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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

DEVELOPMENT GUARANTY PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

BRAZIL - NATIONAL HOUSING BANK

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-678
February 19, 1968

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Brazil - National Housing Bank

Attached is a revised page to be inserted in the subject Housing Guaranty Paper.

The recommendations for authorization of a guaranty of not to exceed \$18,000,000 assuring against losses of not to exceed one hundred per centum (100%) of loan investments by an eligible U.S. Investor or Investors acceptable to A.I.D. for the long-term financing of pilot demonstration, local participation and mortgage credit institution housing projects to be constructed in Brazil were discussed by the Development Loan Staff Committee at a meeting on Thursday, February 15, 1968.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachment: (Revised February 19, 1968)
Memorandum for the DLC, p. 5

Previously Distributed: February 9, 1968
Memorandum for the DLC
ANNEXES I and II
EXHIBITS I-V

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MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Housing Guaranty Applications - 1966 Program - BRAZIL
Request for Guaranty Authorization

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MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Housing Guaranty Applications - 1966 Program - Brazil
Request for Guaranty Authorization

There is presented for your review and consideration a discussion of the recommendations and issues resulting from the feasibility studies of projects submitted under the 1966 Program for Brazil.

I. INTRODUCTION AND BACKGROUND SUMMARY

A. Tentative Allocation for Brazil

A tentative allocation of \$18 million was made for Brazil.

B. Total Applications

The Agency received a total of seventeen (17) applications for Brazil. One of these was returned to the sponsor because of non-conformity to the program guidelines and two were never re-submitted by the sponsors after they had been returned for incompleteness. The remaining fourteen (14) applications which received pre-feasibility studies requested a total in proposed guaranteed loan investments of \$50,283,807. ^{1/}

C. Approved for Feasibility Study

At its meetings of September 8 and 27, 1967, the HGRC approved seven (7) projects for full feasibility study. The value of these projects, as approved for feasibility studies, was \$26,000,000.

D. Conditions of HGRC Approval for Feasibility Study

The Committee set as conditions to the final approval of mortgage credit institution projects HG#14 and HG#15 that:

1. They must agree to terminate all manifestations or vestiges of contract or "linked" savings and change to a system of purely free savings;
2. and the current system, which utilizes savings as loans to companies or projects in which association directors, officers, or employees may have a direct or indirect financial interest must also terminate.

These conditions have been agreed to.

¹ See Annex 2 for a full list of projects submitted.

II. SUMMARY AND RECOMMENDATIONS 2/

A. Summary

A summary of the projects recommended for guaranty authorization is included herewith as Annex 1.

Project HG#5, Domus Mariae, which was listed as priority number 2 in the recommendations for feasibility study has been withdrawn by the sponsor. Therefore, although it did receive a full feasibility study, it has been excluded from any further discussion in the memorandum.

B. Recommendations

1. Upon the basis of its analysis of the applications and the reports of USAID, FHA and the Washington Savings and Loan Association, LA/HUD recommends approval of the following projects, in the amounts indicated for guaranties: 3/

a. HG#1	\$2.7 million
b. HG#3	4.9 million
c. HG#7	3.0 million
d. HG#9	3.4 million
e. HG#14	3.0 million
f. HG#15	<u>1.0 million</u>
TOTAL	\$18.0 million

2. LA/HUD further recommends that the entire \$18 million be provided in the form of a loan to the Banco Nacional de Habitacao (BNH). The contracts would specify the sub-lending to the various approved applicants. This recommendation is more fully discussed in Section IV, below.

III. PROJECT DESCRIPTIONS

A. HG#1 - Applicant: Gomes de Almeida (\$2.7 million)

This project consists of 650 semi-detached expandable two-bedroom houses to be located in a suburb of Sao Paulo.

The project was submitted in the Local Participation category and requested a guaranty on \$2,742,187 of U.S. Investment with \$914,062 to be invested by the Brazilian local participant.

2/ See Section V for proposed implementation procedures.

3/ See Section III for a general description of each of the projects recommended for guaranty and Annex 1 for a summary list of these projects.

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The applicant has submitted a very fine site development plan that eliminates any type of through traffic from the community. The streets are generally curved and parks and other public spaces are dispersed throughout the development.

An automatic home owners' association is proposed and the ownership of the following facilities will be vested in this association: Community building, one house for project manager, fully developed park and recreation spaces, a church site, a health center, a police station and a second house for use of a social worker.

B. HG#3 - Applicant: Gomes de Almeida (\$4.9 million)

This project consists of 1,150 semi-detached expandable two bedroom houses, to be located in a suburb of Rio de Janeiro.

The project was submitted in the Local Participation category and requested a guaranty on \$4,936,950 of U.S. Investment with \$1,645,650 to be invested by the Brazilian local participant.

The applicant has submitted a very fine site plan based on pedestrian oriented traffic. It includes a system of walkways between the houses and only limited vehicular roads. Schools, parks, commercial facilities and public spaces are well dispersed throughout the development.

The sponsor proposes an automatic homes association to own and manage the following community facilities: a community building, one house for a project manager, 12 playgrounds, a soccer field and other recreational facilities, many small parks and green areas, a church site, a health center, a police station and a second house for use of a social worker.

C. HG#7 - Applicant: Cia, Brasileira de Pavimentacao e Obras (\$3.0 million)

This project consists of 776 detached, two and three bedroom houses, to be located in a planned satellite community on the outskirts of Sao Paulo.

The project was submitted in the Local Participation category and requested a guaranty on \$3,036,573 of U.S. Investment with \$1,012,191 to be invested by the Brazilian local participant.

The Leo A. Daly firm has planned a satellite community to function as a complete entity, having its own industrial, commercial, institutional and residential areas. The application under consideration encompasses one of the residential areas.

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One of the features of the proposed development plan is that only 50% of the land area will be used for residential purposes. The remaining 50% will include open spaces and streets.

The sponsors of this project are planning to build panels utilizing the "Panel Lock" system developed by the Lockheed Aircraft Service Co. This should be a substantial step forward in the construction of houses in all underdeveloped areas.

D. HG#9 - Applicant: The National Housing Bank (BNH) and the National Steel Company (CSN) (\$3.4 million)

3,067 one and two bedroom detached houses are proposed in Volta Redonda, which is the site of the CSN.

The project was submitted in both the Local Participation and Cooperative categories. The applicant has since advised USAID that they would prefer to proceed with this project without the cooperative features.

A Guaranty of U.S. Investment in the amount of \$5 million was requested and Local Participation in the amount of \$3.5 million is projected. It should be pointed out that proposed local participation would amount to slightly more than 41% of the total long-term financing. This amount is substantially above the 25% participation requirement for eligibility in this category.

The FHA has advised LA/HUD that this project is feasible at the reduced amount proposed, however, it is possible that the BNH and CSN will increase their contributions to maintain the original project size.

This project is associated with a planned expansion of the steel mills over the next few years which must have adequate housing to accommodate the expanding number of employees.

E. HG#14 - Applicant: Economia, S.A. (\$3.0 million)

This applicant is a Credit Institution located in Belo Horizonte and licensed to function in the states of Minas Gerais, Goias and Espirito Santo and the Federal District of Brasilia.

The application is for a guaranty of a U.S. Investment of \$3 million.

The applicant is a Society of Credit and Investment (a stock company Savings and Loan Association) and it was authorized to expand its operation to including the housing field by the Central Bank of the Republic in August 1964. The guaranteed loan will be used for general mortgage re-lending.

F. HG#15 - Applicant: Minas Oeste, S.A. (\$1.0 million)

This applicant is a credit institution located in Belo Horizonte and licensed to function in the states of Minas Gerais, Goias and Espirito Santo and the Federal District of Brasilia.

The application is for a guaranty of a U.S. Investment of \$3 million.

The applicant is a Society of Credit and Investment and it was authorized to expand its operation to including the housing field by the Central Bank of the Republic in August 1966. The guarantied loan will be used for general re-lending. WF has indicated that the reduction in the amount of loan will not create any problems for the applicant.

IV. DISCUSSION

A. Issues

1. Host Government Guaranty

Brazil falls into that group of countries for which a host government guaranty of the devaluation risk is a condition precedent to the issuance of a contract of guaranty.

Only one of the applications, HG#9 (BNH and CSN), proposed a government guaranty of repayment. The remaining application proposed that GOB would cover the devaluation risk by utilizing the Exchange Rate Compensation Fund (described in para 4, below).

However, in subsequent discussions with the BNH, it has been proposed that the BNH act as borrower for the entire \$18 million. LA/HUD believes that such a procedure would be in the best interests of all parties. It would provide a GOB guaranty and it would provide tax exemptions for the U.S. Investment (described in para 5, below).

A full faith and credit guaranty by the GOB is a condition precedent of this proposal and is so stated in the Guaranty Authorization and Letter of Advice.

2. Single Borrower

The BNH, created as a division of the Treasury Department in August 1964, is the most ambitious housing venture in the history of the Alliance for Progress. Potentially the BNH has very substantial assets and it is responsible for a broad range of housing programs including the National Housing Plan and the Housing Finance System.

It has just chartered the first mutual savings and loan institutions in Brazil.

Utilizing the BNH will provide substantial participation by A.I.D. in the development of the new savings and loan system, as well as the development of other Brazilian housing policies. Participation in the formulation of BNH policy is the most important A.I.D. housing and urban development goal in Brazil and the guaranty program will complement HUD technical assistance objectives.

Also, reallocation of funds, between projects, should it prove desirable, can be effectively and readily accomplished.

3. Adjustable Mortgages

Under Brazil's Law 4380, individual home mortgages will be readjustable in accordance with an index to be published quarterly by the Ministry of Planning and General Coordination under Decree-Law No. 322.

4. Exchange Rate Compensation Fund

Brazil's Law 4864 created an Exchange Rate Compensation Fund from which dollars will be sold to the borrower-administrator for repayment of the principal and interest on the guaranteed U.S. loan at a rate which will provide sufficient dollars to service the loan. There will be, therefore, no exchange rate risk run by the borrower, the U.S. investor or A.I.D.

5. Tax Exemption on U.S. Investment

Law 4862 exempts all interests and commissions received by national or foreign investors on loans made to the BNH from taxes.

Decree Law No. 70, of November 21, 1966, extended this exemption to other financial institutions under the BNH within the Housing Finance System.

6. Mortgage Insurance

Under Law 4380 a federal system of comprehensive insurance was instituted. One of the forms of coverage included in this program is mortgage insurance. A feature of the system is the inclusion of automatic correction of the coverage to match the readjustable mortgages.

This system of insurance provides for private underwriters to insure the BNH or other lending institutions against loss of investment resulting from death or disability of the homeowners or from damage to the property.

7. Categories

The six applications proposed for approval fall within two of the four categories of the 1966 Program, Credit Institutions (2) and Local Participation (4).

8. Sales Price

The four projects submitted in the Local Participation category all have sales prices within the \$6,500 limitation established in the Announcement for this category. The two Credit Institution projects will be utilized for re-lending for houses within the \$5,000 limitation for this category.

9. Local Participation

Three of the four projects in this category include local participation of the minimum amount established in the Announcement, that is 25% of the long-term financing. The fourth project, HG#9, proposes local participation 41% of the long-term financing.

10. Credit Institutions

The two applicants in the credit institution category are both Sociedades de Credito Inmobiliario (SCI). An SCI is basically a stock-owned Savings and Loan Association.

Present practice is that an SCI issues two mortgages on each house, a first and a second. The BNH then buys the first mortgage and the SCI holds the second mortgage.

Lending through the BNH will therefore result in a form of local participation with the SCI holding the second mortgage and the BNH the first mortgage.

B. USAID Position

The Mission has recommended approval of the six projects proposed for guaranty authorization in this paper.

C. FHA Position

FHA recommends approval of the four specific projects, HG#1, 3, 7 and 9, proposed for guaranty authorization herein. They consider the houses to be marketable and the projects to be entirely feasible within the recommended amounts.

D. Washington Federal Position

Washington Federal recommends that the two credit institution applicants, HG#14 and 15 be approved in the amounts indicated. They also have reviewed the other projects as to the capacity of the local participants and indicate that they are fully capable to participate to the amounts that they will be required to do so.

E. Position of the BNH

USAID has consulted with the BNH and determined that the BNH has agreed to act as a single borrower for the entire guaranty amount and to provide their own guaranty of repayment as an agency of GOB.

V. PROPOSED IMPLEMENTATION OF GUARANTY AUTHORIZATION

A. The Contract of Guaranty

It is proposed that a contract or contracts of guaranty be executed with the BNH as a borrower in the amount of \$18 million. This contract or contracts shall specifically prescribe the distribution among the various applicants as described in Section II.B.1., above.

B. Cost to Homeowners

Because of the nature of the host government guaranty, there will not be a monthly requirement of Reserve Fees by A.I.D. There will only be a requirement of a monthly A.I.D. fee based on $\frac{1}{2}$ of 1% per annum.

The rate for long-term financing in Brazil has fluctuated greatly because of the relative non-availability of such money. Except for social purpose long-term financing, which is subsidized by the BNH, the present prevailing rate being paid under BNH programs is 10% plus a 2.4% servicing fee. It should be pointed out that the lending institutions pay an annual mortgage insurance premium of 0.18% of the face amount of each mortgage. Also, at present each homeowner pays an additional charge of 0.58% if the unpaid principal balance for hazard insurance

The possibility and desirability of a reduction in these rates will be thoroughly reviewed with the BNH during contract negotiations.

The present prevailing rate of interest, excluding service fee, would result in the following charges to the homeowners:

1. 6½% Interest to U.S. Investors
 2. ½% A.I.D. Guaranty Fee
 3. 1% GOB "aval" (Guaranty)
 4. 2% BNR Charges
-
- 10% TOTAL

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SCHEDULE OF HOUSING GUARANTY PROJECTS - BRAZIL
RECOMMENDED FOR GUARANTY AUTHORIZATION

Project Number	Location	Applicant	Category (2)	No. of Units (1)	Sales Price Range	Guaranty Amount		Mortgage Term in Years
						Requested	Recommended	
HG#1	Sao Paulo	Gomes de Almeida	Local Participation	650	\$6,250	\$2,742,187	\$2,700,000	20-25
HG#3	Rio de Janeiro	Gomes de Almeida	Local Participation	1,150	\$6,360	4,936,950	4,900,000	20-25
HG#7	Sao Paulo	Cia, Brasileira de Pavimentacao e Obras	Local Participation	776	\$5,657 - \$6,201	3,036,573	3,000,000	20
HG#9	Volta Redonda	National Housing Bank and National Steel Company	Local Participation	2,450	\$3,160 - \$3,390	5,000,000	3,400,000	20
HG#14	Belo Horizonte	Economisa, S.A.	Credit Institution			3,000,000	3,000,000	20
HG#15	Belo Horizonte	Minas Oeste, S.A.	Credit Institution			3,000,000	1,000,000	20
TOTALS						\$21,715,710	\$13,000,000	

- (1) The number of units listed for each project are based on the recommended amount of Guaranty and are not necessarily the number of units originally submitted by the Applicant.
- (2) The four projects listed under Local Participation all submitted applications in this category of the program. All four are also "demonstration private housing projects" in accordance with Sec. 224. (b)(1) of the FAA.

SCHEDULE OF HOUSING GUARANTY PROJECTS - BRAZIL
 SUBMITTED UNDER 1966 PROGRAM AND THOSE
 RECOMMENDED FOR FEASIBILITY STUDY

Project Number	Location	Applicant	Category	No. of Units	Sales Price Range	Guaranty Requested	Amount Recommended	Mortgage Term in Years
HG#1	Sao Paulo	Gomes de Almeida	Local Participation	650	\$6,250	\$2,742,187	\$2,700,000	20-25
HG#2	Belo Horizonte	Gomes de Almeida	Local Participation	570	\$6,340	2,441,232	---	20-25
HG#3	Rio de Janeiro	Gomes de Almeida	Local Participation	1,150	\$6,360	4,236,950	4,900,000	20-25
HG#4	Rio de Janeiro	Engebras, S.A.	Local Participation	1,020	\$4,390	2,624,455	---	20
HG#5	Recife	Oblates of Mary Immaculate	Low Income	1,474	\$1,350-\$1,820	2,000,000	5,000,000	20
HG#6	Rio de Janeiro	ECISA, S.A.	Local Participation	1,500	\$4,970	4,970,454	---	20
HG#7	Sao Paulo	Cia. Brasileira de Pavimentacao e Obras	Local Participation	776	\$5,657-\$6,201	3,036,573	3,000,000	20
HG#8	Sao Paulo	Constructora Rabello, S.A.	Credit Institution			5,000,000	---	20
HG#9	Volta Redonda	National Housing Bank and National Steel Co.	Local Participation	3,067	\$3,160-\$3,390	5,000,000	5,000,000	20
HG#10	Sao Paulo	Easte, S.A.	Cooperative	1,152	\$5,000	4,896,000	---	20
HG#11	Sao Paulo	City of Sao Paulo Improvements and Freehold Land Co. Ltd.	Local Participation	2,030	\$4,900-\$5,725	5,836,000	---	20
HG#12	Sao Paulo	Easte, S.A.	Cooperative	152		737,950	---	20
HG#14	Belo Horizonte	Economisa, S.A.	Credit Institution			3,000,000	3,000,000	20
HG#15	Belo Horizonte	Minas Oeste, S.A.	Credit Institution			3,000,000	3,000,000	20
HG#16	Recife	Construction Agregates Corp.	Local Participation			20,000,000	---	20
HG#17		Courtney C. Thomas	Credit Institution			5,000,000	---	
HG#18	Rio de Janeiro	Navo Brazil, Credito, Financiamento e Investimento	Credit Institution			5,000,000	---	
TOTALS						\$80,283,807	\$26,600,000	

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 ADD-DIC/P-678
 Annex 2
 February 9, 1968



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C. 20411

January 10, 1968

UNCLASSIFIED
AID-DLC/P-678
EXHIBIT I
Attachment 1

Page 1 of 3

Mr. Peter M. Kimm
Deputy Director for Guaranties and Engineering
Housing and Urban Development Division
Agency for International Development
Washington, D.C. 20523

Re: Case Number Brazil HG #1
Category: Local Participation
City: Sao Bernardo do Campo
Feasibility Recommendation

Dear Mr. Kimm:

We have completed our preliminary review of the referenced case, an application for a housing investment guaranty from Gomes de Almeida, Fernandes de Sao Paulo Engenharia S.A., Sao Paulo, Brazil, for the construction and sale of a housing project in Sao Bernardo, greater Sao Paulo, Brazil. This review has consisted of a careful study and analysis of the material contained in the sponsor's application as well as a field inspection carried out during the period from November 19 to December 8, 1967. A brief summary of the proposed project, our findings and recommendations are as follows:

A. Summary

1. Sponsor: Gomes de Almeida, Fernandes de
Sao Paulo Engenharia, S. A.
2. Host Country Investor: Prefeitura Municipal de Sao Bernardo
do Campo
3. Construction Finance Source: Omnium Financeira S. A.,
Rio de Janeiro
4. Borrower: A subsidiary corporation of Gomes de Almeida and
its associates to be formed.
5. Amount of Guaranty: \$2,742,187 US (Requested)
6. Purpose: To guaranty the principal of a loan made by U.S.
investors for the long-term financing necessary for a local
participation project in Sao Bernardo do Campo, greater
Sao Paulo area, Brazil.

7. Project Description: The application dated September 7, 1966, proposes the construction and sale of 650 single-family two-bedroom one-story semi-detached dwellings. Public transportation available to the site consists of city bus service. The fares range from \$0.05 to \$0.12 US from the site to the central business districts and the principal places of employment, at distances from 2 to 12 miles. Hospitals, churches, shopping facilities, a 12-room school and fire protection are within reasonable proximity to the site. A sports field, children's playground, community center, health center and police station will be constructed by the sponsor within the boundaries of the proposed subdivision. The electric distribution system will be constructed and maintained by the Sao Paulo Light, S. A. The sponsor proposes individual septic tanks connected to community collectors facilitating future connection to a public system. The streets, water supply, sanitary sewer system, storm sewer system and parks will be received and maintained by the Municipality. A homeowners' association will be formed to provide for the maintenance and operation of the green areas, athletic fields, community buildings and playgrounds. The estimated total selling price of the project is \$4,062,500 US. The long-term U. S. investment of \$2,742,187 will be secured by 20-25 year mortgages at a competitive allowable interest rate. A 100 percent guaranty is requested by the sponsor. Downpayments of 10 percent of the sales price will be required. Prefeitura Municipal de Sao Bernardo do Campo will participate financially in providing \$914,063 US long-term investment for a 20-year amortization period at a competitive allowable interest rate. Omnium Financeira S. A. of Rio de Janeiro has expressed interest in writing to lend \$275,000 US for construction financing. The sponsor will provide additional interim financing as required. No host country guaranty of the repayment of the U.S. investment is proposed.

