

# Real Estate Credit in Brazil

## Sound Housing Finance Around the World



JOINT CONGRESS



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**Filipe F. Pontual**  
**Executive Director - ABECIP**

**Vienna, Austria**  
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# Agenda

- 1 - Introduction**
- 2 - Economic Scenario**
- 3 - Real Estate Credit in Brazil**
- 4 - Default Rates**
- 5 - Sources of Funding**
- 6 - Banking Sector/ Marketing**
- 7 - Conclusion**

## ABECIP

**Founded**

**1967**

**Mission**

**To contribute to building a solid and stable real estate credit system**

**Purpose**

**To foster the enhancement of the Housing Finance System and the Brazilian Financial System**



## Brazil

- ✓ Land area: 8,5 million km<sup>2</sup> (5<sup>th</sup> largest land area)
- ✓ Population: 191 million (world's 5<sup>th</sup> largest)
- ✓ 2012 GDP: R\$ 4,40 trillion (world's 6<sup>th</sup> largest economy)
- ✓ Urban population: 84.4%
- ✓ Population growth:  
2000 to 2010: 1.2% p.a.
- ✓ Number of households: 67,6 million

# Economic Scenario

**Pre-1994**

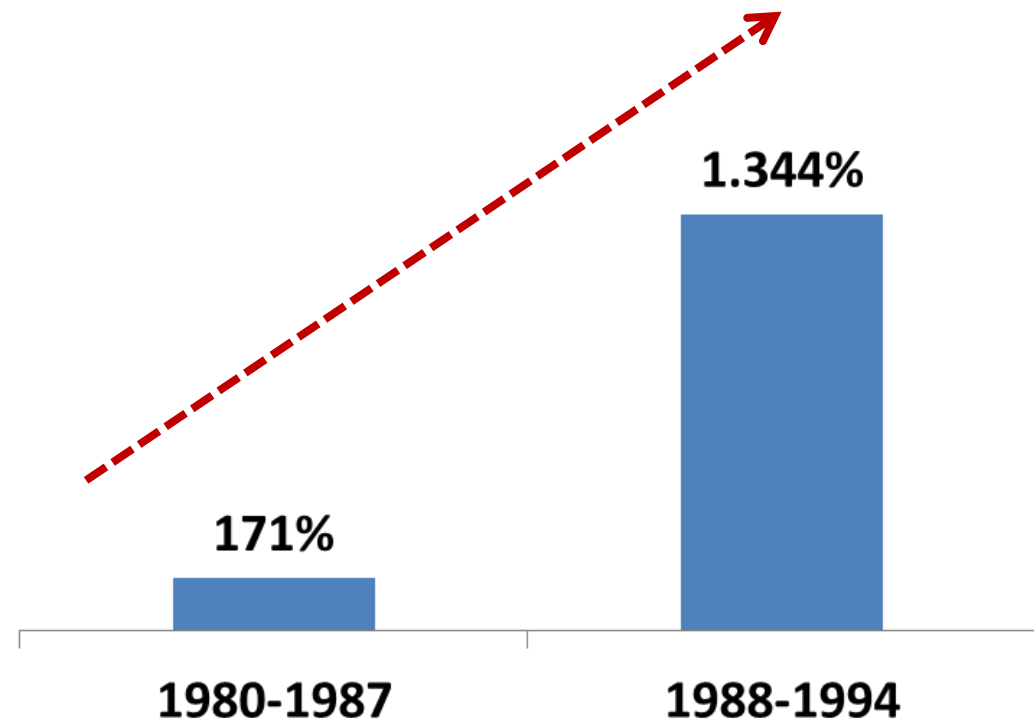
**X**

**Post-1994**

## Pre-1994:

- Monetary instability
- Legal uncertainty
- High interest rates
- Low economic growth
- Shortage of credit

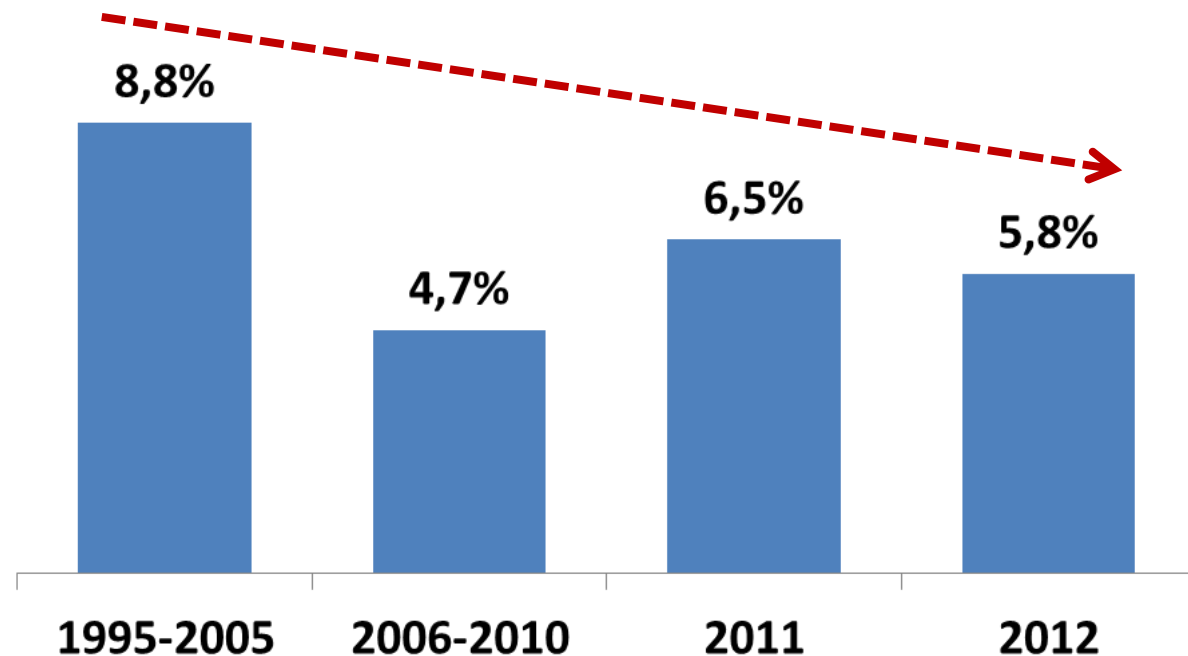
Average annual  
inflation



## Post-1994:

- Inflation under control
- Legal certainty
- Declining interest rates
- Fiscal responsibility
- Economic growth
- Abundant credit

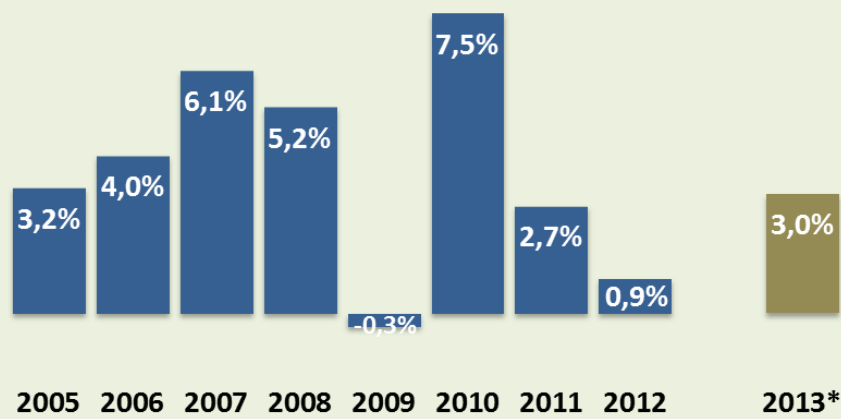
Average annual  
inflation



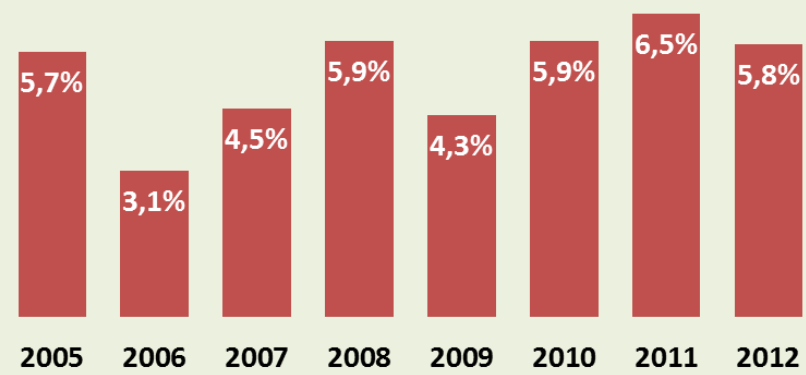
# Current Economic Scenario



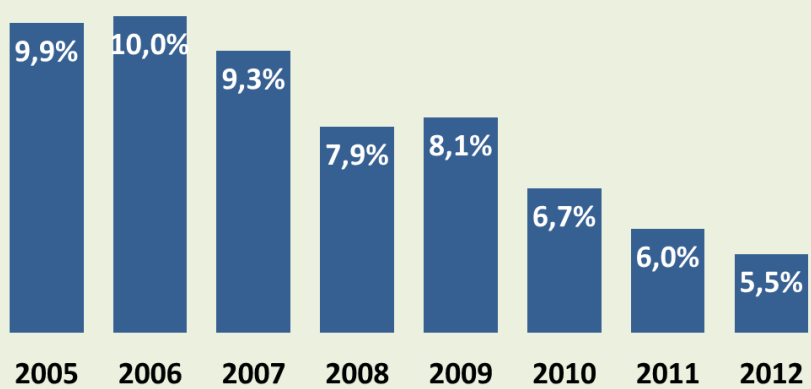
**GDP**



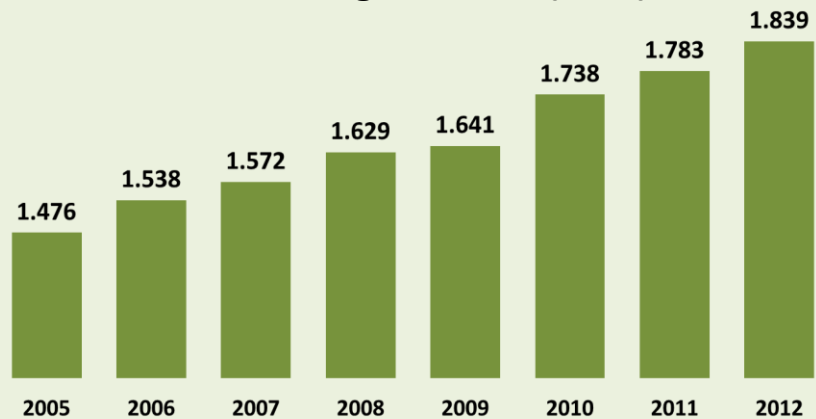
**Consumer Price Index – Broad Concept**



