

Brazil's Housing Finance System: the potential to address past accumulated needs and future demand



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Rio de Janeiro, setembro de 2015
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Housing Finance in Brazil

Housing Credit to GDP ratio:

2,3% of GDP in Dec/2008

8,2% of GDP in Dec/2013.

SFH's Strategic Potential:

- Potential to raise funds;
- Below market regulated rates;
- Credit interest rates X Brazilian families' payment capacity.

Structure of presentation

- Brief retrospective;
- SFH: rates; deposits and financing volumes; current challenges;
- Housing needs and new demand;
- Financing and payment capacity;
- Sensitivity to interest rates;
- Final remarks.

Brasil's Housing Finance System

Retrospective:

IAPs and FCP (from 30's to 60's): 150 thousand housing units financed;

Creation of the Housing Finance System (SFH) in 1964:

- FGTS (Provident Fund): compulsory deposits;
- SBPE (Savings & Loans): voluntary deposits;

SFH/BNH (1964-1986): 4,5 million housing units financed;

Extinction of the National Housing Bank (1986)

90's

Revamp of SFH (from 2005 on)

SFH (2000-2014): 9,1 million housing units financed.

Brasil's Housing Finance System

SFH/BNH (1964-1986):

Interest rates paid to deposits:

- FGTS: 3% a.a. + indexation
- SBPE: 6% a.a. + indexation

High inflation: over 200% per year in 1983 thru 1985

Interest Rate Mismatch between installments and credit balances

Diference absorbed by FCVS

Unsustainability of the system

Brasil's Housing Finance System

SFH (1991...):

Substitution of indexation by the Reference Rate (TR): not a price index, composes both deposit and credit's interest rates (installments and balances);

Interest rates paid to deposits:

- FGTS: 3% + TR per year ;
- SBPE: 6% + TR per year, or 70% of SELIC, when $SELIC \leq 8,5\%$ (2012);

SFH (Sept/2015):

Interest rates charged on credit: from 5,16% to 10,5% + TR per year;

- FGTS: 5,16% to 8,16% + TR per year;
- SBPE: 8,5% to 10,5% + TR per year;

Market rates: from 11% + TR per year;

Selic (Sept/2015):
14,25%

Brasil's Housing Finance Systems

Volume of funds raised:

SFH (Dec/2014): BRL 932.7 billion

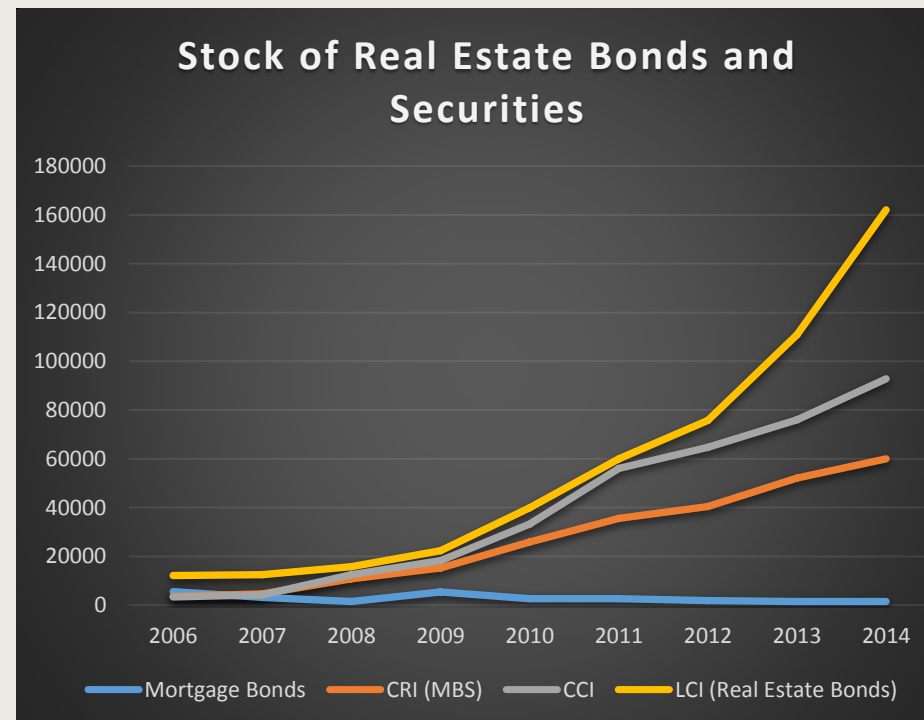
- FGTS: BRL 410.4 billion;
- SBPE: BRL 522.3 billion;

Proportion of housing loans in funds:

- FGTS: 43,5 %;
- SBPE: 52,2%;

