

Dominican savings and loan system's 25 successful years

By Eric Carlson

THE Dominican Republic's savings and loan system celebrated its 25th anniversary last year, punctuated by the Caribbean Housing Finance Conference in Puerto Plata in November. The event was co-sponsored by CABSHFI, the Caribbean Association of Building Societies and Housing Finance Institutions, and the USAID Office of Housing.

The conference, which attracted more than 130 participants, provided the opportunity to review the successful experience and current developments in the Dominican housing finance scene.

Presentations were made by Pedro Hache, general manager, National Housing Bank, and by Dr Azor Hazoury, executive vice-president, Asociación Popular de Ahorro y Prestamo. Some of the main points in their presentations are summarised below.

The idea of creating a savings system for housing finance in the Dominican Republic was first mooted in

1961. With the assistance of an advisory team provided through the Inter-American Development Bank and the Puerto Rican government, legislation was drafted in that year for a mutualist, non-profit system comparable to that in the USA. This resulted, in May 1962, in the enactment of Laws No 5894 and 5897. The first established the National Housing Bank, its duties, organisation and modus operandi; the second established the basis for the savings and loan system as a joint venture of public and private sectors. The Asociación Popular was the first savings and loan to be established, on July 29, 1982, with 155 members and RD\$166,320 deposited as savings. The second, the Asociación Cibao, began its operations in the City of Santiago in August. Over the next years others followed, and there are now 19 operational Associations.

Since the system's early days, the economy of the Dominican Republic, as with so many other island countries, has had its fluctuations, and the directors of the system have been

challenged to seek new options, and to redesign policies to obtain sustained development without losing the "mutualist mystique" that characterises it. As a central and regulating organisation, the National Housing Bank has played an important role in the growth and development of the system. It has always been ready to supply resources to associations that needed them, either through deposits under favourable terms or by purchases of insured mortgages. It has provided for regulations to permit increasing coverage of the system and diversification of its activities.

At first the associations were limited to investment for construction financing, acquisition and improvement of family housing, but in December 1969, through Law No 417, they were authorised to approve loans for commercial buildings and for rental and office buildings, as well as to invest their resources in the tourist sector as a means of promot-

Table I. Institutional Supply of Housing by Public and Private Sectors, 1970-1980

Year	Private Sector			Public Sector			Totals		
	No of Dwelling Units	Construction Cost in Millions RD\$	Average Value	No of Dwelling Units	Construction Cost in Millions RD\$	Average Value	No of Dwelling Units	Total Value in Millions RD\$	Rate of Growth %
1970	1,882	10.3	5,472	2,227	7.8	3,502	4,109	18.1	—
1971	716	8.2	11,452	1,280	7.9	6,171	1,996	16.1	(11.0)
1972	2,484	18.0	7,246	3,317	8.4	2,532	5,801	26.4	63.9
1973	3,081	35.6	11,554	1,357	8.6	6,337	4,438	44.2	67.4
1974	2,865	54.4	18,987	4,460	34.1	7,645	7,325	88.5	100.2
1975	2,722	54.3	19,948	4,201	43.3	10,307	6,923	97.6	10.3
1976	3,627	78.4	21,615	5,297	43.8	8,268	8,924	122.2	25.2
1977	5,060	65.2	12,885	3,822	40.0	10,465	8,882	105.2	(13.9)
1978	4,617	127.7	27,658	10,091	43.2	4,281	14,708	170.09	62.4
1979	5,847	136.2	23,293	1,158	41.2	35,578	7,005	177.4	3.8
1980	5,899	159.2	26,987	8,489*	40.5	4,770	14,388	199.7	12.5

Average Rate of Growth 29%

*Note: Includes 5,256 self help built dwellings

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ing that activity. More recently the associations were authorised to approve personal loans up to 20% of their total loan funds.

