The Role of the Sociedad Hipotecaria Federal in the Development of the Mexican Mortgage Market[1]

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INTRODUCTION

At the beginning of the nineties, Mexico underwent a bank-driven mortgage boom, due to the extreme liquidity of the banking system. Generally, the loans granted by the bank were long-term variable rate loans. At the end of 1994 there was a financial crisis and the interest rates rose significantly, which meant that, alongside the economic crisis and unemployment, there was a high level of mortgage repayment difficulties.

From 1995 onwards, as a way out of the crisis, banks began to withdraw from housing finance. The predecessor to the Sociedad Hipotecaria Federal (SHF) which was called Fondo de Operación y Financiamiento Bancario a la Vivienda (FOVI) had been operating through the banks and was left without a financial intermediary through which to invest its resources. It should be noted that the loans granted by FOVI, including those granted prior to the crisis, were not variable rate ones, but the increases they experienced in their monthly mortgage repayments were related to the increase in the minimum wage. However, most of the system was based on bank loans which were not associated with FOVI, and that led to quite a significant crisis.

That same year, FOVI began to look for other ways to get their loans to the public, and a new vehicle emerged called sociedades financieras de objeto limitado, more commonly known as *sofoles*. The *sofoles* are similar to what are called *non-bank banks* in the United States, which means that they are essentially mortgage lenders without the capacity to attract savings from the public. *Sofoles* can get only interbank credit or resources by issuing securities. FOVI began to operate through the *sofoles* and this led to the emergence of a new specialised mortgage bank in Mexico. There had previously existed a specialist mortgage bank and this disappeared in the nineties.

1. CREATION OF THE SOCIEDAD HIPOTECARIA FEDERAL

The Fondo de Operación y Financiamiento Bancario a la Vivienda (FOVI), which was the predecessor to the Sociedad Hipotecaria Federal (SHF), was created as a trust in 1963 and was administered by the Banco de México (central bank). From February 2002, the SHF took on FOVI's trust role.

The SHF[3] was created in order to grant loans and guarantees to intermediary finance organisations. It should be noted, however, that the ability to grant loans only extends until 12 October 2009. From then onwards, the only effect the SHF will have on the market will be by granting guarantees. The SHF depends entirely on the backing of the Federal Government for all the securities it takes on until 12 October 2013, and until these expire. From then on, whatever securities the SHF undertakes will no longer be supported exclusively by the Federal Government, but instead by the institution's financial strength.

This means that at the moment the SHF is an institution which operates in essentially the same way as FOVI used to, i.e. granting loans to intermediaries, but it will have to radically change so that by 2010 it will no longer be granting finance to intermediaries and by 2014 its financial stability will already be independent of Federal Government support.

FOVI's resources used to come from portfolio earnings, loans from the Federal Government and the Banco de México, as well as loans from international finance organisations, primarily the World Bank. Prior to 1995, FOVI channelled these resources through banks and after 1995 through the *sofoles*, in order to grant short

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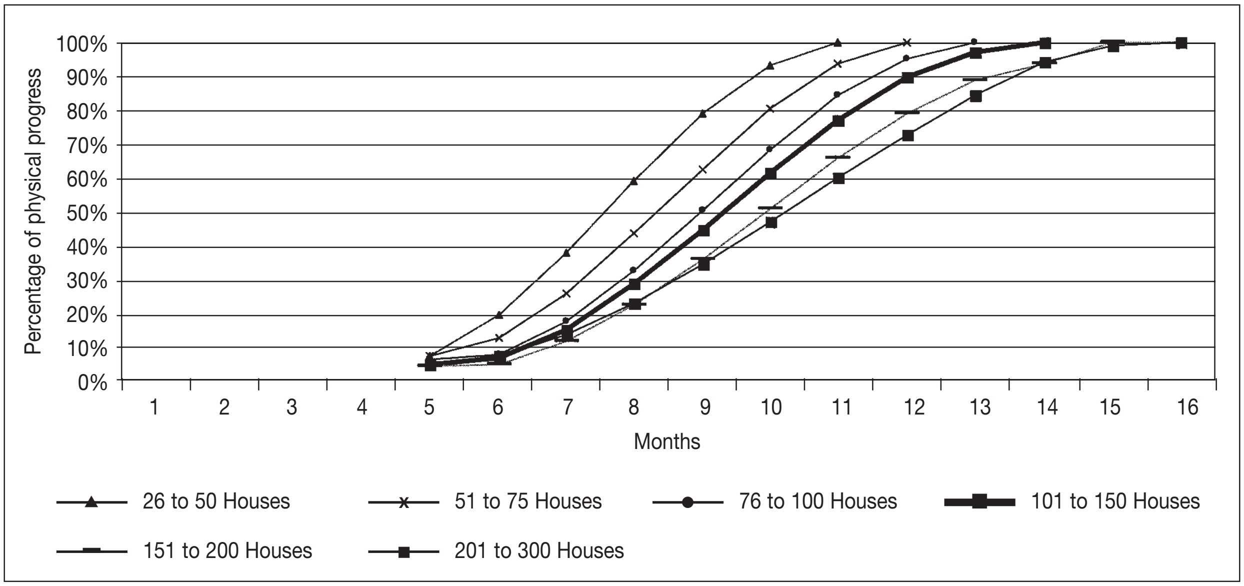
[3] On 11 October 2001 the act was published which subsequently became SHF's Ley Orgánica (Organic Law) and this came into effect on 26 February 2002.

