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New Reverse Mortgage in Mexico.
New Business Niche for Banking
Institutions or Political Noble Intent
to Protect Senior Citizens.

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by *Julio Vargas.*

On march of 2016, the Legislative Assembly of the Federal District, recently re-named only as Mexico City, pass a Law Initiative creating the legal and financial figure of the Reverse Mortgage.

This “new” scheme basically consists in considering a reverse mortgage to that one that is placed over real estate, mostly the usual home in property of a senior citizen, to guarantee the capital that a financial entity might grant him to cover his life expenses.

In the reverse mortgage contract, the financial entity agrees to pay in monthly installments a lifetime income to the senior citizen or its beneficiaries that must be its wife/husband or concubine of the same age or over 65 years old.

The mortgage is effective to guarantee the amount of capital agreed by the parties. The amounts agreed may be paid by the financial entity through a sole disposition, a line of credit or installments for a certain period of time or lifetime.

“In the reverse mortgage contract, the financial entity agrees to pay in monthly installments a lifetime income to the senior citizen or its beneficiaries that must be its wife/husband or concubine of the same age or over 65 years old”.

For those purposes, the amount of principal granted will vary depending in the result of the appraisal of the home or property that must be at market value. The market value must be updated every two years.

Another important consideration is that the new law provides for that the principal amount agreed must be sufficient to cover the senior citizen’s basic needs. This becomes a very subjective consideration, because it is not clear who decides what are basic needs or to what extent a need is considered basic.

The principal amount will cause interest but only to the amounts effectively drawn.

The collection of the principal usually will become enforceable until the elder passes away, and it may be paid by their heirs in order to recover the property, or the bank will become entitled to execute the mortgage and adjudicate the property only after the death of the citizen.

There are more provisions that regulate this new legal figure, however, the purpose of this paper is more referred to determine if this is a real “new” figure and if it is simply a new banking niche to be exploit or is it a true government concern for the wellbeing of the senior citizens.

First, we must say that this so called new financial scheme is not new, for example, in the State of Mexico,¹the reverse mortgage was created since may of 2013.

In public interviews, some congressman refer that this law as a new one, however the memorandum does recognize that it has existed longtime before in countries such as UK, USA or Spain.

1.- One of the 32 states of the union.

In the Explanatory Memorandum of this law, it is stated that to the local government it is a constant worry of the wellbeing of the senior citizens, who in many cases lack of a pension fund for their retirement. The memorandum does not accept another cruel reality that is that even though in cases were senior citizens do have a pension fund, the truth is that the amounts received are insufficient to cover basic needs of the elderly. This because of a complete disorder in the public finances of the government, and laxity in the pension fund regulations.

If the retirement pensions public policies were healthy, they should be enough and sufficient for the elderly citizens to live in retirement in a much better standard and life quality.

Therefore, it is frustrating for the citizens that after a long life of work, one has to worry how to live during retirement because even if you save some money for it, it is never enough and in most cases due to the level of the salaries in Mexico, there is simply no possibility to save any money, plus the fact that the retentions the government applies to the salary or income that are supposed to be invested precisely for the retirement pensions, are never enough, being today unclear the financial reasons for that. Nobody knows for certain were all that retained money goes.

The memorandum also explains that it is a form of enduring the independence and development of senior citizens through this legal mechanism that helps them to obtain sufficient economic resources. It sustains that this reverse mortgages contribute to the annual savings in social spending, because it reliefs it from financing that sector of the population.

This initiative is focused to support the conversion of a part the elderly's assets into income for their subsistence, the initiative claims.

It also recognizes, in general terms that, in order for the financial structure of the reverse mortgage to become a profitable business for the banking institutions it requires among other things that the senior citizen must own the property; and contract a life insurance to guarantee the operation in the long term in to avoid that the total amounts due exceed the market value of such property.

As we can see, it is irritating the, to some extent, cynical position of the government saying: well, remember all the monies that I collect from you during your whole productive life to assure you a dignified retirement life, guess what, it was not enough or worse, we spend your money in something else, so if you senior citizen want to do better, how about if you compromise, or sort of return or somehow dispose of your property that you may have acquire during your productive years and instead of inherit it to your beloved ones, use that money to try to complete your income for a better quality life.

Nevertheless I think that, though it is a cynical public policy dressed as a noble concern explained in the memorandum, that in fact enhances a new business niche for financial institutions that will certainly make a profit of it, is not so bad this possibility for some senior citizens to live a little bit more comfortable in their retirement days.

Finally, it calls my attention that this law is a local law even though the wellbeing of senior citizens must be a federal government concern and that if its intention is to contribute to a better life standard of an important part of the society, in no place of the law it is stated that the reverse mortgage is mandatory.

Warrant for Mexican Ex-Official, Now on the Run, Is Seen as a Step in Graft Fight.

The lush Gulf Coast state of Veracruz, Mexico, suffered all kinds of mismanagement during the nearly six years that Javier Duarte was governor. Tens of millions of dollars meant for social programs were diverted to phantom companies. Older people were so impoverished by looting of the state's pension funds that they marched in protest. The state's main university was stripped of much of its budget. And all the while, Veracruz was plagued by violence, including the murder of 17 journalists, according to figures compiled by a special state committee. Now it has all appeared to have caught up with Mr. Duarte. Last week, he resigned the governorship, 48 days before the end of his six-year term. Then a federal judge this week issued an arrest warrant for him on racketeering and money-laundering charges. Mr. Duarte, who has denied the charges, vanished before he could be taken into custody. Mr. Duarte's case looms the largest right now, both for the amount of public money that is missing and for the anger he has engendered in Veracruz. www.nytimes.com 20/10/2016.