To offer security for the association's mortgage loan operations, the Bank established a mortgage insurance mechanism known as "Fomento de Hipotecas Aseguradas", better known as FHA, having as its main objective the promotion of private investment within the housing sector through the operation of investors who acquire Security Bonds guaranteed by the insured mortgages. A secondary market has therefore been developed which has a multiplier effect on the original loan. There is also a deposit insurance system for the savings and loan associations.

Another step has been to reduce the amounts required by prospective home buyers. Adjustable rate mortgages have also been introduced. In addition the savings and loan associations have been authorised to extend long-term mortgage loans for land for housing construction.

These incentives, and the trust that the public has given to these institutions, along with the tax exemptions granted to the investments in the system's organisations, have encouraged rapid growth. Today, after 25 years, this growth has assumed substantial proportions. In early 1987, the associations had 804,178 savings accounts with a total of RD\$461 million; in Time Deposits, RD\$210 million; in Financial Certificates, RD\$380

Table III. Loans Granted for Housing Finance by Savings and Loans Associations, 1976-1986

Years	No of Dwellings (Cumulative)	Rate of Growth %	Value of Financing Granted (millions RD\$)	Rate of Growth %
1976	19,253	—	222.2	—
1977	22,528	17.01	282.7	27.22
1978	26,399	17.18	360.13	27.39
1979	30,709	16.32	450.79	25.17
1980	35,614	15.97	570.02	26.45
1981	39,682	11.42	671.37	17.78
1982	43,638	9.96	809.61	29.59
1983	47,234	8.24	961.60	13.83
1984	51,970	10.03	1,067.37	15.82
1985	55,471	6.74	1,261.03	18.42
1986	58,503	5.47	1,458.83	15.69
Average Rate of Growth During Period		11.83%		20.83%

million; and sold on Insured Mortgage Participation Contracts, RD\$360 million. They have issued 58,503 mortgage loans for a total amount of RD\$1,458 million.

As of March 1987 the National Housing Bank had received RD\$25 million by means of Security Bonds sold; RD\$40 million from the sale of Insured Mortgage Participation Contracts; RD\$44 million in Financial Certificates and RD\$49 million in Time Deposits. Total assets came to RD\$226 million, or RD\$266 million, before deduction of the Insured Mortgage Participation Contracts sold. Regarding one of the exclusive activities of the Bank — insurance for loans — the FHA has drawn 45,638 insurance policies for a total of RD\$810 million to cover a similar amount of mortgage loans.

Demand for housing caused by population growth in the Dominican Republic is estimated at about 30,000 units annually, with some 20,000 required for urban areas. About 2,800 units are financed by strictly private means or institutions, while the savings and loans and the mortgage banks together have been financing an average of 4,000 units annually. This leaves a large gap of housing need for low income families requiring subsidy.

The present government has promoted co-ordinated and simultaneous action by both public and private sector institutions in order to control the housing deficit, to provide employment and strengthen the middle class. The result is an unprecedented channelling of financial resources for housing.

Table I shows the volume of housing finance resources applied by the different institutions during the period 1970-1980.

Table II shows that during the period 1976 to 1983 the savings and loan system contributed 72.8% of the private sector housing finance resources.

Table III shows that between 1976 and 1986 the savings and loan associations had financed 58,503 dwelling units. ■

ERIC CARLSON is IUBSSA's senior consultant.

Table II. Participation of Savings and Loan System in Private Supply of Housing, 1976-1983

Year	Housing Finance in Millions of RD\$		Participation %			Total
	Associations	Others	Total	S & L's	Others	
1976	55.0	23.4	78.4	70.2	29.8	100
1977	60.7	4.5	65.2	93.1	6.9	100
1978	77.3	50.4	127.7	60.5	39.5	100
1979	90.6	45.6	136.2	66.5	33.5	100
1980	119.2	40.0	159.2	74.9	25.1	100
1981	101.3	58.3	159.6	64.7	35.3	100
1982	138.2	32.0	170.2	81.2	18.8	100
1983	112.0	39.0	151.0	71.3	28.7	100
Average				72.8	27.2	100