Risks and Opportunities:
an Assessment of
Housing Finance in Venezuela

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INTRODUCTION

The word "crisis" has become all too familiar to the people of Venezuela. Since the early 1990's, this country of 24 million residents has been locked in political and economic turmoil. One crisis after another has kept the national agenda preoccupied with fundamental political reforms and macroeconomic stabilization, and inattentive to the growing social concerns rising from the urban barrios. Rapid urbanization has brought 90% of the country to live in urban areas. The resulting high levels of poverty, unemployment, overcrowding, and inadequate housing has put the country's ability to fulfill its national commitment to housing to the test. It is the purpose of this paper to assess the housing finance system in Venezuela, analyze the way in which government policies meet, or fail to meet, the country's need for affordable housing, and finally to prescribe alternative policies or initiatives which may better serve the intended purpose of housing provision.

BACKGROUND: HOUSING POLICY and the BOLIVARIAN CONSTITUTION

In 1998, populist presidential candidate Hugo Chavez was elected president upon a platform of radical populist reform. Among these reforms, the focus on universality and equality remains a consistent theme. The first and most major reform was completion of the new Constitution for the Bolivarian Republic of Venezuela, which marked a complete overhaul of the legal framework of the country. The 82nd Article of the Constitution defines the central government's strong commitment to housing as follows:

> "Every person has the right to have a proper house, secure, hygienic, provided with the essential basic services, including an environment that contributes with the familiar, vicinal and communitarian relations. The progressive satisfaction of this right is a shared obligation among citizens, men and women, and the State in all of its extent. Families will be given priority by the government, which shall

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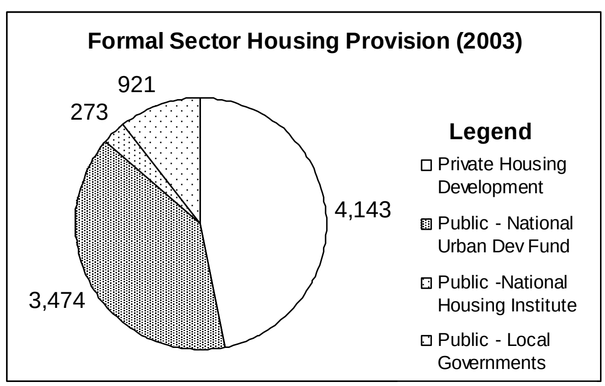
also guarantee the means by which these, and specially those with limited resources, shall be able to have access to the social policies as well as the credit for building, acquisition or enhancement of their homes."[1]

Venezuelan policies, especially those concerning housing, follow a tradition of governmental heavy-handedness. The constitutional right of all citizens to a proper house provided with essential basic services, as well as the guaranteed means for those with limited resources to access credit for building, buying, or improving their homes, defines a large commitment for any government, let alone one challenged with the political and economic instability experienced in Venezuela. It is this commitment that the country's housing programs and the country's housing finance system hope to fulfill.

THE HOUSING FINANCE SYSTEM

In order for the government to achieve its aggressive constitutional goals for housing, Venezuela must rely upon the efficiency and responsiveness of the private sector in the form of a sustainable private housing finance system. A successful housing finance system is determined by the soundness and effectiveness of the overall economics in managing of the many risks involved. The following sections describe the private housing finance system in Venezuela, the many risks involved, and the overall role of government in mitigating risks within this system.

