

The housing finance system in Mexico

By Jesus Rodriguez Montero

MEXICO'S estimated 84 million inhabitants occupy a country which has an area of 1,967,200 sq km. In 1960, half the population was living in urban areas, but today the proportion is over 71%. The Mexican economy, which during the three decades following the Second World War recorded a good set of economic indicators, is currently facing problems of recession and inflation, as are being experienced in other developing countries.

The growth rate of the gross domestic product, accumulated over the period 1980 to 1987, was only 6.8%, a figure far lower than the population growth rate over the same period, resulting in a contraction in the gross domestic product *per capita*, which dropped by 10.5% during this period.

In 1987 the gross domestic product grew 1% in real terms, not enough to compensate for the population growth of 3% per annum, or to counterbalance the 4% decrease in economic activity during 1986. Employment improved slightly, with the urban unemployment rate dropping from 4.3% to 4.2%. However, the workers' purchasing power decreased, to judge from the minimum wage index, which dropped from 64.9 to 55.9.

The inflationary process continued to exert pressure on Mexico's economy — a country which in previous decades had developed in a context of relative price stability; in 1987 inflation was at 143.6%, far higher than the rate of 105.7% recorded in 1986.

The economic background reflects

The housing finance system

Housing Finance in Mexico is based on the activity of multiple range banking and the use of resources derived from specific funds.

Year of Creation	Funds
1960	Fondo de la Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado de Mexico — (FOVISSTE) (Housing Fund of the Institute of Social Security and Services of State Workers of Mexico).
1963	El Fondo de Operación y Descuento Bancario a la Vivienda — (FOVI) (Fund of Operation and Bank Discount for Housing).
1963	El Fondo de Garantía y Apoyo a los Créditos para la Vivienda de Interés Social — (FOGA) (Fund for the Guarantee and Support of Low-Income Housing Credit).
1972	El Instituto del Fondo Nacional de la Vivienda para los Trabajadores de Mexico — (INFORAVIT) (Institute of the National Fund for Housing for the Workers of Mexico).
1981	El Fideicomiso de Habitaciones Populares de Mexico (FONHAPO) (Popular Housing Trust of Mexico).

a difficult situation characterised by a decrease in the productive process and in the population's purchasing power during the present decade, a situation which is not favourable for positive developments in the housing area.

Aspects of the housing problem

The Tenth General Census of Population and Housing revealed a housing deficit of 4.5 million units, apparently indicating that approximately one-third of the population faces problems of this nature; these

figures do not consider the number of units that need to be built to replace dilapidated units.

The high rate of population growth, the concentration of the population in urban areas, mainly in the city of Mexico which in 1985 held 22% of the total population, and the effects of the inflationary process on the population's purchasing power are the main characteristics of the problem. The funds assigned in the Budget to the housing sector, although slightly increased in real terms, were not sufficient to attend to existing needs.

The operational capacity of funds instituted in the country has decreased, as they have no mechanisms to protect the resources they administer from inflation. The system's limitations in its attention to the demand of a growing population urgently needing to solve its housing problem has favoured the development of "informal" markets and the proliferation of irregular human settlements.

To these problems should be added the effects on the sector of the 1985 earthquake, which called for the design of a special reconstruction programme directed to low-income families who had been renting housing in the affected zone.

Mexico's various housing funds are as follows:

FOVISSTE

This fund originated in the activities in the field of housing finance carried out by the General Directorate of Civil and Retirement Pensions, activities which were assumed in

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1960 by the Institute of Social Security and Services of State Workers.

The main characteristics of the fund are:

- a) *Objectives:* To promote financing systems which will be accessible to the workers to enable them to solve their housing problems.
- b) *Resources:* Contributions from public entities and organisations for the equivalent of 5% of the basic salaries and wages of the workers; acquired goods and rights; and the product of investments made with the fund's resources.
- c) *Operations:* Granting of credit for workers' housing; financing of housing programmes; payment of the deposits corresponding to the workers; expenses and investments necessary for the operation of the fund.
- d) *Functioning:* The contributions to the fund are used to build up deposits in favour of the workers; when the latter receive credit for their housing, 40% of the amount of the accumulated deposits is used for the initial payment of the credit and during the loan period.

FOVI and FOGA

Both these funds were created within the Central Bank to support the Housing Finance Programme through the commercial banking system nationwide. Its resources consist of 4.2% of banks' assets.

The objectives of FOVI are principally:

- a) To promote the construction or improvement of low-cost housing, encouraging credit institutions to invest in housing programmes which respond to the economic and social needs of each region and meet the objectives of the National Plan of Urban Development and the National Housing Plan.
- b) To grant financial support to the credit institutions to supplement the financing given by the latter to low-cost housing investments.
- c) To channel resources for the development of public sector pro-

grammes, on the state, federal and municipal levels.

The objectives of FOGA are to compensate credit institutions for the costs of loans made for low-cost housing and to give a more ample guarantee in this operation. FOGA's support is effected in the following ways:

- a) Supplying liquidity in the event of problems for recovering low-cost housing credits.
- b) Giving benefits to the interest rates on these operations.
- c) Reducing the premiums of life insurance, disability insurance against damages to the building which those acquiring the housing have to take out.

INFONAVIT

The National Housing Institute for workers was created by law on April 24, 1972, in response to a long-standing wish to give housing to employees and workers in the private sector. INFONAVIT was created as an autonomous corporation with tripartite administration, state, workers and entrepreneurs, and its aim was to promote, nationwide, financing systems which would enable the workers to obtain cheap credit, in sufficient amounts to solve their housing problems.

