UDI 592.8 Million CEDEVIS05U-2 Fixed-Rate Certificates (Equivalent To US$196 Million)

This presale report is based on information as of Sept. 6, 2005. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Profile

Expected closing date: September 2005.

Country: Mexico.

Transaction type: RMBS.

Collateral: Low-income residential mortgage loans originated by Instituto del Fondo Nacional de la Vivienda para los Trabajadores (Infonavit) and denominated in Mexico City Veces Salario Mínimo, which are a multiple of the monthly minimum salaries set annually by the Mexican Comisión Nacional de los Salarios Mínimos.

Credit enhancement: Subordination in the form of a residual certificate.

Related ratings: Infonavit (foreign currency BBB/Stable/A-3; local currency A/Stable/A-1; counterparty credit ‘mxAAA’).

Participants

Underlying borrower, seller, and servicer: Infonavit.

Underwriter: Casa de Bolsa BBVA and Bancomer S.A. de C.V. e Inbursa S.A.

Trustee: Nacional Financiera SNC.

<table>
<thead>
<tr>
<th>Series</th>
<th>Payment frequency</th>
<th>Interest</th>
<th>Principal repayment</th>
<th>Final maturity</th>
<th>Expected avg. life</th>
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</table>
Transaction Description
Instituto del Fondo Nacional de la Vivienda para los Trabajadores (Infonavit) will issue its fourth series of RMBS, to be sold in the Mexican market, for an amount up to 592.8 million unidades de inversión (UDI; equivalent to US$196 million). The characteristics of this issuance are the same as previous issuances, which include a full turbo principal amortization. Interest rates in Mexico have changed since Infonavit’s first issuance, and depending on market conditions, spread over UDI paid to certificateholders might be different from previous issuances. This potentially higher coupon rate will be mitigated by subordination.

Rationale
The preliminary rating assigned to the CEDEVIS05U-2 certificates reflects:

- The sound credit protection provided by a 23% subordination of the residual certificate for the senior certificates;
- A structure that applies 100% of the net mortgage principal and interest collections to the certificates’ debt service payments;
- The credit quality of the portfolio of residential mortgage loans sold to the trust, which includes an eligibility criteria filter to ensure the quality of the loans through the life of the transaction;
- The underwriting and servicing capabilities of Infonavit; and
- A strong transactional payment and legal structure, as well as a sound legal infrastructure in Mexico relating to securitization.

Rating Sensitivities
Because the mortgages are denominated in Mexico City Veces Salario Mínimo (VSM), a macroeconomic crisis could negatively impact employment ratios, and indirectly increase delinquencies and mortgagors’ defaults. In the stress scenarios run for this transaction, Standard & Poor's Ratings Services assumed 35% credit losses through the life of the transaction and 12% concentrated credit losses frontloaded during the first 18 months, accumulating 27.43% in total credit losses. In both scenarios, loss severity was 100%, assuming no recoveries.

Transaction Structure
Infonavit, the largest institution in Mexico to offer financing for Mexican workers to acquire low-income housing, will sell to an onshore trust a pool of low-income residential mortgage loans. The trustee will issue two classes of certificates: a UDI 456.5 million fixed-rate senior certificate and a UDI 136.3 million residual certificate. Chart 1 illustrates the transaction structure.
Senior certificates
The trust will issue UDI 456.5 million fixed-rate senior certificates. The certificates will have a full turbo amortization with timely interest and ultimate principal payment.

The transaction contemplates a clean-up call option when the senior certificates reach less than 10% of the original certificate balance.

Residual certificates
The rating on the senior certificates reflects credit support to certificateholders in the form of a minimum 23% subordination of the residual certificate for the senior certificates. The originator will hold the residual certificate, which is not rated by Standard & Poor’s.

Collateral
Infonavit was established in 1972 with the sponsorship of the Mexican government and the participation of the private sector. It has a mandate to manage the National Housing Fund and to establish and operate a system of financing for Mexican workers to acquire low-income housing (valued up to US$25,000 equivalent). Infonavit now provides 67% of the mortgage lending available in the Mexican market (see chart 2).
The trust’s underlying assets will consist of a pool of low-income residential mortgage loans originated by Infonavit. The underlying portfolio consists of mortgages denominated in VSM, which are a multiple of the monthly minimum salaries set annually by the Mexican Comisión Nacional de los Salarios Mínimos and have legal final maturities of up to 30 years. This means that the loan balance will periodically adjust to the equivalent amount in Mexican pesos by the same rate of increase in the minimum salary in Mexico City. The current minimum monthly salary in Mexico City is Mexican peso (MxP) 1,404 (MxP46.8 times 30.4 days). The servicing of the mortgage loans is derived from bimonthly fixed VSM deductions from the borrowers’ salaries, and from a 5% mandatory employer contribution. Chart 3 shows the performance of Mexico City’s daily minimum salary.
The following are the eligibility criteria for the pool of low-income residential mortgage loans to be securitized in this transaction:

- Loan denominated in VSMs;
- Fixed real interest rate in VSMs;
- 30-year original contractual term;
- Mortgages underwritten between January 2004 and July 2004 with new origination criteria;
- Fixed level payment in VSMs;
- 5% employer contribution;
- Loans have never been delinquent more than 30 days since origination;
- Borrowers employed by diversified pool of Mexican companies; and
- Properties located in states with reformed civil codes.

