

Real Estate Credit in Brazil

Sound Housing Finance Around the World



JOINT CONGRESS



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Vienna, Austria
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Agenda

- 1 - Introduction**
- 2 - Economic Scenario**
- 3 - Real Estate Credit in Brazil**
- 4 - Default Rates**
- 5 - Sources of Funding**
- 6 - Banking Sector/ Marketing**
- 7 - Conclusion**

ABECIP

Founded

1967

Mission

To contribute to building a solid and stable real estate credit system

Purpose

To foster the enhancement of the Housing Finance System and the Brazilian Financial System



Brazil

- ✓ Land area: 8,5 million km²
(5th largest land area)
- ✓ Population: 191 million
- ✓ 2012 GDP: R\$ 4,40 trillion
- ✓ Urban population: 84.4%
- ✓ Population growth:
2000 to 2010: 1.2% p.a.
- ✓ Number of households: 67,6 million

Economic Scenario

Pre-1994

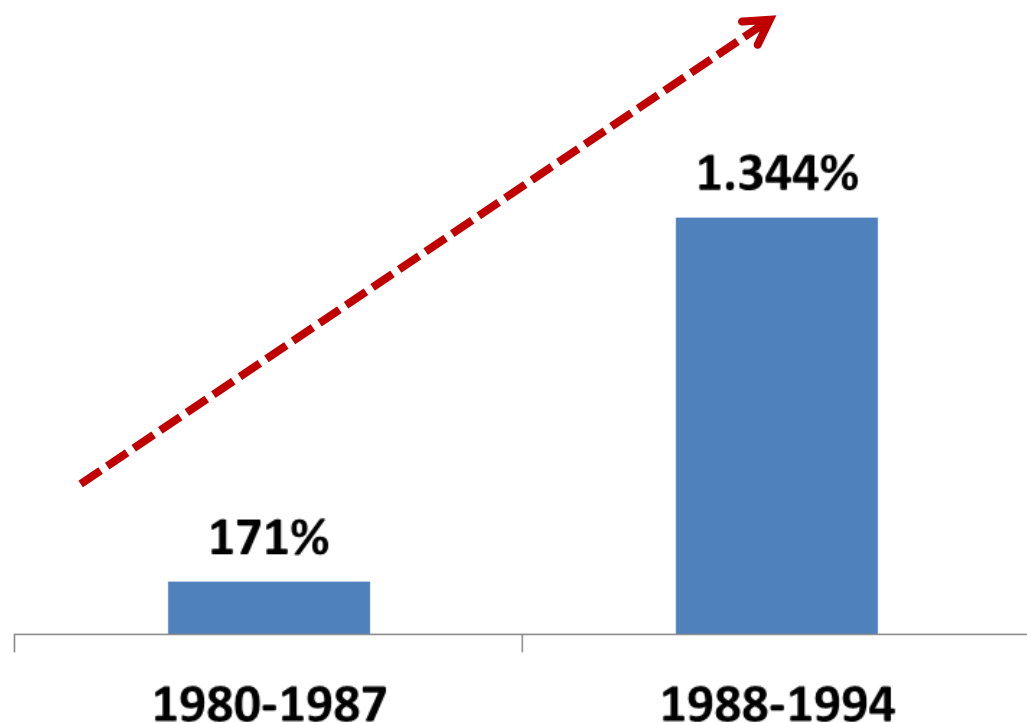
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Post-1994

Pre-1994:

- Monetary instability
- Legal uncertainty
- High interest rates
- Low economic growth
- Shortage of credit

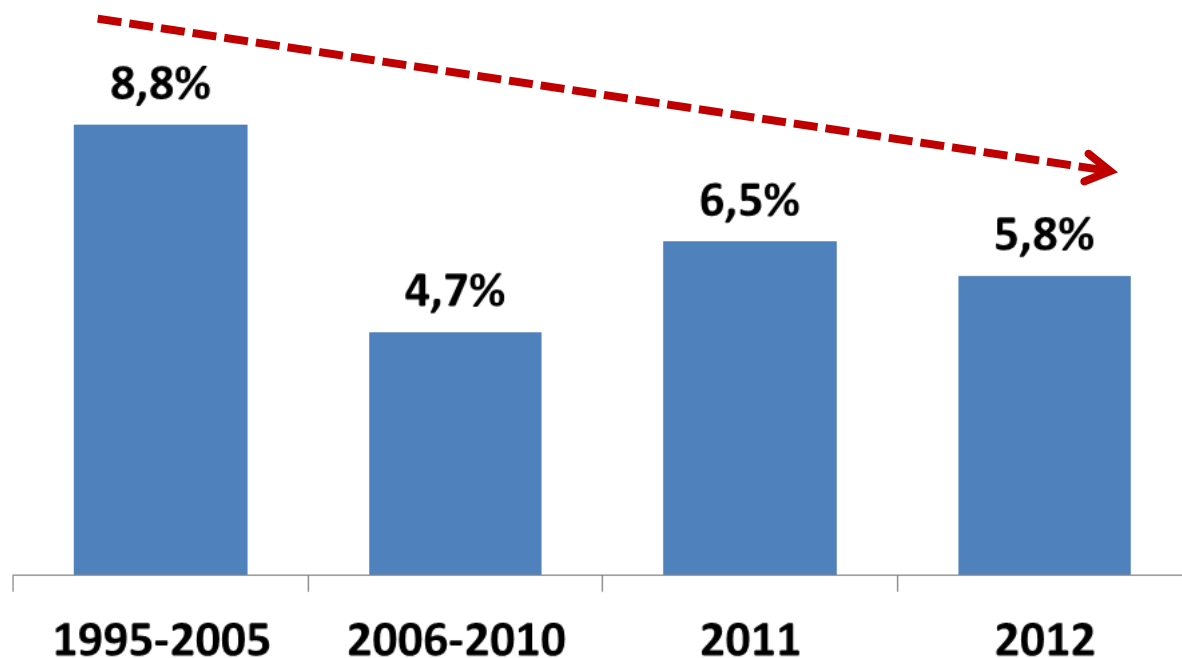
Average annual
inflation



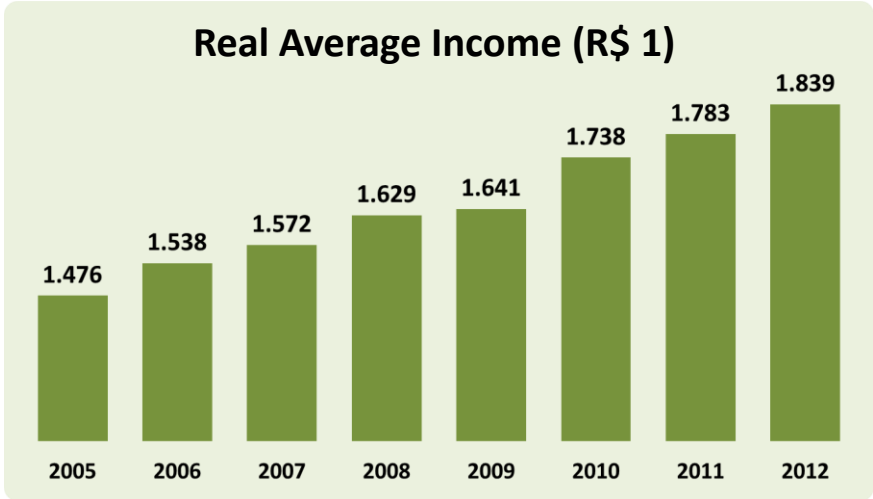
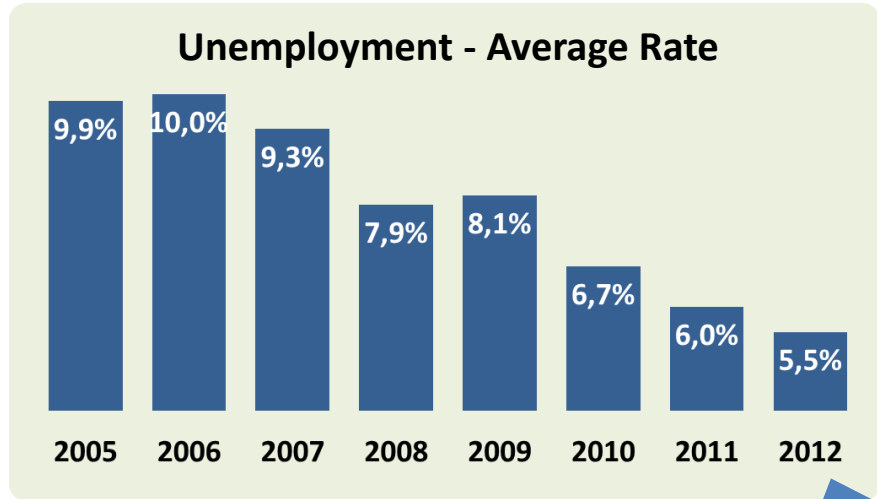
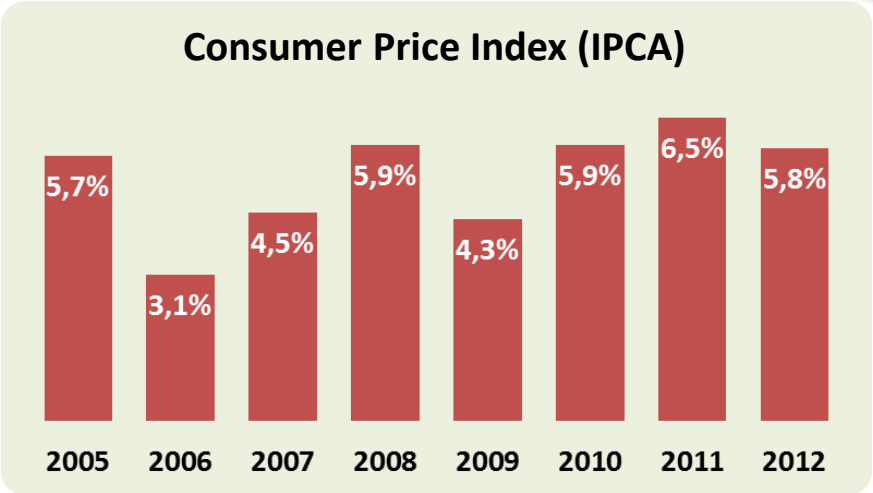
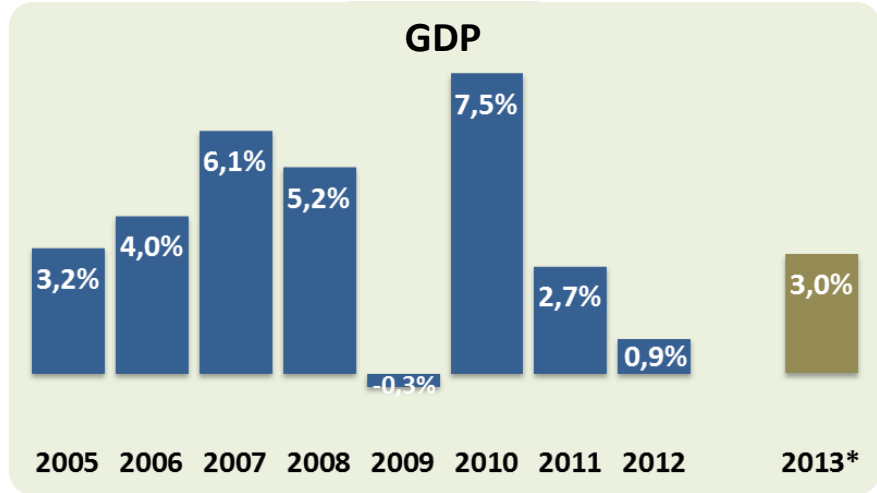
Post-1994:

