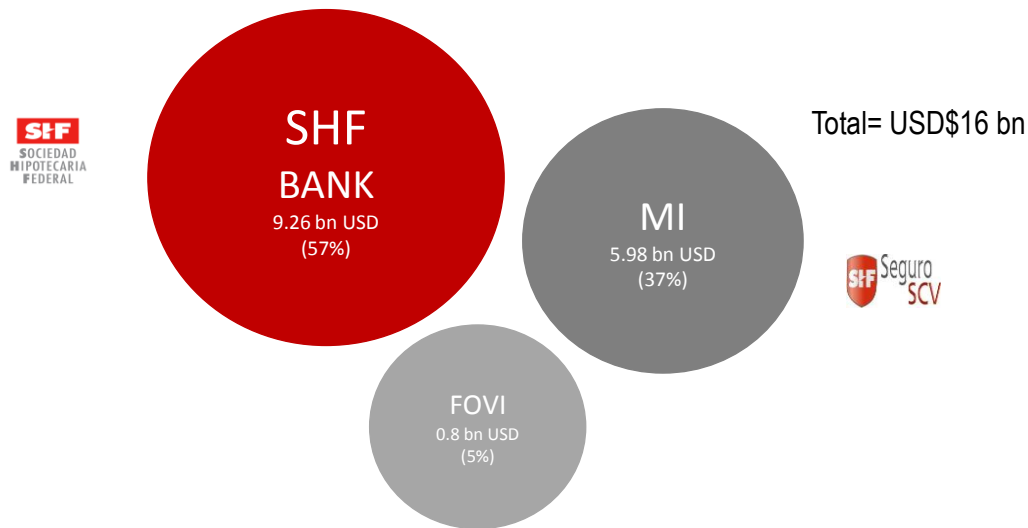


Tackling the housing affordability challenge: *The Mexican experience*

30th IUHF World Congress

Sociedad Hipotecaria Federal (SHF) is a system of 3 entities



SHF services

■ Supply side

- Construction Loans
- Construction Guarantees
- Long term loans (multifamily)

■ Demand side

- Long Term funding
- MI
- Guarantees for securitizations

■ Social Banking

- Social Housing ...mainly rural

Affordability as a concept

A global issue:

Affordability gap: “difference between the cost of an acceptable standard housing unit and what households can afford to pay using no more than 30 percent of income” ¹.

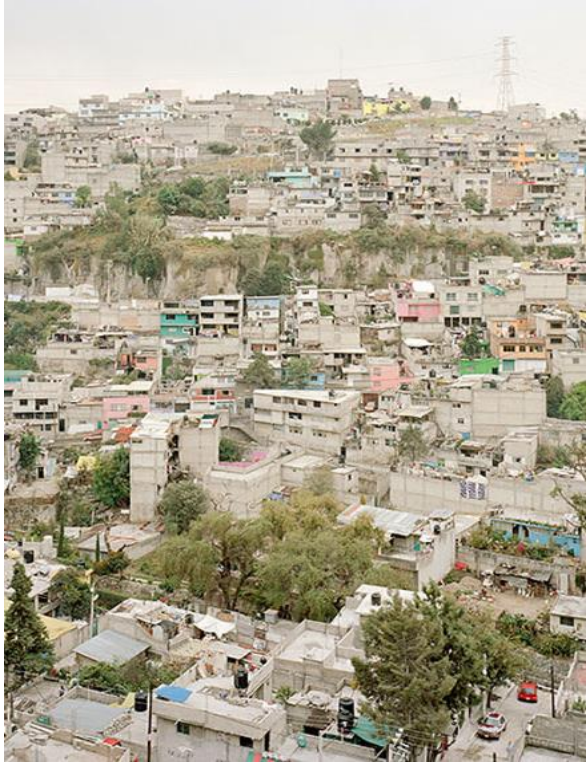
by 2025 the global affordable housing gap would affect one in three urban dwellers, about 1.6 billion people.



Basic stats - Mexico

General information ¹	
Population	119,530,753 hab.
GDP per capita, PPP ³	USD 16,490 (2016)
GDP growth	2.3 % (2016)
Poverty	55.3 mill.
Extreme poverty	11.4 mill.

