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

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HOUSING QUARANTY PAPER

596-HG-001

Proposal and Recommendations
For the Review of the
Development Loan Committee

CENTRAL AMERICA: CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

AID-ILC/P-857

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

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AID-DLC/P-857
July 25, 1969

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Central America: Central American Bank for Economic
Integration

Attached for your review are the recommendations for authorization of a guaranty of not to exceed \$10,000,000 securing against losses of not to exceed one hundred percentum (100%) of loan investment(s) by an eligible U.S. Investor or Investors acceptable to A.I.D. for the long-term financing of mortgage credit institution housing projects to be constructed in Central America.

This guaranty proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Wednesday, July 30, 1969.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachment:
Memorandum for the DLC
Attachments 1-10

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CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION
HOUSING GUARANTY

Table of Contents

	<u>Page</u>
I. Introduction and Background Summary	1
A. The Application	1
B. Feasibility	2
C. History of A.I.D. Support for the CABEI Home Loan Department	3
II. Purpose and Method of Utilization of the Proposed Housing Investment Guaranty	3
A. Purpose	3
B. Method of Utilization	5
III. Issues	6
A. Utilization of A.I.D. Loan No. 596-L-003	6
B. A.I.D. Fee	6
C. Interest Rate	7
D. Collateral Security	8
E. Technical Assistance	8
F. Flexibility	9
IV. Recommendations	10
A. Terms and Conditions	10
B. Technical Assistance	11
C. Regard to the Issues	12

ATTACHMENTS

1. Letter dated March 28, 1969, to Director, ROCAP, from CABEI President Enrique Ortez Colindres
2. Report on Home Loan Department of Central American Bank for Economic Integration - Robinson-Gordon-Wesson
3. Report and Recommendations on the Home Loan Department of CABEI - William K. Glikbarg
4. Financial Information - CABEI (12/31/68)
5. Medium Housing Market Analysis for the Program of CABEI Home Loan Department - June 1969
6. Sample Currency Exchange Agreement and dual loan agreements between CABEI and a Central Bank

ATTACHMENTS - continued

7. Loan Situation Summary Cumulative through 3/31/69 - A.I.D.
Loan 596-L-003
8. Statutory Checklist
9. Draft Guaranty Authorization
10. Draft Letter of Advice

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Central American Bank for Economic Integration
Request for Guaranty Authorization

There is presented herewith for your review and consideration a discussion of the issues and recommendations resulting from the study of an application submitted by the Central American Bank for Economic Integration (CABEI) for issuance of a guaranty authorization in the amount of \$15,000,000 under the 1966 housing investment guaranty program.

I. Introduction and Background Summary

A. The Application

CABEI submitted an application for a housing investment guaranty in the amount of \$15,000,000 on September 12, 1966. On May 8, 1967, the HGRC considered this application and deferred action pending further study. On July 14, 1967, AID/W advised ROCAP that no further action would be taken on the application pending improved performance by CABEI as a regional housing finance institution, and suggested short-term specialized technical assistance in mortgage banking.

On September 17, 1968, CABEI engaged the services of Mr. William Glikbarg for the purpose of providing technical advice and assistance in improving CABEI's function as a regional housing finance institution, and on October 10, 1968, Mr. Glikbarg's report and recommendations were made available to CABEI. (Attachment 3)

ROCAP states that in January, 1969, the CABEI Board of Directors, under a directive from the Board of Governors, moved to restructure and provide a strong new emphasis to its Home Loan activities by taking the following actions:

1. Appointed a new strong chief to head up the Home Loan Department.
2. Began to reorganize the operations of the Home Loan Department.
3. Started to up-date and expand the 1965 Central American middle income housing market survey.
4. Agreed to take the leadership in working actively with the Central American Regional and National Agencies and International Agencies (UN, OAS, CEPAL, A.I.D., FTC) to provide advice and training for Central Americans working in housing for the purpose of reducing housing costs in all aspects.

5. Initiated a strong effort to establish savings and loan associations in Honduras and Costa Rica using persuasion and the offer of repayment money from the original A.I.D. loan, and initiated a new effort to promote the growth in all the Central American countries of strong savings and loan associations with growth based on the generation of local savings and investment.

6. Agreed to authorize the design of an issue of short term CABEI paper to be used to channel Central American investment into middle income home finance.

7. Authorized the Home Loan Department and the Industry Division to begin to work actively to improve the capacity and standardization of the building materials industry by using the lending resources of CABEI.

8. Explored the possibilities of providing CABEI industrial loans to building contractors for additional capitalization and for purchase of modern construction equipment.

9. Reactivated its application for an A.I.D. housing investment guaranty.

The latter step resulted in the presentation to A.I.D. through ROCAP, on March 28, 1969, of a formal request for reconsideration of the application in the reduced amount of \$10,000,000, together with a statement of the objectives and proposed implementation procedures for the investment guaranty if granted (Attachment 1).

Discussions of the CABEI proposal were conducted in Washington between IA/HUD, CABEI, and ROCAP representatives on April 17, 1969, with the resultant recommendations set forth below.

