

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

MEXICO

**SIXTH GLOBAL CREDIT PROGRAM FOR
MORTGAGE MARKET DEVELOPMENT
(ME-L1163)**

**CCLIP FOR THE DEVELOPMENT OF EFFICIENT AND INCLUSIVE
MORTGAGE MARKETS IN MEXICO
(ME-X1006)**

LOAN PROPOSAL

This document was prepared by the project team consisting of: Leticia Riquelme, (CMF/CME), Project Team Leader; Andrés Blanco (IFD/FMM), Alternate Project Team Leader; Claudio Alatorre and José Emiliano Detta (INE/CCS); Isabel Haro, Isabelle Braly-Cartillier, Pablo Carrión, Cecilia Bernedo, and Gloria Lugo (IFD/CMF); Ana Lucía Ramírez Martínez (CMF/CME); Juan Carlos Pérez-Segnini (SGO/CME); Gloria Coronel and Víctor Escala (FMP/CME); Tatiana Virviescas and Miriam Garza (CID/CME).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING	1
	A. Background, problem to be addressed, rationale.....	1
	B. Objectives, components, and cost	12
	C. Key results indicators	14
II.	FINANCING STRUCTURE AND MAIN RISKS	14
	A. Financing instruments	14
	B. Environmental and social safeguard risks.....	15
	C. Fiduciary risks	15
	D. Other project risks	15
III.	IMPLEMENTATION AND MANAGEMENT PLAN	16
	A. Summary of implementation arrangements	16
	B. Summary of arrangements for monitoring results	17

ANNEXES	
Annex I	Development Effectiveness Matrix (DEM) – Summary
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

ELECTRONIC LINKS	
REQUIRED	
1.	Monitoring and evaluation plan
2.	Environmental and social management report (ESMR)
OPTIONAL	
1.	Economic analysis of the project
2.	National Development Plan 2013-2018
3.	National Infrastructure Program 2014-2018
4.	Agricultural, Territorial, and Urban Development Sector Program 2013-2018
5.	National Urban Development Program 2014-2018
6.	National Housing Program 2014-2018
7.	Current status of housing in Mexico 2014, SHF
8.	National Energy Balance 2013, SENER
9.	SHF Charter
10.	SHF financial position and performance, 2014
11.	Analysis of the financial position of SHF and its main financial risks
12.	SHF financial statements as of 31 December 2014
13.	Information on the financial position of development banks, National Banking and Securities Commission (CNBV)
14.	IDB activity to support SHF in the housing sector
15.	Project completion report (PCR) 2760/OC-ME (first program)
16.	PCR 2173/OC-ME (second program)
17.	PCR 2345/OC-ME (third program)
18.	Final report, loan ME-L1103; 2760/OC-ME (fourth program), prepared by SHF
19.	Final year report, loan ME-L1121; 2896/OC-ME (fifth program), prepared by SHF
20.	Supply and demand analysis
21.	Green Lease guidelines
22.	Guidelines for rental housing administrators
23.	Review of eligibility criteria for loans ME-X1006 and ME-L1163 (pursuant to document GN-2246-4)
24.	Sustainable criteria to be met by rental housing projects

ABBREVIATIONS

AFOREs	Administradoras de fondos para el retiro [retirement fund administrators]
AVRs	Administradores de vivienda en renta [rental housing administrators]
CCLIP	Conditional credit line for investment projects
CKD	Certificado de capital para el desarrollo [Development capital certificate]
CMIC	Cámara Mexicana de la Industria de la Construcción [Mexican Chamber of Construction Industry]
CNBV	Comisión Nacional Bancaria y de Valores [National Banking and Securities Commission]
CONAVI	Comisión Nacional de Vivienda [National Housing Commission]
ECOCASA	Programa de Cooperación Financiera para la Oferta de Vivienda Sustentable en México [Financial Cooperation Program for the Supply of Sustainable Housing in Mexico]
ENIGH	Encuesta Nacional de Gasto en los Hogares [National Household Expenditure Survey]
FIBRA	Fideicomiso de inversión en bienes raíces [real estate investment trust]
FOVISSSTE	Fondo de Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado [Housing Fund of the Government Worker Social Security and Services Institute]
GHG	Greenhouse gas
ICAS	Institutional Capacity Assessment System
IMF	International Monetary Fund
INFONAVIT	Instituto del Fondo Nacional de la Vivienda para los Trabajadores [Institute of the National Housing Fund for Workers]
ISR	Impuesto sobre la renta [income tax]
LEED	Leadership in Energy and Environmental Design
MtCO ₂ e	Metric tons of CO ₂ equivalent
NAMA	Nationally appropriate mitigation actions
OC	Ordinary Capital
ONAVIs	Organismos nacionales de vivienda [national housing agencies]
PNI	Plan Nacional de Infraestructura 2014-2018 [National Infrastructure Plan 2014-2018]
PNV	Plan Nacional de Vivienda 2014-2018 [National Housing Plan 2014-2018]
REIT	Real estate investment trust
SEDATU	Secretaría de Desarrollo Territorial y Urbano [Department of Territorial and Urban Development]
SENER	Secretaría de Energía [Department of Energy]
SHCP	Secretaría de Hacienda y Crédito Público [Department of Finance and Public Credit]
SHF	Sociedad Hipotecaria Federal, S.N.C.
SOFOLs	Sociedades financieras de objeto limitado [limited-purpose finance companies]
SOFOMs	Sociedades financieras de objeto múltiple [multiple-purpose finance companies]

PROJECT SUMMARY

MEXICO SIXTH GLOBAL CREDIT PROGRAM FOR MORTGAGE MARKET DEVELOPMENT (ME-L1163)

CCLIP FOR THE DEVELOPMENT OF EFFICIENT AND INCLUSIVE MORTGAGE MARKETS IN MEXICO (ME-X1006)

Financial Terms and Conditions				
Borrower: Sociedad Hipotecaria Federal, S.N.C. (SHF)			Flexible Financing Facility^(a)	
			Amortization period:	25 years
Executing agency: Sociedad Hipotecaria Federal, S.N.C. (SHF)			Original weighted average life:	15.19 years
			Disbursement period:	5 years
Guarantor: United Mexican States			Grace period:	5.5 years
			Inspection and supervision fee:	(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB: Ordinary Capital (OC)	100 million	100%	Credit fee:	(b)
Total:	100 million	100%	Currency of approval:	U.S. dollars from the Bank's Ordinary Capital
Project at a Glance				
<p>Project objective/description: This program proposes an arrangement that contributes to the development a market to finance sustainable housing for rent, preferably for the middle-income level. The financing would be under a project finance arrangement, whereby Sociedad Hipotecaria Federal, S.N.C. (SHF) makes a loan, directly or through financial intermediaries, to be repaid from the project's future flow of rents.</p> <p>The program is the sixth operation under the Conditional Credit Line for Investment Projects (CCLIP) for the Development of Efficient and Inclusive Mortgage Markets in Mexico (ME-X1006) and will be executed as a global credit operation, channeling resources through public-sector development banks under a single component to support the financing of projects to build or rehabilitate buildings for use as rental housing, as established in the program Operating Regulations. The operation's design will require these buildings to have a sustainability component that makes them efficient in terms of energy and water use, waste management, and location. This support could be channeled via direct loans or contingent credit lines to cover market risk (e.g., if project occupancy falls below a minimum threshold), and the projects could be structured to meet the market requirements for FIBRA real estate investment trust projects.</p>				
<p>Special contractual conditions precedent to the first disbursement of the loan proceeds: As special contractual conditions precedent to the first disbursement of the loan proceeds, evidence will be provided, to the Bank's satisfaction, that: (i) a program coordinator has been formally appointed; and (ii) the program Operating Regulations have been approved (see paragraph 3.3).</p>				
<p>Special contractual conditions for execution: None.</p>				
<p>Exceptions to Bank policies: None.</p>				
<p>Project qualifies as:^(c)</p>				
SV <input type="checkbox"/>		PE <input type="checkbox"/>		CC <input checked="" type="checkbox"/>
CI <input type="checkbox"/>				

(a) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take market conditions as well as operational and risk management considerations into account when reviewing such requests.

(b) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans.

(c) SV (Small and Vulnerable Countries), PE (Poverty Reduction and Equity Enhancement), CC (Climate Change, Sustainable Energy, and Environmental Sustainability), CI (Regional Cooperation and Integration).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, rationale

- 1.1 This is the sixth operation under the Conditional Credit Line for Investment Projects (CCLIP) for the Development of Efficient and Inclusive Mortgage Markets in Mexico (ME-X1006),¹ approved on 25 November 2008 for US\$2.5 billion.² The Bank has been supporting the Government of Mexico in developing and strengthening the housing finance market for sectors unserved by banking financial intermediaries. The first three programs (loans 2067/OC-ME, 2173/OC-ME, and 2345/OC-ME) were used to finance the primary and secondary sector for low-income housing mortgages and improve their balance sheet structure.³ The fourth program (loan 2760/OC-ME) sought to contribute to reducing the housing deficit by financing the construction of low-income housing; and the fifth (loan 2896/OC-ME), to financing the production of sustainable low-income housing⁴ (see “[Support from the Inter-American Development Bank \(IDB\) to Sociedad Hipotecaria Federal, S.N.C. \(SHF\)](#)”). This operation will support the development of a market to finance sustainable housing for rent, building on the preceding operations by developing a product to promote urban containment, diversification of housing supply, and continued implementation of environmental practices in the sector.
- 1.2 **Macroeconomic context.** Mexico has been one of the most macroeconomically stable emerging economies in recent years. Inflation has been single-digit since 2000, and annual economic growth has averaged around 2.5% in the past 10 years, which has favored development of the domestic mortgage market. In 2014, economic growth was 2.6%, and analysts project rates of approximately 2% to 3% going forward.
- 1.3 Activity in the construction sector slowed in 2013 and the first half of 2014. Conditions improved in late 2014, however, with annual growth of 1.9%, ending the downtrend. The Mexican Chamber of Construction Industry (CMIC) estimates that sector GDP will have grown by 3.5% at end-2015.⁵ Between now and 2018, residential building is also expected to pick up, thanks to the urban and housing infrastructure projects included in the National Infrastructure Plan (PNI).⁶ The investment in urban and housing development foreseen in the PNI (US\$124 billion) will far outstrip the investment by formal sector housing construction firms.

