

INFONAVIT and the Development of Housing for Low-Income Workers in Mexico

by Jaime del Río Castillo and Javier Gurría Laviada

INTRODUCTION

The Institute of the National Housing Fund for Private Sector Workers (Instituto del Fondo Nacional de la Vivienda para los Trabajadores) INFONAVIT is a financial institution whose basic objective is to provide mortgage credit in Mexico to low-income workers in private sector corporations.

INFONAVIT is a first-floor, social interest mortgage institution which grants mortgage credits to its beneficiaries at lower-than-market interest rates and without intermediation of financial agencies, namely: banks and nonbank banks (Sociedades Financieras de Objeto Limitado; SOFOLES).

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INFONAVIT was created by presidential decree in 1972¹ and has a tripartite management system with equal representation of the labor sector, employers' sector and the federal government. Approximately 3,700 employees work for INFONAVIT; of which 2,000 are at the central offices and 1,700 are distributed throughout the country's 32 state delegations.²

In just over 26 years of existence, INFONAVIT has granted mortgage loans to more than 1.8 million workers (see Figure 1), and current estimates are that nearly 10% of the Mexican population lives in a house purchased through INFONAVIT credit.

THE NEW PENSIONS SYSTEM

INFONAVIT is part of the Retirement Savings System (Sistema de Ahorro para el Retiro; SAR). Through this new pensions system, each worker is assigned an individual account whose balance is broken down into three sub-accounts:

- 1 Retirement.
- 2 Housing.
- 3 Voluntary deposits.

The balance of the retirement account is comprised of the compulsory bi-monthly deposits—made by the employers, the federal government and the worker himself—at an approximate rate of 6.5% on the worker's base salary³, plus the corresponding yield.

The balance of the housing sub-account is made up of the compulsory payments to be made by the employer every two months at a 5% rate on the worker's full pay (i.e., nominal wage plus benefits) with an upper limit set currently at 17 "times the minimal wages" in Mexico City ("times minimal wages" is abbreviated by its Spanish acronym *vsm* = *veces salarios mínimos*)⁴, plus yield. The upper limit increases in 1 *vsm* yearly up to a ceiling of 25 *vsm*.⁵ Lastly, workers may choose to make deposits into their voluntary savings sub-account.

All balances in private sector worker's housing sub-accounts go to make up the National Housing Fund (Fondo Nacional de la Vivienda), which is managed by INFONAVIT.

Aside from the main objective already mentioned of granting credits for housing, the National Housing Fund also has the man-

date of reimbursing every worker for the amount saved in the housing sub-account, plus yield, upon retirement. This may be done through a single payment, for the deposits accrued to the second semester of 1997. Otherwise, deposits accrued starting on that date will be credited to the pension.

INFONAVIT MORTGAGE LOANS

The loans granted by INFONAVIT are denominated in terms of multiples of the minimum wage⁶ (*vsm*). The maximum amortization period is 30 years.⁷

Since 1993, the loans granted by INFONAVIT have been double-index mortgages, for an interest rate is charged on the *vsm* formula.⁸ According to this system, the monetary value of the debt incurred by the borrower varies, as the minimum wage in Mexico City changes and an interest rate is charged on this changing amount. Since the end of 1993 until July 1999, this interest rate fell within the range of 4% to 8% per year,

and fluctuated together with the worker's wage level on the date that he made his payments. Starting in July 1999⁹ it was decided that a fixed interest rate of between 4% to 9% per year would apply to this *vsm* formula throughout the life of the credit. What the actual rate shall be is decided taking as the basis the worker's wage level at the time that the credit is granted.

To date, the maximum amount of credit lent by INFONAVIT is 180 *vsm*.¹⁰ INFONAVIT does not require borrowers to make any downpayment to obtain the house. Therefore, the credit granted could represent the total value of the house. However, if the worker wants he may put up additional funds of his own towards the purchase of his house, but it must not be priced at over 300 *vsm*.¹¹ This limit could increase up to 350 *vsm* in Mexico City and other cities determined by the Board of Directors.

Up until August 1999, if the worker enjoyed an INFONAVIT mortgage credit, the balance

in his housing sub-account, as well as all subsequent deposits, were credited towards amortizing the debt. Now¹² the worker, together with his credit, receives the balance of his housing sub-account, thus increasing his purchasing power, which enables him to buy a better house. Also, any subsequent deposits continue to be credited towards amortizing the balance owed.