B. Feasibility

Studies were conducted in early 1967 by an evaluation team headed by Mr. Harold Robinson, IA/HUD, and having as members Mr. Jack Gordon, President, Washington Federal Savings and Loan Association and Mr. Benjamin Wesson, Assistant General Counsel, Federal National Mortgage Association. While it has been necessary to up-date some of the findings and recommendation of this study, the team did recommend that \$10 million in investment guaranty authority be approved for CABEI, and that recommendation is still in force.

The feasibility of providing assistance to the regionality and institution-building objectives inherent in the CABEI concept through loan investments under the housing investment guaranty program has really

never been questioned, provided that the guaranty agreements are carefully structured to direct the utilization of the loan funds toward those objectives.

Recommendations for control and implementation mechanisms to assure the maximum feasibility of the guaranteed loan investment are set forth below.

C. History of A.I.D. support for the CABEI Home Loan Department

Detailed information on prior A.I.D. support for the CABEI Home Loan Department is contained in the attached "Report on Home Loan Department of Central American Bank for Economic Integration" (Robinson-Gordon-Wesson). (Attachment 2)

Briefly, CABEI is a multi-national public development banking institution which was established May 8, 1961 by the governments of El Salvador, Guatemala, Honduras, and Nicaragua. Costa Rica subsequently joined the system. The Home Loan Department was created in March, 1963.

On November 29, 1963 an A.I.D. loan agreement (No. 596-L-003) was signed with CABEI in the amount of \$10,000,000. Terms were 40 years at 0.75 percent, with interest only payable for the first 10 years and then 30 year amortization in semi-annual payments of principal and interest.

The purpose of the loan was to provide seed capital for CABEI to: fund the administration of its home loan department, encourage the creation and development of financial institutions which would attract savings for housing and implement housing projects, provide impetus to the construction industry, and make possible the purchase of homes by the Central-American people on long-term mortgage terms.

Utilization of this loan by the CABEI home loan department is an issue in any consideration of additional A.I.D. support, and is more fully discussed under Section III (A) of this memorandum.

II. Purpose and Method of Utilization of the Proposed Housing Investment Guaranty

A. Purpose

In his letter of March 28, 1969 (Attachment 1) Dr. Enrique Ortez Colindras, President of CABEI, states that:

"The purpose of this Housing Guaranty will be to enable CABEI to continue its program of assistance to finance non-subsidized homes for middle-income

families in Central America. This request is a logical next step after the A.I.D. loan of 1963, which inaugurated the Home Loan Department."

To assess the validity of this statement, it is necessary to analyze the performance of the A.I.D. loan in reference. CABEI's "Loan Situation Summary Cumulative through March 31, 1969" (Attachment 7) reflects that A.I.D. had disbursed \$9,999,986.65 to CABEI of which ten CABEI sub-borrows had in turn disbursed \$9,285,971.05, and which had generated 1694 mortgages in five countries. Principal amortization had amounted to \$665,935.41.

Interest return to CABEI from the borrower institutions is 6%. Borrower institutions charge the homebuyer rates which vary from country to country (depending on other fees and charges) but which uniformly return to the borrower institution an average of 2%.

It follows that CABEI is accumulating approximately \$500,000 gross per annum from its original sub-loans, and that the borrower institutions are earning approximately \$200,000 gross per annum, not counting earnings on turnover in either case.

The statement by President Ortez appears to be a valid one. Most of the primary objectives of A.I.D. Loan 596-L-003 (despite the shortcomings discussed in Section III below) have been attained:

1. The Home Loan Department has been organized, staffed, and placed in operation.
2. Currency exchange agreements enabling home mortgage loans from CABEI to each country have been executed.
3. A portfolio of mortgages has been generated in all five Central American countries, funded through CABEI. These mortgages are now providing badly needed seed earnings both for CABEI and the host country institutions.
4. 1694 families have already received the benefits of long-term mortgage financing which otherwise would not have been available.
5. Approximately \$10 million was actually utilized by the local construction industry in purchase of labor and materials.

CABEI has thus, through utilization of the A.I.D. loan, begun to demonstrate its capacity to develop a program of assistance to finance non-subsidized homes for middle-income families in Central America on a regional rather than a purely nationalistic basis. Continuation of this program with emphasis on increased self-help and lower sales price ceilings, through proper utilization of the investment guaranty program is a logical next step for the CABEI Home Loan Department and is in accord with the Alliance for Progress objectives in Central America.

