

## Real Estate

## Mortgage lending was up 15.5% in January

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## Introduction

Mortgage lending in January 2015 increased by 15.5% in real terms relative to January 2014, with the number of mortgage loans arranged up by 1.9%. Looking at the housing agencies, Fovissste began the year with 14.8% growth in loan numbers, while Infonavit reported a contraction of 6.4% in the like period. The rise in the upper limit on loan funding from Infonavit, which almost doubled to MXN850,000, as well as the option of arranging loans calculated in pesos instead of minimum wage multiples (VSM), are likely to be incentivising larger loan sums. Fovissste thus expects to place 10,000 peso-sum loans, which would represent 8.7% of its annual programme (114,350 loans).<sup>1</sup>

Housing construction continues to recover, primarily on drying up of stocks in those places where there is a greater number of projects, but also due to revitalised demand in certain regions. Overlaying this, expectations of an interest rate hike next September could be provoking a short-term effect by encouraging consumers to take out mortgages ahead of the event. Lending into construction might also be soaking up this effect, for which reason the number of filings with the National Housing Register continues to rise.

Table 1

## Mortgage activity: number and amount of loans, as of January

Mortgage Origination	Number of loans (thousands)			Amount of credit (billions Ps)			Average mortgage (thousands Ps)		
	Jan-14	Jan-15	y/y, % change	Jan-14	Jan-15	Real y/y, % change	Jan-14	Jan-15	Real y/y, % change
<b>Public Institutions</b>	<b>23.6</b>	<b>23.1</b>	<b>-2.2</b>	<b>8.2</b>	<b>9.1</b>	<b>11.0</b>	<b>348</b>	<b>395</b>	<b>13.5</b>
Infonavit	18.9	17.7	-6.4	5.6	5.8	4.5	296	330	11.6
Fovissste	4.6	5.3	14.8	2.6	3.3	24.9	564	613	8.8
<b>Private Sector</b>	<b>5.7</b>	<b>6.7</b>	<b>19.4</b>	<b>6.2</b>	<b>7.5</b>	<b>21.5</b>	<b>1,092</b>	<b>1,112</b>	<b>1.8</b>
Banks <sup>1/</sup>	5.7	6.7	19.4	6.2	7.5	21.5	1,092	1,112	1.8
Otros									
<b>Subtotal</b>	<b>29.2</b>	<b>29.8</b>	<b>1.9</b>	<b>14.4</b>	<b>16.6</b>	<b>15.5</b>	<b>492</b>	<b>557</b>	<b>13.3</b>
Co-financing <sup>2/</sup> (-)	1.5	1.7	14.4						
<b>Total</b>	<b>27.7</b>	<b>28.1</b>	<b>1.3</b>	<b>14.4</b>	<b>16.6</b>	<b>15.5</b>	<b>519</b>	<b>592</b>	<b>14.1</b>
<b>Information figures</b>									
Total co-financing (-)	3.0	2.3	-23.3	1.8	1.6	-13.8	611	687	12.4
Infonavit Total	1.5	0.6	-62.4	0.6	0.1	-77.6	428	255	-40.4
Other	1.5	1.7	14.4	1.2	1.4	19.6	788	824	4.5

1/ The "banks" heading includes loans granted to employees by the financing agencies.

2/ Ex Infonavit Total and Apoyo Infonavit (new and second-hand homes). Does not include products for renovation work.

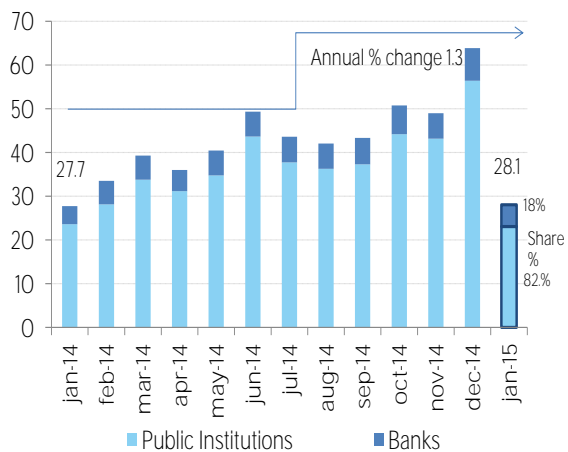
Source: BBVA Research using data from Infonavit, Fovissste ABM, AHM, the central bank and the CNBV.

