

WESTERN HEMISPHERE CREDIT AND LOAN REPORTING INITIATIVE
CENTRE FOR LATIN AMERICAN MONETARY STUDIES
FIRST INITIATIVE
THE WORLD BANK

CREDIT AND LOAN REPORTING SYSTEMS IN MEXICO



MARCH 2005

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Foreword

In August 2004, following a request from the central banks of Latin America and the Caribbean, the World Bank and the *Centro de Estudios Monetarios Latinoamericanos* (CEMLA), with the financial support of the FIRST Initiative, launched the Western Hemisphere Credit and Loan Reporting Initiative (WHCRI). The objective of the Initiative is to describe and assess the credit and loan reporting systems of the Western Hemisphere with a view to identifying possible improvement measures in their efficiency and integrity.

As part of the project structure, an International Consultative Committee (ICC), comprised of experts in the field from several institutions was established in August 2004. In addition to CEMLA and the World Bank, the institutions that have been accepted to participate in the ICC include multilateral institutions, such as the Inter-American Development Bank (IADB), the International Finance Corporation (IFC), and the International Monetary Fund (IMF); central banks such as the Bank of Canada, the Bank of Spain, and the Federal Reserve Bank of New York.

To assure quality and effectiveness, the Initiative includes two important components. First, all studies are conducted with the active participation of country officials and the project builds on the existing work being undertaken in the respective countries. Second, the Initiative draws on international and national expertise on the subject, through the ICC, to provide guidance, advice and alternatives to current practices.

The Initiative has undertaken a number of activities in order to respond to the LAC Central Banks' request. These include: the preparation of public reports containing a systematic in-depth description of each country's credit and loan reporting systems; the delivery of recommendations reports to country authorities on a confidential basis; the organization of ICC meetings to review country studies and provide input for future work; the organization of workshops focusing on issues of particular interest; the creation of a web-page (www.whcri.org) to present the outputs of the Initiative and other information of interest in the credit reporting area; and the promotion of working groups to ensure a continuation of the project activity.

CEMLA has been acting as Technical Secretariat of the Initiative and is playing a major role in making the process sustainable and capable of extension to all the countries in the Hemisphere. To this end, the Initiative has helped strengthen CEMLA's in-house expertise and also in broadening of knowledge and the transfer of know-how within the Region. The endeavors of the working groups in coordination with CEMLA will maintain the infrastructure created under the Initiative and provide a permanent forum for the countries in the Region to discuss, coordinate, and add a collective impetus to the work in the area of credit reporting systems.

This report "*Credit and Loan Reporting Systems in México*" is one of the public reports in the series and was prepared by an international team in cooperation with local representatives of the Central Bank of Mexico (*Banco de México*), and the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*, CNBV).

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The international team worked in cooperation with the local team formed by officials of the Central Bank of Mexico (Banco de México), and of the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores, CNBV).

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1 ECONOMIC AND FINANCIAL MARKET OVERVIEW

1.1 MAJOR REFORMS IN RECENT YEARS

Mexico's financial sector has been transformed since the middle of the 1980s. The external debt was renegotiated, many government enterprises were privatized, a profound fiscal and financial reform was carried out, and greater attention was paid to foreign trade as a source of economic growth. A particularly important event was the re-privatization in 1991 of the banking sector, which had been nationalized in 1982.

Another significant reform was the adoption of a restrictive fiscal policy, which substantially reduced the public sector deficit from levels above 10 percent of gross domestic product (GDP) in 1982 to near budget equilibrium in the first years of the 1990s. Together with the adoption of the exchange rate as the nominal anchor of the economy, the restrictive fiscal policy lowered inflation to 7 percent in 1994, down from a high of nearly 160 percent in 1987.

International investors signaled their approval with the reforms through net inflows of foreign private capital starting in 1990. These inflows helped to finance a growing deficit in the current account, which passed from a surplus of USD 4.2 billion in 1987 to a deficit of USD 29.7 billion in 1994.¹

The substantial increase in imports during this period was due mainly to revaluation of the real exchange rate and trade liberalization. In the first part of the 1990s and until December 1994, the exchange rate regime consisted of a lower and an upper limit within which the exchange rate could fluctuate freely. For the upper limit, there were pre-announced daily mini-devaluations (i.e., a crawling peg).

Perhaps the most relevant event in this period in terms of its impact to the Mexican economy was the creation of the North American Free Trade Agreement (NAFTA) between Canada, Mexico and the United States of America.

In 1994, however, a sequence of political events reversed the flow of foreign capital, leading to a substantial decline in the country's international reserves. For the purpose of containing capital outflows, the federal government began to issue *Tesobonos*, bonds indexed to the exchange rate. Toward the end of 1994, the amount of *Tesobonos* outstanding was nearly USD 30 billion. Despite this effort, capital outflows continued, and by December 1994 it became impossible to sustain the existing exchange rate regime. This led to the free flotation of the exchange rate, the regime in force today.

Owing to this situation, the economy entered into a financial crisis. In 1995, the Mexican economy registered a 6.2 percent drop in GDP, while inflation rose to 52 percent. Interest rates passed from

¹ Throughout this report, the symbol USD is used for U.S. dollars and the \$ for the Mexican peso. A billion is 1,000 million.

less than 10 percent to more than 100 percent by March 1995. The banks, which after the re-privatization, had substantially expanded the amount of credit issued to the private sector, often without adequate assessment of risk, began to experience a reduction in the payment capacity of debtors. Past-due loans experienced a significant increase, exerting severe pressure on payments in the economy. To contain the effects of the banking crisis, the government intervened in the most troubled banks and created financial aid plans for the sector through the existing deposit insurance scheme, the Banking Fund for the Protection of Savings (*Fondo Bancario de Protección al Ahorro*, FOBAPROA). All major banks in the country continued to operate normally, and depositors did not suffer a loss of their savings.

Starting in 1996, when the main economic and financial variables were stabilized, economic growth resumed. In the 1996-2000 period, GDP grew at an average rate above 5 percent, and starting in 2000 inflation subsided to less than 10 percent.

After the 1994-95 crisis the following main reforms allowed the economy to grow with more stability:

- The free-floating exchange rate regime was adopted, which allowed shocks in the economy to be distributed among different economic variables and facilitated the necessary adjustments. In addition, this policy lessened the appeal of domestic financial markets to volatile (often speculative) foreign capital.
- Fiscal discipline has been maintained.
- The central bank adopted a new monetary policy stance, which made its inflation forecasts more reliable and increased public confidence in them. At the end of the nineties, Banco de México adopted an Inflation Targeting Regime.

The current Administration has sought to continue the financial sector reforms begun under the previous two administrations. Reforms passed in 2001 seek to improve transparency in the financial system and open it to more investors. For example, changes to the Securities Market Law focus on protecting the rights of minority shareholders, avoiding transactions that are contrary to the market's normal and safe practices, enabling the sharing of information with foreign regulators, changing the registration and public offering regime from a framework based on merit to one based on disclosure,² creating new instruments to develop the medium- and long-term debt market, creating central counterparties, and demutualizing the stock exchange. A new Mutual Funds Law, on the other hand, focuses on strengthening the securities market, improving the access of small and medium investors to the equity market, protecting the interests of investors, diversifying capital, and contributing to the financing of productive activities in the country. Another new aspect of this law is the requirement that mutual fund management firms be independent. Credit institutions and brokerage houses can no longer operate directly as mutual fund managers, and they have to create independent subsidiaries with independent staff.

² In the new framework, authorizations are given on the basis of the amount and quality of the information that is disclosed by the interested party.

In November 2002, the Mexican Congress enacted the Payment Systems Law granting *Banco de México* full powers to oversee all systemically important payment systems and impose sanctions, established the legal basis for finality of payments and established bankruptcy protection procedures.

Table 1: Macroeconomic Indicators^(a)

	2000	2001	2002	2003
GDP at current prices (in USD billion)	581,268	624,722	648,184	626,421
Real GDP annual growth rate (in %)	6.6	-0.3	0.7	1.3
Capital gross creation (as % of GDP)	21.3	19.6	20.5	20.3
Average unemployment rate	2.1	2.8	3.2	3.6
F.o.b. imports (as % of GDP)	33.2	31.0	30.8	31.1
F.o.b. exports (as % of GDP)	31.4	29.4	29.5	30.1
Current account of the balance of payments (as % of GDP)	-3.1	-2.9	-2.8	-2.4
Inflation (annual growth rate of the Consumer Price Index)	9.0	4.4	5.7	3.9
Interest rate on public government debt (as of December)	18.8	7.6	8.2	8.6
Interbank interest rate (as of December) ^(b)	18.9	7.9	8.5	8.9
<i>Memo:</i> Exchange rate vs. USD (as of December)	9.6	9.2	10.5	11.2

Sources: *Banco de México* and *Instituto Nacional de Estadística, Geografía e Informática (INEGI)*.

^(a) The following conventions for notation are used throughout the Report: "n.a." indicates data that are not available; "..." stands for data that are not applicable; "neg" (this is, negligible) indicates where data are very small relative to other relevant data in the table concerned.

^(b) Interbank Equilibrium Interest Rate (*Tasa de Interés Interbancaria de Equilibrio, TIEE*).

As can be seen in Table 1 above, the macroeconomic environment in Mexico over recent years has been characterized by low inflation rates and lower real interest rates. Economic growth began to accelerate in 2004. These conditions have led to an expansion of credit to individuals in all of its forms, *i.e.*, mortgage, auto, personal and credit card loans.

1.2 BANKING SECTOR: RECENT REFORMS AND CURRENT STRUCTURE

1.2.1 Recent Reforms

In 1982 in a context of debt crisis, large fiscal imbalances and financial repression, Mexican banks were nationalized. Banks remained under state control for over ten years. During this period, bank deposits were used to finance the public sector, interest rates were fixed by financial authorities and credit to the private sector faced quantitative and qualitative limits. Under these circumstances, in the late 80's and early 90's banks were far from being efficient financial intermediaries. Nevertheless, during those years a new legal framework was established to allow the liberalization and deregulation of the financial sector.

As part of such liberalization and deregulation process, the deposit and lending regime was overruled, reserve requirements were eliminated, open market transactions became the main instrument for monetary policy instrumentation and the legal framework was overhauled to bring about the basic scaffolding for universal banking. The National Banking Commission³ was endowed with larger supervisory powers, while the Central Bank was granted autonomy. This legal framework also considered the return of banks to private hands: between 1991 and 1992, eighteen banks were privatized.

The main criteria for the banking privatization process were transparency and revenue maximization for the government; at this point no foreign capital was allowed. Banks were acquired mostly by brokerage house owners. Despite the lack of a strong credit culture within banks, financing to the private sector increased hastily. Consequently, the extraordinary flow of credit was in many cases granted without the proper assessment of the creditworthiness of the borrowers, which eventually led to an increase in past due loans and insufficient credit provisions. However, the problems caused by excessive risk taking were not detected early enough as a result of multiple factors, including an outdated framework for loan provisioning as well as deficient accounting criteria. Thus, the major macroeconomic crisis in 1994-95 hit an already vulnerable banking sector.

In this scenario, the fall of economic activity and sharp rise in interest rates deepened the deterioration in the quality of bank's credit portfolio. After the devaluation, bank's capital was insufficient to cover losses as creditors were unable to repay loans. Many banks that faced financial difficulties became insolvent.

Recapitalization and support programs were implemented and at the same time the regulatory framework was strengthened. In 1995, the Mexican National Banking and Securities Commission was established through the merger of two existing supervisory agencies: the National Banking Commission and the National Securities Commission, which at that moment was in charge of the supervision of brokerage houses and the securities market. The legal framework was amended to authorize foreign investment.