GRAPH 1
Work Progress in Housing Developments Performance



term loans for construction and long term loans for acquiring homes. When the SHF was created, it was with the intention that this institution would have sufficient power to attract financial resources from the market, so that it can continue granting loans to the *sofoles* as FOVI has been doing.

One function that FOVI did not undertake, and which SHF can and is already doing, is trying to ensure that the *sofoles* finance themselves directly, using bank facilities or through the securities market, but supported by an on time payment guarantee granted by the SHF. Thus, the *sofoles* are able to obtain certified resources from the market with this guarantee, which can be channelled to acquire and build homes. Although from 2010 the SHF will not be able to directly finance the *sofoles*, it will be able to continue granting guarantees so that they themselves can obtain resources from the market.

The SHF's primary mandate is to develop the mortgage securitisation market by granting guarantees and standardising the practices of initiation and administration of mortgage loans. In 1997 the social security reform came into effect in Mexico, and the administradoras de fondos de retiro (*afores*) (retirement fund administrators) emerged. This is a pension system with individual capitalisation funds administered by private bodies, very similar to the Chilean system and others which have sprung up in Latin America. This practically "condemned" the system to financing the granting of housing loans through securitisation, as a significant part of the country's savings flows through pension funds - becoming a natural source of finance for mortgage loans.

The fact that the SHF holds the mandate to develop the mechanism for securitising mortgage portfolios is related to an awareness that the pension funds are and will be a significant element of the country's long term financial savings, and those are resources which must be exploited in order to finance housing. Mexico's contribution mechanism is very clear in the sense that it requires these pension funds to be invested in bond securities, as there is a specific prohibition that prevents them from being invested directly in individual mortgage loans.

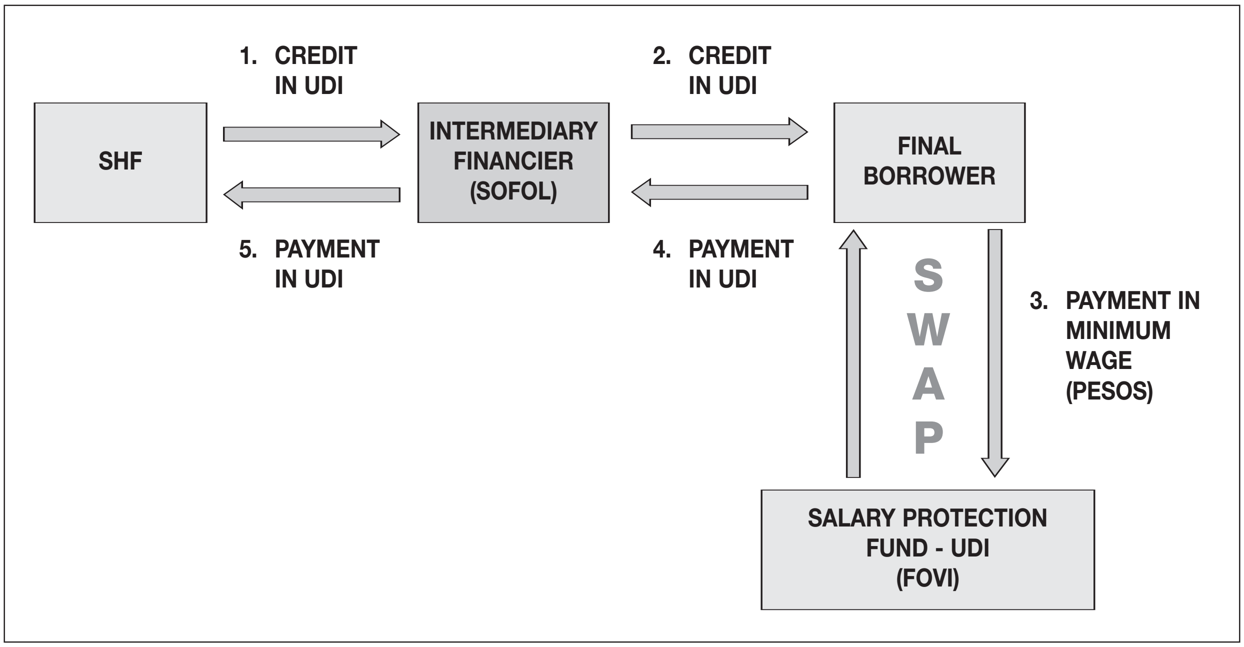
3. SOCIEDAD HIPOTECARIA FEDERAL'S PRODUCTS

3.1 Housing construction loans

The SHF has a range of products. One of these is the housing construction loan, which is a medium term loan - up to a four year term - which is granted to the *sofoles*. The *sofoles* in their turn grant loans to housing developers which finance up to 65% of the housing sale price. The *sofol* taking on the finance also assumes responsibility for the credit risk: if the builder doesn't pay the *sofol*, then *sofol* still has to pay the SHF. That means that the credit guarantee will have to have SHF as the first beneficiary. The risk that SHF assumes is the *sofol*'s inconsistency, not the builder's. This is an excellent mechanism for reaching the market.

