

REAL ESTATE

Only bank's mortgage lending grew in the year to May, this time by 11%.

Fernando Balbuena / Samuel Vázquez

Introduction

The number of mortgages granted in the first five months of the year fell by 12.6% compared to the same period of 2013, while the total financed shrank by 2% in real terms. Sustained growth in banks lending in recent months, in terms of both banking loans and co-financing of higher value homes, was behind the increase in average loans, despite the contraction observed by housing institutes. Fovissste in fact recorded a decline in the number of loans granted for the first time this year, although this may be a one-off situation. It is likely that the new peso-denominated product would help in next months.

On the supply-side, inventories of new homes appear to have stabilised in the year to May. Meanwhile, the reactivation of new house building projects in certain metropolitan areas of the country may be no more than a local effect.

Figure 1

Mortgage activity: number and amount of loans, year to May

	Number of credits (thousands)			Amount of lending (Bn pesos)			Average amount per mortgage (thousands, pesos)		
	March		y/y, % change	March		Real y/y, % change	March		Real y/y, % change
	2013	2014		2013	2014		2013	2014	
Public Institutions	178.7	151.4	-15.2	53.1	47.5	-10.5	297.2	313.7	5.6
Infonavit	153.9	127.6	-17.1	40.4	34.7	-14.1	262.6	272.1	3.6
Fovissste	24.7	23.8	-3.6	12.7	12.8	0.9	512.4	536.4	4.7
Private intermediaries	32.9	35.1	6.8	34.9	38.8	11.0	1,060.3	1,102.6	4.0
Banks	32.9	35.1	6.8	34.9	38.8	11.0	1,060.3	1,102.6	4.0
Subtotal	211.6	186.6	-11.8	88.0	86.3	-2.0	415.9	462.3	11.1
Co-financing* (-)	9.2	9.7	5.5						
Total	202.4	176.9	-12.6	88.0	86.3	-2.0	434.7	487.5	12.1
Information figures									
Total co-financing (-)	21.7	37.9	74.9	12.2	16.8	37.4	564.1	443.0	-21.5
Infonavit Total	12.5	28.2	125.8	4.8	9.0	86.3	387.2	319.5	-17.5
Other	9.2	9.7	5.5	7.4	7.8	5.2	805.6	803.8	-0.2

Note: "Banks" include loans granted by financial institutions to their employees.

*Not including Infonavit total and Apoyo Infonavit (new and used housing). Not including housing renovation products.

Source: BBVA Research based on data supplied by Infonavit, Fovissste ABM, AHM, Bank of Mexico and CNBV.

More expense segments have surged in the housing institutes, but still not enough.

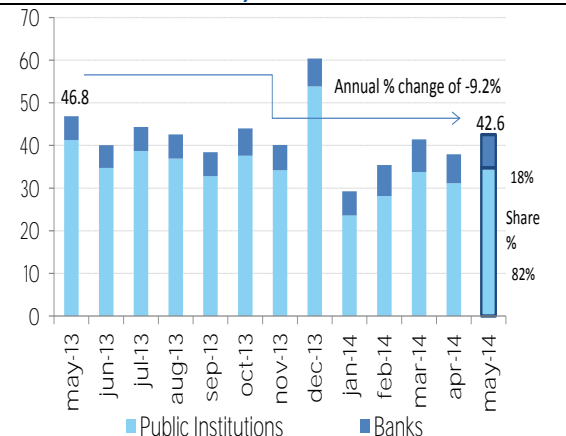
Retail banks have continued to see increases in both number of credits and amount granted. In the year to May, loans grew by 6.8% and the amount granted rose by 11% in real terms. Co-financing products increased by 5.5% in terms of the number of loans and by 5.2% in terms of the actual financing granted,¹ due to faster growth in mid- and high range segments. This expansion was accord by the 8.5% rise in the balance of bank portfolios in real terms.

Fovissste saw its business decline for the first time this year. The number of loans made to May was 3.6% lower than in the same period of 2013. Meanwhile, the amount of financing reflected a marginal increase of 0.9%, representing a real-terms increase of 4.7% in average loans. This was due in part to the greater share for renovation credits, which accounted for almost 25% of the fund's total lending in the year to May.

¹ Not including the "Infonavit Total" product.