The sales price for the dwelling unit proposed is \$6,250. This price is consistent with the ceiling of \$6,500 established by AID for the local participation category. The approximate monthly income required to purchase these units with 10 percent downpayments and a composite interest rate of 10 percent on a 20-year mortgage would be \$218.

Total estimated sales price-----	\$4,062,500
Downpayments of 10 percent-----	\$ 406,250
Total mortgage-----	\$3,656,250
Local participation-----	\$ 914,063
Total guaranty required-----	\$2,742,187

B. FHA Findings

Our findings in the field and other investigations indicate the sponsorship to be reasonably sound and capable of successfully carrying

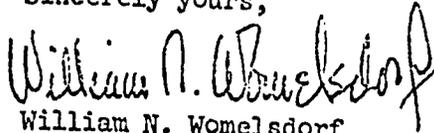
out a project to a successful conclusion. The site and its location are considered acceptable. The development costs are considered generally reasonable. The building program is considered appropriate for the income group to which the project is directed. There is a market for the dwellings at the price proposed, and the rate of absorption is such that the units can be sold in the 24-30 month construction period proposed.

C. Recommendations

Based on its review of the proposal, the Federal Housing Administration considers the sponsorship to be sound and capable of successfully carrying out this project, and recommends that AID give favorable consideration to the application.

If AID issues a letter of advice, we request that it include a stipulation that the sponsor with his technical staff confer with the staff of the International Division, FHA, at a mutually convenient time and prior to the sponsor's preparation of the working drawings, specifications and other exhibits that will be required for a more intensive review of the proposal.

Sincerely yours,



William N. Womelsdorf
Director
International Division



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C. 20411

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EXHIBIT I
Attachment 2

Page 1 of 3

January 10, 1968

Mr. Peter M. Kimm
Deputy Director for Guaranties and Engineering
Housing and Urban Development Division
Agency for International Development
Washington, D. C. 20523

Re: Case Number Brazil HG #3.
Category: Local Participation
City: Jacarepagua
Feasibility Recommendation

Dear Mr. Kimm:

We have completed our preliminary review of the referenced case, an application for a housing investment guaranty from Gomes de Almeida, Fernandes Engenharia e Construcoes Ltda, Rio de Janeiro, Brazil, for the construction and sale of a housing project in Jacarepagua, greater Rio de Janeiro, Brazil. This review has consisted of a careful study and analysis of the material contained in the sponsor's application as well as a field inspection carried out during the period from November 19 to December 8, 1967. A brief summary of the proposed project, our findings, and recommendations are as follows:

A. Summary

1. Sponsor: Gomes de Almeida, Fernandes Engenharia e Construcoes, Ltda., Rio de Janeiro
2. Host Country Investor: Instituto de Previdencia do Estado da Guanabara (IPEG), Rio de Janeiro
3. Source of Interim Financing: Bozano, Simonsen, S. A., Rio de Janeiro
4. Borrower: A corporation to be formed.
5. Amount of Guaranty: \$4,936,950 US (Requested)
6. Purpose: To guaranty the principal of a loan made by U. S. investors for the long-term financing necessary for a local participation project in Jacarepagua, greater Rio de Janeiro area.

7. Project Description: The application dated September 7, 1966, proposes the construction and sale of 1,150 single-family, two-bedroom, one-story semi-detached dwellings. Public transportation available to the site consists of city bus service. The fares range from \$0.05 to \$0.10 US from the site to the central business districts and the principal places of employment, at distances from 1 to 15 miles. Hospitals, churches, shopping facilities, schools, and police and fire protection are within reasonable proximity to the site. A sports field, children's playground, community center, health center, police station and two elementary schools will be constructed by the sponsor within the boundaries of the proposed subdivision. The electric distribution system will be constructed and maintained by the Rio Light Company. The sponsor proposes individual septic tanks connected to community collectors facilitating future connection to a public system. The streets, water supply, sanitary sewer system, storm sewer system and parks will be received and maintained by the Municipality. A homeowner's association will be formed to provide for the maintenance and operation of the green areas, parks, playgrounds, athletic fields, private streets and community center. The estimated total selling price of the project is \$7,314,000 US. The long-term U. S. investment of \$4,936,950 will be secured by 20-25 year mortgages at a competitive allowable interest rate. A 100 percent guaranty is requested by the sponsor. Downpayments of 10 percent of the sales price will be required. The Instituto de Previdencia do Estado da Guanabara will participate financially in providing \$1,645,650 US long-term investment for a 20-year amortization period at a 10 percent interest rate on the declining balance with an additional charge of a 2 percent discount. Bozano, Simonsen S. A. of Rio has expressed interest in writing to lend \$500,000 US for construction financing. The sponsor will provide additional interim financing as required. No host country guaranty of the repayment of the U. S. investment is proposed.

The sales price for the dwelling units proposed is \$6,360. This price is consistent with the ceiling of \$6,500 established by AID for the local participation category. The approximate monthly income required to purchase these units with a 10 percent downpayment and a composite interest rate of 10 percent on 20-year mortgages would be \$221.

Total estimated sales price-----	\$7,314,000
Downpayments-----	\$ 731,400
Total mortgage-----	\$6,582,600
Local participation-----	\$1,645,650
Total guaranty required-----	\$4,936,950

B. FHA Findings

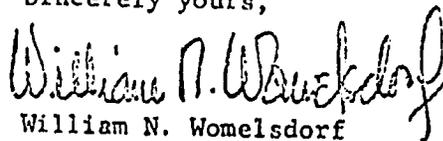
Our findings in the field and other investigations indicate the sponsorship to be reasonably sound and capable of successfully carrying out a project to a successful conclusion. The site and its location are considered acceptable. The development costs are considered generally reasonable. The building program is considered appropriate for the income group to which it is directed. There is a market for the dwellings at the price proposed, and the rate of absorption is such that the units can be sold in the 24-30 month construction period proposed.

C. Recommendations

Based on its review of the proposal, the Federal Housing Administration considers the sponsorship to be sound and capable of successfully carrying out this project, and recommends that AID give favorable consideration to the application.

If AID issues a letter of advice, we request that it include a stipulation that the sponsor with his technical staff confer with the staff of the International Division, FHA, at a mutually convenient time and prior to the sponsor's preparation of the working drawings, specifications and other exhibits that will be required for a more intensive review of the proposal.

Sincerely yours,



William N. Womelsdorf
Director
International Division



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C. 20411

UNCLASSIFIED
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EXHIBIT I
Attachment 3
Page 1 of 3

January 10, 1968

Mr. Peter M. Kimm
Deputy Director for Guaranties and Engineering
Housing and Urban Development Division
Agency for International Development
Washington, D. C. 20523

Re: Case Number Brazil HG #7
City: Itaquera
Category: Local Participation
Feasibility Recommendation

Dear Mr. Kimm:

We have completed our preliminary review of the subject case, an application for a housing investment guaranty from Continental Homes, Inc., Washington, D. C., for the construction of a housing project in Itaquera, greater Sao Paulo, Brazil. This review has consisted of a careful study and analysis of the material contained in the sponsor's application as well as a field inspection carried out during the period from November 18 to December 7, 1967. A brief summary of the proposed project, our findings and recommendations are as follows:

A. Summary

1. Sponsors: Continental Homes, Inc., Cia. Brasileira de Pavimentacao e Obras, Sao Paulo, Cia. Agricola e Pastoril, Sao Paulo, and Itaquera, S. A. Sao Paulo
2. Host Country Investor: Cia. Agricola e Pastoril and Cia. Brasileira de Pavimentacao e Obras
3. Construction Finance: Companhia Brasileira de Pavimentacao e Obras
4. Borrower: Itaquera, S. A.
5. Amount of Guaranty: \$3,036,573
6. Purpose: To guaranty the principal of a loan made by U. S. investors for the long-term financing necessary for a local participation project in Itaquera, greater Sao Paulo, Brazil.

7. Project Description: The application dated September 13, 1966, proposes the construction and sale of 776 single-family two- and three-bedroom one-story detached dwellings. Public transportation available to the site consists of city bus service. The fares range from \$0.06 to \$0.10 US from the site to the central business district and the principal places of employment, a distance of from 3 to 10 miles. Schools, shopping facilities, hospitals, churches, police and fire protection are within reasonable proximity to the site. Areas have been reserved within the proposed subdivision for schools, shopping facilities and playgrounds. The water supply, sanitary sewer system, storm sewer system and common areas are proposed to be maintained by the homeowners' association. The electrical system will be received, operated and maintained by Sao Paulo Light. The streets, parks, and schools will be maintained by municipal agencies. The estimated total selling price of the project is \$4,498,628. The long-term US investment of \$3,036,575 will be secured by 20-year mortgages at a competitive allowable interest rate. A 100 percent guaranty of this amount is requested by the sponsor. Downpayments of 10 percent of the sales prices will be required. Agricola e Pastoral and Cia. Brasileira de Pavimentacao e Obras will participate with \$1,012,191 in long-term financing for 20 years at an interest rate allowed by the Banco Nacional Habitacao. Cia. Brasileira will use its own funding for construction financing as required. No host country guaranty for the repayment of the U. S. investment is proposed.

The proposed sales prices are \$5,657 for the 2-bedroom unit and \$6,202 for the 3-bedroom unit. These prices are consistent with the ceiling of \$6,500 established by AID for the local participation category. The approximate monthly income required to purchase these units with 10 percent downpayments and a composite interest rate of 10 percent would be \$196 for the \$5,657 house, and \$215 for the \$6,202 house.

Total estimated sales price-----	\$4,498,628
Downpayments of 10 percent-----	\$ 449,862
Total mortgages-----	\$4,048,766
Local participation-----	\$1,012,191
Total guaranty required of AID-----	\$3,036,575

B. FHA Findings

Our findings in the field and other investigations indicate the sponsorship to be reasonably sound and capable of successfully carrying out a project. The site and its location are considered acceptable.

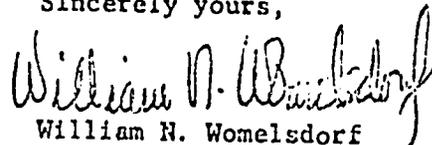
The development costs are considered generally reasonable. The building program is appropriate for the income group to which it is directed. There is a market for the dwellings at the price proposed, and the rate of absorption is such that the units can be sold in the 24-month construction period proposed.

C. Recommendations

Based on its review of the proposal, the Federal Housing Administration considers the sponsorship to be sound and capable of successfully carrying out this project, and recommends that AID give favorable consideration to the application.

If AID issues a letter of advice, we request that it include a stipulation that the sponsor with his technical staff confer with the staff of the International Division, FHA, at a mutually convenient time and prior to the sponsor's preparation of the working drawings, specifications and other exhibits that will be required for a more intensive review of the proposal.

Sincerely yours,



William N. Womelsdorf
Director
International Division



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C. 20411

UNCLASSIFIED
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EXHIBIT I
Attachment 4
Page 1 of 4

January 15, 1968

Mr. Peter M. Kimm
Deputy Director for Guaranties and Engineering
Housing and Urban Development Division
Agency for International Development
Washington, D. C. 20523

Re: Case Number Brazil HG #9
Local Participation & Cooperative
Categories
City: Volta Redonda
Feasibility Recommendation

Dear Mr. Kimm:

We have completed our preliminary review of the referenced case, an application for a housing investment guaranty from the National Housing Bank of Brazil, for the construction of a housing project in Volta Redonda, Brazil. This review has consisted of a careful study and analysis of the material contained in the sponsor's application as well as a field inspection carried out during the period from November 18 to December 8, 1967. A brief summary of the proposed project, our findings, and recommendations are as follows:

A. Summary

1. Sponsor: Banco Nacional Habitacao (BNH) Rio de Janeiro, Brazil.
2. Builder: Imobiliaria Santa Cecilia S. A. (CECISA) a subsidiary company of Companhia Siderurgica Nacional (CSN).
3. Borrower: A corporation to be formed.
4. Host Country Investor: Banco Nacional Habitacao, Companhia Siderurgica Nacional
5. Construction Finance Source: Banco Nacional Habitacao, Companhia Siderurgica Nacional
6. Amount of Guaranty: \$5,000,000 (Requested)
7. Host Country Guarantor: The Central Bank of Brazil.

8. Purpose: To guaranty the principal of a loan for the long-term financing necessary for a local participation-cooperative housing project in Volta Redonda, Brazil.
9. Project Description: The application dated September 9, 1966, proposes the construction and sale of 3,067 expandable one- and two bedroom single-family detached dwelling units. Public transportation available to the site is provided by city bus service. The fare is \$0.03 US to the central business district of Volta Redonda and principal places of employment, a distance of 1 to 2 miles. Schools, shopping facilities, hospitals, community centers, police and fire protection are within reasonable proximity to the site. Areas are reserved on the proposed site for a school, community center, church, playground and commercial shopping facilities. It is proposed that a homeowners association be formed to maintain the common areas, promote social activities, and enforce local restrictive covenants. The streets, water supply, sanitary sewer system, storm sewers, parks and green areas are to be maintained by the local municipality, and the electrical distribution system by Rio Light, S. A. The total estimated selling price of the project is \$9,995,550. A downpayment of 15 percent of the sales price will be required. It is proposed that the long-term U. S. investment of \$4,248,109 be secured by a 20-year mortgage at a competitive allowable interest rate. A 100 percent guaranty of this amount is requested by the sponsor. BNI and CSN will provide the local participation in the long-term financing in the sum of \$4,248,109. A host country guaranty of the repayment of the U. S. investment is proposed.

The proposed sales prices range from \$3,160 to \$3,390 with an average sales price of \$3,259. These prices are within the ceilings established by AID for the local participation and cooperative categories. The approximate monthly income required to purchase these dwelling units with a 15 percent downpayment and a composite interest rate of 10 percent on a 20-year mortgage would be \$102 for the \$3,160 units ranging to \$111 for the \$3,390 units.

Total estimated sales price-----	\$9,995,550
Downpayments of 15 percent-----	<u>\$1,499,332</u>
Total mortgage-----	<u>\$8,496,218</u>
Local participation of 50 percent-----	<u>\$4,248,109</u>
Total guaranty required of AID-----	<u>\$4,248,109</u>

B. FHA Findings

Our findings in the field and other investigations indicate the sponsorship to be sound and capable of successfully carrying out the project. The site and its location are generally acceptable. The proposed building program is considered appropriate for the income group to which it is directed. The development costs are considered reasonable. There is a market for the number of dwelling units at the sales prices proposed and our estimate of the rate of absorption is such that the sponsor can reasonably expect to sell approximately 3,000 units in the 36-month construction period proposed.

1. Cooperative Category: Our findings in the field disclosed that the sponsor proposes to withdraw the "Cooperative" category submitted with the application. In lieu of the cooperative, the homeowners' association as provided in the application will be utilized for the purpose of providing continued maintenance of common areas, promotion of social activities and enforcement of local restrictive covenants. We believe the withdrawal from the cooperative category will not adversely affect the feasibility of the project.

2. Site and Location: The location of the proposed site with respect to transportation, places of employment, schools, public facilities and utilities is satisfactory. However, the site adjoins the Paraiba River and the topography ranges from marsh land to well-drained terrain. The low area will require a substantial amount of controlled fill to bring it to a level suitable for building purposes. The builder has sufficient equipment and available fill on the site for this purpose. We believe it is economically feasible for the sponsor to accomplish the required fill and to maintain development costs as proposed.

An alternate site under consideration by the sponsorship was also examined by our field team. This site is situated at a higher elevation, well-drained and will present only minor site development problems. In addition, it is located closer to the central business district and places of employment. In our judgment, the sponsor should be encouraged to use this alternate site.

C. Recommendations

Based on its review of the proposal, the Federal Housing Administration considers the sponsorship to be sound and capable of successfully carrying out a project and recommends that AID give favorable consideration to the application.

-4-

If AID issues a letter of advice, we request that it include a stipulation that the sponsor with his technical staff confer with the staff of the International Division, FIA, at a mutually convenient time and prior to the sponsor's preparation of the working drawings, specifications and other exhibits that will be required for a more intensive review of the proposal.

Sincerely yours,



William N. Womelsdorf

Director

International Division



WASHINGTON FEDERAL

SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

JACK D. GORDON
President

ARTHUR H. COURSHON
Chairman of the Board

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AID-DLC/P-678
EXHIBIT II
Attachment 1

Page 1 of 20

January 17, 1968

Mr. Peter M. Kimm
Deputy Director for
Guaranties and Engineering
LA/HUDD - Room 2242
Agency for International Development
Department of State
Washington, D.C. 20523

Re: Feasibility Report
Brazil HG-14
Economisa S.A.

Dear Mr. Kimm:

We recommend the issuance of a guaranty for the above captioned application submitted by Economisa S.A. under category #4 (Mortgage Credit Institutions), subject to the following terms and conditions:

1. Borrower: Banco Nacional da Habitacao (BNH) should act as the borrower of the U.S. funds. BNH must earmark the funds for the use of Economisa. For more information, see Section IX of Special Report-BNH.
2. Amount of Guaranty: \$3 million.
3. Amortization Period: 25 years from the date of disbursement of the respective installments of the loan.
4. Interest Rate and AID Fee:

U.S. Investor Interest Rate (at present)	6.5%
AID Fee	0.5
Total	<u>7 %</u>



1701 Meridian Avenue
Miami Beach, Fla.

1254 Washington Avenue
Miami Beach, Fla.

1133 Normandy Drive
Miami Beach, Fla.

699 N.E. 167th Street
North Miami Beach, Fla.

Miami Beach: Phone JE 8-8432

North Miami Beach: Phone 945-7678

Broward County: Phone 925-4351

WASHINGTON FEDERAL
SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

Mr. Peter M. Kimm
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Re: Brazil HG-14 (Economisa S.A.)

5. Local Guaranty:
 - A) The full guaranty of the Government of Brazil through BNH, and BNH's net worth.
 - B) Specific collateral of the individual mortgages insured by the local consortium of insurance companies.
 - C) The net worth of Economisa S.A.
6. A commitment must be submitted to AID by the U.S. Investor (s) within 60 days of the date of the guaranty approval, expressing willingness to provide the long term investment, specifying the amount, interest rate and terms of the loan. The effective term for the disbursement of the loan amount should be for a period of no less than 2 years from the date of the signing of the Contract of Guaranty.
7. The disbursement of the loan will be made in installments of no less than \$100,000 each, over a period of 2 years from the date of the signing of the Contract of Guaranty.
8. During the term of the Loan Agreement, the total unpaid principal balance of the individual mortgages given as specific collateral of the U.S. Investment should be approximately 105% of the unpaid principal balance to the U.S. Investor. This will insure a continuing effort to raise local capital through savings, thus strengthening the institution.
9. Loans made by applicant in each specific site, including the funds provided under this guaranty, should not be more than 10% of applicant's total loan portfolio.
10. Net Return to the U.S. Investor: See Section VIII-F of Special Report-BNH.

WASHINGTON FEDERAL

SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

Mr. Peter M. Kimm
Page 3
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Re: Brazil HG-14 (Economisa S.A.)

11. Eligible mortgages should be limited to:
- A) Maximum selling price of \$5,000 for land and house.
 - B) Closing costs of approximately 2% of the selling price.
 - C) Monthly payments consisting of the following items:
 - 1) Principal.
 - 2) Interest rate composed of:

Interest to the U.S. Investor (at present)	6.5%
AID Fee	0.5
BNH "aval" (Guaranty) (not yet determined)	
approximately	1.0
Interest spread for Local Institution	2.0
Total	10 %
 - 3) Hazard and Life Insurance: 1/12 of the annual premium, which at present is 0.58% per annum. See Section IV-B of Special Report-BNH.
 - 4) The cost of Mortgage Insurance is absorbed by the financial institution. See Section IV-A of Special Report-BNH.
 - D) We recommend that the present policies of BNH and Economisa, concerning the age of the house to be financed, minimum property standards, maximum ratio of loan to value, Real Estate taxes and mortgage insurance, be applied to these mortgages.
 - E) Amortization up to 20 years. The present mortgage policy of Economisa should be adhered to. If this policy is applied, the term for repayment to the U.S. Investor will be longer than the term for repayment of the individual mortgages, thus making greater the number of new mortgages that will be originated during the term of the U.S. Investment.
 - F) The ratio of monthly payment to monthly family income which is being used at present, per regulation of BNH, should be adhered to.
 - G) All other present lending policies of Economisa and BNH should be adhered to.

WASHINGTON FEDERAL
SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

UNCLASSIFIED
EXHIBIT II
Attachment
Page 4 of 2

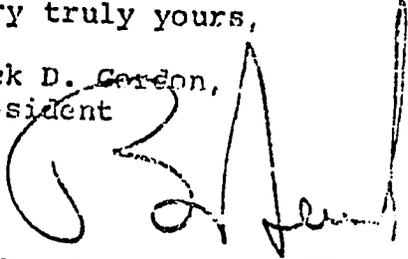
Mr. Peter M. Kimm
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Re: Brazil HG-14 (Economisa S.A.)