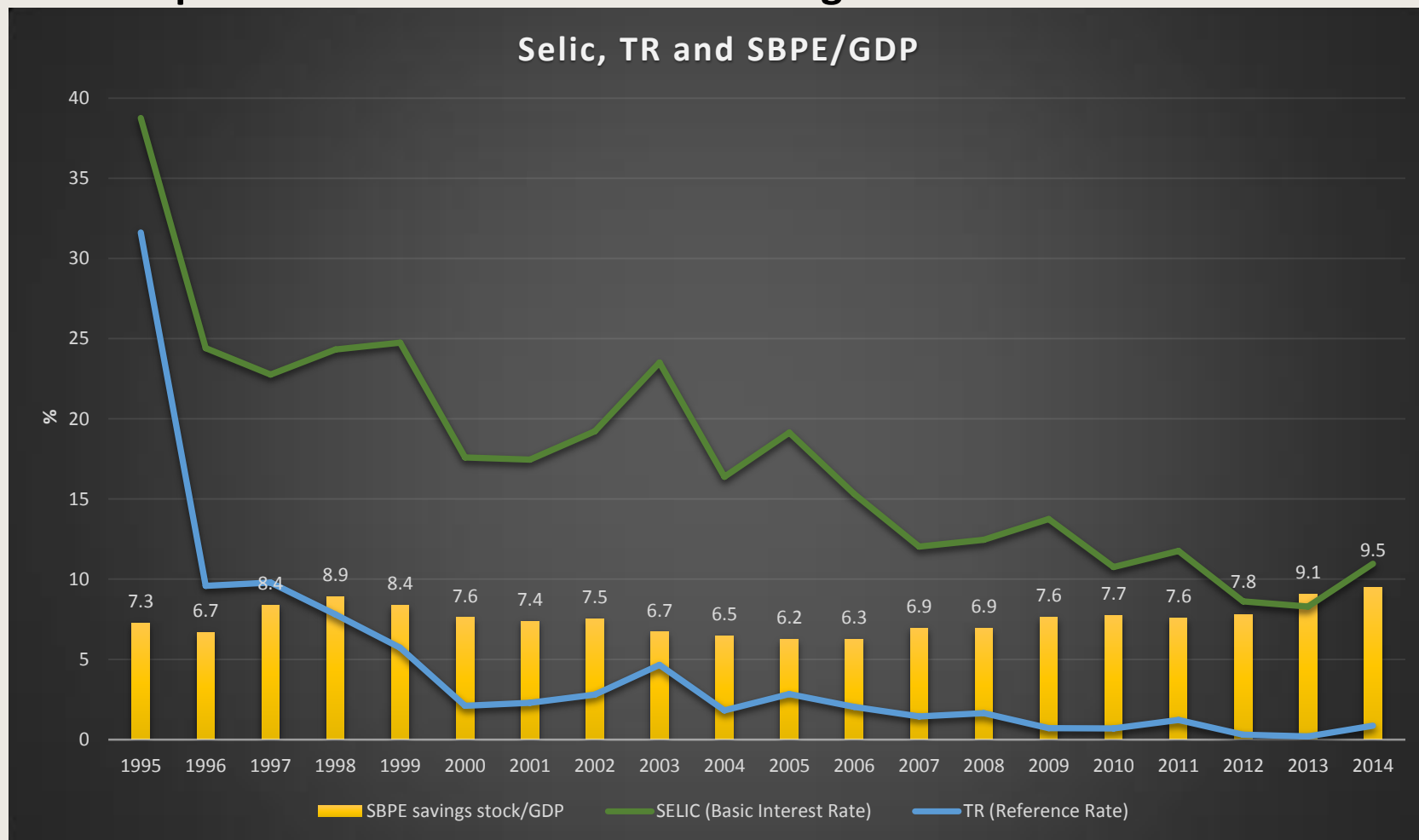
SFI (July/2015): BRL 338,3 bi

- LCIs: BRL 182 billion;
- CCIs: BRL 96,4 billion;
- CRIs: BRL 58,8 billion;



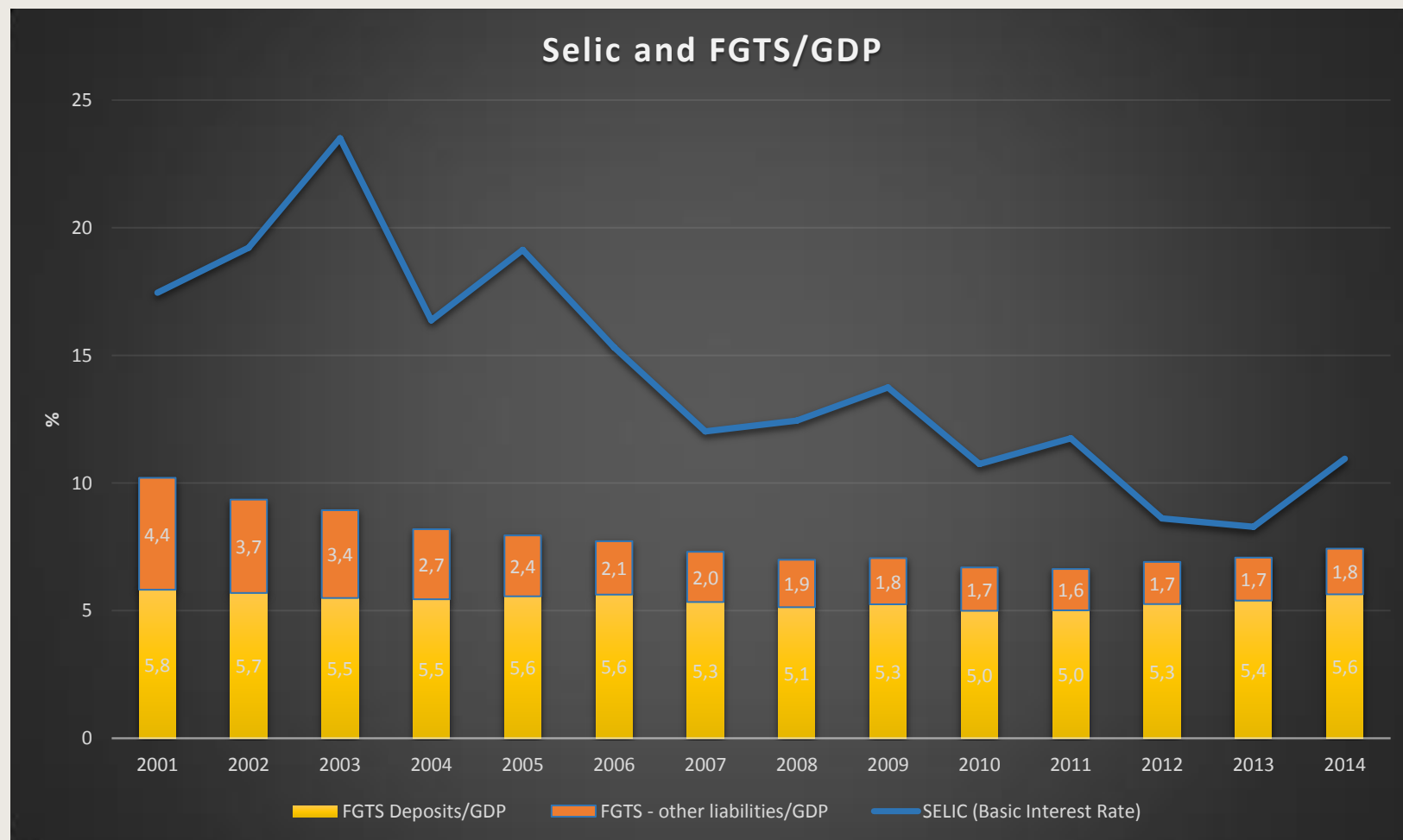
Made by the author based on CETIP's data. Values inflated to July/15 by the IPCA.