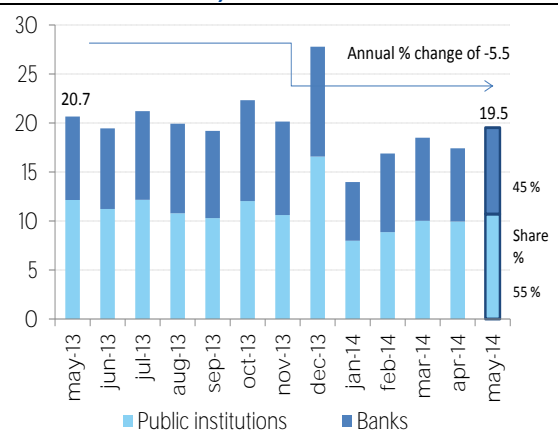
Loans granted by Infonavit for the purchase of houses decreased by 17.1%, and the amount financed shrank by 14.1% in real terms. The “Infonavit Total” product continued to grow in terms of the number of loans, although the average amounts financed were smaller than in the same period of 2013. Nevertheless, average loans continued to increase for the rest of the institution’s products, mainly due to rising origination in middle residential segments as opposed to loans made in the social interest, which continue to lag 19% behind the Annual Operating Programme (AOP) in the year to May.

Figure 1
Number of credits by institution ('000s, monthly % var. and % of total)



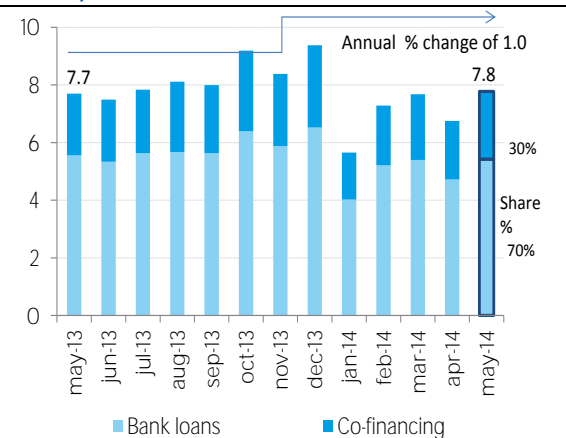
Source: BBVA Research based on ABM, Infonavit and Fovissste data.

Figure 2
Amount of credit outstanding by institution (MXN mn, monthly figures at 2014 prices, % var. and % of total)



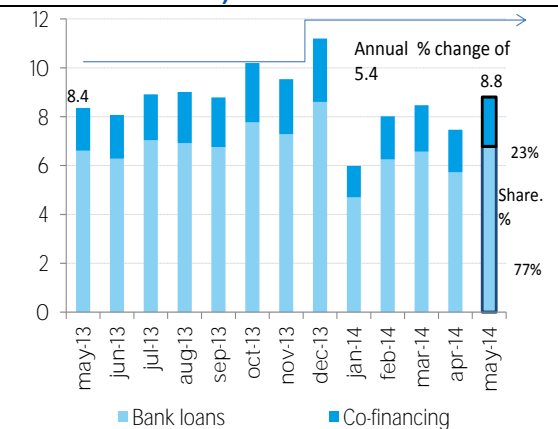
Source: BBVA Research based on ABM, Infonavit and Fovissste data.

Figure 3
Commercial banks: number of credits by product ('000, monthly figures, % Var. YoY and % of total)



Source: BBVA Research based on ABM, Infonavit and Fovissste data.

Figure 4
Commercial banks: value of credits by product (MXN bn, monthly figures at 2014 prices, % Var. YoY and % of total)



Source: BBVA Research based on ABM, Infonavit and Fovissste data.

A 20% contraction in the origination of new Infonavit loans for social interest housing (which accounts for over 80% of origination) explains the rise in the rate of non-performing loans (NPL) ratio by 8%,² representing overdue loans worth some 73 billion pesos. In contrast, the general NPL ratio in the banking industry is less than 4%. The Institute's portfolio of non-performing extended loans decreased by 16% in real terms compared to March, and it would therefore seem that the biggest fall in the second quarter was due to a slower rate of mortgage loan origination and not necessarily to any significant increase in overdue loans compared to the preceding quarter. The increase in financing for middle and residential properties is a good sign, although lending to working people with salaries between 4 -11 MW³ range or over is too small to be reflected in higher revenues. Nonetheless, the announcement that the maximum limit for loans made by the Institute is to be raised from MXN 483 to MXN 850 thousand in August should substantially increase its overall lending. This would in turn allow Infonavit to compete in the bank segment, although it would need to align its measures of credit risk to prevent any deterioration of the portfolio.