Brexit: leading banks set to pull out of UK early next year.

Even though the Brexit administration claims they will do anything to secure the status of the City of London, Britain's biggest banks are planning to relocate within the first semester of 2017; even the smaller ones are planning to do so before Christmas. The government's intention to take control of the freedom of movement into the UK makes harder to renegotiate the terms in which Great Britain will continue their relationships with EU. The tariff-free trade would be threatened as well as the legal rights of banks to provide services, so the protection of the integrated financial market should be one of the major priorities. www.theguardian.com 22/10/2016.

U.N. Secretary General likely to be South Korea's next President.

U.N.'s Secretary General Ban Ki Moon is the actual favorite to win South Korea's next presidency if he decides to take the job. Ban has said that he is still not decided about his future and will not talk about it until his term as Secretary General of the United Nations is finished. www.uk.reuters.com 25/10/2016.

Mexican president admits Donald Trump visit was a mistake.

Mexico's President Enrique Peña has admitted he made a mistake when he invited Donald Trump to visit his country in August, describing the decision as "hasty." In an interview with Mexican daily La Razón, the president, whose popularity ratings continue to fall as he approaches his final two years in office, hitting a new low in September of 23%, says that in hindsight, he would have "done things differently." www.elpais.com 25/10/2016.

Inflation 'set to soar to 4% by late 2017'.

The rise in prices will "accelerate rapidly" during 2017 as the fall in sterling is passed on to consumers, according to the National Institute for Economic and Social Research. The Bank of England is expected to raise its forecasts for inflation in its quarterly Inflation Report on Thursday. The last time CPI inflation hit 4% was in 2011, before falling back over the last five years. Samuel Tombs, chief UK economist at Pantheon Macroeconomics, said: "Fuel, food and technology prices already are rising in response to the weaker pound, and hefty price rises will be seen across the whole spectrum of consumer goods next year." Lower growth along with uncertainty could affect hiring by companies, NIESR warned. It expected unemployment to peak at 5.6% next year, before gradually falling. www.bbc.com 26/10/2016.

In this month extract was prepared by Miguel Ruelas, Carla Espinosa, Luis Salas, Andrés Padilla, Juan R Madero, Diana Aguilera, Selma Gonzalez y Fernanda Pérez

U.S. economy surges to strongest growth in two years.

The U.S. economy grew at its strongest pace in two years in the third quarter, according to government data released Friday morning, helping to allay fears that the world's largest economy might be stalling after a sustained period of weakness. Between the months of July and September, the nation's gross domestic product expanded at an annualized rate of 2.9 percent, slower than before the financial crisis, but fast enough to create new jobs and pare down the unemployment rate, economists said. Economists, however, cautioned that the recovery shouldn't be overestimated, as growth in the quarter was driven by several events unlikely to be repeated in the near future. The growth figures, combined with an uptick in consumer inflation, raised expectations for an interest rate hike in December, though not at the Federal Reserve's upcoming Nov. 1-2 meeting. Inflation remains below the Fed's target rate of 2 percent but is creeping closer to that level. www.washingtonpost.com 28/10/2016.

Asian deflation.

Whatever the future course of prices, Asia's half-decade of deflation has already yielded valuable lessons. It is clear that prices around the region are closely linked. Prices for commodities are, of course, global, explaining some of the similarity in inflation trends but not all of it. Researchers at the Hong Kong Institute for Monetary Research calculated that the correlation between Chinese producer prices and those of most Asian economies is very high, at about 0.7-0.9 (with 1 being a perfect correlation). A research paper for the Federal Reserve Bank of Dallas argued that the integration of the supply chain in Asia might explain the tight relationship: inflation rates are more similar in countries that trade more with each other. www.economist.com 29/10/16.

Canada and E.U. Sign Trade Deal, Bucking Resistance to Globalization.

The European Union and Canada signed an extensive trade agreement, with the objective of opening their markets for bigger competition between them. There were a lot of obstacles to reach this important stage of the Transatlantic Trade and Investment Partnership (T.T.I.P.); mainly because of skepticism toward globalization. The deal required the approval of the 28 EU countries, and the French speaking region of Belgium (Wallonia) used its veto to hold back their nation. On Friday, Wallonia, removed their veto, after Belgium offered many concessions and protection to farmers. Nevertheless, many anti-trade and questioners of globalization protested outside of the building where the pact was signed, showing inconformity of part of the European population. This agreement is very beneficial for both parties, but since it's a legal matter, it must be approved by the states' legislatures. So, the T.T.I.P. will have many difficulties before it goes into effect. www.nytimes.com 30/10/16.

Brexit vote will lead to cut in disposable incomes in 2017, says thinktank.

The National Institute of Economic and Social Research (NIESR) predicts a huge aftershock that will push down GDP and could still lead to a recession. British householders can expect a cut down on their disposable income next year as a direct consequence of the decision to leave the European Union generating rocket inflation results. Thinktank warned that the 0.5% reversal in real disposable income next year will reduce the UK's economy growth to 1.4% from the 2% that was expected. One of the principal problems is that wages continue to rise while soaring inflation (especially in the consumer price index) wipes out the possible purchasing power that the consumers may have. www.theguardian.com 02/11/2016.

Cash-strapped Venezuela has a big payment due today.

Venezuela owes about \$11 billion in bond payments between now and the end of next year without counting everything they also owe to China and foreign oil companies. They are losing their money fast, they're living on borrowed time and this is just a reflection of its deep economic crisis. This economic crisis has left Venezuelan people without basic food and medicines while crime and inflation skyrockets. It wouldn't be the first-time Venezuelan government prioritize the payment to their bondholders instead of giving food to the citizens. www.money.cnn.com 02/11/2016.

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