¹ The objective of the CCLIP is to promote the development of efficient and inclusive mortgage markets by supporting SHF with tools enabling it to provide liquidity and stability to the mortgage markets.

² The CCLIP has a drawdown period of 10 years.

³ US\$500 million each, fully disbursed.

⁴ Loans 2760/OC-ME for US\$200 million and 2896/OC-ME for US\$50 million, fully disbursed.

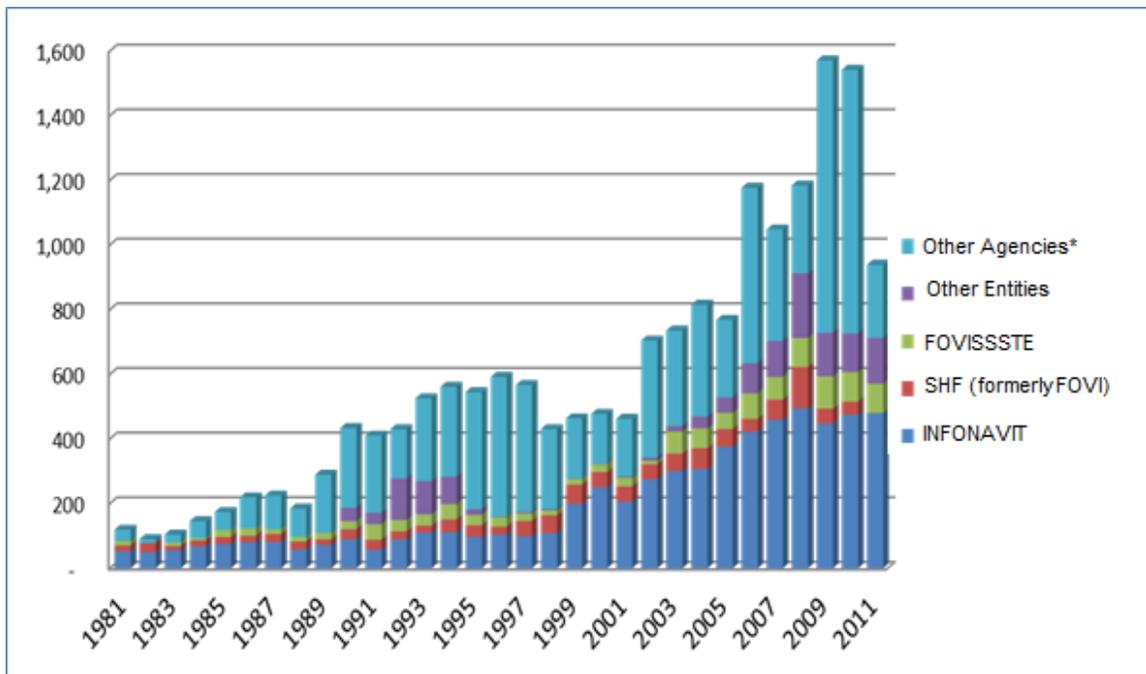
⁵ CMIC (2015), [Pronósticos de crecimiento de la actividad económica de la industria de la construcción](#) [Economic activity growth forecasts for the construction industry] (accessed in June 2015).

⁶ The investment in infrastructure is US\$513 billion.

1. Problem to be addressed

- 1.4 **The mortgage market and housing.** Mexico's mortgage financing market had substantial weaknesses in early 2000. The 1994 crisis had diluted mortgage origination by commercial banks, and the Institute of the National Housing Fund for Workers (INFONAVIT) was making only 185,000 loans per year.⁷ There was a totally unserved market and a considerable housing backlog.⁸ Responding to this need, the public policy introduced by the Government of Mexico between 2001 and 2012 sought to address the backlog, proposing that all Mexican people should have access to housing through financing and subsidies. Over the past decade, the development of the mortgage sector in Mexico has been notable, reaching 40% of all households in the country.⁹

Figure 1: Mortgage Origination



- 1.5 Through the CCLIP ME-X1006 for SHF (see [Financial position of development banks](#)), the Bank supported the federal government in these efforts, helping to democratize credit and reduce the housing backlog. The figure below shows the

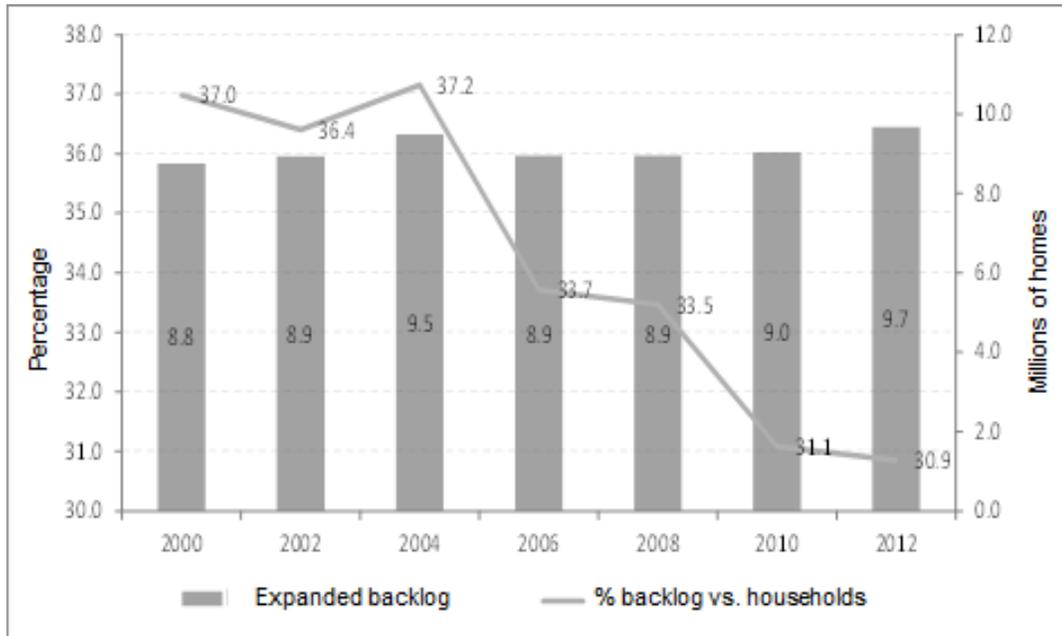
⁷ INFONAVIT is currently making over 500,000 loans each year.

⁸ The "expanded housing backlog" is the sum of three types of backlog: overcrowding (dwelling inhabited by two or more households), dwellings built with deteriorated materials (*Walls*: waste material, cardboard, reeds, bamboo, palm, mud plaster, wattle and daub. *Roofing*: waste material, cardboard, palm, or straw) and dwellings built with normal materials (*Walls*: sheet metal or asbestos, wood or adobe; *Roofing*: sheet metal or asbestos, wood, wooden roofing board or tiles).

⁹ Households served, mainly through the National Housing Agencies (ONAVIs). "Estado de la vivienda 2011" [Status of housing 2011], SHF, INFONAVIT.

deficit in terms of both the absolute number of households and as a proportion of the total households in the country. Although the number of households in deficit has remained stable, in relative terms the backlog has been trending down since 2004, and has shrunk by 6.1 percentage points in the last 12 months.¹⁰

Figure 2: Housing Backlog in Mexico



- 1.6 The results in terms of loans made, access to housing, and reduction of the backlog are undeniable; and it must be acknowledged that this has been made possible by the availability of effective lending products, jump-starting the housing industry in the last decade.¹¹
- 1.7 Nonetheless, the bias of debt-funded investment in favor of new housing raised a major challenge in terms of urban development: the low-density urbanization of outlying areas with predominantly residential uses produced a disproportionate growth of urban sprawl.¹² As a result of demographic trends and the demand for housing and mortgage lending described above, the urban population of Mexico's main cities and metropolises is expected to grow and become more concentrated, rising from 80.4 million people in 2010 to 103.3 million in 2030.¹³ This will require cities to be planned and managed with the capacity to settle the

¹⁰ The housing backlog has declined largely owing to the volume of loans that have financed both the ONAVIs and the creation of SHF, which jump-started the mortgage market through the limited-purpose finance companies known as SOFOLs.

¹¹ [Informe inmobiliario BBVA](#) [BBVA Real estate report], August 2013.

¹² In 1980-2010, the population grew from 81 million to 112 million, while the urban footprint expanded eightfold. Department of Social Development (SEDESOL). "Expansión de las ciudades 1980-2010" [Expansion of the cities 1980-2010].

¹³ National Housing Program 2014-2018.

