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Thematic Research

What Could the New MCMV Be?

Assessing the Effects of Possible Changes to MCMV Income Brackets and Price Caps

Equity Research

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Homebuilders

What Could the New MCMV Be?

Assessing the Effects of Possible Changes to MCMV Income Brackets and Price Caps

In this thematic piece, we explore potential updates to the MCMV housing program. We believe the Brazilian government's targets for the MCMV demand accelerated concessions in 2025. However, the demand landscape may be shifting within the program, which could trigger revisions. Minimum wage adjustments may lead to income cap revisions, increasing purchasing power in both Groups 1 and 2. Additionally, the introduction of a new Group 4 could provide significant affordability gains for households above the current MCMV limits, allowing for price cap revisions up to R$500k. We believe TEND, MRVE, and PLPL may benefit most from these income cap changes, while CURY and DIRR could gain from the creation of Group 4, potentially enhancing their growth prospects.

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A big target that needs demand. Much has been said in recent weeks about updates to the MCMV housing program. But why now? We believe the Brazilian government has set an ambitious target of 2.5mn units to be financed by 2026, which requires accelerated contracts for 2025 (~652k in our view). However, the demand landscape appears to be different from 2024 as (i) Group 3 has been impacted by changes to used units and (ii) Groups 1 and 2 may face pressures in a macroeconomic slowdown. We believe these factors could drive adjustments to the MCMV, even at its strongest moment.

Small income cap revisions with significant population impact. MCMV's income brackets have remained unchanged since 2023. We believe that recent minimum wage revisions could prompt adjustments to the program's income caps of ~7.5% per group, similar to the changes made in the FAR/FDS programs. In this context, we anticipate positive affordability gains, particularly in Group 2, where we estimate a 10% avg. increase in purchasing power within the revised ranges, compared to a 4% avg. increase in Group 1. Although the adjustments may apply to a limited range of brackets, we believe the impact on demand could be material, as a significant portion of Brazilian families earn between 1 and 3 minimum wages.

Group 4: A boost for mid-income households. The recent discussion of an additional R$15 billion inflow into the MCMV has created the potential for the creation of Group 4, targeting households just above the current program that have been impacted by the rise of SBPE mortgage rates. While we believe this benefit may be temporary, we estimate that including households earning up to R$12k under MCMV Group 3 conditions could yield affordability gains of up to ~35%. This should allow for a significant revision of the program's price caps, with the R$500k scenario offering the best balance for clients to access maximum financing capacity, in our view.

The Impacts of a "New MCMV". We believe there is potential for the MCMV housing program to integrate revisions to the income caps with the creation of a new Group 4, which could boost demand for both higher and lower-income operators. In our view, Tenda (followed by MRVE and PLPL) stands to benefit the most from potential revisions to the income caps for Groups 1 and 2 due to its significant exposure to lower-income brackets, which may lead to improved SoS gains and better client selection. Conversely, Cury and Direcional are likely to benefit more from the creation of Group 4, given (i) the improved affordability in this segment, and (ii) the complete inclusion of their portfolios within MCMV conditions. If approved, we believe this could enhance short-term launch performance and strengthen growth prospects for both companies.

What Would Motivate New Updates to the MCMV?

Government's Target Demands Accelerated Concessions in 2025

A Big Target to Achieve, Requiring Acceleration in 2025-26. Since the beginning of 2025, the Ministry of Cities has raised its target for new financing contracts in the Minha Casa, Minha Vida (MCMV) housing program through the end of 2026, increasing the goal from 2 million units to 2.5 million units. By the end of 2024, we observed that 1.27 million units had been contracted, with a record performance in 2024, reaching 701 thousand units (an average of ~58 thousand units per month). Despite this strong acceleration in 2024, we believe the target for the end of the government's term still seems demanding and requires an accelerated level of contracting in 2025 and 2026, which we estimate should be ~650 thousand units per year.

Financing Concessions Remain Strong, but Slightly Decelerated YoY. In the first two months of the year, despite still strong budget consumption (16% of budget YTD(1) vs. 15% in 2024), we noticed a slight decline in the number of units contracted compared to 2024, with January and February seeing decreases of 4% and 11% YoY, respectively. This, as we pointed out in our feedback from the XP's 3rd Homebuilders Day, seems to have been a slight concern for the Ministry of Cities regarding concession targets for the year. While it may be too early to conclude that there is marginally lower demand in the program, we observe that the contracting target for 2025 requires an acceleration of monthly contracts to an approximated level of ~54 thousand units per month, in our view. Even with a still strong demand scenario, we believe that the macro outlook for 2025 may be somewhat different from that of 2024.

Figure 1: Historical FGTS and Government Financing Concessions for Low-Income Housing + 2025-26 Forecast Considering the 2.5mn Target

