According to a policy paper issued in 1994, *SEDESOL's* housing strategy emphasizes the expansion of commercial banks into the low- and moderate-income mortgage market. The tools to bring this about include the development of new financial mechanisms, including a secondary mortgage market, down-payment savings accounts and payroll-deduction schemes for mortgage payments. These devices are intended to reduce risk and increase yields on loans to low-income home buyers as a means of drawing out private investment.

Under this new housing initiative, the major low-income housing programs are no longer directly engaged in home building. They now focus primarily on issuing mortgages to homeowners. The institutions define the projects and, in most cases, extend construction credit to private builders. *Secretaría de Comercio y Fomento Industrial (SECOFI)*, Secretariat of Commerce and Industrial Development, is also attempting to coordinate the operations of the major programs and to integrate them into the mainstream financial system.

In the past, construction companies built what they were told to build by the government. Now the builders design, plan, build and sell the homes at their own risk, but have access to government-assisted financing. No foreign construction firms are presently registered for loans by the *Fondo de Operación y Financiamiento Bancario a la Vivienda (FOVI)*, Federal Housing Fund, one of Mexico's key programs. Foreign investors are, however, entering this market by partnering with Mexican construction firms. Of the Mexican firms registered with *FOVI*, nearly one-third have some involvement with foreign partners.

Conventional Bank Mortgages

Even before the December 1994 devaluation of the peso, conventional bank mortgages were very difficult to obtain. Commercial lending for the year was only a little over US $6 billion in a sector that built perhaps 600,000 units. The average bank mortgage was under US $45,000 and the effective interest rate was about 25 percent. Mortgage financing was generally available only for the purchase of new homes. Since the devaluation, conventional bank mortgages have become virtually unavailable. Interest rates exceed 50 percent annually for the little amount of financing that can be obtained. The financial sector is not expected to resume normal operations until at least 1996.

Aside from the devaluation, a major barrier to the availability of mortgages has been the lack of a secondary market for secured mortgages. Government officials are in favor of the development of such a market by the private sector. According to central bank officials, however, the government is unlikely to offer repayment guarantees such as those provided in Canada by the Canada Mortgage and