CONFICASA MORTGAGE INTERNATIONAL
Financing Mexican Properties for American and Canadian Dreamers

February/March E-Newsletter - Market Update; The Ever-Changing Cross-Border Mexico Mortgage Market

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INTRODUCTION

In this difficult and ever-changing economic environment, ConfiCasa Mortgage International will be doing its best to **help the real estate and borrower community better understand the Mexico financing marketplace by addressing several recent concerns and questions currently circulating.** In order to do so, ConfiCasa will be publishing a *multi-part series of e-newsletters* over the next couple of weeks covering the following topics: **(i) market update**, **(ii) interest rate comparison between financing Mexico and U.S. second home real estate** and **(iii) further understanding the costs associated with financing Mexico real estate**.

We apologize in advance for inundating your email boxes, however, we feel time is of the essence to update you on all that is taking place and further educating you on fact versus fiction.

The first newsletter of this series is a **Market Update . . . .**

MARKET UPDATE OVERVIEW

In response to the ongoing economic turmoil, the U.S. and global financial marketplace has and continues to change significantly. This is especially true for the U.S. mortgage market which has seen interest rates rise and fall, minimum down payments increase significantly from the days of zero down to a minimum of 10 to 20%, a return to "back to the basics" mortgage loan programs with the elimination of non-traditional payment and adjustment options as well as stated and alternative document loans, higher interest rates and higher down payments on jumbo mortgages and significant scrutiny on home equity lines, among other ongoing changes.

Although the above information is becoming old news that the media has been emphasizing for quite some time, **it is important to point out due to the effects it has on Mexico cross-border mortgage financing.** Given that the current financial system is truly "global", it was just a matter of time before the financial and lending turmoil in the U.S. and across the world somewhat affected Mexico's lending environment. Therefore, it should not come as a shock to anyone that certain lenders are "tightening" their belts in light of the broader economic storm.

Over the last decade, the U.S. lending market has provided historically cheap and easy money. Although cheap and easy lending is arguably the main driver for today's economic turmoil, **most buyers have become accustomed to these lending terms and therefore, changes in the U.S. and now Mexico, have not been well received.** Overall, however, people must realize that this type of lending could not be sustained and the new lending guidelines in the U.S. (now trickling into the Mexico mortgage market) are still very advantageous, especially given that Mexico is a second home market in a foreign country (which will be discussed further in Part II of this e-newsletter series).

RECENT GUIDELINE CHANGES – WHAT YOU NEED TO KNOW!

Certain Mexico mortgage guidelines changes have recently occurred, with GE Money being the most notable. GE Money, the longest standing lender in the marketplace, has recently and drastically changed their guidelines. Before discussing these drastic changes, it is important to note that such changes are due to GE's exposure to the U.S. and global real estate market (which has been well-covered by the media) as opposed to anything specifically happening in the Mexico real estate market. Such changes include a significantly higher minimum credit score of 730 (from 680), maximum loan to value ratio of 60% (from 80%), maximum debt to income ratio of 35% (from 40%), maximum loan amount of $400,000 (from $1.5M) and the elimination of the alternative document loan program as well as the cash out loan program.

As you may imagine, these drastic changes sent a wave of panic through the Mexico real estate community fearing that other lenders will follow suit with similar drastic changes. While some of the other lenders in the marketplace have and may continue to tighten their guidelines in the coming months, it is very unlikely that they will introduce such drastic changes like GE due to the fact that they are not experiencing the same issues that GE is experiencing outside of Mexico. ConfiCasa addressed in greater detail the health of Mexico lenders in our Fall 2008 newsletter, "Why the Mexico Mortgage Market Remains Healthy, Despite the U.S. Turmoil" and plans to further address this topic in subsequent parts of this e-newsletter series.

Another notable lender, Compass Bank (BBVA) recently made several changes to their guidelines. First, and more significant, they changed their cash-out refinance guidelines to a maximum loan amount of $500,000 (from up to $5,000,000 on a case by case basis), a 50% maximum loan to value ratio (from 60 to 65%) and a higher minimum credit score requirement of 720 (from 680 and 700 depending on loan amount). Note that these changes are for the cash-out program only while the purchase program has thus far not changed. Compass also changed their lot purchase guidelines by reducing the maximum loan to value ratio to 60% (from 70%) and increased the minimum credit score to 700 (from 680). Compass still remains to be the only lender with a lot purchase program. Compass also made a less significant change to all of their loan programs, which involves how they look at the number of properties and mortgages held by a borrower. Previously, they had allowed a borrower to own up to 10 properties, however, the new guidelines focus on the number of mortgages held by the borrower to be four in total, excluding the new mortgage being applied. While this change is not drastic, it will certainly affect certain potential borrowers and is therefore important to mention. It is also important to note that Compass is honoring all loan commitments made prior to all of its loan program changes so no current borrowers will be affected.

OTHER ISSUES THAT ARE GETTING ATTENTION

On select loan files which various lenders, there have been issues where the appraised value has come in lower than the negotiated purchase price. This is the result of some lenders adopting more conservative and stricter appraisal processes to better protect their investment by viewing properties under a "worst case scenario". Such methods are becoming common among lenders across all real estate marketplaces. The level of conservatism shown depends on the lender, appraiser and appraisal method used. In certain cases, ConfiCasa has seen firsthand where one lender appraises the same property at a higher amount than another lender as the result of different methodology and level of conservatism. As just shown, appraisal methods and values are objective and can therefore result in different values, especially when lenders are being extremely conservative in nature.

Aside from the loan guideline changes from Compass Bank (BBVA), ConfiCasa's exclusive lender has demonstrated a more conservative view on cash-out refinances, in terms of scrutinizing income, assets and loan amounts, however, has not made any formal changes to the loan guidelines. Overall, changes to cash out programs are not unexpected as lenders continue to tighten their belts, and, while not always true, lenders believe that cash out refinances on a second or retirement home in Mexico's resort areas may be a sign that a borrower needs cash in a more challenging economy for living expenses or are looking to use such cash in other investments that may not be very liquid in the short-term.

WHAT DOES THIS ALL MEAN GOING FORWARD?

In the upcoming months, further changes are expected as the Mexico mortgage market continues to adjust to the ever-changing lending environments across the globe. During this time, ConfiCasa will continue to take all measures to work with each of our active lenders to ensure their stability and, if necessary, properly identify and streamline guideline changes so that current borrowers are not materially affected. ConfiCasa will also continue to actively (and sometimes overly) communicate all information to the real estate and borrower community in order to allow it to separate fact from fiction in an efficient and effective manner.

While mortgages may be changing across the globe, including in Mexico, ConfiCasa Mortgage International continues to originate and close Mexico mortgages as they continue to increase in popularity as an attractive and affordable vehicle to purchase a second or retirement home in Mexico.