In January 1997, the CNBV required banks to adopt new accounting rules. The new rules established that missed payments should be reported as past due and the remaining balance of the loan should stop accruing interest. After a specified number of missed payments, the whole amount of the loan should also be reported as non-performing.⁴ Under the new accounting rules it became clear that non-performing loans had been underestimated.

Modernization of the legal framework has been continuous. There has been a steady trend in strengthening banks' capitalization rules, which cover both credit and market risks.

Together with stricter capitalization rules, the guarantee on deposits offered by the Mexican deposit insurance agency, the *Instituto para la Protección del Ahorro Bancario* (IPAB) was reduced from full

³ In 1995, the former National Banking Commission (Comisión Nacional Bancaria) merged with the former National Securities Commission (Comisión Nacional de Valores) to create the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores, CNBV).

⁴ The number of missed payments varies according to the type of loan.

protection. The process was gradual. In 2003 IPAB covered deposits up to an amount of 10 million UDIs⁵ and from January 2005, the last stage of the process, depositors are protected up to 400,000 UDIs, per person per institution. This means that if one person holds accounts at several institutions, all of them will be covered up to the aforementioned amount.

Further, in 2001, improvements concerning corporate governance were included in the financial sector legislation. Among the most important is the requirement of independent board members. A new law for Mutual Funds and Fund Managers was passed in 2001 in order to widen the scope for investments, improving access to small and medium investors to the equity market, under a more flexible structure that creates a new entity for their distribution.

More recently, Congress approved in late 2002 the Guaranteed Credit Transparency Law (*Ley de Transparencia y de Fomento a la Competencia en el Crédito Garantizado*) which forces banks to announce the annual percentage rates (APR) on mortgage loans, and specific laws that require banks to disclose fees and other charges in financial services.

1.2.2 Current Structure

Since 1995 the financial sector in Mexico has been consolidating; several mergers and acquisitions have occurred. Mexico's banking sector was composed, as of September 2004, of 32 commercial banks and six government-owned development banks. By the same date, commercial banks assets represented 27 percent of GDP.

At that time, banks operated 7,753 branches and had over 116,000 employees. Banking penetration has been increasing in the last decade. For example, as of September 2004 the number of banking accounts with debit cards was about 42 million, up from 19.4 million in 1998 and 29.8 million in 2001. If only the economically active population of the country is considered, the September 2004 figure would represent approximately one debit card per person.⁶

Most major Mexican commercial banks were purchased by foreign banks, and at present, operate as domestically incorporated subsidiaries of the latter. In fact, domestic private banking assets switched into the hands of foreign capital in a very short period of time. In 1998, 76 percent of the banking system was controlled by domestic capital. In 2000, approximately half of the system was in the hands of foreign capital. By 2001, with Citigroup's acquisition of Banamex, almost 90 percent of banking system assets was managed by institutions belonging to international financial groups. The trend towards increasing foreign participation continues as demonstrated by Canada's Bank of Nova Scotia formal takeover of Inverlat in April 2003, Spain's Banco Bilbao Vizcaya Argentaria purchase of the remaining stake of the Mexican government in Bancomer, and HSBC's control of Bital.

⁵ UDIS (investment units) is a unit of account whose nominal value increases with the consumer price inflation.

⁶ Debit cards represent approximately 80 percent of all payment cards in the country.

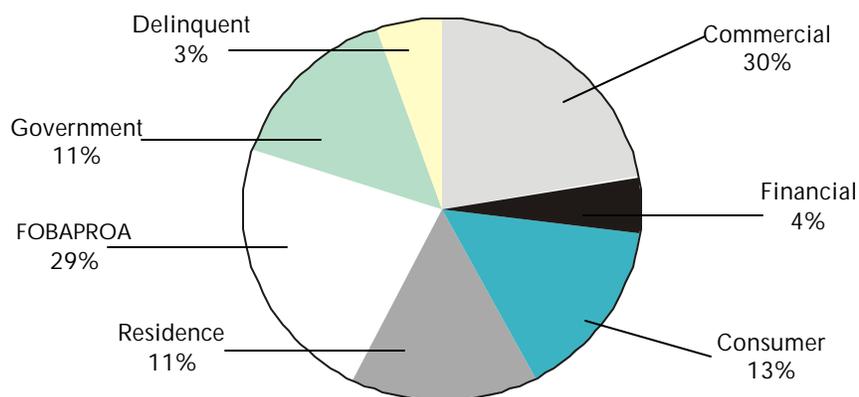
Table 2: Top Five Mexican Commercial Banking Organizations and Total Loan Portfolio
(as of June 2004, in millions of pesos)

Commercial Bank Name	Total Portfolio	Market Share
BBVA Bancomer	271,523	25.2
Banamex	220,593	20.5
Banorte	153,095	14.2
Santander Serfin	137,094	12.7
HSBC	113,902	10.6
Others	181,136	16.8
Total Top Five	896,207	83.2
Total	1,077,342	100.0

Source: CNBV.

Chart 1 below shows the distribution of commercial banks' loan portfolio. FOBAPROA and government lending still play prominent roles; household and commercial loans represent more than 50 percent of total loan portfolio.

Chart 1: Distribution of Commercial Banks' Loan Portfolio
(as of June 2004)



Source: CNBV.

Development banks, in contrast, are owned by the Mexican government and exist to foster the development of certain sectors, (e.g., agriculture, housing, export-import, etc.) and to assist and propose solutions to regional and/or municipal financing problems. Most of them operate mainly as "second floor" institutions, i.e., most do not receive deposits from the public and do not lend to individuals.

There are currently six development banks operating in Mexico, in the third quarter of 2004 the distribution of the total assets of the development banks was: Nafin with 41 percent, Banobras

26 percent, Bancomext 16 percent, Sociedad Hipotecaria Federal⁷ 14 percent, Banjercito 2 percent and Bansefi 1 percent. Table 3 shows development banks with their total outstanding portfolios.

Table 3: Mexican Development Banks and Outstanding Loan Portfolio
(as of June 2004, in millions of pesos)

	<i>Total Portfolio</i>	<i>Market Share</i>
NAFIN	149,162	34.4
BANOBRAS	140,159	32.3
BANCOMEXT	74,427	17.2
SOCIEDAD HIPOTECARIA FEDERAL	64,477	14.9
BANJERCITO	5,345	1.2
BANSEFI	0	0.0
Total Market (Development Banks)	433,571	100.0

Source: CNBV.

1.3 OTHER MAJOR CREDIT-GRANTING INSTITUTIONS OF THE FINANCIAL AND NON-FINANCIAL SECTORS

1.3.1 SOFOLES

The *Sociedades Financieras de Objeto Limitado* (SOFOLES), although not strictly part of the banking sector, are another major type of institution offering credit in Mexico. SOFOLES are “limited – purpose financial entities” that first entered the Mexican market in 1993. By September 2004, their assets represented 2.4 percent of the GDP. They specialize in credit for consumers, car loans and mortgages, but do not accept deposits. They raise funds by issuing commercial paper (20 percent of total funding), or through credit from governmental development institutions (80 percent).

While as of September 2004 there were 39 SOFOLES operating in Mexico, the market is somewhat concentrated with the top 5, which are responsible for just over 62 percent of total outstanding loans. The top 5 are listed in Table 4. Chart 2 shows the number of SOFOLES involved in various types of activities. Almost half of all SOFOLES are devoted to providing financing for housing. Other important activities include consumer financing, financing of distributors or intermediaries and small and medium enterprises (SMEs). Consolidation is now reaching the SOFOLES. Some banks are now in the process of acquiring housing SOFOLES. For example, BBVA-Bancomer recently acquired Hipotecaria Nacional, the largest housing SOFOL.

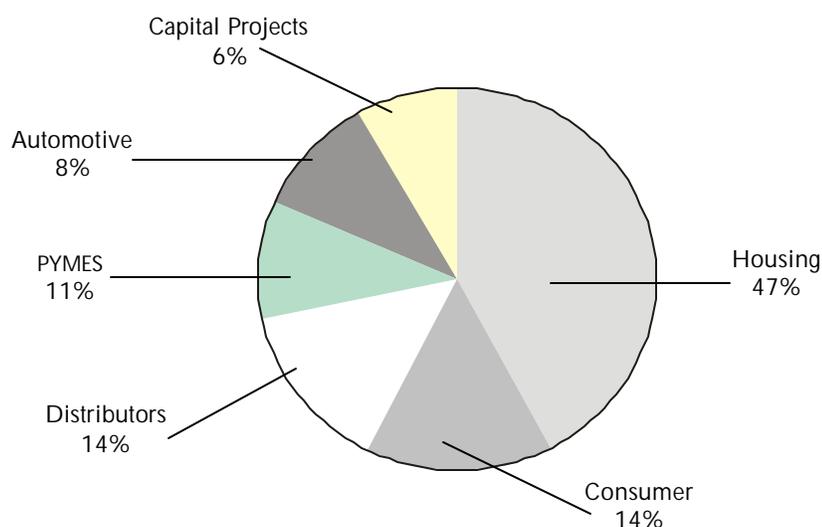
⁷ Sociedad Hipotecaria Federal was created on March 2002 to foster low income housing credit.

Table 4: Top Five SOFOLES and Outstanding Loan Portfolio
(in millions of pesos)

	<i>Total Portfolio</i>	<i>Market Share</i>
Hipotecaria Nacional	25,172	16.5
GMAC Mexicana	20,567	13.5
Ford Credit de México	17,978	11.8
Hipotecaria Su Casita	17,513	11.5
Hipotecaria Crédito y Casa	14,928	9.8
Total Top Five	96,158	63.1
Total Market	152,264	100.0

Source: CNBV.

Chart 2: Distribution of SOFOLES by Activity
(as of June 2004)



Source: CNBV

1.3.2 Credit Ancillary Organizations

In addition to the banking sector, there are a number of financial entities with important lending activities in the Credit Ancillary Organizations and Activities Sector (*Organizaciones y Actividades Auxiliares del Crédito*). These include factoring companies, financial leasing companies and credit unions, among others. The assets of these organizations represent 31 percent of the assets of the SOFOLES. Like the banking sector, these financial entities are also supervised by the CNBV.

Non-bank financial creditors such as leasing companies and factoring firms have expanded their operations. These sectors experienced significant changes as a result of the 1994-95 crisis, but have expanded their operations in recent years—in part to make up for the low supply of commercial bank credit in the marketplace.

Factoring companies are a significant source of liquidity for firms operating in Mexico by advancing money to the owner of receivables in exchange for the right to collect against them. There are currently 15 factoring firms, 5 belong to financial groups, 6 are independent and the other 4 are subsidiaries of financial foreign entities. Table 5 lists these firms along with their market penetration.

Table 5: Top Ten Mexican Factoring Companies
(as of June 2004)

<i>Firm Name</i>	<i>Market Share</i>
Factor Banorte	25.9%
GE Capital Factoring (Heller Financial)	16.9%
Transamerica Distribution Finance Factoraje	7.1%
Factoraje Mifel	9.8%
Factoraje Financiero Afirme	6.6%
Factoring Comercial América	6.2%
Factoring Santander Mexicano	5.1%
Crédito Real	5.4%
Mex Factor	4.6%
Factoring Corporativo	4.2%
Total Market Share Top Ten	91.9%

Source: CNBV.

Another source of credit for Mexican commercial activity is financial leasing companies. These firms purchase goods, often heavy machinery used in the production of a good or service, which will be leased to a third party (the lessee) during a fixed time period. This allows the company to defer payments of important capital purchases into installments. There are currently 28 financial leasing companies operating in Mexico; 3 belong to financial groups without banks, 6 to financial groups with banks, 9 to subsidiaries of foreign entities and the other 10 do not belong to any specific group.