The resources of the fund consist of the contribution of the employers for an amount equivalent to 5% of the payroll; yields obtained from investment of the resources; contributions, services and subsidies given by the Federal Government; and any goods and rights it may acquire.

Operations consist of giving workers loans for the acquisition and construction of housing; the financing of housing programmes for workers, investment in real estate, as deemed necessary for the functioning of the Institute.

FONHAPO

The Popular Housing Trust (FONHAPO) was created in 1981 with

the objective of helping to lessen housing problems in those sectors of the population with lower incomes.

The Banco Nacional de Obras y Servicios Públicos — BANOBRAS (National Bank of Public Works and Services) acts as trustee for this fund. The fund's resources come from the contribution of The Federal Government, income from the administration of the institution's equity, the recovery of credit granted, and any loans it may obtain.

The fund finances the following kinds of programme:

- a) Constitution of territorial reserves, opened by governments of federative entities and municipalities.
- b) Land plots and services for land development including community and individual services.
- c) Progressive housing for the building of a basic unit of services and a multiple-use habitable space for gradual development.
- d) Improved housing for the improvement, extension and structural rehabilitation of existing housing, and for the introduction of urban services in popular settlements.
- e) Finished housing, for specific cases.

The financing is given on a general basis, not individually; under these conditions, the beneficiaries are duly constituted organisations from the public, social and private sectors. FONHAPOS's purpose is to channel the majority of its financial resources towards the non-salaried sector of the population which receives income less than 2.5 times the minimum wage in force. Credits contemplate preferential interest rates at levels far lower than commercial interest rates or the inflation rate.

Present housing policy

The present Government of Mexico has been developing a set of actions designed to improve the sector's systems of administration and financing. Among these, the following should be mentioned:

- a) The design of a new institutional

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framework for planning, budgeting and supervising a public investment in housing, with the new Federal Housing law of 1984.

- b) Raising public investment in housing, in real terms, from 13% to 20%.
- c) The execution of special programme, additional to those already approved in the budget.
- d) Reducing distortions and inefficiencies in the assignation of resources originating in the operational mechanisms of financial funds.

The efforts of the government will not be sufficient unless progress is made simultaneously on other fronts regarding the housing problem. This would include: strengthening housing organisations and adapting them to the prevailing economic conditions; the implementation of mechanisms which would permit financing the construction of housing with funds obtained from that same sector; seeking alternatives to incentivate private investment in housing, in accordance with established norms.

As regards strengthening and adapting housing organisations, the high levels of inflation and cost of the resources are making it increasingly difficult to give credit to housing under low-cost conditions. Also, the high interest rates in force on the financial market have substantially increased the opportunity cost of the funds which are channelled on preferential terms. However, the persistent imbalance between housing prices and the low income levels of most of the population mean that any adaptation to be carried out by housing organisations with regard to interest rates, amortisation dates, and credit guarantees for beneficiaries, should not be too ambitious. A significant advance, in spite of this restriction, would be to achieve adequate co-ordination between the different organisations, enabling the greater volume of subsidies to be applied to the neediest sectors.

The strengthening of these organisations should come from an exten-

sion of their financial basis, with financial products resulting from investments in the productive process of housing, such as the mass commercialisation of public land.

The implementation of new mechanisms to attract funds, and new ways of organising investment and small savings, will make it possible to attract a greater volume of the surplus resources on the domestic market which, due to their polarisation, do not have a favourable impact on the channelling of credit to this sector.

As for new alternatives and incentives to promote private investment in housing, significant factors would be the arrangements needed to make it attractive to invest in leasehold housing, as well as tax incentives and promotional prices and tariffs. According to the Tenth General Census of Population and Housing, out of a total of 12.2 million existing housing units, the occupants of 4.5 million units are not the owners. In the past few years, housing construction for these purposes has given way to constructions designed to be sold as condominium housing.

Important progress has been made on lowering construction costs. Proof of this is the fact that under present conditions the construction price index and that of low-cost housing have been maintained below the levels of the National Consumer Price Index. However, in order to bring the opportunity of obtaining housing to a larger number of people, there should be continued co-ordination for the production and sale of housing materials; the development of stocks of materials on the regional level and the multiple acquisition of same, to avoid any kind of speculation on the part of intermediaries.

Finally, in order that the housing policy may result in human settlements with the necessary urban equipment and public utilities, which will help avoid the counter-economy of agglomerations, produced by

excessive urban concentration, it is necessary to insist on the promotion of an integral and balanced urban development.

In the recent past, the funds assigned to the promotion of urban development were neither sufficient in their amount, nor efficient in their assignation. This situation was made even worse by the financial incapacity of local governments, excessive centralisation in decision-making, and the lack of plans, programmes or projects on the regional level. As a consequence, we are currently faced with a growth out of all proportion in certain areas of the country, an enormous concentration of the population in few cities, and great dispersion of a reduced part of the population in rural areas.

In response to this problem, various modifications have been made and initiatives added to legal texts governing the community life of human settlements. Decisions have been made allowing the municipalities on the one hand to obtain the increments generated by the dynamism of urban growth, by means of taxes, tariffs, permits and licences and, on the other hand, create their territorial reserves for housing and the urban industrial equipment for the future.

As regards economic and financial aspects, progress is being made in planning methods at regional and state level, such as the planning for credit selectivity and for a financial policy, which will guarantee greater efficiency in the flow of resources designed to cover the deficits of public utilities. ■

LICENCIADO JESUS RODRIGUES MONTERO works for the Banco Nacional de Obras y Servicios Públicos (Mexico's National Bank of Public Works and Services). This paper is based on a presentation given at the third meeting of ALIDK's technical committee on construction and housing finance and is reproduced from Magazine No 128, published by the Inter-American Housing Union, Lima, Peru.