

Summer E-Newsletter: A Guide on “How to Sell Mexico Mortgage Financing”

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As the noticeability and need for financing has increased, buyers of Mexico resort properties are now looking to Mexico real estate professionals for a clearer understanding of financing. **This has created the need for real estate professionals to feel more comfortable in selling financing in order to nail down a sale. After all, if real estate professionals do not see the value in financing, then they can't sell the value to potential buyers.**

Costs, rates and the process continue to remain a major road block at some part of the selling process. While our 3-Part Spring 2009 Newsletter addressed, in great detail, loan program updates, rates and costs of financing, we thought it is beneficial to have a **concise and easy FAQ on the most common and general questions that buyers are asking right at the start of any potential real estate transaction.**

Again, the greater comfort a real estate professional has with financing, the better they are able to sell a property!

General Potential Buyer Frequently Asked Questions:

- ***Is financing available?*** Yes

- ***What does financing look like?*** There are only a few lenders, all of which have U.S. dollar based loan programs, collateralizing the Mexico property. Mexico programs are ONLY for strong qualified second or investment home buyers.

- ***Who do you recommend?*** There are also a select few brokers. The lender programs are often the same with each of the brokers and between the brokers, you're selecting a service rather than rates, fees and programs.

- ***What programs are not the same?*** Conficasa Mortgage International offers an in house program that's very competitive and has a very solid track record, often closing the “trickier” files for our very diversified cliental.

- ***Who are the lenders?*** Today's lenders consist of BBVA / Compass, GE Money, Premier 6 (Conficasa Exclusive) and Scotia Bank

- **Which lender is the best?** It depends on specific needs, qualifications and goals. Brokers not only place you with the loan program that best fits your needs, but also are able to plan ahead with each lender's limitation or guideline concern if necessary.
 - BBVA / Compass Bank offers a great all-around loan program but it is limited in terms of documentation guidelines to anything other than full documentation. As with most lenders, pre-underwriting the file is key with this lender.
 - GE Money offers the longest standing lender program in Mexico but has recently rolled out less competitive programs that include a minimum down payment of 40% and minimum credit score of 720.
 - Premier 6 (Conficasa Exclusive) offers a very competitive program that includes guidelines that are more flexible than traditional full documentation. Therefore, if a borrower is self-employed and their documentation is not "standard" the Premier 6 loan program uses a "big picture" mentality for final decision.
 - Scotia Bank maintains the only construction loan program in the Mexico mortgage market and is therefore most commonly used for construction. The construction loan program is very attractive given its costs, rates and terms. Since their process consists of multiple levels of underwriting, the timelines may be longer than normal for standard purchases.
- **What are the rates?** Rates range between 6.5% to 9.5% depending on several factors, including how much down, how large the loan, the desired term of the loan and the buyers' credit score. A common mistake is comparing Mexico second home mortgages with U.S. primary mortgages. While we understand that American & Canadian buyers are used to very low rates on U.S. primary mortgages, rates for a U.S. second home mortgage are of course higher and often not well understood.
- **How much down?** 20% down is the minimum down payment
- **What are the costs?** Costs with Mexico financing are also not well understood. Meaning, many of the costs are present whether a buyer finances their property or pays with cash. However, borrowers typically associate all costs of the real estate transaction with the cost of financing the real estate transaction which creates an adversity to financing their purchase. The costs of a standard Mexico real estate transaction, whether CASH or FINANCED, will include a 2% acquisition tax on the purchase price, Notario fees, Closing Agent fees, Escrow fees, SRE Permits fees and other related fees for required documents like the Catastral Appraisal. (Please refer to Part III of Conficasa's Spring 2009 Newsletter "The Costs of Mexico Real Estate" for a detailed description of expected closing costs associated for a CASH and FINANCED real estate

transaction.) Additional costs when using financing include origination fees that vary from 2-3%, miscellaneous lending fees of roughly \$1,000 per transaction, and a Mexico Real Estate Guarantee which allows the lender to maintain a lien on the property (similar to a lien put on a U.S. property by a mortgage lender).

- **Why are the rates and costs so high?** Rates of Mexico financing are not as high as they seem. Most people are surprised at the small difference in rates between a Mexico **second** home mortgage and a U.S. **second** home mortgage (not to be confused with a U.S. primary home mortgage!)

Further complicating the understanding of costs is the fact that they are structured differently when comparing a Mexico second home mortgage and U.S. primary and second home mortgages. The difference in cost/fee structure results from Mexico second home mortgages being serviced by the banks that underwrite the loans, coupled with numerous third party affiliates mandated to accompany each transaction as compared to U.S. primary and second home mortgages which are sold in the secondary market and use a simpler and practiced version of a real estate transaction for legal purposes. Specifically, Mexico second home mortgages charge fees on the front of the transaction (known as loan origination fees or points). U.S. primary and second home mortgages sometimes charge upfront points but more likely charge their fees as part of the interest rate (known as “yield spread premium” or “YSP”) on the back end which is not transparent to the borrower. It is therefore more difficult to see the true costs of a U.S. primary and second home mortgage, but often they are equal or often even greater than that of a Mexico mortgage. Again, the main difference of the two is that a borrower pays the full cost of the loan at closing (for a Mexico mortgage) as compared to spreading the costs over the life of the loan through higher interest payments (for a U.S. mortgage).

- **How long does the process take?** Typically a complete transaction will take 90 days. In a cash sale, approximately 60 days. The reason for the time difference is because the loan itself must get approved prior to starting the closing process which requires upfront non-refundable monies paid to third parties. Because the underwriting process in Mexico is more rigid than one might be used to in the U.S or Canada – waiting until the loan commitment has been issued is a precautionary measure.
- **What does the closing process entail?** Once the file is approved, the file is transferred to the closing department. ConfiCasa Mortgage International has been APPROVED with all lenders to coordinate and manage the closing. While the lenders have previously appointed parties to handle closings, our experience has led us to be knowledgeable in all areas of the closing process – even being creative and timely when the Mexico factors arise!