**Unemployment - Average Rate**



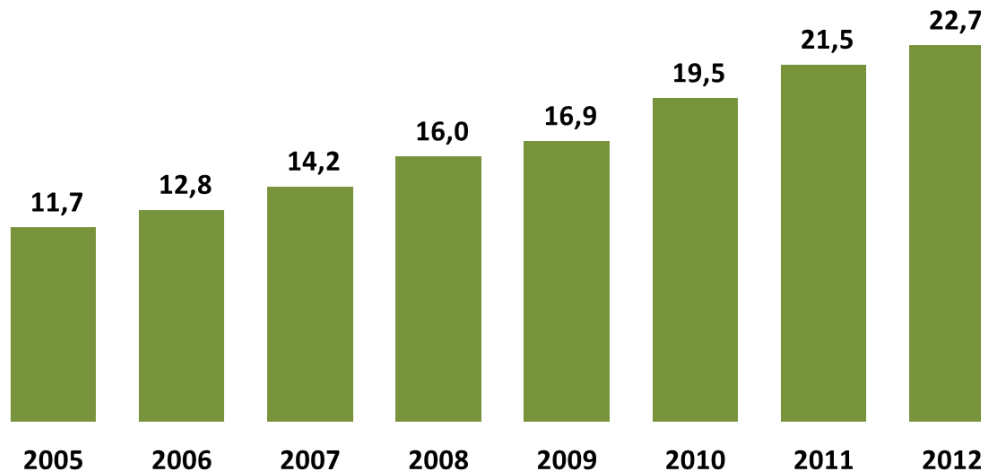
**Real Average Income (R\$ 1)**



Lowest historical rate

Source: Brazilian Central Bank and IBGE - Brazilian Census Bureau

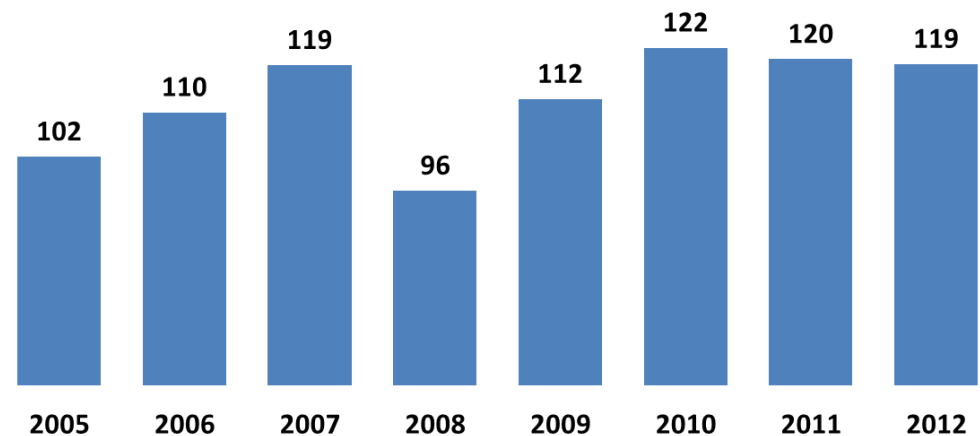
## GDP per Capita



GDP per Capita doubled  
between 2005 and 2012

Consumer confidence  
stable and above the  
historical average (113)