SBPE: deposit stock to GDP ratio – an average of 7.6% from 1995 e 2014



Made by the author based on data from Brazil's Central Bank and IPEADATA.

FGTS: total liabilities to GDP ratio - average of 7.8% from 2001 to 2014

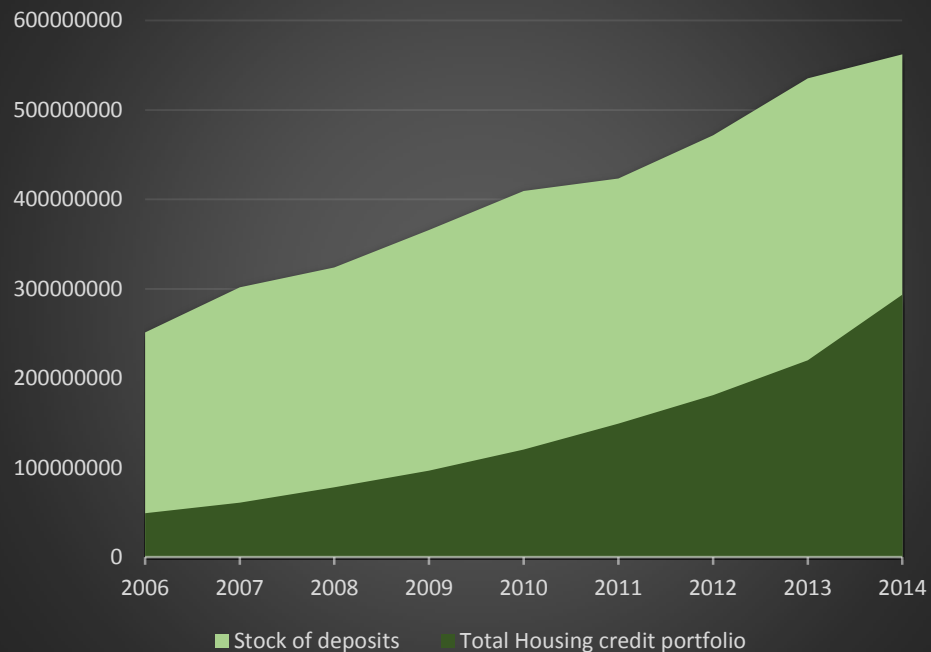


Made by the author based on FGTS' financial statements and IPEADATA.