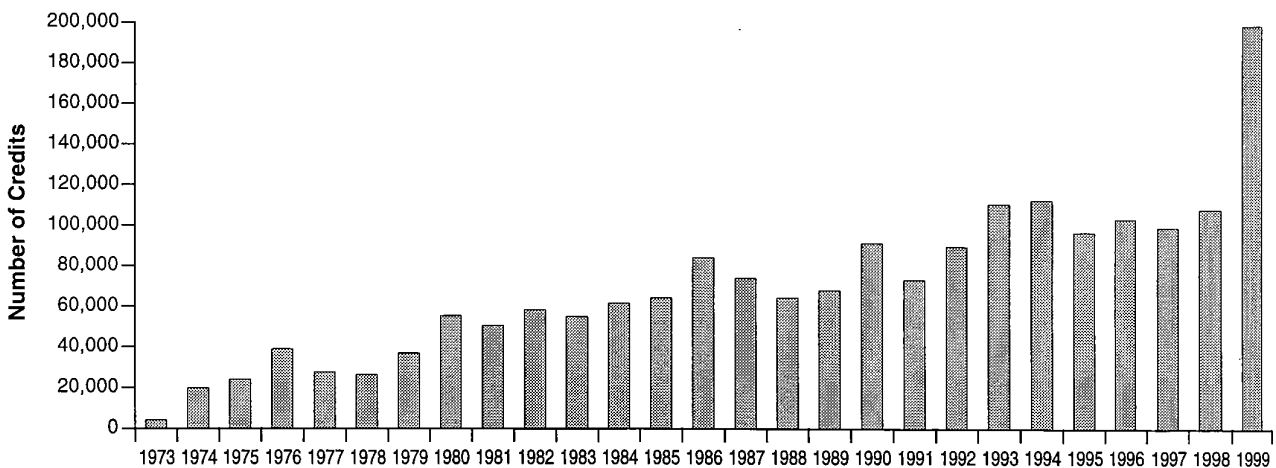
FINANCING SOURCES

INFONAVIT's two main financing sources, which are of a fiscal nature, are:

- Employers' contributions and
- Collections on loans granted.

All private sector employers make compulsory contributions of 5% on the full pay of the over 11 million employees working for them. These deposits are credited to the SAR housing sub-accounts, which belong to the workers. The collection on mortgage

Figure 1. Total of Credits Granted by INFONAVIT (1973-1999) Total=1,898,755



Source: Sistema de Otorgamiento de Créditos y Base de Datos de Acreditados.

loans is done through payroll deduction from the workers' salaries. In the past, these payroll deductions represented 25% of the workers' full wages if they earned more than 1 *vsm* and 20% if they earned just 1 *vsm*¹³. In other words, payment terms were dependent on the worker's wage level. With the new credit rules, there is a change to a fixed-payment system in *vsm* terms, to be set a priori in proportion to the amount of the credit granted.

FINANCIAL ASPECTS

In 1998, the total revenue¹⁴ was for \$23,816.8 million pesos, of which: \$15,352.6 million pesos were from employers' 5% contributions; \$6,353.2 million pesos from payments on loans granted; \$1,992.9 million pesos from financial returns and \$118.1 million pesos from other sources.

The total disbursements in 1998 were: \$17,101.9 million pesos, of which: \$14,930.7 million pesos were laid out for the housing program; \$1,565.5 million pesos for Administrative Operational and Control Expenses (Gastos de Administración Operación y Vigilancia; GAOV); \$561.3 million pesos was the total sum returned from the housing sub-account and \$44.4 million pesos in miscellaneous expenses. It might be pointed out that GAOV expenses include both investment programs management and the administration of INFONAVIT's mortgage portfolio.

On December 31, 1998, INFONAVIT had \$110,196.72 million pesos in liabilities almost wholly made up of workers' savings funds. The assets added up to \$125,718.77 million pesos that are largely due to the credit portfolio, less expected credit risk reserves.

INFONAVIT's inflows during 1998 of \$23,816 million pesos represented approximately one-sixth of the resources available to the entire Mexican Commercial Banking

System during that same period, since the total change in funding that year¹⁵ was \$144,810.33 million pesos.