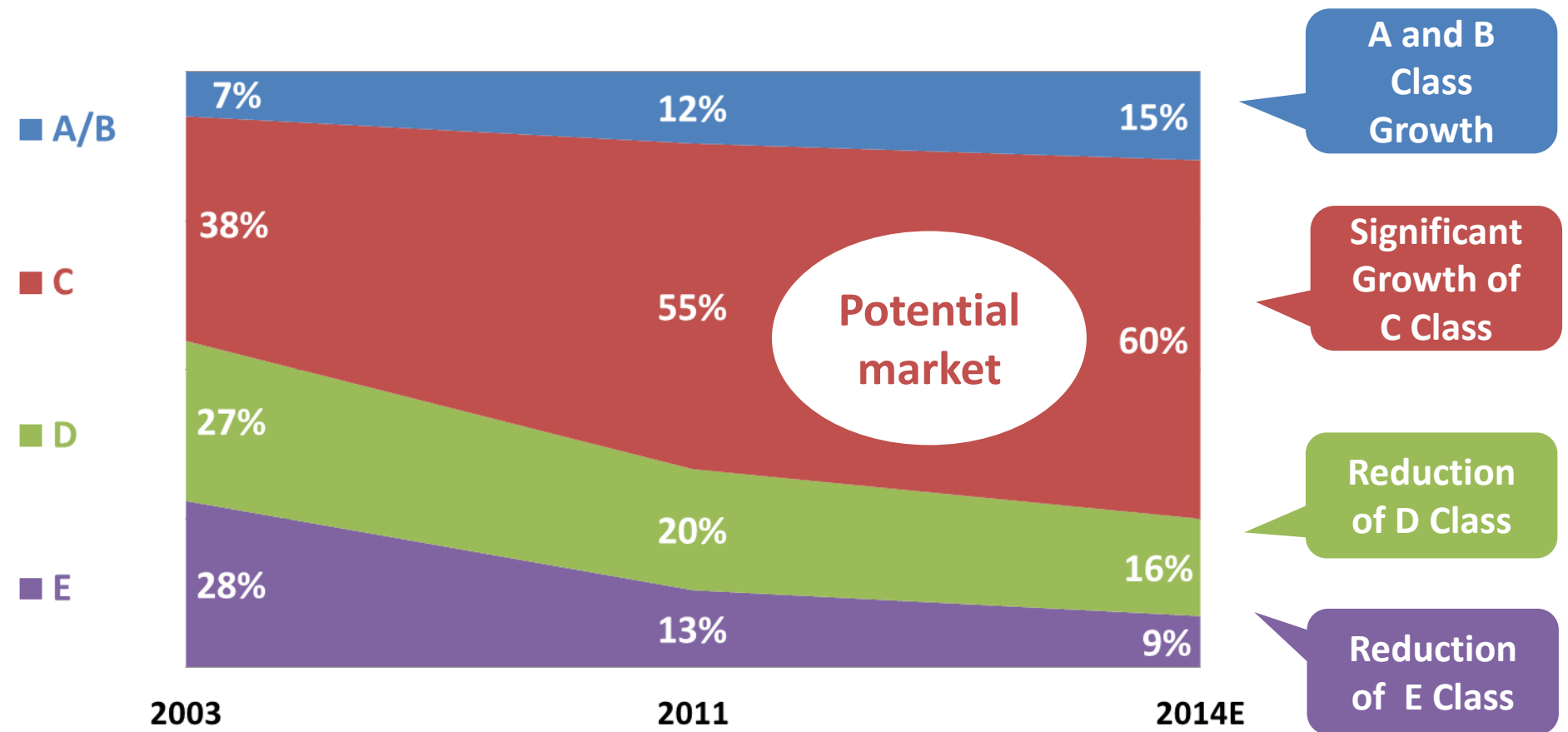
## Consumer Confidence



# **Economic Scenario**

## **Positive Spin-off**

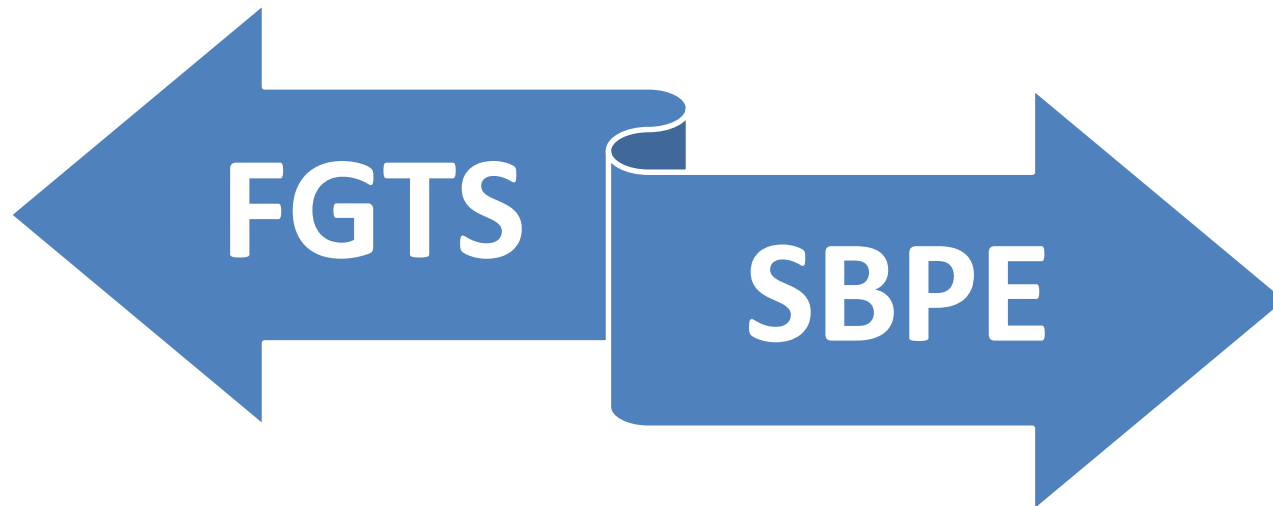
## Improved socioeconomic conditions

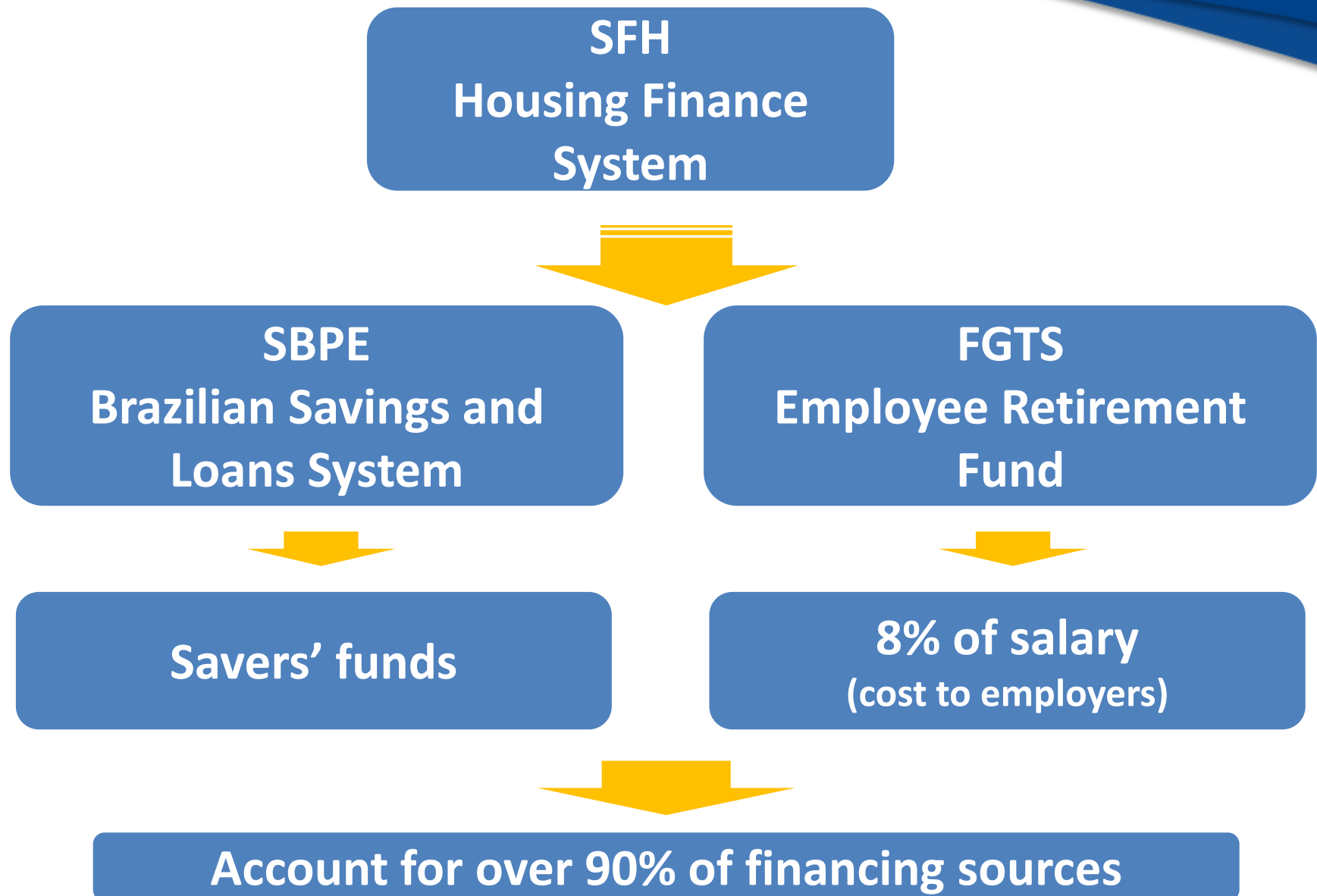


Source: FGV

# Real Estate Credit in Brazil

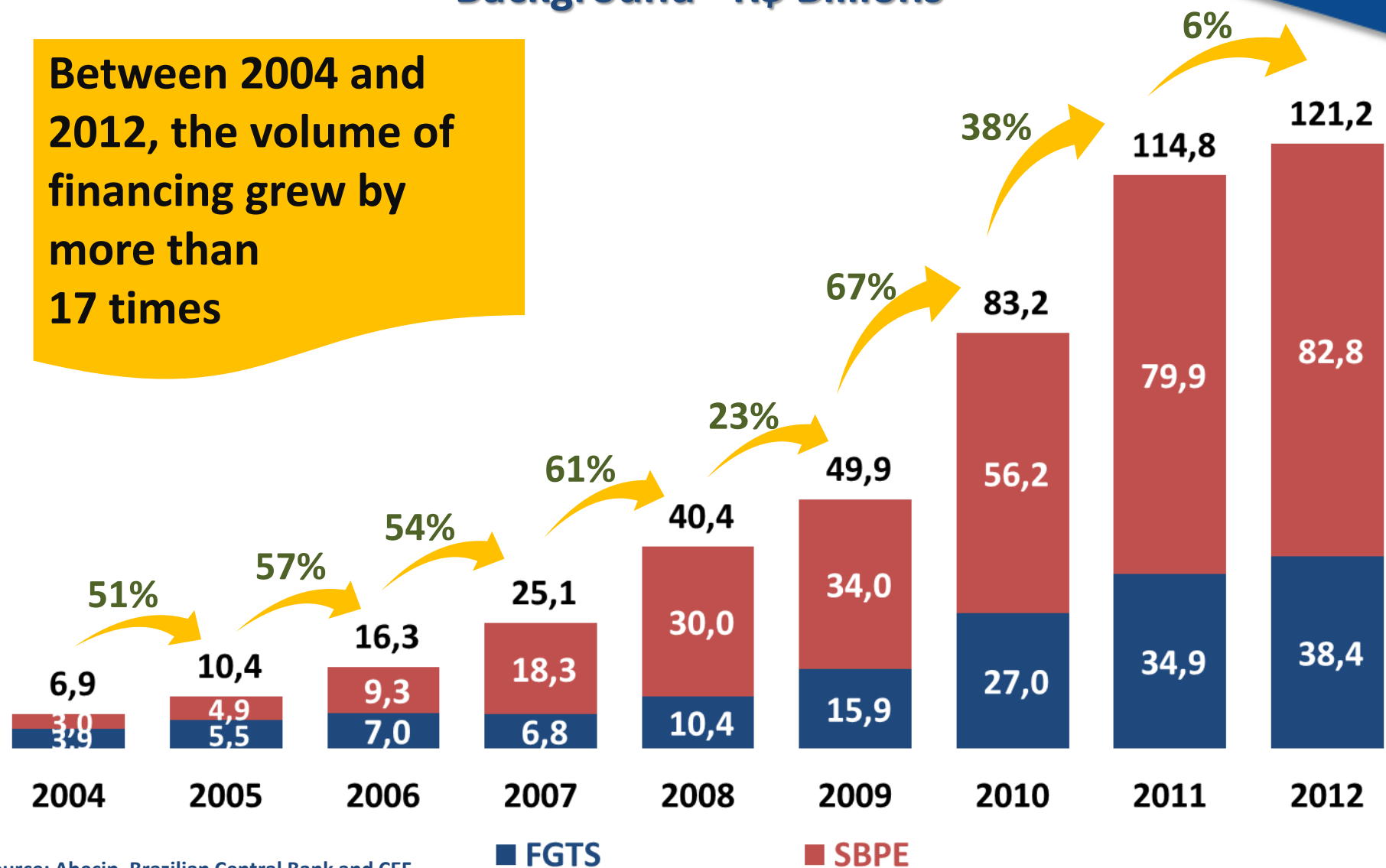
## Primary sources of funding





## Background - R\$ Billions

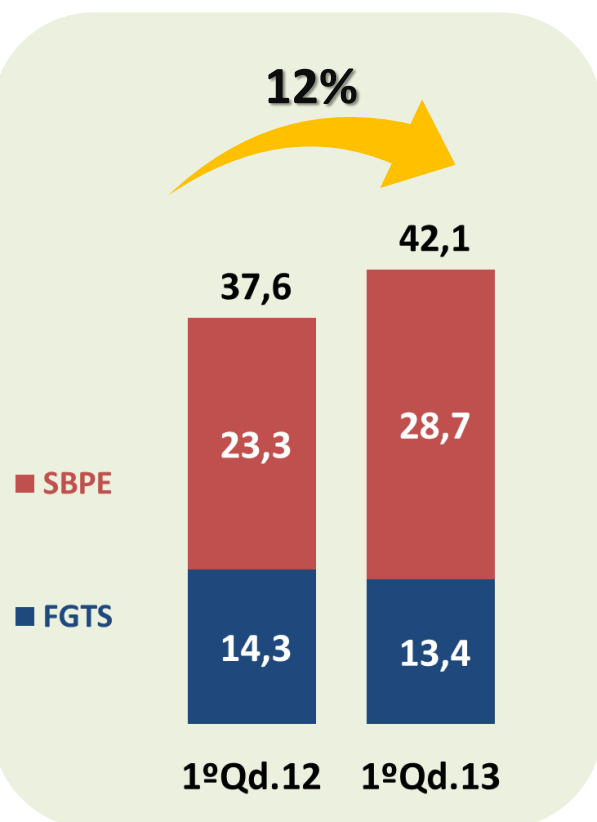
Between 2004 and 2012, the volume of financing grew by more than 17 times