The attached report is submitted to substantiate our opinion. In addition, the Special Report-BNH should be considered in order to make a full study of the situation.

We trust that this will be helpful to you.

Very truly yours,

Jack D. Gordon,
President

By: 
Dr. Bernardo Borges,
Vice President

Encls.
BB/lp

R E P O R T

TO: Mr. Peter M. Kimm
Deputy Director for Guaranties and Engineering
LA/HUDD
Agency for International Development
Washington, D. C.

FROM: Mr. Jack D. Gordon, President
Washington Federal Savings and Loan Association of
Miami Beach

BY: Dr. Bernardo Bonas, Vice-President
Mr. George W. Hirsch, Financial Vice-President, and
Mr. Carlos Feldman, Auditor
Washington Federal Savings and Loan Association

RE: FEASIBILITY REPORT
Brazil HG-14
ECONOMISA S. A.

CONTRACT AID/la-381 (Regional)

DURATION OF MOST RECENT TRIP

November 27 through December 9, 1967

I - GENERAL

Economisa S.A. is a private institution. It commenced its operation in October, 1963 as an Investment Bank specializing in the financing of consumer goods, discount of commercial paper and similar commercial financing operations with an initial capitalization of approximately US\$37,000.00.

By Article 20 of Law 4864 of November 29, 1965, the Investment Banks were authorized to convert into Mortgage Banks (Sociedades de Crédito Imobiliário). The pre-requisite for this conversion was to increase the capitalization to NCr 500,000 (approximately US\$185,000). On August 10, 1966, Economisa increased its capital to this amount and hired new management to operate the mortgage banking business.

The major stockholders and Directors of Economisa stated to us that they wanted to change their operations to real estate financing because it is a more solid business. They expect to realize profits of approximately 25% of their investment as compared to the 100% profits a year made by commercial banks. They also feel that at present the consumer goods financing operation they were conducting was not as profitable as previously and they see an open market for financing real estate.

Economisa is supervised by both, the National Housing Bank (BNH) and the Central Bank of Brazil. The National Housing Bank supervises Economisa through its superintendency of financial agencies.

The main office of Economisa is centrally located at Praça Raul Soares 485, in the City of Belo Horizonte, Minas Gerais. At present they have no branch offices, although they are planning regulation to open one in the Capital City of Brasilia. By regulation, they may operate in the States of Goiás, Espírito Santo, Minas Gerais and the Federal District of Brasilia.

Economisa is the only Sociedad de Credito Imobiliario in Belo Horizonte which at present has a mortgage portfolio.

A register of stockholders is enclosed as Exhibit #1.

II - FINANCIAL CAPABILITY

We analyzed the Financial Statements for the years during which they have been in operation (attached as Exhibit #2). They reflect the following data:

a) Statements of Condition: (in NCr)

<u>Date</u>	<u>Net Worth</u>	<u>Legal Reserve 5% of Net Profit</u>	<u>Special Reserve (Above Obligatory)</u>	<u>Cash & Banks</u>	<u>Mortgage Loans</u>	<u>Savings</u>
12/31/63	100,575	198	376	6,570	-	-
12/31/64	222,014	1,921	18,434	119,244	-	51,302
12/31/65	250,525	5,618	4,084	182,204	-	120,925
12/31/66	588,644	8,174	62,966	303,903	-	356,837
11/3/67	609,655	8,194	63,351	1,576,075	665,682	313,518
Res. Allocations not included above for period 7/1-11/3/67		<u>10,400</u>	<u>137,604</u>			
		<u>18,594</u>	<u>200,955</u>			

b) Income Statements: (in NCr)

<u>Date</u>	<u>Gross Income</u>	<u>Expenses</u>	<u>Legal Reserve</u>	<u>Special Reserve</u>	<u>Dividends</u>
12/31/63	7,979	5,405	198	376	2,000
12/31/64	91,767	59,052	1,726	18,060	12,929
12/31/65	200,835	130,103	3,696	39,470	27,566
12/31/66	236,343	191,509	2,554	5,061	37,219
11/3/67	<u>565,540</u>	<u>357,132</u>	<u>10,420</u>	<u>137,988</u>	<u>60,000</u>
	<u>1,102,464</u>	<u>743,201</u>	<u>18,594</u>	<u>200,955</u>	<u>139,714</u>

In schedules a) and b) above, the figures reflect a steady growth in practically all phases. It should be noted that the savings and mortgage loan activities have recently commenced and management is expecting further substantial growth.

Although Economisa does not have an external auditor, the Stockholders have designated a special comptroller who conducts two surprise audits a year.

We have also made an analysis of the projections in the housing field for the next five years. This analysis, which does not include new foreign investment (enclosed as Exhibit #3), reflects the following data:

Number of houses: ----- 3,150
 Financing: -----US\$27,000,000
 Number of houses per month: ----- 58

The analysis of their 5 year projection in the housing field, including the proposed foreign investment, is as follows:

Number of houses: ----- 4,050
Financing: ----- US\$30,000,000
Number of houses per month: ----- 75

<u>Projection</u>	(NCr) <u>Mortgage Portfolio</u>	(NCr) <u>Net Income</u>	(NCr) <u>Liquidity</u>
1967 -----	4,195,000 -----	247,000 -----	340,000 -----
1968 -----	9,930,000 -----	551,000 -----	1,929,000 -----
1969 -----	19,533,000 -----	1,365,000 -----	1,455,000 -----
1970 -----	24,831,000 -----	1,894,000 -----	1,902,000 -----
1971 -----	30,075,000 -----	2,223,000 -----	4,619,000 -----

These projections are based on the assumption that the AID guaranty of \$3 million will be granted.

The sources of capital are stockholders' investment plus undivided profits and reserve, mortgage debenture (Letras) sold to the general public and to the BNH, free-savings accounts, mortgages sold to BNH, refinancing from BNH, savings accounts for one year and deposits for down-payments.

The minimum legal liquidity is 7% of total resources. Considered as liquid assets are cash, government bonds and Letras Imobiliarias issued by other Sociedades de Crédito Imobiliario. The maximum amount of assets that a Sociedade de Crédito Imobiliario may have is 15 times the capital and reserves of the institution, plus 50% of outstanding insured mortgage balance and 50% of the foreign or national loans with the guaranty of BNH.

III -- REPUTATION

Economisa enjoys an excellent reputation. We were furnished with references from:

1. Dr. Mario Trindade, President, and Dr. José E. Oliveira Penna, Chief of the Superintendency of Financial Agencies, of the BNH.
2. Other Financial Institutions: Letter from Banco de Crédito Real de Minas Gerais S. A. and from Banco de Comercio e Industria de Minas Gerais (Enclosed as Exhibit #4).

References given on officers are very good. References given on major stockholders and on Directors and Executives are excellent. (See list of Directors, enclosed as Exhibit #5).

The President of Economisa is Dr. Luis Souza Lima, one of the most prominent builders in the country. At present he is acting as the Mayor of the City of Belo Horizonte.

The Managing Officer of Economisa, Mr. Nylton Moreira Velloso, was President of the Caixa Economica Estatal of Minas Gerais and was responsible for the administration of an AID Housing Loan of \$3 million for cooperative houses. The USAID Mission officers are very favorably impressed with Mr. Velloso's performance in this project.

IV - EXPERIENCE

Economisa has been originating and servicing mortgage loans since June 1, 1967. As of December 1, 1967, they have the following loans on their books:

	Number of <u>Loans</u>	<u>Amount</u>	(enclosed as
In Process -----	51	US\$173,000	Exhibit #6)
Houses completed -----	46	US\$214,000	(enclosed as Exhibit #7)

At present they do not have any delinquency, and it appears that their mortgage servicing procedures are adequate. They have been able to process 97 loans with a new Mortgage Department in a period of less than 6 months. The average mortgage balance is approximately US\$4,000.

They have developed a collection procedure to take care of regular monthly payments as well as delinquent payments. A reminder is sent to the mortgagors 15 days before the monthly payment is due, giving a 30 day grace period. Although at present all the mortgage loans are due on different days of the month, we suggested that they institute a procedure by which all payments are due on the first of each month. They accepted this suggestion and said that they would start to observe this procedure immediately. We also recommended that they institute a record of collection efforts.

The legal late charge is 1% a month of the unpaid principal balance.

V - INTERNAL OPERATIONS

We were favorably impressed with Economisa's staff on the Executive level. The qualifications of the staff, as well as the employment practices and standards, appear excellent. During our visit to this Institution, we were impressed with the average age of the Officers. They seem to be young, aggressive and knowledgeable.

In processing mortgage loans, Economisa relies on the opinion of the Appraisers of the Institution, who are civil engineers with experience in housing construction. The Appraisers, in turn, rely on a basic document on construction costs issued by the Associação Brasileira de Normas Técnicas. (Since this document is very voluminous, we are keeping a copy in our files).

In addition, the Association of Builders of Belo Horizonte publishes, monthly, a Valuation of Finished Houses (enclosed as Exhibit #8). The Appraiser told us that the approximate ratio of land value to selling price is from 25% to 30%. The Appraisers of Economisa have an independent opinion of valuation and seem to be professionally qualified.

The Head of the Mortgage Department, Mr. Walter P. de Lima, is a highly qualified lawyer who has a staff of interviewers. The loan application form is filled out when the future buyer visits the Institution. After confirming the information in writing, particularly the income and the amount of rent paid, the General Manager, Mr. Velloso, and Mr. Lima meet and make a decision. The ratio of monthly payment to family income is normally 25% and the maximum ratio is 30%. This is set by regulations of the BNH.

Exhibit #9 is the key to the mortgage lending practices of Economisa. It sets the limits of mortgage lending to the valuation of the property. It also shows the monthly payments on the mortgage and the minimum family income, the 6% initial fee (which seems to be excessive), and the term of the mortgage. The first column shows the amount of savings required to be kept in the Institution in order to obtain a loan. The lending policy is based on the following principles:

1. The more expensive the house, the lower the ratio of mortgage value granted as a loan.
2. The more expensive the house, the shorter the term of the mortgage.
3. The more expensive the house, the greater the amount expected to be kept by the mortgagor in a letra imobiliária (mortgage debenture).

After approval of the loan, the Appraisal and Legal Departments start working and in 30 days the closing takes place. They feel that at present they can process and close 50 loans per month. On the date of our visit, December 5, they received 6 applications which were completed on the same day.

All loans are divided into two mortgages, first and second, because BNH only buys the portion which corresponds to the first. Although the first mortgage is a preferred credit over the second,

both carry the mortgage credit insurance. They endorse the Mortgage Note on the first mortgage to the BNH, which is the maximum limit that the Bank may buy from them on each particular property.

The accounting system seems to be adequate. It is mechanically conducted with Olivetti machines.

They do not have individual escrow accounts for insurance and taxes. The fire and other risks insurance, including life and disability, is collected on a monthly basis and remitted to a consortium of insurance companies that have one policy covering all mortgages under the National Housing Plan. (see Section IV B - Special Report - BNH). Every year the mortgagor must show the paid tax bill. Taxes are paid on an annual basis. The mortgage deed states that in the event this tax is not paid on time, Economisa may foreclose on the property. This tax amounts approximately to 0.5% of the valuation on a house. Every two or three years a new valuation is made by the Municipality.

The keeping of records is also adequate. Each mortgage file contains the following documents:

1. Application.
2. Credit Report.
3. Approval of Credit.
4. Inspector's Certificate.
5. Record on the hazard and life insurance policies as well as the mortgage credit insurance.
6. The mortgage Contract.

The Mortgage Note is stored in a fire and burglar proof place.

The general format and presentation of the accounting and record keeping is good.

There are 12 staff members in the Housing Department, including 4 receptionists, one teller, 2 lawyers, one Engineer, one Manager, one Assistant Manager, one secretary and one Accountant. The total number of employees in the Institution is 26 (See Exhibit #10).

As a general rule, the payroll deduction system is not acceptable to the employer or the employee. The usual pay day in the community is the last day of the month, although some are paid every 15 days.

The collection procedure seems to be good. Principal amount of the mortgage, amortization, interest, insurance and service charge are shown on the monthly statement (enclosed as Exhibit #11). At present, all mortgagors make their payments in person at the office of Economisa.

The interest rate being charged is 10% per annum, plus 0.2% monthly for service charge (2.6% per annum).

A strict and very good procedure is followed for credit review and approval. There are no Credit Bureaus. Basically, they finance construction of a new house or the purchase of a house which has been built within the last 6 months. The conditions for granting a loan for construction are:

1. A Certificate of the Public Register that the buyer does not own another house.
2. A statement from the future mortgagor that he does not own another house.
3. Marriage Certificate, if married.
4. Voter's Registration Certificate.
5. Certificate of income from employer.
6. Certificate showing the property tax has been paid.
7. Certificate of the Public Register of ownership of the property for the last 15 years.
8. Certificate of no debts with the Tax Department.
9. Plans on the construction.
10. A cost breakdown signed by the Builder.
11. Specifications.
12. Time schedule on the construction.
13. Certificate of technical responsibility of the Builder issued by the Regional Office of Engineers and Architects, which is a public institution.
14. A Certificate of valuation when the property is outside Belo Horizonte.
15. Survey.

The conditions for granting a loan for the purchase of a completed house are, in addition to the majority of the conditions mentioned above for the construction of a house,

1. Copy of the Sales Contract.
2. A Certificate of occupancy issued not more than 6 months prior to the Mortgage Contract.
3. When apartments, the Condominium papers.

(All these documents are enclosed as Exhibit #12).

The due dates of the first payments on mortgage loans are as follows:

Construction Loans: 30 days after the construction is completed. During the construction period, only interest is paid.

Complete houses: 30 days after signing the Mortgage Loan.

VI - FORECLOSURE PROCEDURE

There is a new law which governs the foreclosure procedure on all properties under the National Housing Plan, of which Economisa is part. The foreclosure is instituted by the Mortgage Credit Insurance consortium. It takes approximately 6 months to complete the foreclosure procedure. At present they do not have any experience, since this system was instituted recently. The approximate cost of the foreclosure is 10% of the mortgage amount. Anybody can bid at the sale and, if nobody attends, the consortium becomes the owner of the property.

VII - INSURANCE

- A) Mortgage Credit: We were very impressed with this insurance (See Section IV B of Special Report - BNH) (See Exhibit #13).
- B) Hazard: We were also impressed with the insurance policy being offered to mortgagors in Brazil under the National Housing Plan. (See Section IV B of Special Report - BNH). (See Exhibit #14)
- C) Savings: The insurance on Savings Accounts is guaranteed by the Guaranty Fund of the BNH. (For more information see Section IV - Special Report - BNH).

VIII - SAVINGS

On June 1, 1967, Economisa started to acquire savings from the public. As of December 5, they had the following savings:

	<u>No. of Accounts</u>	<u>Amount (Dollars)</u>
Free savings -----	332	\$ 113,000
Downpayment for Construction Loans- 583 -----	583	138,000
Savings Accts. for One Year Term --(not avail.)----	---	168,000
Letras Imobiliarias -----	2406	370,000

The average balance of the Free Savings Accounts is approximately US\$343.00.

Projections for the next 5 years for Free Savings accounts, both completely unattached to loans and those which are saving to have the down-payment for a loan, are as follows:

End of 1967 -----Ncr	200,000
1968 -----	1,400,000
1969 -----	2,400,000
1970 -----	3,000,000
1971 -----	3,000,000
	<u>Ncr 10,000,000</u>

Economisa maintains separate accounting ledgers for those accounts which are savings intended for the down-payment of a mortgage loan. They are not "linked" to mortgage loans. BNH passed a resolution making the contractual savings system illegal. The funds may be withdrawn at any time, without loss. A separate record is kept for those accounts which are not for loans.

To present the policy of BNH has been to promote the sale of the Mortgage Debentures (Letras Imobiliarias). This is why Economisa transferred approximately US\$138,000 from Free Savings Accounts to Letras Imobiliarias. (See Exhibit #15). At present they are able to sell to BNH a percentage of the outstanding Letras Imobiliarias balance that they have sold to the public.

The One Year Savings Account is a result of a regulation that was issued by the Government in 1964 by which 4% of all rentals going to landlords had to be invested in 10-year Letras Imobiliarias. As of November 1, 1967, the Government issued a resolution by which the bearer of those Letras could transfer them to One Year Savings Accounts. In a one-month period Economisa has been able to open US\$168,000 of this type of Savings. A copy of a passbook is enclosed as Exhibit #16. We recommended that they use a better quality passbook.

Conditions of Free Savings Accounts are:

1. 6% interest per annum.
2. Monetary correction based on the quarterly readjustment (See Sections V A and VIII on Special Report - BNH).
3. The funds must remain in the account for 6 months before being able to withdraw any interest. Thereafter, interest is paid quarterly.
4. Deposits made after the 15th day of each month will be considered as deposited the first day of the subsequent month.
5. Withdrawals at any time. By regulation, the Institution has the right to request 3 months notice from the saver for making of withdrawals.

Economisa is using newspaper, t.v. and radio advertisement as well as brochures and literature for the promotion of Free Savings accounts.

Officials of Economisa stated that it is their opinion that the middle-income level group is most anxious to save and they have the means to do so. The higher-income level group is not interested in saving, since their money is invested in more profitable activities. The low-income level group has very little possibility of saving.

The General Manager devotes approximately 10% of his time to the promotion of savings. Economisa is using a Public Relations and Advertising firm for promotion. They have spent approximately US\$8,000 since July in this promotional activity.

The Letras Imobiliarias are advertised by a National Plan of promotion developed by BNH, which is financed by the Sociedades de Crédito Inmobiliario at 0.5% fee on the outstanding balance of the Letras being sold to BNH. It is apparent that BNH is extensively promoting the sale of Letras Imobiliarias.

The Savings activity in the different plans was as follows:

Month	Free	Downpayments	Letras Imobiliarias	One Year Savings
June-NCr	35,463.00	NCr 25,075.00	NCr 209,000 (225)	NCr -
July	73,209.00	91,278.00	300,900 (463)	-
Aug.	-3,358.30	82,980.24	680,900 (828)	-
Sept.	41,755.00	-25,708.82	366,000 (383)	-
Oct.	-58,998.46	106,997.24	274,900 (483)	-
Nov.	25,476.85	142,498.65	116,000 (24)	168,194
	<u>NCr113,549.09</u>	<u>NCr138,123.01</u>	<u>*NCr1,947,700 (2406)</u>	<u>NCr 168,194</u>

* Includes Letras sold to Banco.

Letras Imobiliarias: (See Section III B of Special Report - BNE)

The Management of Economisa stated that the public wants Free Savings but that this incentive from the Banco has pushed them into the sale of Letras.

In conversation with officers and Directors of Economisa, we found that the great majority of the public coming to the offices of Economisa are those interested in construction or buying a house and that Free Savings is only an incidental part of their business. They stated that they are aware of the importance of the promotion of Free Savings and that they were going to take

steps toward such promotion. Among other reasons, BNH was also changing its policy of promotion of Free Savings. We believe this to be true. (See Exhibit #17).

IX - MARKET TO BE SERVED

Although the application states that there is a shortage of 50,000 houses in the City of Belo Horizonte, the applicant could not substantiate this with reliable statistics, since such statistics are not available. Nevertheless, we obtained information from other sources contacted in the City. There is undoubtedly a great shortage of housing in this price range, and there are many residents of the City of Belo Horizonte who are attempting to obtain a house.

The applicant also stated that according to legislation, they may operate in the cities of Minas Gerais, Goias, Espiritu Santo and Brazilia. We do not believe that at present they are geared to place mortgage loans in cities other than Belo Horizonte, because they are just commencing their mortgage operation.

Mr. Mario Trindade, President of BNH, stated that on a national basis, the greatest shortage of houses is in the price range from RCr5,000 to RCr8,000 (US\$2,600). Economisa is planning to finance houses between RCr5,000 and RCr15,000.

In discussing the housing market of the City of Belo Horizonte with the Directors of the Mortgage Department of both the Federal and State Caixa Economica, they both agreed that at this time the market for houses in this income level is broad. At present the State Caixa Economica has 3,000 applicants waiting to receive mortgage loans and the Federal Caixa Economica, although it started its operations 3 months ago, has closed 200 loans, over 300 are in process. There are 300 new saving and waiting for loans. The sales price of the type of house being financed by both Caixas is similar to the price of the houses which will be financed by Economisa with the proceeds of the AFD loan.

The purchasers of the houses on which the mortgage loans will be granted will be of the lower-middle income class, such as bank employees, office clerks, public servants, professors, taxi drivers, blue collar workers, bookkeepers and sergeants of the Police and Army.