- Inflation under control
- Legal certainty
- Declining interest rates
- Fiscal responsibility
- Economic growth
- Abundant credit

Average annual
inflation



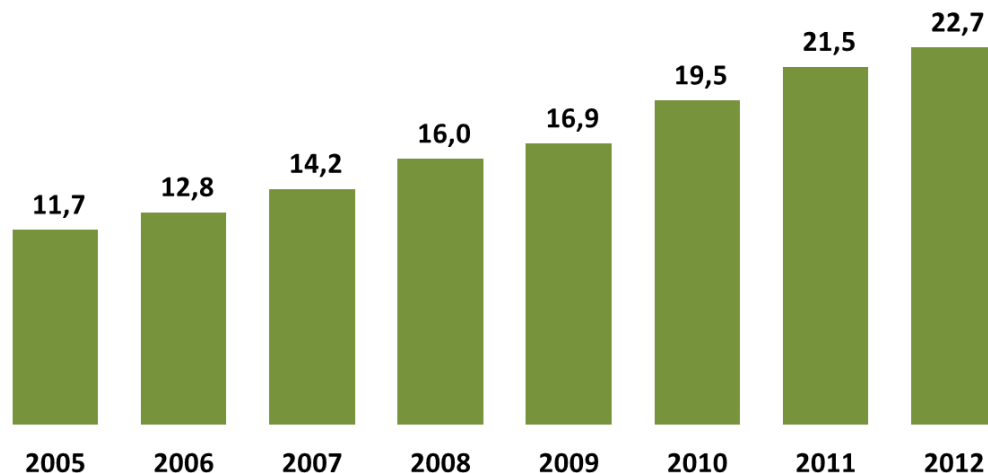
Current Economic Scenario



Lowest historical rate

Source: Brazilian Central Bank and IBGE - Brazilian Census Bureau

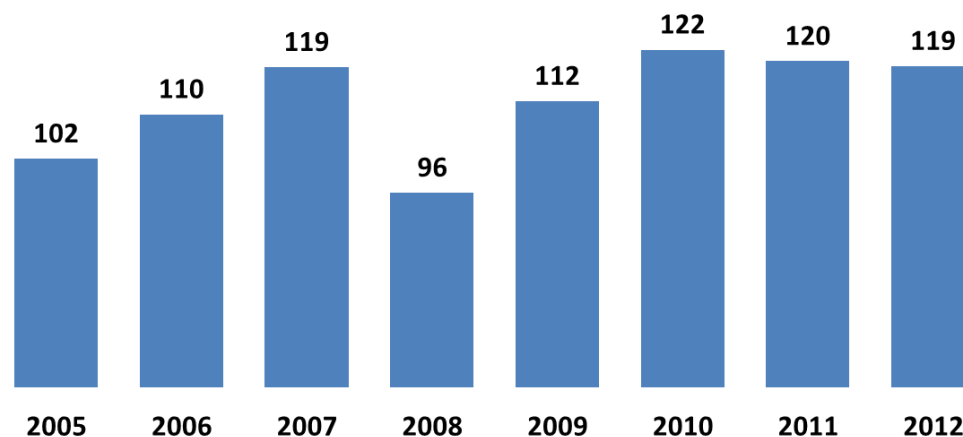
GDP per Capita



GDP per Capita doubled
between 2005 and 2012

Consumer confidence
stable and above the
historical average (113)