The *sofoles* have been acting as very efficient construction process monitoring agents. To date, there are no expired portfolios between the finance intermediaries and the SHF. This does not mean that all projects are problem-free, however any problems are small and

GRAPH 2
Protection Against Systematic Risk



isolated so that they are absorbed within the *sofoles*' capital. The fact that the intermediary financiers take on the builder's risk has proved to be a useful tool.

The real weighted interest rate applicable to these types of loan in June 2003 was 7.48%, whilst the marginal rate was 5.29%, which is much lower than it was a few years ago, and so it encouraged a reactivation of the construction market. The credit for housing construction granted by the SHF rose to 13,872 million pesos (US$1,400 million) at 31 December 2002, whilst the net flow of credit granted between January and June 2003 rose to 6,799 million pesos (US $700 million).

Graph 1 shows the time taken to develop the housing construction projects. The biggest projects, of between 200 to 300 dwellings, take around 16 months from the moment of registration in the SHF to completion, whilst those with fewer dwellings take a little less time. The chart considers lots of up to 300 homes, although some of the larger developers build thousands of homes in one development, which they register in parcels of 300 in order to be able to administer them effectively.

3.2 Housing acquisition loans

The SHF also provides resources for acquiring properties through intermediary financiers. Once construction is completed and the properties are on the market, the SHF once again grants a loan to the *sofol* so that they can provide loans to the potential owners. With this type of loan, the maximum finance available is 90% of the value of the property, the term is 25 years, and although the amount of the loan is stated in Unidades de Inversión (UDI) (investment units), an accounting unit which alters in line with inflation, the monthly payment that the borrower makes is denoted by the minimum wage. It should be emphasised that all the loans granted by the SHF come with a payment default guarantee and this is explained in the next section. The loan guarantee has to have the SHF as the primary beneficiary.

The interest rate that the borrowers of this type of loan pay is the rate of inflation plus 13.7%, which consists of: the rate that the SHF charges the intermediaries is 7.25%; the guarantee premium is 70 basis points (or 0.69%); the brokerage margin is around 1.9%; the administration fee is 2.4%; the first premium for injury and life insurances is 0.75%; and the premium for salary protection *vis-à-vis* UDI - which is the mechanism which allows the lenders to pay by minimum wage even when the loan is stated in UDI - is 0.71%. Thus, for this product there is no subsidy. The loans are relatively expensive - inflation plus 13.7% is no small amount - plus the acquisition rate tends to remain relatively high, and the same is true of the administration fee and the *sofole*'s intermediary margin. There is a determination to reduce these costs by continuing to make the market more efficient rather than by using subsidies. To date there are no expired portfolios between the intermediary financiers and the SHF on individual loans. The net flow of credit granted between January and June 2003 was 5.683 million pesos (US$600 million).

TABLE 1
SHF General Balance Sheet at 30 June 2003
(in millions of pesos)

Available assets		4,867.3	Deposits	3,382.9
Credit portfolio			Bank bonds	15,094.2
Construction credit		12,418.0	Interbank loans	10,877.9
Acquisition credit		28,910.9	Multilateral organisations	4,528.6
Without Subsidy	19,130.4		Other liabilities	1,479.9
With Subsidy	1,009.2			
FOVISSSTE	8,771.3		**TOTAL LIABILITIES**	**35,363**
Reserves for credit risks		(711.0)		
Other assets			**ACCOUNTABLE CAPITAL**	**11,205.9**
1,084.1				
TOTAL ASSETS		**46,569.4**	**LIABILITIES AND ACCOUNTABLE CAPITAL**	**46,569.4**

ORDER ACCOUNTS – Guarantees granted 8,833.0

3.3 Payment default guarantee

The SHF provides the intermediary financiers with a payment default guarantee, which means that when the borrower stops paying, the SHF covers the first loss up to 25% of the unpaid balance of the loan. The eligible loans are those granted by the intermediary financiers approved by the SHF. A premium of 69 basis points is charged for this.

The SHF grants an advance payment of the guarantee in the sixth consecutive month that payment has not been made. The aforementioned payment is equivalent to 25% of the amount obtained by adding together the capital, ordinary interests, delayed payments and the collection and cover commissions, as well as the commissions for insurances not paid at the date of this payment default.

Once the sale or auction is completed, the amount of the loss is the difference between the value of the sale and the amount including the balance of the unpaid loan plus costs incurred to recuperate the loan. From the previous result, the SHF will only cover up to the amount equivalent to the updated advance. If the advance was greater than the intermediary's loss, they would have to reimburse the difference to the SHF.