By year-end 1998, INFONAVIT's credit portfolio¹⁶ amounted to \$137,903.21 million pesos (of which \$105,609.80 million were in the current loans portfolio as \$32,293.42 million were past due credits). On the same date, the total credit portfolio for the whole Mexican Commercial Banking System¹⁷ was valued at \$880,559.95 million pesos (of which \$781,054.34 million were in the current portfolio and \$99,505.62 million were past due). (See Figure 2.)

On the basis of total credit portfolio as of December 1998 the three largest banks in Mexico are BANAMEX with a total credit portfolio of \$186,244.74 million pesos, BANCOMER with \$191,407.49 million pesos, and SERFIN with \$115,679.70 million pesos. With this information, it is possible to state that at December 31, 1998, the size of

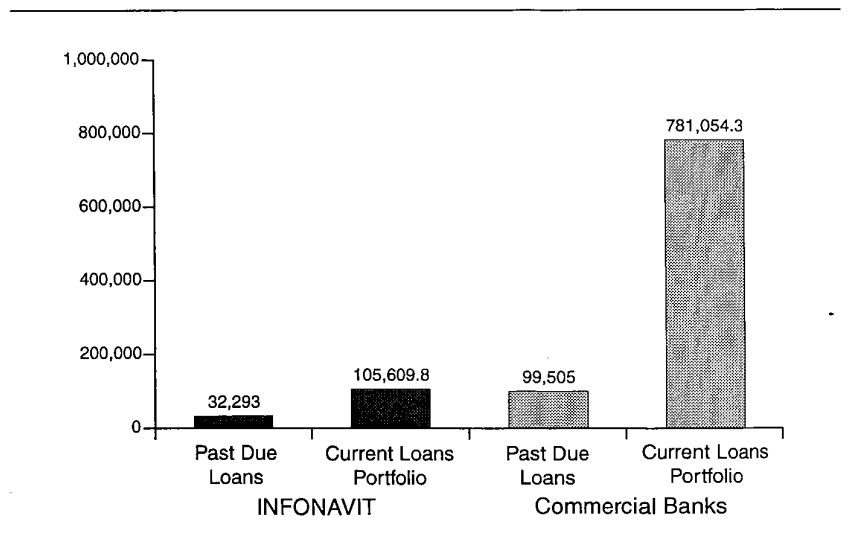
the mortgage portfolio of INFONAVIT was a little over one-sixth of the overall credit portfolio of the entire Mexican Commercial Banking System and INFONAVIT's mortgage portfolio is placed among the three major banks already mentioned (see Figure 2A).

Compared to December 1998, INFONAVIT's mortgage portfolio of \$137,903.21 million pesos is slightly less than the entire housing credit portfolio of Mexican Commercial Banking System which was \$149,261.15 million pesos, but within this amount, \$99,346.37 million pesos were in the current portfolio and \$49,914.78 million pesos (33%) were past due. This stands up from the \$32,293.42 million pesos (23%) of INFONAVIT's past due portfolio (see Figure 3).

The revenue for 1999 breaks down as follows:

- \$19,045 million pesos from the 5% employers' contributions.

FIGURE 2. Comparison Between INFONAVIT's Credit Portfolio and the Total Credit Portfolio of Commercial Banks, December 1998.



MEXICO

Figure 2A. Comparison Between INFONAVIT's Credit Portfolio and the Total Credit Portfolio of Banamex, Bancomer and Serfin, December 1998.