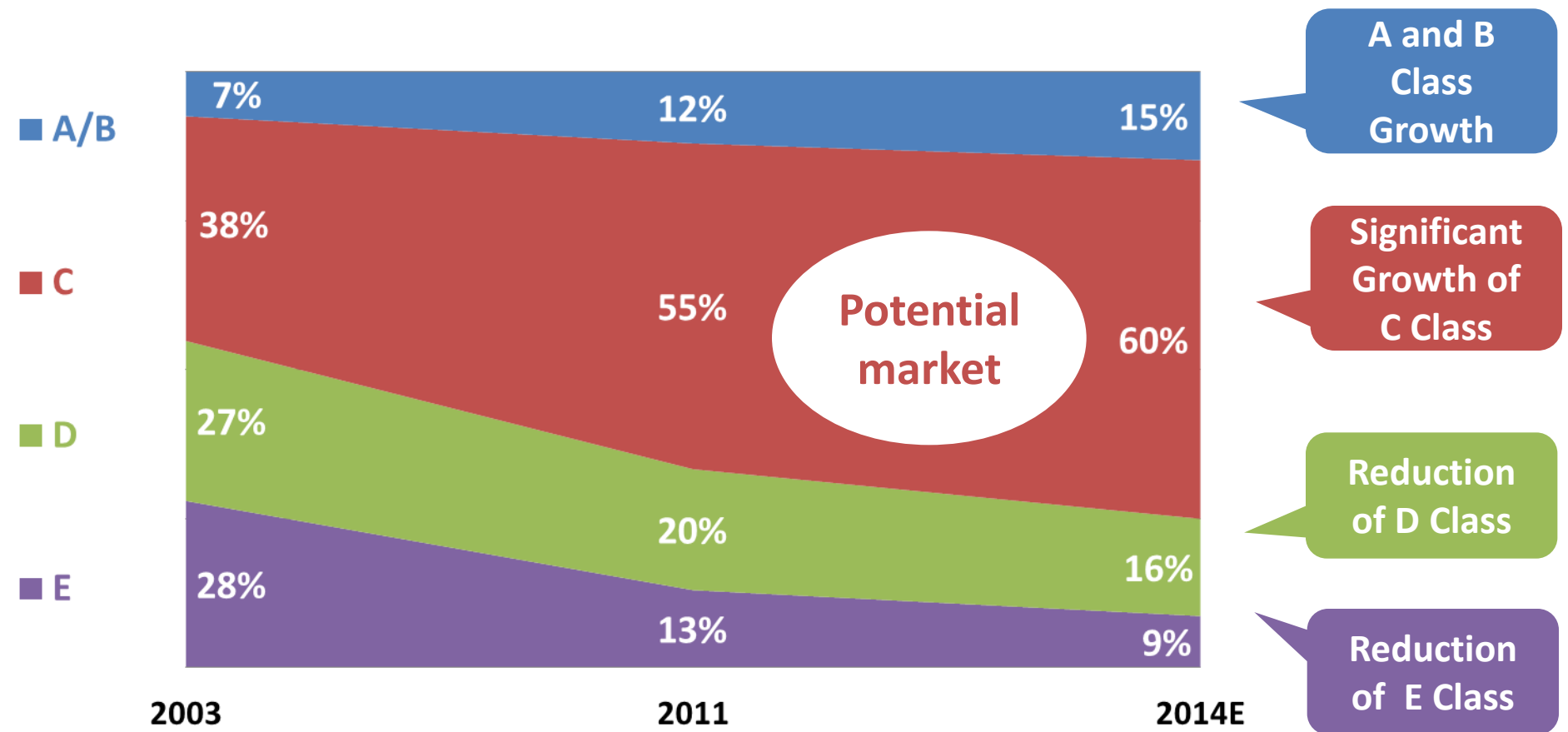
Consumer Confidence Index



Economic Scenario

Positive Spin-off

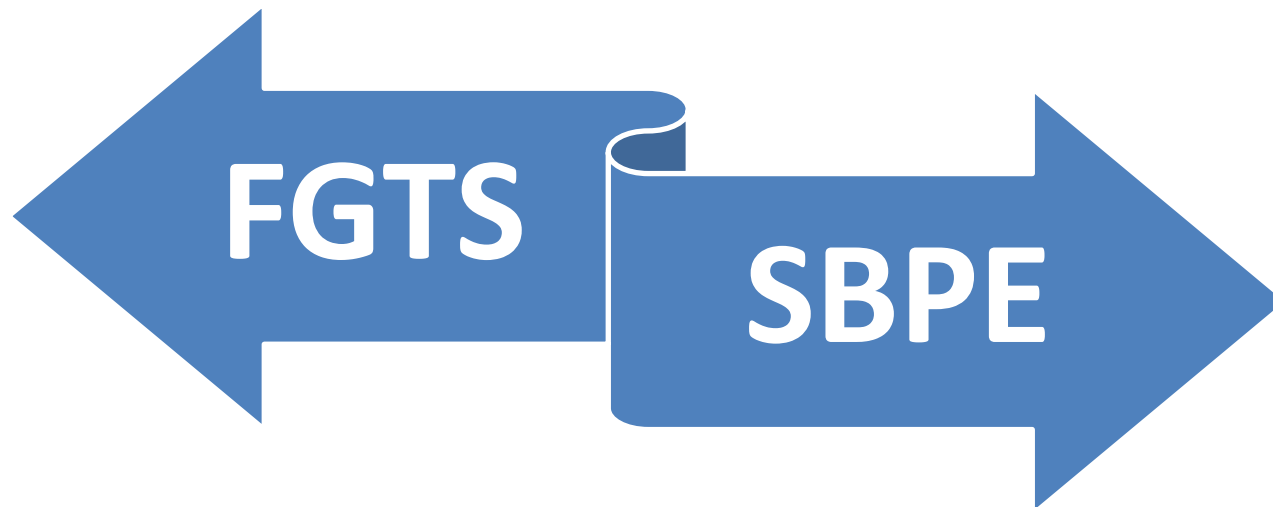
Improved socioeconomic conditions

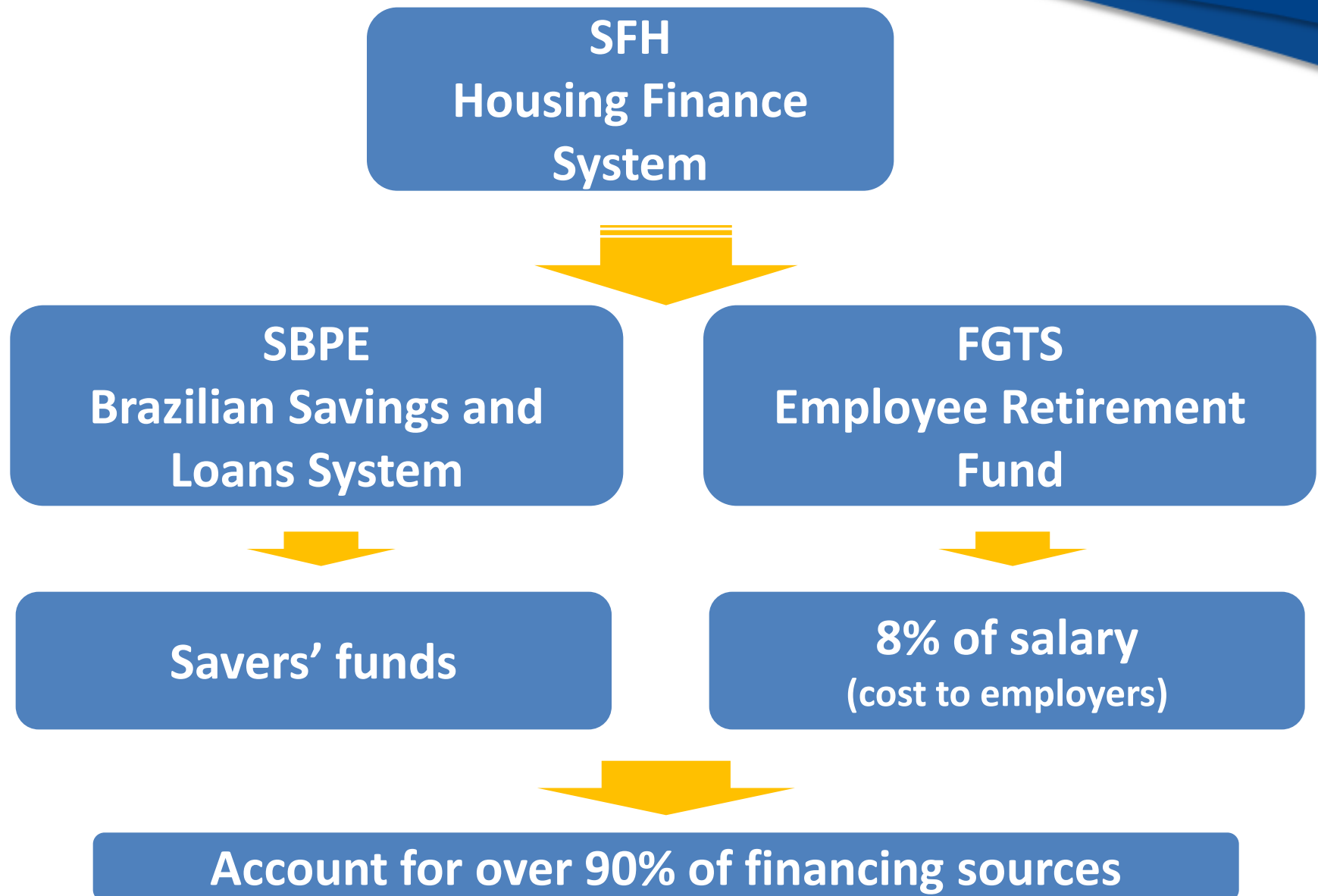


Source: FGV

Real Estate Credit in Brazil

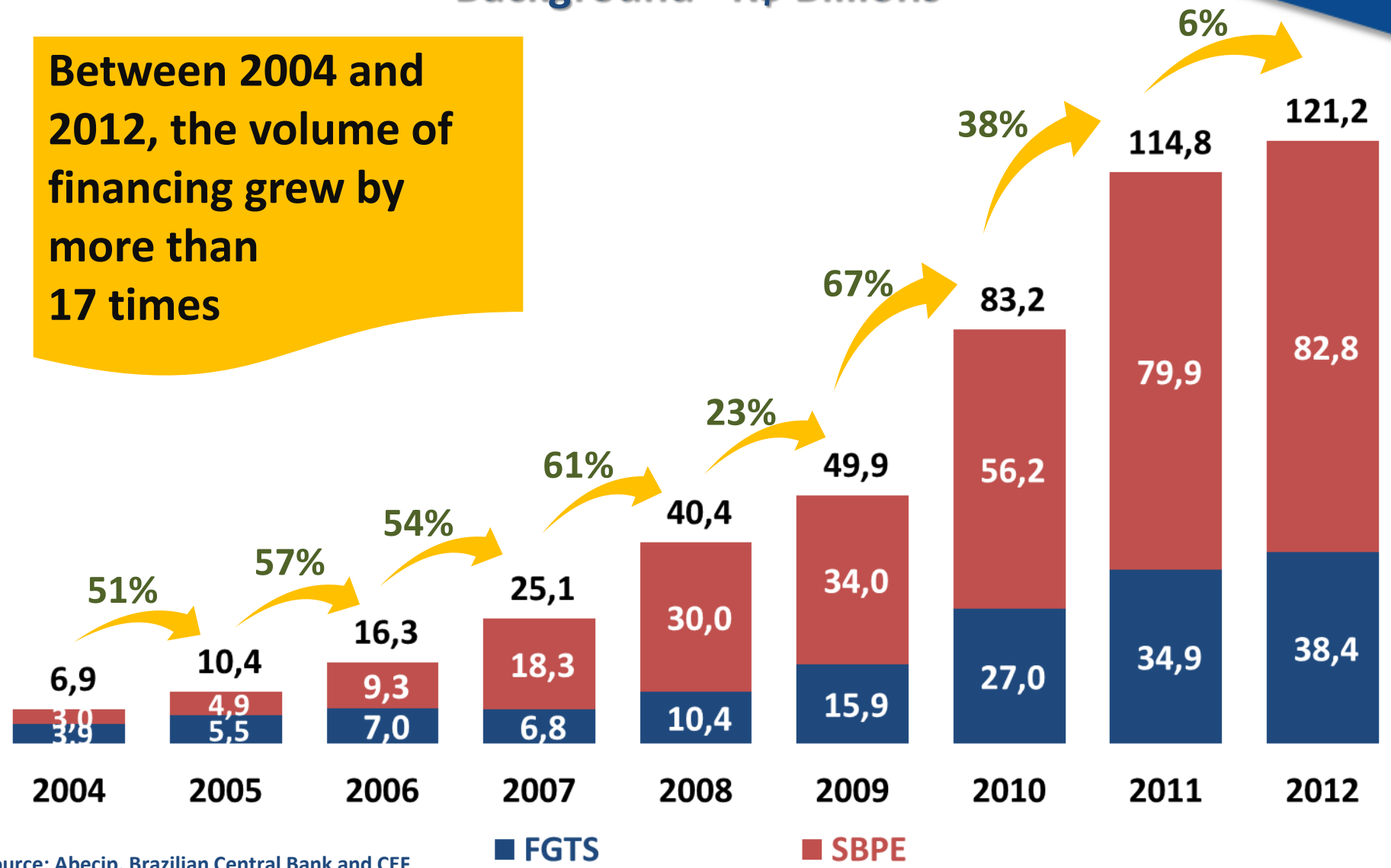
Primary sources of funding





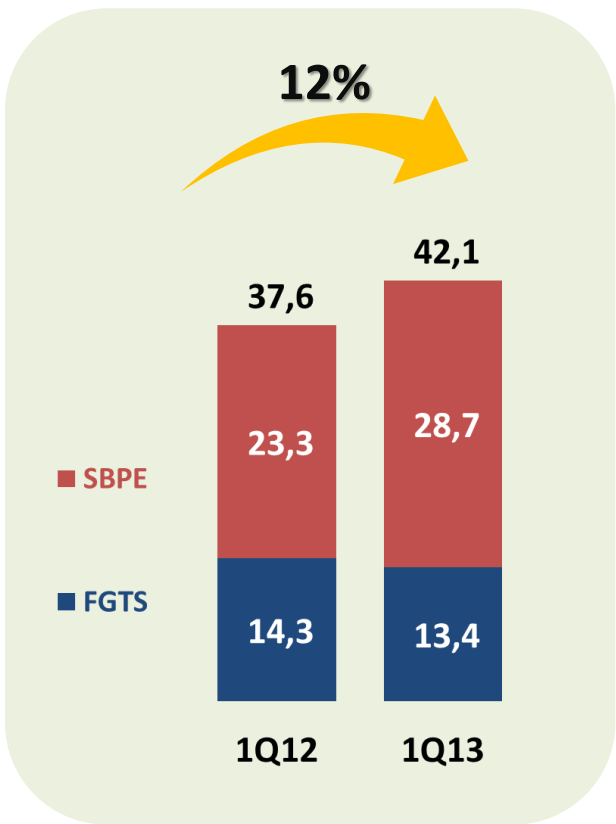
Background - R\$ Billions

