loan recipient is irrelevant to their participation in the program

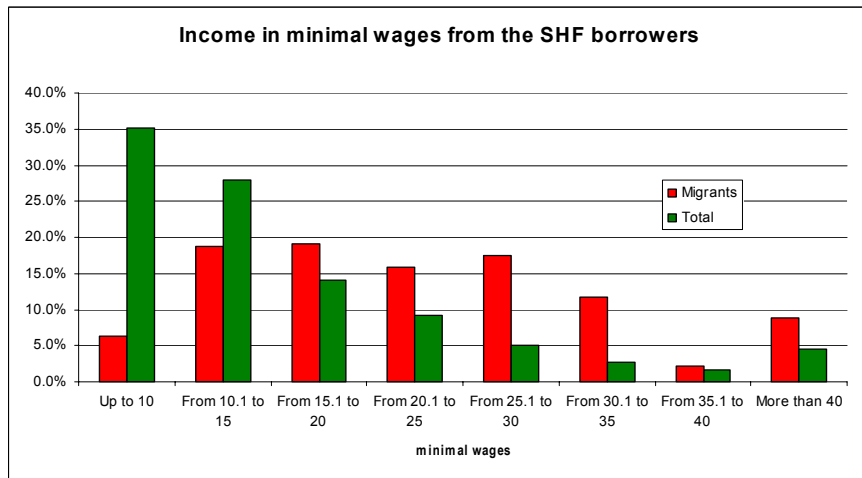
MAIN POINTS OF THE PROGRAM:

- It is oriented to the acquisition of a new house or a used one.
- The participation of a Co-borrower is required.
- The loan is up to \$1,700,000 pesos at a fixed interest rate in UDIS or Pesos.
- The maximum period of the loan is 25 years.
- The resources are lent by a financial intermediary with the support of SHF.

DIFFERENCES IN PROFILE WITH THE MIGRANT BORROWER AND ALL SHF BORROWERS

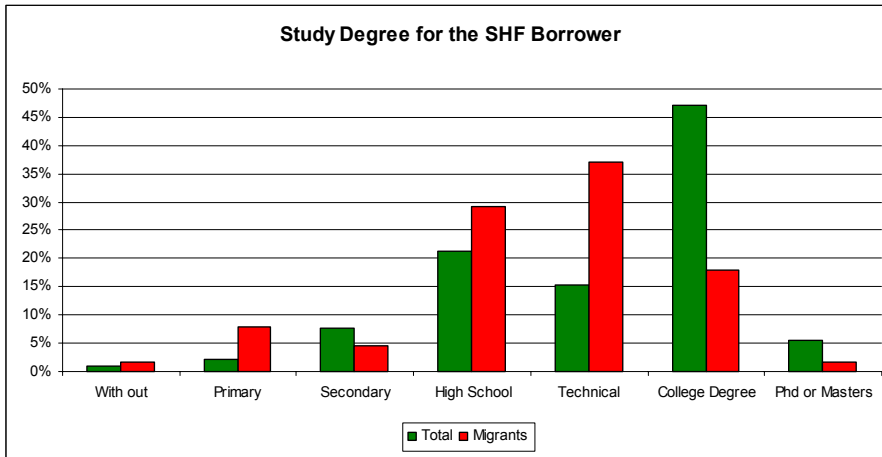


- The population 35 years old or less represents 52.8% of the total population of borrowers from SHF, and for migrants it represents only 37.9%.

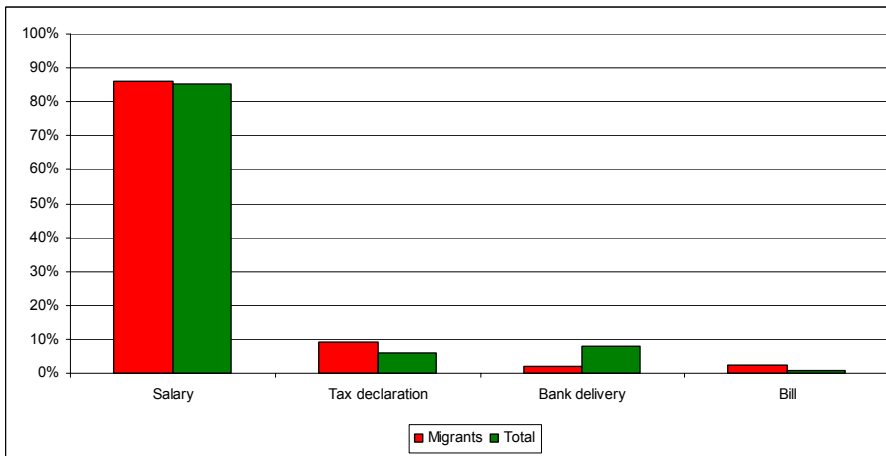


- The average income for the migrant borrower is 47.2% greater than the average income of all SHF borrowers.