Table 6 lists the top ten Mexican leasing companies and their market penetration and total loan portfolio. Since the 1994-95 financial crisis this sector has organized itself so that firms typically specialize in a specific industry or type of equipment.

Table 6: Top Ten Mexican Leasing Companies
(as of June 2004)

<i>Firm Name</i>	<i>Market Share</i>
Caterpillar	14.2%
GE Capital Leasing	11.7%
Banorte	9.7%
Banamex	8.9%
The Capita Corporation de México	7.2%
Comercial América	7.1%
Banobras	5.4%
Navistar	4.7%
Paccar	4.7%
John Deere	4.6%
Total Market Share Top Ten	78.3%

Source: CNBV.

There were 138 credit unions operating in Mexico as of September 2004. These provide credit to their associates.

1.3.3 Other Retail and Wholesale Credit Providers

According to Banco de México's Financing Survey of the third quarter of 2004, suppliers were the main source of credit for 60 percent of the surveyed firms.

Major non-financial credit providers in Mexico include inter-firm credit, credit issued by firms and department stores, supermarkets and other retailers for individuals. There are nine major department stores that provide short-term credit to their customers through limited purpose payment cards.⁸ The amount of credit provided by these organizations represented 0.3 percent of the GDP as of September 2004.

Table 7: Credit Granted by Financial Sector Entities
(by main creditor type, in USD)

	2000	2001	2002	2003	2004 ^(a)
Private commercial banks	98,625	95,661	89,221	84,274	89,112
Development banks	41,280	42,937	45,073	43,316	38,896
Financial companies	6,433	9,006	10,931	11,913	13,873
Leasing firms	1,274	1,365	1,163	1,471	1,735
Factoring firms	910	963	995	1,112	1,086
Savings and loans associations	375	468	529	660	793
Credit unions	843	906	890	961	956
Others	11,391	13,052	11,160	10,608	10,433
Total	161,132	164,357	159,961	154,316	156,882

Source: CNBV.

^(a) As of June.

⁸ These department stores are Liverpool, Coppel, Salinas y Rocha, Palacio de Hierro, Sears, Elektra, Soriana, Suburbia, among others.

1.3.4 Savings and Loans Entities

The Popular Credit and Savings Law (*Ley de Ahorro y Crédito Popular*, LACP) was issued on June 4, 2001. Among its main objectives are:

- Regulate the activities and operations carried out by the “popular credit and savings intermediaries” (*entidades de ahorro y crédito popular*), and to promote a sound development of this sector which focuses on lower-income people.
- Set up the framework for the supervision of the Popular Credit and Savings System, according to the best international standards and practices.
- Protect the interest of the public.

The LACP allows for a 4-year-transition-period, so the intermediaries operating under different legal regimes, adjust their organization to operate under the LACP by mid-2005. The CNBV has been issuing all the regulatory and supervisory provisions that will apply to the sector. Based on the LACP, the CNBV will regulate and oversee the following entities:

- Popular credit and savings intermediaries, which would be able to take deposits from the public and grant credits to their members.
- Integration Bodies: Federations and Confederations of popular credit and savings intermediaries. Federations are to provide training and technical assistance services to their members, as well as to perform ancillary supervision functions. Confederations are intended to represent their federations and the sector as a whole before the financial authorities, and they also will operate the Saving Protection Funds of the popular credit and savings intermediaries.

1.3.5 Unregulated entities

Cajas de ahorros populares are not supervised by financial authorities. Most of these organizations focus on the financial needs of lower-income segments of the Mexican population. Individuals join them by paying a fee, which entitles them to deposit and credit services with less stringent requirements than those of commercial banks. Members are commonly eligible to borrow about three times their savings.

1.4 THE CURRENT CREDIT MARKET

The current credit market in Mexico is generally characterized by declining interest rates that have resulted from low (and stable) inflation rates in the broader economy. This has helped in expanding credit to individuals in all of its forms, *i.e.*, mortgage, auto, personal and credit card loans.

1.4.1 Major Issues in Business Finance

In the commercial lending sector, bank financing had been decreasing steadily for almost 10 years. This trend was reversed only starting in 2004. Access to bank credit in Mexico is heavily concentrated in the large multinational companies and blue chip Mexican firms. Small- and medium-sized domestic firms have difficulty obtaining adequate financing from banks.

According to Banco de México's Financing Survey, 73.6 percent of firms did not use bank credit. The reasons behind this situation were, among others, high interest rates, macroeconomic uncertainty and negative responses from banks. Table 6 shows the sources of financing for firms of various sizes in Mexico.

A growing number of firms, mainly medium to large-size, are obtaining financing through debt issuances in the securities market. In terms of the total firms in the country, the share with access to this type of financing is, however, not yet that relevant.

Table 8: Sources of Financing for Mexican Businesses by Size of Business
(Second Quarter of 2004)

Source of Financing	Firm Size				Total
	Small ^(a)	Medium ^(b)	Large ^(c)	AAA ^(d)	
Suppliers	63.7%	55.9%	49.6%	26.8%	56.0%
Commercial Banks	15.2%	19.7%	20.4%	36.6%	19.1%
Foreign Banks	2.2%	3.4%	6.6%	14.6%	4.2%
Intra-Company Loans	14.1%	16.0%	10.2%	9.8%	13.7%
Development Banks	1.9%	1.7%	2.9%	2.4%	2.0%
Headquarters	1.9%	2.1%	7.3%	2.4%	3.1%
Other	1.0%	1.2%	3.0%	7.4%	1.9%

Source: Banco de México's Survey, 2nd Quarter 2004.

^(a) Small = 1-100 million pesos 38.2 percent.

^(b) Medium = 101-500 million pesos 35.4 percent

^(c) Large = 501-5000 million pesos 22.5 percent.

^(d) AAA = more than 5000 million pesos 3.9 percent.

Because bank financing is generally expensive and limited in availability, supplier financing remains the predominant form of credit issued to all businesses except for the largest. Supplier credit terms range from 30-90 days and credit costs are often factored into the price of products.

Small and medium-sized firms, particularly those who supply major retail chains, may also rely on factoring of their receivables. An estimated 80 percent of suppliers to major retailer chains use factoring as a financing technique due to the small risk of default.

One government-owned development bank, Nafin, has launched programs to provide access to credit for small businesses.

1.4.2 Major issues in consumer finance

1.4.2.1 Credit Cards

Overall, consumption lending (credit card, personal loans and durables goods loans) has been the faster growing segment in credit since 2000. According to Banco de México's Monetary Aggregates and Financing Press Release of December 2004, credit granted through credit cards represented 51 percent of consumer banking loans.

The number of credit cards issued in Mexico has increased 48 percent over the past three years. The market is dominated by Visa-branded cards, which represent about 75 percent of the total credit and ATM cards in the country. Annual interest rates are declining, but are still high. The average annual interest rate in 2002 was 39 percent, down 6 percent from the previous year. Credit cards were traditionally issued to a bank's most solvent customers, but the service is now being offered to a much wider segment of the population. Some of these newer cards are guaranteed by deposits.

New "light cards" have appeared on the scene with annual interest rates averaging about 23 percent. The industry is expecting growth in credit card billing of 12-14 percent per year.

The number of credit cards issued by supermarkets and other retailers rose at an even faster average rate of 25 percent annually, and there is still great potential for growth in this segment of the credit market.

1.4.2.2 Other Consumer Lending

As is the case with credit cards, recent figures suggest that financing companies are increasingly targeting the 16.5 million Mexicans who earn between \$2,000-6,000 (i.e. between USD 180-550) per month.

1.4.2.3 Mortgage Financing

In 2001, the current Administration founded the *Sociedad Hipotecaria Federal* (SHF), in order to increase the availability of mortgages to some 700,000 lower and middle income Mexicans. It is unclear how the secondary market for mortgages will develop given the perceived risk of defaults. Mortgage debt amounts to 8 percent of GDP. Several banks are now offering mortgages with rates of 12 to 13 percent and maturities of up to 20 years.

1.5 MAJOR TRENDS IN CREDIT REPORTING

Until the early 1990s, very little credit information was available and shared in the Mexican financial markets. The only information sharing mechanism available at that time was the National

Service for Bank Credit Information (*Servicio Nacional de Información de Crédito Bancario*, SENICREB), a public credit registry established by Banco de México in 1964 and operated by the latter since. The SENICREB collects positive and negative information (late payments defaults and other irregularities) on loans above approximately USD 18,000⁹ and distributes this information back to banks.¹⁰

The use of SENICREB's database as an information source to support credit decisions is currently limited. The main reason behind this is that the purpose of this registry was to produce statistics for central bank use in addition to acting as a mechanism for sharing credit information. Back in the 1960s, such statistics were used for monitoring compliance of banks with the directives on directed credit. In the 1970s and 1980s SENICREB information was used intensively as a credit registry. At present, its main role is to support research and financial system surveillance functions at Banco de México.

Currently, with historically low domestic interest rates following nearly a decade of financial stability, new opportunities for financing have emerged. Several segments of the Mexican credit market are already experiencing fast growth, particularly the consumer lending and residential mortgages sectors. New business opportunities, together with the experience during the last major credit expansion in the early 1990s, whereby the information shortages faced by credit providers combined with overall imprudent credit granting practices led to a stunning level of defaults in 1994-1995, have prompted credit providers and authorities to give more attention to reports on credit histories and other background checks that facilitate credit decisions.

At present, a private credit registry, *Buró de Crédito*, is by far the most important credit information source in Mexico. Most banks participate in the *Buró de Crédito*, as well as a number of non-bank financial institutions, retailers and other creditors. In total, more than 600 credit providers feed the databases of *Buró de Crédito*.

Buró de Crédito is made up of two firms, TransUnion de México S.A., S.I.C., and Dun & Bradstreet S.A., S.I.C. The former is a joint venture between TransUnion and the Mexican commercial banks. It was authorized by the Mexican authorities to operate as a credit registry in 1995 and began operations in 1996.¹¹ This firm manages credit information on individuals and at present its database contains more than 29 million individuals representing almost 56 million credit relationships.

Dun & Bradstreet was authorized to operate as a credit registry in 1997 and began operations in 1998. Dun & Bradstreet operates in partnership with *Buró de Crédito*, integrating credit information on firms and individuals with entrepreneurial activities.

⁹ On a consolidated and outstanding basis.

¹⁰ The only other institutions with access to the data are Banco de Mexico and the National Banking and Securities Commission. Data is also released to judicial authorities.

¹¹ The first attempts to establish a credit registry in Mexico date back to the mid-1960s. Credit card operators were the major driving forces of these efforts, and two databases were built: Prominsa in 1963 and CICSA in 1973. However, these efforts lacked the necessary technological support and there were a lot of concerns regarding the quality of information. In 1993, CICSA changed its name to Datum, and the database operated by the latter became the "raw material" for the new database of *Buró de Crédito*.

In January 2002 the Credit Bureau Law (*Ley de Sociedades de Información Crediticia*) was enacted in an attempt to further regulate the activities of private credit bureaus, which up to that moment had been operating subject only to a general regulation issued in 1995.¹² This law, further amended in January 2004, aims at strengthening the credibility of the credit bureaus by strengthening their operational rules. Furthermore, this law includes mechanisms for protecting data subject rights, such as consent requirements, guaranteeing access to credit reports, and low cost procedures for challenging and correcting erroneous information. Under this law, private credit bureaus must be authorized to operate by the Ministry of Finance (*Secretaría de Hacienda y Crédito Público*, SHCP) and are subject to the regulations issued by Banco de México. The National Banking and Securities Commission (CNBV) is in charge of the supervision of these firms.