The guarantee can be extended to loans granted by intermediary financiers with their own resources. It is aimed to modify this product in order to bring it into line with international standards.

3.4 Cover against systemic risk

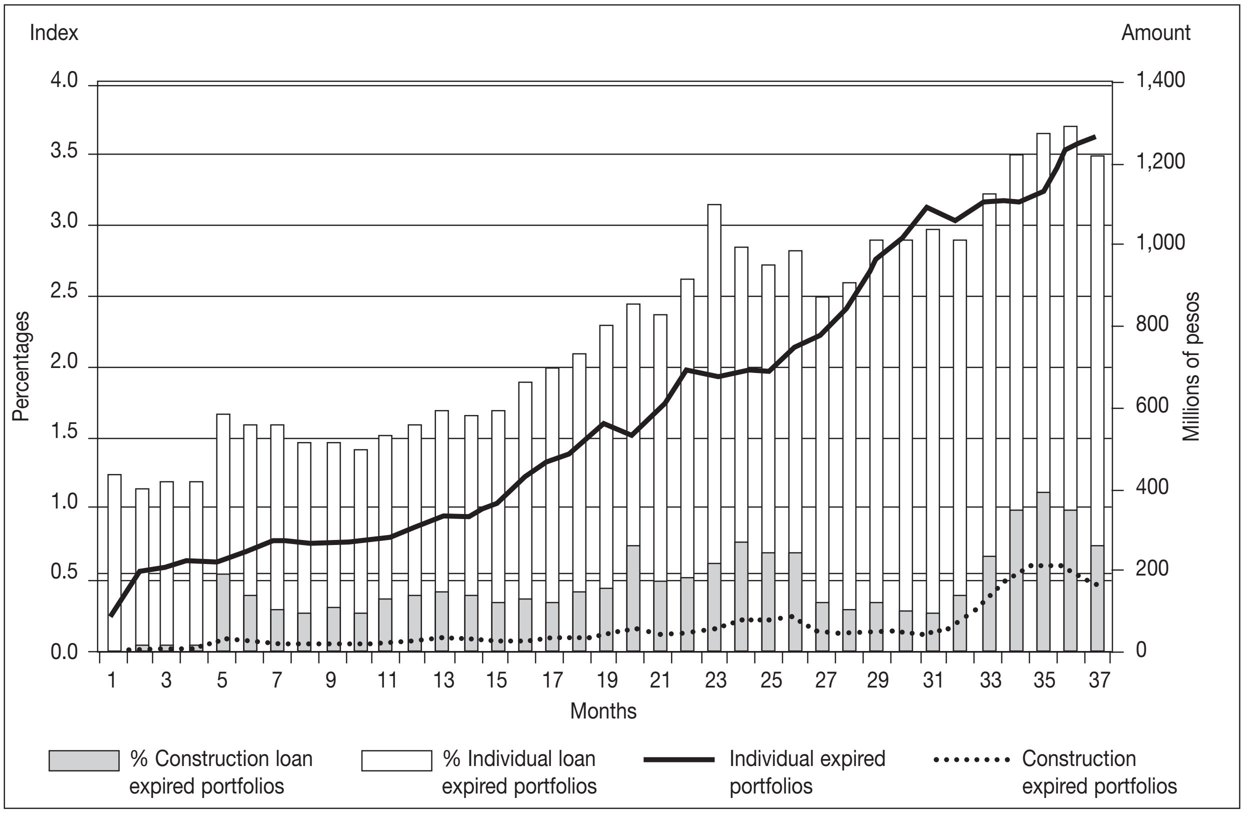
The SHF also grants cover against systemic risk. This systemic risk guarantee covers possible unexpected or permanent drops in real terms in the minimum wage, so allowing the borrowers to pay a mortgage stated in UDI in minimum wage terms.

The instrument that is used to enable debtors' payments only to increase in accordance with the minimum wage, despite the loan being stated in UDI, is a swap. In order to achieve this, the borrower pays in minimum wage terms, but the intermediary financier receives flow in UDI and in the middle is the *swap* which is offered by the SHF (see graph 2). The mechanism to offer this *swap* is as follows: the SHF charges a premium of 71 basis points, and it uses that to create a fund so that if the minimum wage falls behind inflation, the fund will cover those losses. This is a fund which is managed very carefully, and it is set up to cover a fall of 25% of the minimum wage compared with inflation over a period of 30 years. In other words, the amount that is currently charged is sufficient to cope with a real deterioration of 25% of the wage over 30 years. If the deterioration is greater, the SHF will encounter losses; if it is less, it will make a profit. We believe that, from a financial point of view, this charge will be profitable; nevertheless, it is a charge that still remains very complicated and which could be offered by the private sector.

3.5 On-time payment guarantee (OPG)

The on-time payment guarantee (OPG) was set up with the purpose of guaranteeing credit facilities, up to 100%, destined for financing housing construction through intermediary financiers (*sofoles*). The OPG covers the payment of capital and ordinary interest through payment default on the part of the debtor. That is to say, when the *sofoles* are unable to repay the bank or the market, the SHF would make this payment. This mechanism substitutes the financing of the SHF by the *sofoles*, by direct finance through the market.