- population in a secure, sustainable, and efficient way through a broad range of housing solutions. Meeting this demand will require effective financing mechanisms, since the amounts to be invested to bridge the housing gap are so large that both the public and the private sectors will have to be involved.¹⁴
- 1.8 **Contributions of housing to total greenhouse gas emissions and water use.** The housing sector is responsible for 16%¹⁵ of the country's total energy use and generates 4.9% of its CO₂ emissions.¹⁶ Public water supply accounted for 14.1% of the total volume of water distributed to households in 2009,¹⁷ and the waste generated in large cities is 1 kg per person per day.¹⁸ Although these figures may seem small, they are compounded by the fact that housing sector also generates emissions indirectly through other sectors, such as construction (including cement and steel), transportation, and sanitation.
- 1.9 Moreover, given the current rate of demographic growth, it is projected that Mexico will need to build around 600,000 new dwellings per year in the coming decade, which will contribute some 25 MtCO₂ of greenhouse gases to the country's carbon footprint in that period.¹⁹
- 1.10 **Rental housing market.** Currently a substantial proportion of the population are renting. According to the [2010 Census](#), 14.1% of all dwellings in Mexico are rented. This figure has risen by nearly one percentage point over the last decade, and in absolute terms represented 4.8 million units in 2012. According to the National Household Expenditure Survey ([ENIGH](#)), 18.4% of urban households were renting their residence in 2010, which is below the Latin American average (21.2%) but has risen by over two percentage point since 1992.²⁰ Although this figure is significant, the supply of rental housing in Mexico is not institutional but displays high levels of informality with management by private individuals. Nonetheless, there is potential demand for around 150,000 rental dwellings per year, and if these patterns of tenure and population growth persist, the projected volume of rental housing that will need to be built over the next 10 years is equivalent to 30% of the current rental housing stock. There is also a latent need to institutionalize the market (see [Supply and demand analysis](#)).
- 1.11 An analysis of property tenure by age and income shows that all income deciles in Mexico rent, but young people are most likely to rent (with rates of between 30% and 40%), since, among other reasons, in most cases they do not have sufficient savings to purchase a home or make a downpayment.²¹ Marital status

¹⁴ [Room for development. Housing markets in Latin America and the Caribbean](#). IDB, 2012.

¹⁵ [National Energy Balance, 2008](#).

¹⁶ [National Sustainable Housing Strategy \(2013\)](#).

¹⁷ National Water Commission (CONAGUA) (2011). Estadísticas del agua en México [Water statistics in Mexico], 2011 edition, Chapter 3, "Usos del agua" [Uses of water].

¹⁸ Manual on integrated solid waste management. British Embassy and Department of Sustainable Development.

¹⁹ Nationally appropriate mitigation action (NAMA) for sustainable housing.

²⁰ Alquiler en números: La tenencia de vivienda en América Latina y el Caribe [Renting by the numbers: Housing tenure in Latin America and the Caribbean]. IDB publication, 2014.

²¹ This group is generally more sensitive to the amount of the downpayment required for a mortgage. See ["Financial market imperfections and home ownership."](#)

- also affects the tenure decision. In general, single and divorced people, like young people, have the highest propensity to rent, either because they require temporary alternatives or prefer to be less tied down and prioritize a good location over having more space available.²²
- 1.12 Another important factor is tenure by household size. ENIGH data show that single-person households are most likely to rent, and, generally, the larger the households, the less they rent.²³ This is important because household size in Mexico, as in the rest of Latin America, is shrinking, and single-person households are becoming more and more common.²⁴
 - 1.13 In terms of residential mobility, and as described in paragraphs 1.10 to 1.12, renting is the preferred option for the most dynamic demographic groups (young people and single-person households). These groups have a greater need for residential mobility and therefore may prefer temporary tenure.²⁵ Renting enables these households to avoid the high transaction costs involved in buying and selling a home, which in Latin America can represent 12% of the total value. Moreover, an excessively high rate of home ownership can have an adverse impact on labor markets by limiting people's mobility and leaving them more exposed to local labor market crises (A.J. Oswald, 1996).
 - 1.14 In terms of quality, the construction and infrastructure conditions of rental housing are superior to those of owner-occupied homes, and much better than those of informal housing. For example, the deficit in water, sanitation, and electricity connections for rental housing is 3.9%, compared to 9.1% for owner-occupied homes if titled, and 10.5% if not. In terms of use of improper materials, rentals represent only 10% of, compared to 13.2% for owner-occupied dwellings with property title.²⁶
 - 1.15 In terms of location, the zones with the largest proportion of rental housing are mostly in the central, dense, and accessible areas. In the metropolitan area of the Valley of Mexico, rental tenure is near 19%, and the proportion rises above 30% in its most consolidated and central jurisdictions (Benito Juárez, Cuauhtémoc, and Miguel Hidalgo).²⁷
 - 1.16 To conclude, rental housing is attractive for mobile population groups that require temporary, residences in a good location, particularly among the middle classes. The data show significant demand for rental housing, especially among young

²² Rental rates: single 33%, divorced 21%, married 18%, widowed 8%. Blanco et al., 2014.

²³ Rental rates in households by size: single-person, 28%; two people, 19%; three, 21%; and over five, 14% (Blanco et al., 2014).

²⁴ Variables such as size and marital status are correlated with age, because young people tend to have smaller households and are more likely to be single. Nonetheless, econometric studies have shown that, even after controlling for age, these variables are significant in the tenure decision, along with other factors, such as length of stay in a given place and having been born in another city (see Blanco et al., 2014).

²⁵ Of urban households headed by men between 15 and 39 years of age, 32.9% rent their homes, compared to just 7.5% among those over 60. Among households headed by young women, rental rates are as high as 38.3%.

²⁶ Figures according to Blanco et al., 2014.

²⁷ Figures according to Blanco et al., 2014.

people and single-person households. As demand continues to grow in the country's main cities, the rental housing market will need to be institutionalized to meet it. Nonetheless, developing a supply of rental housing that satisfies the growing demand poses a number of challenges, described below.

2. Causes of the problem

- 1.17 **Informality of the sector.** As noted above, the rental housing market in Mexico is highly informal. Supply is maintained by individual owners who buy one or two additional dwellings and rent them out for the purpose of supplementing their income. Usually the contracts in question do not pay taxes, as fewer than 5% of rental contracts are registered with the Department of Finance and Public Credit (SHCP).²⁸
- 1.18 The informality that currently exists also poses a number of challenges for implementing institutional rental housing projects. Firstly, there is a shortage of professionals to manage rental housing.²⁹ This in itself is a major barrier to market development, because the value of real estate assets and optimum return on projects will depend precisely on this. Secondly, as there is no information to obtain relevant data on the sector, we do not exactly know its features or how it really operates and behaves. This lack of information makes it impossible to clearly identify the risk level that exists in the sector, because either many landlords do not sign contracts with their tenants, or else they do so with contracts that have no binding content.
- 1.19 **Constraints on financing long-term projects or projects under a project finance arrangement, such as rental housing.** The Mexican financial system is relatively shallow and small in relation to the size of its economy ([International Monetary Fund \(IMF\), 2012](#)), and is highly concentrated in both supply and demand for financing.³⁰ Private financial intermediation (IFP)³¹ is led by private banks (49%), followed by pension funds (15%), investment companies (12%), public banks (10%), brokerage firms (5%), insurance companies (6%), and unregulated entities (3%). Total financing to the nonfinancial private sector³² is just 29% of GDP.³³ This figure is well below that of other countries in the region: Chile 105.9%, Brazil 70.7%, Colombia 50.2%, and Bolivia 47%.³⁴
- 1.20 The problem is even greater in long-term financing, since 60% of loans made by the banking system are for less than one year (National Banking and Securities Commission (CNBV)). This is because the banks finance this lending essentially

²⁸ Blanco et al., 2014.

²⁹ Currently the dwellings are administered by the owners without observing best practice processes and guidelines, so there is currently no demand for professional services.

³⁰ From June 2013 to June 2014, commercial banks made loans to over 85,000 businesses that had not borrowed in the previous five years. Nonetheless, this only represents 26.9% of businesses with a loan.

³¹ The set of institutions that channel financial savings from the economy to the demand for financing.

³² Eliminating the housing finance provided by INFONAVIT and the Housing Fund of the Government Worker Social Security and Services Institute (FOVISSSTE).

³³ Of this amount, 30% consists of loans and debt issuance abroad. [Reporte sobre el sistema financiero, Banxico Octubre 2014](#) [Report on the financial system, Banxico October 2014].

³⁴ See the [World Bank](#) website.

with demand deposits, which are considered highly volatile and insufficient to cover existing demand.³⁵ Moreover, since the financial crisis, the banks have been more cautious in their business models and have had to adjust to new capital, liquidity, and solvency requirements. In particular, Basel III (the comprehensive set of reforms prepared by the Basel Committee on Banking Supervision to strengthen the regulation, supervision, and management of banking sector risks) has increased the cost of financing long-term projects and those financed under project finance arrangements.³⁶

- 1.21 Mexico's capital market is at a level consistent with its development and economic fundamentals, yet it is biased toward financing the public sector and big business.³⁷ Thus, additional financial instruments need to be created,³⁸ and existing ones need to become fully entrenched. For example, the total value of equities traded on the Mexican Stock Exchange (BMV) is US\$498.264 billion; yet despite the strong potential of the property rental sector, only 3% represent shares issued by the Mexican real estate investment trusts known as FIBRAs.³⁹
- 1.22 **Limited specialization in the rental market among housing developers and investors.** The 2014 Economic Census estimates that there are 2,944 economic units engaged in housing construction, but just 15% are exclusively devoted to building multifamily housing. The vast majority of developers operate regionally and build between 50 and 500 dwellings per year; and very few build more than 10,000. There are only nine firms with over 1,000 employees, generating 15% of the sector's total revenue of US\$4.8 billion.
- 1.23 Many housing developers have specialized in building low-income housing and participate basically in the selling market, clearly reflecting the tendency that has existed to favor this market through subsidies and financing by the national housing agencies (ONAVIs).⁴⁰ Several of these developers have neither the profile nor the capital to specialize in investment in rental housing, which is a business with a completely different size and time frames. These developers are

³⁵ The most active component of traditional bank funding is demand deposits. Term deposits have contributed less because they face competition from investment funds, which have grown in importance and now outweigh term deposits. The long-term growth rate of total deposit-taking by the banking system (6.9% on average from May 2003 to April 2013) would not provide sufficient funding, if lending continues to grow at recent rates (around 8% since 2010). Thus, the banking system faces the challenge of increasing the rate of growth of its deposit-taking to a similar level, or else leveraging its balance sheet ([Condition of the banking system, July 2013, BBVA Research](#)).

