



ION

MAKING MORTGAGE FINANCE WORK

30th IUHF World Congress

Jose Shabot - June 2017

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The ION logo, identical to the one in the top left corner, consisting of the letters 'ION' in light green with a blue dot in the center of the 'O'.



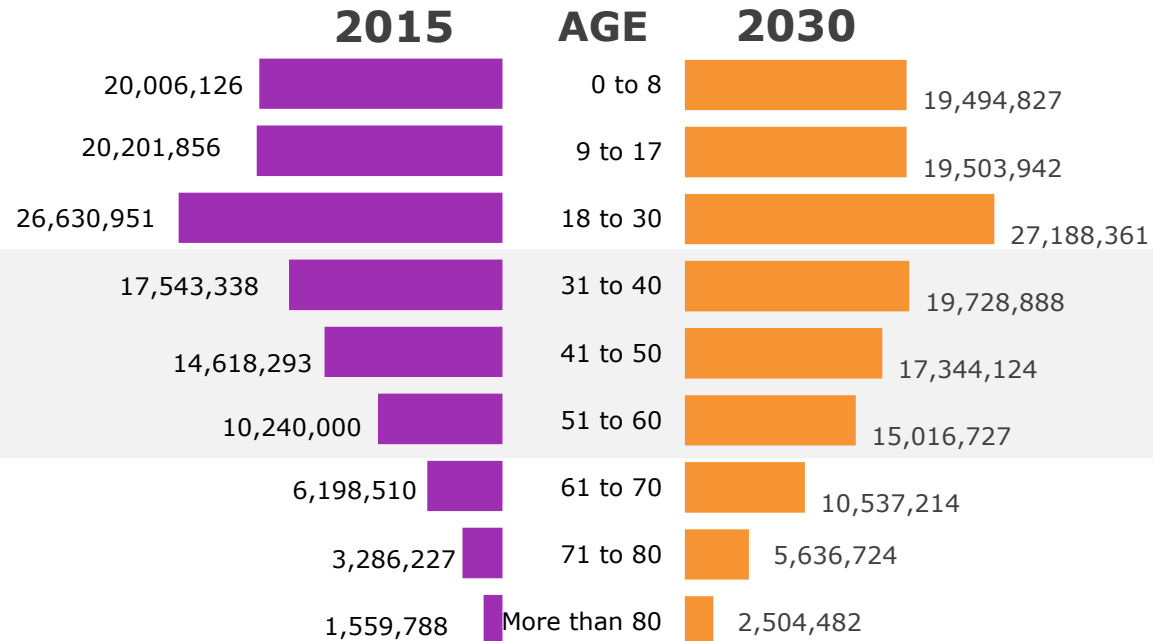
MARKET OVERVIEW

DEMOGRAPHIC BONUS

In Mexico, demographics are still the most important driver for housing demand, 75% of the population is under 40 years old. 30 million new homes will be built in the next 30 years in Mexico.



**42
MILLION**



**52
MILLION**

MEXICO	2005	2010	2012	2015	2018	2024	2025	2030
Population	103.9	108.4	110.0	112.3	114.4	118.2	118.7	120.9
Households (millions)	24.4	27.3	28.5	30.2	31.9	35.2	35.7	38.1

Sources: CONAPO, Population Estimates and Projections 2010 - 2030, SHF, Estimates based on Demand for Housing 2017, CONAVI, Household Projections, INEGI, Population and Housing Census 2010; Population and Housing Accounts 2005 and 2015, Conorevi



MARKET OVERVIEW

HOUSING DEMAND

Based on Census information, SHF estimates that housing demand for the next 15 years will be around **550 - 775** thousand houses per year.