Between 2004 and 2012, the volume of financing grew by more than 17 times

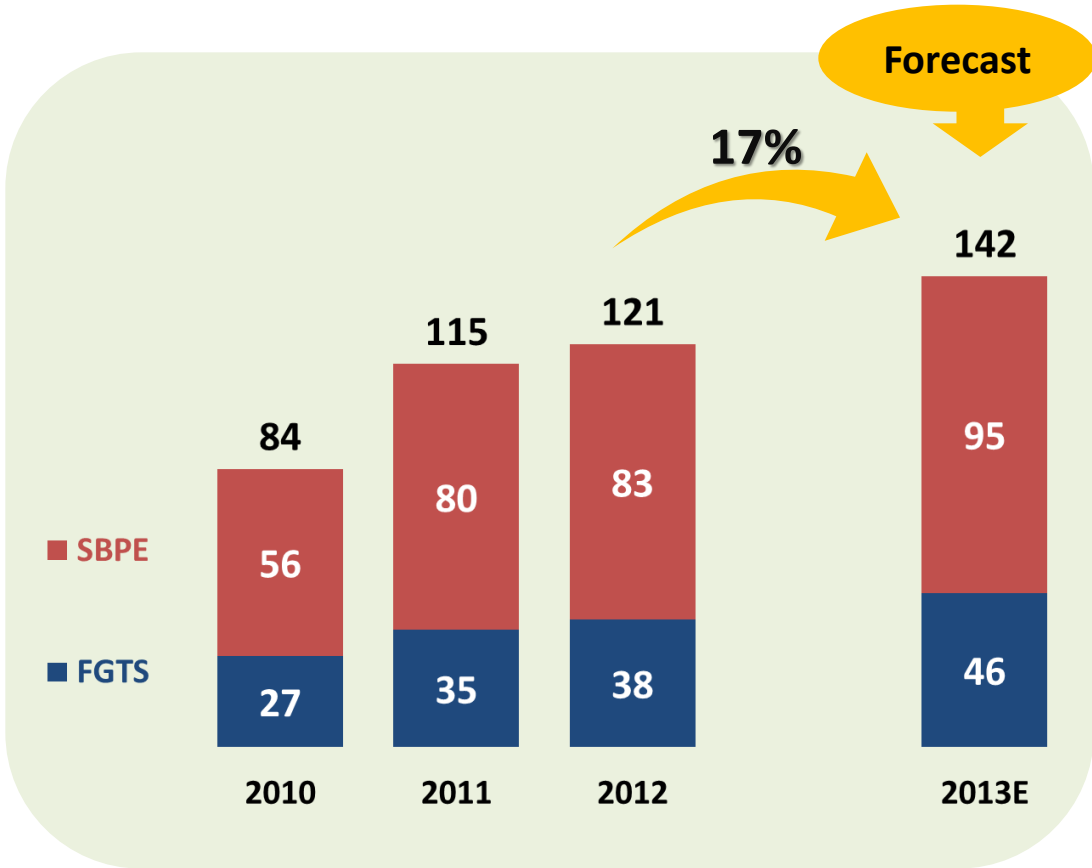


Source: Abecip, Brazilian Central Bank and CEF

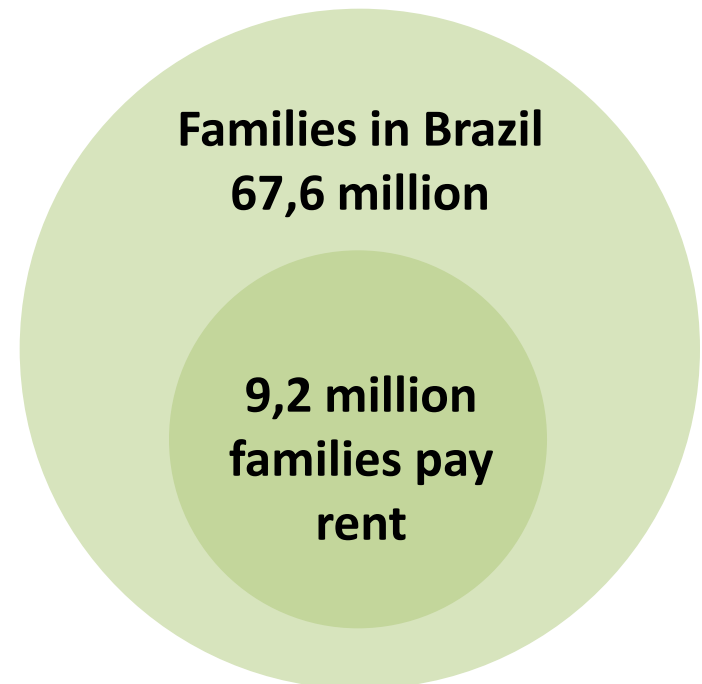
1st Four-Month Period (R\$ Billions)



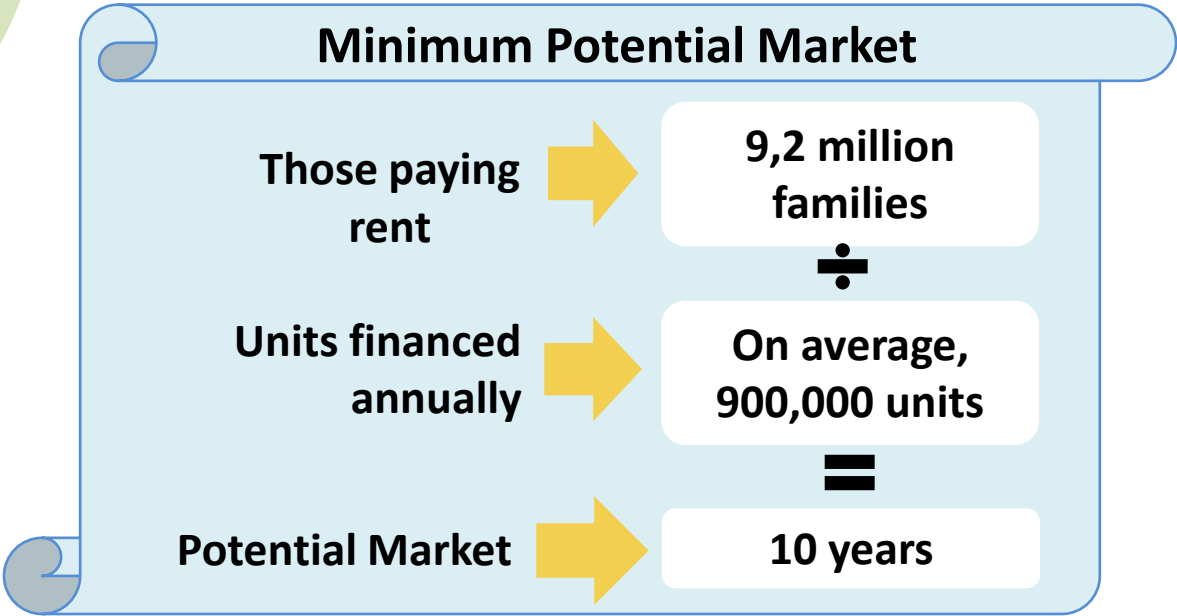
Annual Result (R\$ Billions)



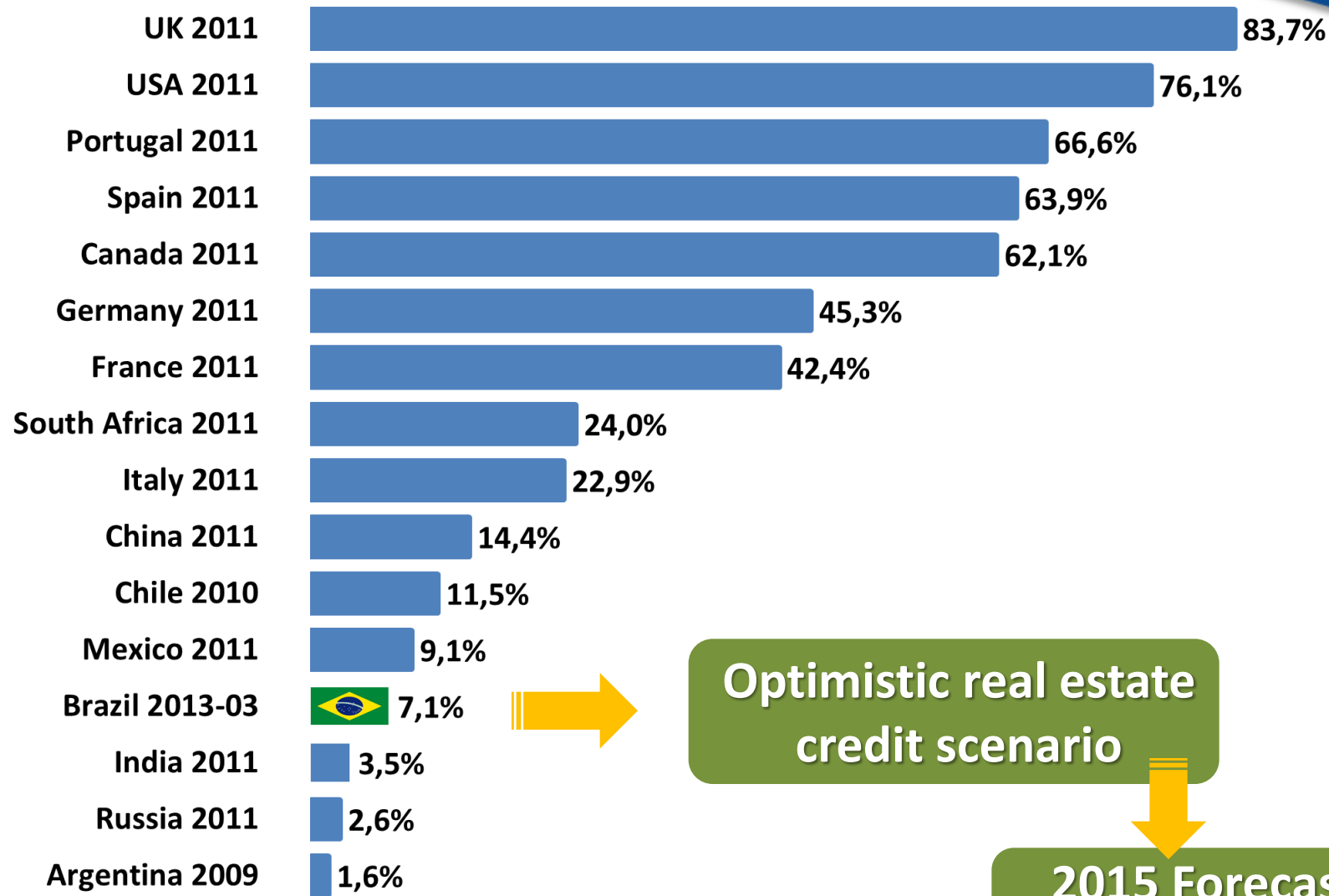
Source: Abecip, Brazilian Central Bank and CEF