X - LOANS INTENDED FOR AID GUARANTY

Although the application states that the price range of the houses financed with the funds obtained from the guaranty loan

by AID will be from NCr4,400 to NCr11,000, this price has increased in one year and at present Economisa intends to finance three types of houses, as follows:

<u>Type of house</u>	<u>Price (NCr)</u>	<u>Term (years)</u>	<u>Downpayment</u>	<u>(NCr) Family Income</u>	<u>Interest</u>
1	7,000	20	10%	243.16	10%
2	11,000	18	15%	387.92	10%
3	15,000	15	20%	515.80	10%

At present the general lending policy of the Institution conforms with the one mentioned above on this type of house. The only difference is that on the NCr7,000 the term of the mortgage is 18 years. We feel that the newly proposed type of houses to be financed and the type of mortgage loans are adequate.

The following are approximate closing costs and monthly payments on the above mentioned three types of loans.

Closing costs (NCr)

Selling price -----	7,000	11,000	15,000
Mortgage amount -----	6,300	9,350	12,000
*Initial Admor.'s Service Fee -	126	187	240
Property Transfer Tax -----	32	57.40	90
Registration fees -----	150	170	190
Legal fees -----	50	50	50
Total closing costs -----	358	464.40	570.00
% of mortgage amount -----	(5.6%)	(4.9%)	(4.7%)

*Although Economisa usually collects 6%, which is the maximum allowed by BNH, they are willing to reduce this fee to 2%, since they will not be using their own money.

Monthly Payments (NCr)

Selling price -----	7,000	11,000	15,000
Principal and Interest -----	60.79	93.50	128.96
Hazard and Life Insurance ----	3.04	4.52	5.80
Tax (paid directly by owner) --	-	-	-
Total, -----	63.83	98.02	134.76

The closing costs appear to be reasonable.

Economisa feels that within a two-year period they can close all the loans using the funds guaranteed by AID. They propose to use different builders in the city of Belo Horizonte in groups of houses that will not exceed a 10% concentration of the number of houses to be financed with AID funds.

It is illegal, under Brazilian law, to have any builder, directly or indirectly related to Economisa, obtain financing from it. (See Section V B of Special Report - BNH).

XI - RETURN ON INVESTMENT

The interest spread return to Economisa will be as follows:

Interest on the mortgage -----	10%	
Service fee -----	<u>2.4%</u>	
Total -----		12.4%
US Investor (at present) -----	6.5%	
AID Fee -----	0.5%	
BNH guaranty (not yet determined) --	1%	
Administrative Fee to BNH -----	<u>1%</u>	<u>9.0%</u>
Interest spread -----		<u>3.4%</u>

All direct and indirect expenses of Economisa are included in this spread. These costs include the cost of Mortgage Credit insurance, which is 0.18% per annum on the original amount of the mortgage during the life of the mortgage.

The net return to the U.S. Investor would be the prime interest rate according to the market at the time of the signing of the Contract. At present it is 6.5%.

XII - CONDITIONS IN HOST COUNTRY

The Government of Brazil, through its National Housing Bank (BNH) which is a Government Agency within the Department of the Interior, has no objection to the approval of this Guaranty. Furthermore, if this Guaranty is approved, it will act as the borrower of the U.S. funds. For a fee which has not been determined as yet, BNH will guaranty the return of the loan to the US Investor against any risk.

The National Housing Bank strongly supports the development of the Sociedades de Crédito Imobiliario and at present the local community of Belo Horizonte is very receptive to the development of Economisa.

If BNH acts as the borrower, there will be no exchange of currency problems, because the Central Bank will give BNH from the

Exchange Rate Compensation Fund enough dollars to send to the US Investor on a monthly basis. On the other hand, Regulation RC #58 of March 3, 1966, authorizes BNH to guaranty any financing of the National Housing System made by the financial agencies supervised by BNH. Among the approved financial agencies are the Sociedades de Crédito Imobiliario. Economisa is a legally accredited Sociedad de Crédito Imobiliario. This guaranty could be issued to a local or foreign investor.

The application also includes a letter of no objection from the Central Bank.

Both, the Central Bank of Brazil and the BNH, maintain strict supervision of Economisa's operations by annual inspections of their books.

There are no applicable taxes on the interest sent out of the country, when the investment is for the use of institutions under the National Housing Plan. (See Section VIII F of Special Report - BNH).

XIII - OTHER LOCAL GUARANTIES

(For details on the mortgage credit insurance see Section V-5 Special Report - BNH).

XIV - MECHANICS ON DISBURSEMENT OF GUARANTY FUNDS

A drawdown will take place upon the delivery to the US Investor of a certification issued by the BNH (borrower). This certification is made from a certification BNH will receive from Economisa. Economisa will issue the certification on the present mortgage portfolio of non-eligible mortgages to be substituted by eligible mortgages in a period of 2 years.

In order to pay the loan to the US Investor, Economisa will deliver on a monthly basis sufficient funds according to the Loan Agreement signed with BNH. BNH will retain its fee and convert the remaining local funds into US Dollars to remit to the US Investor and AID according to the agreements.

XV - PRIORITY TO AID MISSION

Economisa is the number one priority of the USAID Mission of all the applications which were presented by September 15, 1966. It is recommended that a \$3 million guaranty be granted to BNH to be earmarked for Economisa. This priority was agreed on at

a debriefing meeting held with Mr. Van Dyke, Mission Director, Mr. Kline, Deputy Director, Mr. McNichol, Chief of the Housing Division, Mr. Weinberg, Officer in charge of the Guaranties within the Housing Division. Two Inspectors of FHA were also present at the meeting.

It was proposed that, in order to obtain a better spread of AID loans in different areas of the country, Economisa be unofficially requested to open a branch in the capital city of Brazilia. (Economisa unofficially agreed to open a Branch in Brazilia in the very near future).

It is the opinion of the USAID Mission Officers that the future Housing Investment Guaranty Program will primarily be developed through loans to financial institutions like the Sociedades de Crédito Imobiliario as well as the mutual Savings and Loan Associations.

IMPORTANT

Exchange Rate

At time of our trip: NCr 2.7 = US\$ 1.00

After our trip:

(On January 4, 1968)

A new devaluation af-

fectected the new Cruzeiro NCr 3.2 = US\$ 1.00

To convert all figures in this Report, the NCr 2.7 to US\$ 1.00 exchange rate should be used.



WASHINGTON FEDERAL

SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

JACK D. GORDON
President

ARTHUR H. COURSHON
Chairman of the Board

AID-DLC/P-678
EXHIBIT II
Attachment 2
Page 1 of 16

January 17, 1968

Mr. Peter M. Kimm
Deputy Director for
Guaranties and Engineering
LA/HUDD - Room 2242
Agency for International Development
Department of State
Washington, D.C. 20523

Re: Feasibility Report
Brazil HG-15
Minas Oeste S.A.

Dear Mr. Kimm:

We recommend the issuance of a guaranty for the above captioned application submitted by Minas Oeste S.A. under category #4 (Mortgage Credit Institutions), subject to the following terms and conditions:

1. Borrower: Banco Nacional da Habitacao (BNH) should act as the borrower of the U.S. funds. BNH must earmark the funds for the use of Minas Oeste. For more information, see Section IX of Special Report-BNH.
2. Amount of Guaranty: \$1 million.
3. Amortization Period: 25 years from the date of disbursement of the respective installments of the loan.
4. Interest Rate and AID Fee:

U.S. Investor Interest Rate (at present)	6.5%
AID Fee	0.5
Total	<u>7</u> %



1701 Meridian Avenue
Miami Beach, Fla.

1234 Washington Avenue
Miami Beach, Fla.

1133 Normandy Drive
Miami Beach, Fla.

688 N.E. 167th Street
North Miami Beach, Fla.

Miami Beach: Phone JE 8-8482

North Miami Beach: Phone 948-7675

Broward County: Phone 825-4381

WASHINGTON FEDERAL
SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

EXHIBIT II
Attachment 2
Page 2 of 16

Mr. Peter M. Kimm
Page 2
January 17, 1968
Re: Brazil HG-15 (Minas Oeste S.A.)

5. Local Guaranty:
 - A) The full guaranty of the Government of Brazil through BNH, and BNH's net worth.
 - B) Specific collateral of the individual mortgages insured by the local consortium of insurance companies.
 - C) Net worth of Minas Oeste S.A.
6. A commitment must be submitted to AID by the U.S. Investor (s) within 60 days of the date of the guaranty approval, expressing willingness to provide the long term investment, specifying the amount, interest rate and terms of the loan. The effective term for the disbursement of the loan amount should be for a period of no less than 2 years from the date of the signing of the Contract of Guaranty.
7. The disbursement of the loan will be made in installments of no less than \$100,000 each, over a period of 2 years from the date of the signing of the Contract of Guaranty.
8. During the term of the Loan Agreement, the total unpaid principal balance of the individual mortgages given as specific collateral of the U.S. Investment should be approximately 105% of the unpaid principal balance to the U.S. Investor. This will insure a continuing effort to raise local capital through savings, thus strengthening the institution.
9. Loans made by applicant in each specific site, including the funds provided under this guaranty, should not be more than 10% of applicant's total loan portfolio.
10. Net Return to the U.S. Investor: See Section VIII-F of Special Report-BNH.

WASHINGTON FEDERAL

SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

Mr. Peter M. Kimm
Page 3
January 17, 1968
Re: Brazil HG-15 (Minas Oeste S.A.)

11. Eligible mortgages should be limited to:
- A) Maximum selling price of \$5,000 for land and house.
 - B) Closing costs of approximately 2% of the selling price.
 - C) Monthly payments consisting of the following items:
 - 1) Principal.
 - 2) Interest rate composed of:

Interest to the U.S. Investor (at present)	6.5%
AID Fee	0.5
BNH "aval" (Guaranty) (not yet determined)	
approximately	1.0
Interest spread for Local Institution	2.0
Total	10 %
 - 3) Hazard and Life Insurance: 1/12 of the annual premium, which at present is 0.58% per annum. See Section IV-B of Special Report-BNH.
 - 4) The cost of Mortgage Insurance is absorbed by the financial institution. See Section IV-A of Special Report-BNH.
 - D) We recommend that the present policies of BNH, concerning the age of the house to be financed, minimum property standards, maximum ratio of loan to value, Real Estate taxes and mortgage insurance, be applied to these mortgages.
 - E) Amortization up to 20 years. The present mortgage policy of BNH should be adhered to. If this policy is applied, the term for repayment to the U.S. Investor will be longer than the term for repayment of the individual mortgages, thus making greater the number of new mortgages that will be originated during the term of the U.S. Investment.
 - F) The ratio of monthly payment to monthly family income which is established by regulation of BNH, should be adhered to.
 - G) All other present lending policies of BNH should be adhered to.

WASHINGTON FEDERAL

SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

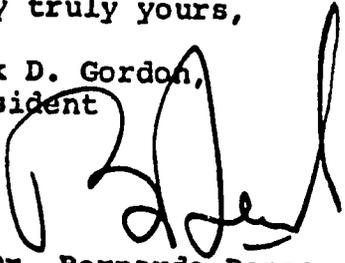
Mr. Peter M. Kimm
Page 4
January 17, 1968
Re: Brazil HG-15 (Minas Oeste S.A.)

The attached report is submitted to substantiate our opinion. In addition, the Special Report-BNH should be considered in order to make a full study of the situation.

We trust that this will be helpful to you.

Very truly yours,

Jack D. Gordon,
President

By: 
Dr. Bernardo Benes,
Vice President

Encls.
BB/lp

R E P O R T

TO: Mr. Peter M. Kimm
Deputy Director for Guaranties and Engineering
LA/HUDD
Agency for International Development

FROM: Mr. Jack D. Gordon
President
Washington Federal Savings and Loan Association
of Miami Beach

BY: Dr. Bernardo Benes, Vice President,
Mr. George W. Hirsch, Financial Vice President, and
Mr. Carlos Feldman, Auditor
Washington Federal Savings and Loan Association

RE: Feasibility Report
Brazil HG-15
Minas Oeste, S.A.

CONTRACT AID/la-381 (Regional)

Duration of Most Recent Trip
November 27 through December 9, 1967

MINAS OESTE, S.A.

I. General

Minas Oeste, S.A. is a private institution. It commenced its operation in October 1965 as an Investment Bank specializing in the financing of consumer goods, discount of commercial paper and similar commercial financing operations with an initial capitalization of approximately US\$37,000.

By Article 20 of Law 4864 of November 29, 1965, the Investment Banks were authorized to convert into Mortgage Banks (Sociedades de Credito Imobiliario). The prerequisite for this conversion was to increase the capitalization to NCr500,000 (approximately US\$185,000). In April 1966 Minas Oeste increased its capital to this amount. At present they are selling shares to increase its capital to NCr5 million. During the first month they have sold shares for a total of NCr200,000.

The major stockholders and Directors of Minas Oeste told us that they wanted to convert their operations to real estate financing, because they felt that it was a more solid business than the financing operation they were conducting. They also stated that the interest rate collected in commercial financing is declining considerably.

Minas Oeste is supervised by both the National Housing Bank (BNH) and the Central Bank of Brazil. BNH supervises Minas Oeste through its Superintendency of Financial Agencies.

At present the main office of Minas Oeste is located on the 14th floor of Rua da Bahia 1032, Belo Horizonte, Minas Gerais. They have no branch offices, but were planning to move their offices to a premise on the ground floor, adjacent to the Banco Minero del Oeste, S.A., to be able to attract savings from the public.

By regulation, Minas Oeste may operate in the States of Goias, Espirito Santo, Minas Gerais and the Federal District of Brazilia.

At the time of our visit, Minas Oeste did not have a mortgage portfolio since their Housing Department had only recently commenced operating.

The major stockholder of Minas Oeste is Banco Minero del Oeste, S.A. (27.5%). A register of stockholders is enclosed as Exhibit #1.

II. Financial Capability

We analyzed the Financial Statements for the years during which they have been in operation (attached as Exhibit #2). They reflect the following data:

<u>Year</u>	<u>Net Worth</u>	<u>Legal Reserves (5% of Net Profit)</u>	<u>Special Reserves (Above Obligatory)</u>	<u>Cash & Banks</u>	<u>Mortgage Loans</u>	<u>Savings</u>
12/30/66	515,756	5,184	9,012	404,968	—	49,908
6/30/67	687,838	11,882	171,432	413,696	—	109,845
11/30/67	856,227	11,882	171,432	385,719	—	316,115

We have also made an analysis of the projections in the housing field for the next 5 years. This analysis, which does not include new foreign investment (enclosed as Exhibit #3), reflects the following data:

Number of houses: 2918
Financing: US\$30,000,000
Number of houses per month: 49

The analysis of their 5 years projections in the housing field, including the proposed foreign investment is as follows:

Number of houses: 3896
Financing: US\$33,000,000
Number of houses per month: 64

The sources of capital are stockholders' investment plus undivided profits and reserve, mortgage debentures (Letras) sold to the general public and to the BNH, Free Savings accounts, mortgages sold to BNH, refinancing from BNH, savings accounts for one year and deposits for downpayments.

On November 30, 1967, a contract was signed between BNH and Minas Oeste by which BNH committed themselves to buy mortgages from Minas Oeste's portfolio for a total of NCr6,800,000 during a period of two years. Management of Minas Oeste is confident that they will be able to use not only these resources in the next two years, but also the US\$3 million requested in this application. We agree with this belief, because the market is broad and Minas Oeste's management is very capable.

The minimum legal liquidity is 7% of total resources. Considered as liquid assets are cash, government bonds and Letras Imobiliarias issued by the other Sociedades de Credito Imobiliario. The maximum amount of assets that a Sociedad de Credito Imobiliario may have is 15 times the capital and reserves of the institution, plus 50% of outstanding insured mortgage balance and 50% of the foreign or national loans with the guaranty of BNH.

III. Reputation

Minas Oeste enjoys an excellent reputation. Dr. Mario Trindade, President, and Dr. Jose E. de Oliveira Penna, Chief of the Superintendency of Financial Agencies of the BNH spoke very highly of this group.

We were furnished with additional references from:

- a) Banco Comercio e Industria de Minas Gerais.
- b) Banco de Credito Real de Minas Gerais.
- c) Banco Mineiro da Producao, S.A., Belo Horizonte.

Copies of these reference letters are enclosed as Exhibit #4.

References given on officers are very good, as well as the references given on major stockholders, Directors and Executives.

The Directors of Minas Oeste and Banco Mineiro de Oeste are the same. Banco Mineiro de Oeste is a commercial bank with approximately US\$5,000,000 of resources. They have 22 branches and 100,000 depositors. The principal of the Banco, Mr. Joao do Nascimento Pires, is one of the most respected and honorable individuals in the City of Belo Horizonte.

IV. Experience

At the time of our visit, Minas Oeste had not yet originated any mortgage loans, because their Housing Department had recently been organized (November 20, 1967).

We have all the forms and procedures that will be established for their mortgage servicing, and they appear to be adequate.

Since they have no mortgage loans on their books, we are unable to evaluate this aspect of their operations.

V. Internal Operations

The Managing Officer of Minas Oeste, Mr. Ivan de Vasconcelos, and the Chairman of the Board, Dr. Antonio Castanhiera de Carvalho, appear to be very well qualified and sophisticated individuals. The caliber of the staff also appears to be very good.

In processing mortgage loans, Minas Oeste will rely on the opinion of the Appraisers of the Institution, who are civil engineers with experience in housing construction, for the evaluation of the houses to be financed. The Appraisers, in turn, rely on a basic document on construction costs issued by the Asociacion Brasileira de Normas Tecnicas.

In addition, the Association of Builders of Belo Horizonte publishes monthly an evaluation of finished houses. The Chief Appraiser of Minas Oeste seems to be very competent. At present they have three Appraisers, two of whom are engineers and the other is an architect. They are independent Appraisers, not acting as employees of Minas Oeste, but performing their services on a fee basis.

The application for a loan is filled out when the future buyer visits the institution. Copy of a Loan Application form is enclosed as Exhibit #5. The Manager reviews the application and confirms the information contained in it, and then sends it to the General Manager, who approves it together with the Directors. This procedure appears to be adequate. The ratio of monthly payment to family income is regularly 25% and the maximum ratio is 30%, according to regulation set by BNH.

The Management of Minas Oeste told us that their lending practice will be based on the principle that the more expensive the house being financed, the lower the ratio of mortgage value and the shorter the term of the mortgage.

All future loans will be divided in two mortgages, a first and a second. This is due to the fact that BNH will only buy the portion which corresponds to the first mortgage. Although the first mortgage is a preferred credit over the second, both carry mortgage credit insurance.

The accounting system seems to be adequate. It is mechanically conducted with Olivetti machines. They do not intend to create individual escrow accounts for insurance and taxes. The fire and other risks insurance is explained in Section IV-B of "Special Report-Banco Nacional da Habitacao".

There are six staff members in the Housing Department, including the President, Mr. Vasconcelos, a Loan Officer, one teller, two receptionists and one typist. The total number of employees in the institution is 18.

As a general rule, the payroll deduction system is not acceptable to the employer or the employee. The usual pay day in the community is the last day of the month, although some are paid every 15 days.

The financing of homes will be for the construction of a new house or the purchase of a house which was built within the last 6 months. The conditions for granting a loan for construction or for the purchase of a completed house are adequate and established by the regulations of BNH.

VI. Foreclosure Procedure

There is a new law which governs the foreclosure procedure on all properties under the National Housing Plan, of which Minas Oeste is part. It takes approximately 6 months to complete the foreclosure procedure, which is instituted by the Mortgage Credit Insurance consortium. The approximate cost of foreclosure is 10% of the mortgage amount.

VII. Insurance

A. Mortgage Credit: We were greatly impressed with this insurance. See Section IV-A of "Special Report BNH".

B. Hazard: We were also impressed with the insurance policy being offered to mortgagors in Brazil under the PNH. See Section IV-B of "Special Report-BNH".

C. Savings: The insurance on savings accounts is guaranteed by the Guaranty Fund of the BNH. For more information, see Section IV-C of "Special Report-BNH".

VIII. Savings

On November 27, 1967 (exactly one week prior to our visit), Minas Oeste started to acquire savings from the public. As of December 6, they had the following savings:

	<u>Number of Accounts</u>	<u>Amount (US\$)</u>
Free Savings	182	105,000
Letras Imobiliarias	(not available)	100,000

The average balance of the Free Savings accounts is approximately US\$550.

Projections for the next 5 years for Free Savings accounts, both completely unrelated to loans and those who are saving for the downpayment of a mortgage loan, are as follows:

1968	400,000
1969	1,200,000
1970	2,800,000
1971	4,400,000
1972	<u>6,000,000</u>
	14,800,000

Minas Oeste, as an SCI, is prohibited by Law to attract linked savings, since the contractual system is illegal for this type of institution. The funds on savings accounts intended for the downpayment of a mortgage loan may be withdrawn at any time without loss.