Figure 2
Number of mortgage loans per segment
Homes, May 2014

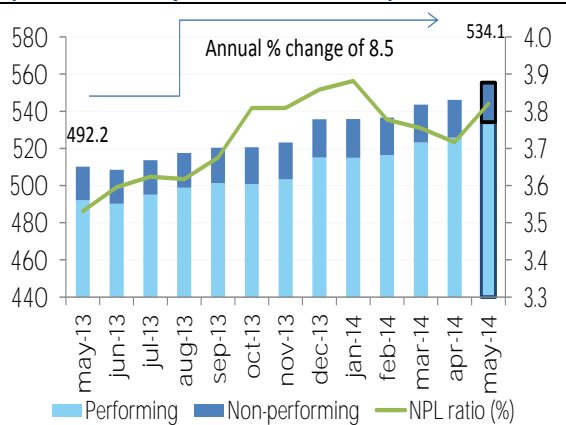
Segment	Cumulative 2013		Infonavit 2014		Annual % change	Banks 2013		Banks 2014		Annual % change
	Houses	Share %	Houses	Share %		Houses	Share %	Houses	Share %	
Low income*	140,699	91.4	112,624	88.3	-20.0	14,683	33.4	12,972	29.0	-11.7
Middle	10,455	6.8	11,969	9.4	14.5	15,560	35.4	16,903	37.8	8.6
Residential	2,775	1.8	3,004	2.4	8.3	13,693	31.2	14,800	33.1	8.1
Total	153,929	100	127,597	100	-17.1	43,936	100.0	44,675	100.0	1.7

* Conventional economical homes for low-income target customers.

Note: Includes new and used homes. Bank loans do not include any reduction for co-financing products, and the figures therefore do not coincide with figure 1.

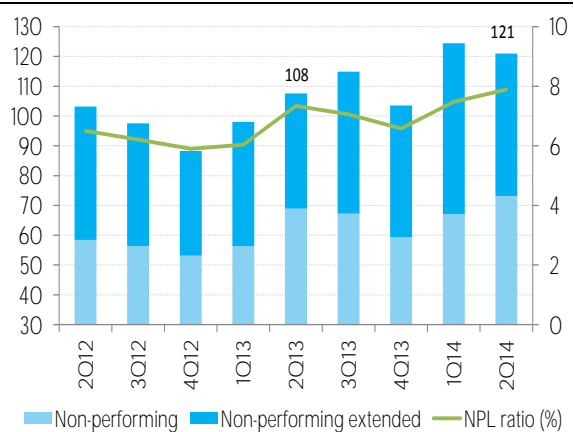
Source: BBVA Research based on Infonavit and ABM data.

Figure 5
Mortgage lending: banking total portfolio
(MXNbn, 2014 prices and NPLs %)



Source: BBVA Research based on Banxico and CNBV data.

Figure 6
Infonavit: portfolio past-due and with extension
(MXN bn, 2014 prices and NPLs %)



Source: BBVA Research based on Infonavit data.

House building may pick up in some metropolitan regions.

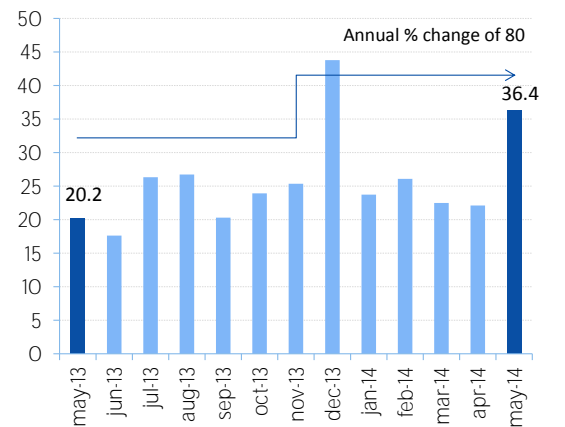
New home building projects may begin to pick up to meet certain highly specific needs. The month of May saw an 80% increase in the number of new homes registered, which was reflected in a 5.2% increase in bridging loans in real terms compared to the prior year. However, this change should not be overestimated, as it was mainly due to projects in the city of Nuevo León, where used homes represent less than 15% of the total. In particular, Infonavit estimates that 50% of affiliated households renting

² Not including the portfolio of loan extensions.

³ Minimum wage times in Central Mexico.