GRAPH 3
Expired Portfolio Individual Loans and Construction Loans



If the borrower defaults on the payment, the creditor asks the SHF to exercise the OPG and this is honoured within 48 working days. The intermediary financier covers the cost of the OPG with monthly payments of between 1.29% and 1.72% on top of the amount arranged for the credit facility. The OPG is valid throughout the duration of the credit facility contract. Within the programme of issuances, the SHF guarantees against payment default up to a set percentage of the total issue.

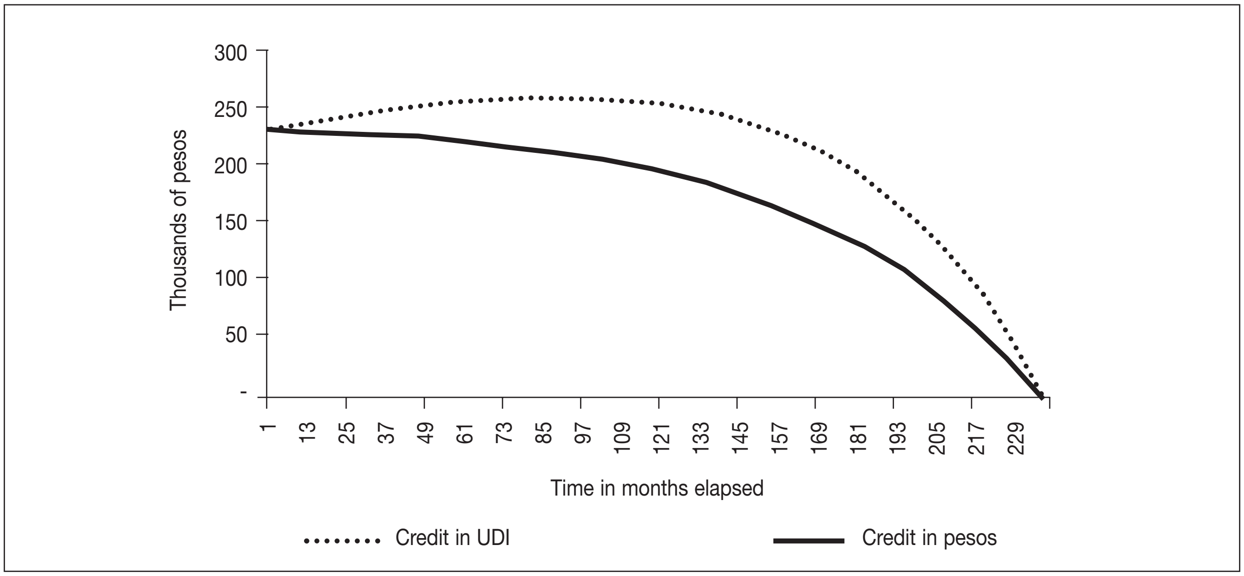
Until August 2003 there were two issues by the *sofoles* in which the SHF granted the OPG. The first was carried out in October 2002 through Metrofinanciera, and the amount of the issue was 1,000 million pesos (US$100 million), for a term of 7 years. The OPG was 14.2% of the issue and the cost of the guarantee rose to 0.41% over the unpaid balance of the securities. The second was carried out by Crédito y Casa, with an issue amount of 1,000 million pesos (US$100 million), for a term of 5 years. In this case, the OPG was 6.32% of the issue and the cost of the guarantee rose to 0.28% over the unpaid balance of the securities. The risk assessment agencies *Moody´s* and *Standard & Poor´s* considered that the guarantee was initiated by the SHF to increase the credit quality of both issues to AAA, so that with this the sofoles could obtain funds for the granting of loans.

During 2003 the SHF plans to grant guarantees for construction credit facilities of around US$1,800 million. It is hoped that this product will help to drive the entry of capital and credit institutions into the Mexican construction finance market. The credit facilities began with 100% coverage; however, this is gradually decreasing year on year as the participants are integrating into the market. The SHF feels that they have to push the issuance of stock market certificates with OPG further, since they are currently more efficient than the bank credit facilities.

3.6 Programa de subsidio a la adquisición de vivienda (PROSAVI) (Subsidy programme for acquiring housing)

The programa de subsidios a la adquisición de vivienda (PROSAVI) essentially consists of granting subsidies of around US$5,000 directly to the buyer, so that he or she can

GRAPH 4
Evolution of Unpaid Balances in Pesos
(Annual inflation 3.5%)



acquire a property with a maximum value of US$15,000, with the balance made up of a mortgage loan under market conditions. The mortgage loans are granted by *sofoles*, who in their turn depend on a payment default guarantee of 100% of the unpaid credit balance. This programme is aimed at sections of the population with a family income less than or equal to the minimum wage (approximately US$645 per month). Between 1997 and 2003 a total of 67,000 mortgage loans were granted under this subsidy programme.

