

## **Infonavit Mezzanine Finance Facility**

### **PROJECT ABSTRACT**

The proposed facility constitutes one of the components of the IDB strategy to support Mexico's housing finance sector by creating a Mezzanine Finance Facility. Under the proposed facility the IDB would purchase Mezzanine notes to enhance RMBS issues by Infonavit sold in the local capital markets of Mexico, for an aggregate IDB-guaranteed amount up to US\$200 million-equivalent (approx. 600 million UDIs).

Infonavit is the largest residential mortgage lender in Mexico and its social mandate is to support the lowest income segment of the country, currently unattended by private lenders. Infonavit is planning to focus its origination efforts to this lowest-income population segment and contribute to close the housing gap. It is estimated that 350,000 additional mortgages per year are needed. This will require Infonavit to rely more on its mortgage securitization program to secure funding at competitive rates.

The RMBS enhanced with IDB's support will be subject to strict eligibility criteria and will be expected to comply with Infonavit credit standards. The rationale for these enhancements is that it allows housing finance institutions to better attract the large pool of Mexican investors who are constrained to buying very high quality assets. IDB's support is key to bridge this gap between financing needs and constrained investors.

Recently, the RMBS market has faced liquidity problems. This facility proposes to support the RMBS providing further liquidity to Infonavit in order to sustain continued access to low income consumers to housing finance products. If not addressed, these problems could undermine the significant progress that has been made over the last several years in expanding the reach of housing finance to previously underserved groups in Mexico.

IDB's participation is consistent with its mandate to play a countercyclical role to provide financing to Latin-American countries during times of volatility, and in line with the country strategy to reduce poverty and contribute to the efficient development of the financial markets. With this facility the IDB shows its strong confidence in the credit quality of instruments associated with the Mexican lower and social income housing market.