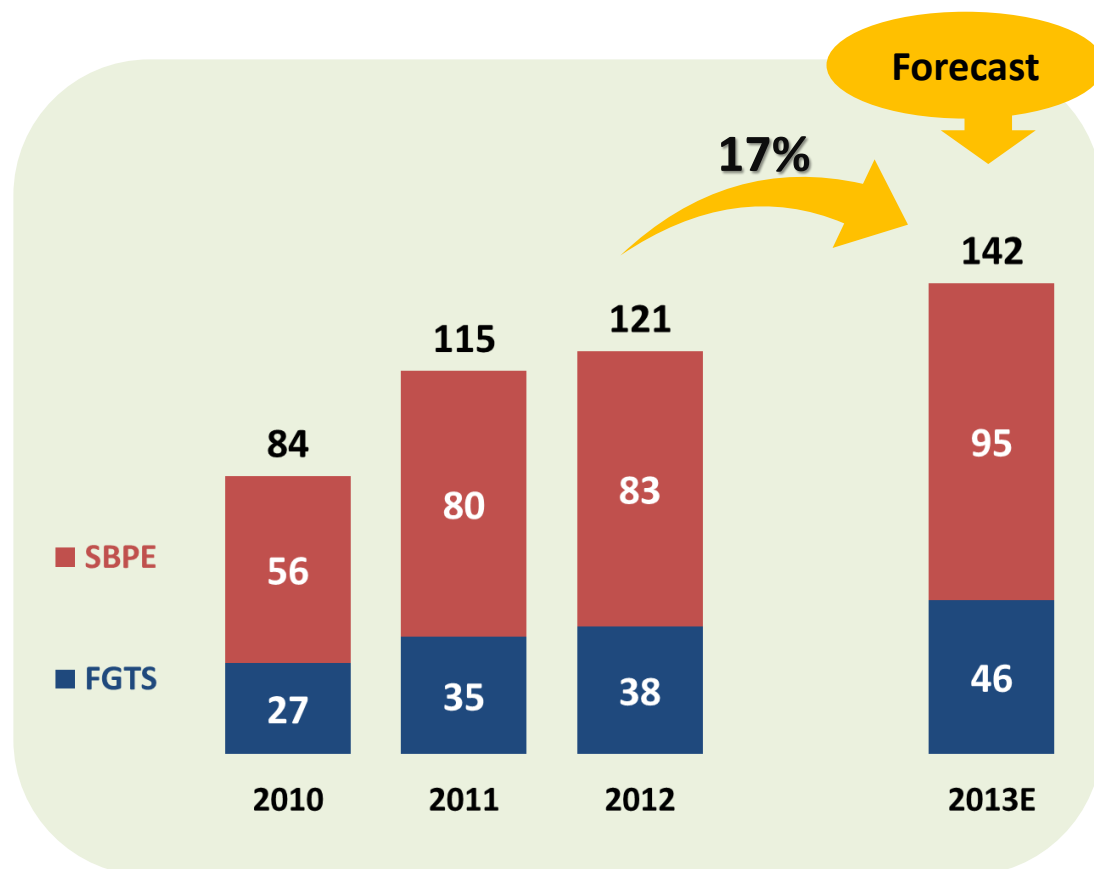
Source: Abecip, Brazilian Central Bank and CEF



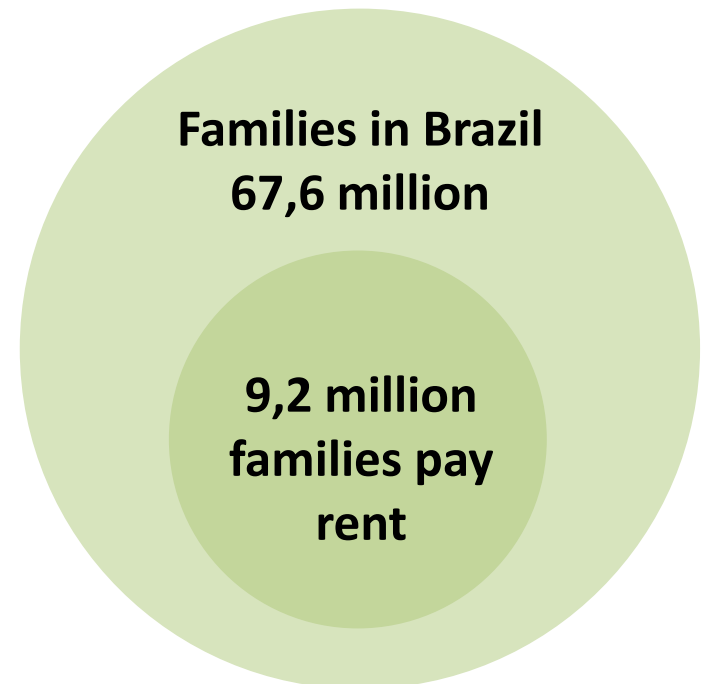
## 1st Four-Month Period (R\$ Billions)



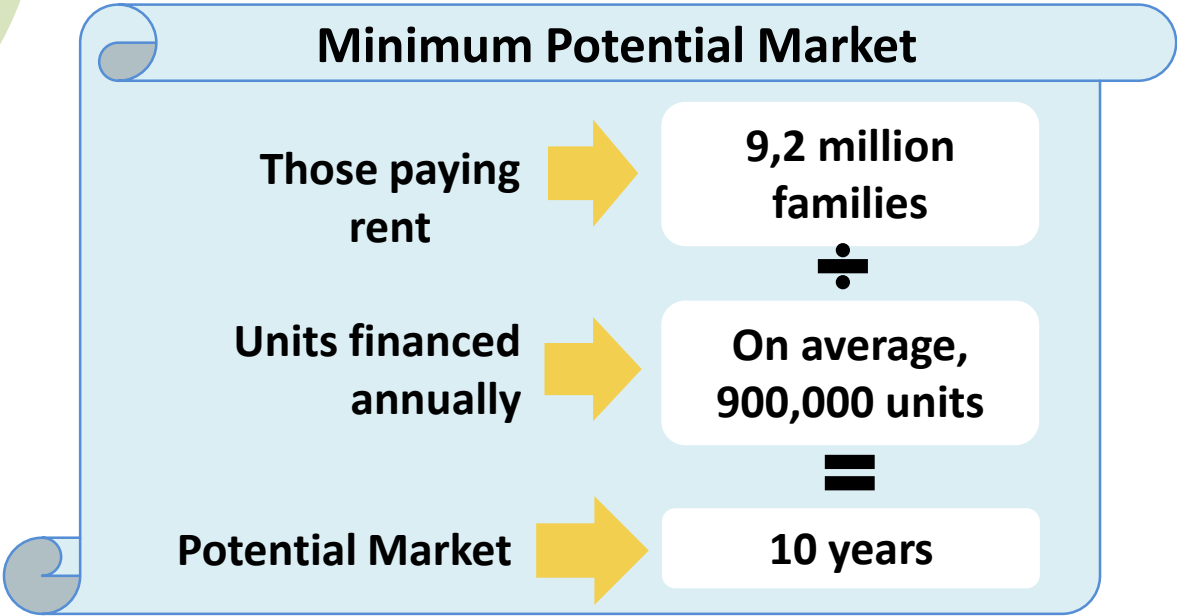
## Annual Result (R\$ Billions)