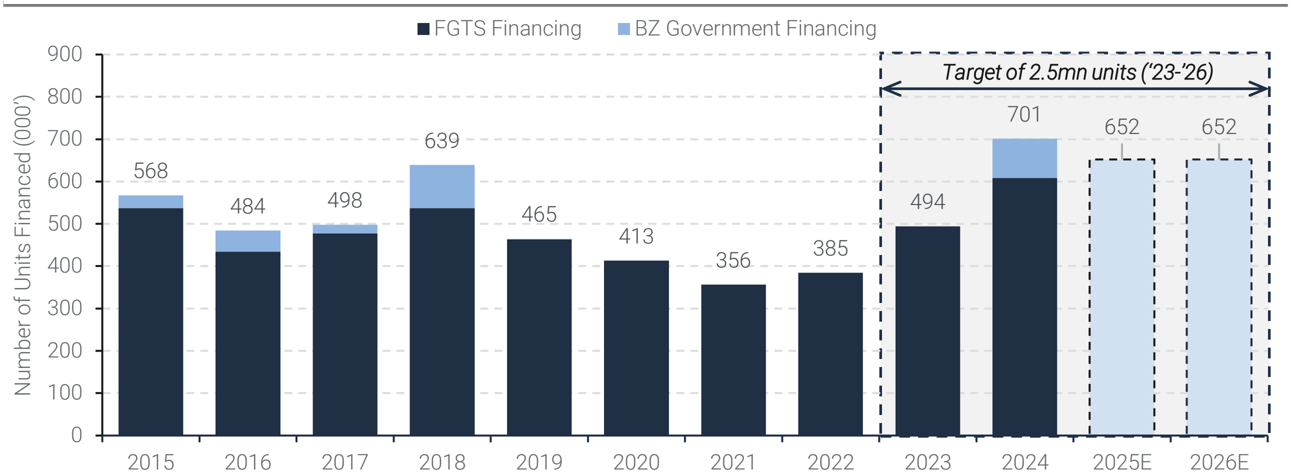
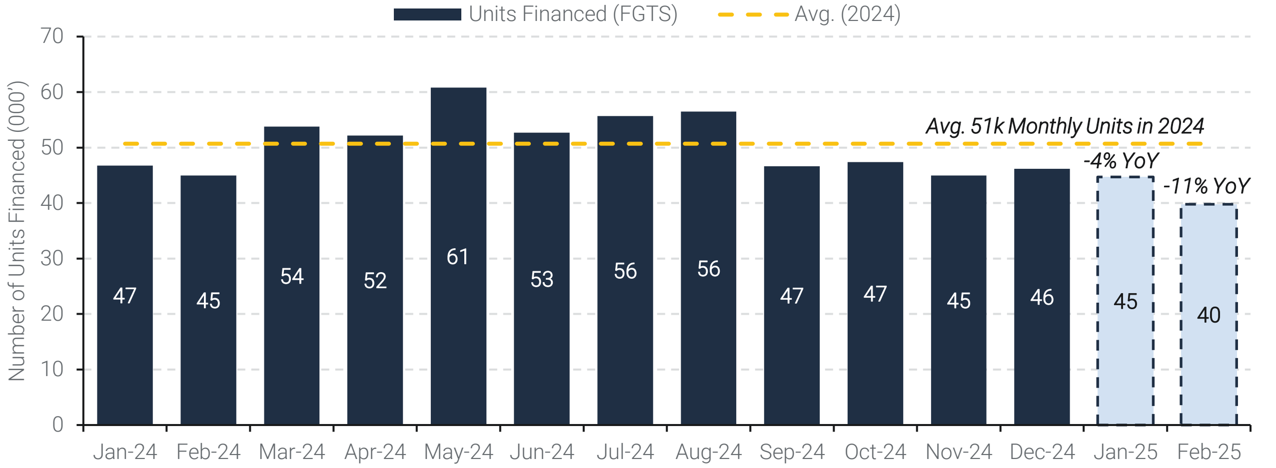


Figure 2: Monthly financing concessions – FGTS funding (Jan/24 – Feb/25)



Source: FGTS, XP Research | Notes: (1) As of February 2025

What Would Motivate New Updates to the MCMV?

Group 3 is Losing Share After the Updates for Second-Hand Units

Second-Hand Units Have Lost Significant Relevance in Group 3 Concessions. MCMV's Group 3 has been one of the most affected segments by the changes in financing conditions for second-hand units implemented in August 2024, with the maximum loan-to-value (LTV) ratio reduced from 75% to 50%. Since these restrictions, demand for second-hand units in Group 3 has decreased significantly, with financing concessions plummeting to an average of approximately 9% of total concessions from September 2024 to February 2025, compared to around 40% from January to August 2024.

Demand Not Fully Compensated by New Units; Group 3 is Losing Share in the Program. We believe the decline in demand for Group 3 due to the reduction of second-hand units has not been fully offset by contracts for new units. This is evidenced by (i) a decrease in Group 3's representation in the program, averaging around 30% of total concessions since September 2024, down from approximately 36% from January to August 2024 and below the 32% average proposed by the FGTS council in the latest multiyear budget revision; and (ii) a reduction in average monthly financing concessions for the group, dropping to 13k since September 2024 from 19k between January and August 2024. We believe that this mild decline in demand for Group 3 could lead to a reduction in overall financing concessions in the MCMV for 2025, potentially creating challenges in meeting the program's financing goals this year.

Figure 3: Contracted Units Segmentation in Group 3 of the MCMV Program (%)

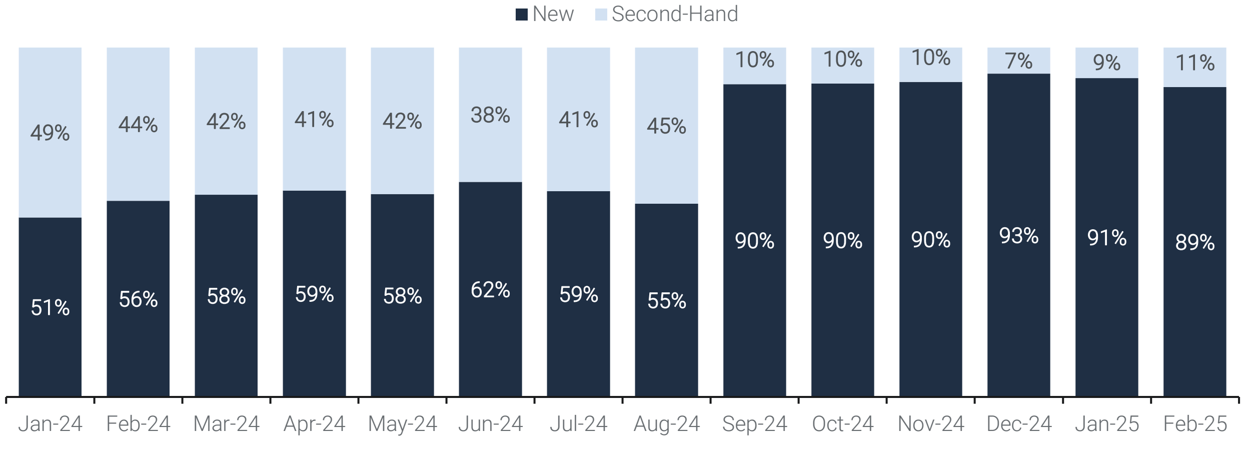
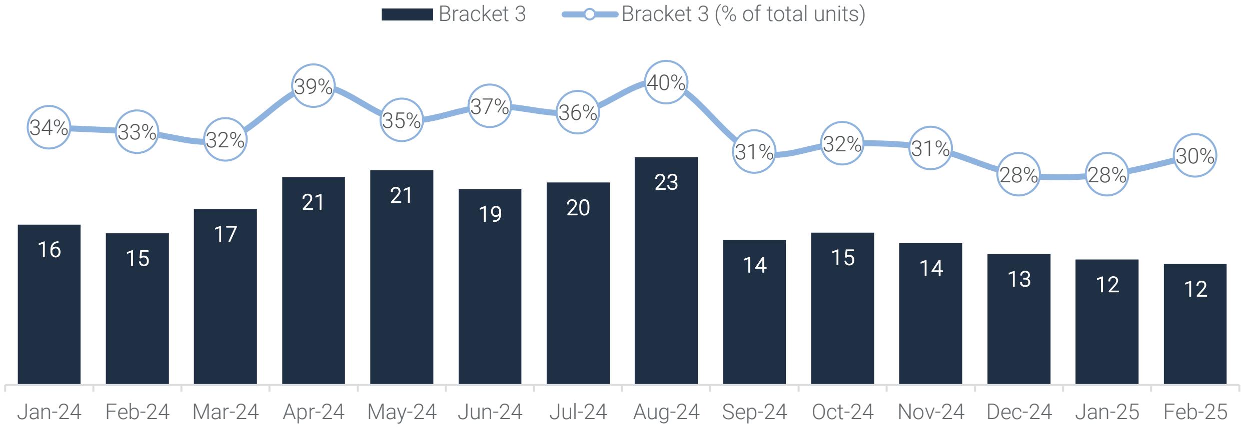