The Current Development Environment



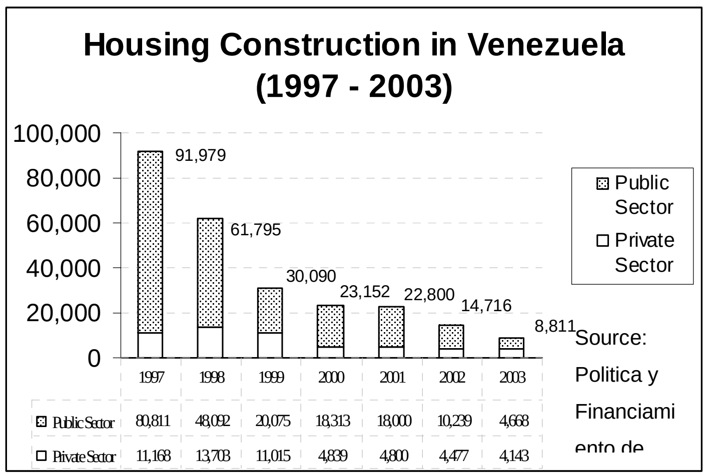
Formal Housing

Housing development in Venezuela occurs in both formal and informal sectors. Formal housing development in Venezuela is

[1] Reif, Benjamin & Quezada, Fernando. (see references)

dominated by the public sector. From 1997 to 2003, the public sector has produced approximately 80% of all new formal housing units! Public Sector Development is conducted by two national agencies, the National Urban Development Fund (Fondur), which conducts approximately 75% of all public housing development, and the National Institute of Housing (INAVI). State and local governments also produce a small amount of housing. According to the Venezuelan Camera of the Construction (CVC), 8,811 housing units were constructed by the formal sector in 2003. For a country of 24 million, the number of new units is comparable to the number of new units produced within the Greater Boston Region, which has 1/6th of the population (4.4 million).[2]

Formal sector housing development has decreased substantially since 1997. The decrease has primarily been due to a decrease in public sector spending, which decreased development from over 91,000 units per year in 1997 to just under 5,000 in 2003. Private sector housing development has not been a major factor in Venezuela, but it too has decreased dramatically, especially from 1999 to 2000. From year 2000 to 2003 it has been producing just over four thousand units, approximately one third of the twelve thousand units per year it was producing from years 1997-1999.



Informal Housing

The official housing development figures above do not include informal housing, which comprises approximately 60% of all existing urban housing units. Informal housing development, occurring without formal documentation of ownership, has traditionally filled the gap left by the inadequacy of the formal housing sector to fill the housing needs

[2] http://www.viviendaenred.com, 2004

of the urban populations. The number of new, informal housing units has been estimated by the decennial census to be equal in number to formal housing developments from 1990 to 2000, at a level of approximately 700,000.[3] However, the dramatic constriction in housing development by the public and private sectors, coupled with the continued growth in urban population since the late 1990s leads to the inevitability that informal housing development has increased in order to meet increasing housing needs.

BARRIERS TO FORMAL HOUSING DEVELOPMENT & FINANCE

In order to explain the limited role of private sector development and the dramatic drop in overall formal housing production in Venezuela, we look to explore the basic issues of finance. Understanding these issues will enable us to uncover the financial barriers for private sector housing development and gain a better overall understanding of the challenges Venezuela's housing finance system must overcome.

The Basics: Saving

In most circumstances, obtaining housing is a strong motivation for saving. In many cases, housing *is* savings. As a result of its rapid, oil-based economic growth from 1950 to 1980, Venezuela has an extensive financial and institutional framework to enable its population to retain capital. In terms of savings for housing, however, a major problem is that the current return on savings accounts is well below the rate of inflation. (14% compared to 27%, respectively.) High inflation has been a consistent problem with which government monetary policies have had minimal control. In terms of housing in Venezuela, the incentive to save money to buy a home is co-opted by a financial necessity to get rid of money as fast as possible and to save capital that is physical and won't depreciate as quickly. Without a formal base of assets that are tangible to capital

[3] Rubenstein, Jacobo.

markets, wealth is hidden, capital is rendered a ‘mystery’, and potential wealth-building opportunities are missed.