B. Method of Utilization

Acceptance and implementation by CABEI of the recommendations contained in Section V below, which recommendations supplement the "Norms and Operating Plan" promulgated by CABEI would result in the following procedures for utilization of the guaranteed loan investment:

1. CABEI will circularize the list of eligible institutions agreed upon by CABEI and A.I.D. with the information that it will accept applications for stand-by commitments for long-term mortgage financing; together with a detailed exposition of the terms and conditions which combine the existing CABEI standards and the special conditions attached to the investment guaranty.
2. CABEI will activate the advisory committee called for in its Norms and Operating Plan.
3. CABEI will receive applications for stand-by commitments in amounts of not less than \$100,000.
4. CABEI will review all such applications for completeness and adherence to the published standards.
5. On the basis of its staff review and after considering the overall policy recommendations of its Advisory Committee, CABEI will either issue the stand-by commitment or reject the application.
6. On receipt of a CABEI stand-by commitment, the local institution will issue its own commitment(s) to local builders and/or individual homeowners. Upon completion of the dwelling unit(s), the local institution will complete disbursement of its own funds for purchase of the mortgages, and will then exercise its right to sell CABEI the agreed participation in the mortgages in blocks of not less than \$100,000.
7. CABEI will complete the related borrowing under the guaranteed loan agreement (probably combining several purchases of such blocks of mortgage participations) and will lend the necessary dollars to the respective Central Bank, simultaneously borrowing local currency from the Central Bank which it then disburses to the originating institution.
8. CABEI will, in a parallel effort, design a mortgage bond issue in the face amount of \$10 million, and will agree to use its best efforts to issue such mortgage bonds in increments to be agreed upon between CABEI and A.I.D. over a specified period of time, with which it will supplement the proceeds of the housing investment guaranty and provide reserve liquidity within the context of its own regulations and requirements.

III. Issues

A. Utilization of A.I.D. Loan No. 596-L-003

1. The capital assistance paper for the A.I.D. \$10,000,000 loan contemplated that CABEI would open a "line of credit" in an unspecified amount for each of the five Central Banks in Central America, and would simultaneously receive a similar line of credit from each Central Bank denominated in the currencies of the country concerned. Eligible mortgage issuing institutions would then present groups of eligible mortgages for financing in amounts totalling not less than \$100,000 to CABEI, of which CABEI would purchase participation in amounts of up to 80%.

In actuality, the CABEI Board divided the \$10,000,000 into five almost equal increments, awarding \$2,000,000 to each Director's host country. CABEI did not immediately purchase any mortgages, but rather accepted pledges of the mortgages as security for the loans to the Central Banks.

2. The CAP would have restricted eligible institutions to public and private banks with savings departments, cooperatives, savings and loan associations, and commercial banks with savings departments. CABEI, with ROCAP approval, permitted "contract" associations, and public housing agencies to be included under certain circumstances, e.g., in the case of contract associations if they agree to convert, and in the case of public agencies if they establish savings departments.

3. The CAP contemplated CABEI purchasing 80% participations in existing eligible mortgages with the issuing institution receiving a 1% service charge. CABEI, with ROCAP approval, is making loans backed by a pledge of mortgages and allowing the borrowing institutions up to a 3% spread between CABEI's charge and the mortgage interest (average spread was 2%).

B. A.I.D. Fee

A.I.D. policy allows a minimum charge of $\frac{1}{2}\%$ per annum of the outstanding balance, with no devaluation insurance or delinquency reserve fund required, only for investment guaranties in which there is a full-faith and credit guaranty of repayment in dollars by the host country government.

CABEI, however, is a unique case. It has financial resources (see Attachment 4) equal to or greater than those of many small nations, including equity capital at 12/31/68 amounting to \$24,076,676.

The currency exchange agreements which it has executed with each C.A. country (see Attachment 6 and detailed explanation of each such

agreement in Attachment 3) have the effect of protecting any CABEI investment in any C.A. country from losses due to fluctuations in currency values.

The percentage of participation in the mortgages which CABEI - will purchase provides a margin of value in the security which, taken on the whole, should adequately cover the default risk.

Additional security is provided in the case of Guatemala in the form of local currency mortgage insurance issued on each mortgage by the Instituto de Fomento de Hipotecas Asegurados (Guatemala FHA). Similar mortgage insurance programs are being developed in Nicaragua, and are under consideration in Costa Rica.

C. Interest Rate

The "General Loan Conditions" promulgated by CABEI's Home Loan Department presently limit the interest paid by the home purchaser to a maximum of 12%*. The basic cost of the guaranteed loan to CABEI under the requested housing investment guaranty would probably be 8½%, based on the present allowable rate to the U.S. investor of 8% plus the A.I.D. fee of ½%. The difference of 3½% must cover all other fees, reserves, and other charges imposed by any of the parties (excluding A.I.D.). A policy of permitting a maximum 1% service charge payable to the issuing institution (unless otherwise approved by A.I.D.) as contemplated by the original CAP, would appear mandatory. A breakdown of the interest on a sample mortgage transaction in Guatemala would then appear as follows:

Interest to U.S. Investor	8%
A.I.D. Fee	½%
Service charge to issuing inst.	1%
Guatemala FHA MIP	1%
CABEI earns Minimum	½%
Total**	<u>11%</u>

CABEI should, however, consider competing applications for the mortgage-financing resources which would be made available under the

*Note 1: Under CABEI rules, the 12% maximum interest rate must include casualty insurance premiums as well as all other fees and charges.