Brazil 2011	
Marriages	1,03 million
Divorces	0,28 million
Total	1,31 million



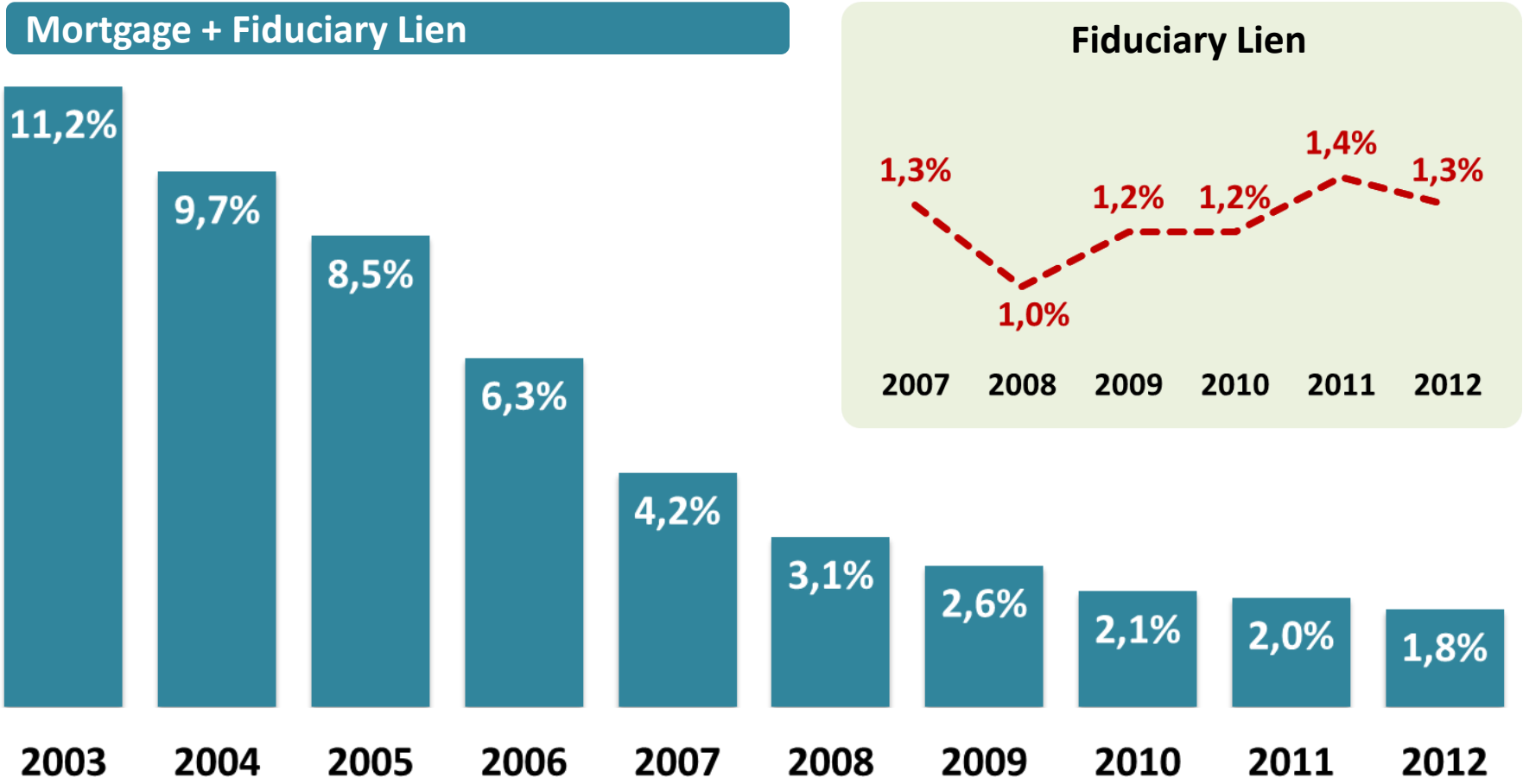
Source: Abecip and IBGE - Brazilian Census Bureau



Source: Abecip and BCB, Hypostat, Felaban and Hfn

Default Rates

Financing funded from Savings Contracts more than 90 days past due (%)



Source: Abecip and Brazilian Central Bank

Reasons for low level of defaults

- ✓ **Maximum income commitment: 30%**
- ✓ **Maximum LTV: 80%**
- ✓ **Average LTV: 64%**
- ✓ **Guarantee: Fiduciary Lien**
- ✓ **Banks are conservative when granting loans**

Sources of Funding for Real Estate Financing

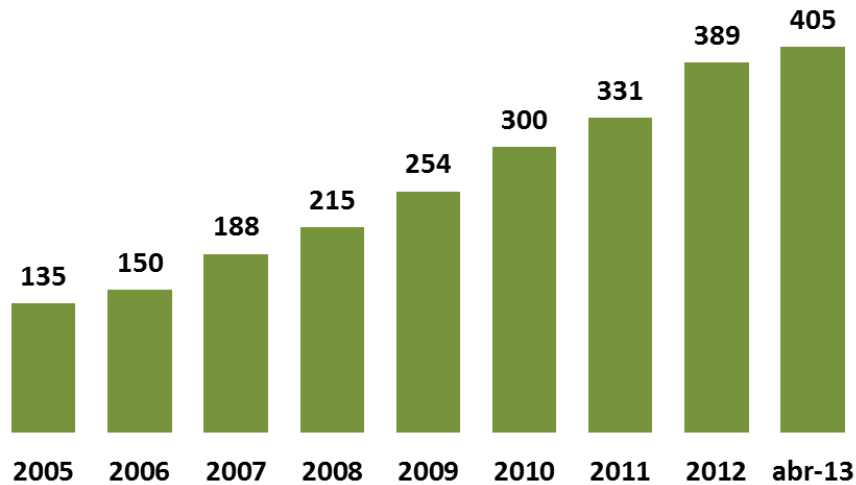
Traditional Sources:

- ✓ **SBPE Savings Accounts**
- ✓ **FGTS (Employee Retirement Fund)**

New Sources:

- ✓ **CRI (Real Estate Receivables)**
- ✓ **LCI (Real Estate Credit Notes)**
- ✓ **Real Estate Investment Funds**
- ✓ **LFI (*Covered Bond*) under development**

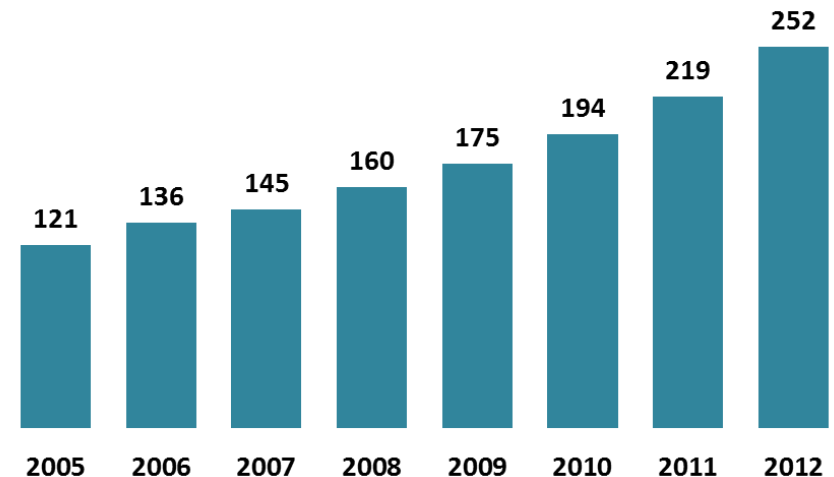
SBPE Saving Accounts



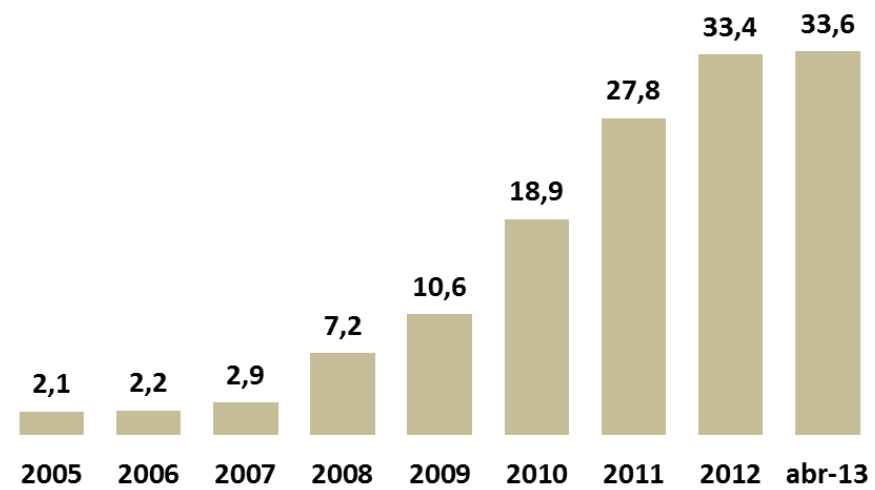
Funding channeled to real estate credit for the middle class