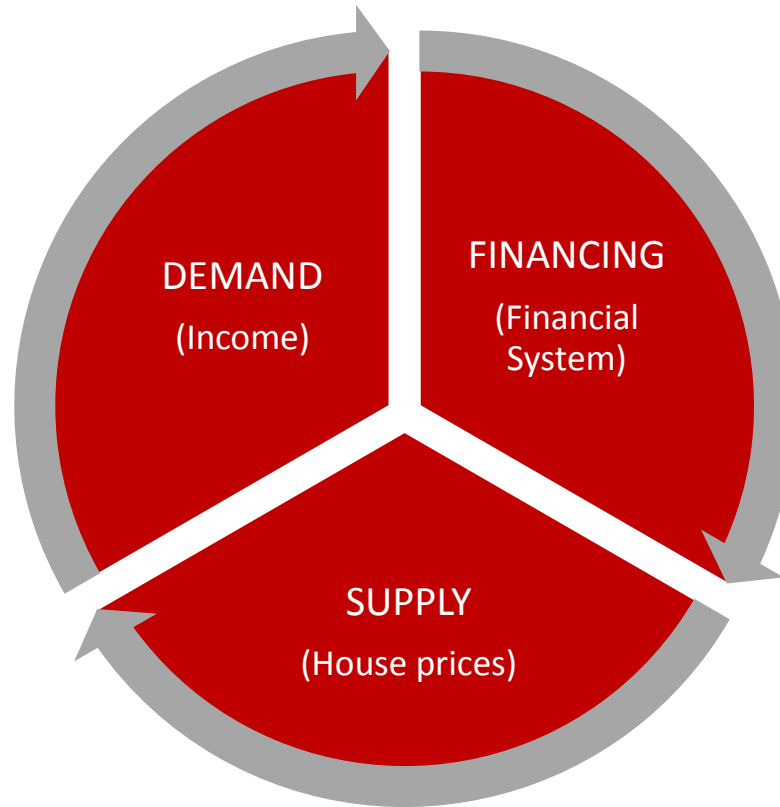
Housing sector ²	
Number of households	31.67 mill
New households per year	351,000
Housing deficit	8.9 mill. units
Participation of the residential construction sector in the economy ⁴	5.7% of GDP Growing 3.2% per year



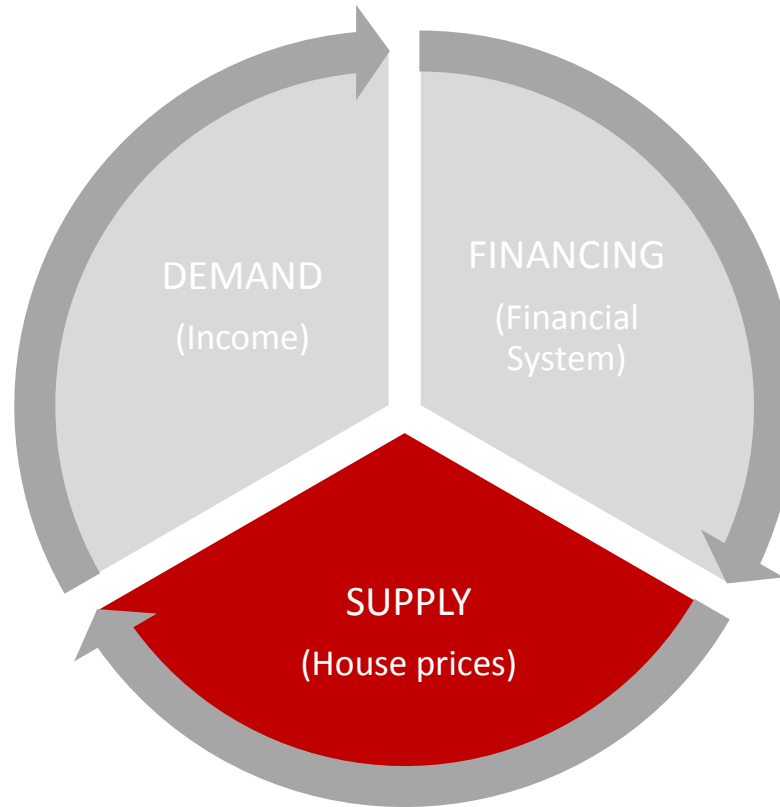
¹ INEGI, CONEVAL
³ World Bank, International Comparison Program database.
<http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?locations=MX>

² EAVM, 2015
⁴ INEGI, 2016

Affordability Challenge



Affordability Challenge



The cost of social housing

Today's most affordable homes in Mexico cost no less than \$16,000 USD.