To date the policy of BNH has been to promote the sale of the Mortgage Debentures (Letras Imobiliarias), but as explained in the "Special Report-BNH", they are changing this policy to promote the Free Savings accounts. During the last three days of our visit, they opened Free Savings accounts for a total of US\$70,000.

A copy of a passbook is enclosed as Exhibit #6. The passbook is very impressive and proves the interest of the institution in promoting Free Savings.

Conditions on Free Savings accounts are:

- a) 6% interest per annum.
- b) Monetary correction based on a quarterly readjustment (See Section: V-A and VIII of "Special Report-BNH").
- c) The funds must remain in the account for 6 months before being able to withdraw any interest. Thereafter, interest is paid quarterly.
- d) Deposits made during the month earn interest as of the first day of the following month.
- e) Withdrawals may be made at any time. By regulation, the Institution has the right to request three months notice from the depositor for making any withdrawals.

Minas Oeste will use newspaper, television and radio advertisement as well as brochures and literature for the promotion of Free Savings accounts.

At present the deposits are being received at a window of the Banco Minerero del Oeste, which is a major stockholder with a branch across the street from Minas Oeste. Minas Oeste is considering the possibility of instituting a plan to open a Savings Department at each of the 22 branches of Banco Minerero del Oeste, to attract savings.

To date the Management of Minas Oeste has devoted most of its efforts to the promotion of the sale of Letras. The importance of promoting the Free Savings accounts was pointed out to them. They are planning to do so as soon as they open their new offices on the ground floor.

Letras Imobiliarias:

See Section IV-B-4 of "Special Report-BNH".

It is apparent that at the present time the only persons coming to the offices of Minas Oeste are those interested in construction loans or the purchase of a house, and that Free Savings is only an incidental part of their business. They stated that they are aware of this situation and agreed that the promotion of Free Savings is probably the most important activity to be undertaken in the near future. We believe that they understand the importance of this matter, since management is qualified and competent.

IX. Market to be Served

Although the application states that there is a shortage of 50,000 houses in the City of Belo Horizonte, the applicant could not substantiate

this with reliable statistics. No statistics are available. Nevertheless, we obtained information from other sources contacted in the City. There is undoubtedly a great shortage of housing in this price range, and there are many residents of the City of Belo Horizonte who are attempting to obtain a house.

The applicant also stated that according to legislation, they may operate in the cities of Minas Gerais, Goias, Espirito Santo and Brazilia. We do not believe that at present they are geared to place mortgage loans in cities other than Belo Horizonte, because they are just commencing their mortgage operation.

Dr. Mario Trindade, President of BNH, stated that on a national basis, the greatest shortage of houses is in the price range from NCr5,000 to NCr8,000 (US\$2,600). Minas Oeste is planning to finance houses between NCr5,000 and NCr15,000.

In discussing the housing market of the City of Belo Horizonte with the Directors of the Mortgage Department of both the Federal and State Caixa Economica, they both agreed that at this time the market for houses in this income level is broad. At present the State Caixa Economica has 3,000 applicants waiting to obtain mortgage loans and the Federal Caixa Economica, although it started its operations three months, has closed 200 loans and over 300 are in process. There are 300 now saving and waiting for loans. The sales price of the type of house being financed by both Caixas is similar to the price of the houses which will be financed by Minas Oeste with the proceeds of the AID loan.

The purchasers of the houses on which the mortgage loans will be granted will be of the lower-middle income class, such as bank employees, office clerks, public servants, professors, taxi drivers, blue collar workers, bookkeepers and sergeants of the Police and Army.

X. Loans Intended for AID Guaranty

Although the application states that the price range of the houses financed with the funds obtained from the guaranty loan by AID will be from NCr4,400 to NCr11,000, this price has increased in one year and at present Minas Oeste intends to finance three types of houses, as follows:

<u>Type of House</u>	<u>Price (NCr)</u>	<u>Term</u>	<u>Downpayment</u>	<u>Family Income (NCr)</u>	<u>Interest</u>
1	7,000	20 yrs	10%	243.16	10%
2	11,000	18	15%	387.92	10%
3	15,000	15	20%	515.80	10%

We feel that the newly proposed type of houses to be financed and the type of mortgage loans are adequate.

The following are approximate closing costs and monthly payments on the above mentioned three types of loans:

Closing Costs (NCR):

Selling price	7,000.00	11,000.00	15,000.00
Mortgage amount	6,300.00	9,350.00	12,000.00
Initial Admor's Service Fee	126.00	187.00	240.00
Property transfer tax	32.00	57.40	90.00
Registration fees	150.00	170.00	190.00
Legal fees	50.00	50.00	50.00
Total Closing Costs	358.00	464.40	570.00
% of mortgage amount	5.6%	4.9%	4.7%

Monthly Payments (NCR):

Selling price	7,000.00	11,000.00	15,000.00
Principal and interest	60.79	93.50	128.96
Hazard and Life insurance	3.04	4.52	5.80
Tax (paid directly by owner)	---	---	---
Total	63.83	98.02	134.76

The closing costs appear to be reasonable.

Minas Oeste proposes to initially use one builder in the City of Belo Horizonte to construct the houses which will guaranty the first mortgage loans they grant. As soon as they make the first loans, they will use other builders. They intend to finance small housing projects as well as dispersed individual homes.

The limitation of 10% concentration or the number of houses to be financed by Minas Oeste in general, and those that will be financed with the AID funds, was explained to management, and agreed upon.

It is illegal, under Brazilian Law, for any builder, directly or indirectly connected with Minas Oeste to obtain financing from it. See Section V-B of "Special Report-BNH".

XI. Return on Investment

The interest spread return to Minas Oeste will be as follows:

Interest on the mortgage	10.00%	
Service Fee	<u>2.4 %</u>	
Total		12.4%
U.S. Investor (at present)	6.5 %	
AID Fee	0.5 %	
BNH guaranty (not yet determined)	1.00%	
Administrative Fee to BNH	<u>1.00%</u>	<u>9.00%</u>
Interest spread		3.4%

All direct and indirect expenses of Minas Oeste are included in this spread. These costs include the cost of Mortgage Credit Insurance, which is 0.18% per annum on the original amount of the mortgage during the life of the mortgage.

The net return to the U.S. Investor would be the prime interest rate according to the market at the time of the signing of the Contract. At present it is 6.5%.

XII. Conditions in Host Country

The Government of Brazil, through its National Housing Bank (BNH), which is a Government Agency within the Department of the Interior, has no objection to the approval of this Guaranty. Furthermore, if this guaranty loan is approved, BNH will act as the borrower of the U.S. funds. For a fee which has not been determined as yet, BNH will guaranty the return of the loan to the U.S. Investor against any risk.

The National Housing Bank strongly supports the development of the Sociedades de Credito Imobiliario and at present the local community of Belo Horizonte is very receptive to the development of Minas Oeste.

If BNH acts as the borrower, there will be no problems involving currency exchange, because the Central Bank will furnish to BNH from the Exchange Rate Compensation Fund enough dollars to send to the U.S. Investor on a monthly basis. On the other hand, Regulation RC #58 of March 3, 1966, authorizes BNH to guaranty any financing of the National Housing System made by the financial agencies supervised by BNH. Among the approved financial agencies are the Sociedades de Credito Imobiliario. Minas Oeste is a legally accredited Sociedad de Credito Imobiliario. This guaranty could be issued to a local or foreign investor.

The application also includes a letter of no objection from the Central Bank.

Both the Central Bank of Brazil and the BNH will maintain strict supervision of Minas Oeste's operations by annual inspection of their books.

There are no applicable taxes on the interest sent out of the country, when the investment is for the use of institutions under the National Housing Plan (See Section VIII-F of "Special Report-BNH").

XIII. Other Local Guaranties

For details on the Mortgage Credit Insurance see Section IV-A of "Special Report-BNH".

XIV. Mechanics on Disbursement of Guaranty Funds

A drawdown will take place upon the delivery to the U.S. Investor of a certification issued by the BNH (borrower). This certification is predicated upon one that BNH receives from Minas Oeste. Minas Oeste will issue the certification on the present mortgage portfolio of non-eligible mortgages to be substituted by eligible mortgages in a period of 2 years.

In order to repay the loan to the U.S. Investor, Minas Oeste will deliver to BNH on a monthly basis sufficient funds according to the Loan Agreement signed with BNH. BNH will retain its fee and convert the remaining local funds into U.S. Dollars to remit to the U.S. Investor and AID according to the agreements.

XV. Priority to AID Mission

The USAID Mission officers agreed with us that it would be feasible to approve a \$1 million guaranty loan to Minas Oeste, although they had not started their mortgage operation at the time of our visit. This \$1 million loan will provide additional seed capital at the initial stage of their operations.

This was agreed upon at the debriefing meeting held with Mr. Van Dyke, Mission Director, Mr. Klein, Deputy Director, Mr. McNichol, Chief of the Housing Division, and Mr. Weinberg, Officer in charge of the Guaranties within the Housing Division. Two inspectors of FHA were also present at the meeting.

It is the opinion of the USAID Mission officers that the future Housing Investment Guaranty Program will primarily be developed through loans to financial institutions like the Sociedades de Credito, Imobiliario as well as the Mutual Savings and Loan Associations.

IMPORTANT

At time of our trip:

EXCHANGE RATE
Ncr 2.7 = US\$1.00

After our trip:
(On January 4, 1968)
A new devaluation affected
the New Cruzeiro

Ncr 3.2 = US\$1.00

To convert all figures in this Report, the Ncr2.7 to US\$1.00 exchange rate should be used.



WASHINGTON FEDERAL

SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

JACK D. GORDON
President

ARTHUR H. COURSHON
Chairman of the Board

UNCLASSIFIED
AID-DLC/P-678
EXHIBIT II
Attachment 3
MERIDIAN AVENUE OFFICE
Page 1 of 33

January 17, 1968

Mr. Peter M. Kimm
Deputy Director for
Guaranties and Engineering
LA/HUDD - Room 2242
Agency for International Development
Department of State
Washington D.C. 20523

Subject: Special Report - Banco
Nacional da Habitacao
(BNH) - Brazil.

Dear Mr. Kimm,

Enclosed are 15 copies of our Special Report on the "Banco Nacional da Habitacao" (BNH). When we were asked to conduct feasibility studies on all the applications in Brazil, we suggested that BNH act as Borrower in all cases, and as prime Administrator in all specific Projects. We discussed this matter with you previously and you concurred

In each of the Feasibility Reports on individual applications, reference is made to this Special Report.

This Report will not only serve for the specific purpose of making a full analysis of the Housing Investment Guaranty Program in Brazil, but also as a summary of all the activities conducted by BNH.

Sincerely yours,

Jack D. Gordon, President

By: Dr. Bernardo Benes
Vice President

Encl.
JDG/BB/gm
cc: - Mr. Layton Mac Nichols
USAID Mission/Brazil



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See _____

R E P O R T

TO: Mr. Peter M. Kimm
Deputy Director
LA/HUDD
Agency for International Development

FROM: Mr. Jack D. Gordon
President
Washington Federal Savings and Loan Association
of Miami Beach

BY: Dr. Bernardo Benes, Vice President,
Mr. George W. Hirsch, Financial Vice President, and
Mr. Carlos Feldman, Auditor
Washington Federal Savings and Loan Association

RE: Special Report
National Housing Bank of Brazil

Duration of Most Recent Trip

November 27 through December 9, 1967

NATIONAL HOUSING BANK OF BRAZIL

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NATIONAL HOUSING BANK OF BRAZIL

For the sake of brevity, the following terms will be used in this Report:

- BNH: Banco Nacional da Habitacao (National Housing Bank of Brazil).
- SCI: Sociedade de Credito Imobiliario (Stock-owned Savings and Loan Association).
- APE: Associacoes de Poupanca e Empréstimos (Mutual Savings and Loan Association).
- Letras: Letras Imobiliarias (Mortgage debentures).
- UPC: Unidade Padrao de Capital (Standard Capital Unit). UPC is a standard unit of measure of currency established by BNH for all its transactions. This unit is based on the readjustment of the Treasury Bonds which are, in turn, based on the wholesale price index of 60 products of major consumption established by the Getulio Vargas Foundation and approved by the Ministry of Economy. This index is adjusted quarterly. For the quarter ending September 30, 1967, the valuation of a UPC was NCr26.18.
- Caixa: Caixa Economica (Government Investment and Mortgage Bank).
- NCr: New Cruzeiros (Local currency. At the time of this Report, US\$1.00= NCr2.7 or NCr1.00= US\$0.37).
- PNH: Plano Nacional da Habitacao (National Housing Plan).
- SFH: Sistema Financeiro da Habitacao (Housing Finance System).
- FGTS: Fundo de Garantia do Tempo de Servico (Social Security Fund).
- COHAB: Companhia de Habitacao (Housing Company).
- S.M.: Salario minimo (Minimum monthly salary).

NATIONAL HOUSING BANK OF BRAZIL

I. General

A. History:

The National Housing Bank (BNH) was created as a division of the Treasury Department by Law 4380 of the Congress of Brazil, dated August 21, 1964. This law formulated the National Housing Plan (PNH) by coordinating Government Agencies and private enterprises. Its purpose was to stimulate construction of low cost houses and finance purchase of private homes, particularly for lower-middle income groups.

BNH is an autonomous Government Agency with independent resources and administrative powers, and is exempt from federal income tax. Law 4380 also permits BNH to open branches throughout the country.

At present BNH is under the jurisdiction of the Minister of Interior. After three years of operation, BNH has shown to be the only Government Agency responsible for implementing the National Housing Plan in Brazil.

B. Objectives:

The objectives of BNH, according to Article 17 of Law 4380, are:

- 1) To guide and control the SFH.
- 2) To provide incentives for the promotion of savings for the SFH.
- 3) To control the SCIs within the capital market.
- 4) To create a secondary mortgage market with insurance for the mortgage loans of the SFH.
- 5) To provide life insurance on mortgagors of the SFH.
- 6) To finance or refinance housing projects and related land improvements promoted by local private enterprise.
- 7) To refinance transactions of the SCIs, APEs and Caixas.
- 8) To finance or refinance projects related to the development of the construction materials industry, and to make technical surveys which are necessary for improving the housing conditions in Brazil.

BNH will provide technical assistance as well as supervision and control. BNH is not authorized to make direct loans or to buy or sell property with the exception of land for the development of housing projects.

According to Law, BNH has the power to:

- 1) Authorize and control operations of the SCIs and APES, and housing activities of the Caixas.
- 2) Determine the general conditions, i.e., limitations, term, withdrawal, interest, insurance of savings accounts, of the SFH.
- 3) Establish the general conditions of mortgage loans of the SFH, to the extent of limiting the loan to value ratio, term, interest and guaranties.
- 4) Establish limitations on reserves and capitalization in relation to deposits received and lending of the SCIs and APES.
- 5) Establish the type of lending of financial institutions which form the SFH.
- 6) Establish the general conditions and limitations on the term and interest of Letras as well as their insurance provisions.
- 7) Establish regulations for savings accounts and lending policies of financial institutions which form the SFH.
- 8) Establish operational policies for the secondary mortgage market within the SFH.
- 9) Establish the requirements of private insurance companies in providing insurance coverage for mortgages within the System.
- 10) Other functions established by Law.

BNH may receive deposits from:

- 1) Government Agencies.
- 2) Financial institutions which form the SFH.
- 3) Funds resulting from operations of the Bank.

BNH may borrow from foreign or domestic sources for purposes of increasing resources for its operations.

BNH may perform the following functions:

- 1) Issue guaranties for financial assistance (both foreign and domestic) obtained by institutions which form the SFH.
- 2) Provide mortgage insurance.
- 3) Provide deposit insurance.
- 4) Create a secondary mortgage market to give liquidity to the System.
- 5) Provide life insurance to mortgagors.
- 6) Provide insurance for the payment of Letras issued by the SCIs.
- 7) Finance or refinance the construction of housing projects, development of the building materials industry and technical surveys.
- 8) Partially refinance mortgage loans given by the SCIs, APES and Caixas.

C. Internal Organization:

The internal organization of the BNH is described in the organizational chart enclosed as Exhibit #1.

Training Programs:

At our meetings with the officers of BNH, we were informed that the BNH is extremely interested in maintaining a continuous training program for the officers and employees of the System. We learned that BNH has contracted for the services of the Getulio Vargas Foundation (a Brazilian organization specializing in conducting economic studies), to evaluate and examine procedures and operations of the Caixas. They have also contracted for the services of Companhia Organizacao de Empresas (a private corporation specializing in systems analysis), for a forms study and procedural analysis of both the Caixas and the future APEs. They have also contracted with the Catholic University to maintain a national center of housing statistics.

D. Resources:

By Law, the original capitalization of the Bank was NCr1,000,000. By the same Law, the Bank was authorized to acquire Government owned land. This land is being sold for the development of housing projects.

The resources of BNH for the period ending December 31, 1966, were approximately NCr147 million. The accumulation for prior years was as follows:

1964	NCr2.4 million
1965	62.6 million
1966	82.3 million

Although resources for housing are increasing yearly, it would require approximately NCr2.5 billion a year to satisfy the needs of the country.

BNH has classified the resources into two categories:

- 1) Funds available at no cost to BNH.
- 2) Funds available to BNH at costs varying according to time, terms and source.

Exhibit #2 shows the sources of all funds from 1964 to 1966 and the projection for 1967.

As per the enclosed Exhibit, it is apparent that the greatest future source of funds will be from the administration of the Guaranty Fund of Time of Service (FGTS), in accordance with Article 11 of Law 5107 of

September 13, 1966, and its Decree 59.820 of December 20, 1966, which legislation refers to the creation of a Social Security System. BNH will receive monthly from the employers 8% of the salaries paid to employees. The funds will be deposited in accounts in the names of the employees and will earn the following readjusted interest:

- 3% for the first 2 years of employment.
- 4% from the 3rd to the 5th year.
- 5% from the 5th to the 10th year.
- 6% after 10 years.

The general rules for the investment of these monies are:

- 1) Mortgage lending.
- 2) Monetary correction or readjustment.
- 3) Interest above the cost of money as mentioned in the prior paragraph.

For administering this fund, a board of directors will be created consisting of the following:

- 1) President of BNH, Chairman of the Board.
- 2) A representative of the Labor Ministry.
- 3) A representative of the Economic Planning Board.
- 4) A representative of the employers.
- 5) A representative of the professional classes.

Article 25 of Law 4883 established that the capital of BNH belongs to the National Government.

E. Financial Statements:

We have analyzed the Statements of Condition and Profit and Loss Statements of BNH for the years 1964, 1965 and 1966. A copy of our analysis is enclosed as Exhibit #3. The financial status of BNH is improving. In general, BNH seems to be a self-sustaining and solid Government Agency.

F. Projections:

The projections of BNH for construction of new houses under the auspices of the PNH administered by BNH for the end of 1967 and the succeeding five years are as follows: (Number of Houses)

<u>Year</u>	<u>Sponsored by BNH</u>	<u>Sponsored by private sources under the PNH</u>	<u>Per Annum</u>	<u>Cumulative</u>
1967	180,000	40,000	220,000	220,000
1968	178,000	45,000	223,000	443,000
1969	214,000	51,000	265,000	708,000
1970	257,000	58,000	315,000	1,023,000
1971	311,000	64,000	375,000	1,398,000
1972	376,000	70,000	446,000	1,844,000
Totals	1,516,000	328,000	1,844,000	

For the year ending December 31, 1967, BNH expects to attract funds from private sources as follows: (in millions of NCrs)

From sale of Letras by SCIs	70
From free Savings Accounts with monetary correction	10
From linked savings (Caixas)	20
Total	<u>100</u>

The projections of BNH for free savings in the years 1968, 1969 and 1970 are as follows: (in millions of NCrs)

	<u>1968</u>	<u>1969</u>	<u>1970</u>
Caixas	35	45	52
SCIs	200	200	230
APES	12	13.5	18
Totals	<u>247</u>	<u>258.5</u>	<u>300</u>

II. Housing Plans

A. COHAB:

COHAB (Companhia da Habitacao) (Housing Company) is a corporation in the form of a joint venture between a municipality or a state government (51% of the shares) and private capital in the community. The aim of COHAB is to promote the construction or acquisition of subsidized houses.

Under this Program, the BNH finances subsidized housing which provides assistance to low income Brazilian families (income of less than three minimum monthly salaries, which minimum salary at present is NCr105 per month for the most developed regions in the country). The maximum mortgage financed by BNH is 90% of the selling price of the house with a maximum value of house of 75 minimum monthly salaries. The amortization period is 20 years with 4% interest per annum. The subsidy takes the form of this below market interest rate. The maximum ratio of monthly mortgage payment to monthly family income is 25%. The required minimum capitalization of COHAB is equal to the organization and administrative expenses for the first four years of operation. The general program must be approved in advance by BNH.

The financial assistance to a COHAB from the BNH must be used for construction of houses and in exceptional cases may be used for land development costs (approximately 15% of the funds to be invested in land development and 85% in houses).