Borrowing

The banking sector in Venezuela is still recovering from the financial crisis of the mid-1990’s, where poor credit practices caused the failure of the banking system, an estimated 15 percent drop in GDP, and resulting real wages that are approximately 20% below the level of 1970.[4] The current challenges to borrowing originate at the national level. The government of Venezuela maintains a fiscal deficit that is between 6-8% of the GDP. In February 2004, the average yield of the debt of the government of Venezuela was 711 basis points above the yield of similar United States papers.[5] So if both countries were to search for financing from international markets, Venezuela would have had to offer a rate of return 7.11% higher than that of the government of the United States. The impact to the housing finance system is two-fold. First, when the government is forced to pay higher interest rates to cover its debt, government debt payments increase, and therefore there is less money to spend on governmental programs such as low income housing subsidies. Second, when the government issues new currency in order to pay off the debt, inflation is perpetuated. In all the economies in Latin America where printing money was resorted to in order to finance public expenditure, the result has been hyperinflation, such as was experienced in Bolivia in 1985 (11,000%) and Argentina, Brazil, and Peru in 1989-1992 (2,800%-3,200%).[6] Savings, credit building preferences, and any form of a housing finance system would be devastated.

Access to Capital

[4] 2004 Index of Economic Freedom, p.412
[5] Santos, Miguel “Weekly Risk.”
[6] “The Stone Age” , Santos, Miguel.

As the government has decreased public housing production, it has increased its presence in the banking sector. According to the Economist Intelligence Unit, "Heavy domestic borrowing by the government since 1999 has been crowding out private borrowing in a shallow market."[7] This "crowding out" is affecting the amount of funds accessible to the general public for construction or purchase of homes, home improvements, and home furnishings. The concentration of bank portfolios in government securities has given the government "single-buyer" influence over the allocation of credit within the system that extends beyond the regulatory controls of the central bank. In attempt to alleviate the lack of credit, the government and the country's six largest banks forged an agreement, not a regulation, whereby at least 6% of the banks' outstanding loan portfolio is to be dedicated to the private sector over the next year at a reduced interest rate set at 85% of the average market lending rate.

GOVERNMENT INTERMEDIATION: COMBINING BUYERS WITH SELLERS

National housing markets face the need to connect large numbers of buyers with large numbers of sellers. In an environment where there are many mechanical difficulties and many risks involved in granting use of funds to an unrelated party over a long period of time, the way in which Venezuela handles financial risk determines the success of its housing finance system. This section examines the operational aspects of the housing system and then the issues associated with the major risks involved.

Structure

Mortgages in Venezuela are supplied by mortgage banks, savings & loans, and Universal Banks, which are large, multi-faceted banks that have absorbed a Savings & Loan or a Mortgage Bank and who originate and service loans.

[7] 2004 Index of Economic Freedom

Savings & loans and mortgage banks are regulated by the Superintendent of Banks. Mortgages that follow underwriting requirements set by the National Council on Housing(CONAVI), and that contribute to the National Housing Fund are guaranteed by the National Savings and Loan Bank, an entity similar to the Federal Home Loan Bank, who oversee the National Housing Fund and issue loans to Mortgage Banks and Savings & Loans.

The structure of the housing finance system in Venezuela is shaped by the Law of Housing Policy (LPH). The Law establishes the National Housing Fund, the Housing Guarantee Fund, and the Rescue Funds to be administered by the National Savings and Loan Bank and regulated by the National Council on Housing. It establishes the National Council on Housing to exert the coordination, supervision and evaluation of the nation's housing policies and set underwriting standards for use of the Housing Fund. The Law also defines the national housing programs, the funding resources, the types of housing programs to be promoted (acquisition, rehabilitation, etc.), the types of housing solutions to be provided (complete houses, apartment buildings, serviced land, etc.), and the modes of individual and collective financing allowed (construction, acquisition, and home improvement loans). Finally, it describes three government subsidy levels and the way in which public funds are added to reduce interest rates on loans from the National Savings and Loan Bank according to the price of the unit to be subsidized.