Figure 4: Bracket 3 Contracted Units ('000) And Share on Total Units (%)



What Would Motivate New Updates to the MCMV?

Lower Income Brackets Could Face Demand Challenges

A more challenging macroeconomic environment in 2025 compared to 2024 could pose difficulties for the demand scenario of lower-income brackets in the MCMV. According to the XP Macro Team, GDP (ex-agro) growth should decelerate throughout 2025 (see the forecast in Figure 5) due to (i) rising inflation, leading to lower household purchasing power, and (ii) tightening financial conditions. Consequently, we expect the potentially higher unemployment rate, coupled with (i) stringent credit restrictions resulting from a higher interest rate environment, and (ii) persistently high inflation expectations (see Figure 6), to increase the pressure on income commitments for clients in MCMV's Groups 1 and 2, in 2025. In our view, this could impact demand in the lower-income brackets of the housing program, as confidence levels in this segment tend to be very sensitive to increased income commitments, despite the significant housing deficit in this area. Additionally, we observe that lower-income housing providers have been aggressive in implementing price increases since the construction inflation spike in 2021. Despite the INCC appearing to be under control, both Tenda and MRV (the strongest builders in Groups 1 and 2 of the MCMV) have raised their average prices at double-digit CAGRs of ~11% since 2020 (see Figures 7 and 8), which is substantial. In our view, this contributes to a scenario of higher income commitment among lower-income brackets if the macroeconomic environment worsens in 2025.

Updates to MCMV could be approved. Overall, we believe that a potentially milder demand environment in Group 3 following the revisions for second-hand units (as explained on pg. 4), combined with potentially pressured income commitment levels for Groups 1 and 2, could present greater challenges for housing unit contracts compared to the 2024 scenario, while still facing equally demanding unit financing targets relative to last year (as we mention on pg. 3). In our view, this could motivate adjustments to the MCMV program.

Figure 5: Brazil GDP (Ex-Agro) – XP Forecast

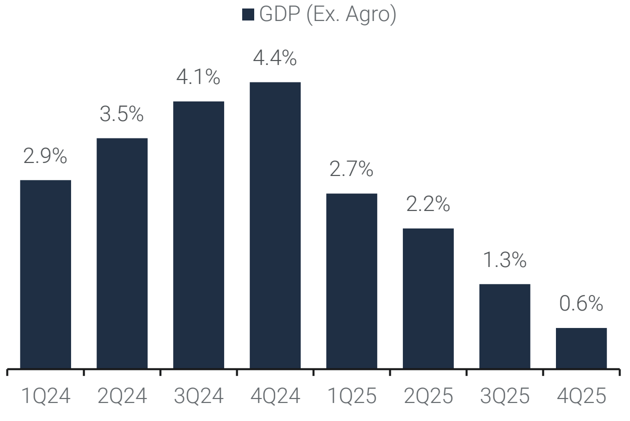


Figure 6: IPCA Trajectory and XPe Forecast (%)

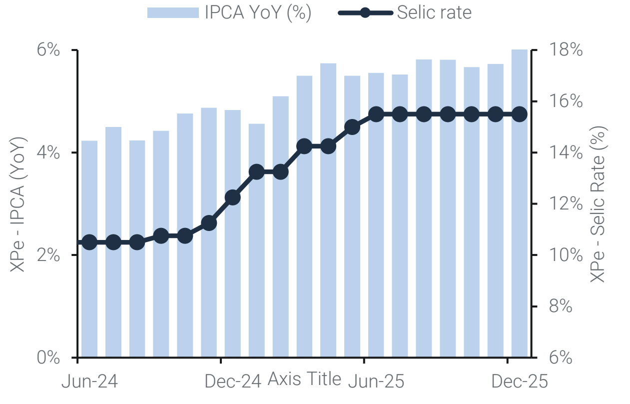


Figure 7: Avg. Selling Price (R$ '000) – Tenda segment

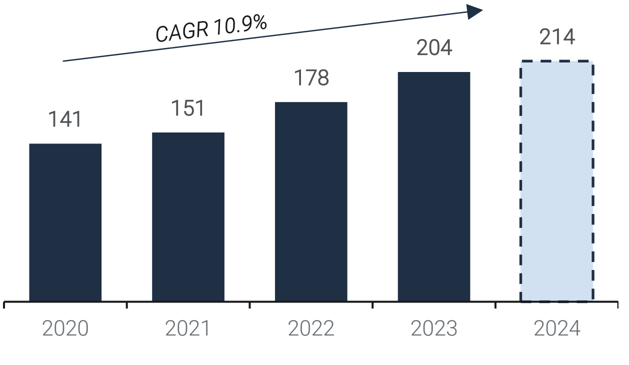
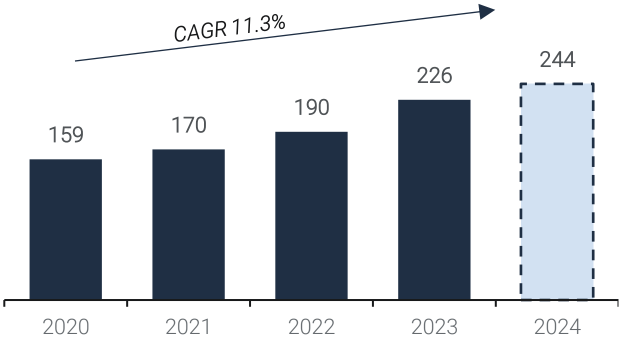


Figure 8: Avg. Selling Price (R$ '000) – MRV segment



Source: Brazilian Government, Companies Filings, XP Research

We Believe There is Room for an Expansion of Income Caps

Minimum Wage Revision Could Guide Adjustments Dimension

The MCMV law stipulates that the revision of income brackets should be addressed annually. According to the legislation establishing the MCMV program (Law No. 14.620 of July 13, 2023), the revision of the program's income brackets must be discussed each year by an act of the Ministry of Municipalities (Art. 5, paragraph 2 of Law No. 14.620; see the full document here). We believe this creates an opportunity for the issue to be discussed in upcoming FGTS board meetings, which aligns with our observations from the 3rd edition of our homebuilders' conference, where this topic was raised.