Source: Abecip, Brazilian Central Bank and CEF

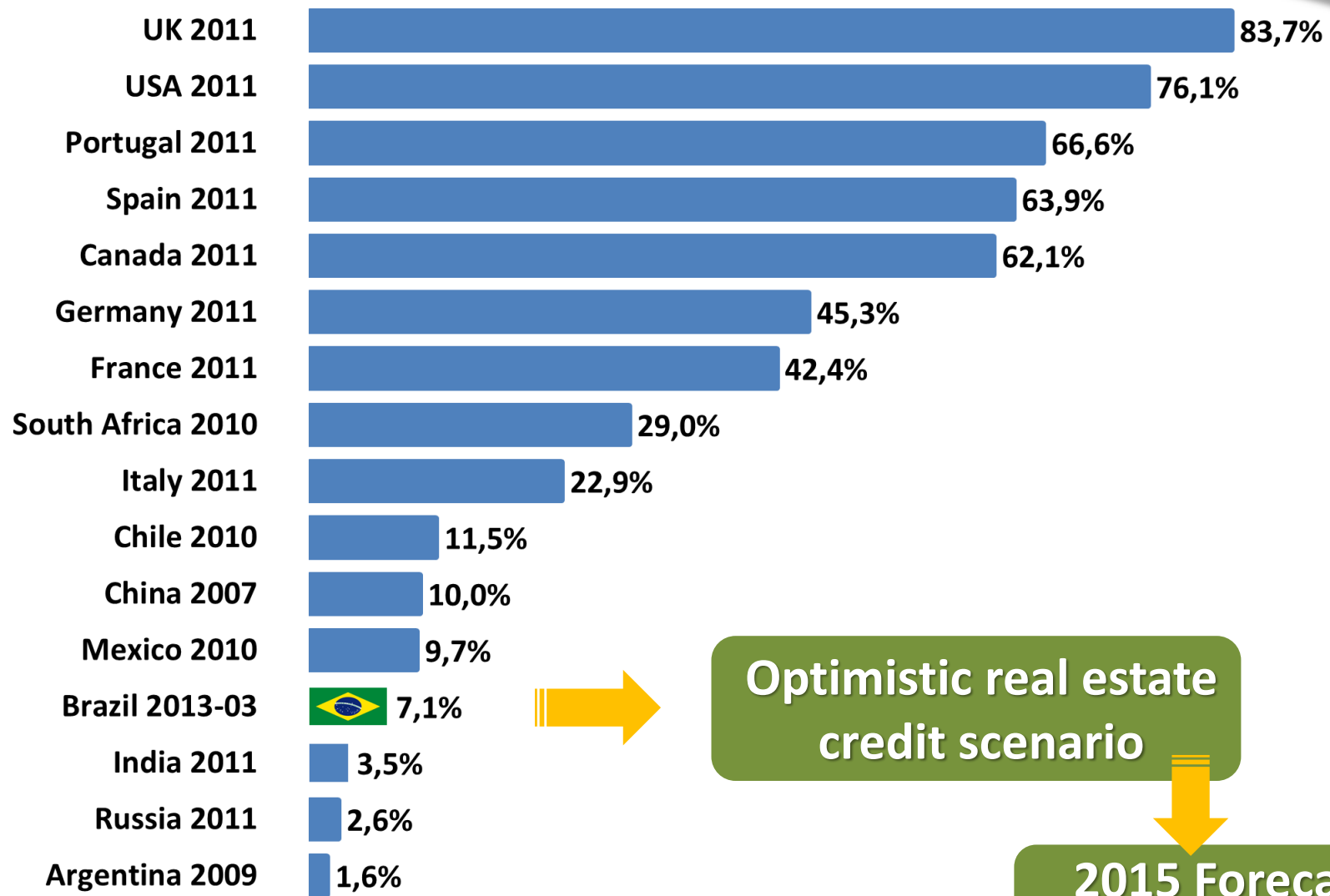


Brazil 2011	
Marriages	1,03 million
Divorces	0,28 million
Total	1,31 million



Source: Abecip and IBGE - Brazilian Census Bureau

# Real Estate Credit x GDP (% Share)



Optimistic real estate credit scenario

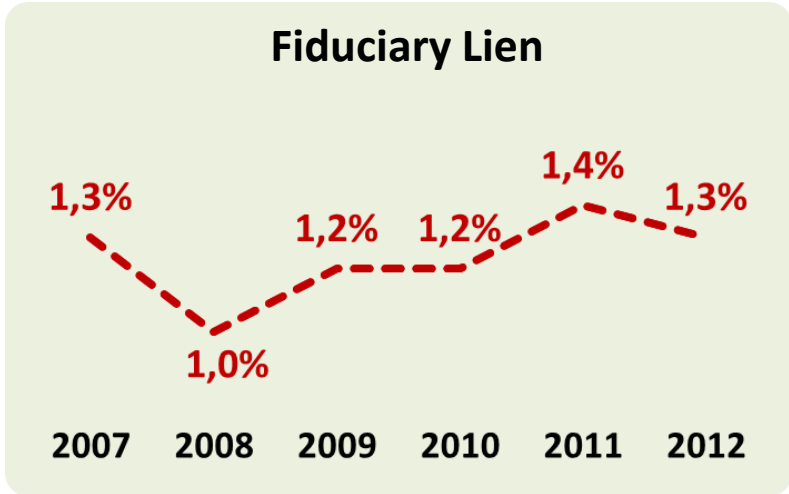
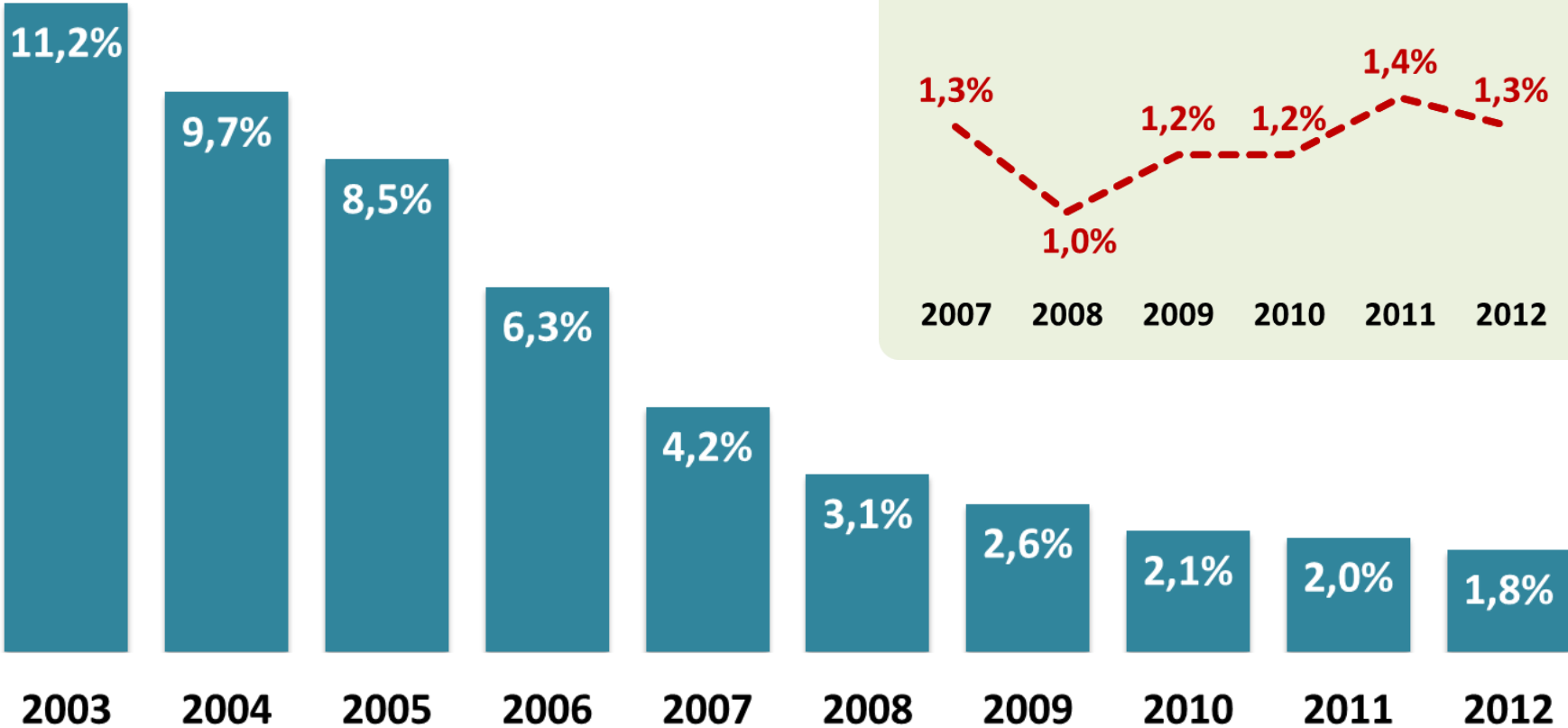
2015 Forecast:  
10% of GDP

Source: Abecip and BCB, Hypostat, Felaban and Hfn

# Default Rates

## Financing funded from Savings Contracts more than 90 days past due (%)

Mortgage + Fiduciary Lien



Source: Abecip and Brazilian Central Bank

## Reasons for low level of defaults

- ✓ **Maximum income commitment: 30%**
- ✓ **Maximum LTV: 80%**
- ✓ **Average LTV: 64%**
- ✓ **Guarantee: Fiduciary Lien**
- ✓ **Banks are conservative when granting loans**
- ✓ **Each development is a SPE**

# Sources of Funding for Real Estate Financing

## Traditional Sources:

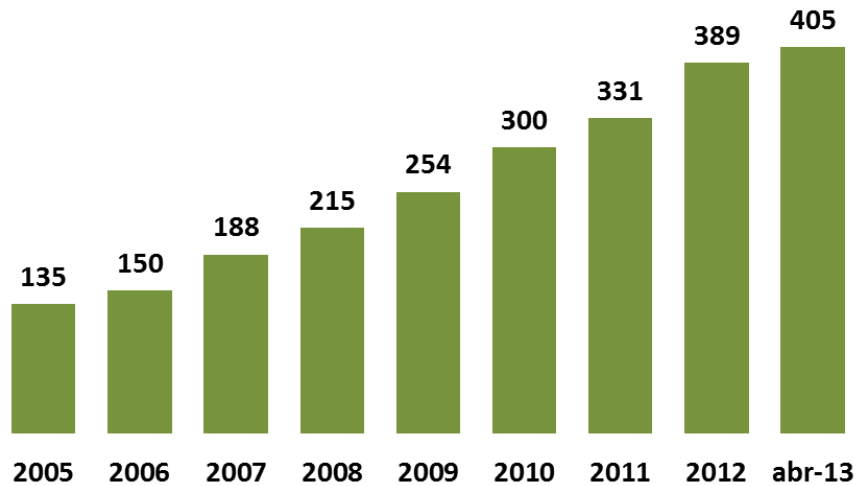
- ✓ **SBPE Savings**
- ✓ **FGTS (Employee Retirement Fund)**

## New Sources:

- ✓ **CRI (Real Estate Receivables)**
- ✓ **LCI (Real Estate Letters of Credit)**
- ✓ **Real Estate Funds**
- ✓ **LFI (*Covered Bond*) under development**



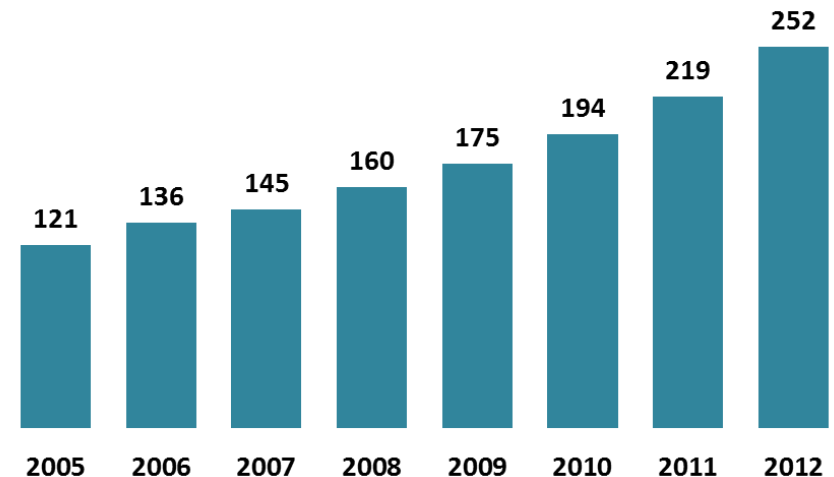
## SBPE Savings



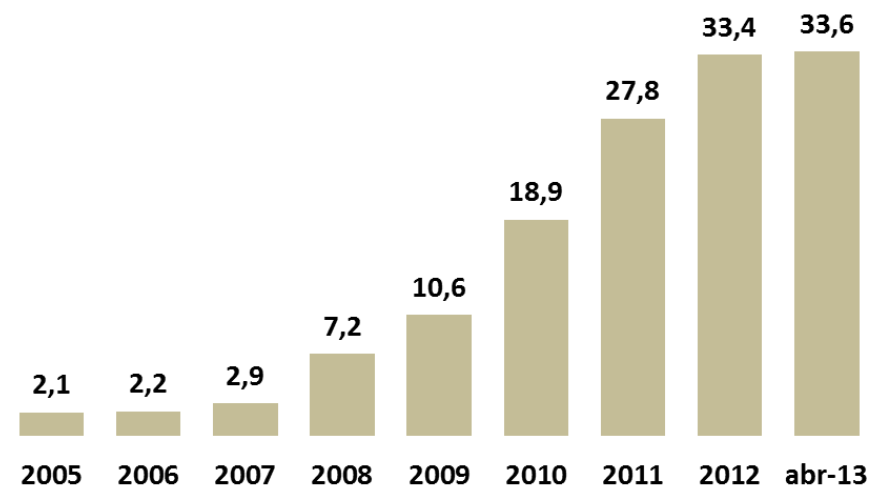
Funding channeled to real estate credit for the middle class

