

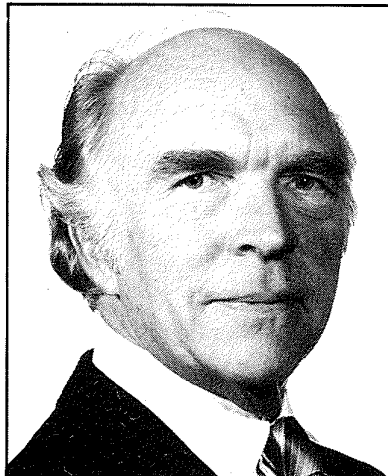
Central American countries promote new housing finance programmes

By Eric Carlson

UNDER the banner "Building for Peace," Nobel Prize winner Oscar Arias, president of Costa Rica, has been steadily linking the importance of housing construction and home ownership to economic and social development and an improved climate for reconciliation and peace in the countries of Central America. Within his own four-year term of office, he has established as a priority target the provision of 80,000 dwelling units for Costa Rica, a country of 2.5 million people. He has also promoted the establishment of a Ministry of Housing and Human Settlements, the creation of a new Mortgage Bank for Housing, and a comprehensive housing finance system with emphasis on savings programmes and private sector activity.

Although Costa Rica's housing production exceeds that of any other Central American state, other countries of the region, particularly Honduras, El Salvador, Guatemala and Belize, have also been renewing their efforts for housing financing, construction and improvement. There is also a programme under way to re-establish the Central American Bank for Economic Integration (CABEI) as a major regional source of finance for private sector shelter finance institutions.

On 27 August, 1987, the US Agency for International Development's Office of Housing authorised loan and grant funding to CABEI for \$89 million to be implemented under



different programmes in Honduras, Guatemala, El Salvador and Costa Rica. In total, the portfolio of resources for housing in Central America supplied by the AID housing office amounts to \$273.9 million.

A summary of the main elements of this portfolio is shown below:

In 1984 the total population of the Central American countries, including Nicaragua and Belize, but not Panama, was about 22 million. About 42% of the population is urban, with urban unemployment and underemployment rates reaching very high levels. Urban infrastructure and services lag far behind requirements. Sewer connections reach only 44% of the urban population, and the percentages of urban households served

with water, including standpipes, are as low as 66% in El Salvador, 46% in Honduras, 44% in Guatemala City, and a high 95% in Costa Rica.

The formal sector supplies only a fraction of the housing needed to meet minimal shelter requirements, and the economic and fiscal crisis of the past years has created severe problems in the domestic housing finance systems in all countries.

Highlights of the situation in the various countries are as follows:

Guatemala

Housing construction continues to lag far behind existing demand. There is a low level of savings and a dearth of external resources to revitalise the sector. With the ascendancy of the present Government, housing has once again become a political priority, and in September 1986 an agreement was signed for a \$10 million Housing Guaranty Loan from USAID. This was followed in January 1987 by a loan from the Inter-American Development Bank of \$40.5 million. Some 77 Guatemalans have also received short-term regional training in municipal development, housing finance and regional housing policies.

More realistic policies are now being adopted by both BANVI, the National Housing Bank, and the FHA, the Institute for Development of Insured Mortgages. The latter has now adopted a variable interest rate policy as one effort to increase private shelter participation. In 1985 the

FHA had only insured 1,238 mortgages, and the National Housing Bank had financed only 1,197 dwelling units.

In August 1986 the Municipal Development Bank (INFOM) had its interest rate ceiling raised from 5% to 14% and under new legislation is to receive 8% of tax revenues to finance municipal development. In August 1986 the National Public Housing Authority agreed to emphasise private sector construction, delivery and sales of housing financed by BANVI in place of public sector construction.

Belize

Since 1985 USAID has financed over 740 home improvement loans, the majority of which have been provided through the credit union system.

