Cross-Border Mexico Mortgage Financing - A Silver Lining to a Slower Mexico Real Estate Market

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Since its introduction in the early part of 2005, the cross-border Mexico mortgage market -- mortgage financing for foreigners purchasing vacation, retirement and investment homes in Mexico -- has been compared by many realtors and developers to riding a roller coaster. But now, a greater number of those individuals are looking at the cross-border mortgage market to help strengthen the slower real estate market.

The recent U.S. downturn, comprised of the U.S. housing bust, housing and corporate credit crunch, high gasoline prices, weaker U.S. dollar, and inflationary pressures, has taken a toll on the cross-border Mexico real estate market. Such effects started to appear as early as last fall and continued to grow throughout the early parts of the summer, with little signs of letting up before the upcoming busy season beginning November 2008. While prices for real estate properties in the resort areas of Mexico have not receded significantly, prices have not appreciated at the high historic levels once seen in years past. Most notably, the overall velocity of sales over this time period has decreased considerably from years prior throughout most of the resort areas of Mexico, including Los Cabos, Puerto Vallarta and Cancun/Riviera Maya region.

Local developers, realtors and buyers who have typically shunned cross-border Mexico mortgage financing in the past are now beginning to embrace it. Several reasons have forced these groups to take a second look. From the realtor and developer side, financing options are one of the few tactics which help bolster sales in a slower market without sacrificing profitability. This could not have been more apparent in the U.S. real estate boom over the last decade and, as in the U.S., the availability of mortgage financing should translate into more sales in Mexico. The main reason for this is a simple finance principle; leverage provides buyers with greater purchasing power and greater returns. With sales volume still depressed as the busy season approaches, realtors and developers are looking to push financing options as a tactic to increase sales. After all, pushing financing is far better for their bottom line than other popular tactics such as offering developer incentive or lowering prices.

From the buyer's perspective, the attractiveness of mortgage financing goes even deeper. The recent U.S. downturn and uncertainty from the upcoming U.S. presidential election have drastically eroded U.S. consumer confidence, making U.S. buyers more cautious. Intuition would suggest that a more cautious buyer prefers to lever up larger purchases in order to hold cash and maximize liquidity in the unlikely event it is needed. Further, the U.S. home equity line, which historically has been tapped by the cross-border Mexico real estate buyer, has become more difficult and expensive to obtain. And rising interest rates on U.S. mortgages in addition to the elimination of certain types of loan documentation in the U.S. (stated and Alt-A) have made cross-border Mexico mortgage financing look more attractive than in years prior. Lastly, many potential buyers who have put large deposits on a Mexico property or have been seeking a Mexico property for some time are becoming more stretched financially due to underperforming investments and lower household income, all effects of the U.S. downturn. Often these buyers need additional help to secure their retirement, vacation, or investment property in Mexico and are likely to now turn towards a Mexico mortgage loan. All these scenarios have translated into U.S. buyers looking more favorably at cross-border Mexico mortgage financing.

Demand stemming from the changing U.S. economic climate is not the only reason for buyers and industry players to recently turn to Mexico mortgage loans for their Mexico real estate purchases. Once plagued with negative media attention as the result of (i) numerous Americans and Canadians losing their real estate properties in the late 90's, (ii) misconceptions regarding whether foreigners are legally allowed to own property (they can – see inset), and (iii) the fallout out of a couple cross-border Mexico lenders as well as the inability for some lenders and mortgage brokers to effectively close loans, the cross border Mexico mortgage loan market is finally seeing significant changes that have been ignited by greater demand.

Several positive changes have already been executed and continue to be underway in the cross-border Mexico mortgage industry. A broader array of financing options is now available, thanks to new lenders entering the market, including Deutsche Bank and Lehman Brothers. Additionally, mortgage brokers such as ConfiCasa Mortgage International (www.conficasamortgage.com) have implemented smoother loan processes with better communication, greater transparency and faster closing timelines. A smoother process has resulted from several years of experience for the earliest entrants like ConfiCasa, who continue to focus on implementing ways to create a financing process that more closely mirrors that of the U.S. and Canada.

With so many more heads turning towards cross-border Mexico mortgage financing, the industry is finally looking to shed its roller-coaster like past and seem more like a smooth and predictable merry-go-round. And that is becoming a silver lining for everyone!

Boxed Inset

Many Americans and Canadians have a common misconception that it is illegal for foreigners to own property in Mexico because of article 27.1 of the Mexican constitution, which prohibits foreigners from acquiring direct ownership of lands or waters within a zone of approximately 66 miles from a foreign border or approximately 33 miles form a coast, known as the "restricted zone". However, in 1993, Mexico adopted the Foreign Investment Law (FIL), which amends article 27.1, allowing foreigners to own residential property in the "restricted zone" exclusively through a "Fideicomiso". A Fideicomiso, (which continues to be one of the most commonly misunderstood legal instruments in residential real estate), is a trust agreement where a bank serves as a trustee, and has a fiduciary obligation to the buyer, or "beneficiary". The beneficiary of the trust (the buyer) retains and enjoys full rights of ownership of the property, including the right to use, mortgage, lease, modify, and sell the property as desired. Despite the beneficiary of the trust having the same absolute rights as if owned directly (fee simple) in the United States and Canada, the indirect ownership (trust) structure, renewable every 50 years, naturally confuses most buyers and unfortunately results in the common misconception that foreigners are prohibited from owning a piece of the Mexican dream.