³⁶ See [Group of Thirty, 2013. Long-term finance and economic growth](#).

³⁷ [Financial Sector Assessment Program \(FSAP\), 2012](#).

³⁸ Existing instruments would not address energy reform efficiently. To serve this segment, consideration is being given to developing similar mechanisms such as master limited partnerships (stock market issues with tax benefits, traditionally used to finance energy projects). In addition, the Mexican government has recently launched two mechanisms to promote infrastructure investment through the capital market, announcing the FIBRA-E (a FIBRA specialized in energy), as well as bonds to finance education infrastructure.

³⁹ Trusts specializing in the purchase or construction of real estate destined for rent or the purchase of claims on the rental income from such properties, as well as in providing financing for such purposes. Similar to the real estate investment trust (REIT) in the United States.

⁴⁰ INFONAVIT and FOVISSSTE.

- usually vertically integrated,⁴¹ so they are unlikely to have experience in other segments. The market that would borrow to finance rental projects would consist mainly of horizontally integrated firms,⁴² or else vertically integrated developers wishing to enter this new sector (see [Supply and demand analysis](#)).
- 1.24 In the case of institutional investors, it is important to underscore the role that the retirement fund administrators known as AFORES can play in investment in long-term projects. Since 2008, these pension funds have been allowed to invest up to 15% of their resources in structured assets, such as development capital certificates (CKD),⁴³ FIBRAs, and others. As of end-2014, the total assets of the retirement savings system were US\$158.997 billion. AFORES have invested US\$5.342 billion in 37 CKDs, and US\$2.776 billion in 10 FIBRAs, just 34% of what they are allowed to invest.
- 1.25 **Limited use of sustainable elements in middle- and high-income housing.** The Government of Mexico has been actively involved in initiatives to address climate change and reduce greenhouse gas emissions. In 2009, it instituted an emissions reduction plan through the Special Climate Change Program ([PECC](#)), and passed the Climate Change Act in 2012. Similarly, in 2010 it worked on the preparation of the first [nationally appropriate mitigation action \(NAMA\)](#)⁴⁴ [for housing](#), in which the Bank financed projects under the Financial Cooperation Program for the Supply of Sustainable Housing in Mexico (ECOCASA),⁴⁵ and in 2014 on the [NAMA for existing housing](#). The government has developed and issued criteria for sustainable housing through a voluntary standard ([NMX-AA-164-SCFI-2013](#)), and is currently working on mechanisms to certify and validate compliance.
- 1.26 These efforts have mostly been targeted to low-income housing, thus serving a large share of the market. Thus far, the middle- and high-income housing segments have not been included in the requirement to implement sustainability measures, even though these segments consume the most energy and water and generate the largest amounts of waste and emissions.
- 1.27 This is also reflected in the number of homes certified under sustainability mechanisms. As of July 2015, there were 139 certified projects and over 460 projects registered in the Leadership in Energy and Environmental Design

⁴¹ These engage in the purchase of land, design, construction, development, promotion, and sales for housing projects. Ernst & Young industry analysis.

⁴² In addition to housing projects, these are also involved in commercial and industrial projects, infrastructure facilities, hotels, and vacation resorts. Ernst & Young industry analysis.

⁴³ CKDs function as a private capital instrument for investing in long-term projects, financing a number of infrastructure projects.

⁴⁴ Emerging market mechanisms that allow developing economies to align sustainable issues with national economic priorities.

⁴⁵ Program [2896/OC-ME](#).

(LEED) certification mechanism for sustainable construction.⁴⁶ Nonetheless, just 5% of these are for housing.

- 1.28 **Legal framework and taxation of rentals.** Although the minimum content of rental contracts varies little from one federative entity to another, the greatest differences arise in how rental disputes are dealt with, since the substantive aspects are defined in each state's civil code. Owing to the sector's informality, there is insufficient information on court cases or disputes, and written contracts do not have the content necessary to ensure prompt and effective processing to reclaim properties. Moreover, the shortage of professional real estate brokers poses high risks for owners,⁴⁷ who may run afoul of the Asset Forfeiture Law⁴⁸ and the Federal Law for the Prevention and Detection of Transactions with Illicitly Obtained Funds,⁴⁹ since they can lose their real estate property for failure to do proper due diligence on their tenants.
- 1.29 Moreover, the income tax (ISR) treatment favors buying rather than renting, since private individuals can currently deduct mortgage interest from their tax liability. The ISR provides different treatment for rental income obtained by a private individual, a firm, a trust, or a FIBRA.⁵⁰ For example, private individuals are at a greater disadvantage because they do not have tax incentives: on the supply side, they can only deduct expenses inherent to the property, which may not exceed 35% of income; and on the demand side, private individuals cannot deduct rental expenses.

3. Rationale

- 1.30 During this six-year period, the Department of Territorial and Urban Development (SEDATU) was created, harmonizing and complementing efforts in infrastructure, territorial planning, and urban, regional, agrarian, and housing development for the first time, through four programs: the Agrarian, Territorial, and Urban Sector Development Program (2013-2018); the National Urban Development Program (2014-2018); the National Housing Program (2014-2018); and the National Infrastructure Program (2014-2018). All of these programs promote compact, higher-density cities while safeguarding their environment, sustainability, and efficiency. To that end, these programs seek to diversify the supply of housing solutions by promoting rental housing for the first time in over 40 years.
- 1.31 An efficient rental housing market could have a positive impact on the economy by helping to reduce the housing backlog and increase the earning potential of

⁴⁶ LEED is a certification system created by the U.S. Green Building Council that verifies the sustainable features of buildings in terms of design, construction, maintenance, operation, and efficiency. Thus far, the system has been implemented in over 150 countries, and there is over 170,000 square meters of certified space.

⁴⁷ Lack of professionals means that no due diligence is done on tenants.

⁴⁸ The Asset Forfeiture Law allows the authorities to seize properties where organized crime is found to be operating, so landlords are at high risk if they fail to do due diligence on their tenants.

⁴⁹ If there is no real estate agent, landlords must inform the SHCP Financial Intelligence Unit, if the monthly rent on the property is greater than US\$14,400, and generate a tenant identification record.

⁵⁰ Trust that invest in real estate, renting and administering a portfolio of properties (residential, offices, shopping centers, hotels, hospitals, etc.), representing a mix of fixed and variable income investments, with tax transparency. Similar to the real estate investment trusts (REITs) operating in the United States.

- families by lowering housing expenditures, as a result of a more robust supply. Rental housing also enables greater residential mobility, increases potential access to quality housing, and contributes to greater urban density.
- 1.32 Making the rental housing market in Mexico more nimble will require regulatory action in both the taxation and the civil domains. In 2013, the financial reform introduced changes to expedite and increase certainty as to the law for commercial court cases,⁵¹ as well as specialize district courts in hearing commercial disputes. Nonetheless, work still needs to be done to change the framework applicable at the local level, since each state issues its own civil code and rules. Technical cooperation operation [ATN/KR-15068-RG](#)⁵² is expected to provide technical assistance to Mexican government entities responsible for housing policy, such as the National Housing Commission (CONAVI) and SEDATU, in formulating basic criteria for the states to amend their rental laws and strike a better balance between the rights and obligations of landlords/owners and tenants.
 - 1.33 The taxation treatments for owners and tenants can only be changed in the long run and are subject to budgetary and fiscal priorities that have other decision-making parameters. For these reasons, this program confines itself to alleviating the other major problem affecting rental housing, i.e., long-term financing for private developers and investors.
 - 1.34 SHF conducted a series of interviews and surveys to identify developers willing to invest in rental projects. A number of interested parties were found, as long as SHF facilitated long-term financing on market terms aligned with the life cycle of the projects.⁵³
 - 1.35 The creation of credit lines providing incentives to the private sector, along with the implementation of guidelines, insurance policies, and best practices for the management of rental housing, could minimize the operational and financial risks. This would increase the supply of rental housing, improve its efficiency, and reduce informality in the sector. Rental housing has been shown to promote city density, reduce haphazard expansion of the urban footprint, and to some extent reduce the demand for equipment in outlying urban zones. Similarly, higher densities improve urban mobility and encourage the development of public transportation.⁵⁴
 - 1.36 As noted in the previous section, the capital market has major potential to play a greater role in funding long-term projects. The conversion of physical assets into negotiable securities makes the market more liquid; and the FIBRAs were created to make large-scale real estate investments affordable to small investors.

⁵¹ The time limits are shortened for hearings and notifications, and asset insurance mechanisms are reorganized.

⁵² This technical cooperation operation was approved in July 2015. The terms of reference state that work will begin in October.

⁵³ Years of grace for the construction period and initial stabilization of rents. SHF currently has a projected pipeline of around US\$300 million, and continues to review proposals and hold forums to promote the product.

⁵⁴ Blanco, et al., 2014.