DIFFERENCES IN PROFILE WITH THE MIGRANT BORROWER AND ALL SHF BORROWERS



- The migrant borrower's educational attainment is on average lower than the total migrant. Most of the migrant borrowers have completed high school whereas the great majority of the overall borrowers from SHF have a college degree.



- The total income earnings of both groups are very similar. Almost 85% are salary-earners, yet there is a larger tendency in migrant borrowers toward tax declaration than in the total SHF borrower population.

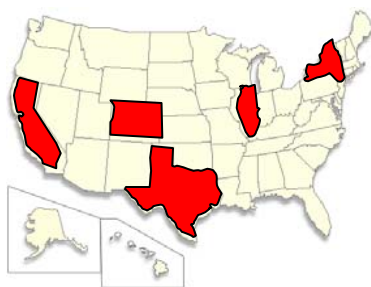
DIFFERENCES IN THE LOAN FOR MIGRANT AND THE NORMAL LOAN

The average loan for the migrant is larger than the normal average loan in Mexico.

CHARACTERISTICS FROM THE MIGRANT AND THE NORMAL HOUSES		
Loan in pesos		
Concept	Normal	Migrants
Land	90 m2	138 m2
Parking lots	1	2
Bathrooms	1.5	1.5
Yard	service	backyard
Bedrooms	2	3
Living room	included	included
Dining room	included	included
Value of the house	\$ 435,000	\$ 650,000
Loan	\$ 369,750	\$ 552,500
Time	20 years	20 years
Payment factor in pesos*	13.64	13.64
Monthly payment	\$ 5,043	\$ 7,536
Exchange rate		\$ 11.20
Monthly payment in dollars		\$ 673
* Average of payment factor from loans in pesos support by SHF in march 2005		

PRODUCTS CURRENTLY IN OPERATION

- To date the program is operated by 3 private financial intermediaries with the support of SHF.
- The intermediaries (sofoles) have invested in branches in the United States
 - Su Casita has presence in Denver and Dallas, and has strategic alliance with Monterrey Funding in California and First Jersey Mortgages Services.
 - Hipotecaria Nacional has opened branches in New York and San Diego, and due to its acquisition by BBVA will have alliances with Laredo National Bank in Texas and the Valley Bank in California.
 - Crédito Inmobiliario-Terras has alliance with Conficasa, with presence in Chicago, Las Vegas and Houston and a large team of mortgage brokers. They are very close to open a new branch in Toronto.
- To date they have given 525 mortgages and 700 are in the pipeline.