Funding channeled as a priority to the low-income population

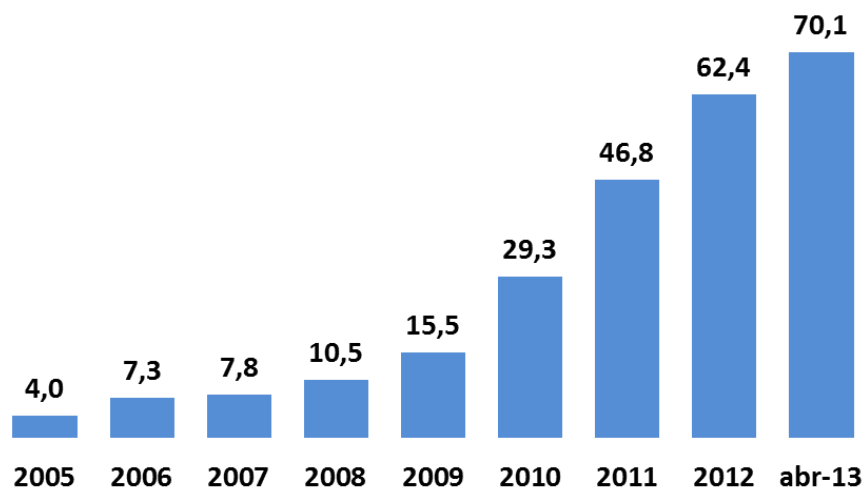
FGTS



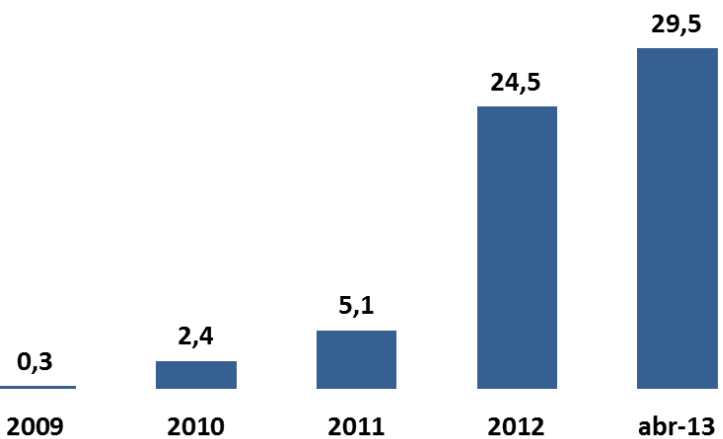
Certificates of Real Estate Receivables



Real Estate Notes

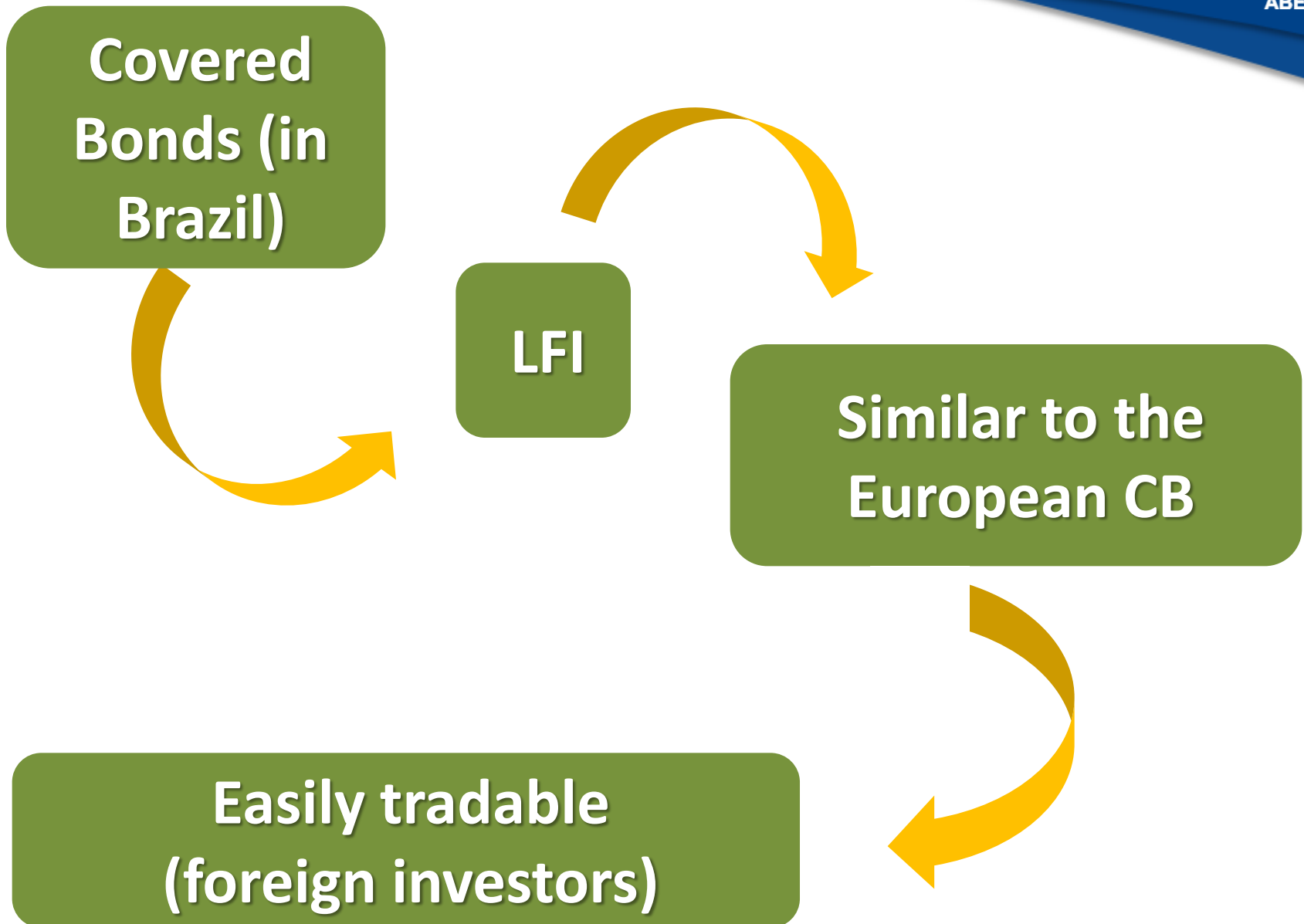


Real Estate Investment Funds



**Covered Bonds
under development**

Source: Abecip, Brazilian Central Bank and Cetip

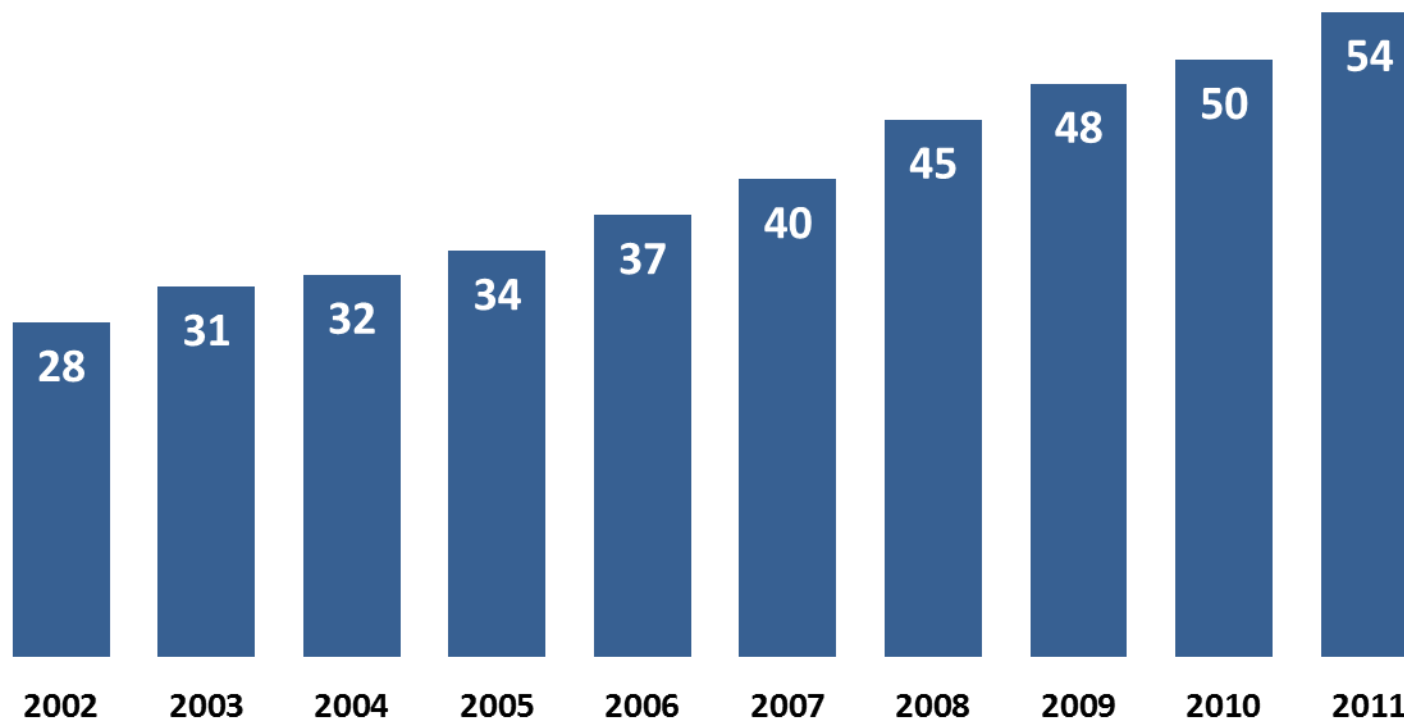


Banking Sector



54 million people in Brazil use banks

- 30% of the total population
- 60% of the economically active population



Increase due to upwardly mobile C and D classes

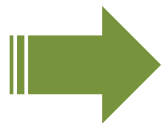
Selected Features

Brazilian banks have nationwide presence

- ✓ **Over 97,000 service outlets (excluding ATMs)**
- ✓ **Extensive use of credit and debit cards**
- ✓ **Used for payment of different types of services, expenses, taxes and utility bills**

Widespread use of electronic services:

- ✓ **Internet, call centers, mobile devices, chat, etc**
- ✓ **Simulation and contracting of loans**
- ✓ **Financial education and the rational use of credit**



Development of strong relationships with clients and insights into their credit behavior

- ✓ **Macroeconomic stability**
- ✓ **Central Bank has huge resources to control and supervise the financial system**
- ✓ **Highly-capitalized banks**
- ✓ **State of the art Financial System**
- ✓ **Brazilian Payment System - Central Bank (SPB)**
- ✓ **High international reserves: US\$ 379 bi (Apr/13)**

Past

- Adverse economic conditions
- Stagnated real estate credit

Present

- Favorable economic conditions
- Real estate credit with much room to grow
- Accounts for only 7.1% of GDP
- Banks focusing on real estate credit

