

AP

Mexican Housing Booms Despite US Crisis

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By Theresa Bradley, Associated Press Writers

MEXICO CITY (AP) -- In her bustling corner real estate brokerage, Ana Laura Pulido is doing her best business in years, enjoying a sort of Mexican immunity from the U.S. housing crash. "It's a time of hope," said Pulido, who has sold hundreds of homes to middle-income families since 1992. "The buyer today is more aware. People buy with more ease, they can plan long-term." Long thrashed by swings in the U.S. economy, Mexico now boasts a thriving housing sector whose record growth leads Latin America -- a sign of increased economic stability and an outlet for investors looking to escape the U.S. downturn. Giants including the California Public Employees Retirement System, the largest U.S. public pension fund, are already bankrolling projects in Mexico, where they see "more bang for the buck," said Clark McKinley, spokesman for CalPERS, which has invested more than \$300 million in Mexican real estate funds.

The trend could even slow emigration from Mexico, by generating millions in jobs and personal savings as a fresh supply of loans gives many their first chance to own a house. President Felipe Calderon has set a national goal of a million new mortgages a year by 2010. On Monday, he unveils a set of measures to ensure growth continues, with plans to boost Mexico's small resale market and combat the urban sprawl that has begun to carpet valleys with hundreds of thousands of matchbox rowhomes.

Behind the boom are six years of economic growth and stability, and a national shortage of 6 million dwellings. While interest rates are falling, just 6 percent of Mexico's 25.7 million homes are financed with mortgages -- compared to about 67 percent in the U.S. Most Mexicans still inherit their homes, buy them with cash, or build them by hand. That pent-up mortgage demand in a nation of 108 million means lenders can be choosy, enforcing strict standards that held delinquency rates below 4 percent in third quarter-2007, compared to 5.6 percent in the U.S.

"Mexico is in the early stages of expansion," said Juan P. De Mollein, managing director for Latin American structured finance at Standard & Poor's. "There are still plenty of points for evolution because there's still plenty of demand." In the U.S., lenders looking to expand their portfolios granted risky mortgages to borrowers with weak credit, but in Mexico, that "subprime" category doesn't exist, because lenders don't need it to grow. Also, few Mexicans flip homes or refinance mortgages, keeping the market more stable. "Mexico doesn't have a credit issue. We can still choose our borrowers because demand is so great," said Mark Zaltzman, chief financial officer at Su Casita, one of Mexico's largest mortgage lenders.

A recession north of the border could choke U.S. investment in Mexico, curbing job creation, discouraging new homebuyers and stalling housing growth. But that won't likely lead to mass layoffs and defaults, said Rafael Amiel, managing director for Latin America at the financial consultancy Global Insight. Mexico simply has too much room to grow, and expanding local markets have insulated it somewhat from U.S. downturns. Housing demand could swell more as migrants are pushed home by the souring U.S. economy and crackdown on illegal immigration -- generating four new jobs for every home raised, said Carlos Gutierrez, Mexico's housing policy director. All this represents a major change from 1994, when Mexico devalued the peso, sending inflation and interest rates soaring, forcing homeowners into default and pushing banks to the brink of collapse. Credit was so tight that most Mexicans paid cash upfront or constructed their own homes, often adding one room at a time. Since then, Mexico has seen a housing recovery built on a mix of government initiatives, private investment and a winning gamble by a new group of entrepreneurs who took a local approach to mortgage lending, using knowledge of family and neighborhood connections to make sure loans got paid.

Rather than build public housing, the government restructured mortgage-lending laws, setting stricter credit guidelines, standardizing appraisals and urging lenders to raise cash on financial markets. It also overhauled Infonavit, a public agency that grants more than half Mexico's mortgages, funded by a 5 percent payroll tax. Some 20,000 jobs were outsourced as the agency more than doubled new loans to 458,700 in 2007, director Victor Borrás said. And when commercial banks ran for the border, a new kind of lender stepped in, known as "sofoles," for the Spanish acronym for "limited financial association." Taking advantage of Mexico's tight family ties and government credits, these nonbank mortgage lenders set up neighborhood offices, requiring relatives to co-sign loans and collecting late payments door-to-door, proving profits could be made.

Banks have since returned, and blossoming competition drove average 15-year mortgage rates to 12.5 percent in November -- a deal in Mexico, where rates topped 65 percent in 1995. Construction is booming too, as just 30 percent of new homes were self-built by their owners last year, down from 50 percent in 2004, Gutierrez said. While big banks target higher-income borrowers, sofoles are pioneering mortgages for street vendors and taxi drivers, who work in the huge informal economy without documented salary or credit histories. Sofoles study spending habits to establish their income, offering trial payment periods to prove borrowers can afford payments on entry-level homes that range from \$17,000 to \$37,000.

Another huge potential market is the estimated 11 million Mexicans in the U.S., who can now buy "cross-border" mortgages to pay off homes in Mexico, increasing their control over the earnings they send relatives and cutting the time they need to work in the U.S. to build a future back home.

Even as home lending soars, overall debt remains low, making a Mexican credit bubble unlikely. Major mortgage insurers, including U.S.-based AIG United Guaranty and Genworth Financial, now back Mexican loans, slashing risk and making it easier for lenders to bundle and sell debt to

investors as mortgage-backed securities -- raising capital to grant yet more loans. Nearly \$5.8 billion of these securities have been sold since 2003, offering investors an alternative to tumbling U.S. markets and giving Mexico's nascent pension funds, which have relied on lower-yielding government bonds, a place to store assets long-term. Mexico's housing sector is still full of risks, including land ownership disputes, infrastructure delays and limited access to water. The emphasis on private building has concentrated developments in wealthier states, while masses of poorer people still live on dirt floors. Even so, millions of first-time homebuyers now have an asset to leave their children, or to use as collateral to finance future spending, fueling growth. "I always had in my head that the only thing you can give your kids as inheritance is an education and a house," said Antonia Correa. The 37-year-old receptionist paid \$7,200 down on a three-bedroom stucco townhouse in a sprawling new development in Cuautitlan, outside Mexico City. "You could be short on things," she said. "But a roof is the best. It's your world, your home."