

Mexico's Need-to-Knows

Numerous opportunities exist for vacation-home borrowers across the border

By **Courtney Sapin**, director of commercial lending, Crest Lending Group Inc.

BROKERS WITH A MIND FOR DETAILS; the ability to handle property, income and legal documentation; and a familiarity with Spanish might consider expanding their business into Mexico.

A growing number of lenders offer financing options for a variety of Mexican property types. These can include purchases or acquisitions, refinances and construction loans.

A great way to start is originating loans for U.S. residents seeking vacation homes south of the border. Here's what you need to know.

The process

Brokering loans for Mexican real estate is a specialized field, in the nature of its documentation and the details that are necessary to prove the borrower's stability. The borrower, property and income stream all must be in good condition from the beginning until the end of the loan process.

A typical cross-border loan application starts in the United States with a traditional application, including a 1003 uniform loan application, 1008 uniform underwriting-transmittal summary, credit report, income documentation and evidence of U.S. residency. After a preapproval here, the transaction shifts into Mexico, where a Mexican closing agency helps finalize it.

The focus on the U.S. side of the loan is to provide proof of the borrower's income and other documentation. In Mexico, attention turns to the property itself.

Because U.S. and Mexican service agents provide necessary processing services for the borrower and lender during the loan setup, the exchange of information between the two countries can take some time. As the broker, you

must interface between the Mexican closing agents, the U.S.-based lender and the borrower to ensure a smooth flow of information and paperwork throughout the process.

During the Mexican side of the loan procedure, a number of things must happen. All of the property's utilities and homeowner association dues, along with any back taxes, must be paid. An agent will work on behalf of the borrower to verify property documents and request the property appraisal, a trust agreement with a bank called a fideicomiso and a foreign-relations permit — known as the Permiso de la Secretaria de Relaciones Exteriores (SRE) and issued by the Mexican government.

After the initial application is preapproved, the Mexican escrow agent will also coordinate the loan with a Mexican notario publico. Notarios are authorized attorneys who are responsible for real estate transactions in Mexico. Their responsibilities include the recording of the final instrument as well as approval of title transfer and property and transfer taxes.

Much paperwork and many people are involved in funding a residential deal in Mexico — similar to that of a U.S. commercial loan deal, as the processes require a similar amount of work. Because of the complicated nature of completing a loan that involves two currencies and crosses an international border, the loan process usually takes about 90 days to complete.

Cost factor

The cost of financing or refinancing a Mexican property is greater than an equally valued transaction in the United States. Closing costs across the border can be double those of a typical U.S.



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closing. Americans buying homes in Mexico, therefore, tend to be individuals with high net worth and cash flow.

Loan costs for Mexican real estate transactions typically include: \$2,000 for the appraisal, \$1,500 for the SRE permit, \$1,000 for the notario publico to process the transaction and additional costs for closing service fees, transfer taxes and official recording. A Mexican appraisal is more expensive than one in the U.S., and there is a 2-percent transfer tax based on the value of the property being transferred.

The cost of the fideicomiso depends on the loan amount and requires an annual fee.

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Estimate spending \$3,000 for the initial trust and about \$500 yearly for the trust-maintenance fee.

Additional costs also can come from hiring an attorney — recommended for advice owning foreign assets — and a financial planner who can advise on international tax-planning matters.

Finding a lender

You can originate residential loans in Mexico for most property types, including raw land, construction and development and even fractional shares of real estate. Cross-border transactions are only available in certain locations, however, and costs for raw land or construction/development are subject to a third-party-approval system. Most lenders are only interested in lending on real estate in established resort areas, such as Cabo San Lucas and Acapulco.

Although some cross-border lenders will allow stated-income, most lenders require two years of recent tax returns. If you can get a stated-income loan, the lender will request a one- or two-year history of bank statements.

Commercial property brokering is also possible in Mexico and can lead to significant profits. Bank-type rates for commercial loans usually begin at \$3 million and only go to those entities with significant earnings, debt coverage and a history of financial success. Hard-money lenders are often the best source of funds for commercial deals of less than \$3 million.

Mexico has a lower cost for development but a higher risk. Banks typically cannot fund projects in Mexico unless the sponsor is a portfolio lender that can manage that extra risk.

Things to consider

Portfolio lenders and the loans they offer receive greater scrutiny than a loan sold into the secondary market. Borrower profiles, residency information, the property profile and income documentation must be accurate for file-processing to run smoothly. Because the application moves from the United States to Mexico, any changes can delay a loan several weeks or even months.

Any halts to transactions typically occur during title and the SRE-permit stages because these steps directly involve the Mexican government. This is where having extra-clean paperwork can come in handy. Once a Mexican loan passes pre-approval, however, the borrowers are likely on their way to a successful loan.

It's also important to keep in mind the difference in legal structures between the United States and Mexico. They are a good indicator of

the manner in which transactions are completed. While the United States practices English common law, Mexico practices a form of civil law. The main difference is that civil law is based on a process or procedures, where the U.S. legal system is based on intent; a jury of your peers will determine intent in our country, while an individual judge may preside over the facts in a Mexican proceeding.


What's in it for you

A cross-border loan can be a fixed-rate or adjustable-rate loan, and in most cases it will have a prepayment penalty. Originators can expect to earn points on closing but will have to earn their fees, especially during their learning phase. Loan amounts range from about \$50,000 to \$5,000,000 at a loan-to-value of as much as 80 percent. If you can get through all the paperwork, these loans can be a great way to gain more profit.

To target people who might be interested in purchasing Mexican property, work through your network of clients and real estate agents. Introduce the idea and see what objections you encounter. As long as you or your staff have a good command of Spanish, you may tell your clients that it's not critical that they speak Spanish. You can also remind them that many people on the Mexican side also know English, which can make the process easier.

Interest in Mexican homes also is expected to increase as more baby boomers start looking to spend their retirement south of the border.



Based on the cost of development and materials and on its lifestyle, Mexico can be a good choice for some borrowers. As more people, especially baby boomers, discover the advantages of owning Mexican real estate, the market will continue its trend of increased development, with plenty of opportunities for loan originators. 

Required Documents

1. Application, credit authorization, transmittal summary, income, and U.S. residence documentation and disclosures.
2. Mexican property information, complete address and description, purchase agreement, and evidence of paid utilities, homeowner-association dues and taxes.
3. Appraisal findings, foreign-relations permit and notario.
4. Fideicomiso, title insurance and home-insurance coverage.
5. Additional information will be requested if missing or does not fit guidelines.

Mexican Loan Scenario: The Basics

- **Preapproval process:** Initial application includes submitting the 1003 application with borrower disclosures, purchase contract, income documentation and credit report. Also include borrower's passport as proof of U.S. residency, along with bank statements or tax returns.
- **Escrow moves to Mexico:** Seller provides current title, evidence of paid taxes and paid utilities and association dues, when applicable.
- **Appraisal, escrow, foreign-relations permit, fideicomiso trust and closing:** The borrower and seller have provided paperwork to this point, and the process is moving forward. Appraisal is ordered and is in line with expectations, permit is received, fideicomiso is prepared and title insurance is ready. Final stages are funding conditions, document preparation and signing.