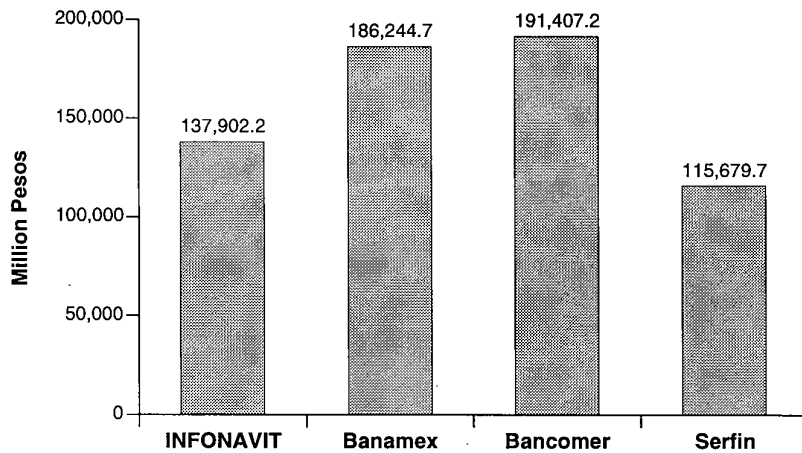
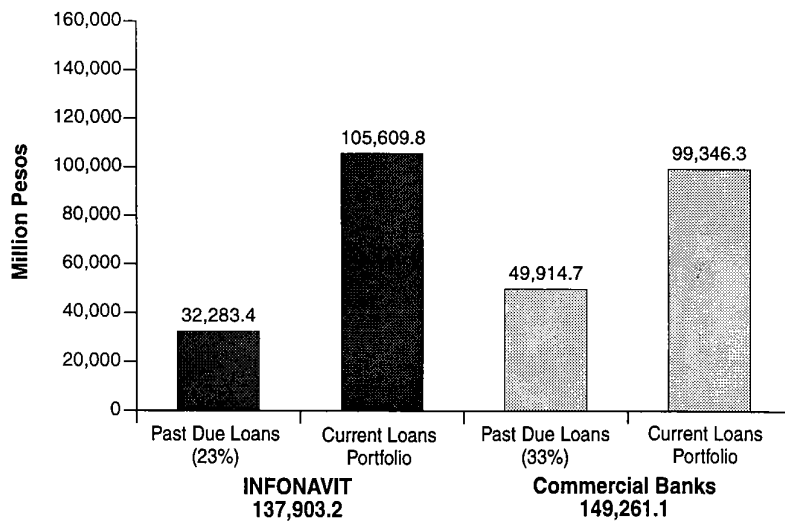


Figure 3. Comparison Between Mortgage Portfolios of INFONAVIT and Commercial Banks in 1998.



- \$8,997 million pesos from collections on credits granted.
- \$3,476 million pesos more, from miscellaneous items.

The initial funds available at the beginning of 1999, plus collections through that year, allow for funding a program budget of \$31,986 million pesos.

CHARACTERISTICS OF LOANS GRANTED

The characteristics of credits granted by INFONAVIT are:

- Nearly three-fourths of loans in 1998 and two-thirds of loans in 1999 went to workers earning less than 4 *vs*m minimal wages; the total amount given in such loans represented around 70% in 1998, and around 62% in 1999, of all mortgage credits granted.
- More than one-third of loans in 1998 and less than one-half of loans in 1999 went to workers under 30 years of age.
- In 1998 and 1999, the greatest number of loans, together with the greatest amount of funds disbursed in mortgage credits, went to workers under 30 years of age with salaries between 2.1 and 3 *vs*m.

GOALS AND STRATEGIES

Although during 1999 the demand for low-income housing and corresponding mortgage funding in Mexico greatly exceeded the available supply of new housing, 198,950 mortgages were granted,¹⁸ which represents almost the double of credits granted in 1998, and triple the annual average of credits granted during INFONAVIT's first 26 years.

INFONAVIT is in search of new funding formulas that will consider, in order of priority:

1. Beneficiaries' socioeconomic status.
2. Guarantees for full portfolio recovery.
3. Obtaining the best possible returns.

Specifically, in September 1999 the past due portfolio had a reduction of \$34,000 million pesos, according to preliminary figures.

In line with this new emphasis, INFONAVIT has introduced a new financing mechanism. Those workers who obtain a mortgage credit with a funding agency other than INFONAVIT will be allowed to put up as collateral the balance in their housing sub-account (article 43 bis). Provisions are also made for beneficiaries to apply for credits co-financed by other funding agencies, in which case they may enjoy federal government subsidies specifically geared to lower-income workers.

In addition, workers can now spend 50% of their loan when the house is 65% completed, and the remaining 50% on delivery of the property. This speeds up the construction work on houses and helps reactivate the construction industry. Programs have also been drafted to benefit workers who put up savings, and progress has been made in studying portfolio securitization plans.

FINAL COMMENTS

The financial structure of the National Housing Fund managed by INFONAVIT is based on the collective funds comprised by all the individual savings accounts, which are the specific and private property of each individual worker.

The solid nature of the National Housing Fund results from meeting workers' housing needs, fundamentally on the basis of their contributions to the fund.

Deposits made are always a form of savings for the worker; they can go towards the pur-

chase of a home of his own, or towards an old-age pension plan. In other words, workers' deposits have a dual purpose: on the one hand, they serve as a source of funds for the granting of credit amongst themselves, through their own resources and under better terms than offered on the market. On the other hand, these deposits, together with SAR resources, help make up the retirement pension fund.

