

# The Mexican Mortgage Market: A Quest for Innovation and Efficiency

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**Moody's Investors Service**



# Agenda



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- **RMBS Market Evolution in Mexico**
  - RMBS Transactions
  - Mortgage Market
- **Innovation and Efficiency Improvements**
- **Analytical Challenges**
- **Outlook: More innovation and efficiency to come**

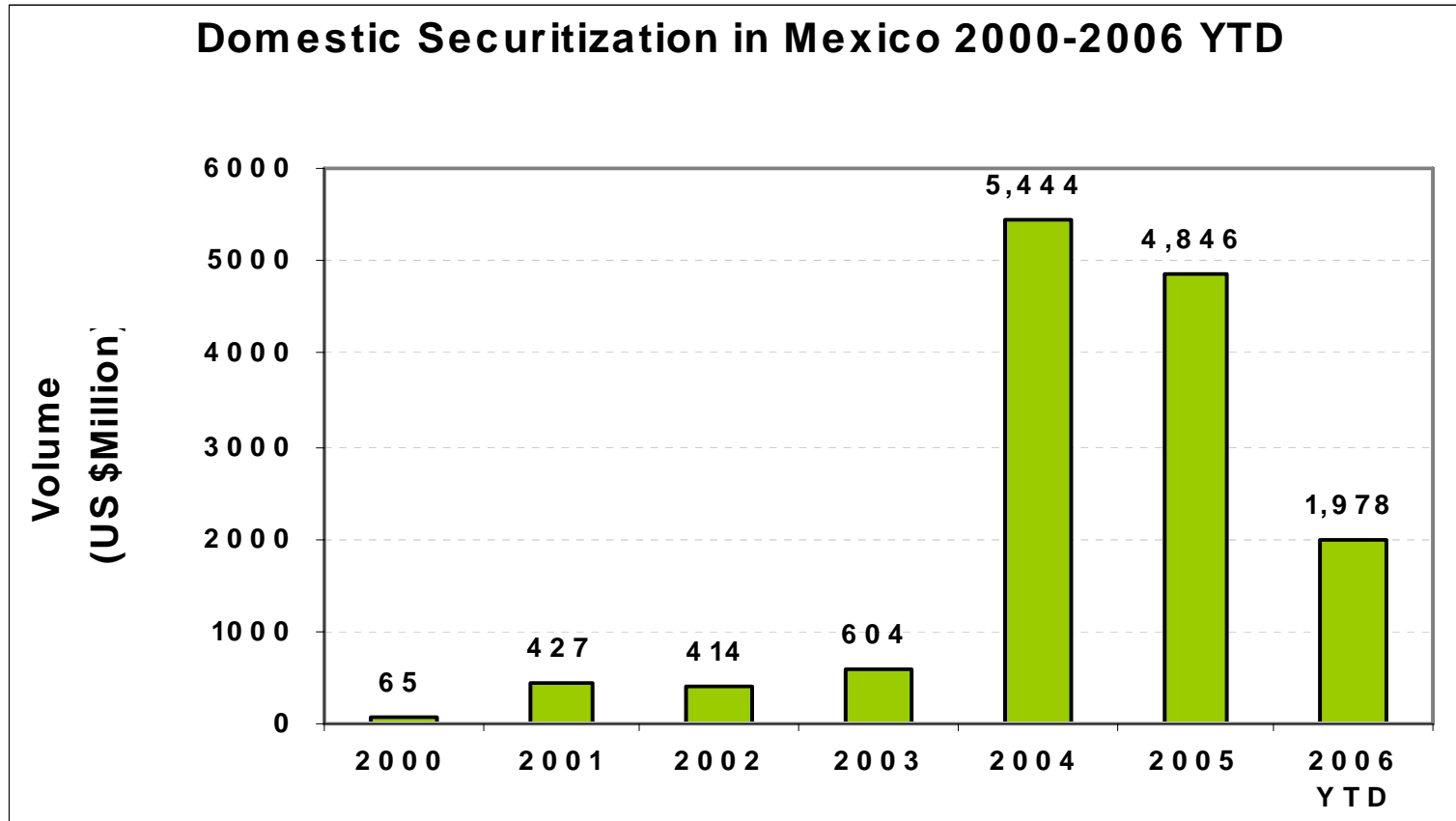




# Evolution of the RMBS Market in Mexico



# Overall Mexican Domestic Volume is Down...

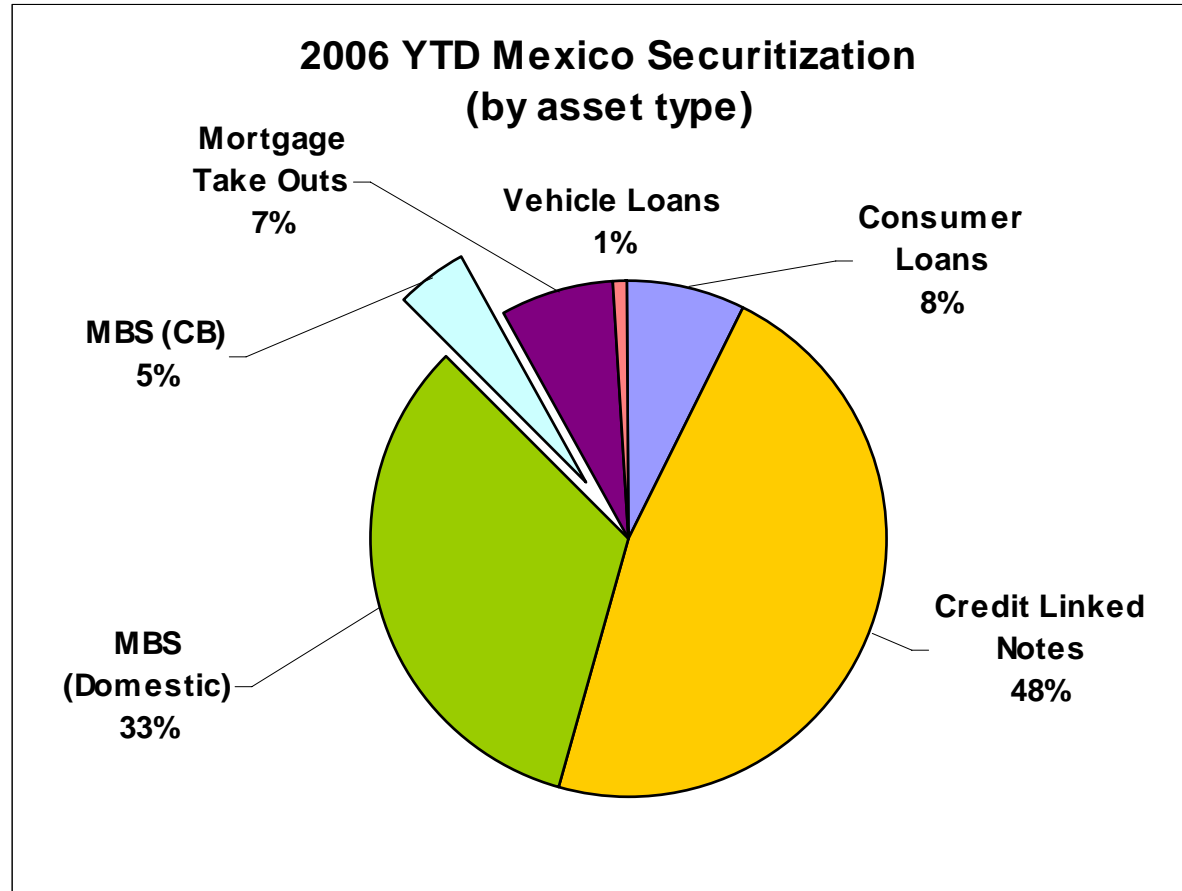


Includes \$4.1Bn in 2004 (Banorte IPAB), and \$2.6Bn in 2005 (Banamex IPAB)