Data confirms that production of social housing is limited....



Inventory (Dic 2016)		
Value	# houses	%
16,000 dollars	17,351	3%
16 - 17.3	36,612	6%
17.3 - 21.3	132,161	23%
21.3 - 27	102,242	18%
27 +	276,967	49%
Total	565,333	100%

The cost of social housing

There are no policies to support affordable housing in urban centers.

Land regulation is defined by local authorities

There is no harmonization among different regions

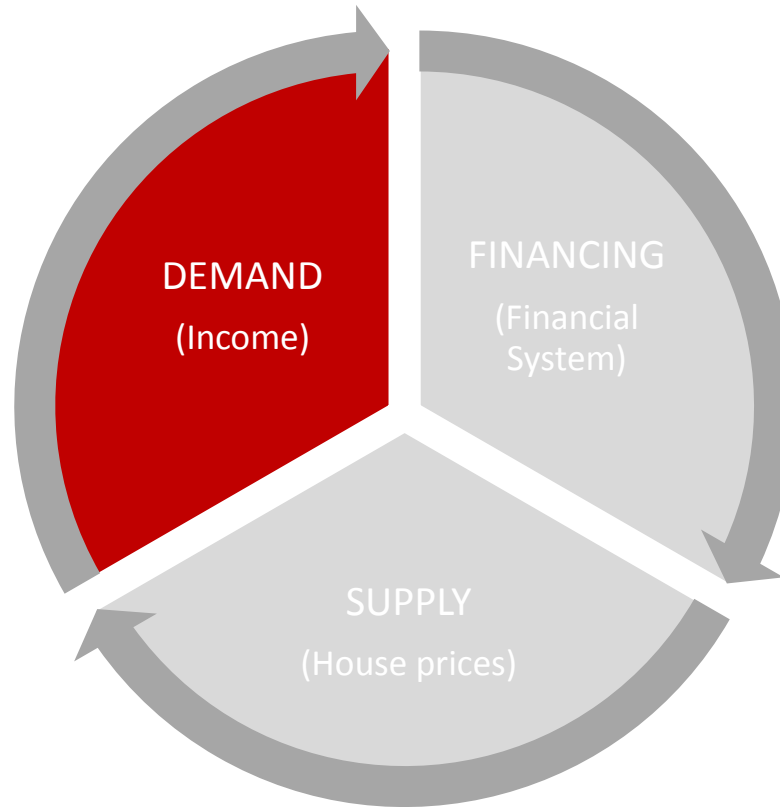
Time and cost of permits and licenses varies across towns.

Typical cost structure of social housing

Land	10%
Infrastructure	14%
Construction	38%
Permits	2%
Admin	8%
Sales costs	5%
Financial cost	8%
Other	5%
Margin	10%
Total	100%



Affordability Challenge



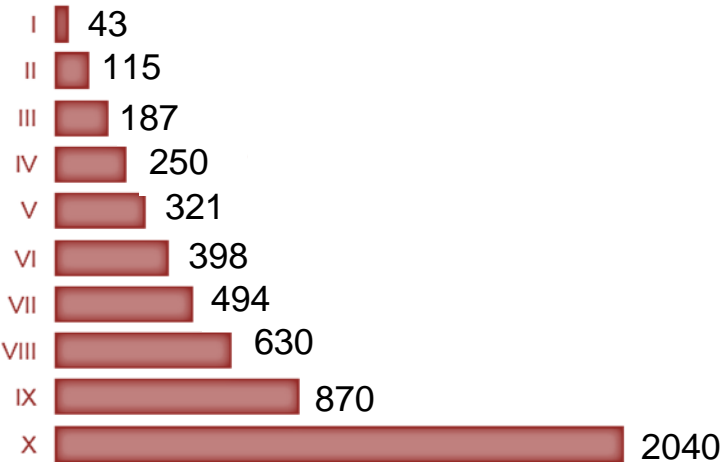
Inequality

Open Market Mortgage (15,000 home)

Loan: \$13,500 (LTV = 90%)
Term: 20 years
Interest rate: 10.5%
Monthly Payment: \$135 USD
Income needed: \$408 USD

A household needs to earn \$408 USD which makes locates him at the 60th percentile.