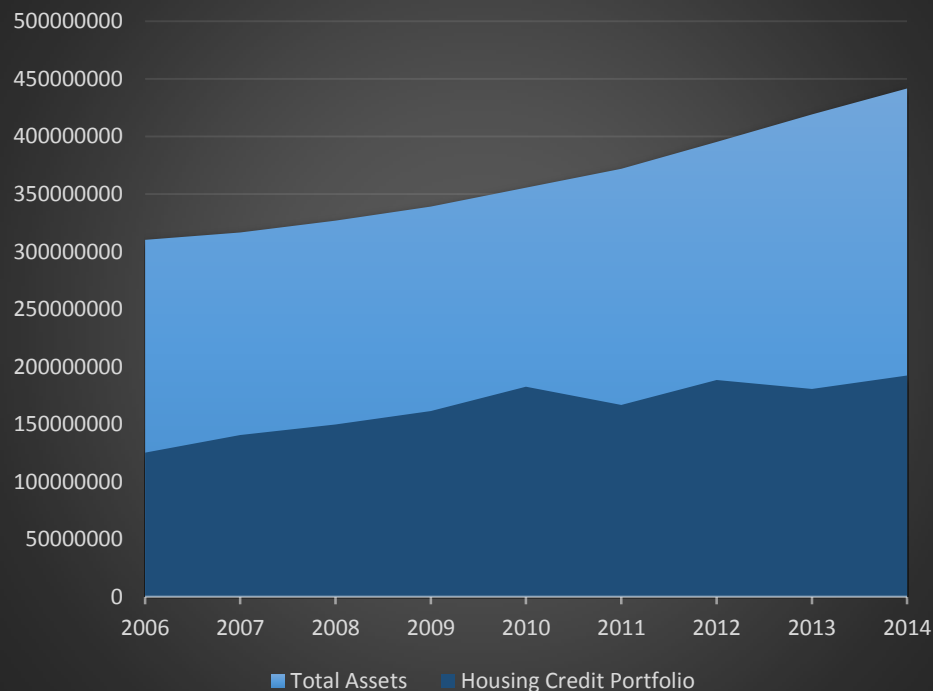
SFH: SBPE and FGTS

Stock of Deposits X Housing Finance Portfolio (SFH)

Housing Finance - SBPE



Housing Finance - FGTS



Made by the author based on Brazil's Central Bank and FGTS's Financial Demonstrations. Valued inflated by the IPCA to July/2015.

SFH: Current Challenges

- Macroeconomic Scenario: lower capacity to collect deposits
- SBPE
 - net record positive fund raising = BRL 54.3 bi in 2013;
 - net record negative fund raising = BRL 45.8 bi (Jan to Aug/2015);
- Resolution # 4410/2015, raises reserve requirements from 20% to 24.5% (may be deducted by increased housing credit balances);
- FGTS
 - financial investments X credit demand;
 - proposition to raise interest rates paid on deposits up to SBPE level (6% + TR).

Housing needs and new demand

Accumulated housing needs in Brazil:

Deficit 2012: **5.8 million units** (Fundação João Pinheiro, 2014)

Projected Demand (Cedeplar 2007, Planhab, 2009):

2012 to 2015: 5.2 million units

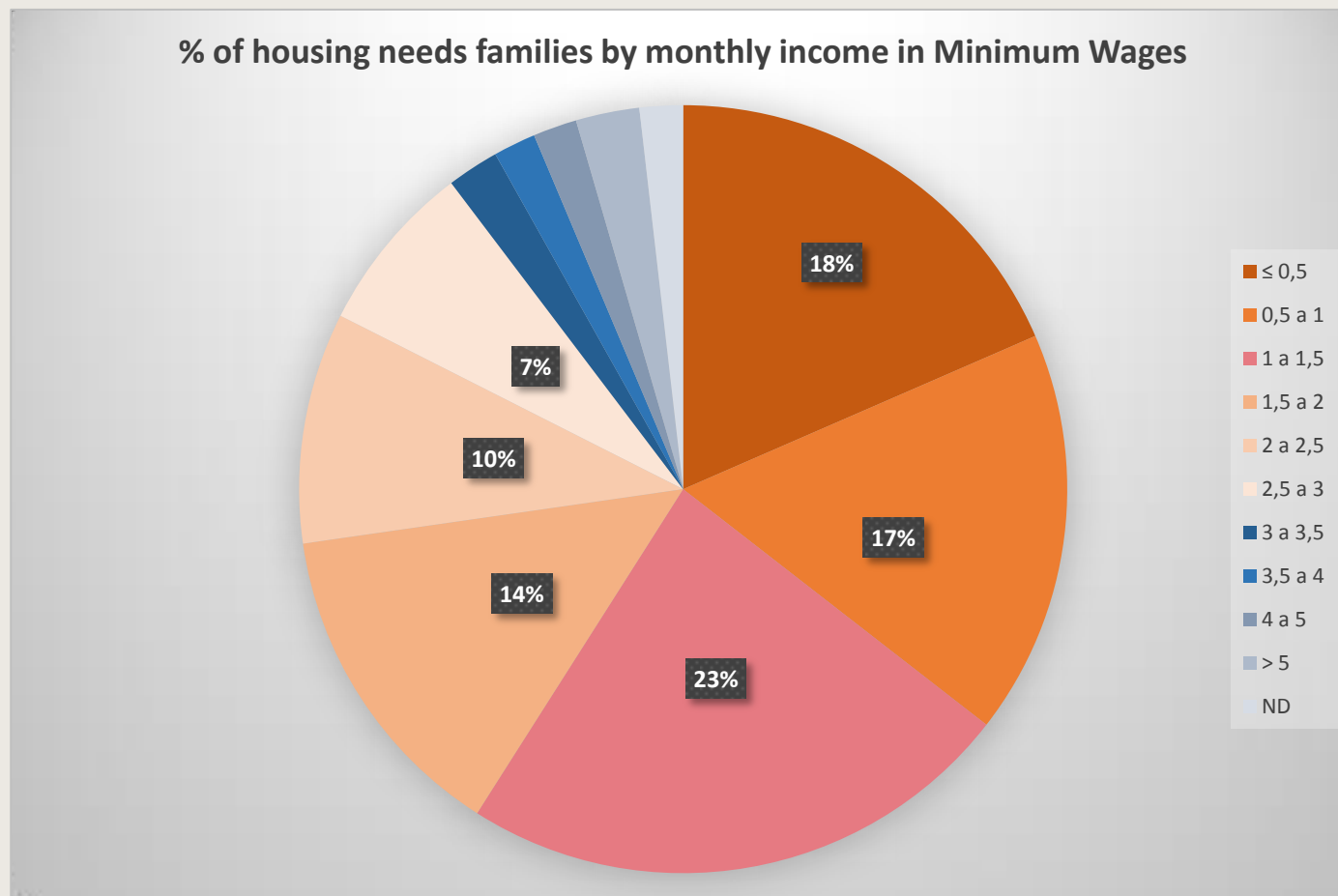
2016 to 2019: 5.9 million units

2020 to 2023: 7.2 million units

Total 2012 to 2023: 18.3 million units

Housing needs in Brazil (2013)