<sup>1</sup> Official Journal of the Federation, 23/10/2014: Resolution 49.1346.2014 of the Board, regarding approval of the 2015 Lending Programme of the Housing Fund of the Social Security and Services Institute for State Workers

**The banking sector saw double-digit growth in the opening month of the year**

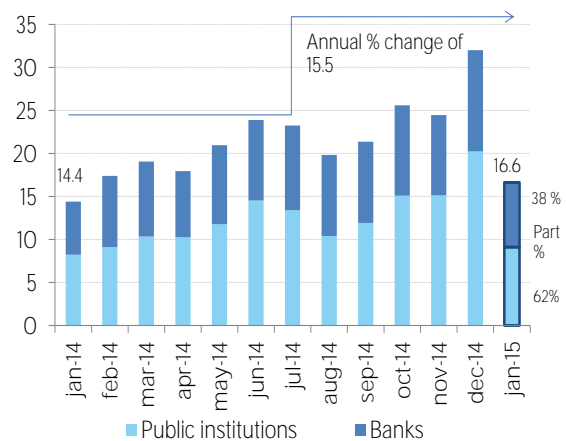
In January 2015, commercial banking's mortgage loan portfolio grew 19.4% against the same month in 2014, while the total amount lent rose 21.5% in real terms. Even though this result is fairly positive, it should not be over-estimated for three reasons. First, there is a base effect with respect to January 2014, whereby a lower origination rate was recorded on account of a notable increase in demand in the final quarter of 2013, when taxes on housing transactions were expected to be lifted in 2014. Second, an increase in loan amounts by the housing agencies, whether via an increase in the upper limit for the loan or because of the greater availability of loans calculated in pesos. This will mean that housing demand, mainly in the medium-range segments, will continue to drive up the average amount. In the case of Fovissste, this has already topped MXN600,000, while for Infonavit this has risen past the MXN300,000 mark.

**Figure 1**  
**Number of loans per organization thousands, % change and % share**



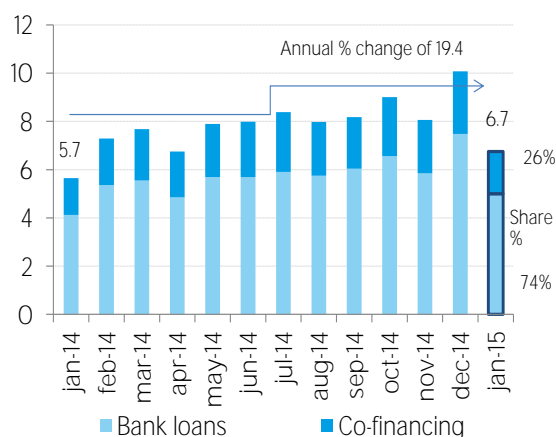
Source: BBVA Research with ABM, Infonavit, Fovissste data

**Figure 2**  
**Loan amount by organisation, MXN bn at 2015 prices, % change and share**



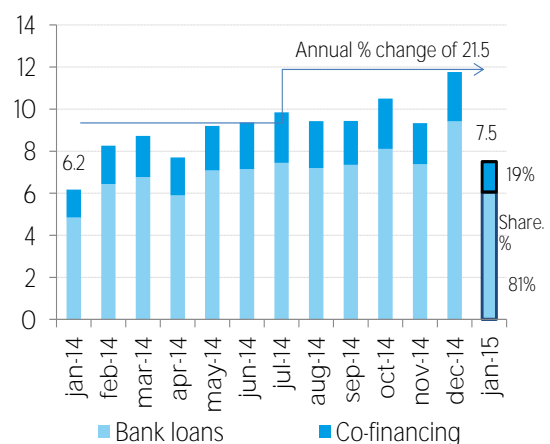
Source: BBVA Research with ABM, Infonavit, Fovissste data