**Note 2: The total interest rate shown will be applicable only to that portion of the mortgage note the financing for which is provided by CABEI. The interest rate on the remaining portion the financing for which is provided by the originating institution will average only approximately 9%. The net effective interest rate on the total note paid by the home buyer will therefore average less than the total shown.

guaranty not only within the framework of regional economic policy, need, and market, but within the context of ordinary commercial advantage to CABEI. The influence of the competition of the market-place on the determination of beneficial net-yields to CABEI and the originating financial institution would become a sizable factor in militating against straight political allocation of the investment resources.

It should also be noted in this connection that, while the yield to participating institutions on the portion of the investment furnished by CABEI would be limited, the yield on the institutions own portion of the investment is limited only by host country law or regulation, and the local mortgage market.

D. Collateral Security

The Glikbarg report points out an apparent discrepancy in the loan agreements executed by CABEI and the borrower institutions. Accordingly to his analysis of the "General Loan Condition Agreement" and the related loan agreement, there is no system established for CABEI to automatically acquire the mortgages pledged as collateral security for its loans in the event of default. CABEI, Glikbarg says, would have to go to court if it wished to obtain the collateral, with the net effect that as a practical matter, CABEI is virtually unsecured.

There is general agreement among the experts that have examined the CABEI Home Loan Department operations that it should adopt a policy of purchasing mortgages or participations in mortgages through its disbursement of funds, rather than lending against a (possibly defective) pledge of mortgages as security.

CABEI has resisted the imposition of such a policy in the past, contending that it presents serious mechanical difficulties (e.g., in legal documentation and recordation) and that there is no indication that the mortgage participations thus purchased could be re-sold in the world financial marts.

E. Technical Assistance

There is a unanimity of opinion among all the experts who have examined the operation of the CABEI Home Loan Department that substantial, continuing assistance must be provided by A.I.D. in order to improve the utilization of the proceeds of the present loan and to maximize the effectiveness of the proposed investment guaranty.

While LA/HUD and ROCAP have recognized this necessity, the realities of downward pressure on staff levels (BALPA) and other program priorities has prevented the accomplishment of this objective until the present time.

F. Exclusivity

The A.I.D./W team which reviewed the operations of the CABEI Home Loan Department in late 1966 and early 1967 recommended that the CABEI Home Loan Department be granted exclusivity in the housing investment guaranty program for Central America; i.e., that all housing investment guaranty projects be run through CABEI.

There are advantages and disadvantages in granting CABEI such exclusivity.

Advantages:

1. Would actually reduce the cost of the money going into each country. Inasmuch as up to the present, no host government has participated in the guaranty in C.A. countries, the A.I.D. fee is 2%, plus a $1\frac{1}{2}\%$ one time charge at closing for a default and delinquency reserve, and 1% per annum for a devaluation insurance fund. If CABEI became the borrower and provided its full faith and credit guaranty, the A.I.D. fee drops to $\frac{1}{2}\%$ and the special assessments disappear.
2. Would provide additional encouragement to the regionality concept.
3. Would provide further impetus to standardization of mortgages, building standards, etc.
4. Would provide a source of income to CABEI, even if held to $\frac{1}{2}\%$ handling fee.
5. Would result in a delegation of administrative responsibility to CABEI now borne by A.I.D. Note that the steps outlined in Section II B above are very similar to the process followed by A.I.D. for approval of housing guaranty financing.

Disadvantages:

1. Would sharply increase CABEI's contingent liability under its full faith and credit dollar repayment guaranty, even though this is presumably partially offset by the host-country--CABEI currency exchange agreements which cover the exchange risk.
2. Would insert another approval step in the processing of competitive projects in the non-credit institution categories.
3. Would impose an additional burden on the small staff of the CABEI Home Loan Department which, at this time, it does not appear capable of handling efficiently.

IV. Recommendations

-10-

A. Terms and Conditions

On the basis of its evaluation of the CABEI proposal, its discussions with the CABEI management, ROCAP representatives, and Washington Federal Savings and Loan Consultants, LA/HUD recommends the authorization of a housing investment guaranty in the amount of \$10,000,000 to the CABEI Home Loan Department, such guaranty to contain the following terms and conditions:

1. CABEI shall provide its full faith and credit guaranty of the dollar repayment of the guaranteed loan investment.

2. CABEI shall utilize the proceeds of the guaranteed loan investment only to purchase participation in eligible mortgages except as A.I.D. may otherwise agree. The percentage of participation shall be no more than 65% unless otherwise approved by A.I.D. Eligible mortgages are defined as:

a. Mortgages which are placed on dwelling units the construction of which was completed subsequent to the date of the Contract of Guaranty; and which was commenced and performed in accordance with the technical standards of CABEI.

b. Mortgages which are placed on dwelling units having a sales price, including land, not exceeding \$6,500.

c. Mortgages which have terms of not less than twelve years nor more than 20 years.

d. Mortgages which do not exceed 90% of the sales price of the housing including developed land.

All participations in mortgages so purchased by CABEI shall be with recourse against the selling institution, and the selling institution shall obligate itself to replace mortgages which are delinquent beyond the standard established by CABEI and shall agree to provide mortgage servicing in all cases.