The following are some statistics of the COHAB plans as of December 31, 1966:

Number of COHABs functioning	31
Municipalities being serviced	80
Number of houses completed	26,369
Number of houses under construction	13,923
Approved-construction not commenced	4,650
BNH financing	NCr68 million
Average price per house	NCr3,300
Average price per m ²	NCr81

Projections for 1967:

Total investment	NCr187 million
Number of COHABs functioning	36
Municipalities being serviced	120
Number of houses to be built	62,000

B. Cooperatives:

Basically, there are two types of housing cooperatives: 1) Cooperatives formed for the sole purpose of obtaining housing, and 2) Cooperatives formed under labor union sponsorship. Under the first group, the members of the cooperative must have a family income from two to five minimum monthly salaries. The mortgage limit to be financed by BNH is 70% of the selling price. The maximum sales price of a house under this program is 120 minimum monthly salaries with an amortization period of 20 years at 7% per annum.

Under the second group, which is affiliated with a labor Union, the family income should be from 1.5 to 5 minimum monthly salaries. BNH will finance up to 85% of the cost of the houses with a maximum selling price of 130 minimum monthly salaries and with an amortization period of 20 years at 7% interest per annum.

The maximum ratio of monthly mortgage payment to monthly family income is 25%. As of December 31, 1966, approximately 7,500 units were built under this Program. There is a projection to build 100,000 units in the next three years using funds from the FGTs (Social Security). BNH is developing an intensive campaign for training labor leaders in order to promote this type of cooperative, by setting up organizations known as Institutos de Orientacao de Cooperativas (INOCOOP), which will provide technical assistance. At present there are four such institutions in operation: in Sao Paulo, in Rio Grande do Sul, in Minas Gerais and in Guanabara. There are 52 cooperatives operating in these four states. The average cost of a house under this plan is NCr9,600. It is BNH's intention to invest NCr100 million in 1967 in this category of lending.

BNH drafts the By Laws under which cooperatives operate and also regulates their operation. In order to accumulate the down payment for a house, a member of a cooperative has to save 0.5% of his monthly income for a period of 48 months.

C. Financial Institutions:

Financial Institutions will be discussed later in this report, under paragraph number III.

D. Empresa:

Under this plan, an employer who wants to provide houses for employees could obtain financial support from the BNH if the employer is willing to finance 50% of the cost of the house. Then BNH finances the other 50% for 15 years at 8% interest. In most of the cases the employer's participation is represented by land in the vicinity of the plant.

The eligible employees under this plan are those who have a family income of 2.5 to 20 minimum monthly salaries. The maximum ratio of monthly mortgage payment to monthly family income is 25%. The down payment will be approximately 20% of the sales price. The projection for 1967 is 6,000 units with an average sales price of NCr9,600.

E. Mortgages Through Iniciadores:

Under this Program, the BNH will approve "Iniciadores" who may be individuals or institutions technically and financially capable of originating mortgage loans. In most cases "Iniciadores" are builders of housing projects or individual homes. By agreement, the BNH promises to buy from the "Iniciador" mortgages which will be considered eligible if the following characteristics and conditions prevail:

- 1) Maximum sales price of house: 500 minimum monthly salaries.
- 2) Ratio of loan to value: 80% under normal circumstances. This could be increased to 90% where the cost of the house is under 200 minimum monthly salaries.
- 3) Interest rate: 10% per annum.
- 4) Amortization period: up to 20 years.
- 5) The mortgage has to be readjusted for monetary correction.
- 6) The mortgagor can own only one house.
- 7) The mortgagor has to be a registered voter.
- 8) The "Iniciador" has to submit acceptable plans and a survey of the house.
- 9) The cost of construction cannot exceed that established by the BNH for the particular area.
- 10) The BNH must approve all legal documents of the sale and the mortgage.

Under this plan BNH will make funds available according to certain priorities. These priorities will vary according to the need for additional financing in the community, the housing plan studies on a particular area and the change in economic conditions in certain areas.

F. Impacto:

Under this plan BNH will finance the completion of apartment buildings on which construction has stopped because of lack of financing. In order to be eligible for this plan, at least 50% of the construction must have been completed. BNH is limited to financing no more than 50% of the cost of completion (or approximately 25% of total cost). The amortization period is 36 months and the interest rate is 10% per annum. The sales price per residential unit cannot exceed 400 minimum monthly salaries and buyer cannot own any other house in the area.

The number of units to be financed under this plan for 1967 is 12,500. The buyer of a unit must negotiate the long-term financing with an SCI or a future APE. Experience has shown that the average sales price per unit is approximately NCr19,000.

G. Others:

BNH is conducting many studies and analyses related to the techniques of construction, and use of building materials. It is also conducting marketing and economic surveys. Centers of industrial coordination for the housing plans have been created, specifically to analyze consumers market, production, prices and possibilities of improvements and expansion; to assist industries and to open new industries. They engage in the preparation of feasibility studies on new processes in the manufacturing of building materials; on industries and builders in particular regions; and on the standardization of materials. They also conduct analyses of the methods and construction techniques being used in order to obtain better results; of the possibilities of financing industries in the building materials field and any other study that could be of assistance in the development of an aggressive national housing plan.

III. Supervised Financial Institutions

A. Caixas Economicas:

By Decree 55.279 of December 22, 1964, the Caixas Economicas were incorporated into the SFH under supervision of BNH. This Decree contains numerous regulations regarding the manner in which the Caixas will operate, but we will merely point out only the most important characteristics of the Caixas.

Each Caixa will have a Housing Department. The minimum value of a house to be financed by a Caixa is 60 minimum monthly salaries, and the maximum is 400 minimum monthly salaries, for a term of approximately 15 years, at 10% interest rate, with a maximum initial loan fee of 5%. The ratio of loan to value is as follows:

- 1) 90% if value is 60 minimum monthly salaries.
- 2) 75% if value is 120 minimum monthly salaries.
- 3) 60 % if value is 400 minimum monthly salaries.

BNH will finance approximately 50% of the mortgage portfolio, charging 1% at closing and 6% interest.

There are numerous Caixas and branches throughout the country and the general public is well acquainted with them, though many are not operating efficiently.

As of December 31, 1966, 2345 loans from the Caixas' mortgage portfolios were financed by BNH.

Mortgage insurance is provided for those mortgages issued by Caixas. Fire, life and disability insurance and other risks covering the property and mortgagors are also provided.

There are two types of Savings Deposits at the Caixas, as follows:

- 1) Free Savings: for which the funds must remain on deposit for a period of at least one year. There are passbook accounts and no checking accounts are permitted. Monetary corrections are given on a quarterly basis. The maximum interest rate on these accounts is 6% per annum, calculated on an annual basis.
- 2) Linked Savings: for those who desire to finance the acquisition or construction of a house. Under this system, the saver is obligated to save on a monthly basis, until the necessary amount for the downpayment is reached. No withdrawals are allowed during that period of time, and deposits must be made before the 15th day of each month. The maximum interest rate paid on these accounts is 3% per annum, with monetary correction calculated on a yearly basis. As of December 31, 1966, the Caixas had attracted approximately NCr20 million of linked savings. The Caixas are the only institution in the country offering linked savings. BNH stated that it is necessary for the Caixas to offer this in order to avoid political pressure on the management because their only obligation to make loans is to those who have saved through this linked savings.

B. Sociedades de Credito Imobiliario:

1) Characteristics: The SCIs were created by Law 4380 of September 21, 1964. Resolutions #20 of March 4, 1966, and #29 of June 28, 1966, both of the Central Bank of Brazil, regulate the operations of the SCIs. An SCI is basically a stock-owned Savings and Loan Association. At present there are 43 in operation. They are chartered by the Central Bank and are supervised by both the Central Bank and the BNH.

2) Capital: At present, the minimum capitalization of an SCI is NCr500,000 in the highly developed regions of Brazil and NCr200,000 in the less developed regions of the country. To open a branch, legislation requires additional minimum capitalization of the institution of NCr50,000 for the least developed regions, and up to NCr400,000 in the most developed States of the country.

3) Resources:

- a) Issuance of Letras Imobiliarias (mortgage debentures)
- b) Savings deposits from the public.
- c) Financing from the BNH.
- d) Direct loans from domestic or foreign sources.

The maximum investment is 15 times the capitalization and reserves, plus 50% of the aggregate amount of insured mortgages, plus 50% of the mortgage loans having the "aval" (guaranty) of BNH.

4) Letras Imobiliarias: The Letras are debentures issued by the SCIs. At present this is the most popular instrument for acquiring savings for housing in the country. There are two types of Letras issued by the SCIs:

a) Type C, for 3 year term, with coupons, at 8% interest per annum paid on a quarterly basis.

b) Type D, for one year term, without coupons, interest and principal paid at the time of redemption at the rate of 8% per annum.

The SCIs began selling Letras in June 1966. At present 26 SCIs are offering the Letras. An SCI can provide for the selling of a Letra with recourse at the purchase price. At present most Letras are being sold with a redemption period of 60 days advance notice. Only 3% to 4% of all the Letras issued by the SCIs have been so redeemed. The Letras can be repayable to the bearer or a named individual.

The minimum amount of a Letra is NCr100 and the maximum amount is NCr5,000. Each Letra is guaranteed by the insurance deposit offered by BNH. The cost of this insurance is 0.125% per quarter. The Letras are readjusted with the monetary correction on a quarterly basis.

BNH will buy from the SCIs a percentage of the Letras that each SCI has sold to the public.

The following chart shows the amount of Letras sold by SCIs to BNH and to the public:

	<u>Sold to BNH</u>	<u>Sold to Public</u>
December 1966	NCr 4,700,000	NCr 6,900,000
March 1967	8,200,000	18,000,000
June 1967	27,000,000	43,000,000
October 1967	61,000,000	69,000,000
November 1967	68,000,000	Not available

BNH is charging the SCIs 0.5% of the Letras sold in each quarter, for the purpose of financing a nationwide promotional campaign for encouraging the sale of Letras.

The officers of BNH stated that they expect growth in savings and Letras for the SCIs over the next three years to be as follows:

	<u>Letras</u>	<u>Free Savings</u>
1968	75%	25%
1969	50%	50%
1970	25%	75%

To convert Letras into Free Savings, a resolution was passed giving an incentive to certain landlords who had been obliged to purchase 20 year Letras. This resolution was adopted on November 1, 1967, and during the month of November, approximately NCr10,000,000 of Letras were converted into Free Savings. The total number of compulsory Letras that were produced by Law #4494 of November 1964, for the years 1964, 1965 and 1966 was NCr45 million.

Under the old Law, landlords were obliged to purchase Letras to the extent of 4% of rents received on certain types of houses. This legislation has now been repealed.

5) Investments: The SCIs can only finance the construction or sale of houses by:

- a) Lending money to builders for housing projects.
- b) Granting long-term financing to the mortgagor for the construction or purchase of his own homes.

Lending can only take place in the region where the SCI may operate according to its Charter. An SCI may not engage in the buying or selling of real estate, unless such acquisition is the result of foreclosure procedures.

6) Liquidity: By law, the minimum liquidity is 7% of all resources. This liquidity may be represented by cash, Government bonds and Letras of other SCIs.

C. Associacoes de Poupanca e Empréstimos (APEs):

1) Background and Characteristics: By Decree-Law #70 of November 21, 1966, the Government of Brazil authorized the chartering and operation of Mutual Savings and Loan Associations (APEs) as local financial institutions whose principal purposes are:

- a) Promoting the acquisition of houses for its members.
- b) Attracting savings.

By this legislation, the APEs are considered part of the SFH created by Law 4380 of August 1964.

2) Supervision: The Monetary Board (the Government Agency regulating Monetary matters), consisting of one member from each of the following departments: Treasury Department, Planning Council, Ministry of Labor, Central Bank, Development Bank, Ministry of Economy and Banco do Brasil S.A., is responsible for chartering and establishing the minimum capitalization of the APEs. The full supervision of the APEs is the responsibility of the BNI as part of the BNH.

The APEs require the authorization of BNH to:

- a) Commence operations.
- b) Change location of its offices.
- c) Merge with other APEs.
- d) Modify or amend by-laws.
- e) Terminate operations.

3) Capitalization: In order to apply for a charter, a minimum of 10 individuals must deposit 1/3 of the minimum capitalization established by the Monetary Board and within six months the remaining necessary amount must be deposited. During that time, the funds may be placed in adjustable Treasury Bonds in the custody of a Caixa Economica Federal. No one of the charter members may deposit more than 1/10 of the initial amount.

By Resolution #52 of May 4, 1967, the Central Bank, complying with a decision of the Monetary Board, established that the minimum capitalization of an APE would be as follows: (These figures are reflected in UPCs)

- a) In States of Sao Paulo and Guanabara: 15,000.
- b) In States of Minas Gerais and Rio Grande Do Sul: 12,000
- c) In other States: 7,500.

4) Members: In addition to the founders or charter members mentioned above, an individual who opens a savings account in an APE in accordance with the By-Laws of the institution will be considered a member of the APE. Each member will have the right to:

- a) Attend the annual shareholders' meeting.
- b) Vote and be eligible to be a candidate for election to the Board of Directors. The maximum number of votes each member may cast is 400.

- c) Deposit and withdraw funds from his accounts.
- d) Participate in the profits from the operations of the institution.

5) Internal Organization: The internal organization of an APE is very similar to that of a Savings and Loan Association in the United States. One interesting aspect to be noted is that all rules and regulations relating to APEs require that the members of the management of the associations be reputable, experienced in financial and economic matters and have training in operating their Savings and Loan Associations.

The Committees of an APE are:

- a) Board of Directors: Members are elected at the annual shareholders' meeting, for a three year period, with possibility of reelection. The number of members is from 3 to 10. Each member receives a fee for attending meetings. This fee is determined by the general membership, but cannot be in excess of one minimum monthly salary per session, with a maximum of two meetings per month. At annual shareholders' meetings, members may be represented by Power of Attorney.

- b) Executive Committee: Members of the Executive Committee are elected by the Board of Directors for a three year term, with eligibility for reelection. The number of members may be from 1 to 5. They must meet at least every 15 days. BNH must approve the designation of the

members of the Executive Committee. As stated before, the powers and obligations of each of these bodies are similar to those of a Savings and Loan Association in the United States.

6) Resources: The resources of the APEs are as follows:

- a) Shareholders' deposits. The deposits will have the following characteristics:
- i) Represented by a passbook.
 - ii) The balance will be readjusted on a quarterly basis
 - iii) The balance has to exceed 1/2 UPC in order for the depositor to be considered a member.
 - iv) The deposit will be insured by BNH. This insurance is explained in Section IV of this Report.

The charter members must maintain the initial deposit until the reserves reach 10% of the minimum capitalization. During this time, these deposits will be retained as guaranty to the shareholders against insolvency or bankruptcy.

An interesting characteristic of the Savings and Loan System in Brazil as established by the legislation, is that in the distribution of the earnings, it is compulsory to pay to the shareholders 77% or 80% of the net profits, depending on the participation given to the Executive Committee. In our discussions with the President of BNH, we stressed to him the importance of the APEs being able to announce the anticipated dividends to be paid on savings accounts. BNH officers feel that the APEs will distribute approximately 9% annual dividends.

- b) Direct financing from BNH.
- c) Loans from domestic or foreign sources, previously approved by BNH.
- d) Refinancing of the mortgage portfolio by BNH.
- e) Accumulated reserves.

7) Investments: The APEs may invest their resources in:

- a) Mortgage loans for acquisition or construction of houses for its members.
- b) Letras issued by BNH or the SCIs.
- c) Readjustable Treasure Notes.
- d) Mortgage notes on houses within the PNH.
- e) Deposits in commercial banks owned by the Government, Caixas Economicas Federais, BNH or any other bank approved by the Central Bank.

The investments in mortgage loans for the acquisition or construction of houses for its members, may be given directly to the members or to builders who will construct houses for members. For this mortgage financing, the Association will get a first lien on the property and any other subsidiary guaranty that it may require.

8) Distribution of Earnings: According to law, the required distribution of earnings is as follows:

- a) For a Reserve Fund: 10%
- b) For an Emergency Fund: 5%
- c) Participation of the Executive Committee: 5%. If approved by the shareholders at the annual shareholders' meeting, this participation could increase to 8%.

d) For dividends on savings accounts owned by shareholders: The remainder 80% or 77%, depending on the participation of the Executive Committee.

All above percentages are based on the net profits, that is, gross income less expenses.

9) Present Status: At present there are no APEs operating in Brazil. However, the following steps are or have been taken to make the APEs operational:

a) The creation of this system was established by Decree-Law #70, November 21, 1966.

b) The Central Bank of Brazil authorized BNH to approve the chartering of 39 APEs. (See Exhibit #4 for the distribution of the APEs by region).

c) By Resolution #22 of BNH dated June 21, 1967, the BNH established the rules to be followed by applicants for a charter to operate an APE.

d) The above named Resolution established a term for presentation of letters of intent to open APEs.

e) On September 11, 1967, 104 applications had been received.

f) A resolution was passed giving an opportunity to the 104 applicants to merge some of their groups. The due date for this merger was November 3, 1967. At present there are still 52 groups contending for the 39 charters.

g) By December 11, 1967, all applications to be considered had to be submitted to the Bank. The application from Brazilia was immediately approved since it was the only one for that particular area.

h) It is expected that the charters will be issued on February 15, 1968. In our meeting with the President of BNH, we stressed the importance of issuing these charters before the Interamerican Savings and Loan Conference. He agreed with us, and gave instructions to change the date of chartering from the beginning of March to February 15.

i) Before commencing business which will tentatively be in March 1968, it is intended that a training course be conducted for all Managers of Associations.

j) It is expected that the first APE will open during January 1968 in Brazilia.

k) During the early stages, BNH is planning a heavy institutional advertising program.

10) Evaluation: Although it is difficult to evaluate a system which is still in the developing stages, we feel that we can make some comments on the positive and negative aspects of what has been accomplished to date.

a) Positive aspects:

i) Incentive to management: It is a very attractive feature of a Mutual Savings and Loan Association to give management the opportunity to participate to the extent of 5% to 8% in the net profits of the institution. This feature could create greater interest on the part of management.

ii) The founders or charter members will be responsible with their initial deposits for any losses occurring during the organizational period and until such time as the APE has reserves of 10% of the minimum capitalization.

iii) There are strict regulations against lending activities between all financial institutions and its officers, directors and employees. This regulation applies to those financial institutions supervised by the Central Bank. A more detailed explanation of this conflict of interest regulation is covered under Section V of this Report.

iv) The legislation repeatedly states that all members of the Board of Directors or Executive Committee have to be reputable, knowledgeable and trained individuals in the field of Savings and Loans. BNH officers mentioned to us that their approval of charters will be mainly predicated on the qualifications of the individuals involved, and it is their feeling that the present applications have individuals who meet this requirement. Our contact with one of the organizing groups confirmed the above.

v) BNH will be extremely concerned with the training of all personnel who will run the APEs, since the BNH has to approve the Executive Committee of the APEs. After charter approval, the BNH will provide an initial and continuing training program.

vi) Article #56 of Resolution #12 of BNH, establishes a limitation on fixed assets to be acquired by an APE, and a prohibition against engaging in buying, selling or building of real estate, other than for its own premises.

vii) BNH has contracted for the services of a consulting firm for the purposes of developing procedures, forms and systems to be used by the APEs throughout the country.

viii) Types of insurance. We were favorably impressed with the regulations that provide insurance on:

- a) Mortgages.
- b) Fire, life, disability and other risks.
- c) Savings.

These will be discussed in detail in Section V of this Report.

b) Negative aspects:

i) We feel that compulsory distribution to the shareholders of from 77% to 80% of net profits may not be an economically sound policy. The officers of BNH stated that by doing this, they will be able to attract to the APEs a greater volume of savings because of the attractive dividend rates. Although this may be true, we feel that prudent management will be against this policy. A more logical policy would be to establish a minimum of 50% and maximum of 80% of net profits to be distributed as dividends.

ii) The savers have no advance knowledge of the dividend rate. At present BNH has not determined what the APEs should do about advertising an anticipated fixed dividend rate. We feel that a person who does not know in advance how much return he will get, probably will be reluctant to open a savings account.

iii) Article 45 D of Proposed By-Laws for APEs, by BNH, provides for prohibition of promoting savings outside the region where the APE can operate. Although we feel that this regulation is good for mortgage lending, we believe that it should be eliminated from legislation concerning savings.

11) General Comments: Since the APEs have not started operating, we were not able to evaluate their mortgage lending policies although we were told by officers of BNH that all the mortgage lending policies that apply to the SCIs will apply to the APEs. If this is a fact, we feel that these mortgage lending policies are reasonable and adequate for the development of a sound housing finance system.

IV. Insurance

The BNH has established three types of insurance which apply to all operations under the PNH. They are:

- A. Mortgage Insurance.
- B. Hazard Insurance.
- C. Deposit or Savings Insurance.