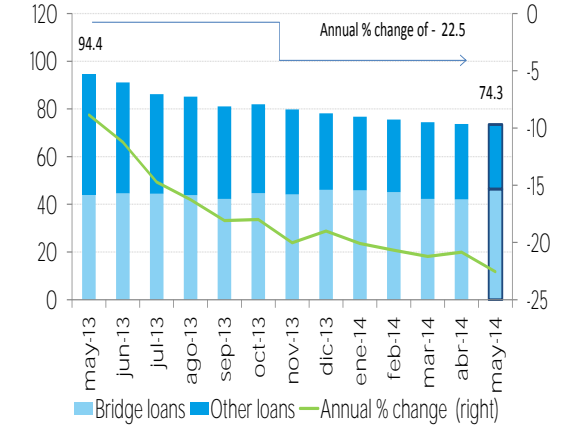
homes live in the Federal District, or the States of Mexico, Jalisco and Nuevo León. A total of around 1.3 million families might acquire a residential solution of this kind using the housing sub-account as collateral. This is in line with the rented homes programme, which will be instrumented through Conavi and will begin to provide support workers earning less than 5 MW in August. In this light, we expect a considerable part of the homes that will be built will be aimed at segments of the population who will not necessarily opt for buying as a solution, and the effect could therefore be seasonal. It will be necessary to wait until the end of the quarter to obtain a more accurate picture of the trend in building for new homes. In any event, an early stabilisation of house building allowing a prompt return to the growth path is a positive sign.

Figure 7
New housing registered for construction ('000s of registers and annual % variation)



Source: BBVA Research based on RUV data.

Figure 8
Mortgages for residential buildings: total portfolio (MXNbn, 2014 prices and real YoY % var.)



Source: BBVA Research based on CNBV data.

Figure 3
Infonavit: number of mortgage loans by entity and percentage of used homes Cumulative to May 2014

State	Total				Used homes (% of total)			
	Total	Low income	Middle	Residential	Total	Low income	Middle	Residential
Ags	2,149	1,898	232	19	42.5	39.5	2.7	0.1
BC	5,646	5,085	480	81	59.9	54.7	4.6	0.4
BCS	1,062	955	99	8	56.8	51.3	5.2	0.0
Cam	553	486	64	3	69.8	62.4	7.1	0.0
Coah	7,134	6,414	625	95	51.0	47.4	3.2	0.3
Col	1,122	1,032	81	9	35.4	32.9	2.2	0.0
Chis	1,140	1,053	81	6	42.3	36.5	5.7	0.0
Chih	6,500	5,835	610	55	49.8	45.5	4.0	0.2
DF	4,122	1,860	1,385	877	73.8	43.2	18.5	5.0
Dgo	1,681	1,598	73	10	51.9	49.0	2.9	0.0
Gto	7,150	6,623	485	42	29.9	28.2	1.5	0.1
Gro	773	696	70	7	49.0	41.1	7.1	0.1
Hgo	2,642	2,464	169	9	19.8	17.7	1.9	0.1
Jal	13,539	12,140	1,160	239	16.7	13.8	2.4	0.7
Mex	6,730	5,387	959	384	36.2	28.1	6.1	1.3
Mich	2,684	2,507	161	16	26.9	23.8	2.8	0.1
Mor	1,200	883	261	56	43.3	31.8	9.1	0.3
Nay	1,090	1,024	58	8	36.4	33.1	3.0	0.0
NL	20,090	18,137	1,413	540	14.8	11.8	2.2	1.5
Oax	441	398	41	2	56.9	52.8	4.1	0.0
Pue	3,348	2,937	332	79	32.3	29.1	2.9	0.1
Qro	4,145	3,082	877	186	21.4	16.9	3.6	0.4
QR	4,360	4,045	294	21	11.1	9.6	1.3	0.1
SLP	3,054	2,686	298	70	49.4	45.7	3.3	0.1
Sin	3,384	3,117	249	18	45.3	42.9	2.2	0.1
Son	5,643	5,304	310	29	44.1	41.5	2.4	0.1
Tab	1,225	1,054	132	39	48.0	40.0	7.4	0.1
Tamps	5,647	5,330	292	25	45.1	42.0	2.9	0.1
Tlax	602	575	26	1	46.0	43.9	2.0	0.0
Ver	5,194	4,756	390	48	43.1	39.1	3.6	0.2
Yuc	2,663	2,456	189	18	34.4	31.8	2.5	0.0
Zac	884	807	73	4	35.5	33.4	2.0	0.0
Nac	127,597	112,624	11,969	3,004	34.8	30.3	3.6	11.5

Source: BBVA Research based on Infonavit data.

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research and BBVA Bancomer S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer on behalf of itself and is provided for information purposes only. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA Bancomer, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.