3. The funds disbursed by CABEI for the purchase of participation in eligible mortgages shall be in local currency in the various countries, which CABEI borrows from the respective Central Bank while simultaneously lending dollars to the Central Bank; all in accordance with the agreements between CABEI and the Central Banks.

4. CABEI will purchase participations in eligible mortgages only from the eligible institutions agreed to by A.I.D. and CABEI, unless otherwise authorized by A.I.D.

5. The term of the guaranteed loan investment to CABEI shall be 25 years.

6. While allocation of funds to each member nation in CABEI will be based solely on demonstrated need, demand, and capacity to invest, CABEI may, with the approval of A.I.D., offer to reserve a specified amount of the investment guaranty, for a period of not to exceed 12 months from the date of the guaranty contract, for utilization by any member nation(s) not immediately able to demonstrate capacity to properly utilize the investment. In such case, CABEI shall specify the steps which must be taken by the member nation in order to provide such demonstrated capacity, e.g., the enactment and implementation of legislation creating a savings and loan system.

7. CABEI shall, prior to execution of the Contract of Guaranty by A.I.D., have established an Advisory Committee in accordance with Section 2.3 of the Home Loan Department Norms and Operating plan, such Advisory Committee to be required to meet regularly for the purpose of advising, through the Board of Directors, the management of the CABEI Home Loan Department on lending policy.

8. CABEI shall agree to utilize, to the maximum extent practicable, its other financial and administrative resources to further:

- a. reduction of the cost of land development;
- b. standardization of building materials;
- c. improvement of organization and methods in the home construction industry;
- d. lending to home builders for modern construction equipment.

B. Technical Assistance

A.I.D. has authorized the establishment of an office of Housing and Urban Development in ROCAP and is in the process of providing the necessary staffing. The head of this office shall be able to call upon existing A.I.D. contractual services as required to provide technical assistance to CABEI. However, this outside input should be supplemented by expertise provided on a full-time basis within the CABEI organization.

Accordingly, CABEI shall agree to retain long-term technical assistance by a recognized expert in the field of mortgage banking with special reference to secondary mortgage financing. The cost of such assistance shall not be borne by A.I.D. The duration of such technical assistance should be not less than one year.

The specialist retained by CABEI shall also provide assistance in implementing the specific "house-keeping" recommendations contained in the Glikbarg report (see Recommendation Number 5, p. 35), where such recommendations are applicable and have not already been implemented.

C. In Regard to the Issues

1. While there have been substantive variations in implementing the utilization by CABEI of A.I.D. Loan No. 596-L-003, these variations have been with the consent of A.I.D. LA/HUD believes that with the provision of the technical assistance recommended in II above to provide close supervision and enforcement of the mechanics and procedures recommended in I above, as well as the steps that the CABEI Board has itself taken in the process of maturing (e.g., new experienced management of the Home Loan Dept.), the objectives of the recommended guaranty can be met.

2. LA/HUD recommends acceptance of the CABEI full faith and credit guaranty, supported as it is by its currency exchange agreements, its own financial resources, and by the mortgage participations themselves, as the equivalent of a host-country guaranty of dollar repayment; and therefore the assessment of the minimum $\frac{1}{2}\%$ A.I.D. fee without additional default or devaluation increments.

3. LA/HUD believes that the total interest rate payable by the homeowners will be competitive with current market rates in each Central American country and that it will not prevent prompt utilization of the guaranty. LA/HUD recommends that the financial contracts negotiated with each country be based on interest rates to the home purchaser consistent with those utilized by existing Savings and Loan Associations or other mortgage credit institutions in Guatemala, El Salvador and Nicaragua, and proposed institutions in Honduras and Costa Rica with the "spread" earned by the participating institutions subject to A.I.D. approval.

4. LA/HUD recommends the purchase of participations in eligible mortgages as described in paragraph II.B.6. above, to resolve the problem of collateral security at the same time that CABEI becomes directed toward the goal of providing a secondary mortgage market.

LA/HUD further recommends that CABEI take the following specific actions in parallel with its utilization of the guaranteed loan investment:

A. CABEI has the existing authority to issue "cedulas hipotecarias" or notes secured by blocks of mortgages.

LA/HUD recommends that CABEI be required to have designed the \$10 million issue described in II (B) (8) above, and have secured A.I.D. approval of such design, within twelve (12) months of the date of the contract of guaranty.

B. Offer to borrow from private sources outside Central America (without the A.I.D. guaranty) an amount of at least \$1,000,000, utilizing as collateral a block of mortgages, mortgage participations, and/or pledges of collateral security, which CABEI now holds in connection with its sub-loans from A.I.D. loan 596-L-003. This offering should be in general conformity with recommendation number three of the Glikbarg Report (Attachment 3).

5. LA/HUD's recommendations in regard to technical assistance are set forth in IV (B) above.

6. LA/HUD does not recommend at this time the adoption of a policy of exclusivity in the channeling of housing investment guaranties through CABEI. CABEI's performance in utilization of the proposed investment guaranty should be the foundation on which a decision is based in the future. For the present, the desirability of channeling each housing guaranty project in Central America through CABEI shall be considered on its merits.