Latest minimum wage reviews could be a trigger. MCMV's bracket 1 top limit is currently related to 2023's minimum wage (R$2,640 limit in the bracket 1, 2x 2023's minimum wage of R$1,320). Since its setting, the minimum wage was adjusted twice (+7% in 2024 and +7.5% in 2025, see figure 9), standing currently at R$ 1,518 (+15% vs. 2023), which influenced the revision of MCMV's household income caps financed by FAR ("Fundo de Arrendamento Residencial") and FDS ("Fundo de Desenvolvimento Social") in August 2024. Also, in São Paulo, BZ's minimum wage revisions motivated updates to the household income limits for Social Interest Housing (HIS), and Popular Market Housing (HMP) in 2024 and 2025 (see Figure 10). Therefore, we believe that MCMV's household income caps may undergo similar adjustments.

Figure 9: BZ Minimum Wage (R$) and YoY Adjustment (%)

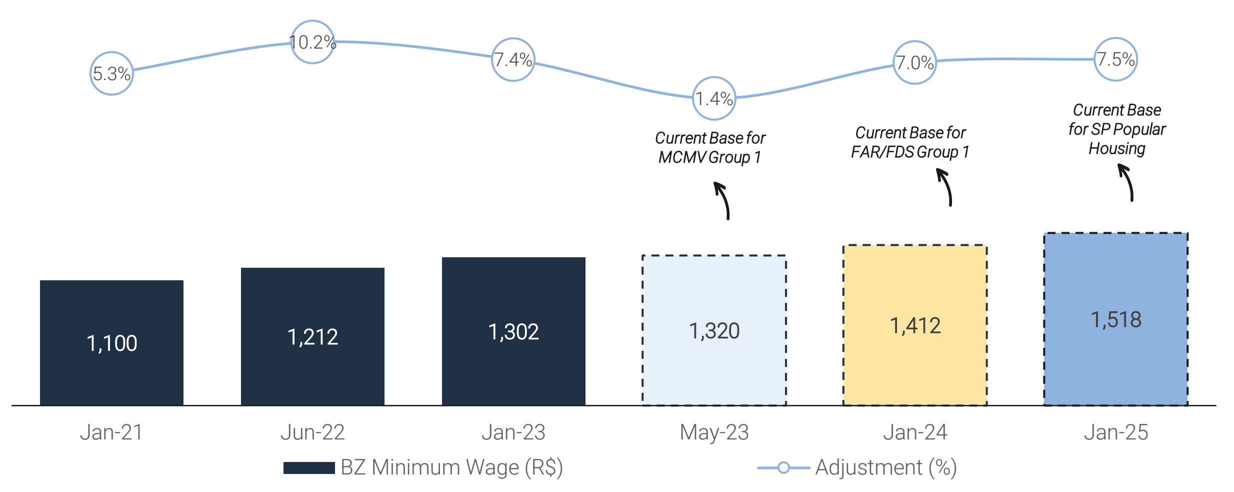
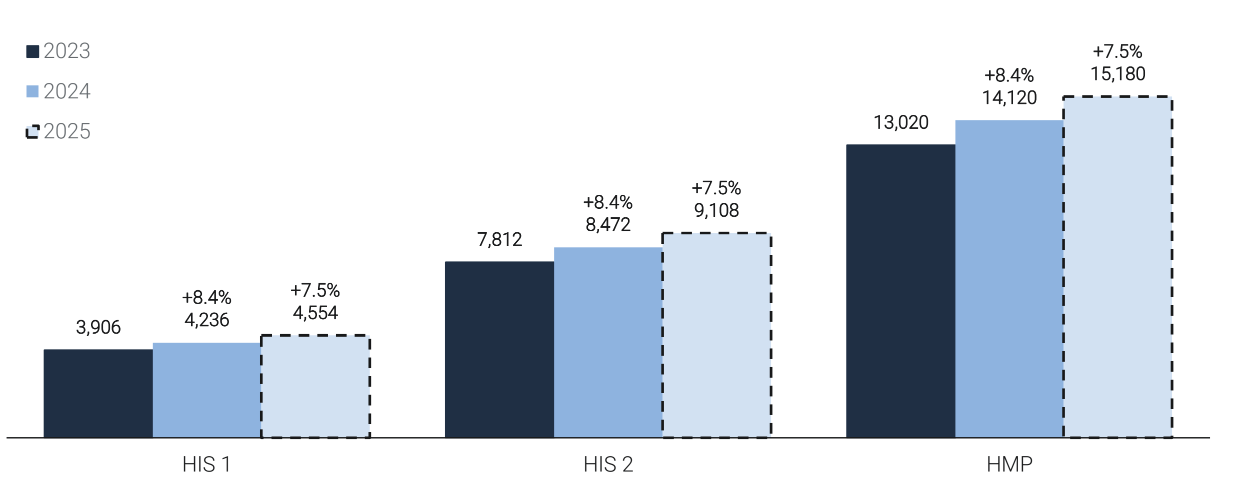


Figure 10: SP Popular Housing Income Brackets (R$) and YoY Growth (%)