Fund Raising

The main source of funding for the Mortgage Banks and Savings & Loan Institutions is from private deposits and loans from the National Savings and Loan Bank and the Housing Savings Fund.

The Law of Housing Policy details a nationwide, equity-funded housing finance system for Venezuela, with an additional subsidy program of government-directed credit for the lowest incomes. Venezuela's major homeownership finance program identified in this law is the Housing Savings Fund program, or *Ahorro Habitacional*, administered by the National Savings and Loan Bank. The Housing Savings Fund is marketed to individuals as a savings account to put towards the future purchase of a new home. The Fund pool is built upon monthly contributions from employed workers equal to 1% of their monthly wages, which is matched by a monthly contribution from their employers that is equal to 2% of their monthly wages.

Once an individual makes 12 monthly payments to the Housing Savings Fund and can make a down payment of 3.08% of the total loan amount desired, they are eligible for a loan from the National Savings and Loan Bank *(Credito Habitational Program)*, which draws upon the Housing Savings Fund. The loans granted with these resources receive a favorable interest rate, depending on the housing unit price, and are granted by mortgage banks using a mechanism of payment that guarantees the recovery of the credit and the possibility of its payment within maximum term of twenty (20) years.[8] Payments may not exceed 25% of a borrower's income.

Aside from Savings and Loan banks using the *Credito Habitacional* Progam, any agency following the underwriting standards set forth by CONAVI that utilizes the Housing Savings Fund may also gain access to the Guarantee Fund, which insures mortgage payments for Mortgage Banks and Savings & Loan Organizations. The guarantee fund is maintained by the payment of corresponding premiums, which will be a responsibility of the beneficiary of the loan. The Guarantee Fund is not described as being based on securitization of the mortgage pool, and Venezuela does not have a formal secondary mortgage market. There is also a Rescue Fund for emergency funds financed by yields gained from the Housing Savings Fund.

[8] Ley De Politica Habitacional

Funds for low income housing programs are appropriated by the government. The LPH requires that government funds are to be a minimum of 5% of the annual appropriated budget. Government funds are to be dedicated to a Special Housing Policy Fund, which can only be used to assist in the lowest category of beneficiary, with terms and conditions that are determined by the National Council on Housing (CONAVI). The funds are piled on top of the housing savings fund in order to provide a lower rate of interest for the lowest income groups.

Loan Origination and Servicing

Loan origination and servicing in Venezuela comes primarily from Mortgage Banks and Savings and Loan Institutions.

ASSESSING AND MANAGING RISK IN HOUSING FINANCE

It has been determined that housing in Venezuela has historically been a responsibility taken on by the public sector. The dramatic decrease in public sector housing has shifted the responsibility of housing to the private sector, and has thereby forced the private sector to take on a larger share of the risks previously absorbed by the government. The fact that private sector housing development has not increased with the dramatic decrease in public sector housing suggests that there are risks involved that the private sector will not readily accept. The previous section identified two potential inadequacies faced by the private housing finance system: a lack of savings by potential homeowners and a lack of available credit to enable them to leverage their savings into homeownership. The following section will explore these and other inadequacies in greater detail as *risks* involved in housing finance. Understanding the risks and how they are assessed and mitigated within the housing finance system will help us assess the system and the potential for private sector housing finance in Venezuela.

Collateral Risk

According to Hernando de Soto, "the major stumbling block that keeps the rest of the world from benefiting from capitalism is its inability to produce capital."[9] De Soto's claims are not due to a lack of capital, but an inability to hold capital in such a way that it may be leveraged within capital markets as collateral to be used towards greater accumulation of wealth. People in Venezuela have capital resources, but:

> "they hold these resources in defective forms: houses built on land whose ownership rights are not adequately recorded, unincorporated businesses with undefined liability, industries located where financiers and investors cannot see them. Because the rights to these possessions are not adequately documented, these assets cannot readily be turned into capital, cannot be traded outside of narrow local circles where people know and trust each other, cannot be used as collateral for a loan, and cannot be used as a share against an investment."[10]

The lack of clear documentation on landownership and title, as well as the lack of a documented history of landownership and title has forged a disconnect between the real estate markets and the economy in general. In short, banks refuse to lend to someone who does not have registered ownership of the land. In addition, National policy is attempting to address both issues of title and issues of land redistribution to the poor in a single program, which has decreased private property rights in order to increase equity of land occupancy. Combined, these are the largest risks for lending and housing finance in Venezuela and will be further examined below.