El Salvador

The major earthquake of 1986 destroyed nearly 40% of the low income housing stock in the nation's capital. Much effort has been directed toward reconstruction and immediate hous-

ing and infrastructure needs. A medium-term strategy and action plan to address permanent shelter needs is also being developed.

Honduras

At the end of 1986 the Honduras Government signed a new AID Housing Guaranty package, totalling \$42.5 million, and has borrowed \$25 million of these authorised resources from a US investor. The following housing policies are being pursued: promotion of the private sector in the production and financing of all shelter; support to the efforts of municipal governments to expand water and sewer services to low income neighbourhoods; emphasis on cost recovery; and support to the development of small municipalities as the mechanisms to extend services to their communities.

Honduras has some six savings and loan entities which are now

supervised by the new FOVI, or Housing Fund, which is a Trust Fund of the Central Bank of Honduras, established by decree of the National Congress on 5 November, 1985. FOVI has broad powers, including:

- Executing credit and financing policy for housing.
- Establishing savings and loan systems for housing.
- Establishing a secondary market for mortgages.
- Contracting credits from national and international sources.
- Promoting and stimulating capital investment in housing.
- Financing and participating in the financing of low-cost housing programmes. FOVI may issue mortgage bonds, certificates or other debt instruments.

During the recent past there was considerable uncertainty in the industry, and virtually all of the associations now have new directorates and officers. There is also a central Chamber of Savings and Loan Asso-

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HONDURAS

A. To be completed 1987-88

- \$10.5 million to INVA, National Housing Institute.
- Urban upgrading — \$10 million through municipalities of San Pedro Sula and Tegucigalpa.
- \$15 million through private sector supervisory entity. Portfolio now managed by FOVI, Housing Fund.

B. New Programme

- \$35 million Housing Guaranty, \$7.5 million in local currency. GOH borrowed \$25 million of \$35 million HG (housing guarantee loan) in 1987. Programme finances housing and urban upgrading in San Pedro Sula, Tegucigalpa and secondary cities.

EL SALVADOR

A. To be completed by end of 1987

- \$5.5 million for housing and urban improvements.

B. New Programme

- \$75 million, El Salvador Reconstruction Programme. Of this \$75 million, approximately \$18 million

will be devoted to housing reconstruction, principally in inner city areas of San Salvador.

GUATEMALA

- \$10 million HG still being negotiated with GOG. For private sector financed housing.

COSTA RICA

A. To be completed 1987-88

- Financing to public housing institution (INVU) — \$11.4 million HG. Being closed out.
- Financing to private sector (DECAP) — \$14 million already disbursed. \$6 million HG remaining to be contracted.

- B. Approximately \$50 million programme for BANHVI, Mortgage Bank for Housing.

BELIZE

- \$2 million HG financed home improvement programme, completed by end of calendar year 1987.

CABEI

- \$89 million programme, of which:

- \$4 million grant for training and technical assistance;
- \$15 AID loan (interest rate 2-3%) to finance off-site infrastructure and to allow CABEI spread (on on-lending) so they can recapitalise their housing fund;
- \$45 million HG to finance housing and on-site infrastructure improvements;
- \$25 million CABEI counterpart to finance housing and on-site infrastructure.

The CABEI programme will be implemented in Honduras, Guatemala, El Salvador and Costa Rica.

Total portfolio (excluding Guatemala) managed by RHUDO, US AID Regional Housing Office, and Mission Housing Officers:

Honduras	\$78 million
El Salvador	\$23.5 million
Costa Rica	\$81.4 million
Belize	\$2 million
CABEI	\$89 million
Total	\$273.9 million

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ciations. Current indications are that there is now a pronounced upswing in construction activity and mortgage lending in Honduras, prompted by the government's decision to revitalise the housing sector.

President Azcona of Honduras has a marked predilection for this sector in view of the fact that for many years he was president of FEHCOVIL, the Federation of Housing Co-operatives of Honduras, which continues to make important contributions toward the housing of low and middle income families.