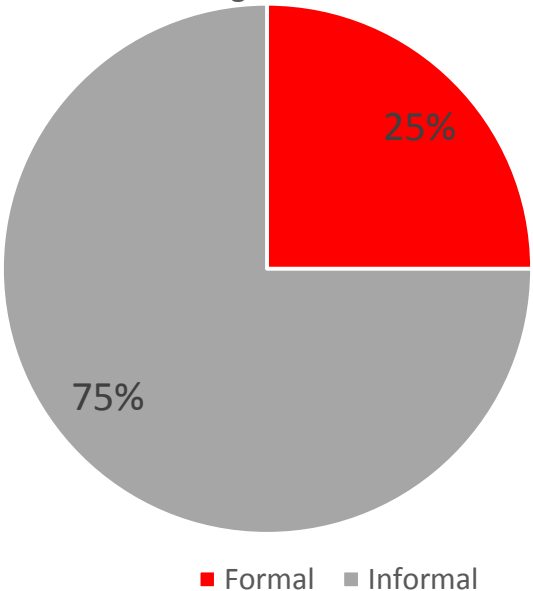
Monthly income **without** transfers* (USD)



Informality

55% the labor force is in the informal sector, representing the majority of the housing deficit.

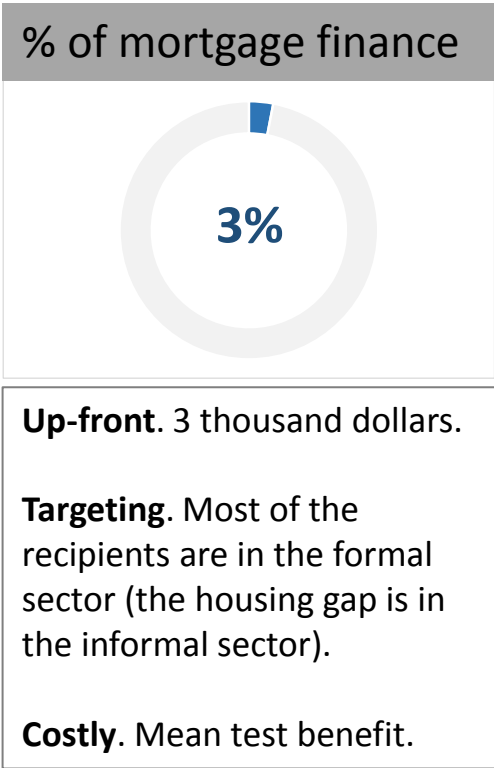
Proportion of informal workers of the total households living under deficit conditions ²



