A housing finance strategy evolves in Saint Lucia

By Orlando Martyr

PRIOR to 1968, there were no specialist housing finance institutions operating in Saint Lucia — commercial bank loans, when available, were usually short-term (five years or less), and for amounts not exceeding 50% of the cost of the property, and guarantors, life insurance policies or other additional securities were often mandatory.

In 1968, in an effort to increase home ownership, the Government of Saint Lucia established the St. Lucia Mortgage Finance Company Limited (SMFC) to provide loans for the purchase or construction of dwelling houses. SMFC provides loans of up to 90% of value on the security of a first charge over the property; the maximum loan term is 20 years.

As a substitute for mortgage insurance, SMFC creates its own reserve fund in respect of loans exceeding 80% of value. Under the terms of the agreement establishing SMFC, its maximum loan and interest rate are controlled by the Government.

Initially incorporated as a wholly-owned and funded subsidiary of the Commonwealth Development Corporation (CDC), SMFC has grown with support and funding provided also by the Government of Saint Lucia and the National Insurance Board (NIB). (A National Insurance Fund was established under the National Insurance Act No 10 of 1978 to provide retirement and other relevant benefits to employees; the proceeds of the Fund are vested in the National Insurance Board.)

Mortgage disbursements by SMFC from inception to 31 December, 1988, total almost EC$50 million and percentage investments by way of shares and long-term loans are stated below:

SHARES		LONG-TERM LOANS	
CDC	51%	CDC	45%
GOVT	49%	NIB	55%

SMFC's lending procedures and practices contain features similar to UK building society models — this is hardly surprising since its senior consultants, Reginald Howard and F. G. Weaver (both now retired from CDC), "grew up" with the building society movement. Of course, appropriate adaptations and amendments have had to be made in the light of local practices and the land laws which are based on the Quebec Code (Code Napoleon!).

SMFC does not accept deposits from the public. The population of Saint Lucia is about 140,000 and the savings market has always been well serviced by the commercial banks.

'Credit union established'

Current tax legislation provides for interest earned on deposits at commercial banks to be free from income tax. Consequently, four foreign and two local (one Government-owned) banks compete aggressively for small savings.

In this climate, no building society has emerged, although a credit union movement is well established and gaining momentum in the rural areas.

Since December 1983 there has been substantial growth in deposits at commercial banks. The table below is extracted from quarterly statistics supplied by the East Caribbean Central Bank:

PERIOD ENDED DECEMBER 31st	TOTAL DEPOSITS (000's) EC$
1982	219,654
1983	244,811
1984	270,192
1985	324,074
1986	404,712
1987	467,886
1988	586,103

This phenomenal growth in deposits has been attributed to prudent management of the economy supported by good performances in the agricultural and tourism sectors and a stable currency.

The liquidity at the commercial banks prompted their increased activity in mortgage lending. Interest rates have also been reduced and today all six commercial banks provide long-term (20-year) mortgage facilities at rates not exceeding 12% per annum. Most of this mortgage lending is in the form of refinancing and consolidation of existing loans (home-equity mortgages) and advances seldom exceed 75% of value.

SMFC has utilised the liquidity to introduce a number of policy amendments aimed at making housing more easily available. These include:-

i) Provision of loans for the extension of dwelling houses.
ii) Provision of loans to purchase land (on condition that houses are built within 5 years of purchase).
iii) Increase in the maximum loan available to EC$200,000.

iv) Provision of a special low-budget facility at 6% pa to persons of moderate incomes in respect of houses costing EC$75,000 or less. (This facility has been made available through the kind co-operation of the National Insurance Board.)

Liquidity and buoyancy are not the only factors influencing increased investment in home mortgages. Over the last two decades, there have been incremental but significant legislative and administrative efforts implemented by the Government of Saint Lucia to facilitate a housing delivery system based on public-private co-operation, for example:

1971 — Housing & Urban Development Corporation Act — under this legislation the UDC is charged with "the duty of promoting the development of housing and undertaking the planning and development of land." Responsibility for the UDC has recently been vested in the Minister of Housing and it is expected that efforts will be concentrated on the delivery of sites and services.

1972 — Establishment of Housing Development Bank to provide loans where the security of mortgages could not be offered. This bank has been superseded by the creation of the St. Lucia Development Bank in 1980.

1973 &
1975 — Consolidation of Aliens (Land Holding Regulations) Act to provide, *inter alia*, that approved lending agencies, development aliens or other foreign investors may, with the approval of Cabinet, hold land for the purposes of development.

1976 — Condominium Act 1976 — legislation to facilitate the division of property into parts to be owned individually and parts to be owned in common and to provide for the use and management of such property.

1978 — Establishment of National Insurance Fund — Employers match deductions from the wages of employees and the fund is invested to provide retirement and other benefits. The National Insurance Board has supported SMFC's lending programme, thus reducing its dependence on foreign currency loans. The NIB has also invested in public buildings, easing the shortage of office space in Castries and other towns.