Funding channeled as a priority to the low-income population

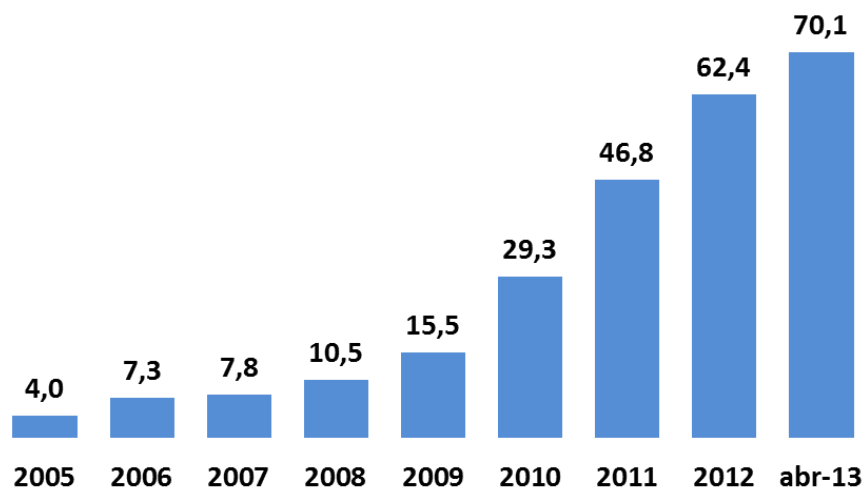
## FGTS



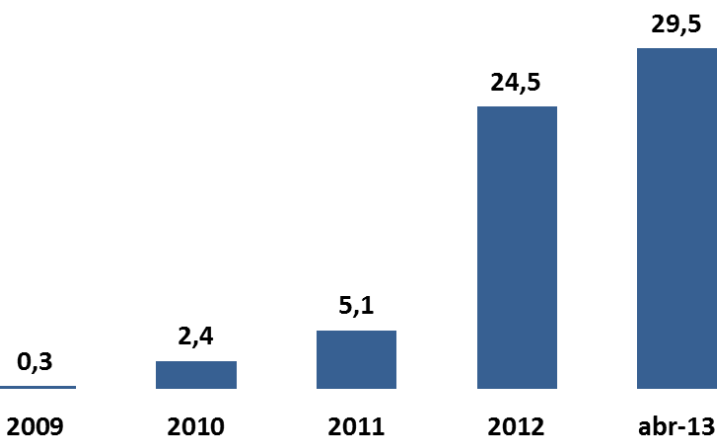
Certificates of Real Estate Receivables



Real Estate Notes

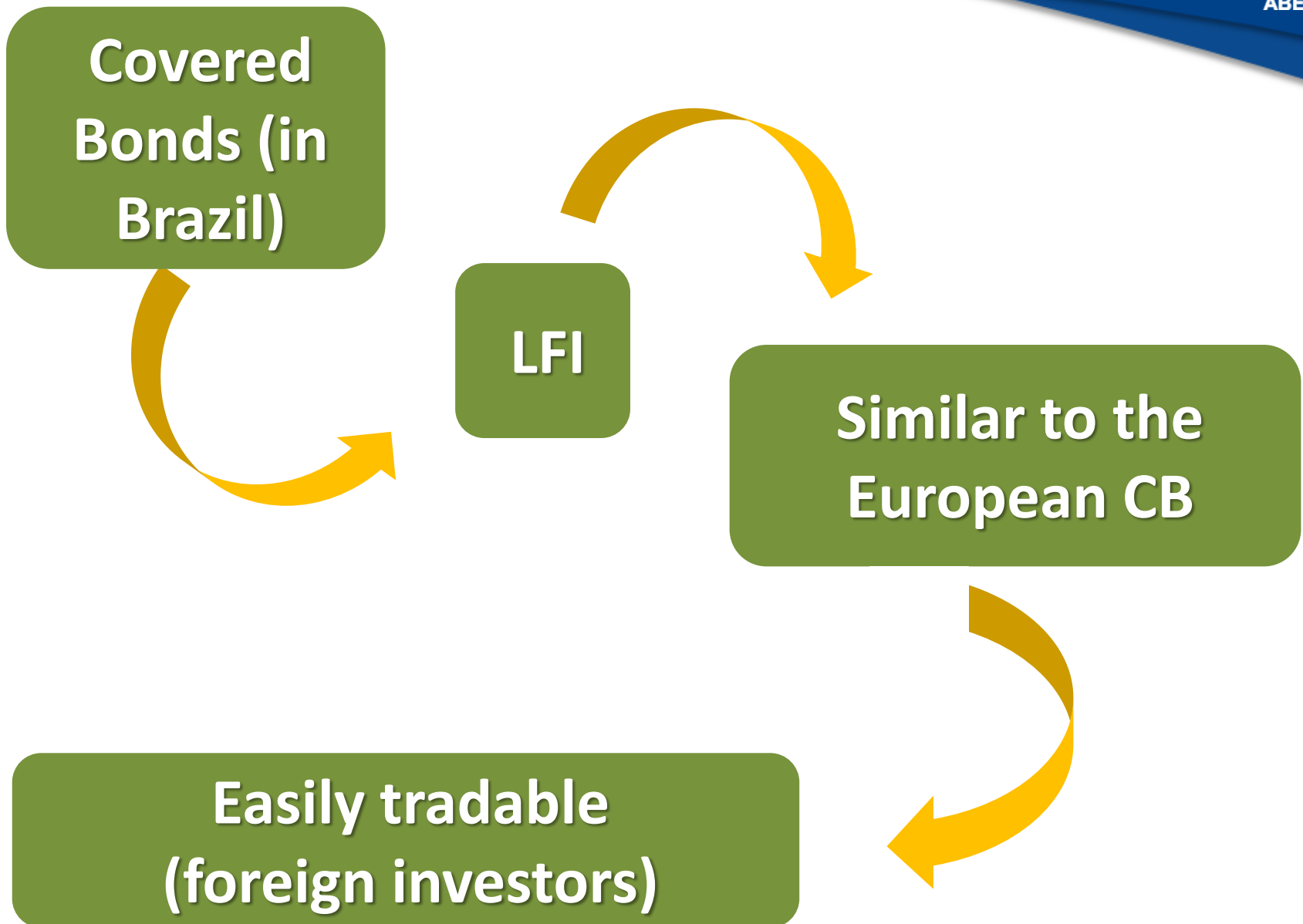


Real Estate Investment Fund



Covered Bonds  
under development

Source: Abecip, Brazilian Central Bank and Cetip



# Banking Sector

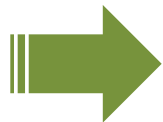
## Selected Features

**Brazilian banks have nationwide presence**

- ✓ **Over 97,000 service outlets (excluding ATMs)**
- ✓ **Extensive use of credit and debit cards**
- ✓ **Used for payment of different types of services, expenses, taxes and utility bills**

**Widespread use of electronic services:**

- ✓ **Internet, call centers, mobile devices and chat**
- ✓ **Simulation and contracting of loans**
- ✓ **Financial education and rational use of credit**

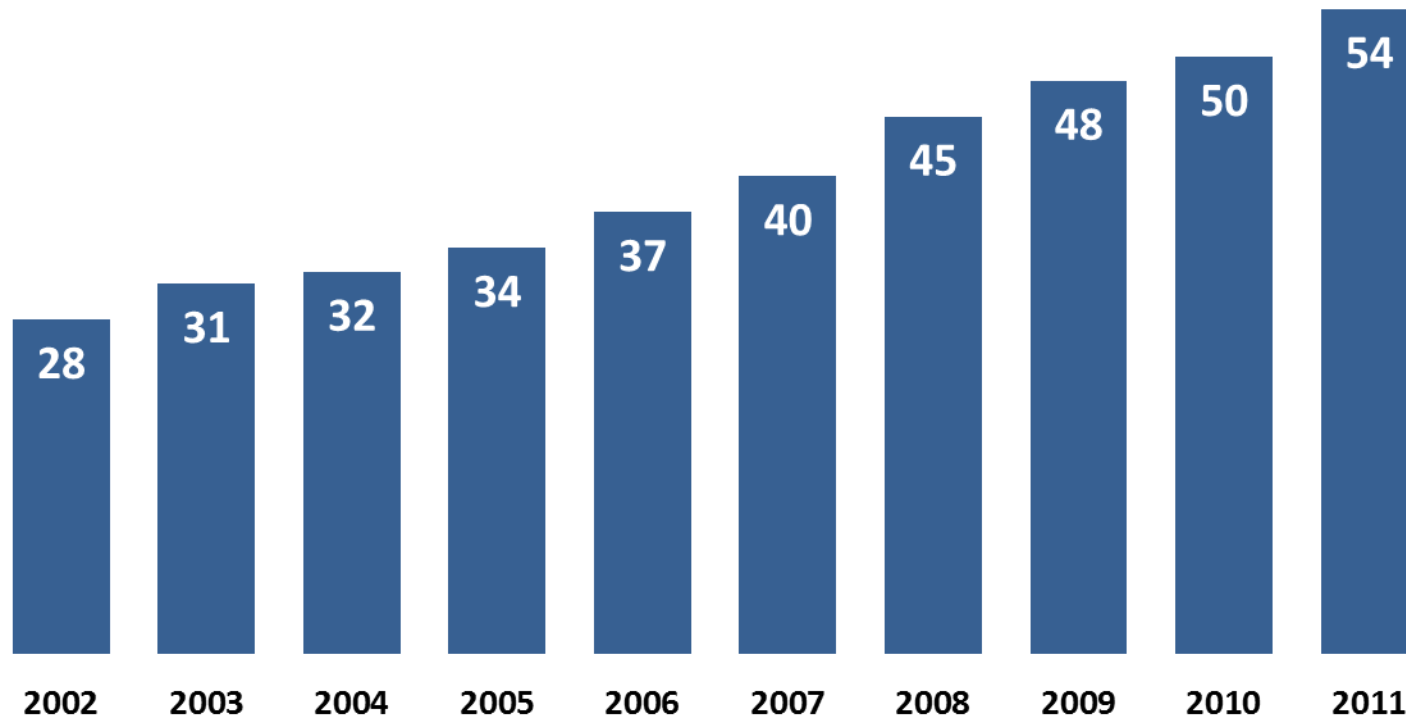


**Development of strong relationships with clients and insights into their credit behavior**



54 million people in Brazil use banks

- 30% of the total population
- 60% of the economically active population



Increase due to upwardly mobile C and D classes

- ✓ **Macroeconomic stability**
- ✓ **Inflation targeting system**
- ✓ **Flexible currency rate**
- ✓ **High international reserves: US\$ 379 bi (Apr/13)**
- ✓ **Fiscal responsibility law**
- ✓ **Central Bank has huge resources to control and supervise the financial system**
- ✓ **Modern Brazilian Financial System**
- ✓ **Highly-capitalized banks**