Characteristics of the securitized portfolio are shown in table 1.

<table>
<thead>
<tr>
<th>Table 1 - Mortgage Pool Characteristics</th>
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<tr>
<td>Total size (MxP)</td>
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<tr>
<td>No. of mortgages</td>
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<tr>
<td>Avg. mortgage size (MxP)</td>
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<td>Avg. seasoning (mos.)</td>
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<td>Weighted avg. interest rate (%)</td>
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The securitized loans have a well-diversified geographic distribution with concentrations in Nuevo León (21.2%), Coahuila (9.7%), and Baja California (7.5%). In addition, the loans are also well diversified by working centers.

Geographic and employer diversification
Priority Of Payments

Infonavit, as servicer, will make daily deposits of all monies derived from the securitized pool of mortgages to the trust collection account. Once the funds are deposited in the collection account, the trustee will allocate the money in the following order:

- Servicer, trustee, representante común, auditors, rating agencies, and other authorized expenses;
- Payment of interest to senior certificateholders;
- Payment of principal of senior securities (until fully amortized); and
- Payment of all remaining funds to subordinated residual certificate (only after the senior has been fully redeemed).

Stress Scenarios

Standard & Poor's has stressed this transaction under various credit, economic, and financial scenarios. These scenarios were then simulated in cash flow runs, which reflect the structure of the transaction.

The worst-case scenario assumed for the senior certificates reflects:

- The assumption of 35% cumulative credit losses over the life of the deal with no recoveries, and
- The assumption of 12% concentrated credit losses frontloaded during the first 18 months accumulating 27.43% total credit losses.

Because the mortgages to be sold to the trust are denominated in multiples of the minimum salary set annually by the Comisión Nacional de los Salarios Mínimos, they have a close correlation with inflation and employment variations. VSM loans bring some protection to borrowers, because they do
not automatically adjust when inflation changes. In the 'mxAAA' rating scenario, Standard & Poor's applied an annual 3% VSM increase during the first five years of the deal, and an annual 4.5% increase from that year until the legal final maturity date. Additionally, because the loan balance is denominated in VSMs, the interest rate is applied on top of any adjustment included in the loan balance. If a mortgagor becomes unemployed or loses their job in the formal economy, they become responsible for the 5% employer's contribution as well. However, the mortgagor also becomes entitled to request a grace period of up to 12 months continuously or 24 months throughout the life of the loan (for certain loan types), during which interest is capitalized. The grace period will end when the mortgagor joins a new employer. Based on the nature and characteristics of Infonavit's loans, prepayments have shown a historical low rate (approximately 0.2% constant prepayment rate in Infonavit's overall portfolio). Standard & Poor's did not consider recovery assumptions in any stress scenarios for the 'mxAAA' category. All known expenses of the issuer were modeled in the cash flows along with a conservative 0% reinvestment rate.

Key Legal Issues

The transfer of the underlying mortgages at closing to the trust will be perfected through a transfer agreement signed between Infonavit and the trustee, which represents a true sale under Mexican laws. The trust is a bankruptcy-remote entity not subject to Concurso Mecantil (Mexican bankruptcy procedures).

Servicer

Infonavit's administrative systems and procedures are very sophisticated when compared with other financial institutions in Mexico. Standard & Poor's ratings on Infonavit (foreign currency BBB/Stable/A-3; local currency A/Stable/A-1; counterparty credit 'mxAAA') reflect the institution's strong importance to the implementation of the housing policy followed by the Mexican government, and incorporate a degree of implicit government support. The ratings also reflect Infonavit's payment capacity on senior debt obligations, as any other type of financial obligations assumed by the institution, including pension deposits, are considered subordinated. Infonavit has a constitutionally mandated role that is difficult to change, and it engages in activities that cannot readily be undertaken on a commercial basis. Strong cash flows, sound capitalization, and prudent, but recently instituted, risk-management procedures underpin the rating levels, which are somewhat offset by historical low asset quality levels. The importance of Infonavit for implementing the government's housing policy is supported by the powers granted by a constitutional mandate giving Infonavit full responsibility and rights to collect contributions to the housing fund. These contributions are in the form of mandatory deposits, in an amount equal to 5% of individual salaries contributed by employers in the Mexican private formal sector. Infonavit's legal capacity to enforce collection is similar to that of the treasury (Secretaria de Hacienda y Credito Publico). In addition, the approval from the Treasury secretariat is necessary for the institution's issuance of any type of debt obligations. Secretaria de Hacienda y Credito Publico and the local banking regulatory body, Comision Nacional Bancaria y de Valores, oversee Infonavit's operations per its own decision to abide by these two entities.

Standard & Poor's identified these other key aspects in supporting Infonavit's capability as a servicer:

- The expertise of Infonavit as the largest mortgage servicer in the Mexican market;
- The institutional structure comprises 3,649 employees, with 870 dedicated to servicing activities;
- The senior management members, which average more than 15 years of banking experience;
- The amortized collections through employer contributions and worker salary deductions; and
- A centralized system, known as the "Advanced Loan System."

**Additional Information**
For more information on Mexico's MBS market, see "Mexico Finally Says 'Viva MBS!'" published Nov. 20, 2003, available on RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. Related articles for this transaction are also available on RatingsDirect and on Standard & Poor's Web sites at www.standardandpoors.com and www.standardandpoors.com.mx (Mexico).

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