Legal Framework of Land Ownership

According to the Economist Intelligence Unit, government protection of private property in Venezuela is weak and "business groups argue that a land law throws private property

[9] de Soto, 2003
[10] Ibid

rights into question." The land law referred to was the 2001 Land and Rural Development Law, a follow-up to the 2000 Bolivarian Constitution which required new legislative controls in order to guide governmental actions and responsibilities. The Land and Rural Development Law details a policy of land redistribution that involves expropriating fallow land from large landowners and granting occupation rights to collectives of rural farmers. The text of the legislation enables expropriation of land for uses that the government considers to be of greater "public or social usefulness" than existing uses. The vagueness of the law is a red flag to potential investors, and the land law has received harsh criticism from the business community in fear that Venezuela is attempting to return to communist economy. Additional criticism for the 2001 Law is that the government should have instead prioritized clarification of land ownership in urban areas, where 90% of the public lives and 60% of the population lives on unregistered property. Efforts to promote relocation into rural areas cannot be the answer. In terms of housing finance, the urban problem of land entitlement and collateral is summarized as follows: (1) Over sixty percent of all low-income, exist on lands not owned by their occupants; (2) Banks will not lend to people for building on unregistered land; and (3) Venezuelan Law has clearly established the fact that land transactions can not be registered with out the expressed consent of the registered landowner.

Government Intervention into Land Ownership

Legislation on urban land entitlement has not been a priority for the government, as the most important and urgent need is to provide public utilities and other basic public services to the occupiers. Provision of services, mandated by the Constitution and necessary to address critical needs of the population, effectively works to perpetuate the legalization of invasions and squatter settlements and erodes property rights of landowners. Recognition of private property rights in urban areas can be seen only through observation that illegally occupied private lands are likely to take longer to be consolidated (serviced) than illegally occupied government lands. The end result is that the government has accepted the status quo of "good-enough" tenure, that is declared without title or registration by the fact that the house is receiving services.

Government Opportunities

The main problem of lack of collateral and clarity of ownership in Venezuela stem not from the fact that the land is illegally occupied, but rather it is the lack of clarity as to who is the true legal owner of the illegally occupied lands. If the government is to mitigate collateral risk effectively, it must first conduct large scale documentation of land ownership. Before new land may be registered and existing squatter settlements may be legalized, existing land entitlements must be assembled, mapped, made public, and then determined to be official as of a specific date. This method is basically a "cut-your losses" approach, which would create a present-day snapshot of landownership to formalize land occupancy and turn "pretty good" informal tenure situations into formal, registered land entitlement.

Private Sector Actions and Opportunities

Private sector actions to address collateral risk go beyond a bank's refusal to grant loans to persons without land registration papers. In fact, private markets are beginning to view Venezuela's real estate markets as untapped potential and "high yield" investment opportunities. The main vehicles being used by the private sector to limit risk in accessing this potential are title insurance and expropriation insurance. Currently, such insurance is available in Latin America only as underwritten by several U.S. underwriters, but the potential is viewed as such that local underwriting could be possible:

> Since the beginning of this decade, real estate has been one of the best performing assets in Latin America. The absence of long-term real estate financing may create favorable investment conditions because speculative building is prevented.