4. LA SOCIEDAD HIPOTECARIA FEDERAL'S RISKS AND BALANCE SHEET

To June 2003, the SHF had granted loans for construction to the *sofoles* of 12,418 million pesos - US$1,200 million - and individual loans of around 28,910 million pesos - US$2,900 million. Of this amount, a total of 19,130 million pesos - US$2,000 million - are loans outside the previously explained direct subsidy component. These loans are financed with resources from interbank loans, with bank bonds issued by SHF to the market, and with loans from multilateral organisations (see Table 1).

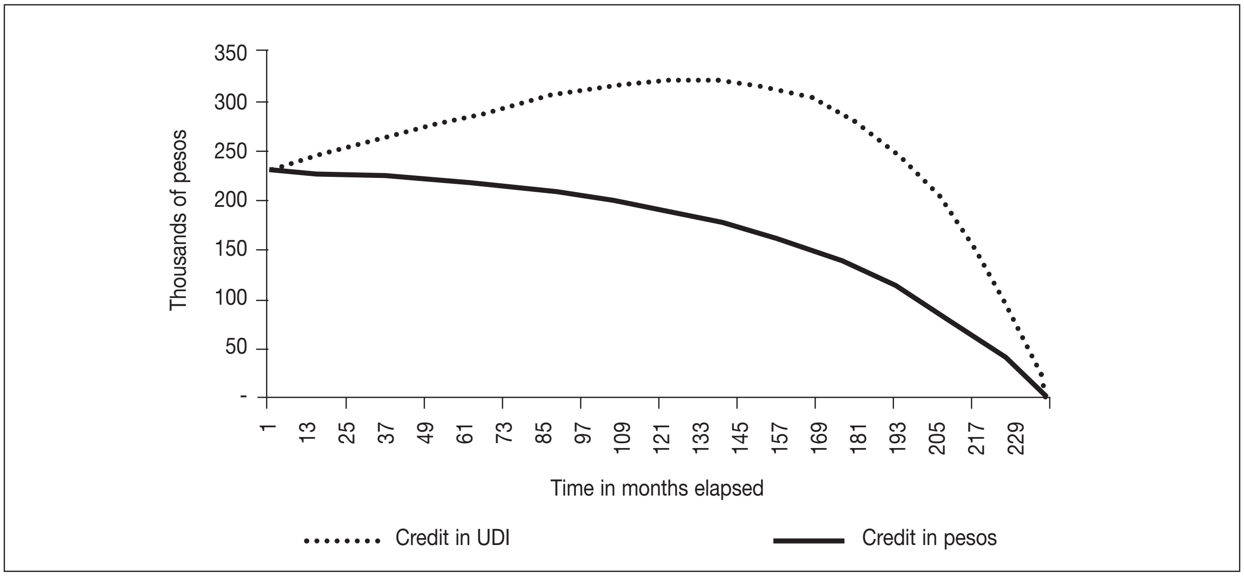
With regard to credit risk, the level of expired portfolios in this system is relatively low, given that the *sofoles*' incentives are sufficient to minimise the risk associated with their operations. They report an expired portfolio index in construction loans of around a half per cent of the whole portfolio, and an index of the portfolio of individual acquisition loans of around 3.5% (see Graph 3). Both the individual loan portfolio and the expired loan portfolio continue to grow, and arrears are relatively low, although it must be remembered that the portfolio is still relatively young. The payment default probability statistics indicate that they reach the maximum/high point around month 32, which means at least three years from initiation. If the current figures continue as they are, the expired portfolio should become established around the levels that are currently being reported.

In various international markets a similar behaviour can be observed in the life of mortgages. The probability of payment default is higher between the third and fifth year of the loan. After that, payment default on loans decreases since the value of the property is greater than the balance of the loan. As the portfolio matures, the probability of payment default of valid loans diminishes, because the value of the property continues to exceed the loan balance.

It should be emphasised that the SHF finances acquisition loans which it grants to the *sofoles* with exactly the same characteristics as the loans for individual borrowers, which means that the *sofoles* don't take on the market risk; the SHF does this, and it is a very pertinent decision. Although the loan risk falls to the intermediaries, and it is a risk that they are able to control, the SHF manages the rates risk. Because of the volume of resources that it handles, it is easier for the SHF to manage the market risk. We consider that this decision was very important in the development of the system.

Due to the difficulty of issuing fixed rate long term liabilities, the SHF takes on any discrepancy between the duration and the

GRAPH 5
Evolution of Unpaid Balances in Pesos
(Annual inflation 6%)



currency of the assets (long term real rate) and the liabilities (short term nominal rate) which is exposed to significant market and liquidity risk.

5. LA SOCIEDAD HIPOTECARIA FEDERAL'S STRATEGIC PROJECTS

One of the projects on which the SHF is focusing its efforts is that of controlling loan risk. In order to achieve this it keeps the intermediary financiers under a program of continuous supervision and minimum capitalisation. In line with bank practice, from May 2004 the intermediary financiers working with the SHF are subject to a system of capitalisation whose minimum index is 8% capital with respect to the assets at risk.