Regarding other registries that contain useful information for credit decisions, as part of the overall government goal of enhancing infrastructure and public services, it is worth mentioning the efforts being undertaken by the Ministry of Economy (*Secretaría de Economía*) to modernize the National Commerce Registry and in promoting the modernization of Property Registries. As a result of these efforts, the Integrated Registry Management System (*Sistema Integral de Gestión Registral*, SIGER) was developed. The SIGER has allowed the automation of numerous registration procedures and consultations employing state-of-the-art information and security features. The latter, however, has been accomplished at a national level for registration of businesses only.¹³ Although the construction of a subsystem to register and make consultations of non-real estate guarantees within the SIGER is currently underway, there are still severe lags and shortfalls in property registries. The main reason behind this appears to be that while the responsibility for the National Commerce Registry lies with federal authorities (i.e., the Ministry of Economy), state governments are responsible for the operation of their own property registries. Despite the coordination and promotion efforts of the Ministry of Economy, at present, only a few states have been able to develop a modern and reliable property registry.

A new credit reporting venture is currently seeking authorization from the SHCP to operate as a credit registry.

¹² "Reglas Generales a que Deberán Sujetarse las Sociedades de Información Crediticia a que se Refiere el Artículo 33 de la Ley para Regular las Agrupaciones Financieras".

¹³ With the exception of the Distrito Federal.

2 INSTITUTIONAL ASPECTS

2.1 LEGAL FRAMEWORK

Amendments to the Law that Regulates the Financial Groups were published in the Official Gazette of the Federation in July 1993. Among them were the reform of article 33, and the addition of articles 33-A and 33-B, in order to create a new type of entity called "credit information society" (credit bureau). The purpose of those reforms was to regulate the credit reporting activities, which up to that moment had been performed solely through Banco de México's SENICREB.

In January 2002, the Credit Bureau Law entered into force and was amended in 2004. This law regulates the activities of private credit bureaus. The provisions of this law are supplemented by the General Rules for the Operations and Activities of Credit Bureaus and their Users (*Reglas Generales a las que Deberán Sujetarse las Operaciones y Actividades de las Sociedades de Información Crediticia y sus Usuarios*) issued by Banco de México in 2002.

The aforementioned law and rules seek to enhance the accuracy and consequent credibility of the credit registries by strengthening their operational rules. Some of the more important elements of these regulations include mechanisms for protecting consumers' rights. Such provisions establish consent requirements for the distribution of credit reports, the right of individuals and firms to access their full credit report from credit bureaus, and low cost and fast procedures for challenging and correcting erroneous information.

Other federal laws that support the subjects of credit reports in their interactions with credit reporting firms and creditors are the Protection and Defense of Financial Services Users Law (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) of 2000, which provides consumers with assistance should they encounter problems with the credit reporting firm itself or a financial (bank or non-bank) creditor, and the Federal Consumer Protection Law (*Ley Federal de Protección al Consumidor*) of 1992, amended 2004, which, among many other issues, is applicable in cases in which consumers experience problems with a non-financial creditor.

There is also the Public Sector Information Transparency and Access Law (*Ley Federal de Transparencia y Acceso a la Información Pública Gubernamental*) of 2002, which defines the rights of individuals with respect to information gathered, stored and distributed from government databases.

2.1.1 Privacy

There are several provisions of the Credit Bureau Law which protect the privacy of consumers:

- Data Subject Authorization

Credit bureaus may only release credit reports to commercial and financial entities allowed to consult credit information data (users), with the express authorization of the consumer (Article 28). Exceptions apply in the case of firms with outstanding credits greater than 400,000 UDIs. Authorization is generally valid for 1 year and may be extended for 2 more years with the subject's consent. In both cases, the authorization will be valid only during

the time the relation between the user and the consumer exists. When the user is a financial entity, it is required to maintain proof of authorization for 12 months. Credit bureaus and the CNBV are entitled to verify that the aforementioned authorizations were obtained (Article 30). When the user is a retailer, it must send the original authorization to the credit bureau in a period of 30 days after the date the commercial entity had consulted the credit bureau (Article 29). Sanctions, penalties and assignment of damages may be applied for failing to obtain and maintain proof of authorization (Article 29).

- Access Limited to Legitimate Users

Access to credit reports is limited to users that provide credit information to the bureau (Article 2).

- Data Limited to Purpose

The type of information that may be collected in the database of the credit bureau is limited to credit information. (Article 20).

- Confidentiality

All parties that have access to credit reports (including credit bureaus and their users) are obligated by the law to maintain the confidentiality of the information (Articles 22 and 38).

2.1.2 Bank Secrecy

The Credit Bureau Law (Article 5) explicitly states that the collection from or disclosure to users of credit information by credit bureaus will not be considered a violation of financial secrecy. In the reforms of January 2004, article 38 was amended to make sure that every party with access to the information is accountable for its confidentiality.

2.1.3 Consumer Protection/Quality Assurance

There are several provisions of the Credit Bureau Law which protect the subjects of data by allowing them to access and correct their data.

- Data Subject Access to Information

Consumers are entitled to request a special credit report free of charge once every 12 months. (Articles 28, 40, 41) Nominal fees apply to reports requiring special handling or for more frequent requests. In addition to the data subjects' credit history and personal data, these special reports display the Users that have accessed the report during the previous 24 months. These provisions allow consumers to easily identify errors in reporting or unauthorized access to their credit information.

- Right to Dispute Data

Subjects of credit reports have the right to dispute information contained in their credit report via a timely, low cost and consumer friendly process. Specific timeframes for investigating and correcting errors are established in the law (Article 42-45). If an error is discovered after it was supposed to be corrected, the credit report has to be reissued to the consumer (free of charge), as well as to all the users who have accessed the credit report in the previous six months (Article 47).¹

- Right to Explain Disagreements

Consumers who disagree with the results of the investigation of their claim, or would like to explain circumstances which contributed to information contained in their credit history, have the right to ask for the inclusion within their credit reports, of up to 100 words of text in order to express the arguments of their disagreement (Article 45).

- Data is Maintained for a Sufficient Time

Payment behavior data of individuals must be maintained for 84 months; counted from the date that the data was added to the individual's record. After this period such data must be deleted. (Article 23) This period permits consumers who failed to fulfill their credit obligations to eventually repair their credit reputation.

2.1.4 Others

A few other noteworthy features of the legal environment with respect to credit information in Mexico are noted below.

1. The identity of current or past creditors is withheld on credit reports issued to users to prevent unfair competition practices. (Article 27)
2. In the event that a new credit bureau is launched and starts operations, obligations for sharing of data are defined in the law (Article 36). However, such sharing refers only to a fraction of the negative data.

2.2 ROLE OF FINANCIAL INSTITUTIONS: CREDIT INFORMATION

2.2.1 Credit Reporting Agencies

As private credit registries entered the market in 1996, the public credit registry, SENICREB, which provided credit reports to banks, fell gradually into disuse.¹⁴ Since 1999, a private credit registry,

¹⁴ SENICREB is still used for statistical purposes and research at Banco de México, who is the operator of this registry.

Buró de Crédito, has had a virtual monopoly over credit reporting activities with respect to both businesses and consumers. Details about the operations and service of these credit registries appear in sections 3 and 4 of this Report, respectively.

In the second half of the nineties, other authorized private credit registries attempted to assemble a competitive database. These included Comcred (a joint venture between a Mexican firm and Experian) and Equifax.

Recently, a new firm filed an application to the SHCP to operate as a credit registry.

2.2.2 Banking Sector

In Mexico, most commercial banks are owners of the *Buró de Crédito* (70 percent share altogether). Commercial banks are also important suppliers and users of data. According to *Buró de Crédito* statistics, banks are the source of 55 percent of monthly updates with respect to individual consumers and for 75 percent of the business database. Likewise, the services offered by *Buró de Crédito* are particularly suited to banks' needs. It was reported that banks generally achieve a hit rate of 80 percent when consulting the *Buró de Crédito* databases.

In addition, many larger commercial banks have specialized departments to gather information from legal, commercial, property and real estate registries. Smaller banks and other financing firms generally outsource this function to independent firms.

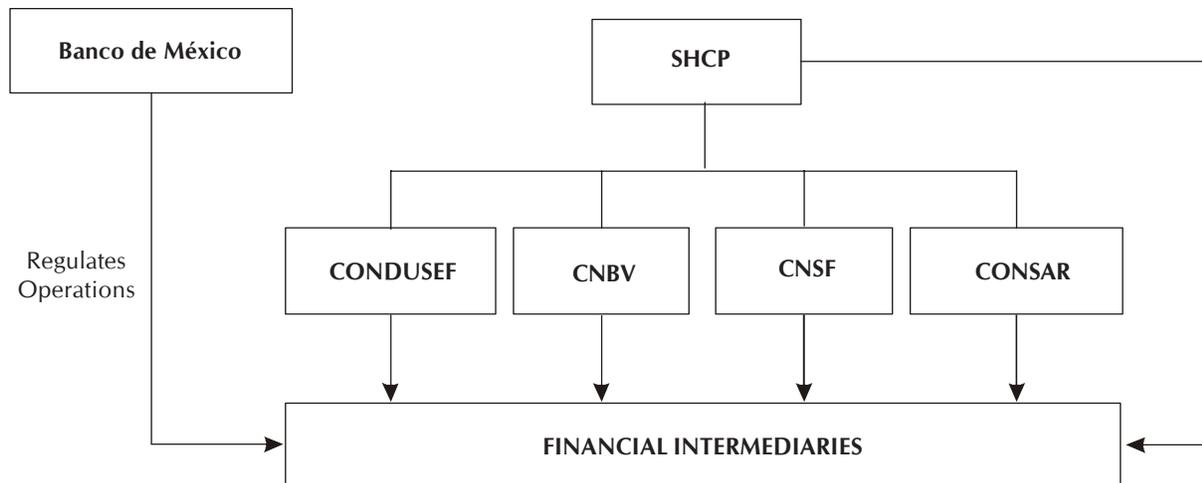
2.2.3 Others

Non-bank financial firms also supply and use credit bureau data in Mexico. According to *Buró de Crédito* figures, non-bank automobile financing, non-bank mortgage companies and other financing companies make up 6 percent of all monthly updates regarding individual consumers. Leasing and other financing companies have contributed a total of 16 percent to the business database.

2.3 ROLE OF AUTHORITIES

The Ministry of Finance (SHCP), the supervisory agencies under its umbrella, and Banco de México are the main regulators of the financial system (see Figure 1). The SHCP is empowered to plan, evaluate and supervise the Mexican Banking System. Banco de México establishes the characteristics of the transactions that credit institutions may enter into, as well as the characteristics of the trusts, mandates and commissions that stock exchange intermediaries and insurance and bonding companies may enter into.

Currently, major concerns of authorities in the area of credit reporting have to do with developing a deep, fair and efficient market for data that operates with complete and accurate credit information, while ensuring an appropriate degree of competition in credit reporting activities.

Figure 1: Mexican Financial System Regulatory Structure

Source: "Payment and Securities Clearance Settlement Systems in Mexico", First English Edition 2004.

2.3.1 Banco de México

The June 1993 amendment of Article 28 of the Mexican Constitution granted complete autonomy to Mexico's central bank, Banco de México, and gave it total control over the credit it grants.

Banco de México plays a vital role with respect to credit information in México. Until the early 1990's the only credit information sharing mechanism was the SENICREB, established by Banco de México in 1964. Under the present regime, it has joint responsibility for vigilance over private credit registries along with the SHCP and the CNBV. Specifically, the Credit Bureau Law provides the following:

- Article 12 empowers Banco de México to issue regulation regarding the activities and operation of credit information societies.
- Article 17 establishes that Banco de México and the CNBV will determine through their regulation what information the credit bureaus shall render to facilitate their supervision.
- Article 20 allows Banco de México to issue regulation in order to oblige credit bureaus to render information regarding its operations.
- Article 36 establishes that in the event that there is no agreement among market participants in relation to the exchange of primary databases among themselves Banco de México will determine the policies for such exchange. Moreover, Banco de México shall determine through the regulations the amounts credit bureaus can charge others for sharing such databases, taking into account the costs of investment, integration and updating of such databases.