LA/HUD:JDKilgore:ran
July 1, 1969



BANCO CENTROAMERICANO
DE INTEGRACION ECONOMICA
TEGUCIGALPA, D. C. HONDURAS, C. A.

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AID-DLC/P-857
Attachment 1
Page 1 of 5
DIRECCION CADLEORAFICA
BANCADIE
TELEFONO 31-03
APARTADO POSTAL 772

March 28, 1969

Mr. Oliver L. Sause,
Director ROCAP
Galerías España
Plazuela España, Zona 9,
Guatemala, Guatemala

Dear Mr. Sause:

I am pleased to submit to you a request for a Housing Investment Guaranty in the sum of \$10 million, which updates our application submitted to AID in September 1966 for \$15 million. The purpose of this Housing Guaranty will be to enable CABEI to continue its program of assistance to finance non-subsidized homes for middle-income families in Central America. This request is a logical next step after the AID loan of 1963, which inaugurated the Home Loan Department of CABEI.

The points mentioned below were raised primarily in a conference held in the Dominican Republic between representatives of CABEI, AID/Washington, ROCAP and Washington Federal Savings and Loan Association of Miami Beach. This request is a result of the understanding of that meeting.

We have appended to this Memorandum a history of the original loan and the status of the existing program.

The main issues related to this request are the following:

I. Guaranty of the Loan

CABEI is a public institution owned in equal shares by the Governments of the five Central American countries. Its authorized capital is \$60 million, of which \$32.5 million is paid in. CABEI has operated at a profit ranging from \$542,000 in 1967 to \$751,000 in 1968 and a projected \$1,400,000 for 1969. The total resources of the Bank presently are approximately \$210 million. CABEI will be fully obligated to repay this loan.

In operation, the relending by CABEI will be disbursed in local

currency in the various countries. CABEI will borrow this local currency from the Central Banks and simultaneously CABEI will lend dollars to the Central Banks. This in effect means that CABEI owes local currency to the Central Banks and that the Central Banks owe dollars to CABEI on the same financial terms as CABEI becomes obligated to the U. S. Investor. All these transactions are set forth in agreements between CABEI and each Central Bank.

The credit risk is covered not only by the direct obligation of CABEI but also by the direct obligation of the sub-lender in each country. While these sub-lenders are substantial private institutions in their own right, in some countries, such as Guatemala, there may be an additional guaranty furnished by an Agency of the Government, namely, in that case, the FHA.

The individual borrower also pledges his personal credit in addition to the mortgage on the home itself. Historically, CABEI's loans have amounted to 70% of the value of the homes financed.

All these would appear to be ample security for the credit risk.

II. Procedure for Disbursement from the U. S. Investor to CABEI for Relending Purposes.

CABEI will receive dollars according with arrangements which are currently required by AID and the U. S. Treasury. It will exchange these dollars for local currency in the various countries in accordance with the procedure described above. The local currency will be used to finance local mortgage credit institutions with the collateral guaranty of the agreed upon portion of the local mortgages on homes that are eligible for AID guaranty under the terms of the agreement, with recourse to the sub-borrower.

An eligible mortgage is a mortgage that meets the standards of the CABEI loans under AID loan 596-L-003, except that (1) instead of the percentage purchased being 80% , it will be 75%, and (2) the cost of the house and lot will be limited to \$6,500 rather than \$10,000.

III. Eligible Institutions

CABEI agrees to give preference to Savings and Loan Associations, but reserves the right to finance other eligible institutions, in order to carry out one of the basic aims of the Bank, which is to promote all the benefits of a competitive economy in the housing field.

In those countries where Savings and Loan Associations are not in

existence, CABEI will use other eligible financial institutions, public and private, which operate on a sound financial basis and do not engage in subsidized housing, and which are not only attracting savings but also making special efforts to attract additional free savings from the public for housing purposes.

Because of the progress made in the development of Savings and Loan Associations and the expansion of existing credit institutions, insurance companies are not eligible under this program, except under special circumstances when other eligible institutions are not available.

IV. Drawdown Schedule

It is anticipated that the funds would be drawn-down in a 36 months period from the signing of the loan agreement, in accordance with the following tentative schedule:

<u>Time Period</u>	<u>Approximate amounts of Monthly Drawdowns</u>	<u>Cumulative</u>
First 6 months	\$ 0	\$ 0
From 7th to 12th month	100,000	600,000
From 13th to 24th month	200,000	3,000,000
From 25th to 36th month	666,666	10,000,000

It is understood that the minimum drawdown will be of \$100,000. The drawdowns will only take place when there are in existence eligible mortgages on new houses under the terms of the agreement. CABEI intends to assist in the construction of these houses by the use of the Letter of Commitment process. This procedure is provided for in the regulations of the CABEI's H. L. D. This represents a further effort by CABEI to expand the capability of the construction industry in Central America, through additional financing.

V. Term of the Guaranty

Although the individual mortgages to be financed will have maturities from 12 to 20 years, in accordance with existing regulations, CABEI requests that the AID Guaranty be extended for a 25 year period.