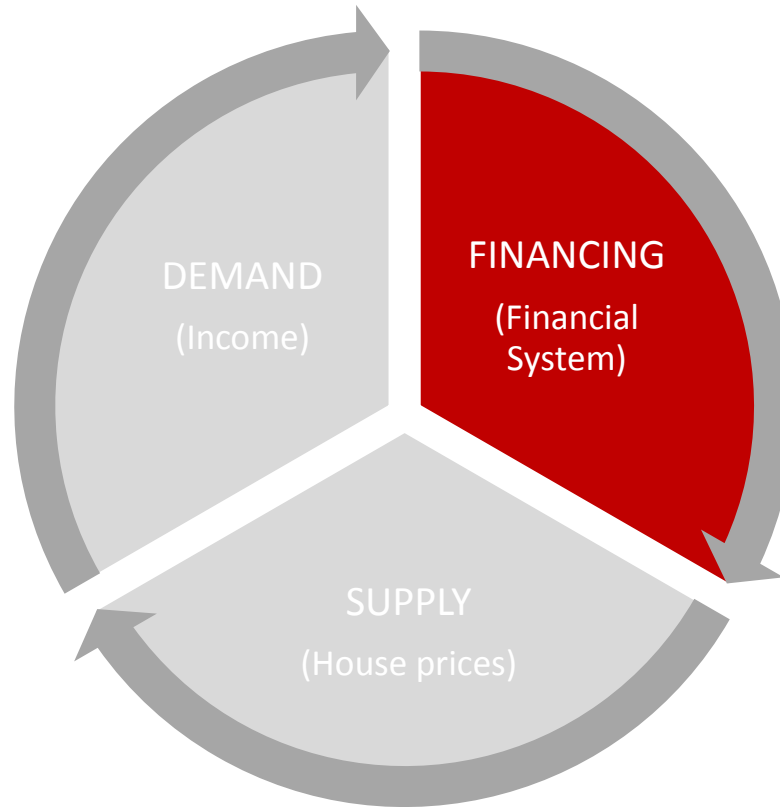
Subsidies

120,000 subsidies per year, although, it is still a small fraction of the mortgage market.

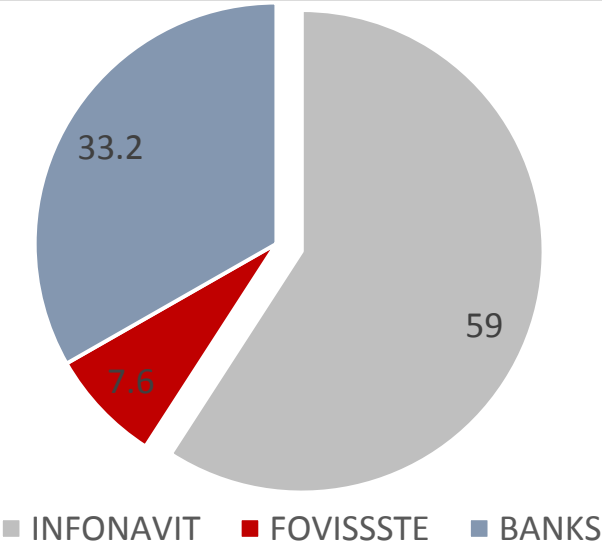
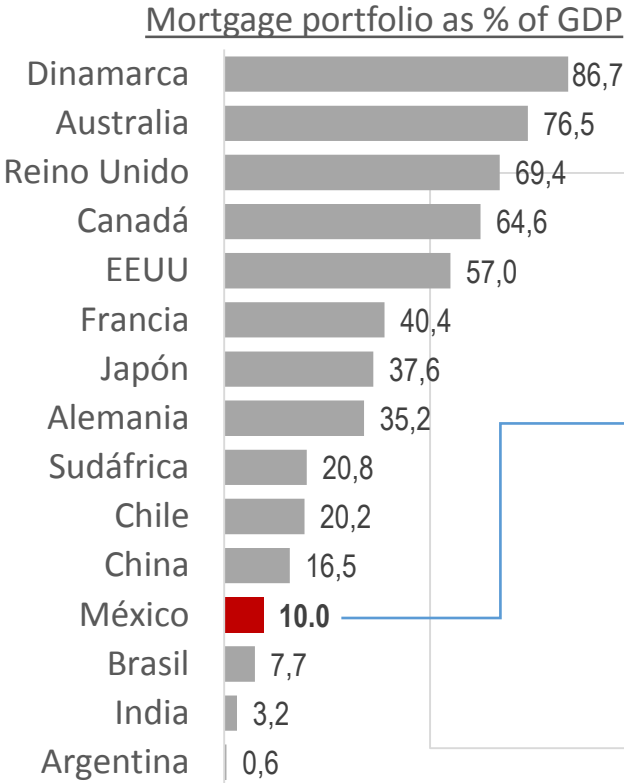
99% of those subsidies went to the formal sector