Costa Rica

The Banco Hipotecario de la Vivienda, the Mortgage Bank for Housing, was created by legislation enacted by the National Assembly in October 1986, its main aim being to promote savings and investments, both foreign and domestic, directed towards the solution of the national housing problem. The Bank has administrative autonomy, and directs and supervises the National Housing Finance System. Among its stated objectives are: co-ordinate the capture and distribution of financial resources among the authorised organisations; promote, finance, orient and supervise the entities authorised to work with the Bank; promote, develop and stabilise the secondary mortgage market in Costa Rica.

BANHVI will not make credit available to individuals directly. Its programmes are designed to stimulate activity in the housing market on the part of the institutions authorised to operate with the Bank. These are as follows:

- Mutual Savings and Loan Associations;
- State Banks;
- Public organisations specialising in housing finance;
- IMAS, the Social Assistance Institute;
- INVU, the National Institute for Housing and Urban Development;
- Banco Popular;
- Savings and Loan Co-operatives.
- The National Housing Fund

(FONAVIT) will be used to create a credit line for housing finance and to support BANHVI's activities in the promotion of the secondary mortgage market. The Fund obtains resources from the Social Security system and an initial AID grant of \$50 million.

The Housing Subsidy Fund (FOSUVI) uses 33% of the funds from the family assistance programme, 3% of the annual national budget, and donations from various national and international sources. This Fund subsidises the financing of housing for those earning less than four times the minimum salary of unskilled labour in the construction industry. Loans are available through the subsidy for up to 25 years at no interest.

BANHVI will guarantee up to 95% of mortgage values to member institutions. A secondary mortgage market will be promoted by BANHVI, to allow the trading of titles, participation mortgages, property investment certificates, etc. The market will receive an initial 30 million colones from BANHVI, but future financing will come from BANHVI and from the 25% of the balance of circulating mortgages which each participating institution is required to maintain in the system. BANHVI plans to maintain a permanent offer of purchase for secondary mortgages to stimulate the trading of titles and to stabilise their pricing.

BANHVI has initiated its activities with an appropriation of 100 million colones from the government to its capital base and by assimilating the Central Department of Savings and Loans with its capital base into the system. These funds are separate from the above-mentioned operating funds.

The Canadian International Development Agency (CIDA) has also entered the field of providing housing finance in Costa Rica, aimed mainly at housing people who are directly involved in agricultural production or who are primary producers, such as

fishermen. Some 18 projects have been completed or are in process for over 2,000 new dwelling units.

Loans under this programme are made to an association or organised group of solicitants, in some cases to a savings and loan co-operative, who then on-lend to the project participants. The primary borrower is legally responsible to CIDA for repayment of the loan regardless of default on the sub-loans. Primary borrowers may charge up to 3% on top of nominal loan amounts for administrative costs and the assumption of risk. These are not points on an interest spread but are charged directly to the secondary borrowers as part of their loan amount.

Loans are offered for the purchase of housing, new construction and remodelling or renovation.

The income level of project participants varies from 15,000 to 25,000 colones. The main criteria is that the *per capita* income of the family be at or below the average for the zone in which a particular project is located.

Loans are all for up to a 12-year period and usually a first mortgage is required as guarantee. A fiduciary guarantee will be accepted in some cases. The interest rate on loans is triple-tiered. Loans up to 100,000 colones are charged 8%; from 100,000 to 175,000 colones, 10%; and from 175,000 to the maximum of 250,000 colones the rate is 12%.

CIDA does not stipulate the type of house to be built nor the method (ie, self-help, contract labour) to be used in the construction. They do do technical supervision to assure quality of construction and proper use of funds.

The programme is designed to reach people who are involved in the primary production of food or resources. For this reason it is concentrated in non-urban areas. In some cases this distinction is a fine one since many secondary urban centres in Costa Rica are focal points of large rural areas surrounding them. ■

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