ANNUAL HOUSING DEMAND

2010 - 2020

2020 - 2030

775,000

550,000

+

DEFFICIENT HOUSES IN 2017

9.1 MILLION



FINANCING

INDIVIDUAL MORTGAGE LOANS

Current mortgage offered are focused on salaried employees and bank customers

INSTITUTION	2016 Results		2017 Goals	
	Number (thousand)	Amount (million pesos)	Number (thousand)	Amount (million pesos)
Infonavit	452	\$ 115,760	460	\$130,990
Mortgage Loans	365	\$ 114,232	365	\$130,990
Home improvements Loans	87	\$ 1,528	95	
Fovissste	99	\$ 40,750	112	\$37,561
Mortgage Loans	63	\$ 40,750	67	\$37,561
Home Improvements Loans	36		45	
Banks	135	\$ 152,022	165	\$162,028
Mortgage Loans	135	\$ 145,643	165	\$154,503
Home improvement Loans		\$ 6,379		\$7,525
Total	686	\$ 308,532	737	\$330,579



THE MEXICAN FINANCIAL MARKETS ARE UNDERSERVED

- Only **39% of families have bank accounts**
- **18% of families have debit cards**
- An estimated **59% of the population is not affiliated to Infonavit-Fovissste**
- No private mortgage or construction loan securitizations have been made since 2008. **No MBS, covered bonds or mortgage instruments at all**
- **No Mortgage-REITs**, and only one non-bank financial mortgage institution
- Competition only comes from 4-5 large international banks



OPPORTUNITIES



ACTUAL LOANS SUPPLY IN MEXICO DOES NOT COVER DEMAND

POTENTIAL MARKET



32 HOUSEHOLDS IN MEXICO MILLION

Payment capacity

INCOME
<14 MW: 29,499,488

INCOME
≥14 MW: 2,450,221

House type

RENTING OR FREE USE
403,742

OWNER W MORTGAGE
480,427

OWNER
1,531,666

OTHERS
34,386

Home composition

HOMES WITH INDEPENDENT WORKERS, SELF EMPLOYEDS OR MIXED INCOME (included employees)

EMPLOYEES **235,007**

136,633



Access to financing programs

WITHOUT ACCESS
62,293

WITH ACCESS
171,207



POTENTIAL
222,169

NOT MARRIED >14 SMGV WITHOUT ACCESS TO FINANCING PROGRAMS

23,243

Most of independent workers don't have access to the Institutional Organism programs neither to the Commercial Banks, because they can't provide traditional income receipts (pay stubs, financial statements).

MW: Minimum Wage aprox US\$1.5K/year



INDIVIDUAL LOANS

BEFORE THE 2008 CRISIS THERE WERE FINANCIAL INSTITUTIONS WITH MORTGAGE LOANS PROGRAMS FOR INDEPENDENTS, SELF EMPLOYEES AND NOT TRADITIONAL INCOMES CUSTOMERS. AFTER 2008 THE NUMBER OF PROGRAMS HAS CONTRACTED SUBSTANTIALLY

BEFORE 1995

INSTITUTIONS



Banks



Infonavit

CLIENTS

- **Formal Workers and employees with access to institutional programs.**

PRODUCTS/MARKET

- **Limited institutional mortgages from Infonavit**
- **Incipient market from banks – we were coming from a high-inflation cycle that vanished mortgage financing**

1995-2008

INSTITUTIONS



Sofoles / SHF



Infonavit / Fovissste

CLIENTS

- **Formal Workers and employees with access to institutional programs.**
- **Self employees, independent workers, employees without access to institutional programs, mixed**

PRODUCTS/MARKET

- **Non-regulated Sofoles financed with little origination standards, small downpayments, and little if at all governance**

AFTER 2008

INSTITUTIONS



Banks



Infonavit / Fovissste

CLIENTS

- **Formal Workers and employees with access to institutional programs.**

PRODUCTS/MARKET

- **Little product innovation, as banks don't see a frontal competition for their markets**
- **Big barriers to entry for new players, as the financial markets are underdeveloped, and there is little credibility for non-banks**

The logo for ION is displayed in a bold, sans-serif font. The letters 'I', 'O', and 'N' are a vibrant yellow-green color. The letter 'O' is unique, featuring a bright cyan circle in its center. The background is a grayscale photograph of a modern building with a grid of windows and balconies, viewed from a low angle looking up. A palm tree is visible in the bottom right corner.