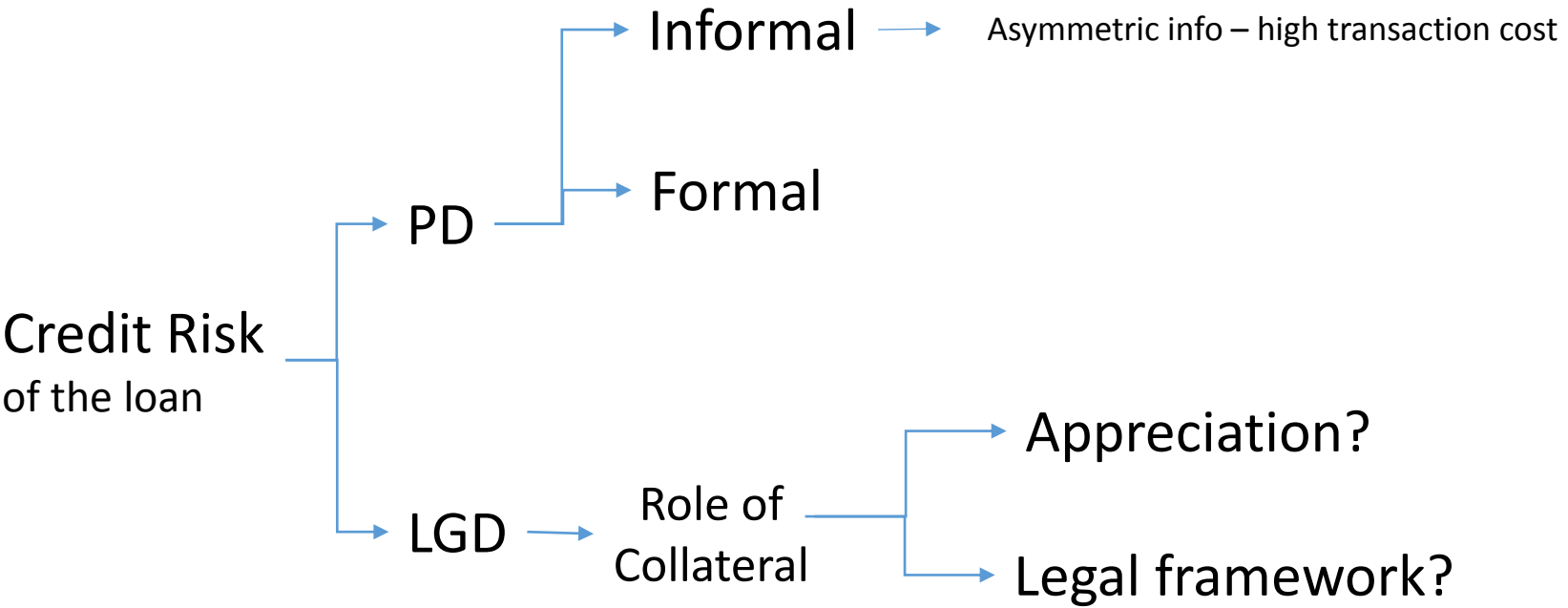
Affordability Challenge



A small mortgage sector.....



How much cost the risk of a loan?
How different is that cost when targeting low income individuals ?



Legal framework

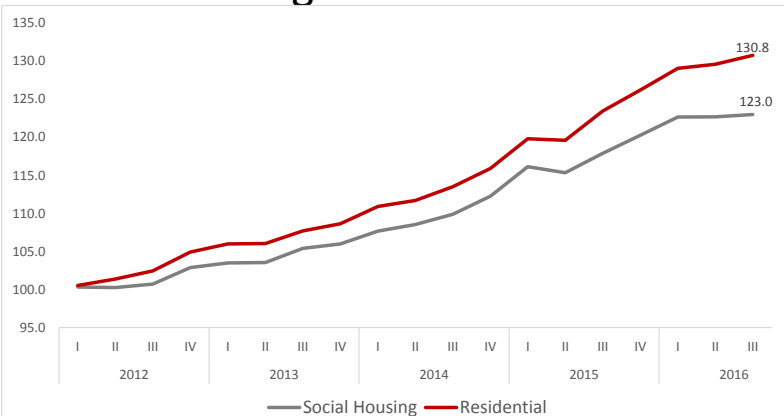
Foreclosure Laws

Repossession < 1 year	Good System
Repossession < 2 years	Regular
Repossession > 2 years	Ineffective

Up to 36 months

For social housing the cost of repossession is 1/3 of the value of the house.

Housing Price Index



An example.....

	Middle Income	Low income
PD	5%	5%
EXPOSURE	0.7	0.7
SEVERITY	0.3	0.7
Loan dollars	40,000	15,000
Loss Dollars	420	368
Loss as % of loan	1%	2.5%

We can work on PD (technology) but almost impossible to improve LGD.....

