

ASK THE REAL ESTATE EXPERTS

With the phenomenal growth in Real Estate around Banderas Bay the Tribune is helping sort through the confusion by having your personal Real Estate and Financing/Mortgage questions answered by our local experts – David Schwendeman and Terence Reilly, Founder's of MEXLend, an industry-leading Mortgage Broker based in Vallarta. We invite you to e-mail your questions regarding buying or financing Real Estate in Mexico to buyinginmexico@hotmail.com.

Q: “How is the mortgage meltdown in the US affecting the mortgage market in Mexico?”
J. Young, Seattle, WA

A: What a fantastic question and we're glad someone finally asked it! While the fine points could be debated endlessly and occupy this column space for a year or more – we will attempt to briefly and succinctly explain WHY the Mortgage Market within Mexico looks really good for the foreseeable future. There are several key issues and facts, which may not be fully understood as the industry is still relatively new.

Supply and Demand – Part 1: 90% or more of property in the US and Canada has a Mortgage attached to it and this has been the case for more than half a century. Mortgage debt is considered “good” debt and the easy availability of funds for residential financing has had a huge impact on The American Dream.

90% or more of property in Mexico does not have a Mortgage attached to it. Until very recently homeownership was a possibility for only a select few – the wealthy and those who could manage to scrape the funds together for an all cash purchase. Yes there has always been owner or developer's financing and some banks did offer high interest or dual index loans – but financing for the masses, with attractive terms is a recent development. This fact applies to both Nationals and Foreigners within Mexico.

So we have a situation in this country of 100 + million where relatively few individuals own their homes and even fewer have Mortgages. It's a WIDE OPEN MARKET. Needless to say, all eyes are on Mexico! More and more Banks are entering the Market and our Cross Border Loan Programs continue to be very profitable for our Lenders. Rates continue to get even more competitive – as demonstrated by the introduction of a 3 Year Arm at 7% - just 2 weeks ago.

Supply and Demand – Part 2: Just look out the window. Puerto Vallarta as well as other resort areas in Mexico have seen an exponential boom in new construction. Condos and Spec Homes are going up at an astonishing rate. Undeniably, prices have gone up too. There simply aren't enough “all cash buyers” to purchase the existing inventory of homes and condos not to mention, those coming on the market. The availability of Conventional Mortgages allows for a much broader buyer pool and will allow stability and growth within the Real Estate Industry.

The Myth of the All Cash Buyer: Quite interestingly, when we first began writing loans in Mexico in 2005, more than a few Realtors and Developers were a little hesitant at the notion of financing. They were selling out their inventories easily with a seemingly endless pool of “all cash” purchasers. However, while many of these buyers were showing up at their closings with “all cash” those funds were actually coming from “cash-out , refinancing loans” or “equity lines of credit” on property in the US or Canada. The US Mortgage crisis means that Mortgage Money in the US is tight right now and terms have gotten more rigid. Many foreigners looking to purchase in Mexico have maxed out

on the equity on their existing homes up North and still others won't qualify based on the stricter guidelines. This represents an excellent opportunity for Cross Border Lenders.

Consider the individual who purchased in Mexico 10 years ago at \$100K US. This home or condo might now be valued at \$500K US or more. If you bought a condo 5 years ago at \$250K it could be worth \$800K or more. Many lucky home owners did just that and the collective equity within Mexico is astounding. Home owners can tap into this equity with a Cross Border Cash-Out Refinance Loan up to 80%. In addition, purchasers who do not have enough home equity in the US or Canada to cash out on – can collateralize a Mexican Cross Border Loan entirely against the Mexican Property – put \$250K down, prove you can afford the monthly payments and you can own that \$800K property! Mexican Real Estate is in a growth phase – not a decline. Again, the Market is Wide Open . . .

Cross Border Lending is Responsible Lending: Arguably, the biggest contributor to the Mortgage Crisis in the US right now was the practice of irresponsible, sub-prime lending. Too many people took too much risk borrowing too much money; which collectively couldn't be paid back responsibly. Some of our Cross Border Clients are daunted by our Lenders Requirements. But truth be told - putting 20% to 30% down on a property fosters a higher commitment level to the purchase. A higher commitment level means less chance of default – which translates to less risk for the Bank – which translates to Responsible Lending. Cross Border Loans are a bit more difficult to qualify for than the loans that caused all the problems in the US – but by requiring a higher commitment level from borrowers - we minimize the chances that Mexico will experience what the US is going through. There are no Sub Prime Loans available in Mexico.

The Mexican Economy is tied to the US Economy: This statement is truly the wild card in our discussion. US and Canadian Tourism is integral to Mexico's Economy. Travelers need to continue to come to Mexico, to fall in love with Mexico and return to Mexico in order for our resort areas and business ventures to thrive. We've been enjoying Mexico for 17 years now and while we have certainly seen ebbs and flows, busy high seasons and slow high seasons, good Peso exchange rates and bad Peso exchange rates; Mexico has always persevered. However, a severe economic crunch stateside could represent less expendable income for travel and therefore, fewer foreigners purchasing Mexico. Right now I see no drastic change to the aforementioned and all barometers point to continued stability and growth.

In closing, Cross Border Lenders tend to be rather conservative. These loans require a high level of commitment, affordability and creditworthiness from the borrower. However, the potential for new business in Mexico's largely untapped market, combined with a responsible approach to underwriting and lending guidelines makes the Mexican Mortgage Market extremely attractive for the long term.

MEXLend, Inc. is a Mexican mortgage brokerage that currently represents 8 different lenders offering 75 different loan options in Dollars and Pesos for buyers looking to purchase vacation or investment property throughout Mexico – including two new products specifically for Canadian citizens! In recently announced results based upon post-closing client interviews conducted by Mexico's largest US lender, MEXLend won the #1 mark of distinction for both client satisfaction and fastest closings for the second straight cycle. MEXLend can be reached at 322-132-7991 (in Vallarta), 917-779-9061 (while in the US or Canada) or go online at www.mexlend.com.