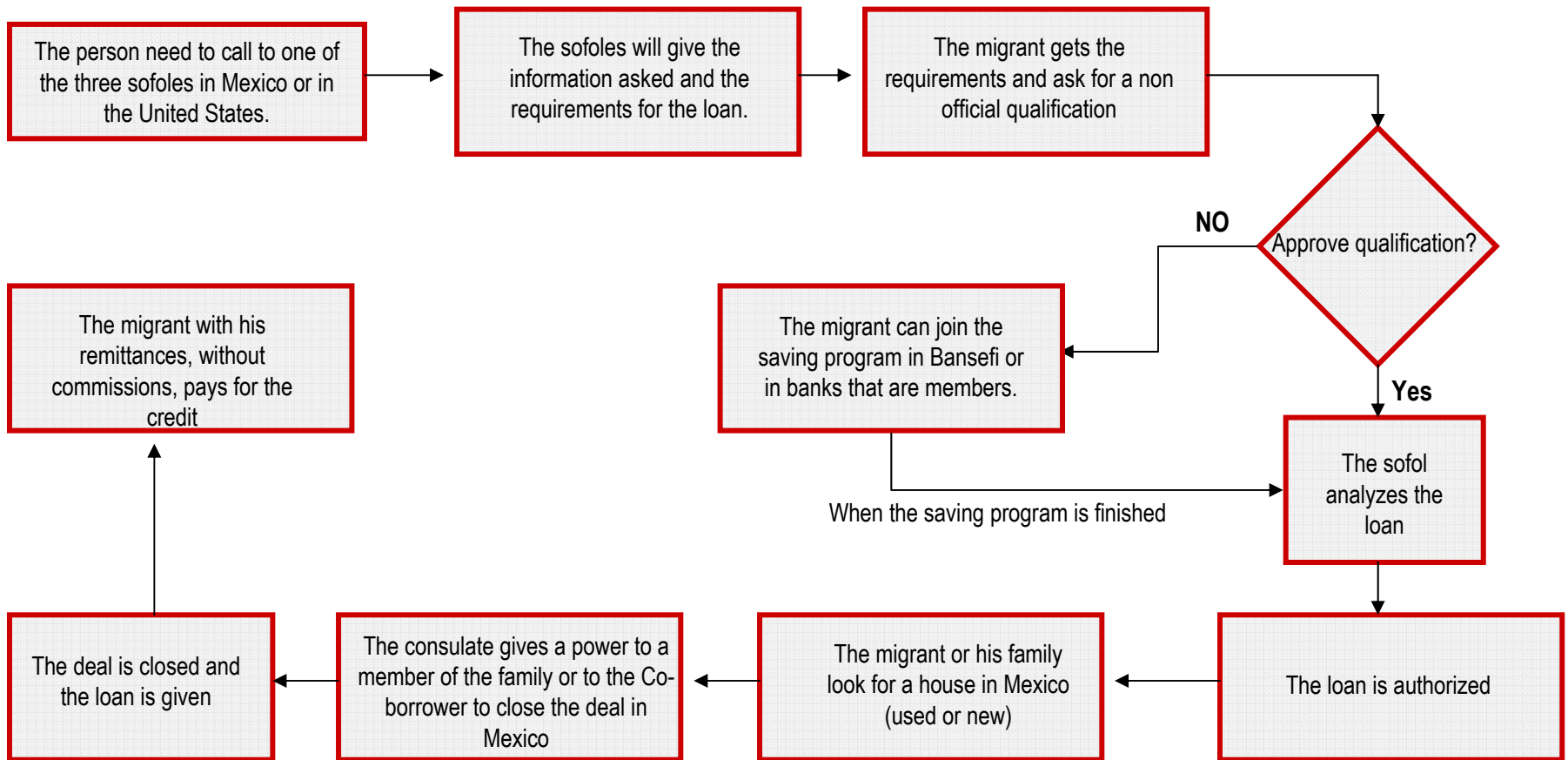


Of the 25 million of Mexicans that live in the United States (first and second generation) 73% ,approximately, live in States where the Mexican sofoles have presence (California, Colorado, Texas, Illinois y New York).

SOFOLES THAT OPERATE THE PROGRAM

SOFOL	 Hipotecaria su Casita	 Hipotecaria Nacional	 Crédito Inmobiliario Terras
BRAND OF THE PROGRAM	Su Pedacito de México	Tu Opción en México	Raíces
BRANCHES ABROAD	Denver, Colorado	NewYork and San Diego.	Strategic alliances (CONFICASA)
SUPPORT TO CLIENTS	México: 01 800 236 62 55 USA: 1 877 227 48 29 / 21	México: 01 800 225 26 27 USA: 1 866 614 53 54	México: 01 800 681 12 21 USA: 1 888 872 42 37
<p>Note: The three sofoles operate in United States territory</p>	E-mail: supedacito@sucasita.com.mx Internet: www.sucasita.com.mx	E-mail: mguinhard@hipnal.com.mx Internet: www.hipotecarianacional.com.mx EUA: www.hipotecariamexicana.com	www.conficasa.net www.credito-inmobiliario.com.mx
	En Denver: (303) 996 9880 al 83 En Mexico (55) 53 40 34 05	En New York: 1 212 3021 582 / 84	

STEPS TO GAIN ADMITTANCE TO A MORTGAGE LOAN FOR A MIGRANT



LESSONS TO LEARN?

- Although the mortgage program for migrants is a recent development, its fundamental components provide the backbone for a successful program:
 - The coordination between the institutions that participate in the program. In other countries like El Salvador the commercial banks implemented a mortgage program without the involvement of governmental institutions. In Mexico, the Migrants' program represents a coordinated effort by various governmental institutions such as the Foreign Secretary, the Housing Commission, SHF like funding provider, and the private sector, like SOFOLES (non-bank-banks).
 - The private effort to invest in a country with well-developed housing and financial sectors. The SOFOLES operate subsidiary firms in the U.S. that satisfy all U.S. regulations.

MORE LESSONS TO LEARN?

More fundamental components which ensure a successful Migrants' Program:

- Treat the migrant like any other Mexican citizen. The credit conditions do not change because the new borrower lives outside of Mexico.
- Adapt the mortgage process to account for the location of the loan applicant. The program has addressed the location of the migrant's residence and employment by permitting allowances such as:
 - Accepting 3 additional forms of identification from the borrower: The matricula consular card, the U.S. Tax Identification Number or the U.S. Social Security Number.
 - Allow a co-signer on the contract. The mortgage loan must be signed in Mexico but another person may be permitted to sign the contract in place of the borrower. The borrower is not required to visit Mexico.
- Forms to enhance the program. SHF has received a MIF Cooperation to propel the program with at least 2,000 mortgages.

The federal government has demonstrated strong support of the program through a coordinated effort by the numerous government agencies.



CONAFOVI



- The joint efforts of both the public and private sectors will speed up the growth of the program through improvements in the operational and promotional aspects, for instance:
 - Simplify even more the loan applications process
 - Standardize the format of the rights given at the consulate in United States and Canada.
 - Analyze the possibility of employing loan information from the system to support the migrants in the consolidation of a credit history in the United States, when they do not have one.
 - Work in conjunction with financial intermediaries to improve the marketing and promotion of the mortgage products.
 - Unify the efforts in fairs and events out of Mexico.