Financial Risk

Financial Risk
of the loan

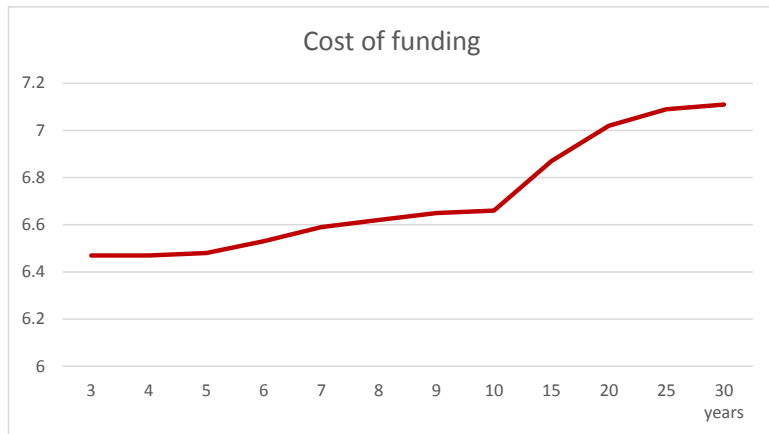


Loan
duration



Low
income
(14 years)

Medium-High
income (7 years)



It is not only a matter of
cost.....longer terms are
more complex.....

New programs:

- **Rural Housing**
- **Mortgages for micro-entrepreneurs**
- **Multifamily finance**

Rural housing

Average housing cost
6,300 USD ¹



\$400,00

[VALOR]

\$2.800,00

Down payment

The owner is responsible for covering the down payment. There are three ways for doing it in the assisted self-construction program:

1. Prior savings
2. Labor
3. Materials

Federal subsidy

Federal subsidy focused to low income population (mainly informal).

Loan (local non-bank)

Local non-banks provide loans with resources mainly from SHF.

Average loan-term: 5-7 years
Average loan-rate: 15%

¹ Construction costs without considering land cost. Estimations from SHF

Housing for micro-entrepreneurs

The program has two pillars: access and cost.

- a) Deduction of 1 monthly payment per year, for 10 years.
- b) Subsidized MI, up to LTV of 95%.

Promote formality: sole traders require to be formally paying taxes in order to receive benefits.

Promote financial inclusion. The program uses MI to reduce risk, making this sector attractive to banks.

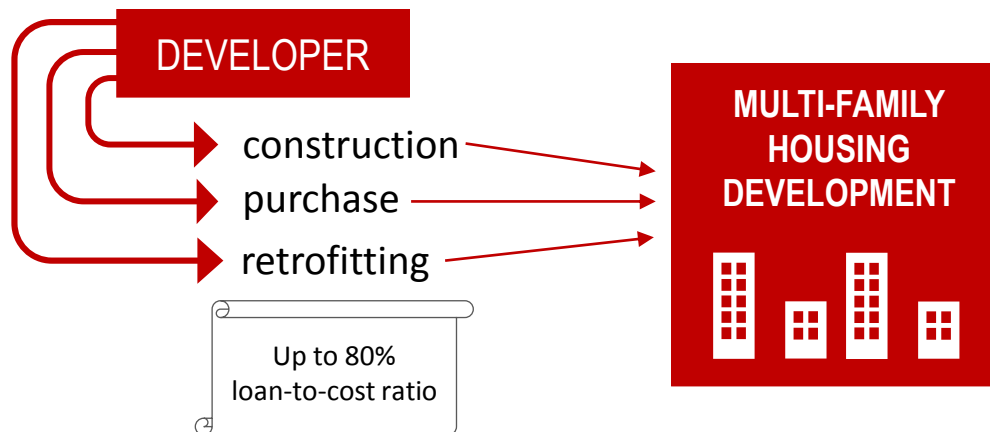
Multifamily finance

LONG-TERM LOAN OR
BALLOON LOAN

FIXED OR VARIABLE
INTEREST RATE

Long-term debt is essential in developing a **large-scale multi-family market** which offers a **cheaper housing solution than ownership**.

Lower investment costs allow for lower rent costs, tackling **affordability** while **maintaining investment's profitability**.



Adequate **property management** offers a **higher quality of life to tenants**, while guaranteeing investors' return of investment.

Final remarks

DEMAND

Avoid up-front subsidies
Focus on informal sector
Strengthen targeting

SUPPLY

Better land regulation

FINANCE

Better foreclosure laws
Promote savings products for the informal sector
Promote multifamily as option



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