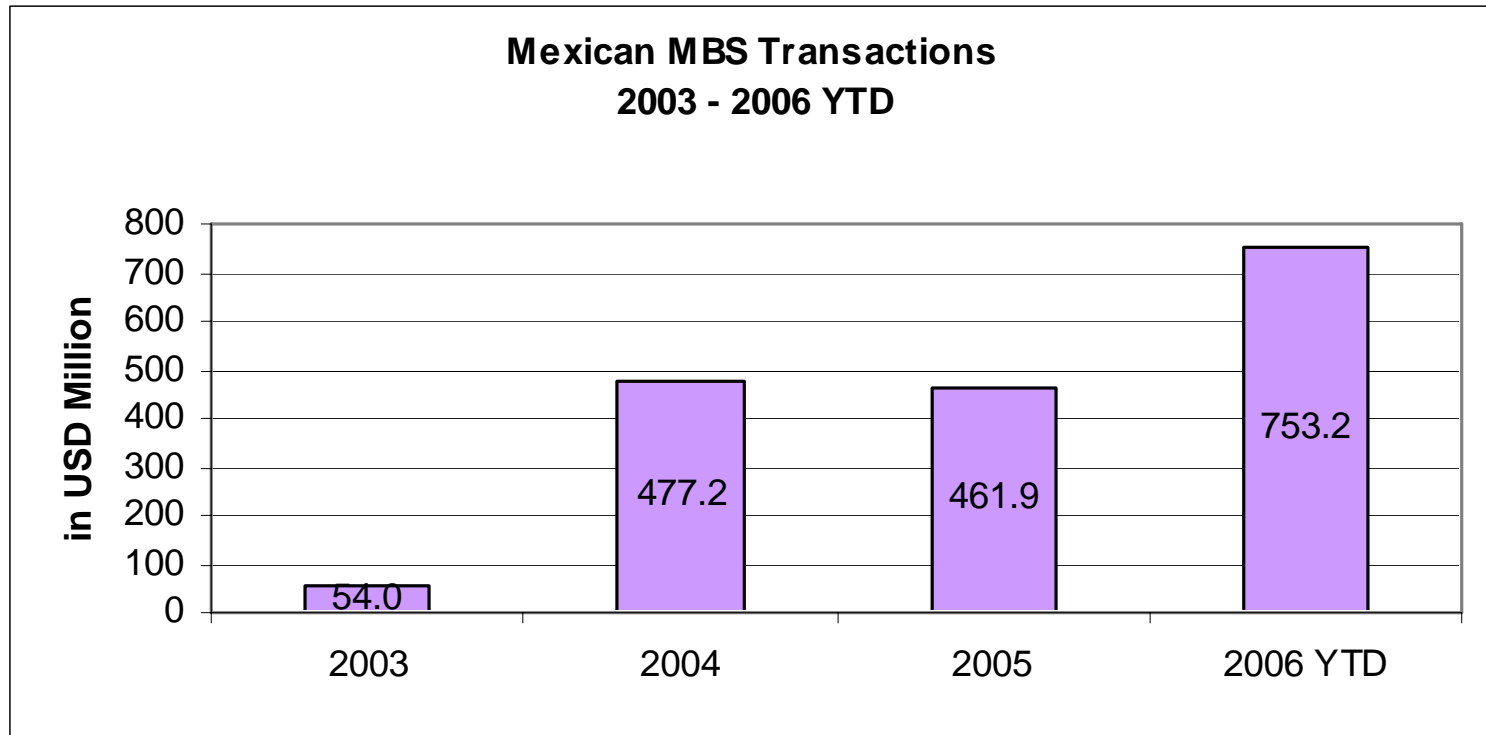
2006 is Sep 20 YTD. Closed deals only



# But Residential Real Estate Assets Remains Key



# RMBS Volume Growth



2006 is Sep 20 YTD. Closed deals only.



# RMBS Market Evolution

- RMBS issuance projected to grow to over US\$800 million for 2006, up from US\$53 million in 2003
- As public deals provide performance information market participants refine their assessments on expected performance and performance volatility
- Risk buyers and sellers better define their market participation



# Transaction Evolution: Structures

- Structures begin to evolve as historic performance information builds
- Overcollateralization shrinks giving way to mezzanine structures
- First cross-border RMBS transactions come to market in 2006
- BORHIS fungibles allows the “re-opening” of transactions to “top-up” the pool



# Transaction Evolution: Risk Buyers/Sellers

- A growing market seeks additional investors with cross-border issuance
- Sociedad Hipotecaria Federal pulls back from mortgage insurance giving room for private insurers to enter the market
- INFONAVIT initiates “co-financing” loans where it goes hand-in-hand with a Sofol in the funding of the mortgage loan



# Market Evolution: Mortgages & Real Estate

- Mexican government targets the support of 750,000 new mortgages in 2006, the highest government target to date.
- Some Sofoles report the beginning of a market for re-financing loans and some purchases of pre-owned homes





# Credit Analysis of Mexican MBS



# Analytical Challenges

- Need for reliable investor reporting...
- Reliance on Trustee obligation
- Need for still longer performance track history





# Innovation and Efficiency Improvements



# Innovation & Efficiency Improvements

- Transaction changes driven by innovation and efficiency
- Mezzanine structures and cross-border issuance improve capital structure efficiency
- Co-financings and private mortgage insurers reduce capital support required from regulators
- BORHIS Fungibles reduce the origination-to-securitization timeline
- Commercial mortgage insurers bring market pricing efficiency to MI market





## Outlook: More Innovation and Efficiency to Come



# Securitization in Mexico

## Market Challenges and Opportunities For 2007

- Accuracy/reliability of information provided to investors to monitor the transactions
- Further development of capital structures: more classes with different risk and payment profile
- HiTo: Development of a formalized mortgage securitization infrastructure by the Mexican government
- Together with a strong real estate market, these factors support continued growth in Mexican MBS



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