A. Mortgage Insurance:

The most important characteristics of this insurance are:

1) Insurers: Forty of the largest insurance companies in Brazil have formed a consortium or pool. Every two years, the National Re-Insurance Institution, a Government Agency, chooses one leading insurance company for each of the eight regions of Brazil, at random (this one company is referred to as the "leader" company), to administer their insurance in the region. These regions have been established by BNH in order to provide better service for mortgage lending throughout the country. The leader company in each region will give technical assistance to the financial institutions making the mortgage loans. According to the legislation, BNH will supervise and coordinate these insurances.

2) Cost: The annual cost of insurance is 0.18% of the original amount of the mortgage loan or 0.015% on a monthly basis. Every month, the institution creating the mortgage loans will send a schedule of new mortgages to the leader insurance company which will send a monthly invoice through a commercial bank to the financial institution and the institution will pay the premium. This premium is readjusted on a quarterly basis, as are the mortgage loans. In addition, each year this premium will be adjusted based on new actuarial studies. The institution making the mortgage loans absorbs the cost of the insurance premium.

3) Coverage: This insurance covers 95% of the losses which result from fraud or forgery of the mortgage loan documents, and insolvency or non-payment on the part of the mortgagor. After three months delinquency, the financial institution notifies the leader, at which time the leader starts foreclosure action and pays 95% on each of the three delinquent

monthly payments and continues to pay the same 95% of the future delinquent monthly payments until foreclosure takes place. When the property is sold with profit, the leader pays to the institution up to 100% of the unpaid principal balance plus 5% of the monthly payments up to the date of foreclosure. Any remainder goes to the mortgagor. When a mortgage loan is sold to BNH, the insurance coverage is 100%, 95% provided by the consortium and 5% by the selling institution.

4) Financial Institutions: All mortgage loans offered by the financial institutions under the SFH are automatically covered. The mortgage loans made by the SCIs, the APEs, the Caixas, the commercial banks acting on behalf of the "iniciadores" and the cooperatives are also automatically insured.

5) Initial date: This insurance program was initiated on November 1, 1967, which means that no evaluation can be made other than to state that the plan appears to be adequate. The coverage provided is reasonable and the insurance carriers are the strongest institutions in the country.

B. Hazard Insurance:

The most important characteristics of this insurance are:

1) Insurers: A group made up of 90 of the largest insurance companies in Brazil have formed a consortium or pool to assume proportional risks of the hazard insurance covering all mortgaged properties, as well as the life and disability insurance of the mortgagors. This group coverage applies to all mortgage loans under the SFH supervised by the BNH. The leader companies are selected in the same manner as those engaged in the above mentioned mortgage insurance.

2) Cost: Annual premium is 0.58% or 0.0483% monthly on the unpaid principal balance of the mortgage loans. The premium will be reviewed annually. The mortgagor pays this premium together with the monthly payment for amortization or principal and interest. Each month the financial institution collecting the premium prepares a statement in triplicate which is sent to the BNH together with a check for the premium received. The BNH, in turn, sends the money to the leader company on a yearly basis. We do not see the necessity for this money being sent to the BNH on a monthly basis. BNH agreed and stated that they are going to change this procedure.

3) Coverage: The risks which are covered are the following:

- a) Fire.
- b) Lightning.
- c) Explosion.
- d) Collapse.
- e) Earthquake.
- f) Vehicle damage.
- g) Airplane damage.
- h) Riots.
- i) Life.
- j) Permanent disability.

On construction loans, during the construction period, the mortgagor pays only interest plus the insurance premium. As a result of this, all risks are covered, including the life and disability of the mortgagor.

4) Financial Institutions: The financial institutions making mortgage loans under the FNI administered by the BNH must provide this insurance for all mortgage loans. At present, these institutions are the SCIs, Caixas, commercial banks as trustees for "iniciadores", COHABs, Cooperatives and, in the near future, the APEs.

5) Initial date: This insurance program commenced in 1965 and to the present time has worked in a satisfactory manner. BNH, together with the consortium, has developed forms and procedures which are constantly being improved. As stated before, some of these procedures are being revised at the present time, for example, procedure for payment of premiums to the BNH.

All insurance is controlled by the BNH through a contract between BNH and the consortium dated April 12, 1967.

C. Savings:

1) Insurers: By Resolution #3 of January 10, 1967, the BNH created a Guaranty Fund for deposits and Letras, as part of the assets of BNH. The capital and reserves of this Fund are as follows:

a) Contribution from the BNH of NCr1,000,000 as initial capital.

b) Contribution to the Fund by the financial institutions which attract the savings from the public.

c) Profits on the investments of these funds (at present the total resources of this Fund are NCr2,000,000).

2) Cost: Each financial institution pays a premium of 0.5% per annum or 0.125% per quarter on the total balance of savings accounts and Letras on the last day of previous quarter.

3) Coverage: The deposit insurance covers up to a maximum of 400 UPCs per saver or Letras in circulation. The risk is against insolvency or bankruptcy of the SCIs or APEs.

4) Financial Institutions: SCIs and APEs.

5) Initial date: This insurance was instituted in July 1966.

V. Lending Policies of Supervised Institutions

The three institutions supervised by the BNH that originate mortgage loans to the public are Caixas, SCIs and APEs (APEs will commence operation in March 1968). The following is a summary of the mortgage loans made by those institutions in order for these loans to be eligible for sale to the BNH:

<u>Value of Home</u>	<u>Ratio of Loan to Value</u>	<u>Term</u>	<u>Interest</u>	<u>Closing Cost</u>
300 minimum salaries	90%	20 yrs	10%	5%
From 300 to 400 S.M.	80%	15 yrs	10%	5%

<u>Value of Home</u>	<u>Ratio of Loan to Value</u>	<u>Term</u>	<u>Interest</u>	<u>Closing Cost</u>
Up to 100 S.M.	90%	18 yrs	10%	2%
From 101 to 150 S.M.	90%	15 yrs	10%	2%
From 151 to 200 S.M.	90%	12 yrs	10%	2%
From 201 to 250 S.M.	80%	10 yrs	10%	2%
From 251 to 300 S.M.	80%	8 yrs	10%	2%
From 300 to 400 S.M.	80%	6 yrs	10%	2%
From 401 to 500 S.M.	80%	5 yrs	10%	2%

Although at present closing costs are 5%, the BNH is recommending the reduction of closing costs to 2%.

A. Re-adjustment or Monetary Correction:

All mortgage loans originated by these three institutions are adjustable mortgages.

Chapter II of Law 4380 dated September 21, 1964, establishes rules and regulations for readjustment of mortgages and monthly payments.

The following is a resume of the most important characteristics of this readjustment feature as it applies to principal and monthly payments

1) Principal amount: The readjustment of principal is made quarterly on the unpaid principal balance of the mortgage loan. This readjustment or monetary correction is based on the same index used to readjust Treasury notes. This index is based on the wholesale prices of basic products selected by the National Board of Economy. As a result of this readjustment, BNH has created the UPCs. This unit is the index of currency used by BNH in all its transactions.

This readjustment index does not coincide with the minimum salary readjustment; historically, salaries have increased at a slightly faster rate than the UPC.

Salaries are readjusted once a year, while the UPC is readjusted on a quarterly basis. (See Exhibit #5).

Exhibit #6 shows the readjustment of the UPC since its inception in the four quarters of 1964 until the end of the fourth quarter of 1967. At present, one UPC is NCr27.38.

2) Monthly payments: With respect to adjustment of mortgage loans originated by the three above mentioned financial institutions, there are three plans, as follows:

a) Plan A: Under this plan, the index is based on the increase of the minimum salary, as determined once a year by the Minister of Labor. At present, the minimum salary is NCr105 for the most developed areas of Brazil. Also under this plan, the term of this mortgage may increase up to 150% of the original life of the mortgage.

b) Plan B: Under this plan, the same UPC index is used. The term of the mortgage does not change because the monthly payments are readjusted on the same basis as the unpaid principal amount of the mortgage. This readjustment takes place on a quarterly basis.

The BNH officers stated that this is the most practical plan for readjustment of the monthly payment.

c) Plan C: Under this plan, the index used is a combination of minimum salary and UPC. BNH officers feel that this plan is not practical and, at present, BNH is not buying mortgages which have this readjustment plan.

The basic legislation for this readjustment is Law 4357, which provides for the readjustment of Treasury notes. Law #4380 instituted the readjustment clause for mortgage loans under the SFH and BNH. Instruction No. 5 dated January 29, 1966, of the BNH and Decree-Law No. 19 dated August 30, 1966, establish criteria on monetary correction for transactions under the SFH; and Resolution No. 106 of November 17, 1966, determines the formula for valuation of UPC.

B. Conflict of Interest:

Law 4595 of December 31, 1964, creates the Monetary Board. Paragraph 37 restricts regulated financial institutions from originating loans to:

1) Directors or members of its Executive Board. This prohibitive applies to spouses as well as near relatives.

2) Individuals or institutions owning more than 10% of the stock of the lending institutions. This could be waived by special authorization of the Central Bank.

The penalties mentioned in Chapter 5 of this Law are severe.

C. Mortgage Notes:

Decree-Law 70 of November 21, 1966, establishes that all mortgage loans of financial institutions within the SFH must have separate mortgage notes. In the event there is a second mortgage, a separate mortgage note is used. The monetary value of these notes must be expressed in UFCs. On all mortgage loans within the PNH of the BNH, the mortgage notes are subject to being regulated by the above mentioned legislation.

The above legislation greatly facilitates the transfer of mortgage loans. As a result, a very active secondary mortgage market is being created.

VI. Financing to Supervised Institutions

One of the most important responsibilities of BNH is to provide financial assistance to those institutions which constitute the SFH. The institutions which at present benefit from the financing of BNH are the Caixas, the SCIs, and in 1968 the APEs.

Basically, BNH provides financial assistance to the SCIs in three different types of financing, as follows:

- A. Purchasing of Letras.
- B. Purchasing of mortgages.
- C. Financing with collateral guaranty of mortgage portfolio.

The Caixas and the future APEs will be assisted through the last two types of financing mentioned above.

A. Purchasing of Letras:

BNH will buy from the SCIs a percentage of the Letras they sell to the general public. BNH charges 1% for administrative cost and 1% for technical assistance, in addition to 1% for the promotion and advertising of the selling of the Letras on a national basis. Legislation does not establish a maximum term for the Letras.

The SCIs began selling Letras in June 1966. At present 26 SCIs are selling Letras to BNH.

The following chart shows the amount of Letras that the SCIs have sold to the BNH and the amount of Letras sold by SCIs to the general public: (In millions of NCrs).

	<u>Sold to BNH</u>	<u>Sold to Public</u>
December 1966	4.7	6.9
March 1967	8.2	18
June 1967	27	43
October 1967	61	69
November 1967	68	(Not available at time of visit)

B. Purchasing of Mortgages:

Resolution No. 101 of November 7, 1966, of BNH, establishes the rules and regulations governing the purchasing of mortgages from the Caixas, SCIs and APEs, as well as from the "iniciadores".

The mortgages bought by BNH have to meet eligibility requirements of the SFH. Basically, these general requirements are as follows:

- 1) The value of the house may not exceed 500 minimum salaries.
- 2) The loan may not exceed 80% of the value of the house. This ratio may be increased in special cases to 90%, for example, when financing houses of value of less than 200 minimum salaries.
- 3) The mortgagor may not own another house.
- 4) The mortgagor must be a registered voter, and must have voted in the last election.
- 5) The cost of construction cannot exceed the cost pre-established by BNH for the different regions of the country.
- 6) The loan must be for construction of houses or houses constructed within the prior 6 months.

BNH establishes a line of credit for each SCI for the purchasing of mortgages, with a maximum of 10 times the capitalization and reserves. This maximum limitation is established by legislation. At present BNH has established a maximum of 5 times the capital and reserves or 30% of the mortgage portfolio, whichever is less. This line of credit not only includes the purchasing of mortgages, but also the other types of financing to the institutions.

We were informed by officers of BNH that this policy will be instituted for the APEs also. The present line of credit to the Caixas is from 50% to 65% of the mortgage portfolio.

On mortgages purchased from institutions, BNH pays a service fee of 1%.

The interest rate paid by the Caixas is 6% per annum and 1% initial cost. As of November 1957, BNH had bought from the Caixas approximately NCr80 million. (See Exhibit #7).

The following chart shows the distribution of the purchasing of mortgages from the Caixas and the SCIs, according to value of the house:

<u>House Value</u>	<u>Caixas</u>	<u>SCIs</u>
Up to 200 S.M.	75%	75%
300 S.M.	20%	20%
400 S.M.	5%)	
500 S.M.	none)	5%

The above indicates that the investments of BNH are concentrated in the purchasing of mortgages in the lower cost range.

The following chart shows a comparison of house values with percentage of mortgage values:

<u>House Value</u>	<u>Ratio of Purchasing of Mortgage to Value</u>
Up to 100 S.M.	Up to 80%
From 101 to 150 S.M.	Up to 70%
From 151 to 200 S.M.	Up to 65%
From 201 to 250 S.M.	Up to 60%
From 251 to 300 S.M.	Up to 55%
From 351 to 400 S.M.	Up to 50%
From 401 to 500 S.M.	Up to 40%

The Caixas and the SCIs (and the APEs in the near future) sell mortgages to BNH by creating two "cedulas" (mortgage notes). The first is a first mortgage lien on the property for the amount which BNH will buy, and the second "cedula" is represented by a second mortgage which the institution retains. We see no problem with this procedure, since both mortgages carry mortgage insurance.

BNH has developed all forms and procedures to expedite the purchasing of mortgages from the institutions.

C. Financing with Collateral Guaranty of Mortgage Portfolio:

The last type of financial assistance to the institutions supervised by BNH is the financing of mortgage portfolios. Although at the time of our visit BNH had not started using this method of financing, we were informed by officers of BNH that the first transaction would take place within the next few days. The terms of this lending are for three years, with the collateral guaranty of mortgages in the amount of 120% of the loan at 8% interest and costs of 2% divided as follows (complying with Resolution 107 of November 29, 1966):

- 1) 1% administration fee.
- 2) 1% for technical assistance.

The repayment will be made as follows: Interest only for the first year, and equal monthly installments for the amortization of principal and interest for the last 24 months.

VII. Savings Policy

During the meeting with the President of the BNH, he assured us that the policy of the financial institutions which form the housing financing system will be changed from a compulsory savings program to a free savings program.

As an example of this change of policy, we were informed that on November 1, 1967, the BNH issued a Resolution by which the holders of SCI compulsory Letras with a maturity of 20 years could convert to free savings accounts with a one year term. Of the NCr45,000,000 of these compulsory Letras, NCr10,000,000 were converted during the month of November.

All savings within the system are readjusted on the same basis as the mortgage loans. The three institutions (Caixas, SCIs and APEs) have free accounts with savings passbooks, dividends paid semi-annually and, in general, although they have not started extensive promotion of free savings, the general feeling of all individuals we met is that they are preparing themselves to vigorously expand this facet of the business, particularly the SCIs and the APEs.

We feel that if proper steps are taken, this system may produce an unusually large volume of free savings.

Among other things, the BNH is preparing a very broad advertising program for promotion of free savings which will substitute, in part, the promotion they have been conducting for the sale of Letras. We feel that the promotion of Letras conducted by the BNH has been successful.

The only financial institutions under the supervision of the BNH which are offering "linked" savings accounts are the Caixas. We have been informed that this is done only for political reasons and to avoid placing the Caixas in a position of giving mortgage loans to individuals who have not been able to accumulate savings. The SCIs and the future APEs are prohibited by regulations from having any "linked" savings accounts. On the other hand, at present, only those people interested in purchasing homes are coming to the institutions to open a free savings account. The BNH and the financial institutions have the responsibility of conducting an educational program for the purpose of promoting free savings for the sake of thrift as well as for the sake of a loan.

The future months will be decisive in determining the success of the free savings program. It is our opinion that one of the most important jobs for AID in Brazil in housing is to provide maximum technical assistance during this period of time for the purpose of developing the free savings program.

VIII. Others

A. Supervision of Institutions:

Although at present BNH has only six examiners to conduct the annual audits on the supervised financial institutions (SCIs and in the very near future the APEs), we feel that they have a most adequate procedure established for supervision. Each month these institutions are required to send a full detailed statement to the BNH. An annual audit is conducted by these examiners.

At the time of our visit, all the SCIs in Rio had been audited and the officer in charge of the supervision stated that he was pleased with the results.

BNH has prepared forms and developed procedures for its use as supervisory agent. This supervision conducted by BNH is completely independent from that of the Central Bank, which means that each of the SCIs and future APEs will be supervised by both BNH and Central Bank.

Within the BNH is a Department which compiles and maintains all statistics obtained from information furnished by SCIs and future APEs. We were furnished with the statistical forms being used which appeared to be adequate.

B. Appraisers of BNH:

Most of the appraisers of BNH are not employees of the Bank. They are engaged to do work under separate contract. BNH feels that they are receiving more efficient and independent service than if appraisers were hired directly by the Bank.

C. Accounting of BNH:

At present BNH has mechanized equipment including a rented computer service for its accounting department. While meeting with the officers of BNH we were impressed with the great amount of information readily available to us at our request.

D. Real Estate Taxes in Brazil:

Although there are variations by regions, we were informed by BNH that the average real estate tax on the type of houses to be financed under the BNH plan is 10% of the assessed annual rental. The annual rent on a house is usually approximately 10% a year of the market value of the house.

This means that the tax will approximate 1% of the value of the house. There is a transfer tax on the sale of real estate which amounts to 1% of the sales price.

E. Legal Matters:

New legislation in Brazil provides that a simple instrument of sale and mortgage between the mortgagor and a financial institution within the SFH is eligible for registration in the Public Register. Thereafter, it becomes a public instrument. This procedure is a substantial improvement in the developing of a housing program since it considerably expedites the processing. A Notary Public is not necessarily involved.

F. Tax Exemption on U.S. Investment:

The basic legislation on this subject is Article No. 26 of Law No. 4862 of November 29, 1965. This article exempts all interests and

commissions received by national or foreign investors for loans made to the National Housing Bank or financial institutions within the SFH. In those cases of loans made to financial institutions, the approval of the BNH is required. In our meeting with the President of BNH, we were informed that they would prefer to have all U.S. Investments channelled through the BNH for tax exemption and other purposes, as described in Section IX of this Report. The following law also regulate tax exemption on U.S. Investments:

- Decree Law No. 155 of February 13, 1967.

- Article 42 of Decree Law No. 70 of November 21, 1966. (This legislation includes the BNH, the Caixas, both federal and state, the SCIs, future APEs and other eligible institutions as recipients of funds to qualify for the exemption).

- Article 62 of Law No. 4728 of July 14, 1965.

G. "Aval" (Guaranteed by BNH):

Resolution 58 of the BNH of March 3, 1966, establishes the conditions and characteristics of the "aval" (guaranty) given by the BNH on domestic or foreign financing for the SFH through the financial agents supervised by BNH for housing under Law No. 4380.

In order to obtain this "aval", the above mentioned financial institutions must obtain prior consent from the BNH. BNH has developed a procedure including forms to be submitted by the financial institutions when requesting the approval of the "aval". BNH will charge a fee (which has not been determined yet) for providing the "aval". The President of the BNH agreed to inform us of the amount of the fee as soon as it is determined. The above mentioned resolution establishes a maximum of US\$250,000 for "avals" on foreign loans. The approval of the Central Bank is a prerequisite for the issue of an "aval" by the BNH.

IX. Conclusions and Recommendations

The President and other high officials of the BNH are interested in having the BNH act as a borrower on all housing investment guaranty projects for both, specific projects as well as mortgage credit institutions. In cases of specific projects it is our recommendation that the BNH serve as a prime Administrator, subcontracting the actual mortgage servicing to an APE or an SCI, with prior approval of AID. This procedure of selecting the actual mortgage servicing institution was accepted by BNH officials.

We believe the Housing Investment Guaranty Program will work more effectively in Brazil if all loans are made to the BNH, while earmarking the funds for the approved applications. The benefits of doing this are:

A. The full guaranty of the Government of Brazil through the BNH, including the exchange risk guaranty. If the loan is made to a different entity, the maximum amount of guaranty from BNH is, at present, US\$250,000.

B. The BNH will exercise additional supervision over the financial institutions when mortgage credit institutions are the applicants and over the specific projects, which cannot be provided by the Mission.

C. This policy would give support to the National Housing Plan, supervised and promoted by the BNH as being part of the National Economic Plan. Although the BNH and its functions are new, we feel that the basic legislation and structure are sound.

D. The cost of the full guaranty (aval) of the BNH, although not yet determined, will likely be in the neighborhood of 1% of the unpaid principal balance plus a reasonable initial fee which is in common use in the country. The "aval" should reduce the AID fee to 0.5%.