1980 — Establishment of Saint Lucia Development Bank — Act No 22 of 1980.

1981 — Establishment of National Commercial Bank.

1984 — The Land Adjudication Act and Land Registration Act provided for the adjudication of rights and interests in land and their subsequent registration and dealings

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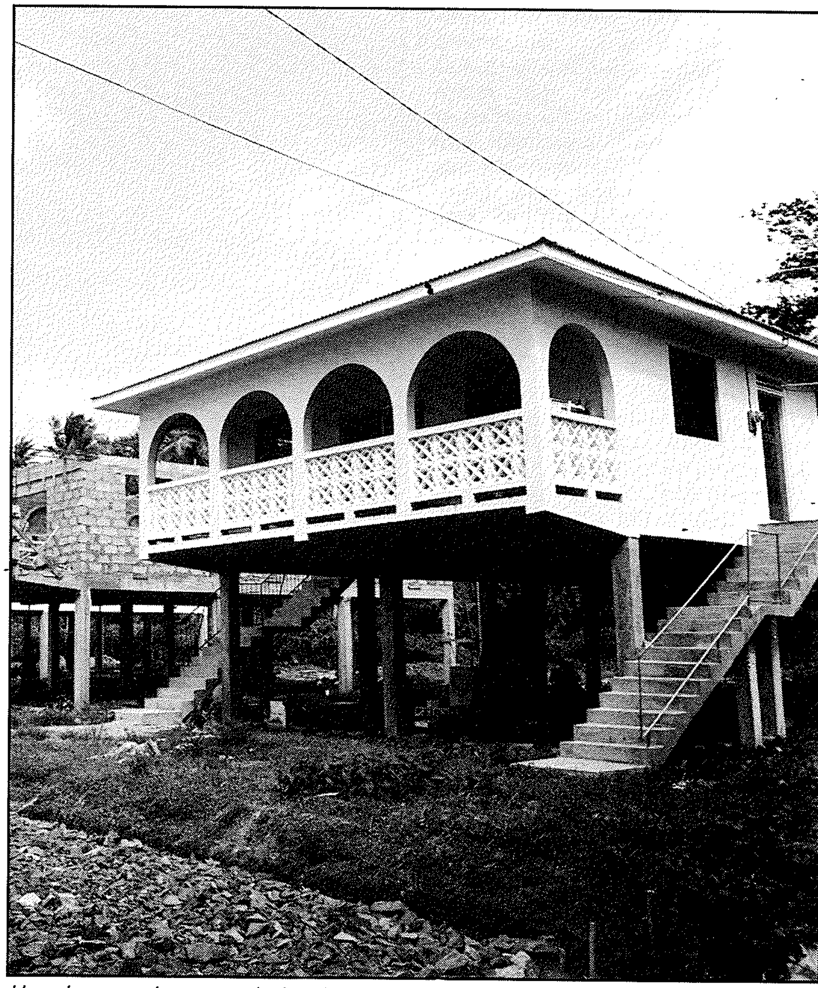

Housing nearing completion in Saint Lucia.

← 39 therewith. Under this comprehensive programme which was funded by USAID and covered the entire Island, over 34,000 parcels of land were identified and registered, each with its unique parcel and block number. The project was completed in 1987 and a separate Land Registry opened. The records have been fully computerised, facilitating prompt searches, transfers and mortgages.

1986 — Amendment of the Succession Duty Ordinance to exclude duties on the matrimonial home.

1988 — Amendment to Civil Code to reduce the age of majority (minimum age at which one can enter into contract) from 21 to 18.
Amendment to Code of Civil Procedure to up-date the law relating to the conduct of public auction sales, thus improving the remedies available to a lender.

1989 — Income Tax Act 1/89. This recent legislation revised and consolidated the law relating to income tax; among its provisions intended to stimulate housing development are:

i) Increased allowances to individuals and a reduction in the top rate to 30%, thus increasing disposable income;
ii) mortgage interest *and* expenses reasonably incurred in the up-keep and maintenance of an owner-occupied dwelling house are deductible;
iii) gains from the sale or rental of residential property (costing EC$150,000 or less) within 10 years from the date of construction shall be exempted from tax;
iv) the income derived from the initial sale of not less than 10 newly constructed houses by a builder shall be exempted from tax;
v) the income from loans to purchase, construct or reconstruct dwelling houses (where the mortgage does not exceed EC$150,000 and the rate does not exceed 11% pa) shall be exempted from tax.


Public buildings in Saint Lucia.

The policy amendments by SMFC, the new thrust by the commercial banks and the continued efforts of the Government, especially the incentives contained in the new Tax Act, are all expected to impact favourably on the housing market. But the market is changing and practitioners of the "art" of housing finance must anticipate the changes.

The proposed political union between members of the Organisation of East Caribbean States (OECS) countries will present fresh challenges in the 1990s. Housing must, therefore, be seen not only in terms of bricks, mortar, land or money but rather in terms of people — the needs of a growing population will not permit policies to remain static. ■

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