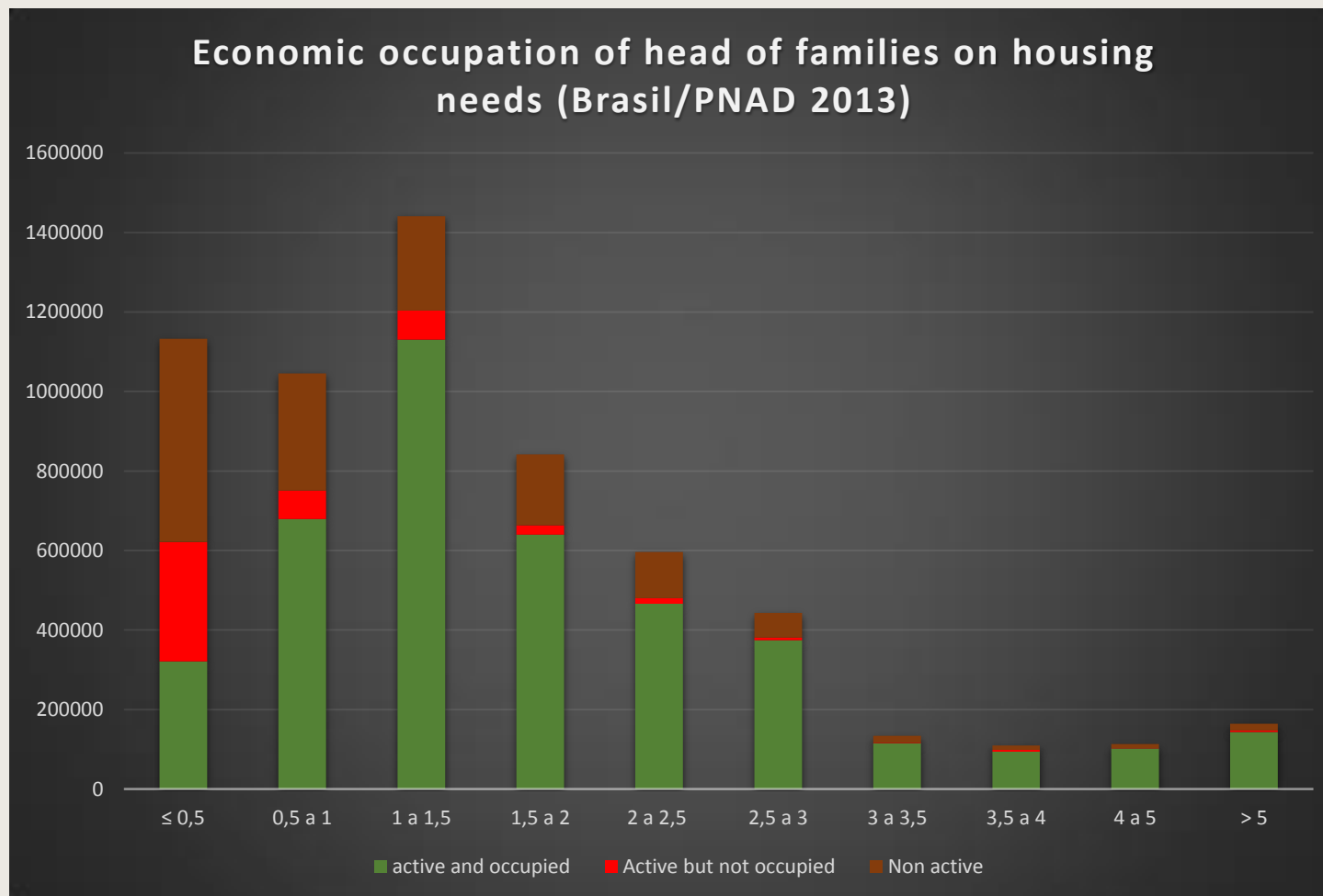
Families in the housing deficit: distribution by income (in Minimum Wages)



Made by the author based on PNAD/IBGE 2013 data. Minimum wage at BRL 678.00 in 2013.

Housing needs in Brazil (2013)

Economic occupation: head of families in the housing deficit (2013)



Made by the author based on PNAD/IBGE 2013 data. Intervals of minimum wages at BRL 678.00 in 2013.

Payment Capacity/ Loan Installment to Income Ratio

Families's Budget Research (POF/IBGE):

Income Intervals	Installment to Income Ratio	Standard Deviation
Up to BRL 1,600.00	22%	0.184
> BRL 1,600.01 to BRL 3,100	12%	0.108
> BRL 3,100.01 to BRL 5,400	10%	0.087

Schor, Magalhães Eloy and Rosalino, 2013, based on POF/IBGE 2008/2009 data.