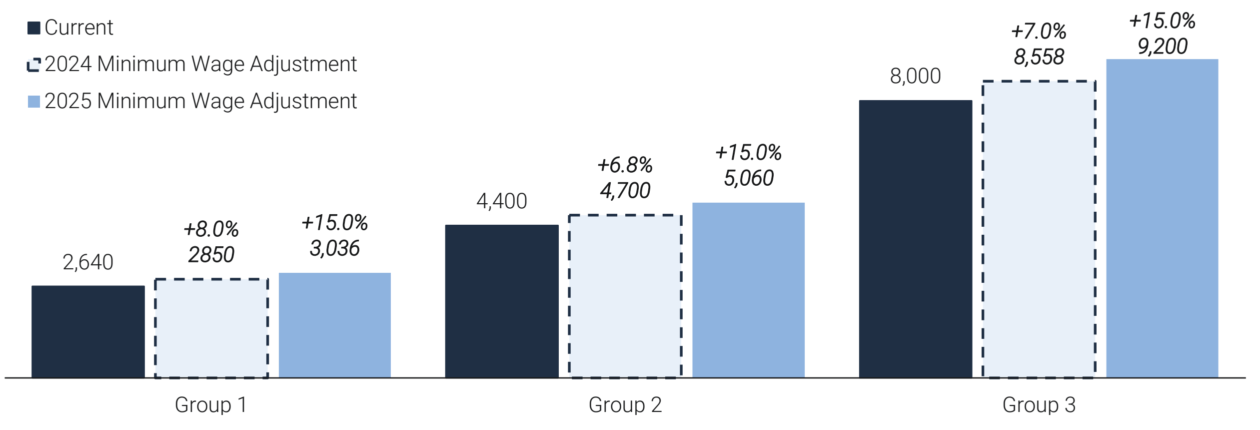


We Believe There is Room for an Expansion of Income Caps

Minimum Wage Revision Could Guide Adjustments Dimension

Adjustments to the FGTS income brackets, similar to those made for FAR/FDS, appear more likely. While it is difficult to precisely forecast the extent of the potential revision, we identify two plausible scenarios for consideration: (i) an increase in the income caps for Groups 1 and 2 to R$2,850 and R$4,700, respectively, aligning with the previous adjustments made to FAR/FDS income brackets, while Group 3 maintains the same proportion relative to the other groups; or (ii) setting Group 1's reference at the current minimum wage (R$3,036 = 2x current MW), with the other groups following the same proportional increase, which could imply an overall 15% increase in household income caps. Among these two possibilities, we believe that revising the MCMV income caps in line with the adjustments made to FAR/FDS concessions is the most likely outcome, given the already accelerated pace of FGTS concessions. This, in our view, could result in new MCMV caps of: (i) R$2,850 for bracket 1; (ii) R$4,700 for bracket 2; and (iii) R$8,558 for bracket 3 (see Figure 11).

Figure 11: MCMV Household Income Cap Growth Sensitivity



Another set of income ranges could be benefited by lower interest rates. Impact-wise, we see the potential revision of the income brackets as a catalyst to accelerate FGTS mortgage concessions, given: (i) a significant decrease of mortgage rates in five income ranges (see Figure 12), with emphasis on the top of groups 2 and 3, with a potential reduction of mortgage rates by 116 bps and by 100 bps, respectively; and (ii) an increase in the program's addressable market, with the inclusion of a new household income range (R$ 8,000.01 to R$ 8,558).

Figure 12: Potential New Interest Rates Scenario in MCMV (Financed by FGTS)

Current MCMV Interest Rates Conditions vs. Potential After Adjustments			Pre-Update		Post-Update		Δ Dif.	
			S, SE, MW	N, NE	S, SE, MW	N, NE	Δ S, SE, MW	Δ N, NE
Group 1	-	2,000.00	4.25%	4.00%	4.25%	4.00%	0	0
	2,000.01	2,640.00	4.50%	4.25%	4.50%	4.25%	0	0
	2,640.01	2,850.00	5.00%	4.75%	4.50%	4.25%	-50 bps	-50 bps
Group 2	2,850.01	3,200.00	5.00%	4.75%	5.00%	4.75%	0	0
	3,200.01	3,455.00	5.50%	5.50%	5.00%	4.75%	-50 bps	-75 bps
	3,455.01	3,800.00	5.50%	5.50%	5.50%	5.50%	0	0
	3,800.01	4,103.00	6.50%	6.50%	5.50%	5.50%	-100 bps	-100 bps
	4,103.01	4,400.00	6.50%	6.50%	6.50%	6.50%	0	0
	4,400.01	4,700.00	7.66%	7.66%	6.50%	6.50%	-116 bps	-116 bps
Group 3	4,700.01	8,000.00	7.66%	7.66%	7.66%	7.66%	0	0
	8,000.01	8,558.00	8.66%	8.66%	7.66%	7.66%	-100 bps	-100 bps
	8,000.01	8,558.00	9.72%	9.72%	7.66%	7.66%	-206 bps	-206 bps

Household Income Ranges to Benefit from Cap Updates *Sensitivity Considering Client in the Pro-Cotista Program*

Source: XP Research

We Believe There is Room for an Expansion of Income Caps

Increased Affordability Could Boost Demand on Groups 1 and 2

Understanding Potential Impacts by Analyzing Financing Conditions. To assess the impact of potential changes to the the household income caps of MCMV, we conducted a proprietary simulation of financing within the program (as shown on Figure 13). In this simulation, we utilized the following conditions: (i) a FGTS contributor residing in the Southeast region of Brazil, with interest rates following the distribution of Caixa Econômica Federal (CEF), as shown in Figure 12; (ii) a maximum income commitment of 28% of monthly income; (iii) a financing model based on the PRICE table with a term of 420 months; (iv) an LTV of 80%; (v) a pro-soluto of 15% of the property's sale price; and (vi) a maximum down payment of three times the monthly family income.

Increased Affordability Could Boost Demand in MCMV's Groups 1 and 2. In the lower income brackets of the MCMV program (groups 1 and 2), we believe that the most likely scenario for revising the income bracket caps (aligning with the adjustments made to FAR/FDS, as we discuss on pg. 7) could create four household income ranges that would experience increased affordability due to reduced interest rates. This could translate into (i) an increase in the maximum property value that could be purchased (as highlighted on Figure 13), or (ii) a reduction in the income commitment level for financing a unit of the same value. In this analysis, we observed that revisions within group 2 would generate the highest increase in affordability, with an average increase of 10% for the income range from R$3.5k to R$3.8k, and 12% for the income range from R$4.4k to R$4.7k, given the significance of the interest rate reduction for the revised groups. Within group 1, we foresee a potential reduction of 50 bps in mortgage interest rates in the revised range (from R$2,640 to R$2,850), which could result in an affordability gain of approximately 4%.