- Given its experience in capital market development,⁵⁵ SHF would be a key player in funding projects under project finance arrangements, which could then be launched in the form of FIBRAs.⁵⁶
- 1.37 Lastly, the fact that the residential sector contributes significantly to greenhouse gas emissions needs to be taken into account. The implementation of energy efficiency measures is generally more cost-efficient in the housing sector than elsewhere.⁵⁷ Moreover, the rental home buildings that keep up efficiency standards have demonstrated benefits in environmental and energy performance, achieving efficient operation that generates significant savings for both the managers of these projects and those who occupy the dwellings.⁵⁸
- 1.38 **The Bank's experience and lessons learned.** The Bank has been actively involved in the mortgage sector since 2008. Through the five operations executed with the SHF CCLIP, a total of US\$1.799 billion has been provided to finance over 15,024 mortgages; US\$763.534 billion in secondary mortgage market issues; US\$545.907 billion in loans for the construction of 415,106 dwellings, over 37,601 sustainable dwellings,⁵⁹ and 175,387 loans for self-help housing construction and improvement.
- 1.39 The implementation of these operations and their outcomes has shown that the support given to strengthen SHF's institutional capacity and financial position enabled it to meet the needs of the short-term mortgage market, shoring up the sector for the future. Moreover, bringing new financial products to the market fostered sector development and learning, demonstrating the importance of using innovative programs to meet the needs of Mexico's housing market. For example, SHF jump-started the mortgage securitization market in Mexico by acting as market maker⁶⁰ in the mortgage portfolio issues of limited-purpose finance companies (SOFOLs) and multiple-purpose finance companies (SOFOMs), and will play a key part in launching mortgage FIBRAs. Lastly, it should be acknowledged that, in times of crisis, support for sound institutions that operate countercyclically is essential to curbing future adverse impacts and outcomes.
- 1.40 **Strategic alignment.** A priority area for the Bank's work in the country strategy with Mexico 2013-2018 (document GN-2749) is financial market development, with objectives that include the promotion of lending in unserved sectors,

⁵⁵ SHF created and deepened the mortgage securitization market in Mexico, serving as market maker for private issues of SOFOLs.

⁵⁶ There is currently no FIBRA with residential real estate among its assets.

⁵⁷ McKinsey, Greenhouse gas abatement cost curve V 2.0; National Commission for Efficient Energy Use (CONUEE).

⁵⁸ While important for reducing emissions, energy saving and sustainability are also important for the families, since renters generally pay 13% of the total rent in energy (a figure that also represents 4% of the families' total income); and if they live in multifamily units, they pay an additional amount for the common areas (American Household Survey (2011)).

⁵⁹ The ECOASA program has won two international awards: Lighthouse Activity from the United Nations, and an Ashden Award from the British government.

⁶⁰ Market makers facilitates the liquidity of businesses by quoting prices and continually maintaining buy and sell positions.

- including the housing sector, specifically through public-sector development banks. The Bank will also support Mexico in the urban development sector by contributing to its goal of promoting the orderly, safe, and sustainable growth of cities.
- 1.41 The program will contribute to the lending program priority targets of the Ninth General Capital Increase (GCI-9) (document AB-2764) for lending to support climate change initiatives, renewable energy, and environmental sustainability by promoting sustainable practices through the implementation of energy efficiency measures in the housing sector. The program will also contribute to the regional goals of: (i) institutions for growth and social welfare, by increasing the percentage of firms using banks to finance investments; and (ii) protecting the environment, responding to climate change, promoting renewable energy, and enhancing food security, by contributing to a reduction in CO₂ emissions; and to the output of climate change pilot projects in housing, as established in the GCI-9 Results Framework.
- 1.42 The program is also consistent with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2); the Support to SMEs and Financial Access / Supervision Sector Framework Document (document GN-2768-3) through support for capital market development by facilitating long-term project finance; and the Urban Development and Housing Sector Framework Document (document GN-2732-2) through private sector participation in the delivery of sustainable housing services, promoting a variety of tenure modalities.

B. Objectives, components, and cost

- 1.43 This program proposes an arrangement that contributes to the development a market to finance sustainable housing for rent, preferably for the middle-income level.⁶¹ The financing would be under a project finance arrangement,⁶² whereby Sociedad Hipotecaria Federal, S.N.C. (SHF) makes a loan, directly or through financial intermediaries,⁶³ to be repaid from the project's future flow of rents.
- 1.44 These projects will be wholly devoted to rental, so as to minimize the operational risks. They must be vertical multifamily housing units that meet minimum sustainability criteria with respect to construction, as defined in the program Operating Regulations⁶⁴ (see [Sustainable criteria](#)).
- 1.45 The program is the sixth operation under the Conditional Credit Line for Investment Projects (CCLIP) for the Development of Efficient and Inclusive Mortgage Markets in Mexico (ME-X1006) and will be executed as a global credit

⁶¹ Defined by CONAVI as a home valued at over 350 times the minimum wage.

⁶² Financing mechanism based on a project's capacity to generate cash flows that can guarantee a return on the investment and repayment of the debt.

⁶³ If there is demand from the financial intermediaries. The features that the financial intermediaries must have are described in detail in the Operating Regulations and are the criteria now used by SHF. These criteria relate mainly to liquidity and sustainability requirements, minimum capital levels and credit reserves, and maximum arrears.

⁶⁴ The specific features of the eligible projects are described in the Operating Regulations based on the electronic link, "Sustainable criteria to be met by rental housing projects." SHF will guarantee and ensure that the projects in question meet these criteria at all times.

- operation, channeling resources through public-sector development banks under a single component to support the financing of projects to build or rehabilitate buildings for use as rental housing, as established in the program Operating Regulations. These buildings will have a sustainability component that makes them efficient in terms of energy and water use, waste management, and location.⁶⁵ This support could be channeled via direct loans or contingent credit lines to cover market risk (e.g., if project occupancy falls below a minimum threshold),⁶⁶ and the projects could be structured to meet the market requirements for FIBRA real estate investment trust projects.⁶⁷
- 1.46 This will deepen the financial market, to democratize investment in rental housing.
- 1.47 Six key elements are being designed to support the program, drawing on several different technical cooperation operations:⁶⁸ (i) the minimum requirements to be met by rental housing administrators (AVRs) to professionalize and standardize processes;⁶⁹ (ii) the minimum sustainability requirements to be met by the projects (the dwellings will generate savings of at least 10% in energy, 15% in water, and 20% in waste), together with location guidelines;⁷⁰ (iii) the design of mechanisms to mitigate credit risks through insurance policies and bonds;⁷¹ (iv) outlines of instructions to sign “green lease” agreements with tenants,⁷² under which they commit to act responsibly in energy and water use and waste disposal; (v) generation of sufficient information for a demonstration effect, so that subsequent projects can be financed by commercial banks; and; (vi) support for the Government of Mexico in regulating housing rental at the local level.

⁶⁵ For energy: efficiency in insulation, glazing, lighting, water heaters, and air conditioners; for water: faucets, toilets and showers, and irrigation; and for waste: separation and collection management programs.

⁶⁶ These credit lines would channel resources on a contingent basis, allowing the developer firms to obtain additional financing to deal with potential variations in their expected cash flows owing to unforeseen market conditions.

⁶⁷ Steps will be taken to ensure that these projects meet the requirement for addition to a FIBRA real estate investment trust, including legal content in the contracts, market features (mainly that they are well located and wholly devoted to rental), and operational features (mainly that they have a professional rental housing manager).

⁶⁸ With preparation resources and resources from: [ATN/MC-13341-RG](#) (currently disbursing); RG-X1244 (resources preapproved, and in the process of defining the resource transfer mechanism with the donor); and [ATN/KR-15068-RG](#) (eligible for disbursement).

⁶⁹ Projects involving project finance arrangements depend directly on the cash flow they generate, so it is essential to professionalize the AVRs to ensure the processes involved in attracting and selecting tenants, property administration and maintenance, and collection mechanisms. (see [General guidelines for AVRs](#)). More detailed guidelines will be included in the Operating Regulations.

⁷⁰ Use will be made of the transportation tool developed for loan [2896/OC-ME](#) (ECOCASA), which simulates and quantifies the amount of CO₂ emissions of the housing occupants for mobility, according to location.

⁷¹ Since last year, the Bank has been working with SHF (with preparation resources) to design a rental housing insurance policy that covers the payment of overdue rent.

⁷² Contracts that obligate tenants to meet requirements to minimize their environmental impact inside the home (see [General guidelines on green leases](#)). The detailed guidelines will be given in the Operating Regulations.

- 1.48 As this market is not yet formalized, the decision was made to launch this program to finance housing in the middle-income segment, considering the following factors: (i) as mentioned in earlier sections, the demand for rental housing is highest in the middle-income sectors; (ii) other countries have found that serving the low-income sector requires public policies that include rent subsidies, on either the supply or the demand side;⁷³ and (iii) there are no definitive evaluations of the results of subsidized rental housing programs and the impact of regulatory issues; in this regard, the operation could generate experience in a less complex sector.⁷⁴ Once this market starts to become formally established, support will be provided to SHF to begin serving lower-income segments of the population.

C. Key results indicators

- 1.49 The output indicator for the program will be the number of loans made to construct multifamily buildings for rent, financed with program funds. The outcomes will be measured as follows: (i) the total value of the investment leveraged with program resources; (ii) AVRs operating under the compliance standards established in the program; (iii) the percentage of dwellings with contracts containing green lease guidelines; and (iv) the number of rental dwellings built with sustainable standards. The program's impact will be measured as follows: (i) institutional investors in rental housing; (ii) rental as a percentage of household tenure in urban areas; and (iii) greenhouse gases avoided and reduced with projects financed with program resources.
- 1.50 **Economic evaluation.** The economic evaluation identifies the income and expenditure flows generated at the typical firm financed with loans originated by the program. The benefits of the operation stem from the average rental of dwellings and the reduction in emissions from green housing. Costs are given by investment costs, depreciation of the housing, operation and maintenance costs, and the AVR management and administration costs. Calculating these flows and discounting at 12% yields benefits of US\$4.18 million. In addition, the sensitivity analysis shows positive results in relation to the different impacts such as those used in the analysis: (i) percentage occupancy; (ii) increase in operation and maintenance costs; and (iii) increase in management and administration costs.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The program fulfills the [eligibility criteria for individual loan operations under CCLIPs](#), based on the Proposed Modifications to the Conditional Credit Line for

⁷³ In the United States there are subsidies for rental housing on the supply side (low income housing tax credits, supplements, and target credits) and on the demand side (vouchers). Chile has a demand subsidy (vouchers), whereas in Europe there is subsidized public and cooperative housing.