Study conducted by CAIXA (2013) on its loans: average IIRs are,

- FGTS: 15%
- SBPE: 17%

Introduction of more restrictive criteria to determine payment capacity (Resolution CMN # 4.271/2013):

II - in relation to the payment capacity of the credit applicant:

- a) assessment of the adequacy of income based on demonstrations of expenses and monthly income including verification of expenses and non-recurring or extraordinary income;
- b) assessment of payment capacity considering the income commitment with other financial obligations previously assumed by the credit applicant as well as the expenditure amount necessary to meet an existential minimum; and,
- c) income commitment determined based on the highest monthly charge established in the credit contract.

Access to credit

Simulating Housing credit, based on families incomes, at different interest rates

Parameters:

- Loan term: 360 months
- Int rates: from 5% to 11% per year (added by the TR)
- Adm tax (monthly): zero (FGTS/PMCMV) or BRL 25.00
- Installment to Income ratio: from 15 to 25%
- Amortization System: SAC (Constant Amort) and PRICE

PNAD/IBGE (2013):

Total number of families in Brazil	68,419,581	
Total number of families with incomes up to BRL 5,400.00	58,371,494	85%
Families with no income*	1,673,527	2%

*At the interview, income declared was zero.

Housing Finance Access: FGTS and SBPE

Comparing rates within SFH and results on credit access:

FGTS

Amortization: Price
Int rates: 5%/8,16%+TR
Adm tax: zero
IIR: 15% (CAIXA)

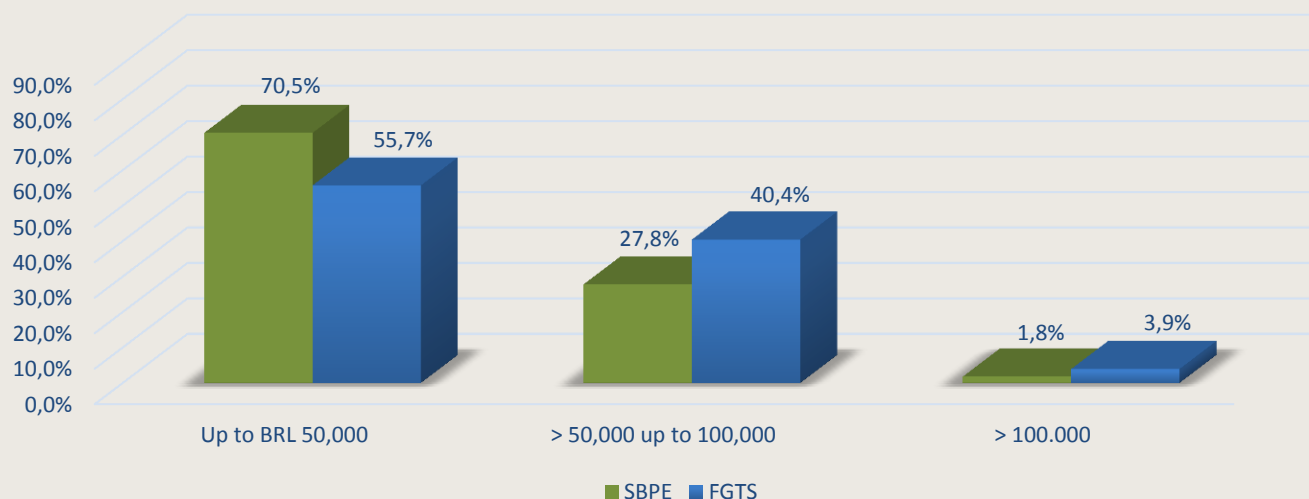
Financing Value BRL	
Min	10,007
Average	49,024
p25	27,643
Median	44,395
p75	66,322
Max	109,886
# families	54.2 million

SBPE

Amortization: Price
Int rates: 8,5%+TR
Adm tax: BRL 25,00
IIR: 17% (CAIXA)

Financing Value BRL	
Min	10,038
Average	40,261
p25	20,738
Median	33,850
p75	54,589
Max	110,000
# families	51.2 million

