

credit evaluation system. Nonetheless, a lack of adequate credit information, and legal uncertainty over property rights remain as obstacles to the further growth of residential mortgage lending. This situation creates a market opportunity for Canadian companies offering systems for the assessment of property values and for risk analysis.

The demand for new mortgages is dependent largely on the rate of new home construction. Estimates of Mexico's housing shortage range from 1.5 million to more than 6 million housing units. Many more homes need upgrading. In 1993, SEDESOL projected annual new home construction at about 268,000 units. An estimated 60 percent of all Mexicans are under 25 years of age, and this implies a rapidly growing housing market in the future.

Commercial bank financing cannot solve the housing shortage for low-income Mexicans, but substantial growth of the mortgage market is still inevitable. In 1992, mortgages in Mexico represented only 5.4 percent of GDP, compared with 42.1 percent in Canada.

THE MARKET FOR CREDIT CARDS

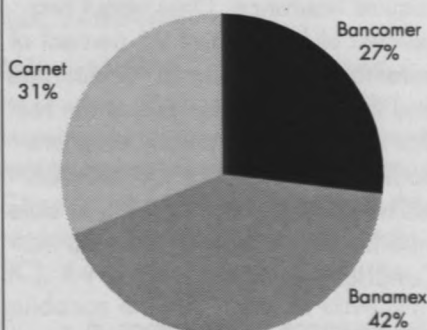
Credit cards are a relatively new and rapidly expanding component of the Mexican financial sector. In 1992 there were almost 10 million credit card accounts in Mexico.

The market is dominated by the largest banks. *Banamex*, *Bancomer* and *Carnet*, a consortium of 13 banks, issue almost all of Mexico's credit cards. *Banamex* alone has issued four million Visa credit cards. *Bancomer* and *Carnet* offer both Visa and Mastercard accounts. American Express is a key player in the service card market, with 400,000 cards in use.

Under the *Ley de Instituciones de Crédito*, Law of Credit Institutions, only diversified banks are allowed to issue credit cards. This means that credit unions and specialized banks are excluded. American Express avoids this limitation because it is technically not a credit card. Some large department stores also issue their own cards which are good for purchases in their own stores.

CREDIT CARD MARKET SHARE IN MEXICO, 1993

Percentage of 9.7 million cards



Source: U.S. Department of Commerce.

Although *Banamex* leads the industry in terms of cards issued, credit card billings are divided almost equally among the three major operators. This reflects the policies of *Bancomer* and some of the *Carnet* participants of focusing on higher-spending customers. In 1991, US \$12.3 billion was charged on bank credit cards. In the first half of 1992 volume was more than US \$8 billion, and credit card use has increased rapidly since then.

American Express estimated its 1992 billings at US \$1.7 billion. The card is used mainly by affluent Mexicans, and the average annual billing of US \$5,000 on the basic green card is about double the equivalent usage in the United States.

CREDIT CARD EARNINGS

The banks earn credit card revenue from the annual card fees, from com-

missions charged to merchants and from interest on outstanding accounts. Annual fees range from about US \$15 for the most basic card to about US \$75 for *Bancomer's* gold card. Merchant fees range up to six percent.

The bulk of the revenue from credit cards comes from interest on outstanding accounts. The monthly rate of interest charged is set by the *Banco de México*, Mexico's Central Bank. In September 1992, it stood at 3.25 percent, which is equivalent to a 39 percent annual rate. Almost three-quarters of monthly credit card balances are left unpaid, partly because consumers are not aware of the interest rates they are incurring.

In 1993, industry sources indicated that about seven percent of outstanding credit card balances were past due. The evaluation of large numbers of applications is an important, but unfamiliar, activity for the banks. This creates an opportunity for Canadian companies offering sophisticated credit-rating systems. The banks do their own credit checks.

CREDIT CARD SERVICES

As in Canada, credit cards can be used at automatic teller machines to obtain cash advances as well as for purchases of goods and services. Unlike Canada, however, the banks pay interest on positive balances and many Mexicans use their credit card accounts for savings. Another difference is that because of the unreliability of the mail, most credit card payments are made in person at the bank. American Express bills are paid at the company's offices. *Banamex* has a system whereby customers can transfer funds from a bank account by telephone to pay credit card bills.