- Article 42 establishes that Banco de México shall determine through its regulation the conditions under which credit bureaus must attend customer claims regarding credit reports.
- Articles 53-56, 66 and 67 empower Banco de México to impose penalties.

Banco de México issued in 2002 the General Rules for the Operations and Activities of Credit Bureaus and their Users (*Reglas Generales a las que Deberán Sujetarse las Operaciones y Actividades de las Sociedades de Información Crediticia y sus Usuarios*). These rules have the following objectives:

- Guarantee protection of the rights that the law confers to individuals.
- Provide the necessary scenario to enable better competition among market participants in order to protect the general public.
- Establish the terms under which credit information societies may agree with users to substitute a signature as proof of authorization to receive credit reports.
- Facilitate the sharing of information between competing credit bureaus.

In addition to these oversight responsibilities, Banco de México operates the SENICREB. However, the scope of the registry is limited to information provided by banks and loans in excess of 200,000 pesos (approximately USD 18,000) that currently appear on the banks' balance sheets. Access is also limited to banks.

2.3.2 Secretaría de Hacienda y Crédito Público (SHCP)

The Ministry of Finance, SHCP, in general proposes, directs and controls the Federal Government's policy in the following matters: revenue, public spending, credit, prices and tariffs of public sector goods and services, customs, statistics, geography and information technology. More specifically, the SHCP oversees, together with Banco de México, the foreign exchange policy.

The Credit Bureaus Law establishes the following specific responsibilities to the SHCP:

- Articles 6 and 16 empower the SHCP to authorize the operation, merger and split of credit information societies in consultation with Banco de México and the CNBV.
- Article 19 establishes the conditions under which the SHCP, in consultation with Banco de México and the CNBV, can cancel the authorization to operate.
- Article 11 enables the SHCP to approve any change in the by-laws of credit information bureaus operating in México.

2.3.3 Comisión Nacional Bancaria y de Valores (CNBV)

The CNBV is an agency of the SHCP, with technical autonomy and executive powers. Its main objective is the supervision and regulation, within its scope of competence, of financial entities, with the aim of fostering their stability and proper functioning, as well as to maintain and encourage the healthy and balanced development of the financial system as a whole, in order to provide for the adequate protection of the public's interests. To this end, it supervises and regulates individuals and firms performing activities listed in the laws related to the financial system.

The CNBV was established in 1995 by the CNBV Law, which places under the CNBV the operations and powers of the former National Banking Commission (*Comisión Nacional Bancaria*) established in 1924 and the National Securities Commission (*Comisión Nacional de Valores*) which had been established in 1946. Such law empowers the CNBV to supervise all the institutions comprising the financial system, with the exception of the pension fund administrators, known as AFORES, insurance companies and bonding agencies. The CNBV performs both on-site and off-site supervision.

Among its main functions are:

- To issue prudential regulations to which financial entities will be subject to and to establish rules by which their operations are to be recorded.
- To establish general application criteria for the financial sector in order to prevent actions and operations contrary to the best practices of the commercial, banking and securities markets.
- To establish the necessary measures so that the entities may adjust their activities and operations to the applicable laws and best practices of the market.
- To conduct inspection, surveillance, prevention and correction of the activities carried out by financial institutions.

The Credit Bureau Law (*Ley para Regular las Sociedades de Información Crediticia*, LRSIC) confers specific powers to the CNBV regarding credit information societies operating in Mexico.

In particular, the CNBV is empowered to:

- Request information from the credit bureaus. (Art 5,25).
- Establish minimum capital requirements. (Art 8).
- Have notice of any appointment or removal of members of the board of directors, having also the power to suspend them if they do not comply with the applicable rules. (Art. 9).
- Determine the provisions in regard to the supervision and inspection of credit bureaus (Art. 17).

- Impose penalties for noncompliance. (Articles 53-65).

The CNBV schedules annual examinations to each operating credit bureau lasting one or two weeks. The examinations focus on the compliance with specific provisions of the laws and regulations (how information is received, credit reports, access to information, etc.). Other relevant issues, such as operational requirements, internal controls, management systems and financial requirements are verified as well either through on-site inspections or the on-going monitoring of the credits bureaus.

2.3.4 Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros (CONDUSEF)

The CONDUSEF is a governmental entity with autonomy in its operating budget and in its decision making authority. According to Article 5 of the Protection and Defense of Financial Services Users Law, its object is to promote, protect, and defend the rights and interests of users of financial services, acting as an impartial referee on the relations between clients and financial institutions.

The Credit Bureau Law confers the following responsibilities on CONDUSEF:

- Article 50 obliges credit information societies to inform to CONDUSEF of the number of customer claims and database mistakes identified.
- Article 48 obliges CONDUSEF to carry out arbitration between credit bureaus.

2.3.5 Others

In addition to the financial authorities depicted in Figure 1, the *Procuraduría Federal del Consumidor* (PROFECO) has sanctioning powers over non-financial credit reporting activities (Article 68 of the Credit Bureau Law).

2.4 ROLE OF OTHER PRIVATE AND PUBLIC SECTOR INSTITUTIONS

2.4.1 Non-financial Credit Providers

Estimates are that 60 percent of all credit issued in Mexico is offered by non-financial credit providers. These include department stores, supermarkets and other retailers that provide short-term credit to their customers through limited purpose payment cards or other means. In the case of business finance, trade credit or credit provided directly by suppliers plays a major role.

Many of these non-financial credit providers are also important suppliers and users of information in credit reporting systems. *Buró de Crédito* estimates that as many as 1/3 of the requests they receive for credit reports are initiated by non-financial creditors.

Post-dated cheque schemes, which are used as a vehicle for credit in many Latin American countries, are not common in Mexico.¹⁵

2.4.2 Industry Associations

The Banks' Association of Mexico (*Asociación de Bancos de México*, ABM) is a private organization representing commercial banks. The ABM supports a Credit Commission with standing committees on consumer credit, commercial credit, mortgage credit, collections and development banks and relations with authorities.

The commission's objectives include:

- To analyze, develop and propose projects for the modernization of credit in the banking system.
- To support the creation of common infrastructure in order to offer new products or develop new markets. For example, a national system of guarantees and a public registries for property and commerce.
- To promote the use of credit information systems and references.
- To evaluate methodologies for the efficient calculation of credit risk.

¹⁵ In the post-date cheque scheme, individuals or firms pay for their purchases with a cheque to be collected at a later date, which can range from a few weeks and up to six months or more after the actual purchase date.

3 PRIVATE CREDIT REGISTRIES

3.1 OVERVIEW

In 1995 and early 1996 three major firms started operations as credit registries in Mexico: Datacredit, Equifax and *Buró de Crédito*. Datacredit, a joint venture between TRW (now Experian) and Mexican investors left the market in 1997, while Equifax exited the Mexican market in 2000.

Thus, as of December 2004 there was one private-sector credit bureau operating in Mexico, *Buró de Crédito*.

3.2 BURÓ DE CRÉDITO

3.2.1 Ownership/Governance

Buró de Crédito currently consists of two firms, TransUnion de México S.A., S. which collects and distributes credit information on individual consumers, and Dun and Bradstreet S.A., which focuses on the activities of firms and individuals with entrepreneurial activity (see Figure 2).

TransUnion de México is a joint venture between TransUnion (25 percent), the Fair Isaac Corporation (5 percent) and the Mexican commercial banks (70 percent). The largest bank shareholder, Banamex, has 18 percent ownership in the firm. Commercial bank ownership is dominated by BBVA Bancomer and Banamex. TransUnion de México was authorized to operate by the Mexican authorities in 1995 and began operations in 1996.¹⁶

Figure 2: Buró de Crédito Organizational Structure



Source: *Buró de Crédito*.

¹⁶ The first attempts to establish accredit registry in Mexico date back to the mid-1960s. Credit card operators were the major driving forces of these efforts, and two databases were built: Promisa in 1963 and CICSA in 1973. However, these efforts lacked the necessary technological support and there were concerns regarding the quality of information. In 1993, CICSA changed its name to Datum, and the database operated by the latter became the basic input for the new database of *Buró de Crédito*.

The Dun & Bradstreet portion of *Buró de Crédito* was authorized by the Mexican authorities in 1997 and began operations in 1998. The Dun & Bradstreet database is the result of a partnership between the Dun & Bradstreet Co., TransUnion and the Mexican commercial banks. This database contains credit information on firms and individuals with entrepreneurial activity.

Buró de Crédito's Board of Director consists of 19 owner representatives plus five newly added seats which represent various non-owner interests. The five additional seats are held by representatives of the following segments:

1. Banks that are not owners.
2. Retail department stores.
3. Microfinance firms.
4. SOFOLES.

Buró de Crédito's stated mission is to support the development of the Mexican economy by providing businesses with information that will allow them to extend credit to their clients without compromising the financial health of their organizations.

The TransUnion and Dun & Bradstreet databases are currently not interconnected, but there are plans to connect them in the future.

3.2.2 Sources of Information

In total, as of September 2004 *Buró de Crédito* was receiving information from 1,021 data suppliers. All purchasers of credit reports are required to supply data on a monthly basis. If a firm fails to provide data for two consecutive months, they are blocked from receiving credit reports.

In addition to banks, suppliers of data include most SOFOLES, most non-bank leasing companies, telecommunications companies with the exception of giant *Teléfonos de México*, some microfinance firms (credit unions, *cajas de ahorro populares*, etc.) and various retailers and commercial firms. There is no minimum loan amount for reporting. Currently, no information is received from public databases (e.g., commercial or property databases).

According to *Buró de Crédito*, 656 non-financial and 141 financial firms provide information on consumers to the TransUnion database. All provide both positive and negative information, except for approximately 15 which only provide negative information due to the nature of their businesses (e.g., foreign exchange houses or bonding agencies reporting fraudulent behavior). The TransUnion database contains data on more than 29 million individuals representing 56 million credit relationships. Of these, approximately 30 million are active and updated monthly. Data is maintained for 84 months at which time it is erased from the database.

The Dun & Bradstreet database is fed by 543 non-financial and 148 financial firms. The database consists of approximately 3.3 million accounts, 1.1 million of which are active and updated monthly. No demographic or sector information is collected. Unlike the TransUnion database, data is kept indefinitely.

3.2.3 Users

Firms who would like to subscribe to access credit reports provided by *Buró de Crédito* must meet the following basic criteria.

1. Be in the credit granting or analogous business.
2. Provide positive and/or negative payment information on their customers and update the information monthly.

Banks are currently the major users of *Buró de Crédito's* services. They account for 56 percent of all requests for reports on individual consumers and 75 percent of all requests for reports on businesses or individuals with entrepreneurial activity. Banks experience a hit rate of 80 percent or higher for both databases.

In addition to banks, users of the TransUnion database include other financial institutions, SOFOLES, real estate companies, automobile finance companies, credit card companies, telecommunication companies, leasing firms, department stores and other commercial firms.

Users of the Dun and Bradstreet database include communications companies, automobile finance companies, real estate firms, providers of goods and services and leasing companies, in addition to banks.

3.2.4 Services Provided

Buró de Crédito's primary business activity is providing credit reports on individuals and businesses to credit grantors. *Buró de Crédito* does not make credit decisions. Figure 3 shows a sample credit report.

Credit reports contain:

1. General data about the individual or business.
2. Details regarding credit acquired by the individual or business—including the total level of indebtedness. In credit reports, creditors are not identified.
3. History of payment—both positive and negative (late payments, defaults or other irregularities) are presented, also included is a numerical score of 1-9 indicating the degree of punctuality of payment for the individual or business.