## Past

- Adverse economic conditions
- Stagnated real estate credit

## Present

- Favorable economic conditions
- Real estate credit with much room to grow
- Accounts for only 7.1% of GDP
- Banks focusing on real estate credit

## Banks' Strategy

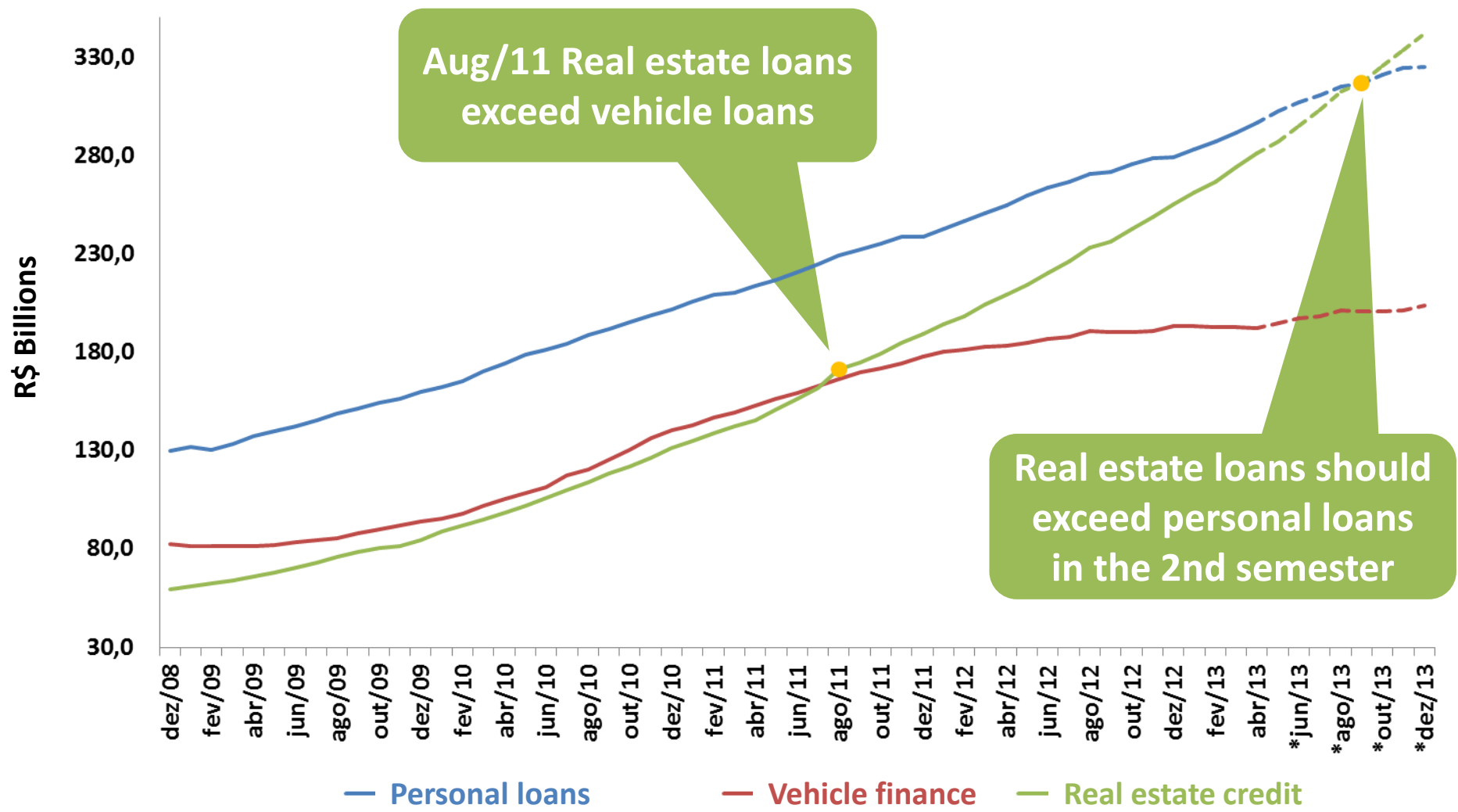
- Construction finance (developers)
- Financing for off-the-shelf units for individuals

## Interest in real estate credit

- Low default rates
- Long-term credit ➡ long-term relationship
- Cross-selling



# Real Estate, Personal and Vehicle Loans (R\$ billions)



Source: Brazilian Central Bank

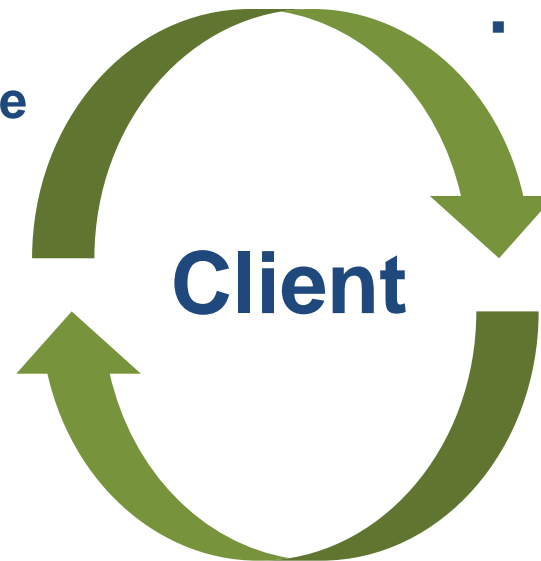
# Bank Marketing and Modus Operandi

## 1 - Prospecting

- Alliances with developers and brokers
- Convenient service
- Pre-assessed guarantee bank
- Integrated business

## 2 – Offering credit

- Through all channels
- Customized to client's requirements



## 4 - Retaining clients

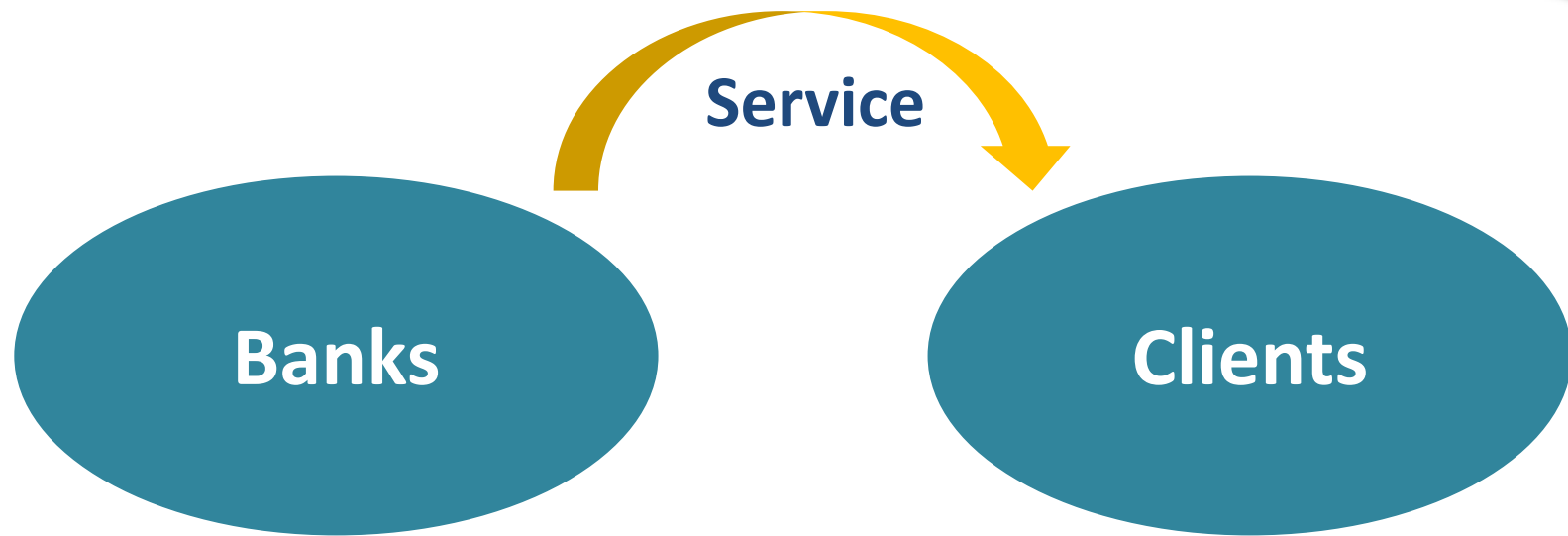
- Customer loyalty
- Incentive schemes in the relationship

## 3 – Strengthening relationships and making them profitable

- Scheduled approach to offer new business
- After-sales service

## Lower costs and speed of response in real estate credit

- ✓ **Creating the “document processing plant”**
- ✓ **Rationalizing red tape**
- ✓ **Agility in credit analysis and approval**
- ✓ **CET: Effective Total Cost (BC) “transparency”**
- ✓ **Boosting relationship with client (Cross-selling)**
- ✓ **Capillarity of the service network**
- ✓ **Providing a good customer experience**
- ✓ **Virtual environment for the entire transaction**



- ✓ **Managers and real estate credit specialists who attend to clients in the branches**
- ✓ **Segmentation by income level (differentiated environment)**
- ✓ **Wide availability of branches (capillarity)**