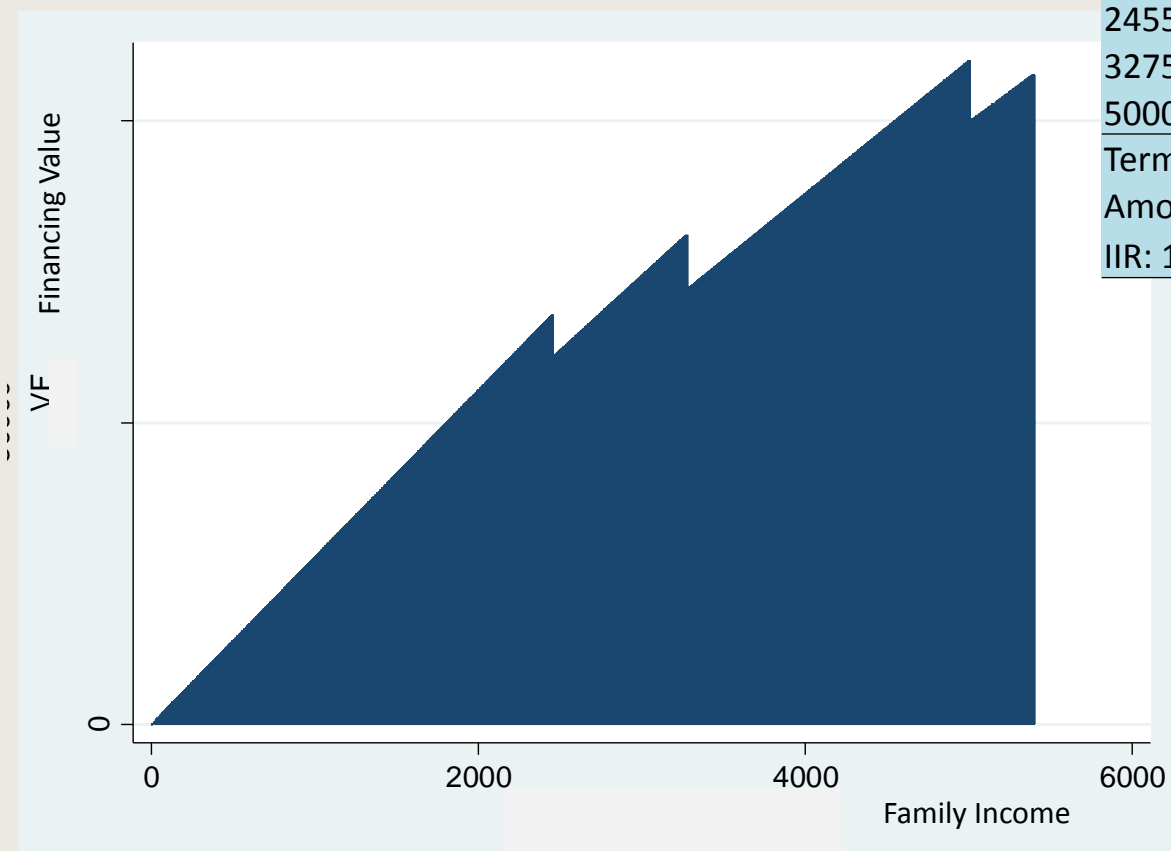
% of Families



Made by the author based on PNAD/IBGE 2013 data and SFH financing conditions. Financing values <10,000 were not considered. Families with Incomes restricted to FGTS limits.

FGTS financing

Interest Rates vary according to income: discontinuity



FGTS: Family Income and Interest Rates	
≤ 2455.00	5% + TR
$2455.00 < x \leq 3275.00$	6% + TR
$3275.00 < x \leq 5000.00$	7,16% + TR
$5000.00 < x \leq 5400.00$	8,16% + TR
Term: 360 months	
Amortization: Price	
IIR: 15%	

Made by the author based on PNAD/IBGE 2013 data and FGTS/PMCMV financing conditions.

Housing Finance Access: Families in the Housing Deficit

Financing thru FGTS (lowest rates applicable)

Brasil

Families with no
income: 2%

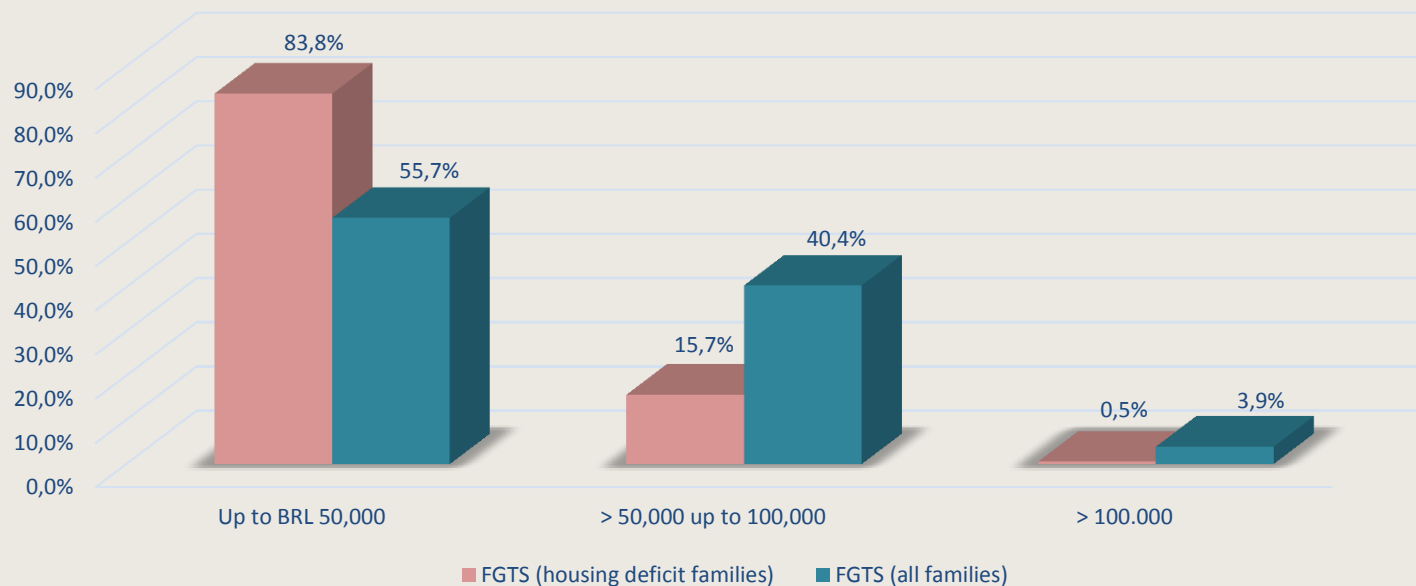
Financing Value BRL	
Min	10,007
Average	49,024
p25	27,643
Median	44,395
p75	66,322
Max	109,886
# families	54.2 million

Deficit

Families with no
income: 9%

Financing Value BRL	
Min	10,007
Average	33,482
p25	20,124
Median	27,643
p75	41,465
Max	109,868
# families	4.8 million

% of Families



Made by the author based on PNAD/IBGE 2013 data and FGTS/PMCMV financing conditions. Financing values <10,000 were not considered.