Figure 13: Financing Capacity Within the MCMV Housing Program per Household Income (XP Estimates) + Added Financing Capacity (R$)

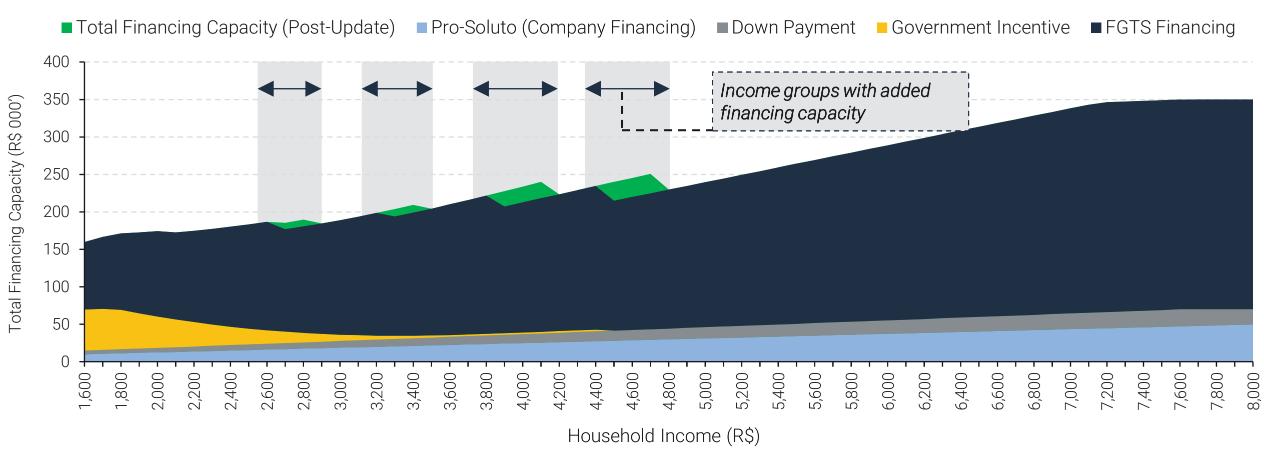
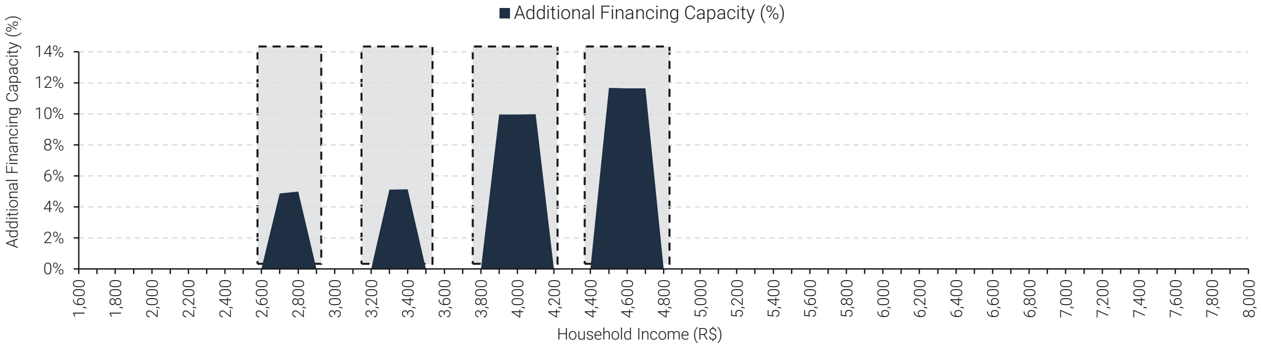


Figure 14: Additional Financing Capacity After Potential MCMV Updates (% over current conditions)



A New Group in The Housing Program

Affordability Gap is More Relevant Right Above the MCMV

A New Group in the Housing Program. Following the announcement that the Brazilian government will reallocate R$15 billion to enhance Group 3 of the MCMV, local press reports suggest that a potential extension of the program may be under discussion. This new income group could include families with monthly household incomes ranging from R$8,000 to R$12,000, along with a potential new unit price cap between R$400k and R$500k, which remains undefined.

There is a Significant Affordability Gap Between Group 4 and the MCMV. Following the January revisions to SBPE interest rates by Caixa Econômica Federal (CEF), we have observed that the purchasing power of income brackets just above the MCMV has been considerably compromised. Our analysis of the current affordability of Group 4[(1)] (see Figure 15) reveals that the substantial difference in interest rates creates a purchasing power gap of up to 20% compared to the top of the housing program (R$350k in MCMV), particularly for households with average monthly incomes below R$10k (see Figure 16). We note that this purchasing power gap is considerably more significant than the potential affordability gains from revising the income caps for Groups 1 and 2 (as detailed in pg. 8), which we estimate could yield gains of only 4% to 11%. We believe that including clients just above the housing program under similar conditions to those of the MCMV could materially stimulate demand from new entrants, who would benefit from (i) a significant reduction in interest rates and (ii) an increase in the maximum financing term to 420 months within the MCMV. This would lead to a lower need for down payments and a potential decrease in income commitment for financing.

Figure 15: Financing Capacity Within the MCMV Housing Program per Household Income (XP Estimates) + Affordability Gaps (R$)