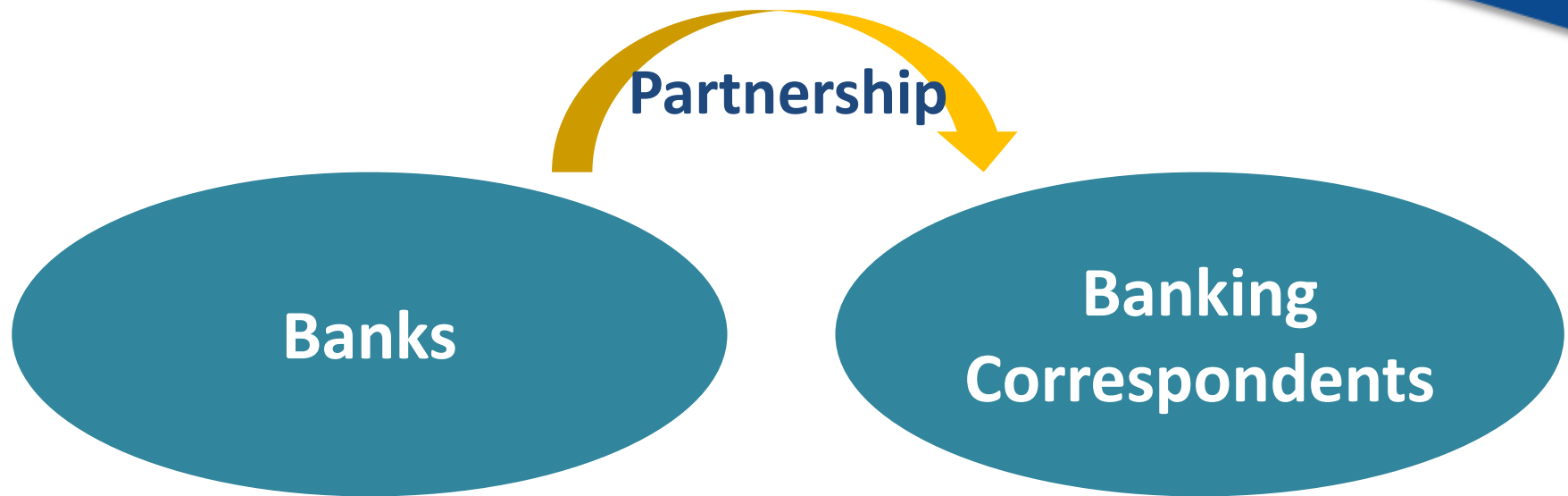


**Banks put together teams of real estate credit specialists to attend to clients of real estate companies**



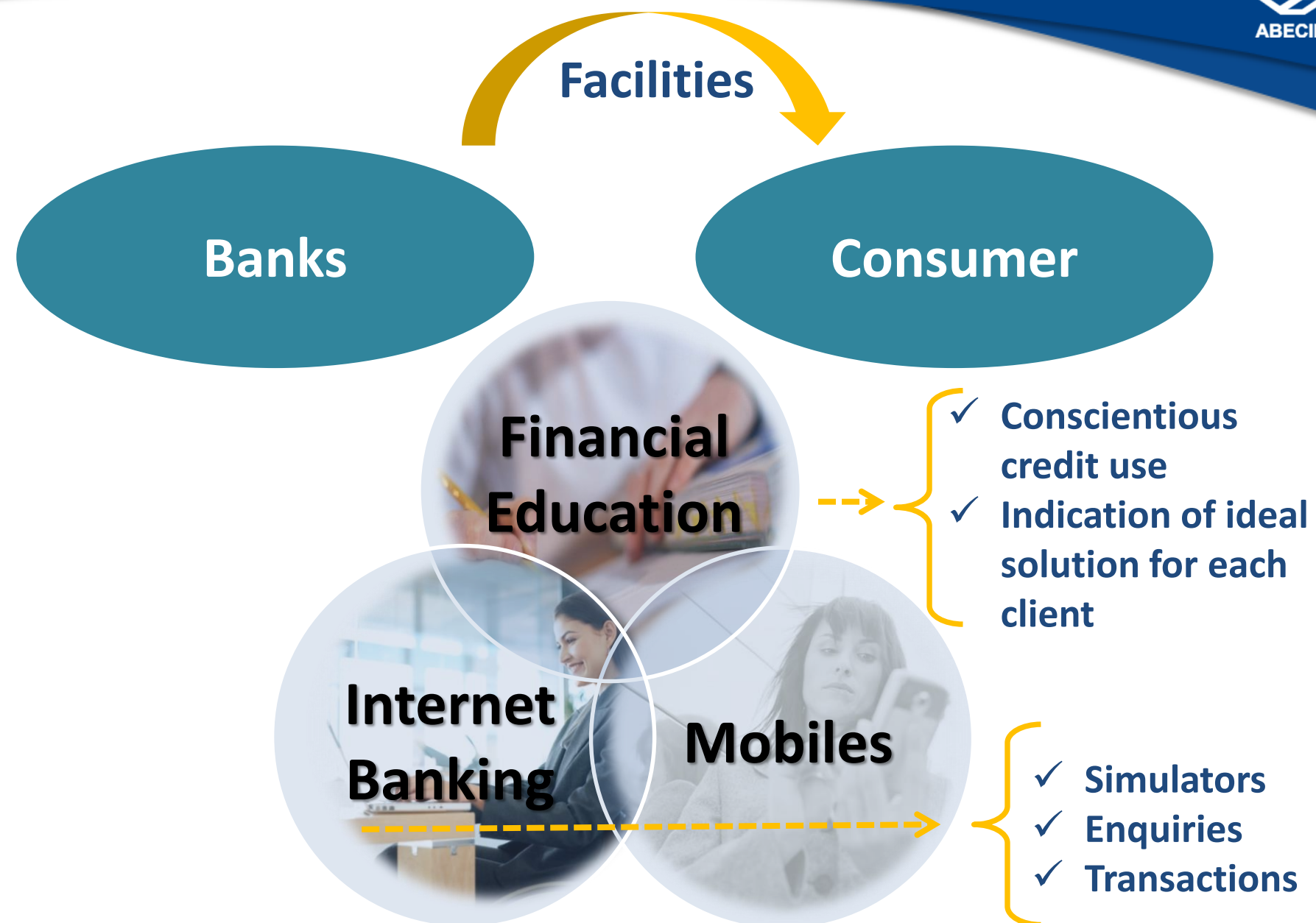
## Banks finance:

- The developer during the construction phase
- The buyer of the completed property



- ✓ Banks hire companies to handle the bureaucratic credit process (speed of the process)





## Advances & Improvements

**In services at branches, the internet and call centers**

**In communications about products and services**

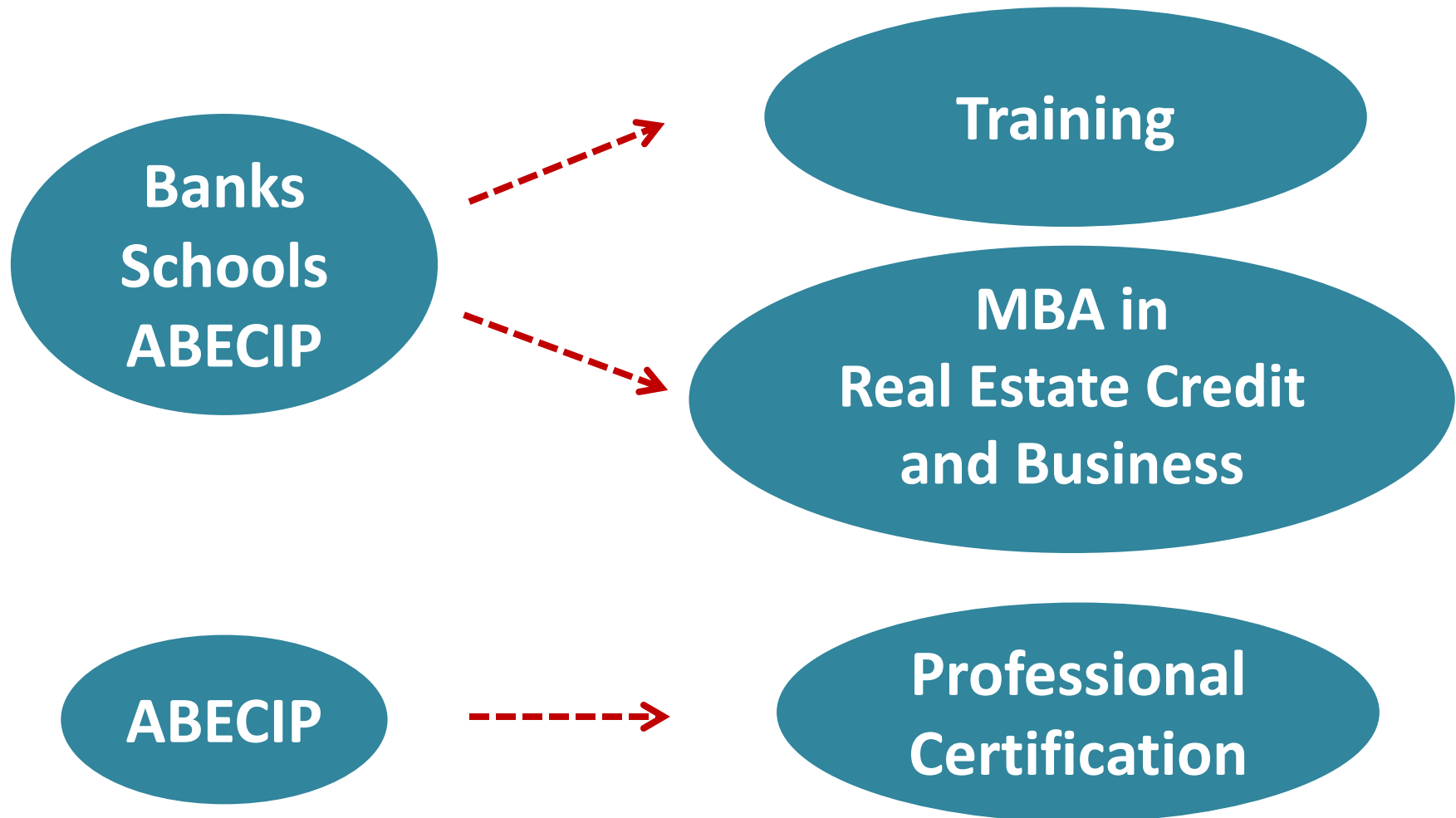
**Education for conscientious consumption**

**In CSU and ombudsman management**

**In relationships with consumer protection entities  
and regulatory bodies**

**In team alignment and qualification**

## Professional Qualification



## Conclusion

## **Strong Growth Prospects**

**Stability of macroeconomic indicators**

**Optimism with growth of real estate credit**

**Real estate credit as a lever for retaining clients  
and cross-selling**

## **Strategy**

- Focus on the client**
- Sustainable growth**

**Speedy service**

**Knowledge of the client's credit habits**

**Qualified service network**

**Financial education**

**Easily understood products**

**Segmentation of customer service**



**ABECIP**

**BRAZILIAN ASSOCIATION OF REAL ESTATE LOANS AND SAVINGS COMPANIES**

**Thank you**

**Filipe F. Pontual**  
**Executive Director - ABECIP**

