

## **Brazil banks sweeten loans to win over wary: mortgages**

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Brazilian banks are competing for a bigger share of the expanding mortgage lending market, offering lower rates and longer repayment terms as slower economic growth depresses demand for other kinds of consumer loans.

Caixa Economica Federal, the state-run lender that accounts for more than 70 percent of home loans in Brazil, and Madrid-based Banco Santander SA's local unit said this month they will offer 35-year mortgages for the first time. Caixa, based in Brasilia, also cut mortgage rates to 8.85 percent, while government-controlled Banco do Brasil SA (BBAS3) cut rates to 7.9 percent for clients who pay on time and open an account.



Dilma Rousseff, Brazil's president. Photographer: Jonathan Ernst/Bloomberg

The home-loan market will grow by about 30 percent this year, according to Abecip, Brazil's mortgage lenders association, amid a housing shortage of at least 6 million units. That's double the pace of all consumer lending. Tempering growth is the slowing economy and a cautious approach by Brazilians for taking on debt, said Victor Moscoso, a director at Brazilian Capital, which oversees 2.5 billion reais (\$1.2 billion) of real estate investments in Brazil.

Brazilians "don't like to borrow money but now that credit is available, they may say, 'I should take advantage of that,'" Moscoso said. "That could change the mentality."

Bruno Giovani Capelin, a bank product manager at Itau Unibanco Holding SA who's taking his first mortgage, only borrowed 60 percent of the price of the apartment he bought with his fiancée Maira Bedran Gouveia, 26, and took a 20-year loan he says he plans to repay in 7 years.

### **Comparing Rates**

Capelin and Gouveia, a teacher, compared rates and financing terms at Santander, Banco do Brasil and Itau before opting for a Caixa loan because of better rates, and the bank's greater experience, Capelin said. They bought a 60 square-meter (646 square-foot) two-bedroom apartment in Vila Mascote, a neighborhood in southern Sao Paulo, for 365,000 reais. They used their savings to cover 40 percent of the cost.

"I got the financing just because I don't have enough cash in hand to pay for the whole apartment," Capelin said.

Outstanding home loans account for just 5.3 percent of gross domestic product in Brazil, Caixa data show. That compares with 81 percent in the U.S. If the market in Brazil grows to 16 percent of GDP by 2020, that would mean a 1 trillion reais market, Banco do Brasil mortgage director Gueitiro Matsuo Genso said in a phone interview. "The volume of credit the banks are competing for is bigger than the whole portfolio of many institutions in Brazil," he said.

### **Aggressive Cuts**

Brazilian banks are making home loans at lower margins to gain market share after the central bank embarked on the most aggressive interest rate cuts among the largest emerging markets. Brazil's central bank lowered the country's benchmark Selic rate to a record 8.5 percent from 12 percent in August. It was the seventh straight cut, and analysts in the central

bank's weekly survey of about 100 analysts expect more, after annual inflation slowed to 4.99 percent in May, the weakest pace in 21 months. The central bank has a target inflation rate of 4.5 percent, plus or minus two percentage points.

"The market is undergoing an evolution," said Joel Wells, who manages Alpine Emerging Market Real Estate Fund in New York. "It just tells you the mortgage market is deepening." Some of the competition is between state-owned banks. Banco do Brasil, which currently ranks fifth with 3.6 percent of mortgages, sees an opportunity to expand. It wants to reach the second position in the market, behind Caixa, with a share of about 9 percent, by the end of 2014.

"This is healthy competition to build a robust mortgage portfolio," Genso said.

### **Market Growth**

The Brazilian mortgage market grew 42 percent in 2011 and 65 percent in 2010, according to Abecip. By comparison, consumer loans grew 15.3 percent in 2011 and 18.8 percent in 2010, according to data compiled by Bloomberg.

While mortgage lending growth is slowing, it's still "absolutely healthy," Abecip's President Octavio de Lazari Jr. said in a phone interview. "We prefer to grow less, but grow with a high quality of assets, of building, so that default rates remain low and the mortgage sector can continue in a virtuous cycle."

President Dilma Rousseff's government has cut taxes on consumer and industrial goods and increased low-cost loans by the state development bank BNDES to help accelerate growth. She's also ordered state banks to cut borrowing costs to induce private lenders to make more credit available.

### **Economic Growth**

The Brazilian economy will grow 2.3 percent this year, below last year's 2.7 percent rate, according to the central bank survey.

Growth in the mortgage market will continue to exceed economic expansion and while margins are only about 1 percent, the high volumes and extra business it brings to the bank with the mortgage client compensate for it, said Banco Santander Brasil SA's executive director for housing business Jose Roberto Machado.

"We are in the childhood of the mortgage sector in Brazil," Machado said. "It is like a son who grows too fast and outgrows his clothes, and it should continue like this for quite a while."

Santander expects its mortgage business to expand faster than its competitors as it extends the maximum term on mortgages by 5 years to 35 years, said Machado.

Santander sees an opportunity to grow in Latin America's largest economy as mortgages account for 10 percent of its assets in Brazil. Globally, mortgages are 50 percent of the Spanish lender's assets.

"We see this as a convenience to our customer," Machado said. "They can extend the terms of their contracts while keeping the installments palatable."

### **Insurance Policy**

Both Santander and Caixa executives say the longer terms don't increase their risks because they limit the age of the borrower so that the loan must be paid off by the time the borrower turns 80, and the home buyer also must take out a mandatory life insurance policy before the loan is made.

Brazil's two main sources of mortgage financing are savings accounts and a workers' compensation fund. Banks are required by law to earmark 65 percent of savings account money into mortgage loans. In addition, all employers in Brazil are required to make monthly deposits into a Caixa account on behalf of each of their workers that total a month's pay over the course of the year. This money can be used to buy a residence or for retirement.

The market for mortgage securities remains small, providing about 2 percent of all funding for home loans. It's poised to expand as lenders seek alternative sources of capital, Fitch Ratings said in a report last week.

### **Housing Finance**

Caixa's lending business, both mortgages and construction loans, may exceed 100 billion reais by 2012, Jose Urbano Duarte, the bank's vice president for government and housing, told reporters in Brasilia on June 5. The state-owned bank's housing financing increased 46 percent to 36.7 billion reais in the January-May period, when compared with a year ago, Duarte said. While home loans continue to grow, the Brazilian economy is slowing down. Brazil said June 1 that the economy grew 0.2 percent in the first quarter, less than half the pace analysts predicted in a Bloomberg survey and slower than Japan's 1 percent expansion.

The report prompted Brazilian Finance Minister Guido Mantega to abandon his 4.5 percent growth target for this year. Mantega said the government would be satisfied if the economy's expansion in 2012 exceeded last year's rate, which was the second-worst performance since 2003.

As the market continues to grow, Caixa's Duarte said he believes other banks will follow its lead and increase mortgage terms to 35 years.

"Considering the share we have in this market, we know we will establish a benchmark," Duarte said. "The Brazilian market is still very young and very small. It has space to grow."

**Fonte: Bloomberg Businessweek, 21 June. 2012. Disponível em: <<http://www.bloomberg.com/news/2012-06-21/brazil-banks-sweeten-loans-to-win-over-wary-mortgages.html>>. Acesso em: 21 June 2012.**