E. The difference between the cost of U.S. funds (approximately 7%) plus the cost of BNH "aval" (approximately 1%), and the prevailing rate paid by the mortgagor (at present 10% plus 2.4% servicing fee paid on a monthly basis), will be used for improvements within specific projects. The BNH was enthusiastic about this idea because they feel that this would provide the Brazilian people with a new pride in community living. From the AID point of view, it would be extremely important to sponsor projects with this unique feature.

F. BNH is committed to the provision of adequate technical assistance to carry out its program. U.S. technical assistance will not only be welcome but have stronger effect because of BNH's enthusiastic support.

While there is always the possibility of the development of a considerable amount of red taps when dealing with large institutions, we feel that this will not be a sufficiently negative factor to change our above recommendations.

Note: While meeting with the President of the BNH, he informed us that a U.S. Investor can obtain exchange risk guaranty only by having the BNH act as a borrower. This is the result of a Resolution of the Central Bank. When we asked for a copy of this Resolution, we were informed that this was not available for distribution, but that this Resolution is a complementary ruling of Decree Law 283 of February 28, 1967.

STATUTORY CHECK LIST

BRAZIL - Project HG#1, Gomes de Almeida

Section 222(a):

The A.I.D. guaranty fee will be in an amount consistent with fees previously charged for housing guaranties authorized by the Administrator in accordance with the powers delegated by the President.

Section 222(h):

The rate of interest allowable to the eligible United States investor to be prescribed by the Administrator will not be less than one-half of one per centum above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development and it will not be more than one per centum above such rate.

Section 223(a) and (c):

The "investment" and the "eligible United States investors" shall be such that they are wholly within the included definitions.

Section 224(a):

This project meets the intent of the Congress.

Section 224(b) (1) and (5):

1. This project is a demonstration private housing project of a type similar to those insured by the Department of Housing and Urban Development.
2. 25 per centum or more of the aggregate of the mortgage financing of this project will be made available from sources within Brazil and shall not be derived from sources outside thereof.

Section 224(c):

1. The total face amount of housing guaranties issued will not exceed \$500,000,000 including this project.
2. No payment will be made under the guaranty for any loss arising out of fraud or misrepresentation for which the investor is responsible.

STATUTORY CHECK LIST

BRAZIL - Project HG#3, Gomes de Almeida

Section 222(a):

The A.I.D. guaranty fee will be in an amount consistent with fees previously charged for housing guaranties authorized by the Administrator in accordance with the powers delegated by the President.

Section 222(h):

The rate of interest allowable to the eligible United States investor to be prescribed by the Administrator will not be less than one-half of one per centum above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development and it will not be more than one per centum above such rate.

Section 223(a) and (c):

The "investment" and the "eligible United States investors" shall be such that they are wholly within the included definitions.

Section 224(a):

This project meets the intent of the Congress.

Section 224(b) (1) and (5):

1. This project is a demonstration private housing project of a type similar to those insured by the Department of Housing and Urban Development.
2. 25 per centum or more of the aggregate of the mortgage financing of this project will be made available from sources within Brazil and shall not be derived from sources outside thereof.

Section 224(c):

1. The total face amount of housing guaranties issued will not exceed \$500,000,000 including this project.
2. No payment will be made under the guaranty for any loss arising out of fraud or misrepresentation for which the investor is responsible.

STATUTORY CHECK LIST

BRAZIL - Project HG#7, Cia, Brasileira de
Pavimentacao e Obras

Section 222(a):

The A.I.D. guaranty fee will be in an amount consistent with fees previously charged for housing guaranties authorized by the Administrator in accordance with the powers delegated by the President.

Section 222(h):

The rate of interest allowable to the eligible United States investor to be prescribed by the Administrator will not be less than one-half of one per centum above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development and it will not be more than one per centum above such rate.

Section 223(a) and (c):

The "investment" and the "eligible United States investors" shall be such that they are wholly within the included definitions.

Section 224(a):

This project meets the intent of the Congress.

Section 224(b) (1) and (5):

1. This project is a demonstration private housing project of a type similar to those insured by the Department of Housing and Urban Development.
2. 25 per centum or more of the aggregate of the mortgage financing of this project will be made available from sources within Brazil and shall not be derived from sources outside thereof.

Section 224(c):

1. The total face amount of housing guaranties issued will not exceed \$500,000,000 including this project.
2. No payment will be made under the guaranty for any loss arising out of fraud or misrepresentation for which the investor is responsible.

STATUTORY CHECK LIST

BRAZIL - Project HG#9, The National Housing
Bank and The National Steel Company

Section 222(a):

The A.I.D. guaranty fee will be in an amount consistent with fees previously charged for housing guaranties authorized by the Administrator in accordance with the powers delegated by the President.

Section 222(h):

The rate of interest allowable to the eligible United States investor to be prescribed by the Administrator will not be less than one-half of one per centum above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development and it will not be more than one per centum above such rate.

Section 223(a) and (c):

The "investment" and the "eligible United States investors" shall be such that they are wholly within the included definitions.

Section 224(a):

This project meets the intent of the Congress.

Section 224(b) (1) and (5):

1. This project is a demonstration private housing project of a type similar to those insured by the Department of Housing and Urban Development.
2. 25 per centum or more of the aggregate of the mortgage financing of this project will be made available from sources within Brazil and shall not be derived from sources outside thereof.

Section 224(c):

1. The total face amount of housing guaranties issued will not exceed \$500,000,000 including this project.
2. No payment will be made under the guaranty for any loss arising out of fraud or misrepresentation for which the investor is responsible.

STATUTORY CHECK LIST

sa, S.A.

BRAZIL - Project HG#14, Economisa, S.A.

Section 222(a):

The A.I.D. guaranty fee will be in an amount consistent with fees previously charged for housing guaranties authorized by the Administrator in accordance with the powers delegated by the President.

Section 222(h):

The rate of interest allowable to the eligible United States investor to be prescribed by the Administrator will not be less than one-half of one per centum above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development and it will not be more than one per centum above such rate.

Section 223(a) and (c):

The "investment" and the "eligible United States investors" shall be such that they are wholly within the included definitions.

Section 224(a):

This project meets the intent of the Congress.

Section 224(b)(2):

The sponsor of this project is a credit institution in Brazil engaged directly in the financing of home mortgages.

Section 224(c):

1. The total face amount of housing guaranties issued will not exceed \$500,000,000 including this project.
2. No payment will be made under the guaranty for any loss arising out of fraud or misrepresentation for which the investor is responsible.

STATUTORY CHECK LIST

BRAZIL - Project HG#15, Minas Oeste, S.A.

Section 222(a):

The A.I.D. guaranty fee will be in an amount consistent with fees previously charged for housing guaranties authorized by the Administrator in accordance with the powers delegated by the President.

Section 222(h):

The rate of interest allowable to the eligible United States investor to be prescribed by the Administrator will not be less than one-half of one per centum above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development and it will not be more than one per centum above such rate.

Section 223(a) and (c):

The "investment" and the "eligible United States investors" shall be such that they are wholly within the included definitions.

Section 224(a):

This project meets the intent of the Congress.

Section 224(b)(2):

The sponsor of this project is a credit institution in Brazil engaged directly in the financing of home mortgages.

Section 224(c):

1. The total face amount of housing guaranties issued will not exceed \$500,000,000 including this project.
2. No payment will be made under the guaranty for any loss arising out of fraud or misrepresentation for which the investor is responsible.

DRAFT
GUARANTY AUTHORIZATION

Provided From: Investment Guaranty Funds

BRAZIL : National Housing Bank

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of a guaranty pursuant to Part I, Chapter 2, Title III, Section 224 of the FAA of not to exceed (\$18,000,000) assuring against losses of not to exceed one hundred per centum (100%) of loan investments by an eligible U.S. Investor or Investors acceptable to A.I.D. for the long-term financing of pilot demonstration, local participation and mortgage credit institution housing projects to be constructed in Brazil.

This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The guaranty of the loan shall extend for a period of up to twenty-five (25) years from the dates of the disbursements of the respective installments of the loan.
2. Interest Rate: The rate of interest payable to the Investor(s), with respect to the loan, shall not exceed the allowable rate of interest prescribed by the Administrator pursuant to Section 222 (h) of the FAA.
3. Fee: The fee of the United States shall be payable in dollars and shall be one-half of one per centum (1/2%) of the outstanding guarantied amount of the loan per annum.
4. Government of Brazil Guaranty: The Government of Brazil shall provide a full faith and credit guaranty to A.I.D. assuring against any and all losses resulting to A.I.D. by virtue of its guaranty to the U.S. Investor or Investors. This guaranty of the Government of Brazil shall be payable to A.I.D. in U.S. dollars.
5. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

Deputy U.S. Coordinator

Date

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

UNCLASSIFIED
AID-DLC/P-678
EXHIBIT V
Attachment 1
Page 1 of 3

Dr. Mario Trindade, President
Banco Nacional de Habitacao
Av. Presidente Wilson 164
Rio de Janeiro, Brazil

Subject: Housing Guaranty Program
Brazil - Projects HG#1, 3,
7, 9, 14 & 15

Dear Dr. Trindade:

We are pleased to inform you that on the basis of the proposals previously submitted for subject projects, the studies made by this office and the discussions between our offices, the Agency for International Development (A.I.D.) has authorized the issuance, within not to exceed one year from this date, of a guaranty protecting against loss of one hundred per centum (100%) of a loan investment of not to exceed eighteen million dollars (\$18,000,000) by United States investors (Investors) to the Banco Nacional de Habitacao for the long-term financing of housing in Brazil. In accordance with the discussions between our offices this amount includes the long-term financing for the specific projects proposed by the applicants for HG#1, 3, 7 and 9 and for general relending by the applicants for HG#14 and 15.

The authorized amount of guaranty shall be subject to the following distribution:

1. \$2,700,000 for HG#1, Gomes de Almeida
2. \$4,900,000 for HG#3, Gomes de Almeida
3. \$3,000,000 for HG#7, Cia Brasileira de Pavimentacao e Obras
4. \$3,400,000 for HG#9, The National Housing Bank and the National Steel Company
5. \$3,000,000 for HG#14, Economiza, S.A.
6. \$1,000,000 for HG#15, Minas Oeste, S.A.

Dr. Mario Trindade

Page 2 of 3

The guaranty contract document will describe more fully the purpose and method of utilization of the guaranty.

The authorized guaranty shall be subject to the following terms and conditions:

A. GENERAL FOR ALL PROJECTS:

1. The guaranty shall extend for a period of up to twenty-five (25) years from the dates of the disbursements of the respective installments of the loan.

2. The rate of interest payable to the Investors, with respect to the loan, shall not exceed six and one-half per centum ($6\frac{1}{2}\%$) per annum.

3. The Government of Brazil shall provide a full faith and credit guaranty to A.I.D. assuring against any and all losses resulting to A.I.D. by virtue of its guaranty to the U.S. Investors.

4. The fee of the United States shall be payable in dollars and shall be one-half of one per centum ($\frac{1}{2}\%$) of the outstanding guaranteed amount of the loan per annum.

5. There shall be submitted, for each of the projects, within 60 days of the date hereof, evidence satisfactory to A.I.D. of a firm commitment for the long-term mortgage financing from Investors acceptable to A.I.D.

6. There shall be submitted to A.I.D. within 120 days of the date hereof draft contract documents.

7. The Guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

B. CONDITIONS FOR PROJECTS HG#1, 3, 7 and 9 ONLY:

It is expected that the processing of these projects will be subject to the usual procedures of the BNH. However, the following items will be subject to the specific review and approval of A.I.D.:

1. Firm commitment for construction financing.
2. Plans and specifications.

Dr. Mario Trindade

3. Sales prices (not to exceed \$6,500).
4. Plan for the development and maintenance of community facilities.
5. Inspection (including material testing).
6. Surety that construction of any homes started will be completed.
7. Costs to be incurred by homeowners (including closing costs and monthly payments).
8. All of the conditions of Section A, above,

It is intended that these projects be under construction within one year from the date hereof and that the necessary processing will be scheduled to meet that deadline. Actual construction should not, however, commence without the prior written consent of A.I.D.

C. CONDITIONS FOR PROJECTS HG#14 and 15 ONLY

It also expected that the processing of these projects will be subject to the usual procedures of the BNH. It is further expected that the BNH shall relend this money according to the same rules and regulations as their own funds. Additionally the following items will be required:

1. Sales prices not to exceed \$5,000 excepting that where the financing is in the form of two mortgages with the SCI holding the second mortgage in an amount of 25% or more of the total of the two mortgages the sales price may be increased to \$6,500.

2. Mortgages made with funds derived from this Guaranty shall not be concentrated at any single construction site in excess of \$100,000 without the prior written consent of A.I.D. Such a concentration shall also be subject to the specific conditions stated in Section B, above, for projects HG#1, 3, 7 and 9.

3. All of the conditions of Section A, above.

It is not intended that any information about the terms of the guaranty agreement be released to the public at this time. We shall be pleased to coordinate with you and other participants in the projects the release of information about the projects at a later date.

Sincerely yours,

Peter M. Kimm
Deputy Director for
Guaranties and Engineering
Housing and Urban Development Division

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

UNCLASSIFIED
AID-DLC/P-678
EXHIBIT V
Attachment 2

Page 1 of 1

LETTER OF ADVICE

Gomes de Almeida, Fernandes de
Sao Paulo Engenharia S.A.
Av. Higienopolis, 308
Sao Paulo, Brazil

Subject: Housing Guaranty Applications
BRAZIL - HG#1

Dear Sir:

We are pleased to inform you that on the basis of your previously submitted proposal, and discussions between our respective representatives, the Agency for International Development (A.I.D.) has authorized the issuance, within not to exceed one year from the date hereof, of a guaranty protecting against loss of one hundred per centum (100%) of a loan investment by United States Investors (Investors) to you for the long-term financing of your project.

The guaranteed investment shall be in the form of a guaranteed loan by the Investors to the Banco Nacional da Habitacao (BNH). The BNH in turn, will provide a line of credit to you to provide the long-term financing for your proposal.

The enclosed letter to the BNH explains how this Guaranty will be issued and states the amount that will be subject to guaranty for your project. It also states some of the terms and conditions to which the Guaranty will be subject.

Should you have any questions on this aspect of the Guaranty please feel free to contact the Housing and Urban Development Division of the A.I.D. office in Rio de Janeiro.

It is not intended that any information relating to the Guaranty be released to the public at this time. We shall be pleased to coordinate with you and the other participants in the projects the release of information about the projects at a later date.

Sincerely,

Peter M. Kimm
Deputy Director for
Guaranties and Engineering
Housing and Urban Development Division

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

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LETTER OF ADVICE

Gomes de Almeida, Fernandes de
Sao Paulo Engenharia S.A.
Av. Higienopolis, 308
Sao Paulo, Brazil

Subject: Housing Guaranty Applications
BRAZIL - HG#3

Dear Sir:

We are pleased to inform you that on the basis of your previously submitted proposal, and discussions between our respective representatives, the Agency for International Development (A.I.D.) has authorized the issuance, within not to exceed one year from the date hereof, of a guaranty protecting against loss of one hundred per centum (100%) of a loan investment by United States Investors (Investors) to you for the long-term financing of your project.

The guaranteed investment shall be in the form of a guaranteed loan by the Investors to the Banco Nacional da Habitacao (BNH). The BNH in turn, will provide a line of credit to you to provide the long-term financing for your proposal.

The enclosed letter to the BNH explains how this Guaranty will be issued and states the amount that will be subject to guaranty for your project. It also states some of the terms and conditions to which the Guaranty will be subject.

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Sincerely,

Peter M. Kimm
Deputy Director for
Guaranties and Engineering
Housing and Urban Development Division

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

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LETTER OF ADVICE

Continental Homes, Inc.
1730 K Street, N. W.
Washington, D. C.

Subject: Housing Guaranty Applications
BRAZIL - HG#7

Dear Sir:

We are pleased to inform you that on the basis of your previously submitted proposal, and discussions between our respective representatives, the Agency for International Development (A.I.D.) has authorized the issuance, within not to exceed one year from the date hereof, of a guaranty protecting against loss of one hundred per centum (100%) of a loan investment by United States Investors (Investors) to you for the long-term financing of your project.

The guaranteed investment shall be in the form of a guaranteed loan by the Investors to the Banco Nacional da Habitacao (BNH). The BNH in turn, will provide a line of credit to you to provide the long-term financing for your proposal.

The enclosed letter to the BNH explains how this Guaranty will be issued and states the amount that will be subject to guaranty for your project. It also states some of the terms and conditions to which the Guaranty will be subject.

Should you have any questions on this aspect of the Guaranty please feel free to contact the Housing and Urban Development Division of the A.I.D. office in Rio de Janeiro.

It is not intended that any information relating to the Guaranty be released to the public at this time. We shall be pleased to coordinate with you and the other participants in the projects the release of information about the projects at a later date.

Sincerely,

Peter M. Kimm
Deputy Director for
Guaranties and Engineering
Housing and Urban Development Division

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT,
WASHINGTON, D.C. 20523

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LETTER OF ADVICE

Banco Nacional da Habitacao
Av. Presidente Wilson, 164
Rio de Janeiro, Brazil

Subject: Housing Guaranty Applications
BRAZIL HG#9

Dear Sir:

We are pleased to inform you that on the basis of your previously submitted proposal, and discussions between our respective representatives, the Agency for International Development (A.I.D.) has authorized the issuance, within not to exceed one year from the date hereof, of a guaranty protecting against loss of one hundred per centum (100%) of a loan investment by United States Investors (Investors) to you for the long-term financing of your project.

The guaranteed investment shall be in the form of a guaranteed loan by the Investors to the Banco Nacional da Habitacao (BNH). The BNH in turn, will provide a line of credit to you to provide the long-term financing for your proposal.

The enclosed letter to the BNH explains how this Guaranty will be issued and states the amount that will be subject to guaranty for your project. It also states some of the terms and conditions to which the Guaranty will be subject.

Should you have any questions on this aspect of the Guaranty please feel free to contact the Housing and Urban Development Division of the A.I.D. office in Rio de Janeiro.

It is not intended that any information relating to the Guaranty be released to the public at this time. We shall be pleased to coordinate with you and the other participants in the projects the release of information about the projects at a later date.

:
Sincerely,

Peter M. Kimm
Deputy Director for
Guaranties and Engineering
Housing and Urban Development Division

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

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LETTER OF ADVICE

Mr. Nylton Moreira Velloso
Economisa, S.A.
Av. Amazonas - 311, 16th Floor
Belo Horizonte, Minas Gerais
Brazil

Subject: Housing Guaranty Applications
BRAZIL - HG#14

Dear Sir:

We are pleased to inform you that on the basis of your previously submitted proposal, and discussions between our respective representatives, the Agency for International Development (A.I.D.) has authorized the issuance, within not to exceed one year from the date hereof, of a guaranty protecting against loss of one hundred per centum (100%) of a loan investment by United States Investors (Investors) to you for the long-term financing of your project.

The guaranteed investment shall be in the form of a guaranteed loan by the Investors to the Banco Nacional da Habitacao (BNH). The BNH in turn, will provide a line of credit to you to provide the long-term financing for your proposal.

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It is not intended that any information relating to the Guaranty be released to the public at this time. We shall be pleased to coordinate with you and the other participants in the projects the release of information about the projects at a later date.

Sincerely,

Peter M. Kimm
Deputy Director for
Guaranties and Engineering
Housing and Urban Development Division

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

LETTER OF ADVICE

Dr. Antonio Castanheira de Cervalho
Minas Oeste, S.A.
Rua de Bahia - 1032, 14th Floor
Belo Horizonte, Minas Gerais
Brazil

Subject: Housing Guaranty Applications
BRAZIL - HG#15

Dear Sir:

We are pleased to inform you that on the basis of your previously submitted proposal, and discussions between our respective representatives, the Agency for International Development (A.I.D.) has authorized the issuance, within not to exceed one year from the date hereof, of a guaranty protecting against loss of one hundred per centum (100%) of a loan investment by United States Investors (Investors) to you for the long-term financing of your project.

The guarantied investment shall be in the form of a guarantied loan by the Investors to the Banco Nacional da Habitacao (BNH). The BNH in turn, will provide a line of credit to you to provide the long-term financing for your proposal.

The enclosed letter to the BNH explains how this Guaranty will be issued and states the amount that will be subject to guaranty for your project. It also states some of the terms and conditions to which the Guaranty will be subject.

Should you have any questions on this aspect of the Guaranty please feel free to contact the Housing and Urban Development Division of the A.I.D. office in Rio de Janeiro.

It is not intended that any information relating to the Guaranty be released to the public at this time. We shall be pleased to coordinate with you and the other participants in the projects the release of information about the projects at a later date.

Sincerely,

Peter M. Kimm
Deputy Director for
Guaranties and Engineering
Housing and Urban Development Division.