Housing Finance Access: SBPE

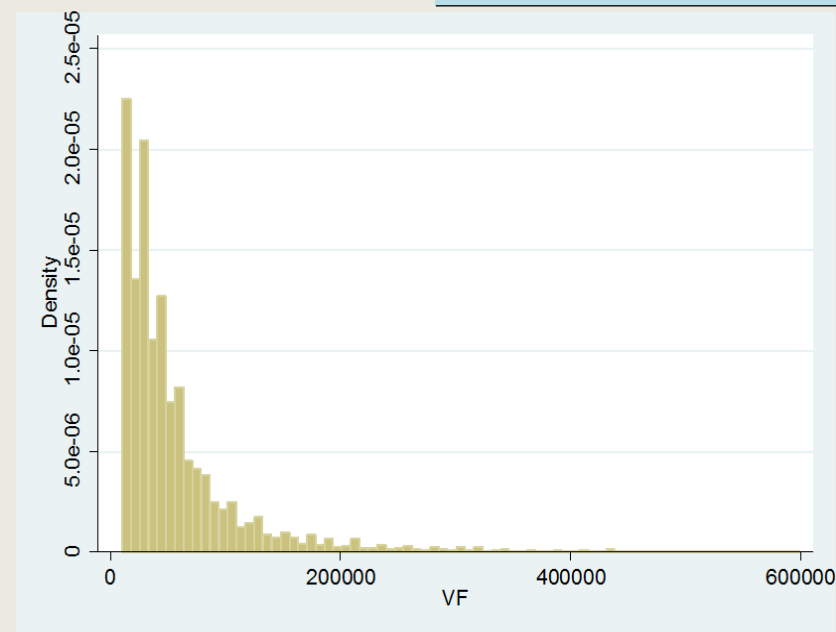
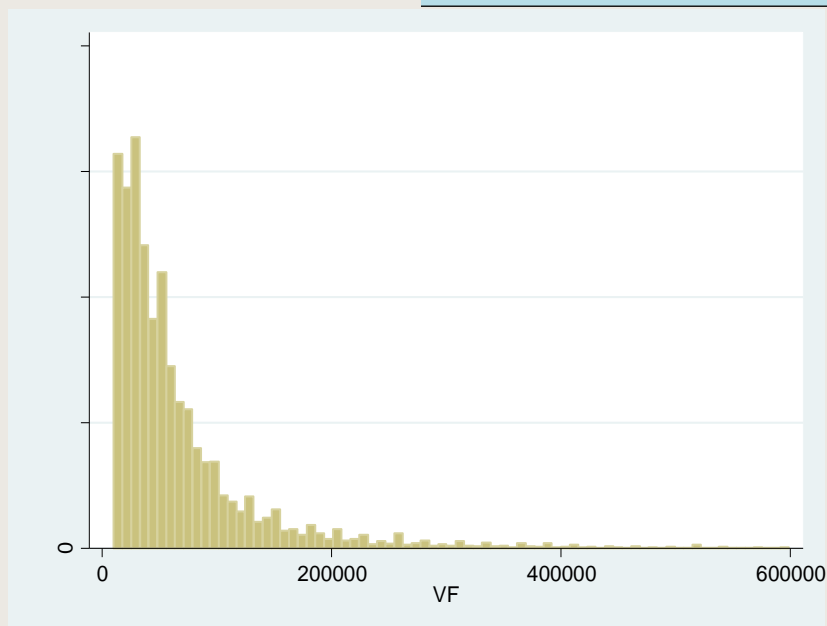
Parameters: Term: 360 months Amortization: SAC Int rates: from 8.5 to 11% +TR
Installments include the adm monthly tax of BRL 25.00 IRR: 25%

Interest rate: 8.5% +TR

Financing Value BRL	
Min	10,001
Average	69,073
p25	27,346
Median	46,306
p75	80,631
Max	599,004
# families	59.7 million

Interest rate: 11% +TR

Valor Financiável R\$	
Min	10,033
Average	59,282
p25	23,887
Median	39,067
p75	67,319
Max	599,355
# families	59.1 million



Made by the author based on PNAD/IBGE 2013 data. Financing values <10,000 were not considered.

Other credit conditions that influence accessibility

- LTV:

Regulatory: max 80% (Price) or 90% (SAC)

Average LTVs (Dec/2013, Central Bank, 2014):

- at credit concession: 70,1%
- stock with no update of collateral values: 66,3%
- stock with update of collateral values : 54,8%

- Price x SAC

Final Remarks

- Housing finance at Market conditions is not accessible by most Brazilian families;
- The below Market rates provided by SFH funds – FGTS e SBPE – increase Housing finance affordability;
- There are families, especially in the Housing needs group, that can not afford to access credit to buy a Market unit, even at the subsidized rates provided by SFH.



Thank you!

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