This capitalisation considers the intermediary's rating in order to weigh up the individual portfolio in terms of types of asset and their arrears. Intermediary financiers who did not have minimum required level, had to agree last March to a capitalisation commitment, signed and endorsed by their Board of Directors and the SHF, so that by February 2004 at the latest they could rely on the 8% being established.

A second aspect on which they are working is improving the credit analysis and in order to do this an area of specialisation has been set up. This means that now the SHF relies on essential human resources in order to carry out an *in situ* audit of the intermediary financiers, with the aim of checking the practices of initiation and administration, as well as accounting, so that they can be absolutely sure of the financial power of these intermediaries. Responsibilities that fall into the area of Credit Analysis include:

(a) Design and implementation of a method of supervision, in situ and extra situ, which enables the financial status of the intermediaries to be assessed.

(b) Development of an early warning system which enables financial difficulties within the intermediaries to be identified.

(c) Checking that the intermediaries meet the financial parameters set by the SHF, particularly the capitalisation indices and the minimum liquid asset requirements.

(d) Checking that the intermediary financier's reported loan process (initiation, administration and recovery) meet with the standards set by the SHF at all times.

(e) Audit of processes and systems to ensure the quality of information held by the intermediaries.

A third aspect that the SHF has been developing over the last year and a half is the new credit score tool known as *scorecard*. This enables improvement in the quality of the portfolio without losing the SHF's objective to make housing accessible to all. With a database of approximately 300,000 loans it is possible to establish a fairly strong statistical relationship between the sociodemographic data of the borrower (such as age, sex, marital status, number of children, income, length of time in work, number of dependents, level of education, length of residency, etc.) and the probability

TABLE 2
Fixed Rate Credit in Pesos

	FINANCIAL CONDITIONS	Credit in UDI	Credit in pesos	
1	Value of housing	83.333	273,421	
2	Initial share	15%	15%	
3	**Percentage of credit**	**85%**	**85%**	
4	Amount of credit	70.833	232.408	
5	Term in years	20	20	
6	Base rate	5,78%	9.97%	
7	SHF's margin	1,47%	1,36%	
8	**SHF rate of interest**	**7,25%**	**11.33%**	= 6 + 7
9	First loss guarantee	0,69%	0.82%	
10	Bank's margin of risk	1,90%	2.20%	
11	Administration commission surcharge	2,40%	2.40%	
12	Life insurance rate	0,75%	0.75%	
13	**Total credit rate**	**12,99%**	**17.50%**	
15	Swap guarantee premium	4,35%		
16	Repayment	829,36		
17	Swap premium in UDI	36,08		= 15 x 16
18	Total fixed payment in UDI	865,44		= 16 + 17
19	Initial payment calculated in pesos	2.839,55	3,498	= 18 x UDI
20	**Payment factor in thousands**	**12,22**	**15.05**	= 19 x 1000 / 4
	Necessary monthly income 29% of income	**11.358**	**13,990**	
	Necessary monthly income 30% of income	**9.465**	**11.659**	
	Implied rate	**13,70%**	**17.50%**	

of non payment. With this information, from September 2003 onwards, a loan pre-approval mechanism financed by the SHF will be introduced to the system, by which using the individual's socio-demographic data, the SHF will be able to tell the intermediary financier if it is willing to finance that type of individual or not.

The model that has been developed identified quite a clear distinction between good and bad credit, which will allow a great improvement in the quality of the end-borrower. Individuals who do not have a high enough *scorecard* to take out a loan, will be granted finance without the SHF's guarantee, which means that either the *sofoles* have to increase their capitalisation or a savings scheme needs to be developed by which these people, if they comply with the savings scheme, will obtain points which will enable them to take out a loan. Loan selection will facilitate a lower expired portfolio and greater profitability.

A fourth aspect is controlling the market risk by acquiring *swaps* which pay real fixed rate and receive short term nominal rate, and the issue of limited liabilities with the assets. The *swap* in the SHF's balance sheet allows the conversion of some of the debts from short to long term liabilities, which creates equilibrium in maturity and reduces risk. In this way, the *swap* protects the value of the original capital from rate increases. However, it remains exposed to the risks of prepayment, which can be controlled, optimising the amount and the maturity of the *swap*'s position.

Another project which will begin in September 2003 is the issue of fixed rate loans stated in pesos. Although the loans stated in UDI which are paid in minimum wage will continue to be valid, it is hoped that in the future this new fixed rate product in pesos, which the country's current macroeconomic situation renders feasible, will replace that of the UDI/minimum wage. The transfer towards a more traditional fixed rate peso loan scheme is possible given that the SHF can cover these market risks, thanks to the country's economic stability.

The main risk factor in a UDI loan is inflation increasing the balance and payment in accordance with the pace of inflation. The loan balance in pesos implies a lower long term credit risk due to the fact that it decreases more quickly than the balance of a UDI loan. The UDI loan can support a balance in pesos which is greater than the original after 10 years of on-time payments (see Graphs 4 and 5, and Table 2).