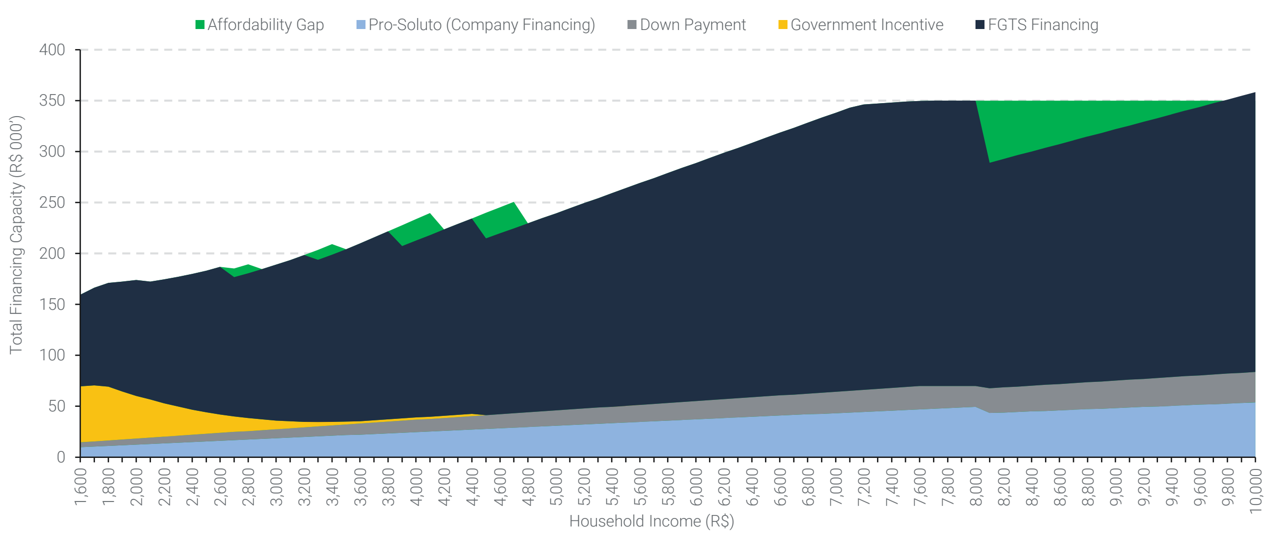
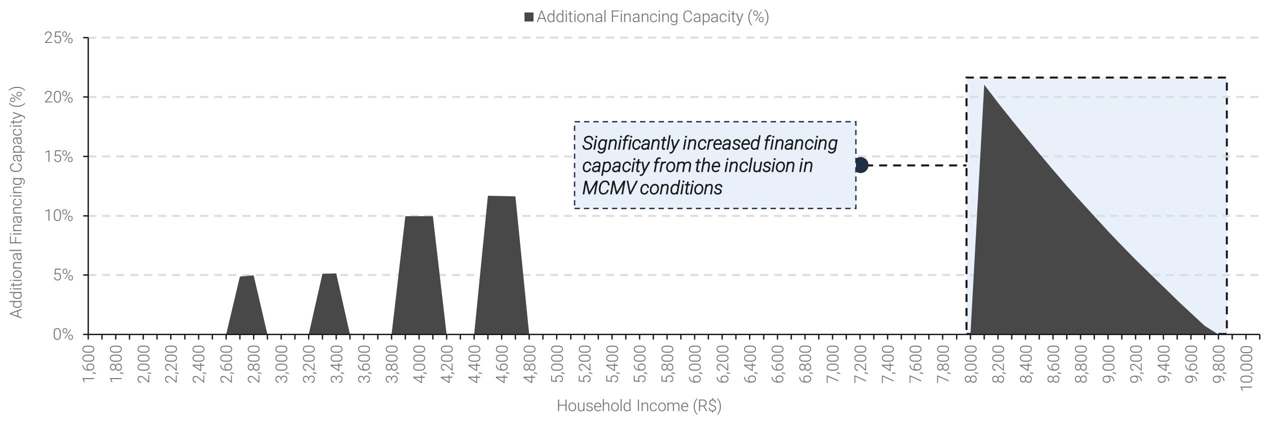


Figure 16: Additional Financing Capacity After Potential MCMV Updates (% over current conditions) - Group 3 Extension Sensitivity



Source: XP Research | Notes (1) Group 4 financing conditions: (i) 11.49% y/y interest rate (the maximum for SBPE financing from CEF), (ii) a PRICE financing model with a term of 360 months

A New Group in The Housing Program

Significant Affordability Gains Create Opportunity for Higher Price Caps

The potential gains in purchasing power for Group 4 could be substantial. Although the operational conditions for a potential extended MCMV group remain unclear, our analysis indicates that a (i) ~380 bps decrease in mortgage interest rates for Group 4—reflecting the current rate gap between Group 3 of the MCMV and the SBPE financing rate at CEF—and (ii) an additional 60 months in the maximum financing term (increasing it to 420 months) could generate purchasing power gains of up to ~35% for income brackets just above the MCMV (see Figure 17), excluding price caps, which we consider significant.

Revisions to the property price caps should accompany these gains in affordability. We believe that the anticipated expansion of purchasing power for the new Group 4, with total funding capacity ranging from ~R$400k to ~R$600k (see Figure 17), creates room for increasing the program's price caps, currently set at R$350k. Our analysis of scenarios discussed in the press shows that with property price caps set at R$400k and R$450k, households with incomes ranging from R$8.8k to R$12k and R$9.8k to R$12k, respectively, could reach financing capacities equivalent to the caps. While this represents an increase in the number of clients who can access the program's top price, we believe it significantly limits the maximum financing capacity for many clients in the new Group 4. With a R$400k cap, we estimate that 80% of clients would have their maximum financing capacity restricted by the price cap, while at a R$450k cap, this would decrease to 60%. However, at a R$500k price cap, the number of clients with maximum financing capacity limited by price caps drops to 30%, which appears more balanced compared to current MCMV conditions.

Figure 17: Financing Capacity Within the MCMV Housing Program per Household Income (XP Estimates) + Affordability Gaps (R$)

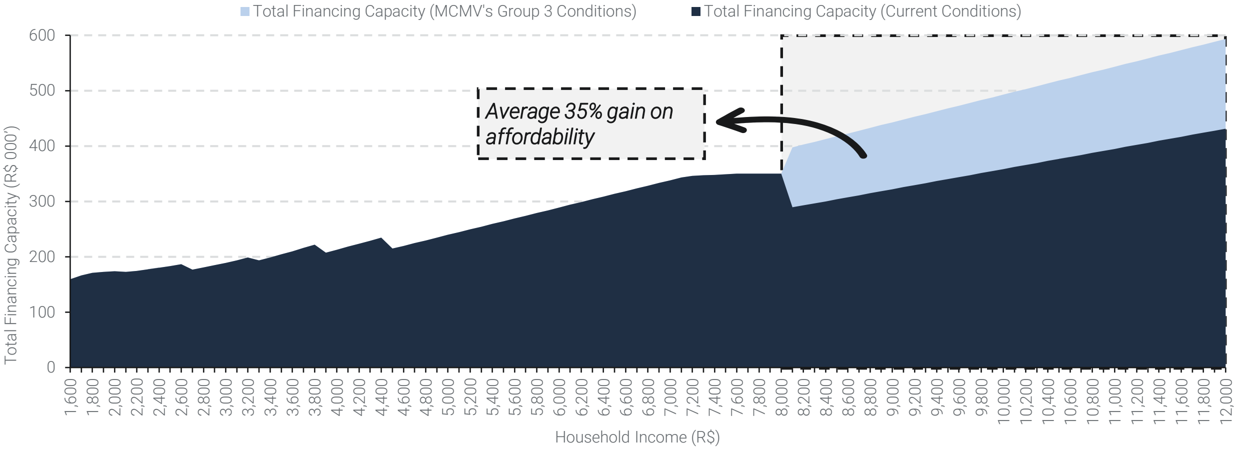
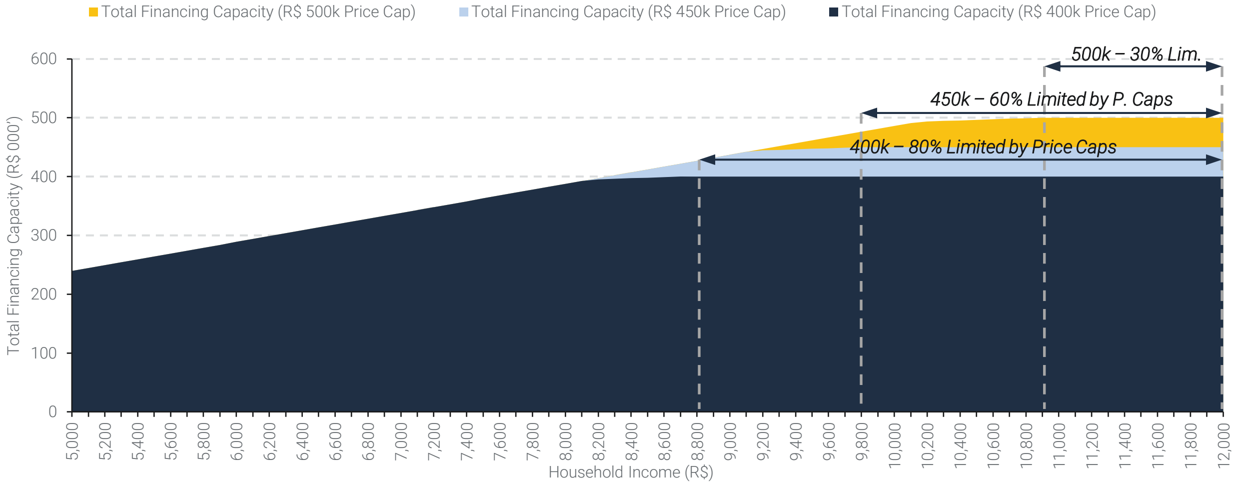