> Investors with cash are in a good position to find opportunities for construction or acquisition of well-performing assets. [11]

Though title insurance is clearly be seen as a benefit to international corporate investment, it is of questionable value to the majority of Venezuelans living in informal developments. Whereas 60% of the market is on unregistered land and when over 70% of the population is impoverished, title insurance may only be a benefit to the existing formal economy. This underscores the fact the private sector cannot work without the help of the government. Without benefit of a clear and solid foundation of land entitlement documented by the government, title insurance cannot fully dissolve collateral risks existing in Venezuela to the benefit of the housing finance system.

Liquidity Risk

Liquidity risk has been informed by lessons learned in the crisis of 1994-1995, where half of Venezuelan Banks were declared insolvent. Government Banking requirements that tightened supervision, increased reserve requirements, and increased foreign bank ownership reduced the risk and stabilized the banking system in Venezuela such that the recession of 1999 and a recent 29% contraction of the economy in 2003 (a scale comparable to that of the great depression), were weathered successfully by the Fondo de Garantía de Depósitos y Protección Bancaria (FOGADE), the government deposit insurance regulating body. The liquidity risk of *housing* finance in Venezuela is reduced by two funds described in the Law of Housing Policy: the Guarantee Fund and the Rescue Fund. These funds function as a source for liquidity for the National Savings and Loan Bank, which is Venezuela's version of the United States' Federal Home Loan Bank. Venezuela does not securitize its mortgages, though CONAVI oversees mortgages with standardized underwriting standards.

Actions and Opportunities

[11] Title insurance Article

The lack of a secondary market is a future opportunity for Venezuela to grow the mortgage market by improving the liquidity of mortgages, increasing access of depositories to wholesale funding, and enabling lower mortgage rates. The current role of CONAVI in establishing underwriting standards for use of the national Housing Savings Fund could enable it to establish itself as a leader in the secondary mortgage market system, setting the standards for underwriting, documentation and terms for mortgages it may purchase and bundle in a secondary market. Private lenders would gain greater incentive to offer standardized products with the possibility of immediate liquidity from the mortgages they originate. The result would be a decrease in mortgage rates in Venezuela due to a decrease in liquidity premiums encountered by an asset-pooling system without a secondary market.

Political Risk

Abrupt, large scale changes are the definition of political risk, but they are also the platform by which President Hugo Chavez was elected president. Since his election there has been a new Constitution in 2000, followed by a new framework of legislation, and presidential mandates that appear on a regular basis. Though they follow a populist agenda, the policies of the country are considered by critics to be those of the President himself, who is seen by some as "the alpha and the omega" of the country's politics. In addition to the risks of radical reforms set forth by the current government, the tenure of the President is continually at risk, as evidenced by a short-lived coup in 2002, a political protest which grinded the economy to a halt in 2003, and a popular referendum for the removal of Chavez in 2004. The nature of this agenda has raised the amount of private sector risk such that Venezuela's risk rating reached 4.18 out of a possible 5 (the worst) in the 2004 Index of Economic Freedom.

Locally, politics is not viewed as operating within a framework of laws. As documented by one local businessman, "Here in Venezuela, we do not have real laws. You hear of one today and the next day you hear nothing more of it."[12] However, the dramatic drop in housing production which occurred after the introduction of the new Bolivarian Constitution in January of 2000 suggests that real laws have real consequences when it comes to housing production in Venezuela, and that political risk is a major barrier to both local and international investment.

Actions and Opportunities

The solution to political risk in Venezuela can only be found in corralling political operations within legal and institutional frameworks. Stabilization of the Country's political fabric is more than just removal of a single elected official. The Economist Economic Investment Unit Forecast states that "whether or not Mr. Chavez continues as President, the political environment will remain unconducive to economic development."[13] Therefore, long-term and concerned efforts to heal the institutional framework of Venezuelan politics are crucial to alleviating political risks within the financial market.