**Figure 3**  
**Commercial banking: number of loans per product, thousands, % change and share**



Source: BBVA Research with ABM data

**Figure 4**  
**Commercial banking: loan amount per product MXN bn at 2015 prices, % change and share**



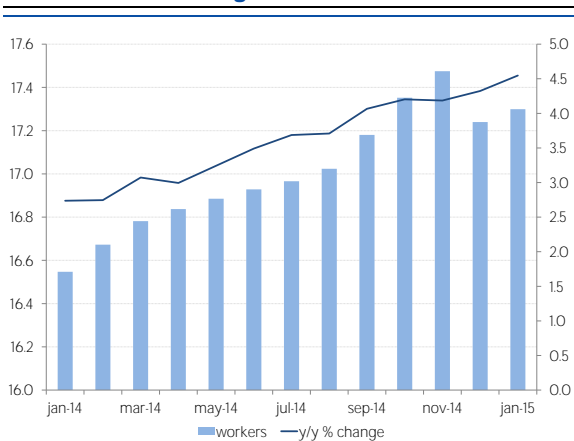
Source: BBVA Research with ABM data

Third, greater demand for loan switching products, which we expect to increase their share of origination as a result of the decrease in the costs of transferring secured credits and greater competition among banks. Whereas in January 2014 the loan switching product category accounted for 8% of origination, in January 2015 its share had climbed to 12%.

The above situation, together with expectations of an interest rate rise in the second half of the year, could be producing a counter-cyclical effect, which will remain if employment continues to grow. The real wage bill has registered something of an improvement in recent months, which has been positive in terms of keeping up the growth cycle mainly in the medium-range segments, where there has been the biggest volume of loan applications.

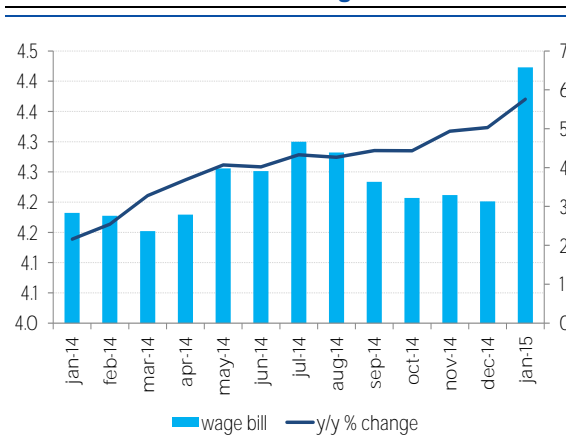
It should be pointed out that the improvement in purchasing power of workers in the formal sector can mainly be attributed to a drop in inflation, rather than by any increase in income. In this sense, the central bank's monetary policy has acted pro-cyclically in extending the period of mortgage loan growth, which has occurred in combination with formal employment growth.

