

Housing Corporation (CMHC). Reportedly, the government is in the process of creating a trust fund mechanism to issue and guarantee mortgage-backed securities and to set underwriting standards.

The development of a secondary mortgage market will serve to better integrate the private housing finance system with other financial markets. It would enable primary mortgage lenders, like commercial banks, to increase both liquidity of their mortgage portfolios and resources for housing by securing the loans they originate and selling them to long-term investors such as pension funds and insurance companies. An improved credit information system, including the standardization of data throughout the financial system, would be a prerequisite for a fully-functioning secondary mortgage market.

Another reason for a shortage of mortgages for lower-income buyers is that the foreclosure process can take two to three years. The government is trying to speed up the settlement of conflicts while protecting the rights of both parties.

Home loans in Mexico account for just 5 percent of gross domestic product (GDP), which is comparable to other developing countries, but well below the level in developed countries. The *Banco de Comercio (Bancomer)* is the leading mortgage lender with 32 percent of the market, followed by the *Banco Nacional de México (Banamex)* with 28.8 percent and *Banca Serfin* with 10.7 percent. In October 1994, 43 foreign financial institutions were granted licences to establish subsidiaries in Mexico.

After 1989, almost all mortgage loans in Mexico were of the variable-rate, negative-amortization type. In mid-1994, interest rates on 15 to 30 year mortgages varied from 23 percent to 28 percent. For a period in 1994, fixed-rate mortgages were offered by some banks.

## **GOVERNMENT-BACKED COMMERCIAL MORTGAGES**

Commercial banks prefer to loan to people in the middle- and upper-income levels. They will, however, lend to lower-income purchasers provided that the loans are backed by the *Fondo de Operación y Financiamiento Bancario a la Vivienda (FOVI)*, Federal Housing Fund.