Cash Flow Risk

Cash flow risk and uncertainty with respect to future real cash flows are crucial factors affecting housing finance within Venezuela. The main concern for Venezuelan lenders is interest rate risk and the real value of the future loan payments, made in local currency. Venezuelan banking law determines that all mortgage loans are fixed rate, for terms up to 25 years, for up to 75 percent loan to value.[14] Volatility in the market has made it difficult for financial institutions to calculate interest rates for these fixed rate medium and long-term loans, which are based mainly on yields derived from short term government notes.[15] In the past seven years, market interest rates have fluctuated from 17 to 64%, while inflation has ranged from 12.3% to 103.2%. The result has led to a

[12] The View From the Barrio
[13] Economic Report for Venezuela, EIU, 2004
[14] Low-Interest government subsidized loans may be issued for up to 95% LTV
[15] Finance Report for Venezuela, EIU, 2003

decrease in the real value of money, and the real value of fixed-rate loan repayments to banks. The real value of repayment of a market-rate *Bs.*1 million loan originated in 1990 worth a real value of *Bs.* 845,169 in 2000. In comparison, a *Bs.* 1 million loan made from the government subsidized rate was worth only 80,219 Bolivars in 2000. The response of such a situation by private banks has been increasingly high loan rates, very few private loans offered, and even fewer long-term private loans.

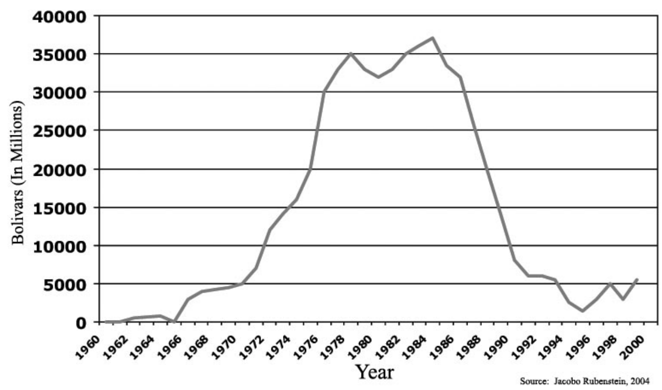
Actions and Opportunities

The Central Bank of Venezuela continues in its attempts to manage inflation, but its ability to do so has been weak. With exchange rate controls, linking of the Bolivar to the dollar, and devaluation of the local currency, the Central Bank has still not been able to control inflation rates successfully. In order for lenders to fully mitigate cash flow risk in Venezuela, the government could allow underwriting for 'real value' long term loans that counteract the negative effects of inflation upon mortgage lenders in the form of real value interest rates that are indexed to the market. Until the country separates itself from its dependency on oil markets and successfully stabilizes its political institutions, interest rates will continue to be subject to extreme market fluctuations.

System Risk

Venezuela is a prototypical example of a country with a high degree of system risk within its financial markets. Venezuela's economy is greatly dependent upon the oil industry and subject to the boom and bust cycles. The power and influence that this industrial sector holds over Venezuela's financial systems was proven recently in 2003, when a strike by oil workers brought the economy to a halt and saw the country's GDP decrease by 27% in the first quarter of 2003. The influence of the boom and bust cycles on mortgage lending in the country are equally dramatic, as viewed by the chart below.

Oil Prices and the Mortgage Lending in Venezuela



Actions and Opportunities

Venezuela is taking steps to free itself from its system-wide dependency on oil prices and the oil sector. In 2000, a fiscal stabilization fund was created to accumulate a portion of oil revenues when prices are high, to be used when oil prices fall. In 2001, the Reform to the General Law on Banks and other Financial Institution mandates that 1-3% of their total loans be lent to small businesses.[16] Partnerships programs with the World Bank, designed to "increase the productivity of non-oil resources"[17] have delivered over $200 million in loans and grants for new services and infrastructure. Risk within mortgage lending has also been abated through tightened regulations, mortgage guarantee funds, and increased reserve requirements for all lending agencies including mortgage banks and savings and loans.