This will enable CABEI to use early maturities for relending purposes, thus increasing the size of the program.

VI. Cost of the Money

It is estimated that CABEI will charge 9% to the sub-borrowers, consisting of 8% as the assumed interest rate to the U.S. Investor, 1/2 of 1%

for the AID Guaranty and $\frac{1}{2}$ of 1% as operating margin for CABEI. The borrowers from CABEI will relend at a minimum of 1% more, but with complete regard for the existing local conditions. Any relending rate will be agreed upon by CABEI and the sub-borrower.

VII. Management of the Home Loan Department

CABEI has taken recent steps to expand the scope of its Housing Department by recognizing the necessity to have more financial orientation. It has appointed Mr. Agustín Gutiérrez as the new Head of the Department, based on his ample experience in the banking field. He formerly held the position of Executive Vice President of CABEI. He is charged with not only expanding the operations of the Department in connection with the disbursement of this loan, but also to actively work in developing the beginnings of a capital market for home financing in Central America based on the resources of the existing Department.

It is the intention of the Bank to assist itself with direct counsel through the formation of an Advisory Committee to consist of one titular delegate and one alternate from each of the member countries. This group is to be composed of individuals with experience in home financing and construction in Central America. It is believed that such an Advisory Committee will be of great assistance to CABEI in expanding housing programs in Central America while, at the same time, increasing the speed of the economic integration of the Region.

CABEI is considering the necessity of obtaining technical assistance for the operation of this Program.

VIII. Lending Policy

The allocation of the funds to each country will be based on need, demand and capacity to invest, supported by the up-to-date market analysis of effective demand for middle-income housing in the area, which is presently being prepared by the Home Loan Department of CABEI.

CABEI is conscious of the risk of credit concentration in any one specific site. The financing of eligible mortgage credit institutions throughout the region, will make the HIGP available for the construction of homes and for the development of small specific housing projects in cities in the interior of each of the Central American countries. On the other hand, CABEI intends not to compete with the "Specific Projects" phase of the Program by which large projects are developed mainly in big urban centers.

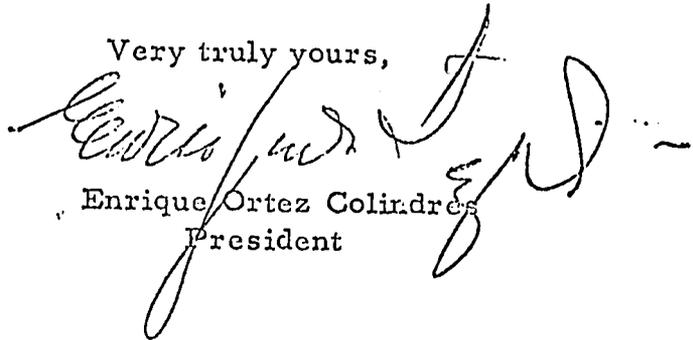
IX. Improvement of the building industry

The Bank, using its other financial and administrative resources, intends to take action, within its capacity and in cooperation with CACM regional and national agencies, either private or public, to further:

- a) reduction in the cost of buying and developing of land for housing.
- b) standardization of building materials
- c) improvement of organization and methods in the home construction industry.
- d) lending to home builders for modern construction equipment.

I am willing to follow closely the progress of this application, in order to facilitate its approval, and I thank you for all your valuable cooperation in this respect.

Very truly yours,



Enrique Ortez Colindres
President



REPORT
ON
HOME LOAN DEPARTMENT OF
CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Harold Robinson
Deputy Director for Plans
and Programs, LA/CD/HUD

Consultants

Jack D. Gordon, President
Washington Federal S&L Association

Benjamin Wesson
Assistant General Counsel
FNMA

1 February 1967

CABEI HOME LOAN DEPARTMENT

- I. Recommendations
- II. Findings
- III. Purpose and Objectives of CABEI's Home Loan Department
- IV. Interest Spread and Form of CABEI Assistance
- V. Magnitude of Second Round Assistance
- VI. Loans or Investment Guaranties
- VII. Technical Assistance
- VIII. Background
- IX. CABEI Home Loan Department As Means of Economic Integration

APPENDICES:

- A. Reason for Evaluation Team (AIDTO CIRC XA-833)
- B. Information Requested of Field (TOCAP A-53, 10/18/66)
- C. Relation to Central America Housing Policy (TOCAP 115, 11/14/66)
 1. Memo on use of Investment Guaranties, 10/16/63
 2. Memo on Use of Investment Guaranties, 9/11/63
- D. Memo from Robinson to Sause suggesting Creation of Secondary Market Facility for Central America and Use of Investment Guaranty, 1/10/63.
- E. Memo from President of CABEI Recommending CABEI Involvement in Housing, 3/14/63.
- F. AIDTO CIRC XA-1180 on First Team Visit of Robinson, Solow, Gordon, Callejas and Silberman.
- G. Memo from Solow to DuFlon on Evaluation Team's action, 4/25/63.
- H. Letters of Implementation
- I. CABEI Home Loan Department Norms
- J. Digest of Loan Agreement
- K. Eligible Institutions