Figure 18: Financing Capacity Considering MCMV Conditions + Price Caps Sensitivity



Source: XP Research | Group 4 financing conditions: (i) 11.49% y/y interest rate (the maximum for SBPE financing from CEF), and (ii) a PRICE financing model with a term of 360 months

How Should the New MCMV Look Like?

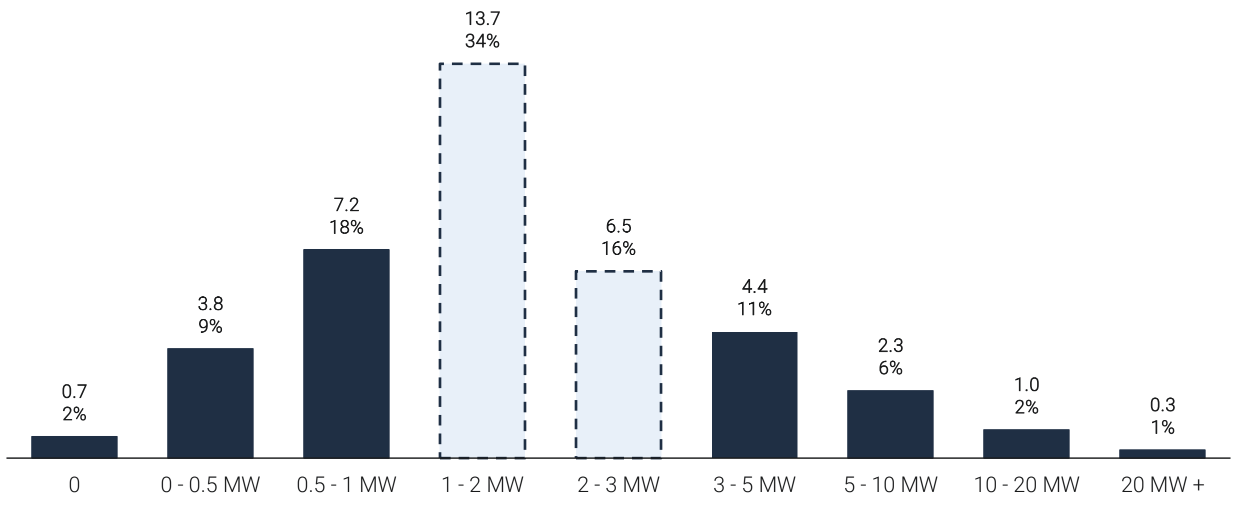
Both Lower and Higher Income Operators Should Benefit

What Should the New MCMV Look Like? We believe that the MCMV is on the verge of undergoing revisions, which should be discussed in the upcoming meetings of the FGTS board. We believe that (i) the decline in demand for Group 3 due to adjustments in second-hand units and (ii) a potentially more restrictive income commitment scenario for lower-income brackets amid a macroeconomic slowdown should trigger a review of the program's income brackets. This adjustment would better align the MCMV with the current minimum wage reality, which has been a demand from the construction sector. Furthermore, the R$15 billion budget increase for the MCMV presents opportunities for program expansion and the creation of a Group 4 targeting middle-income households, alongside a reevaluation of the original MCMV income brackets. Collectively, these factors should drive significant changes in the MCMV.

Group 4: Potentially Temporary Changes with Significant Impact. We believe that reallocating funds from the Social Fund (previously designated for "Pré-Sal") to establish a new group within the MCMV housing program indicates that incentives for middle-income segments may be temporary. However, we think that the approval of this measure could positively affect operators in the income brackets just above the program, particularly Cury and Direcional. This is due to (i) the potentially reduced pressures affordability in Group 4 and (ii) the inclusion of nearly all of these companies' portfolios in the MCMV following potential revisions to price caps. Consequently, we expect this could enhance short-term launch performance and strengthen growth prospects for both companies.

A Small Range of Income Bracket Revision, but with a High Concentration of Population. When examining potential income bracket revisions for Groups 1 and 2, we find that the monthly household income range benefiting from reduced interest rates seems modest (approximately R$250 monthly income interval on average). Nevertheless, a substantial portion of the Brazilian population falls within these groups, with families earning between 1 and 3 minimum wages representing about 50% of the population. Therefore, even minor adjustments in income intervals could significantly impact demand. We believe Tenda (TEND3) is well-positioned to benefit from potential increases in household income caps for Groups 1 and 2, given its strong exposure in these segments, followed by MRV (MRVE3) and Plano&Plano (PLPL3). We anticipate that the expansion of demand could have effects on SoS, as a reduction in income commitment from mortgage statements is a key driver for purchasing decisions among clients in the lower income ranges of the program.

Figure 19: Employed Families Population per Income Bracket (in Million Families and % of Total) – PNAD Dec-2024



Source: IBGE, XP Research

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