Agency Risk

Agency risk within the Venezuelan Housing Finance system has resulted in governmental prioritization of monitoring and regulation of banking institutions. Since the collapse of 1994-1995, the government has relied heavily upon large reserve requirements to insure liquidity within the banking system and stop system-wide spread of economic instability. These reserves have been tapped in recessions in 1999 and again in 2003, but due to strict government enforcement of the reserve requirement and quick government crisis

[16] EIU Finance Report 2004
[17] World Bank

intervention, liquidity was maintained. However, agency risk remains within the system, as ultimate responsibility for upholding liquidity falls upon Fogade, (Fund for Deposit Guarantee and the Protection of Banks). Fogade insures depositor accounts for up to 10 million bolivars. The agency still owes the Central Bank 1.36 trillion bolivars from interventions in the 1994-1995 banking crisis and, according to the Economist Investment Unit, would not be able to handle another crisis of that size.

Actions and Opportunities

Agency risk is best reduced by efforts that make banks responsible for the investment risks that they take with their deposits. Venezuela's strict regulations and large reserve requirement control bank actions and reduce incentive for excessive risk-taking by lending institutions. However, the government has gained greatest attention by lenders in its threats of interest rate reductions, due to the greater potential for loss to banks in private equity. Unfortunately, this attention has been directed towards political targets and not the promotion of more economically sound, risk-averse activities by banks. Mandates for promoting politically supported lending targets, such as agriculture and small business lending, which, when combined, amount to requirements for 16-18% of each bank's total lending. Though these mandates are intended to promote market diversification and reduce long-term system risk, such strict intervention may actually increase short-term risk within the markets by mandating lending in potentially risky arenas.

CONCLUSION: THE FUTURE OF HOUSING FINANCE IN VENEZUELA

The Government of Venezuela holds a Constitutional obligation to provide housing and services to the entire country. Current trends in housing production and fiscal debt levels suggest that the government will have to rely upon private housing markets and a sustainable private housing finance system in order to uphold this obligation. To promote a sustainable private housing finance system in Venezuela, the government must first and foremost address the barriers to investment and counteract the many financial risks existing within the system.

This paper has identified the major risks to housing finance in Venezuela and calls for three major actions that the government may conduct to address these risks and take advantage of existing financial opportunities. The first such action is to clarify property rights within urban areas to reduce collateral risk. Until the government is able to recognize, incorporate, and document the land tenure held by 60% of the urban population, capital opportunities will be hidden from the markets, property rights will be held in question, and risks of future land invasions will remain as barriers to investment. The second major action called for by the government is to hold consistency in its policies and actions that recognize and handle issues such as informal land settlements and housing finance. Until the country's political infrastructure is bounded more tightly by legal and institutional frameworks, political uncertainty will remain a large risk within the private housing finance system. The third major government action to benefit housing finance is to reduce cash flow and system risk through stabilization of the Venezuelan economy. In the short term, the government must gain better control over inflation and then ensure that formal regulatory policies maintain this control. In the long term, the country must continue its efforts to diversify the economy and reduce the economy's dependence upon oil prices and the oil industry.

Without serious efforts to reduce financial risk, banks and lending institutions in Venezuela will continue to resist lending to private markets, and the housing finance system will continue to under-provide for the population. In the absence of a sustainable private housing finance system and with neither private nor public sector housing opportunities available to them, the majority of Venezuelans will be better served through informal housing. Though too risky for banks and lenders, precarious tenure and landownership situations will continue to be "good enough" for those without access to capital markets, and the government will be forced to continue its reactive position of providing infrastructure and services to alleviate basic health and welfare concerns in these areas. However, with directed actions to control specific risks associated with private housing finance, the government of Venezuela may effectively promote formal housing opportunities and better uphold its Constitutional obligation to the Venezuelan people.

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