

Mexico | INFONAVIT: its role in the mortgage market should be reviewed

Carlos Serrano
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One issue which economists agree on is the question of the development banks. The *raison d'être* of these institutions can only be warranted if they resolve a market failing. If such failings exist, a development bank should step in to correct it and pull out once it manages to do this.

For many years, INFONAVIT had a clear *raison d'être*: for decades, Mexico had no long-term mortgage options in the private sector. This was principally due to the fact that the country did not have a yield curve with any depth. As a result of prevailing macroeconomic conditions, the government was not able to issue long-term bonds. It was therefore difficult for financial institutions to come by the necessary funding to offer mortgages. It should be remembered that two decades ago it was unthinkable for anyone to obtain a twenty-year fixed-rate mortgage.

In such a context, INFONAVIT played a key role. It was able to offer loans to families to buy homes on terms which could not be matched by private institutions for the reasons just outlined. INFONAVIT managed to do this, as it could count on a very powerful mechanism: it has access to all of Mexico's private payrolls, both for employees to be able to save and for the instalments required to pay off their loans to be directly deducted from their wages. This means that loans granted can have a better credit standing.

Today the context in which INFONAVIT operates is very different, with Mexico enjoying macroeconomic stability. The government frequently issues long-term securities, which gives the banks the funding they need to offer mortgages. Furthermore, in the wake of the recession that Mexico underwent in 1994, today has one of the world's most strongly-capitalised banking systems, with a high number of fiercely competitive players. The outcome of all this is that conditions today are better than ever in the country's history for taking out a mortgage. A large number of lenders offer them at a fixed rate of 10% or less, over periods of up to twenty years. Given this panorama, INFONAVIT has decided to adopt a policy of competing with the banks. Last year, it increased its maximum mortgage to 1.6 million pesos. By doing so, it broke way from being an institution which focuses on lower-income customer needs and became one that competes with the banks.

This begs the question of whether there is any need for a state-run institution that competes with the private sector when there are no market failings. In any event, if such competition is to exist, it should be on equal terms. Banks have to work within a strict regulatory framework that does not apply to INFONAVIT. INFONAVIT also has the enormous advantage of enjoying a monopoly in terms of the payroll deduction system. Ideally, this system should be available to all the private banks, which would allow mortgages to be offered at even lower rates. There is no justification for maintaining the monopoly that INFONAVIT enjoys.

Having said this, it should be remembered that INFONAVIT also has an important role as a pension fund. In the case of those workers who do not take out a mortgage, the agency manages their savings for their retirement pension. I also feel that we should question whether there needs to be a state-owned institution managing pensions when there is a competitive private pension fund market. We should not overlook the fact that there is a clear conflict of interest between managing the pension fund and offering mortgages - the

lower the interest rates offered on loans, the worse the returns on retirement savings are.

Mexico will soon have to face up to a serious pension problem: the sums in the individual accounts of pension funds will not be sufficient to ensure that workers can retire with decent pensions. This will happen because the interest rates on savings are so low. Why not use the 5% deducted every month from formal sector employees' wages to boost the return on retirement savings? The time has come to rethink whether there is still a *raison d'être* for this institution.

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