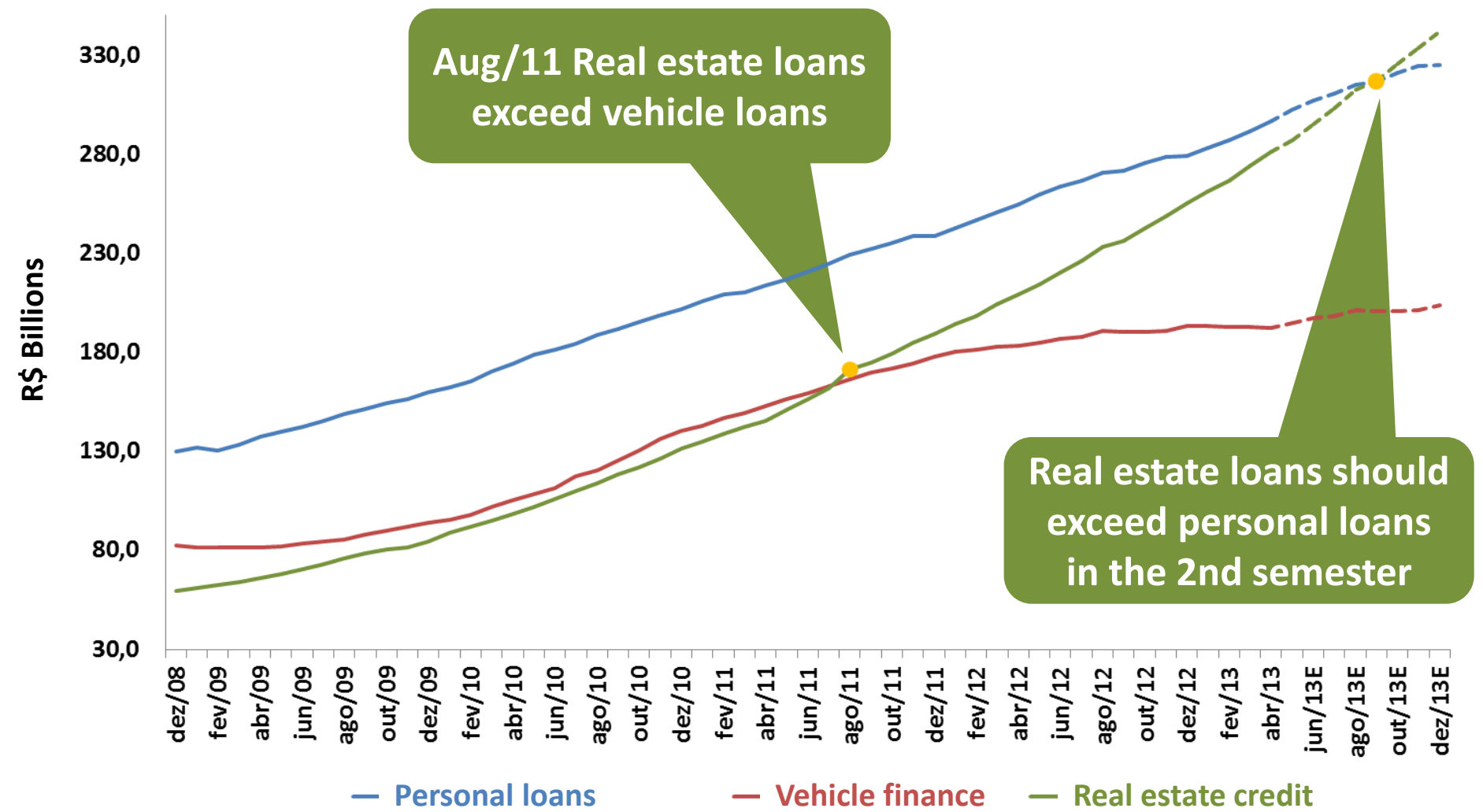
Banks' Strategy

- Construction finance (developers)
- Financing for off-the-shelf units for individuals

Interest in real estate credit

- Low default rates
- Long-term credit ➡ long-term relationship
- Cross-selling

Real Estate, Personal and Vehicle Loans (R\$ billions)



Source: Brazilian Central Bank

Bank Marketing and Modus Operandi

Lower costs and quality of response in real estate credit

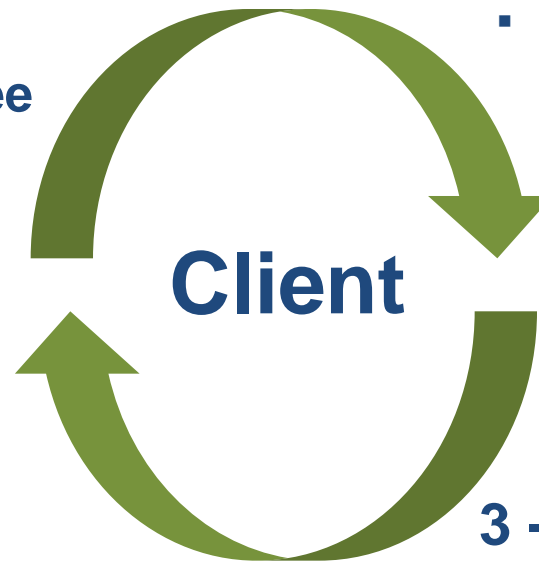
- ✓ **Creating the “document processing plant”**
- ✓ **Rationalizing red tape**
- ✓ **Agility in credit analysis and approval**
- ✓ **CET: Effective Total Cost (BC) “transparency”**
- ✓ **Virtual environment for the entire transaction**
- ✓ **Communications about products and services**
- ✓ **CSU and ombudsman management**
- ✓ **Relationships with consumer protection entities**
- ✓ **Team qualification and alignment**

1 - Prospecting

- Alliances with developers and brokers
- Convenient service
- Pre-assessed guarantee bank
- Integrated business

2 - Offering credit

- Through all channels
- Customized to client's requirements

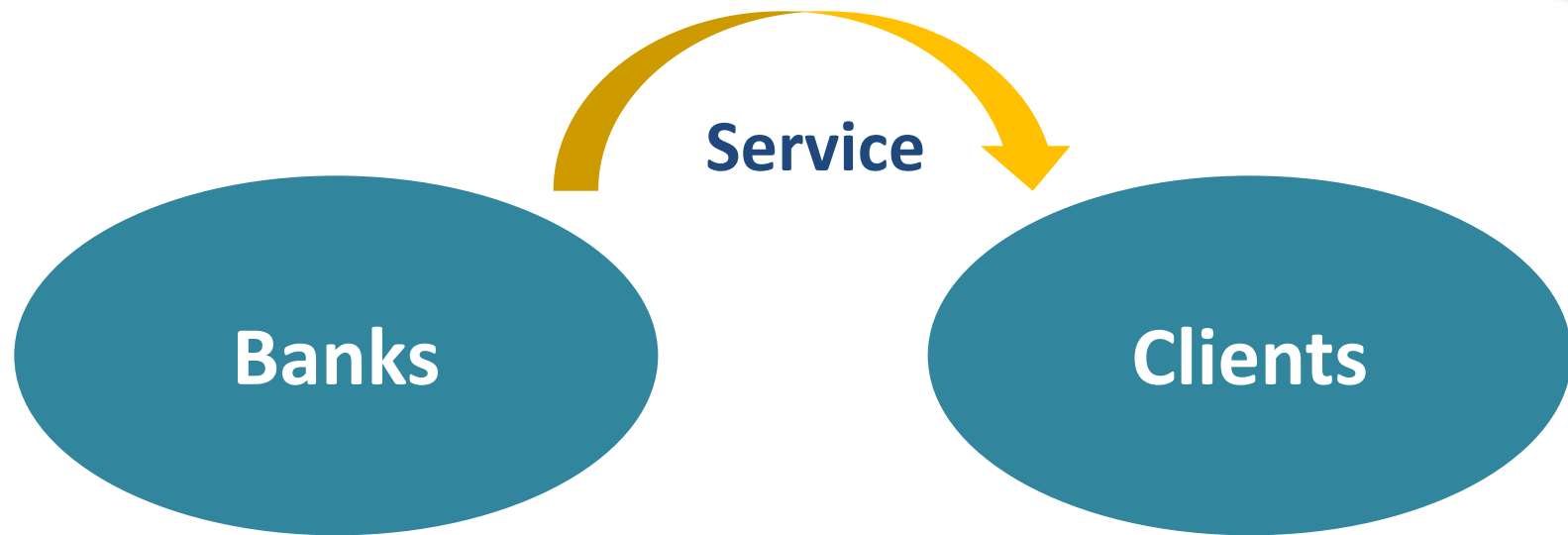


4 - Retaining clients

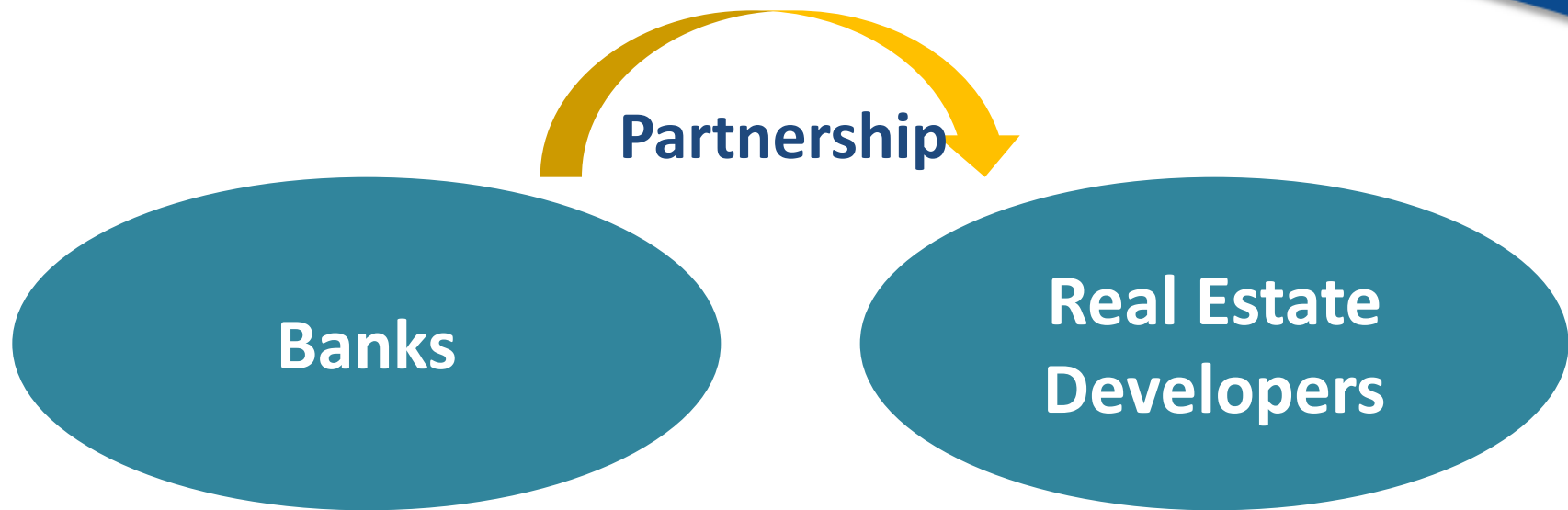
- Customer loyalty
- Incentive schemes in the relationship

3 - Strengthening relationships and making them profitable

- Scheduled approach to offer new business
- After-sales service



- ✓ **Managers and real estate credit specialists who attend to clients in the branches**
- ✓ **Segmentation by income level (differentiated environment)**
- ✓ **Wide availability of branches (capillarity)**