**Figure 5**  
**IMSS: affiliated workers, Millions and % change YoY**



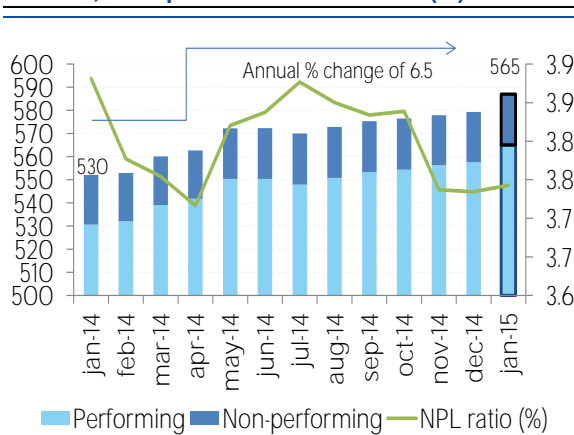
Source: BBVA Research with STPS data

**Figure 6**  
**IMSS: wage bill for workers MXN bn and YoY real % change**



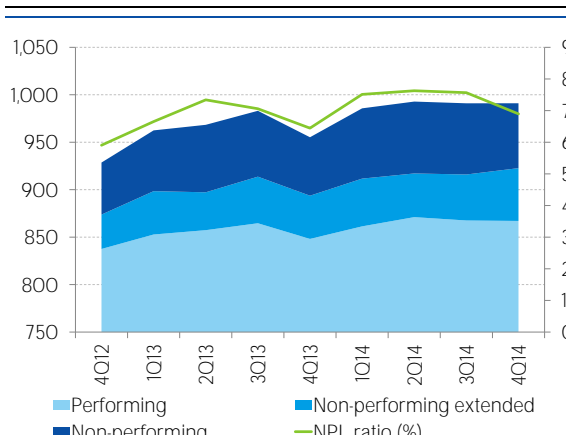
Source: BBVA Research with STPS data

**Figure 7**  
**Commercial banking: mortgage portfolio balance MXN bn, 2014 prices and default rate (%)**



Source: BBVA Research with central bank data

**Figure 8**  
**Infonavit: portfolio balances and default rate MXN bn and %**



Source: BBVA Research with infonavit data

The above is also reflected in a greater mortgage portfolio balance in commercial banking, which has continued to rise, both in own funds origination and the amount co-financed with the housing agencies. Without taking into account the "Infonavit Total" product, co-financings were up 14.4% in number terms,

but almost 20% in the amount lent in real terms. On the other hand, Infonavit increased its portfolio balance in December, although this was partly because of the year-endseasonal effect. The agency's default rate was 6.9% at the close of Q4.

### New project registrations continue to increase

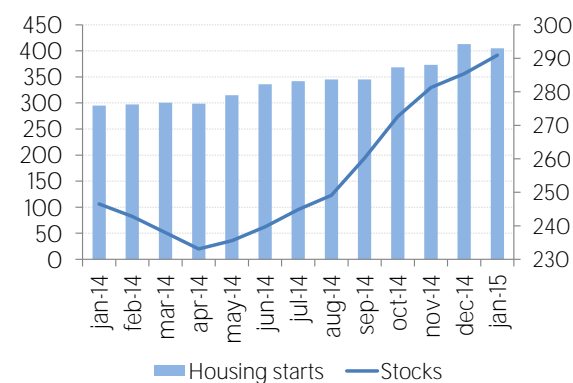
In January 2015, filings of new home builds stabilised with respect to December, when the figure of 400,000 homes in annualised terms was achieved. Of total registrations last year, however, only 26.7% are units that were at the origination stage. On the other hand, 32% have not begun to be built or else have not seen any verified work done on them.

In spite of this, we expect the building process for the remaining registrations to commence in the course of the year, which is also being evidenced in higher stock levels, these having sunk to lows in 2H14 and since recovered gradually.

The developer's house-building loan is still the key product for residential construction, as other options have lost out in share as sources of funding for housing developers. Although commercial banks are likely to invest sizeable sums in developer's house-building loans, in January the balance for these came down by 1.4% in real terms against January 2014. We associate this outcome with the lower interest rates which we have been seeing for six months now, which lead to a smaller sum of interest. We nonetheless expect this product to continue to be the best loan option over the year and to grow as the number of residential building projects increases.

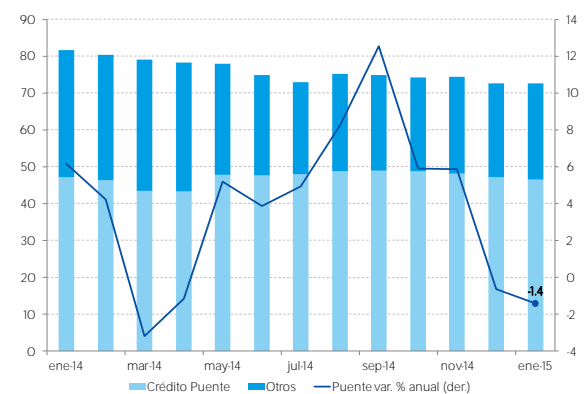
Further measures have been announced to stimulate housing construction. For example, tax benefits will be brought in to regularise the VAT owed by providers of services for construction who require this, which will allow companies which have acquired the service to be able to deduct this from the corresponding Income Tax (ISR). On the other hand, the ISR may be covered in part-payments and not in relation to the full sale amount, provided that the disposal has been agreed in instalments. At the same time, programmes will be established to simplify the formal processing and costs involved in obtaining construction licences and permits, such that they will become standardised.

Figure 9  
New projects and stock of new housing, thousand units in annualised figures



Source: BBVA Research with RUV data

Figure 10  
Residential building lending: total portfolio MXN bn, 2014 prices and YoY real % change



Source: BBVA Research with CNBV data

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