Figure 3: Sample "Special" Credit Report

REPORTE DE CRÉDITO ESPECIAL

DATOS GENERALES

Nombre	Apellido	Sexo	Fecha de nacimiento	Edad	Registro en BIR
Alfonso	Castro	M	15/05/1980	24	00000000

CONSEJO DE REPORTAJOS

Orden	Nombre y Apellido	Apellido	Sexo	Fecha de nacimiento	Edad	Sexo	Registro en BIR
1	ALFONSO CASTRO	CASTRO	M	15/05/1980	24	M	00000000
2	ALFONSO DE	CASTRO	M	15/05/1980	24	M	00000000
3	ALFONSO CASTRO	CASTRO	M	15/05/1980	24	M	00000000

MENSAJES

CONSEJO DE EMPLEO REPORTAJOS

Orden	Nombre y Apellido	Apellido	Sexo	Fecha de nacimiento	Edad	Sexo	Registro en BIR
1	ALFONSO CASTRO	CASTRO	M	15/05/1980	24	M	00000000
2	ALFONSO CASTRO	CASTRO	M	15/05/1980	24	M	00000000

DETALLE DE LOS CRÉDITOS

Orden	Nombre y Apellido	Apellido	Sexo	Fecha de nacimiento	Edad	Sexo	Registro en BIR	Moneda	Valor	Fecha de inicio	Fecha de fin	Estado
1	ALFONSO CASTRO	CASTRO	M	15/05/1980	24	M	00000000	MXN	10000000	01/01/2004	31/12/2004	ACTIVO
2	ALFONSO CASTRO	CASTRO	M	15/05/1980	24	M	00000000	MXN	5000000	01/01/2004	31/12/2004	ACTIVO
3	ALFONSO CASTRO	CASTRO	M	15/05/1980	24	M	00000000	MXN	2000000	01/01/2004	31/12/2004	ACTIVO
4	ALFONSO CASTRO	CASTRO	M	15/05/1980	24	M	00000000	MXN	1000000	01/01/2004	31/12/2004	ACTIVO
5	ALFONSO CASTRO	CASTRO	M	15/05/1980	24	M	00000000	MXN	5000000	01/01/2004	31/12/2004	ACTIVO
6	ALFONSO CASTRO	CASTRO	M	15/05/1980	24	M	00000000	MXN	1000000	01/01/2004	31/12/2004	ACTIVO

DECLARACIÓN DEL CONSUMIDOR

DETALLE DE LAS CONSULTAS

Orden	Nombre y Apellido	Apellido	Sexo	Fecha de nacimiento	Edad	Sexo	Registro en BIR
1	ALFONSO CASTRO	CASTRO	M	15/05/1980	24	M	00000000
2	ALFONSO CASTRO	CASTRO	M	15/05/1980	24	M	00000000

General Data

Addresses

Messages

Employment

Credit Details

Consumer Declaration

Consultations

Source: Buró de Crédito.

The data collected by *Buró de Crédito* does not include personal property, land title, bankruptcy, guarantee, or collateral data. No data is currently being collected regarding payments made by cheques.

Buró de Crédito reports that 17 million credit reports are requested annually. Approximately 1/3 of requests for credit reports come from non-financial companies.

When a user submits a request to receive a credit report, the system identifies matches or “hits” by calculating a score based on name, address, federal tax identification number (*número del registro federal de contribuyentes*, RFC), credit card and mortgage information.

All consumer information—whether positive or negative—is erased on a rolling basis after 84 months. Business data is retained indefinitely.

In addition to credit reports, *Buró de Crédito* markets a credit scoring product and several specialized products designed to detect fraud, identity theft, delinquency, cloning of credit cards, etc.

3.2.5 Pricing

Prices charged by *Buró de Crédito* reflect the costs they incur, returns above a cap are returned to customers with annual volumes greater than 10,000 reports. The price paid by any individual user depends on how they submit and receive data to/from *Buró de Crédito*, the volume of reports purchased and the quality of the data they submit. The average price is \$6.50 per report. *Buró de Crédito* claims that the average price has declined 30 percent per year.

3.2.6 Procedures and Policies to Ensure Quality of Information

Buró de Crédito employs several procedures/policies to enhance the quality of the data in their databases.

1. All data is updated monthly. *Buró de Crédito* will deny access to any user who fails to update data for two consecutive months.
2. All data is submitted electronically via direct connections (CPU to CPU or LAN to LAN), magnetic device (e.g., diskette), commercial software (BCAccess) or browser.
3. All data is filtered to identify logical errors before it is applied to the database. Data provided by users must be 95 percent free of logical errors. *Buró de Crédito* maintains a user quality committee to establish edits and standards.
4. Data provided by banking institutions is compared to their CNBV portfolio to verify complete reporting.
5. Access to data is strictly controlled. *Buró de Crédito* hires hackers and software engineers to attempt penetration and report on weaknesses. Access by *Buró de Crédito* employees is based on their need to view or update data. All database changes are recorded and identify the person who made the change.
6. Consumers have the right to access their individual reports and dispute erroneous information.

Consumer access to and ability to dispute data is widely considered by industry practitioners to be one of the most effective ways to ensure the quality of credit reports. According to *Buró de Crédito*, 496,200 individual consumers requested a copy of their credit report in the past year. This resulted in the filing of 31,800 disputes of which 80 percent resulted in a correction to the database. *Buró de Crédito* reports that more than 50 percent of the disputes were related to addresses and other demographic variables.

During the same period, *Buró de Crédito* reports that 11,334 businesses requested a special credit report, resulting in 1,725 disputes. Of these disputes, 82 percent resulted in a correction to the database. Although consumers may submit disputes directly to a financial institution or creditor 90 percent of disputes are reportedly funneled through *Buró de Crédito*.

3.2.7 Procedures and Policies to Manage Risks

Buró de Crédito reports that it meets a 99 percent availability objective. On October 22, 2004, *Buró de Crédito* activated a fully redundant off-site disaster recovery facility to further ensure the availability of their services.

Users must have the signed permission of the subject of the report before requesting a credit report. Exceptions include:

1. Existing clients of an institution that already have signed permission.
2. Persons with greater than 400,000 UDIS in outstanding credits.

Non-bank creditors must submit written authorizations to *Buró de Crédito* on a monthly basis. If a user has 50 or more inquiries without a corresponding signature card they will be blocked from requesting additional credit reports and reported to the authorities. Signed permission is generally valid for one year and for up to two years with the express consent of the subject of the report.

3.2.8 Rights of Individuals/Firms to Access and Dispute Information

Individuals and firms are entitled to receive a copy free of charge of their own credit report once every 12 months. These so-called Special Credit Reports include the identity of creditors as well as a listing of all firms that have accessed the report during the past 24 months. This last provision allows consumers or firms to identify unauthorized use of their data.

Buró de Crédito must provide consumers and firms with a copy of their report within 5 working days of receiving a request. Reports may be requested and distributed via the Internet, telephone, courier service or in a customer service office. Handling charges apply to requests by courier or post. Internet and telephone account for 95 percent of the communications between *Buró de Crédito* and data subjects.

In the event that clients believe their credit report contains inaccuracies, they may file a dispute. They must receive a response within 35 calendar days. If a consumer or firm does not agree with the result of the investigation of their dispute, they may insert text of up to 100 words in their credit report explaining their position. The LRSOIC provides a specific framework for accessing credit information as well as for dispute procedures, time and sanctions.

3.2.9 Information Sharing Policies

No other private sector credit registries were operating in Mexico as of December 2004. Refer to Chapter 2 for existing requirements and provisions should another credit registry enter the market.

4 PUBLIC CREDIT REGISTRIES

The National Service for Bank Credit Information (SENICREB) has been owned and operated by the Banco de México since 1964. As mentioned earlier, SENICREB was developed to improve the quality of credit information in the marketplace, supervise credit allocation rules and generate statistics. Therefore, it does not operate as a credit bureau.

SENICREB receives credit data monthly from all commercial banks, development banks, financial factoring companies and leasing companies operating in Mexico. Article 36 of the Banco de México Law obliges financial intermediaries to provide information to the Central Bank and by the rules set forth in the Credit Information List (*Relación de Responsabilidades*). Reporting is compulsory.

SENICREB collects positive and negative information (late payments defaults and other irregularities) on loans above approximately USD 18,000.¹⁷ This floor applies on a consolidated and outstanding basis. Furthermore, consolidation is computed on a district basis (*oficina-plaza*)¹⁸ and not at the bank level.

A borrower is reported only as long as he or she appears on the reporting institution's balance sheet. Therefore, once a loan is repaid or has been deemed irrecoverable, it is removed from the institution's balance sheet and is removed from SENICREB. This database does not have historical information¹⁹ nor data from non-bank and non-financial creditors.

At present, the SENICREB database contains entries²⁰ on approximately 260,000 subjects.

SENICREB has not been used by the reporting institutions in recent years as a credit information source. Banco de México and CNBV use the information in SENICREB's database to monitor developments in private financing. This information is published monthly by Banco de México at an aggregate level that distinguishes the main activity of debtors and their location.²¹

Information is reported to the CNBV on a monthly basis. In addition, the CNBV currently receives much more detailed information in a detailed report of commercial credits called "R04 report". This latter information is shared with Banco de México.

¹⁷ The only other institutions with access to the data are Banco de Mexico and the CNBV. Data is also released to judicial authorities.

¹⁸ An *oficina-plaza* is the group of branches of a given bank in a given district.

¹⁹ The CNBV receives some historical information on the 300 biggest borrowers of each financial institution.

²⁰ This means that a single individual or firm could have more than one entry.

²¹ More information about SENICREB can be found at Banco de Mexico's website: <http://www.banxico.org.mx/elInfoFinanciera/FSinfoFinanciera.html>

Individuals and firms in the registry are not allowed a free copy of their SENICREB report. In addition, information on credits is aggregated. There is no equivalent of the “Special Credit Report” generated by *Buró de Crédito* that displays specific creditors, specific credit amounts, etc.

Information from SENICREB is not currently shared with any other public or private credit registry. The contract between Banco de México and information suppliers do not allow for the sharing of this information with third parties, including private credit registries.

5 INTERACTION WITH OTHER COMPONENTS OF THE FINANCIAL INFRASTRUCTURE

5.1 PAYMENT SYSTEMS AND INSTRUMENTS

In Mexico, major payment instruments for commercial transactions made by individuals are cash, cheques, payment cards, and more recently, direct debits. Business most often use cheques and credit transfers. Cheques have been reducing in importance due to the availability of more convenient options.

The introduction of more convenient payment instruments such as direct debits and Internet banking has helped good borrowers to fulfill their obligations in a timely manner. Some recurrent service providers (e.g., cable TV, telephone) report that several accounts that in the past were occasionally past due for 1-7 days, at present are being repaid at or before the deadline with very few exceptions. This could mean that in the past, some good borrowers could have been facing difficulties in paying their bills due to the lack of efficient/convenient payment instruments.

The *Centro de Compensación Bancaria* (CECOBAN) is the institution in charge of the clearance and settlement of cheques and payment orders at the interbank level. At present, it does not have a database on the usage of payment instruments at which the individuals/firms that made such payments can be identified, and thus, help in determining their behavior and/or creditworthiness. This information is maintained only by the banks holding the corresponding current account and it is not shared with the *Buró de Crédito*, other credit registries or other credit providers.

In the case of credit and service cards, the issuers, be they banks, non-bank financial intermediaries, commercial firms or department stores, report only on timely (or late) payment behavior to *Buró de Crédito* on their outstanding credit lines. They do not currently inform on issues like potential frauds (e.g., attempts to make account overdrafts at an electronic funds transfer at the point of sale (EFTPOS) device or an automated teller machine (ATM)) or other behaviors of cardholders which might reflect on the creditworthiness of an individual or firm.