⁷⁴ There is empirical evidence both for and against the effects of subsidized rental housing for low-income groups. Each intervention has highly specific features that cannot be very easily replicated. This is highly dependent on the replacement effect of each intervention, so there are conflicting results (Harvard Joint Center for Housing Studies. Spillovers and subsidized housing: 2006).

Investment Projects (CCLIP) (document GN-2246-4).⁷⁵ The program will be financed with the Bank's Ordinary Capital resources under the Flexible Financing Facility through a global credit loan. The loan proceeds will be used to finance the component described above for an amount of up to US\$100 million, extended to SHF, which will then offer loans to eligible projects, directly or through its financial intermediaries, on the terms and with the features established in the program Operating Regulations.

- 2.2 The loans made to the beneficiaries and eligible projects under this program will have the following features: (i) a fixed and/or variable interest rate, based on the program funding rate plus the SHF spreads and, as the case may be, those of the financial intermediaries; (iii) SHF bears the risks of the projects and, in the case of indirect loans, those of the financial intermediaries; and (iv) tenors depending on the project being financed.

B. Environmental and social safeguard risks

- 2.3 According to Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation does not require classification. Nonetheless, the potential adverse impacts and socioenvironmental risks are expected to be those typical of the housing sector (construction and operation). These impacts and risks are expected to be localized and short-term, for which effective mitigation measures are available. To manage these impacts and risks and monitor any socioenvironmental aspect of the projects, SHF will institute an environmental and social management system based on local laws and regulations and international standards for the sector (see [environmental and social management report](#)).

C. Fiduciary risks

- 2.4 The May 2015 evaluation report, applying the methodology of the Bank's Institutional Capacity Assessment System (ICAS), indicates that SHF has a satisfactory level of development with an overall score of 97.13 and low risk for program execution (see Annex III).

D. Other project risks

- 2.5 The project risk management tool was used to determine the program's risk profile. A medium risk was identified in the current legal and regulatory framework that could have an adverse impact on attracting potential investors, owing to the difficulty of evicting tenants who have stopped paying their rent. To mitigate this risk, the operation proposes the design of [minimum requirements to be observed by the AVRs](#) in the selection of tenants, and for operation and maintenance and management and administration processes. To ensure that the program is sustainable once the Bank resources end, the projects to be financed will satisfy the conditions necessary⁷⁶ for them to be refinanced through the

⁷⁵ The project fulfills the policy criteria, since all of the previous loans have been disbursed satisfactorily as planned and on schedule, and the ICAS analysis has indicated a satisfactory level of development (see "[Fulfillment of eligibility criteria of ME-X1006 and ME-L1163 \(pursuant to document GN-2246-4\)](#)").

⁷⁶ Features that minimize project risk, including: the location and use of the property, legal criteria (rental contracts, loan contract), etc.

FIBRAs. In this way, SHF would be opening and deepening the capital market in favor of other rental housing projects.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower and program executing agency will be Sociedad Hipotecaria Federal, S.N.C. (SHF) with the guarantee of the Government of Mexico.⁷⁷ SHF is a national credit company chartered with the mission to promote the development of the primary and secondary housing finance markets by providing loans and guarantees for the construction, purchase, and improvement of housing. SHF seeks to develop the housing markets by aligning development financing with the National Housing Plan (PNV).
- 3.2 SHF will implement the program within its current organizational structure. It will also be responsible for supervising the proper use of the subloan proceeds and providing the necessary human and technological resources as planned and on schedule.
- 3.3 **As special contractual conditions precedent to the first disbursement of the loan proceeds, evidence will be provided, to the Bank's satisfaction, that: (i) a program coordinator has been formally appointed; and (ii) the program Operating Regulations have been approved.**
- 3.4 The Operating Regulations agreed upon between the Bank and SHF will include the operational policies governing project execution. They will be consistent with the policies and procedures of SHF and the Bank and with the financial laws and practices in force in the country. The participation of financial intermediaries will be in accordance with SHF's current policies, as specified in the Operating Regulations. No procurements of goods or services are foreseen.
- 3.5 **Disbursements, execution time, and retroactive financing.** The program resources will be disbursed within a period of no longer than 60 months, running from the entry into force of the loan contract. Disbursements will be based on SHF's actual demand in the form of financing applications received, and may be made through discounts or advances. As the disbursements may be in Mexican pesos, the cash flow projection will be for a period of up to 12 months, in order to facilitate the executing agency's financial management and reduce the number of currency conversions required.
- 3.6 The Bank may retroactively finance up to US\$20 million in expenditures against the loan proceeds (20% of the proposed loan amount) for eligible subloans made by the borrower prior to the loan approval date to finance rental housing projects, provided that requirements substantially similar to those of the loan contract have been met. Such expenditures must have been incurred on or after 14 July 2014 (the date when the project was officially added to the Bank's pipeline), but not

⁷⁷ SHF's charter establishes that its acquired obligations are guaranteed by the United Mexican States. Nevertheless, additional to that, a contract will be signed guaranteeing the monetary obligations with the United Mexican States.

under any circumstances more than 18 months prior to the date of loan approval by the Board of Executive Directors. As this is the sixth individual operation under the CCLIP, based on the sequential continuity of the individual operations and dialogue with an established executing agency such as SHF, and considering that there are very few 100% rental developments that meet the program's eligibility criteria and rely on the project's cash flow, the retroactive recognition of financing is considered essential in the program's first few pilots, which will set the trend for future developments.

B. Summary of arrangements for monitoring results

3.7 **Reports and monitoring.** The program will be monitored through six-monthly reports prepared by SHF and delivered to the Bank within 60 days after the close of each calendar semester, as well as a final report. These will measure the progress of the results indicators and fulfillment of the eligibility criteria at both the project and program levels. Monitoring meetings will be scheduled as necessary. The program's financial reports will be audited each year by an independent audit firm accepted by the Bank, engaged and paid for by SHF, and delivered no later than 120 days after the close of the fiscal year, in accordance to procedures and terms of reference agreed upon by the Bank with the Civil Service Department (SFP).

3.8 **Evaluation.** SHF will gather and retain all relevant information, including all documentation required to prepare the project completion report and the program evaluation, for which the Bank will use an ex post cost-benefit analysis methodology for the main indicators. This program is seen as contributing to and supporting a comprehensive, long-term federal government strategy laid out in its national development plan for construction and housing. Accordingly, the present plan does not intend to evaluate the individual impacts of program financing on structural indicators for housing and welfare, which would involve controlling a number of variables that form part of the comprehensive strategy but are beyond this program's control and supervision (see [Monitoring and evaluation plan](#)).

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives		Aligned	
Lending Program		-Lending to support climate change initiatives, renewable energy and environmental sustainability	
Regional Development Goals		-Percent of firms using Banks to finance investments -CO2 emissions (kilograms) per \$1 GDP (PPP)	
Bank Output Contribution (as defined in Results Framework of IDB-9)		-Climate change pilot projects in agriculture, energy, health, water and sanitation, transport, and housing	
2. Country Strategy Development Objectives		Aligned	
Country Strategy Results Matrix	GN-2749	(i) Increase the level of finance to the real economy, and (ii) Promote the orderly, safe, and sustainable growth of cities.	
Country Program Results Matrix	GN-2805	The intervention is included in the 2015 Operational Program.	
Relevance of this project to country development challenges (if not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability			
	Evaluable	Weight	Maximum Score
	7.8		10
3. Evidence-based Assessment & Solution	8.4	33.33%	10
3.1 Program Diagnosis	3.0		
3.2 Proposed Interventions or Solutions	2.4		
3.3 Results Matrix Quality	3.0		
4. Ex ante Economic Analysis	8.5	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.5		
4.3 Identified and Quantified Costs	1.5		
4.4 Reasonable Assumptions	1.5		
4.5 Sensitivity Analysis	0.0		
5. Monitoring and Evaluation	6.5	33.33%	10
5.1 Monitoring Mechanisms	2.5		
5.2 Evaluation Plan	4.0		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood		Low	
Identified risks have been rated for magnitude and likelihood		Yes	
Mitigation measures have been identified for major risks		Yes	
Mitigation measures have indicators for tracking their implementation		Yes	
Environmental & social risk classification		B.13	
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External control, Internal Audit.	
Non-Fiduciary			
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

The project is the sixth individual operation of the conditional credit line for investment projects (CCLIP) ME-X1006. The objective of the program is to contribute to the development of a market to finance sustainable housing for rent preferably for middle income population. This is the first operation from the CCLIP that does not target social housing and the second that includes a sustainable component. Financing is based on a project finance modality through which Sociedad Hipotecaria Federal (SHF) will give credits to project developers for the construction of vertical residential developments that will be repaid with the future flow of rents.