The financial compromise between these two aims involves charging a lower interest rate (a minimum of 4% on the minimum wage), in order to reduce costs and help meet lower-salary workers' social needs, since they cannot meet market mortgage credit terms; or else, to set an interest rate such as to guarantee that the workers' savings invested (5% contribution by employers) when added to SAR resources (6.5% for retirement) will make a sufficient old-age pension available in the market. Although there is priority coverage for those with lower incomes, the payment mechanism guarantees full payment.

In order to achieve both aims simultaneously, it is necessary to strike a balance, by charging the highest rate possible that will allow lower-income workers (earning around 2 *vsm*) to have access to funds enough to buy a house themselves.

For higher-income workers, a rising interest rate system has been implemented such that the weighted average turns out to be the highest rate that can be credited to the workers' savings accounts.

In short, INFONAVIT's main social objective is to extend credit to its own beneficiaries, under the best possible financial terms, without neglecting its mandate of protecting the savings deposited in individual accounts, so that upon retirement these will be resources available to cover every worker's old-age pension.

NOTES

¹ Ley del Instituto del Fondo Nacional de la Vivienda para los Trabajadores, *Diario Oficial de la Federación*, April 24, 1972.

² XXVII Informe Anual de Actividades 1998, Instituto del Fondo Nacional de la Vivienda para los Trabajadores INFONAVIT, April 1999.

³ Ley del Seguro Social, *Diario Oficial de la Federación*, December 21, 1995.

⁴ In March 2000: 1 *vsm* = (30.4 days) × (37.90 pesos) = 1,152.16 pesos.

⁵ Ley del Instituto del Fondo Nacional de la Vivienda para los Trabajadores, artículo 29, fracción II.

⁶ Rule 21, from *Reglas para el Otorgamiento de Créditos a los Trabajadores Derechohabientes del INFONAVIT*, *Diario Oficial de la Federación*, October 29, 1999.

⁷ Rule 20, from *Reglas para el Otorgamiento de Créditos a los Trabajadores Derechohabientes del INFONAVIT*, *Diario Oficial de la Federación*, October 29, 1999.

⁸ For more detail on the double-index mortgage, see Chiquier, Loïc, "Dual-Index Mortgages: Lessons From International Practice and Conditions of Development in Poland," p 8-23, and Bernstein, Steven A., "Mortgage Design in Mexico: Balancing Cash Flow and Borrower Affordability," p 24-32, *Housing Finance International*, September 1998.

⁹ Rule 21, from *Reglas para el Otorgamiento de Créditos a los Trabajadores Derechohabientes del INFONAVIT*, *Diario Oficial de la Federación*, October 29, 1999.

¹⁰ Rule 14, from *Reglas para el Otorgamiento de Créditos a los Trabajadores Derechohabientes del INFONAVIT, Diario Oficial de la Federación*, October 29, 1999.

¹¹ Rule 9, from *Reglas para el Otorgamiento de Créditos a los Trabajadores Derechohabientes del INFONAVIT, Diario Oficial de la Federación*, October 29, 1999.

¹² Rule 24, from *Reglas para el Otorgamiento de Créditos a los Trabajadores Derechohabientes del INFONAVIT, Diario*

Oficial de la Federación, October 29, 1999.

¹³ Rule 13, from *Reglas para el Otorgamiento de Créditos a los Trabajadores Derechohabientes del INFONAVIT, Diario Oficial de la Federación*, October 29, 1999.

¹⁴ *XXVII Anual Report of 1998*, Instituto del Fondo Nacional de la Vivienda para los Trabajadores, April 1999.

¹⁵ *Boletín Estadístico de Banca Múltiple*, Comisión Nacional Bancaria y de Valores, December 1998, Volume XLIV, No. 584.

¹⁶ *XXVII Anual Report 1998*. Instituto del Fondo Nacional de la Vivienda para los Trabajadores, April 1999.

¹⁷ *Boletín Estadístico de Banca Múltiple*, Comisión Nacional Bancaria y de Valores, March 1999, Volume XLV, No. 585.

¹⁸ In *Programas de Labores y Financiamiento 1999*, INFONAVIT, published December 1998, the goal was to grant 160,000 mortgage credits in 1999.