5.2 CORPORATE REGISTRIES

The *Servicio de Información Empresarial Mexicano* (SIEM) is a public database operated by the Ministry of the Economy (*Secretaría de Economía*) which is a complete registry of all Mexican businesses—excluding tenants in public markets, financial services and independent professionals. Its objective is to support exchange of information within the Mexican economy.

The data contained in SIEM, however, is very general and not suitable for making credit decisions. It includes: name of firm, address and telephone numbers, chamber of commerce memberships, business activity, date it began operating, capitalization category, number of employees, gross sales category, whether it exports or imports, whether it provides goods or services to the government, and main inputs and outputs.

5.3 COMMERCIAL AND PROPERTY REGISTRIES

Property registries fall under the jurisdiction of state authorities in Mexico. As for commercial registries, the Ministry of Economy has undertaken a project to modernize and develop consistent procedures for registration. The result is the *Sistema Integral de Gestión Registral* (SIGER).

The SIGER collects, verifies and stores information contained in the state commercial registries and supports secure, remote query access to the data. Data are replicated and backed-up centrally. Notaries can directly register to use the online system eliminating the need for the physical movement of paper. Software, hardware and training are provided by the Ministry of Economy. Each local registry provides staffing. It is worth mentioning that historical information is currently being uploaded to the system.

With the aim of creating the National Network of the Commerce Registry, most Mexican states have modernized their registries and are now connected to a central database. As of April 2004, the "National Commerce Directory" is operational in SIGER in 133 commercial registry offices across 30 of 32 Mexican states.²² The registry not only gathers information on businesses, but also on some individual business people, bankruptcies and financing activities, such as leasing.

The National Commerce Directory contains incorporation papers and any later modifications, as well as any powers of attorney issued. It also has information on bankruptcies, lawsuits and financings.

A more detailed list of the types of information included in the National Commerce Directory follows:

- Minutes of Board of Directors meetings. Also includes the name of the corporation, directors, executive officers and legal representatives.
- Corporate Bylaws: all the information regarding the creation of a firm. Type of society, name, capital, shareholders or proprietors, management, etc.
- Company shares transfers
- Registration of individuals performing commerce activities: name, capital, single population registration code (clave única de registro poblacional, CURP), business activity.
- Registration of liens: lien type, plaintiff and defendant, principal amount.
- Registration of pledged assets. Includes information on the credit, the creditor and the borrower.

²² The Distrito Federal, where the nation's capital is located, has not joined the SIGER yet.

- Registration of law suits against the firm. Includes general information on the content of the law suit.
- Registration of judicial orders.
- Financial leasing contracts.
- Cancellation of liens and of law suits.
- Cancellation of pledged assets. The type of credit being cancelled is identified.
- Agreements to modify current credit terms.
- Bonds.
- Bankruptcy filings.
- Cancellation of bankruptcy.
- Borrower substitution.
- First and second preventive warnings.

Access is currently limited to government use, but the law does not specifically limit access. No decision has been made on whether and how access could be granted to third parties.

As regards property registries, a similar approach, i.e., modernization, consistent procedures for registration, digitalization, connection to a central database to create a network of property registries, etc. is currently being offered to Mexican states. As of this time, five states are using this option and two more will adopt it soon.

Both the commercial and property registries allow for liens to be recorded electronically, although states are not using SIGER for lien registration. With a recent change to legislation, liens on cars may now be registered in SIGER as well.

A key feature of SIGER that makes it important to making credit decisions is the subsystem that allows the digital registration of pledges, which will facilitate decisions on collateralized loans.

5.4 OTHERS

5.4.1 R04

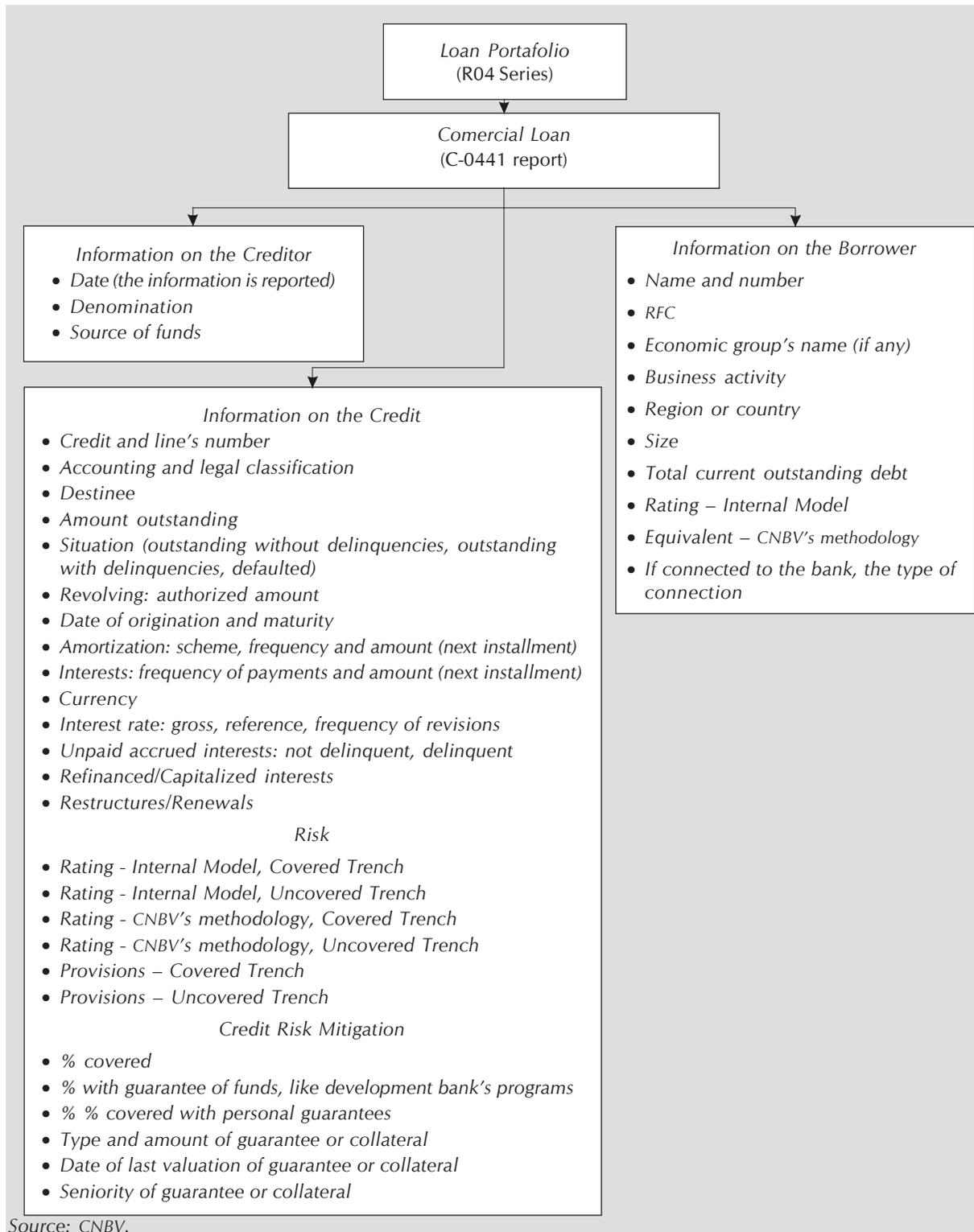
The CNBV, for bank supervisory purposes, has developed its own database, R04. Although it is not technically a credit registry, R04 receives information on credit issued by commercial banks to businesses or individuals with entrepreneurial activity.

CNBV Circular 1484 describes the set of information to be reported to R04. Information is limited to commercial loans and there is no minimum loan amount for reporting. The information includes data on applicable interest rate, maturity and amortization.

This database has been in existence since February 2001 and is updated electronically by commercial banks on a monthly basis. The CNBV uses this information for activities such as identifying new lines of credit, checking that provisioning levels are consistent with the reported risk of the institution's portfolio, computing an individual borrower's total indebtedness across the banking system, verifying consistency in ratings across banks, and that institutions are complying with limits on portfolio concentration. Data is shared with Banco de México.

Data is validated qualitatively and quantitatively to ensure quality standards are met. In addition, CNBV supervisors verify that risk ratings are consistent with the borrower's underlying risk during examinations.

Figure 4: Information Contained in the R04 Database



5.4.2 Court Records

The *Instituto Federal de Especialistas en Concursos Mercantiles* (IFECOM) publishes a webpage that lists unsettled bankruptcy proceedings. In the past, information regarding the names of the involved parties (plaintiff and defendant) was listed. However, as a result of the Government Public Information Transparency and Access Federal Law (*Ley Federal de Transparencia y Acceso a la Información Pública Gubernamental*), information regarding the parties has been deemed confidential. The information is only made public after the case has been settled.

APPENDIX: STATISTICAL TABLES

The first series of tables (A) provide information on credit reporting in Mexico. These tables have been prepared following the Standard Methodology for Country Tables developed by the WHCRI core team. This methodology is available at the WHCRI web site www.whcri.org.

The second series (B) provide general statistics of the financial system and the credit market.

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A1: Basic Statistical Data

	1999	2000	2001	2002	2003
Population (millions)	96.6	97.0	99.4	100.8	102.3
GDP (USD billion)	481,392	581,268	624,722	648,184	626,421
GDP per Capita (in USD)	4,983	5,992	6,285	6,430	6,123
Exchange Rate vs. USD					
<i>End of Year</i>	9.5	9.6	9.2	10.5	11.2
<i>Average</i>	9.5	9.4	9.3	9.7	10.8

Sources: Banco de México and Instituto Nacional de Estadística, Geografía e Informática (INEGI).

A2: Credit and Loan Reporting Institutions and other Relevant Databases for Credit Activities

Type	Name	General Description
Private Credit Bureaus	Buró de Crédito	Credit bureau owned by Mexican commercial banks, TransUnion and Dun & Bradstreet. <i>Buró de Crédito</i> is made-up of two firms: Trans Union de México S.A. S.I.C., which manages information related to individuals, and Dun & Bradstreet S.A. S.I.C., which handles information related to firms.
Public Credit Registries / Risk Centrals	Servicio Nacional de Información de Crédito Bancario (SENICREB)	Credit registry owned and operated by Banco de México.
<i>Other Relevant Databases</i>		
<i>Corporate Registries</i>	Sistema de Información Empresarial Mexicano (SIEM)	Public database operated by Mexico's Ministry of Commerce, containing general objective information on Mexican firms.
<i>Property Registries</i>	Registro Público de la Propiedad	Public real estate registries operated by each of the Mexican states.
<i>Commerce Registries</i>	Sistema Integral de Gestión Registral (SIGER)	System operated by Mexico's Ministry of Commerce, linking commercial registries managed by the Mexican states.
<i>Others</i>	Registro Público Vehicular (REPUVE)	Public database operated by Mexico's Ministry of Commerce.

Source: Own elaboration.

A3: Private Credit Bureaus – Ownership Structure (as of December 2004)

	Shareholder	Stake
<i>Buró de Crédito</i>		
Trans Union de México S.A. S.I.C	Mexican Commercial Banks	70%
	Trans Union	25%
	Fair Isaac	5%
Dun & Bradstreet S.A. S.I.C.	Mexican Commercial Banks	n.a.
	Dun & Bradstreet	n.a.

Source: *Buró de Crédito*.

A4: Number of Institutions Reporting to Private Credit Bureaus (as of June 2004)

	2004 ^(a)
Buró de Crédito TransUnion de México S.A. S.I.C.	
Financial Sector	141
<i>Banks</i>	38
<i>Others</i>	103
Non-Financial Sector	656
Total	797
Buro de Crédito: Dun & Bradstreet S.A. S.I.C.	
Financial Sector	148
<i>Banks</i>	38
<i>Others</i>	110
Non-Financial Sector	543
Total	691

Source: *Buró de Crédito*.

