

# Housing finance in the Caribbean

**T**WO recent publications usefully give up-to-date information on the housing and housing finance situation in the Caribbean.

On September 27 and 28, 1988, the Caribbean Ministers of Settlement and Shelter held their first joint meeting. The meeting was hosted by the Government of the Republic of Trinidad and Tobago, and was co-sponsored by the United Nations Centre for Human Settlements (Habitat) and the United States Agency for International Development. The conference was on the theme "Shelter for the People: A Catalyst for Economic Reconstruction". The proceedings of the conference have now been published (*Report on the First Meeting of Caribbean Ministers of Settlements/Shelter*), Ministry of Settlements and Public Utilities, Trinidad and Tobago, 1988).

Five papers were given — Shelter and Urbanisation Overview, by Dr George Peterson, The Urban Institute, Washington. Efforts to Address the Problem, by Jeremiah Scott, Minister of Housing and Community Development,

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### *'Need for creative strategies'*

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St Vincent and the Grenadines. Sou Sou Land Concept — Lessons Learnt: The Way Forward, by Pamela Nicholson, Minister of Settlements and Public Utilities, Trinidad and Tobago. Formulating and Implementing a Shelter Strategy, by Bruce Golding, Minister of Construction (Housing), Jamaica. Donor role and Co-ordination in

Financing, Role of International and Regional Agencies.

Dr Peterson noted that the productive use to which the home could be put was an important source of income for the householder, and he cited the following implications for shelter policy —

(a) A review of laws which prohibit the commercial use of properties in residential neighbourhoods.

(b) The issue of house design and lot sizes.

(c) The provision of credit assistance to small home-based entrepreneurs facilitating the upgrading of the home.

With respect of the method of payment, Dr Peterson proposed that creative strategies be applied to the collection of rents from the housing beneficiaries, and that the increment in value of serviced land be taxed.

In discussion it was noted that tax incentives were being provided in Trinidad and Tobago to enable private financial institutions to grant loans at low rates of interest to low income groups. In addition, housing bonds were also being floated.

Pamela Nicholson described the Sou Sou Land concept under which —

(a) Deposits were made by subscribers and, together with the interest, are utilised by the National Housing Authority to meet the costs of providing fully serviced lots.

(b) Subscribers are allowed to drop out of the programme and have their deposits refunded.

(c) Subscribers can choose from a number of design/shelter options based on affordability, and be provided with professional guidance for construction.

(d) The land is developed to acceptable standards.

(e) Because development is carried out on an incremental basis the cost of land is considerably lower than the open market value.

(f) Self financing is encouraged, but tax incentives are available to approved mortgage companies to make adequate financing available to the low income group below the normal rates of interest.

The paper by Jeremiah Scott, Minister of Housing, Labour and Community Development in St Vincent and the Grenadines, described recent initiatives in housing finance. In 1987 the Caribbean Development Bank approved a loan of EC\$4.95 million for the mortgage finance programme administered by the state-owned National Commercial Bank. The national insurance scheme of St Vincent and the Grenadines agreed to fund a similar amount, and including recycled funds the total amount of the programme to be disbursed over a four-year period would be \$10.7 million. The programme is intended to assist in meeting some of the credit needs of lower middle income households for home improvements and new

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### *'Housing bonds floated'*

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housing. Loans will be for up to 90% of the estimated market value of the land and the cost of new construction, and will be for up to 20 years. Minor home improvement loans will be made for up to 10 years. There are income limits for the loans.

The National Commercial Bank established a mortgage finance department in June 1988. It will also

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operate a scheme of its own. All mortgage loans will be at 10%.

On November 7 and 8, 1988, the Caribbean Association of Building Societies and Housing Finance Institutions (CABSHFI) held a housing finance seminar on the theme "Financing Low Income Housing in Small Economies" in Port of Spain, Trinidad and Tobago.

Ten papers were given with speakers coming from both the Caribbean and the wider international community. A summary of some of the major papers was published in the last issue of *Housing Finance International*. The full proceedings of the conference have now been published by CABSHFI (*Financing Low Income Housing in Small Economies*, CABSHFI, 1988).

A paper by Dr John Cole, on Trinidad and Tobago, deals specifically with housing finance. The paper notes that interest rates are critically important, but that riskiness in the mortgage sector can be relatively

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### *'Mortgage risk can be low'*

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low. In Trinidad and Tobago the default and liquidity risks in an institution of the mortgage portfolio can be reduced through use of the secondary market institution, the Home Mortgage Bank. Because there is a danger of a shortage of new deposits to fund mortgage lending the emphasis must be on keeping house prices down, and housing finance institutions must expect to be able to influence the construction industry.

Elaine Weis, Executive Director of the Garn Institute of Finance at the University of Utah, Salt Lake City, Utah, contributes a paper on impediments to efficient low income hous-

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ing finance delivery systems in the Caribbean. The paper suggests that the current framework for housing finance systems in the Caribbean regards residential housing as a consumption expenditure rather than a capital investment. Government-subsidised housing finance programmes have discouraged greater private sector involvement in low income housing solutions. A high proportion of housing investment is provided through private initiative without the support of financial institutions. The legal and regulatory structure and current credit underwriting standards effectively limit access to housing credit for low and moderate income households.

In the Caribbean countries there has been a lack of focus on formulating housing finance policies, and there is not even any central information or co-ordinating bodies dealing with all the agencies involved in housing finance. There are numerous institutions involved in housing finance in the Caribbean, most of which are specialised institutions. One of the impediments to a more effective housing finance system is that the specialised lenders account for a relatively small share of total

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### *'Lack of focus on policies'*

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financial resources in Caribbean countries. For example, in Jamaica the ten commercial banks hold 70% of deposits and 66% of loans outstanding, and in Barbados the banks have an estimated 80% of deposits. The participation of commercial banks in mortgage financing is limited, for example in Barbados mortgage loans on private homes

make up less than 4% of total commercial bank loans and advances outstanding.

Financial and regulatory incentives could be structured to make mortgage lending more attractive to the commercial banking sector. Financial incentives could include tax credits, the creation of a government secondary mortgage market, mortgage indemnity insurance, linked deposit programmes, and loans to lenders programmes. Regulatory incentives could include lower capital requirements for low and moderate income mortgage portfolios, removal of mortgage interest rate ceilings, and exemption from restrictions on bank lending for personal

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### *'Need for education'*

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and consumer purposes. However, in addition to incentives education is needed, both for borrowers and for bank officers.

Generally, laws and regulations governing financial institutions and residential mortgage finance tend to discourage a higher level of housing finance. Many governments have controls on interest rates, and even where there are not controls the institutions often have to compete against fierce government competition in the markets. Another impediment to the more widespread use of mortgage credit is the legal nature of the mortgage itself. The borrowers must have a legal interest in the property being financed, and be able to provide the necessary documentation in order to obtain a mortgage loan. Most low-income borrowers occupy land to which they have no title. Mortgage lenders should consider alternatives to registered title as security for housing loans to credit worthy borrowers. ■