The next project is perhaps the heart of what the SHF should be in the future and this is known as Fuente Integral de Estadística Hipotecaria (FIEH) (Statistical Mortgage Integral Source). The FIEH will be a centralised database aimed at identification, control, description and monitoring of all the properties and mortgages that require some level of credit risk cover, or which are securitised. This body will centralise the information provided by participants in the securitised mortgage portfolio scheme. All the information required for every loan will be received by this body, so that there is complete transparency in the market.

The concept of creating a single centralised database means the following objectives can be achieved:

(a) Establishment of minimum criteria for initiation and administration, in documentation as well as working practices, which standardise risk within the sector.

(b) Establishment of universal standards of organisation and use of the information.

(c) Ease of access to the Mexican mortgage market by risk takers, providing them with information about the market to which they will be exposed.

(d) Obtaining scale economies in data storage and information use.

The database will be based on four types of information: sociodemographic information about the borrower, information on the borrower's monthly payments; information on the property; and information on the loan recovery once it becomes an expired portfolio. With this information, which is a replica of the database of 300,000 loans which was used for *scorecard*, it is possible to construct probability statistics of individual payment behaviour based on his or her sociodemographic data, and to determine the loss once the loan falls into arrears. This is what enables any risk taker to estimate what the maximum likely loss involved with this credit risk is. Without this database it would be very complicated to ensure that the process of securitisation takes off, since that database is essential for the SHF to be able to take risks in a satisfactory way and, even more importantly, so that there are private bodies who are prepared to take those risks.

This issue is related to another project which the SHF intends to develop. This is the creation of a mortgage loan insurance market, based on the same principles on which the mortgage loan insurance has been developed in the United States. Thus, the SHF is looking to support the development of primary and secondary mortgage markets through mortgage loan insurance as well as issue insurance backed by mortgages. There are two central ideas to meet the needs of this market: the first is the information, which is resolved by the FIEH and the second consists on being able to depend on clear rules of capitalisation and reserves for this type of intermediary. With this in mind, work has started on the creation of an insurance company as a subsidiary of the SHF which allows it to carry out reinsurance to alleviate its balance sheet risks; to have an adequate regulatory and accountable framework; and to create the necessary conditions so that private participants will enter into the mortgage loan insurance market as well as the financial guarantee insurance market.

The SHF is looking to adopt international standards in operational and risk practice for mortgage loan insurance. With such a proposition it hopes to: (a) strengthen the organisational structure in the insurance sector; (b) contract for consultation services with international experts in this field; and (c) to migrate from the current payment default guarantee to one with characteristics which are compatible with international standards.

What the SHF is trying to do is to develop the mortgage portfolio securitisation market. In effect, it is about the intermediary financiers who instigate loans, whether for construction or for long term acquisition of housing, being able to sell those loans to a financial vehicle, which in Mexico's case would be a trust. That vehicle, which would have to be capitalised, would issue bond securities to the market. In order to give the credit credibility required by the market for these securities, the SHF would grant two guarantees: the payment default guarantee with mortgage loan insurance which covers the first loss of 25% of the value of the loan, and more if required; and an on-time payment guarantee, similar to those offered by *Fannie Mae*, for the issue of bonds. The difference would be that the latter would never be a 100% guarantee, since, in principle, partial classification must be maintained, in such a way that a fraction of the risk will be assumed by the intermediary financiers and another part by the investors. Although they are triple A bonds, they should not be risk-free bonds, in order to force the market to undertake the necessary risk monitoring.

Thus, the SHF would have three important roles in this market. The first is as an information provider via the FIEH, centralising all the available information in order to make the information as transparent as possible. The second is granting the payment default guarantee. The third is offering the on-time payment guarantee. These last two will be offered only if there are no private bodies interested in doing this. There is quite a lot of interest from North American mortgage insurance companies to launch into the Mexican market, to provide an on-time payment guarantee for registered securities. The main aspect that these companies are considering in order to eventually be able to enter the country, is relying on clear rules and information, and that is the main role that the SHF has to undertake. If the SHF wants to move out of finance and make the market begin to finance mortgages through the available resources in the pension funds, we believe that this is the way to do it, that is, to take risks that the private sector is not ready to take, and to go on building the infrastructure so that the private sector is prepared to take those risks.

Finally, the SHF is also working on the theme of valuations. Consequently, in addition to that which was set out by the Ley de Transparencia y de Fomento a la Competencia en el Crédito Garantizado, on 30 June 2003, the SHF published general rules relating to the authorisation of valuation experts for properties which are subject to guaranteed housing loans.

The purpose of the rules mentioned is to define the requirements for: (a) the registration of companies (valuation entities) in the SHF's register, and (b) authorisation of valuation experts who belong to valuation entities, as people accredited to carry out valuations of buildings which are subject to loans.

Additionally, in the second semester of 2003, the SHF will publish the methodology to be used for the aforementioned valuations. The SHF will be responsible for checking that the valuation entities as well as the authorised experts meet the up to date regulations at any given time. The SHF will develop a valuations database which will be used as a reference for new valuations and which creates confidence in the mortgage securitisation process.