A5: Number of Institutions Reporting to Public Credit Registries

	2000	2001	2002	2003	2004 ^(a)
SENICREB					
Financial Sector Firms	116	113	110	104	98
Banks	56	55	54	53	47
Others	60	58	56	51	51
<i>Factoring firms</i>	25	24	23	20	20
<i>Leasing firms</i>	35	34	33	31	31
Non-Financial Sector	...	...	...	...	...
Total	116	113	110	104	98

Source: *Banco de México*.

^(a) As of end of first quarter of 2004.

**A6: Number of Individuals, Firms and Transactions Registered
in Private Credit Bureaus**
(in thousands, as of June 2004)

	2004
Buró de Crédito TransUnion de México S.A. S.I.C.	
Number of Individuals	27,711.4
Number of Records (accounts) belonging to Individuals	50,448.7
Buro de Crédito: Dun & Bradstreet S.A. S.I.C.	
Number of Firms	1,114.1
Number of Records (accounts) belonging to Firms	3,371.4
Total (individuals & firms)	28,825.6
Total of Records (individuals & firms)	53,820.1

Source: Buró de Crédito.

**A7: Number of Individuals, Firms and Transactions Registered
in Public Credit Registries**

	2000	2001	2002	2003	2004
SENICREB					
Number of Individuals ^(a)	208,719	198,093	183,589	165,530	137,228
Number of Firms ^{a)}	25,123	25,334	24,011	24,922	25,593
Number of Records (accounts) belonging to Individuals ^(b)	258,877	244,524	214,914	191,145	174,466
Number of Records (accounts) belonging to Firms ^(b)	53,789	53,523	50,091	50,999	57,407
<i>Memo: Lower Limit for Reporting Firms, Individuals and Accounts to the Public Credit Registry (in USD)</i>	20,812.1	21,811.4	19,158.4	17,798.0	17,332.5

Source: Banco de México.

^(a) Individuals/firms are recorded only once in SENICREB, despite how many times they are reported by the *oficinas-plaza* of the same bank or by other banks.

^(b) These figures stand for the number of loans each registered individual/firm has, i.e., loans belonging to the same individual/firm are recorded on an individual basis.

A8: Credit Reports Requested to Private Credit Bureaus
(by type of soliciting institution)

At the time this Report was drafted the information was not available or could not be adapted to the requested format.

A9: Credit Reports Requested to Private Credit Bureaus
(by delivery channel)

At the time this Report was drafted the information was not available or could not be adapted to the requested format.

A10: Credit Reports Requested to / Delivered by Public Credit Registries
(by type of soliciting institution)

	2000	2001	2002	2003	2004
SENICREB					
Financial Sector	18,136	5,075	0	0	0
Banks	11,789	2,893	0	0	0
Others	6,347	2,182	0	0	0
<i>Factoring firms</i>	2,164	799	0	0	0
<i>Leasing firms</i>	3,424	1,295	0	0	0
<i>Others</i>	759	88	0	0	0
Non-Financial Sector	...	...	...	...	...
Individuals or Firms that requested their own Credit Report	...	...	...	...	...
Total	18,136	5,075	0	0	0

Source: Banco de México.

B1: Financial Institutions

	2000	2001	2002	2003	2004 ^(a)
Banks	56	55	54	53	47
Private commercial banks	48	47	45	44	39
State-owned commercial banks	8	8	9	9	8
Branches of foreign banks	18	17	15	14	14
Development banks	8	8	9	9	8
Non-banking financial intermediaries	882	900	839	828	840
Financial companies	30	33	33	35	35
Savings and loans associations	11	11	9	9	9
Leasing firms	35	34	33	31	31
Factoring firms	25	24	23	20	20
Deposit warehouses	26	24	23	21	21
Insurance companies	52	54	62	61	60
Bonding companies	15	14	14	14	14
Securities firms	25	26	28	28	28
Mutual funds operators	339	380	392	399	412
Pension funds operators	14	14	13	14	14
Foreign exchange houses	27	27	23	25	25
Credit unions	266	234	163	142	142
Others ^(b)	4	12	12	17	17
Total	938	955	893	881	887

Source: Banco de México.

^(a) As of end of first quarter of 2004.

^(b) Economic Promotion Funds and Organizations Specialized in Health Related Services.

B2: Credit Granted by Financial Sector Entities
(by main creditor type, in USD million)

	2000	2001	2002	2003	2004 ^(a)
Private commercial banks	98,625	95,661	89,221	84,274	89,112
Development banks	41,280	42,937	45,073	43,316	38,896
Financial companies	6,433	9,006	10,931	11,913	13,873
Leasing firms	1,274	1,365	1,163	1,471	1,735
Factoring firms	910	963	995	1,112	1,086
Savings and loans associations	375	468	529	660	793
Credit unions	843	906	890	961	956
Others	11,391	13,052	11,160	10,608	10,433
Total	161,132	164,357	159,961	154,316	156,882

Source: Banco de México.

^(a) As of end of first quarter of 2004.

B3: Credit Granted by Financial Sector Entities

(by main debtor type, in USD million)

	2000	2001	2002	2003	2004 ^(a)
Non-financial private sector	110,305	112,648	109,996	102,533	105,237
<i>Individuals</i>	32,619	33,544	32,043	32,067	37,122
<i>Firms</i>	77,686	79,104	77,953	70,466	68,115
Financial sector	17,813	20,401	20,731	23,390	25,993
Non-financial public sector	32,991	31,328	29,246	28,394	25,652
Total	161,108	164,377	159,972	154,316	156,882

Source: Banco de México.

^(a) As of end of first quarter of 2004.**B4: Credit Granted by Banks**

(by main credit type, in USD million)

	2000	2001	2002	2003	2004 ^(a)
Commercial loans	57,112	53,652	48,551	43,618	44,127
Residential mortgage loans	22,131	19,905	16,335	13,476	13,202
Personal loans	1,559	1,718	1,855	2,197	3,136
Credit card loans	2,903	3,918	4,412	5,336	7,195
Others	56,201	59,405	63,141	62,964	60,347
Total	139,906	138,597	134,294	127,591	128,007

Source: Banco de México.

^(a) As of end of first quarter of 2004.

B5: Credit Quality Indicators for Loans Granted by Banks
(in USD million)

	2000	2001	2002	2003	2004 ^(a)
Current loans	111,515	115,149	115,734	112,598	114,989
Non-performing loans	28,390	23,449	18,560	14,993	13,018
Allowance for loan losses	13,374	11,773	9,866	8,606	7,567
Total loans	139,906	138,597	134,294	127,591	128,007
Loans classified by credit quality ^(b)					
A	75,796	65,488	41,768	44,533	46,150
B	10,195	7,920	7,065	6,651	7,552
C	5,208	4,043	3,102	3,610	4,010
D	1,127	1,436	1,749	1,874	3,129
E	2,236	2,030	2,356	1,938	1,431
Unclassified loans	0.0	320	406	125	686
Loans that do not require classification	58,780	64,752	64,993	67,170	61,305
Total	139,906	138,597	134,294	127,591	128,007

Sources: Banco de México y CNBV.

*As of end of first quarter of 2004.

^(b) The loan classification system in Mexico comprises five categories: A (best) to E (worst).

LIST OF ABBREVIATIONS

ABM	<i>Asociación de Bancos de México</i> (Mexico's Banks' Association)
AFORES	<i>Administradoras de Fondos para el Retiro</i> (Pension Fund Management Firms)
ATM	Automated Teller Machine
BIS	Bank for International Settlements
CECOBAN	<i>Centro de Compensación Bancaria CECOBAN S.A. de C.V.</i> (CECOBAN Banking Clearing Center)
CNBV	<i>Comisión Nacional Bancaria y de Valores</i> (National Banking and Securities Commission)
CNSF	<i>Comisión Nacional de Seguros y Fianzas</i> (National Insurance and Bonds Commission)
CONDUSEF	<i>Comisión Nacional para la Defensa de los Usuarios de Servicios Financieros</i> (National Commission for the Defense of Financial Services Users)
CONSAR	<i>Comisión Nacional del Sistema de Ahorro para el Retiro</i> (National Commission of the Savings for Retirement System)
CURP	<i>Clave Única de Registro Poblacional</i> (Single Population Registration Code)
EFTPOS	Electronic Funds Transfer at the Point of Sale
FOBAPROA	<i>Fondo Bancario de Protección al Ahorro</i> (Banking Fund for the Protection of Savings)
ICC	International Consultative Committee
IFECOM	<i>Instituto Federal de Especialistas en Concursos Materiales</i> (Federal Institute of Bankruptcies Specialists)
IMF	International Monetary Fund
INEGI	<i>Instituto Nacional de Estadística, Geografía e Informática</i> (National Statistics, Geography and Information Institute)
INPC	<i>Índice Nacional de Precios al Consumidor</i> (National Consumer Price Index)
IPAB	<i>Instituto de Protección al Ahorro Bancario</i> (Institute for the Protection of Bank Savings)
LACP	<i>Ley de Ahorro y Crédito Popular</i> (The Popular Credit and Savings Law)
LRSOIC	<i>Ley Para Regular las Sociedades de Información Crediticia</i> (Law to Regulate Credit Information Societies)

NAFIN	<i>Nacional Financiera</i>
NAFTA	North America Free Trade Agreement
PROCAPTE	<i>Programa de Capitalización Temporal</i> (Temporary Capitalization Program)
PROFECO	<i>Procuraduría Federal del Consumidor</i> (Federal Consumer Protection Agency)
REPUVE	<i>Registro Público de Vehículos</i> (Public Vehicle Registry)
RFC	<i>Registro Federal de Contribuyentes</i> (Federal Tax Identification Number)
SENICREB	<i>Servicio Nacional de Información Crediticia y Bancaria</i> (National Service of Bank and Credit Information)
SHCP	<i>Secretaría de Hacienda y Crédito Público</i> (Ministry of Finance and Public Credit)
SHF	<i>Sociedad Hipotecaria Federal</i> (Federal Mortgage Society)
SIEM	<i>Servicio de Información Empresarial Mexicana</i> (Mexican Entrepreneurship Information Service)
SIGER	<i>Sistema Integral de Gestión Registral</i> (Integrated Registry Management System)
SME	Small and Medium-Sized Enterprises
SOFOLDES	<i>Sociedades Financieras de Objeto Limitado</i> (Limited-Purpose Financial Entities)
TIIE	<i>Tasa de Interés Interbancaria de Equilibrio</i> (Interbank Equilibrium Interest Rate)
UDI	<i>Unidad de Inversión</i> (Investment Unit)

GLOSSARY

The Western Hemisphere Credit Reporting Initiative (WHCRI) is currently producing a glossary of terms used in credit reporting. This general glossary will be posted at the WHCRI's website (www.whcri.org) and will be updated on an on-going basis, in an attempt to systematize the terminology used in this area.

Below are some terms that are peculiar to the Mexican context:

<i>Credit institution:</i>	the name by which commercial banks are referred to in Mexican laws.
<i>Domiciliación:</i>	the pre-authorized charges or direct debits service provided by CECOBAN.
<i>Oficina-plaza:</i>	a group of branches of a given bank in a given district.
<i>Personas morales:</i>	the term by which entities are referred to in Mexican laws.
PYMES:	small and medium-size enterprises (SME's).
<i>Special credit report:</i>	Report provided by the credit bureaus to data subjects that requested it. This report, unlike the credit report consulted by potential creditors, lists the names of current creditors as well as a list of entities that have accessed the report in the previous 24 months.