The vertical logic is consistent. The challenges to be resolved are diagnosed: financing restrictions to long term projects for rental housing, developers' low specialization in the rental market, low implementation of sustainable elements on medium and high income housing, and a non-favorable legal framework. The proposal to finance 6 multifamily buildings in urban areas which otherwise would not have access to long term credit, is complemented by a series of requirements aimed to solve most of the aforementioned challenges: minimum requirements for Rental Housing Managers for efficient management of the buildings, minimum construction requirements to guarantee the buildings' sustainability, and guidelines for the establishment of green leases. In addition, SHF has identified potential project developers and has a projected a pipeline of around US\$300 million for this type of projects, which proves that funds should be successfully placed. Even when the final beneficiaries of this program are the project developers, the demand analysis shows that the projects' occupancy rate should also be successful, although this will depend on the rental rates.

The economic analysis suggests positive net benefits, mainly through rental rates and savings in the use of energy, water, waste disposal and location. However the sensitivity analysis shows a significant probability of negative returns. On this regard, both the buildings' occupancy probability and the potential changes on their management costs impose a significant risk over the program's benefits. In addition, it is not clear how the probability of failure of one or more of the financed projects could affect these results and what would the combined effect of these factors be over the program's profitability.

The monitoring and evaluation plan is adequate. The outcome indicators reflect the additional resources that the program is expected to mobilize and the development of the sustainability component that pretends to promote. However, it is not clear if the program will be able to achieve the targets of some of the impact indicators given that the scale of the program (6 buildings) imposes challenges over the generation of a demonstration effect.

RESULTS MATRIX

Program objectives:	This program proposes an arrangement that contributes to the development a market to finance sustainable housing for rent, preferably for the middle-income level. The financing would be under a project finance arrangement, ¹ whereby Sociedad Hipotecaria Federal, S.N.C. (SHF) makes a loan, directly or through financial intermediaries, to be repaid from the project's future flow of rents.
----------------------------	--

Indicator	Unit	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Description/Means of verification
OUTPUTS									
Number of loans made for the construction of multifamily buildings for rent, financed from program resources.	Number	0	0	2	2	3	0	6	<p>Records the number of loans made for rental housing projects financed with program resources, the construction of which has begun.</p> <p>This indicator is aligned with the “Climate change pilot projects in agriculture, energy, health, water and sanitation, transport, and housing” of the GCI-9.</p> <p>A milestone will be included in the monitoring and evaluation plan (PMR): Amount loaned by the SHF for rental housing projects using program resources. The monitoring and evaluation plan will also include a schedule with the annual production cost.</p> <p>Source: Regular SHF program reports.</p>

¹ Financing mechanism based on a project's capacity to generate cash flows that can guarantee a return on the investment and repayment of the debt.

Indicator	Unit	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Description/Means of verification
OUTCOMES									
Total value of the investment leveraged with program resources.	US\$ million	0	6.65	6.65	6.7	0	0	20	Measures the value of the investment leveraged with program resources. Estimates based on the average total investment and standard financial structure of multifamily housing projects in the SHF pipeline. Source: Regular SHF program reports.
Rental housing administrators (AVRs) operating under the compliance standards established by the program.	Number	1	0	1	1	1	0	4	Measures the number of AVRs that have adhered to the minimum guidelines established in the program, operating one or more projects financed by the SHF and/or other current or potential projects. There is currently an AVR in a development similar to this operation. Source: Regular SHF program reports and SHF records.
Percentage of dwellings with contracts containing green lease guidelines.	%	0	0	50%	60%	80%	100%	100%	Measures the percentage of contracts signed with tenants that include green lease elements, along with sustainable cultural and educational elements. Source: Regular SHF program reports and SHF records.

Indicator	Unit	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Description/Means of verification
Number of rental dwellings built with sustainable standards.	Number	0	0	160	383	765	957	957	Measures the number of rental dwellings built under the program that meet the sustainable construction standards defined in the Operating Regulations. ² Cumulative flow. Source: Regular SHF program reports and SHF records.
IMPACTS									
Institutional investors ³ in rental housing operating in the Mexican market.	Number	-				-	5	5	Measures the number of institutional investors in the Mexican rental housing market, regardless of whether they participate in projects financed by the program, as a proxy for market growth (program demonstration effect, year 5 target). Source: SHF program report, using its own information, together with information from the National Housing Commission (CONAVI) and the Mexican Stock Exchange.
Rental as a percentage of household in Mexico's urban areas.	%	17.74 ⁴				-	18.30	18.30	Measures rental tenure in relative terms, as a proxy for the program's contribution to the development of a large-scale rental housing market (program demonstration effect by year 5). Source: Bank estimate based on national household surveys and the trend of tenure type in Mexico.

² All projects financed must fulfill the sustainable construction standards defined in the program's Operating Regulations.

³ Retirement fund administrators (AFOREs), pension funds, investment funds and insurance companies.

⁴ The base level corresponds to the combined data for middle-income households according to the 2014 National Household Income and Expenditure Survey.

Indicator	Unit	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Description/Means of verification
Greenhouse gases avoided and reduced with projects financed with program resources.	MtCO ₂ e	0	0	215.7	517.76	1,035.5	1,294.4	1,294.4	<p>Indicator constructed on the basis of savings and consumption generated with projects financed with program resources, according to their features. Measured annually.</p> <p>Account was taken of figures for saving in electricity, water, gas, waste and location. The base levels used were the following:</p> <p>Electricity: 1,902 kW/h/year/person, according to data from the Department of Energy (SENER) for the domestic high consumption tariff (DAC). A 10% savings is anticipated.</p> <p>Water: 124 m³/year/person, according to figures from Colegio de México and CONAGUA. A 15% saving is anticipated.</p> <p>Gas: Document prepared for the IDB-ECOCASA consulting engagement. A savings of at least 15% is anticipated in water heating.</p> <p>Location: Tool developed for the ECOCASA project. A 10% savings is anticipated.</p> <p>Waste: 328 kg per person/year. There will be a 20% savings.</p> <p>Source: Bank estimate on the basis of regular SHF program reports.</p>

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Mexico
Project number:	ME-L1163
Name:	Sixth Global Credit Program for Mortgage Market Development
Executing agency:	Sociedad Hipotecaria Federal, S.N.C. (SHF)
Prepared by:	Gloria Coronel, Lead Financial Management Specialist (FMP/CME); Víctor Escala, Lead Procurement Specialist (FMP/CME), Adriana Corredor, Consultant (FMP/CME)

I. EXECUTIVE SUMMARY

- 1.1 Sociedad Hipotecaria Federal, S.N.C. (SHF) is a development bank with the mission to promote the development of the primary and secondary housing finance markets by providing loans and guarantees for the construction, purchase, and improvement of housing.
- 1.2 The Mexican government has requested support from the Inter-American Development Bank (IDB) to design and implement a Global Credit Program for Mortgage Market Development (loan ME-L1163). This program for up to US\$100 million, to be executed over a five-year period, seeks to finance projects to build or rehabilitate buildings for use as rental housing, with a view to developing a formal market in Mexico. The program will provide financial instruments suited to the needs of this type of project, channeling resources through public-sector development banks.
- 1.3 In 2008, the Bank approved operation ME-X1006 as a conditional credit line for investment projects (CCLIP), to support SHF with tools enabling it to provide liquidity and stability to the primary and secondary mortgage markets. Thus far, the Bank has supported SHF with five¹ loan programs (2067/OC-ME, 2173/OC-ME, 2345/OC-ME, 2760/OC-ME, and 2896/OC-ME) to reduce the housing backlog through programs to develop the low-income housing market, promote organized and sustainable urban development, and deepen the secondary mortgage markets, thereby demonstrating administrative and operational capacity.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The program's objective is to contribute to the development of sustainable housing for rent in Mexico, preferably for the middle-income level. It will be executed as a global credit operation, with funds channeled through public-sector development

¹ The Bank is also providing support on these issues through loan operations 1298/OC-ME and 2897/TC-ME.

banks under a single component to support the financing of projects to build or rehabilitate buildings for use as rental housing. The operation's design will require these buildings to have a sustainability component that makes them efficient in terms of energy and water use, waste management, and location. This support could be channeled via direct loans or contingent credit lines to cover market risk.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The ICAS institutional capacity assessment in May 2015 yielded the following results:

Table 1. SHF Institutional Capacity Assessment

Capacity	System	Quantification			Development (ND, ID, MD, SD)	Risk level (RA, RS, RM, RB)
		Rating %	IR %	Weighted %		
CPO	SPA	100.00	50	50.00	SD	RB
	SOA	94.44	50	47.22	SD	RB
Total				97.22	SD	RB
CE	SAP	94.44	30	28.33	SD	RB
	SABS	100.00	30	30.00	SD	RB
	SAF	92.11	40	36.84	SD	RB
Total				95.18	SD	RB
CC	SCI	100.00	80	80.00	SD	RB
	SCE	100.00	20	20.00	SD	RB
Total				100.00	SD	RB

Consolidation Results Capacities	Quantification			Development (ND, ID, MD, SD)	Risk level (RA, RS, RM, RB)
	Rating %	IR %	Weighted %		
CPO	97.22	25	24.31	SD	RB
CE	95.18	45	42.83	SD	RB
CC	100.00	30	30.00	SD	RB
Total		100	97.13	SD	RB

- 3.2 In conclusion, SHF has a weighted average rating of 97.13%, i.e., a satisfactory level of development with low risk, since it has the institutional capacity necessary for program execution.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

- 4.1 To facilitate contract negotiation, the agreements and requirements to be considered in the Special Provisions are specified below:

- 4.2 **Retroactive financing.** The Bank may retroactively finance up to US\$20 million in expenditures against the loan proceeds (20% of the proposed loan amount) for eligible subloans made by the borrower prior to the loan approval date to finance rental housing projects, provided that requirements substantially similar to those of the loan contract have been met. Such expenditures must have been incurred on or after 14 July 2014 (the date when the project was officially added to the Bank's pipeline), but not under any circumstances more than 18 months prior to the date of loan approval by the Board of Executive Directors. As this is the sixth individual operation under the CCLIP, based on the sequential continuity of the individual operations and dialogue with an established executing agency such as SHF, and considering that there are very few 100% rental developments that meet the program's eligibility criteria and rely on the project's cash flow, the retroactive recognition of financing is considered essential in the program's first few pilots, which will set the trend for future developments.
- 4.3 **Exchange rate.** As agreed upon with the executing agency, the exchange rate to be used for accountability will be the prevailing rate on the payment date recorded in the SHF financial and accounting systems, pursuant to Mexican government regulations in force in the country of the borrower on the effective payment date.
- 4.4 **Audited financial reports (AFRs).**² SHF will submit an audited financial report for the project annually during the execution period within 120 days after the close of the fiscal year, and a final audited financial report 120 days after the last disbursement. These audited financial reports will be audited by IDB-eligible firms under terms of reference agreed upon between the Civil Service Department (SFP) and the Bank. The audited financial statements (AFS) of the entity will not be required.
- 4.5 **Six-monthly financial reports.** SHF will deliver six-monthly financial status reports on the program in the formats agreed upon between the SFP and the Bank. These reports will be delivered by 30 August, for accounts as of 30 June of that fiscal year, and by 28 February for accounts as of 31 December of the previous fiscal year.
- 4.6 Given the nature of the program, no procurements for works, goods, nonconsulting services, or consulting services are foreseen.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

A. Procurement execution

- 5.1 As this is a financial intermediation program, no procurements of works, goods, nonconsulting services, or consulting services are foreseen during its execution, so there will be no procurement plan. Any procurements conducted will follow the "Policies for the procurement of works and goods financed by the Inter-American Development Bank" (document GN-2349-9) and the "Policies for the selection and

² Previously known at the Bank as audited financial statements (AFS). According to document OP-273-6, the project's audited financial report will be referred to by the acronym AFR. The AFS mentioned in this paragraph refers to SHF's financial statements, which include balance sheets and income statements.

- contracting of consultants financed by the Inter-American Development Bank” (document GN-2350-9), under the following terms:
- 5.2 When the borrowers or beneficiaries of the credit line are individuals, private sector firms, small or medium-sized enterprises, or autonomous commercial enterprises of the public sector, procurements will be conducted according to current private-sector practices or commercial practices acceptable to the Bank, and pursuant to Appendices IV of the Bank’s procurement policies. Moreover, the provisions of Section 3.12 on “Procurement in loans to financial intermediaries” of document GN-2349-9 will be observed, along with the provisions of Section 3.14 of document GN-2350-9) on “Commercial practices.”
- 5.3 When the borrowers or beneficiaries of the credit line are entities of the national, state, or municipal public sector, the procurements will observe the following arrangements:
- a. **Procurement execution: Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services³ generated under the project and subject to international competitive bidding (ICB), and procurements subject to national competitive bidding (NCB), will be implemented using [bidding documents harmonized between the SFP and the Bank](#). The project sector specialist will be responsible for reviewing the technical specifications of procurements during the preparation of selection processes.
 - b. **Selection and contracting of consulting firms.** Contracts for consulting services with firms, financed with project resources, will be executed using the standard request for proposals (RFP), agreed upon between the Bank and the SFP, which can be viewed at the link indicated in the previous paragraph. The project sector specialist will be responsible for reviewing the terms of reference for the contracting of consulting services.
 - c. **Selection of individual consultants.** Contracts for consulting services with individual consultants will be implemented using the model contract for individual consultants agreed upon with the Bank, which can be viewed at the link given in paragraph 5.3(a).
- 5.4 **Procurement supervision.** Based on the low risk rating obtained in the institutional assessment, any procurements will be subject to ex post review, except for specific cases where ex ante review is expressly provided.
- 5.5 **Special provisions.** Measures to reduce the likelihood of corruption: the executing agency will diligently comply with the provisions on fraud and corruption defined in the Bank’s procurement policies.
- 5.6 **Records and files.** The executing agency will retain the original basic documentation to support expenditures with the Bank.

³ Policies for the procurement of works and goods financed by the Inter-American Development Bank (document GN-2349-9), paragraph 1.1: Nonconsulting services are treated as goods.

VI. FINANCIAL MANAGEMENT

- 6.1 **Programming and budget.** SHF's Fiscal and Budget Subdirectorato will be responsible for the planning, programming, evaluation, and control of the SHF expenditure budget. It will thus serve as liaison with government agencies and control mechanisms, with respect to budgetary and financial information, pursuant to the guidelines specified by the Department of Finance and Public Credit and the SFP.
- 6.2 **Accounting and information systems.** The Accounting Subdirectorato is responsible for: (i) coordinating the verification and integration of accounting and financial information; (ii) coordinating the fulfillment of provisions on accounting procedures issued by the regulatory or legal authorities; (iii) accounting for all of the company's operations and those of the trusts set up; and (iv) preparing financial statements pursuant to generally accepted accounting principles, and other regulations issued by the National Banking and Exchange Commission, in accordance with sound banking practices and other legal and administrative provisions as applicable. The System for Financial and Treasury Markets (IKOS) of the APESA company (a software firm specializing in financial market solutions) records and controls all credits (provisions, conversions, settlements, etc.) made by SHF. In this system, SHF obtains and maintains a record in Excel of the eligible operations and those presented to the Bank.
- 6.3 For the specific case of bridge loans, SHF uses the SEVERO Works Verification System, to maintain administrative control of bridge loans where loans pertaining to the Financial Cooperation Program for the Supply of Sustainable Housing in Mexico (ECOCASA) are identified. Subsequently, the Mortgage Market Infrastructure Sub-Directorato uses an Excel spreadsheet to distinguish those that use resources from the Bank or other sources, such as KfW, and reports this to the Financial Planning Sub-Directorato, to prepare justifications of the IDB loans. During the preparation of this operation, SHF reported that a process was under way to develop accounting automation in a new AX system; and a number of changes were being made to the SEVERO system. In view of this, the Bank recommended creating a field in the systems to flag credits that are financed with Bank funds in each system, or to enable direct identification thereof.
- 6.4 The daily summary of each system, IKOS and SEVERO, is recorded for each intermediary in the SHF accounting system. Accounting and financial management are maintained by suitable staff with wide-ranging experience in operations with the Bank.
- 6.5 **Disbursements, cash flow, and documentation of expenditures.** The Bank loan proceeds may be disbursed in the form of: (i) advance of funds; or (ii) reimbursement of expenditures. Expenditures will be recognized through payments made to the projects for eligible activities. In view of SHF's institutional capacity, the documentation for disbursement requests in respect of expenses actually paid by SHF will be subject to ex post review. SHF may request disbursements in local currency, by currency conversion, or in U.S. dollars.
- 6.6 **Internal control and internal audit.** The SFP issues general internal control regulations in the domain of federal public administration, which are generally applicable in the respective offices and entities. These regulations help to fulfill the

- established targets and objectives, prevent risks that could hamper their achievement, and promote adequate compliance with the obligation to file accounts and maintain transparency in government functions.
- 6.7 SHF has an Internal Control Unit (OIC) with tasks that comply with generally accepted auditing standards; and its work plan is approved by the SFP. As part of its annual work program, the OIC makes periodic evaluations of internal control on relevant SHF operations.
- 6.8 **External controls and reports.** SHF is subject to external audits performed by the National Commission of Insurance and Sureties, the National Banking and Exchange Commission, the Higher Audit Department of the Federation, and by Banco de México, as well as by external auditors that audit SHF's financial statements. These financial statements are published on the SHF website. In view of this publication, formal presentation of the executing agency's EFA will not be required.
- 6.9 Annually during the execution period, SHF will also present the project's IFAs within 120 days following the end of the fiscal year, and a final IFA 120 days after the last disbursement. These IFAs will be audited by firms eligible for the Bank and under terms of reference agreed upon between the SFP and the Bank.
- 6.10 **Financial supervision plan**

Table 2. Financial Supervision Plan

Supervision activity	Supervision plan			
	Nature and scope	Frequency	Entity in charge	
			Bank	Third-party
Operational	Review of: (i) technical progress of eligible credit activities; and (ii) support for disbursement requests.	Annual	Technical and fiduciary-financial team	External auditor
Financial	Visit for review/validation of control processes for proper recording and financial monitoring of eligible activities.	Annual	Fiduciary-financial team	External auditor
	Ex post review of disbursements and financial audit.	Annual	-	External auditor
	Review of disbursement requests and attached financial statements.	Periodic	Fiduciary-financial team	
Reports and CP	Delivery of audited financial statements.	Annual	Technical and fiduciary-financial team	Executing agency/ External auditor
	Conditions precedent the first disbursement.	Once	Technical and fiduciary-financial team	-

- 6.11 The technical and financial execution mechanism will be centralized at SHF; commitments and payments chargeable against the operation will be made by the respective responsible technical and financial areas. Coordination with the IDB will be maintained through the Derivatives and Financial Analysis Directorate.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/15

Mexico. Loan ___/OC-ME to Sociedad Hipotecaria Federal, S.N.C.
Sixth Global Credit Program for Mortgage Market Development
Individual operation under CCLIP for the Development
of Efficient and Inclusive Mortgage
Markets in Mexico (ME-X1006)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Sociedad Hipotecaria Federal, S.N.C. (SHF), as Borrower, and the United Mexican States, as Guarantor, for the purpose of granting SHF a financing to cooperate in the execution of the sixth global credit program for the development of mortgage markets under CCLIP for the Development of Efficient and Inclusive Mortgage Markets in Mexico (ME-X1006), approved by Resolution DE-165/08. Such financing will be for the amount of up to US\$100,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ _____ 2015)