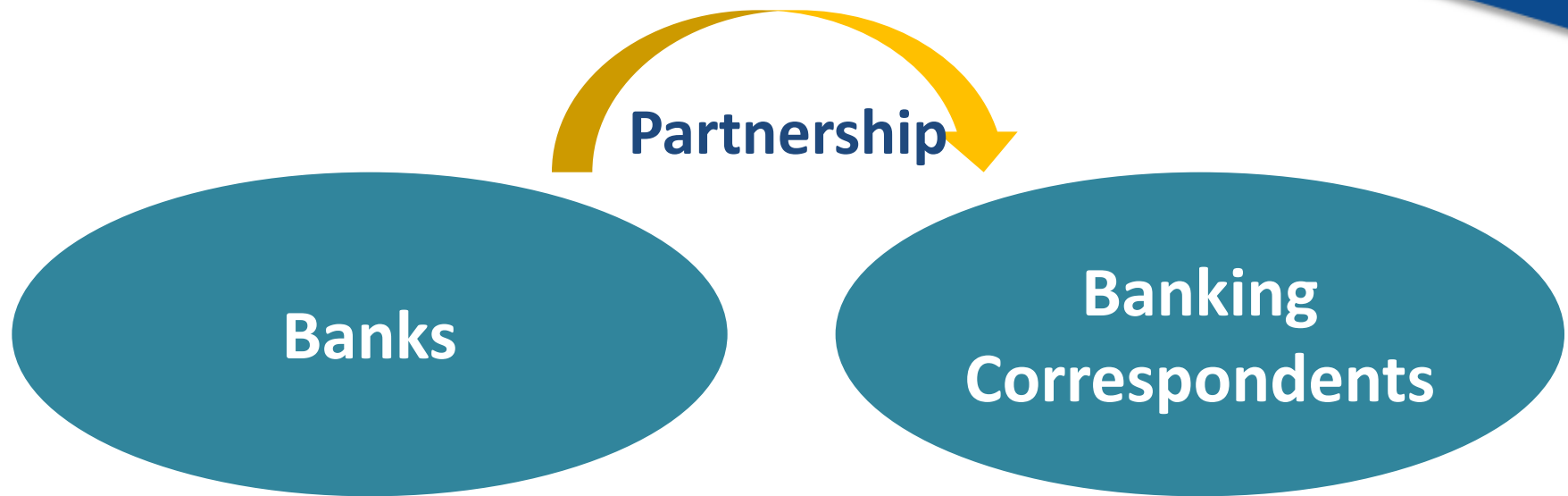


Banks finance:

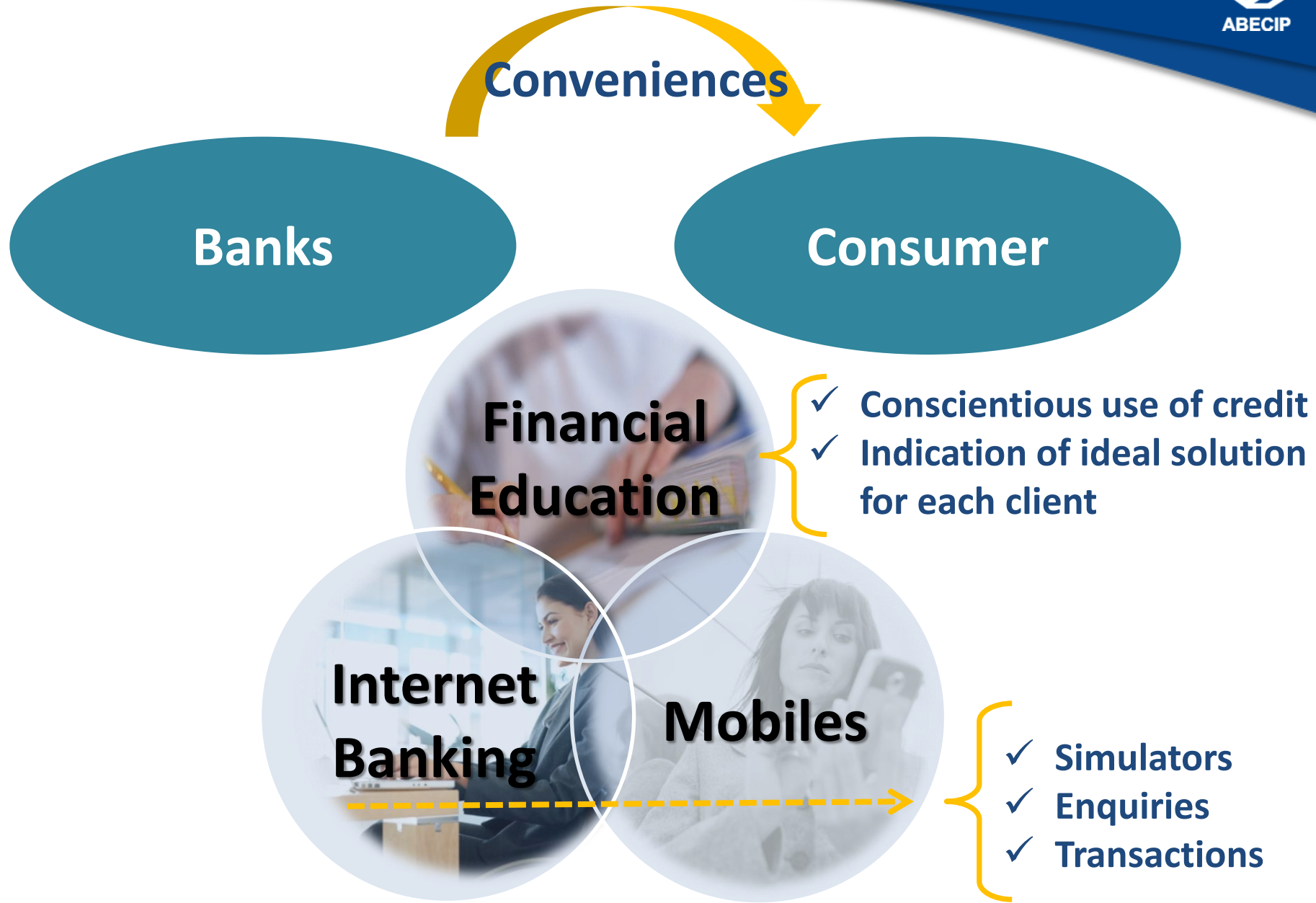
- The developer during the construction phase
- The buyer of the completed property



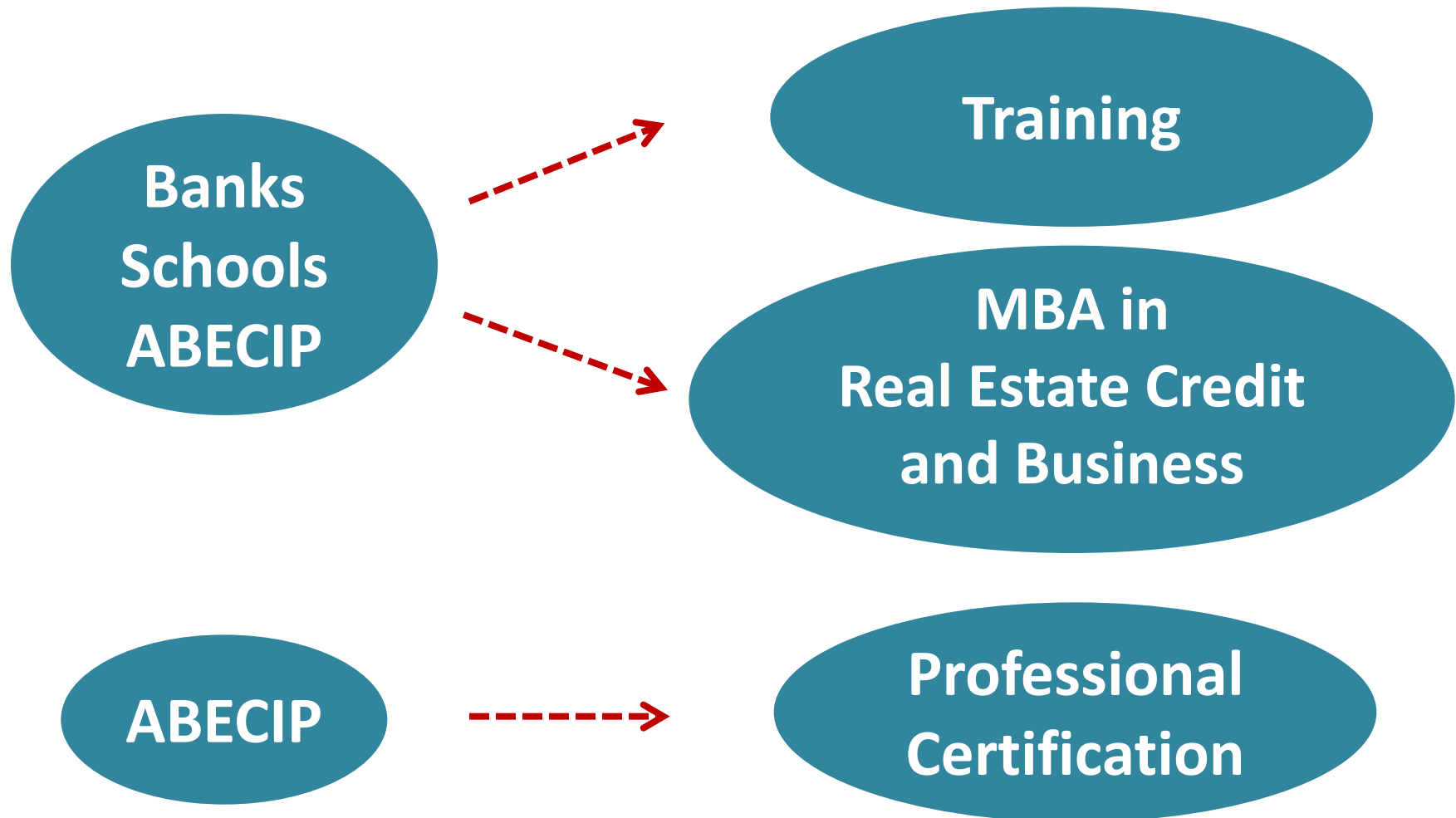
Banks put together teams of real estate credit specialists to attend to clients of real estate companies



- ✓ Banks hire companies to handle the paper work of the credit process (speed of the process)



Professional Qualification



Conclusion

Strong Growth Prospects

Stability of macroeconomic indicators

Optimism with growth of real estate credit

**Real estate credit as a lever for retaining clients
and cross-selling**

Strategy

- Focus on the client**
- Sustainable growth**

Speedy service

Knowledge of the client's credit habits

Qualified service network

Financial education

Easily understood products

Segmentation of customer service



ABECIP

BRAZILIAN ASSOCIATION OF REAL ESTATE LOANS AND SAVINGS COMPANIES

Thank you

Filipe F. Pontual

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