ION



A STORY THAT'S JUST BEGINNING...

In the future...

- **A deeper market with competitors!**

2017

- Third equity round: **\$600 million pesos**
- First public mortgage securitization with SHF guarantee (est Sept)
- First bond issuance with partial credit guarantee (est Aug)

2016

- Starts geographical expansion
- Credit ratings: BBB+; servicer rating: AAFC2
- Issuance of public commercial paper for **\$50 million pesos.**
- ION is the non-banking institution leader in the México city market
- Second equity round: **\$250 million pesos**

2015

- ION became a **regulated financial institution** voluntarily.
- Obtained first credit lines through SHF (Mexican Housing Development Bank)

2014

- First equity Round **\$300 MILLION PESOS**
- First mortgages originated

2013

2011-
2012

- **Registration** as a company at Condusef, CNBV (Mexican Banking Commission)



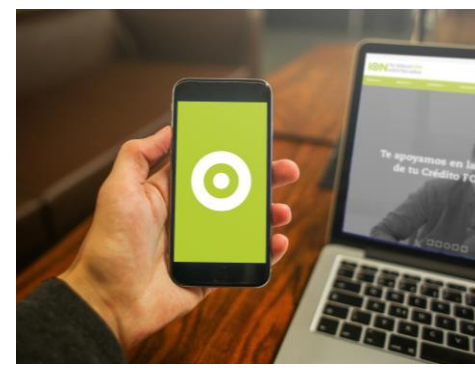
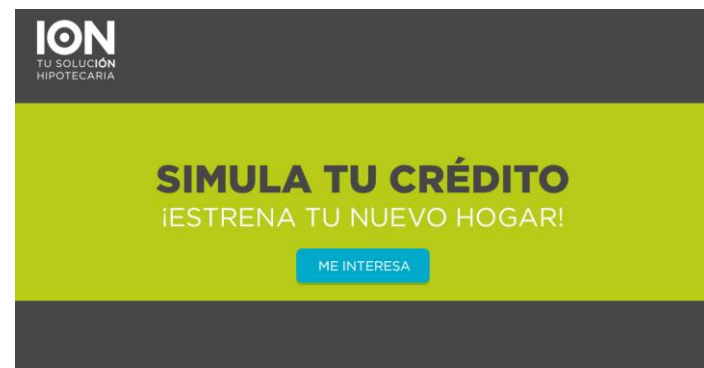
COMPETITIVE ADVANTAGES

- **Management team** with over 100 years of experience: the best in the industry.
- Loans backed with **real guarantees** that are characterized by added value through time. And **with real, and lower-than usual LTVs.**
- Commercial Strategy through different **channels, and over-the-market service level** to customers
- ION's Structure allows it to become a **portfolio servicer** to other financial institutions.
- We're not interested into growing our balance sheet. We see ourselves as a good **originator and servicer.** Willing to remain with skin in the game, but aiming to sell our loans.
- **Flexible parametric analysis** that obtains revenue sources of clients in a detailed way
- **Technologic platform** known as "App ION", which is based on the best practices of software development industry. We take advantage of data available in the market.



TECHNOLOGY AND MULTI-CHANNELL

WE KNOW THAT IN ORDER TO GET OUR POTENTIAL CUSTOMERS, WE MUST BE "ONE STEP AHEAD" USING TECHNOLOGY, DIGITAL MARKETING, BIG DATA AND NEW-ERA STRATEGIES.





CHALLENGES

Our challenges are more on how to create a market

- Getting **development banks** interested in the Mexican mortgage market (again).
- Convincing **credit rating agencies** that securitizations and mortgage instruments in Mexico can actually work.
- Creating **sources of funding**: mortgage REITs, securitizations, covered bonds, etcetera
- Effectively **communicating our offer** and show the competitive advantage we have. We are not another competitor – we are a solution to grow the size of the pie
- **Creating a market of new homes** within cities through construction loans



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THANK YOU

Jose Shabot - June 2017