- L. Memo re El Salvador Loan and Relationship to CABEI, 5/13/64
- M. Financiera of El Salvador not to act as Secondary Market Facility.
- N. Gordon Memo on Technical Assistance
- O. Comments of Washington Federal on CABEI Investment Guaranty Application
- P. Effective Demand

CABEI HOME LOAN DEPARTMENT

I. RECOMMENDATIONS

As a result of : a) a review of the potential of CABEI, the original objectives of AID's \$10 million loan to CABEI and the requests for additional assistance from CABEI, USAIDs and individual home credit institutions in Central America; b) a fact-finding visit to Central America to determine the manner which AID's loan has been used; c) AID's policy of stimulating the economic integration of Central America; and d) based on the assumption that AID will continue to provide financial assistance to home credit institutions in Latin America, I have the following recommendations which are more fully developed in the body of this report.

1. CABEI should be the focal point for providing financial assistance to home credit institutions in Central America.
2. Further financial assistance to CABEI should be made by AID in the form of both loans and investment guarantees.
3. Loan assistance should amount to \$10 million and investment guaranty assistance to \$10 million.
4. Investment guarantees in Central America should be limited to CABEI, with the understanding that initially this guaranty assistance will be directed toward those home credit institutions which will finance eligible applications submitted by the September 15, 1966 deadline.
5. Institutions eligible to obtain assistance from CABEI should be limited to those types declared eligible in the original CAP, i.e., home credit institutions devoted exclusively to obtaining savings for housing and public, private or mixed banking institutions which can help generate local resources, and housing cooperatives. Public housing institutions, e.g., INVA of Honduras, INVI of Nicaragua, INVU of Costa Rica) should not be eligible for assistance.
6. In order to assure the attention to housing cooperatives required by the Humphrey Amendment, some AID assistance should be earmarked for that purpose.
7. Although CABEI should be used as a source of "seed" capital for savings and loan systems where possible, initial direct assistance by AID to embryonic national savings and loan systems should not be barred.
8. A liquidity reserve fund should be established in CABEI to assure constant availability of mortgage refinancing to mortgagees.
9. Separate accountability should be maintained of: a) CABEI and CABEI's Home Loan Department; and b) of CABEI's liquidity reserve and all profits of CABEI's Home Loan Department should be reinvested in housing.

- 2 -

10. Assistance by CABEI should be on a comparative basis with the return to recipient institutions determined by services rendered and the risk and market rather than established artificially.
11. In order to increase the accumulation of funds by CABEI, the terms of the guaranteed loan to CABEI should be 25 years, or more, with the average term of home mortgages established at 15 years. This difference would fund CABEI without any additional cost to the home buyer but should be used only if the CABEI Norms of income and monthly payments are maintained.

II. FINDINGS

1. The Board of Governors of CABEI voted on December 14, 1966, to request the member countries to seek further loan or investment guaranty assistance from AID.
2. Despite certain departures from the original concept of the initial \$10 million loan, there is a definite potential in CABEI.
3. CABEI is prepared to channel funds where needed rather than on a country by country allotment.
4. CABEI is prepared to eliminate public housing institutions from further assistance.
5. CABEI has acted more in the nature of a co-primary financing agency than as a secondary market facility. Given the existing circumstances, this could be justified. However, it should be considered a stepping stone, only, toward CABEI's function as a secondary market facility.
6. Local credit institutions are now more interested in the use of their own funds for home mortgages as a result of past assistance from CABEI. The incentive and stimulus of additional "seed" capital for CABEI will result in such funds being made available.
7. Properly approached, local home credit institutions would be prepared to act as borrowers of investment guaranty funds from CABEI rather than purely as administrators.
8. There is a recognition by the local home credit institutions that have been making monies available for higher cost housing that a market does exist at the \$6500 and under level and could provide a profitable source of business.
9. There has been insufficient continued contact between CABEI and the local home credit institutions which could be remedied through additional financial assistance and through more aggressive technical assistance.

- 3 -

III. PURPOSE AND OBJECTIVES OF CABEI'S HOME LOAN DEPARTMENT:

The function of CABEI's Home Loan Department is threefold: 1) to provide funds on a joint risk basis to primary lending institutions through borrowings from the U.S. Government or elsewhere; 2) to attract savings or other resources for housing through the incentive of participation in the risk; and 3) to assure primary lending institutions of a market for their mortgages as needed. This of course, is also the function of the National Home Loan Bank Boards established in the various Latin American countries with AID technical and financial assistance.

In the implementation of the AID loan, CABEI has been used as a source of primary lending through the addition to local savings of loans from AID. Given the lack of eligible mortgages, the absence of accumulated savings and the inordinate demand for mortgage financing, this was the only course to be followed initially. Any second round of loans, however, should emphasize all three purposes. Actually, CABEI should be serving for Central America as a whole what individual S&L Home Loan Bank Boards are supposed to be doing for national S&L systems. These Boards, too, have concentrated initially on pump priming. The additional factor in the case of CABEI is that its activities encompass a variety of home credit institutions and are not limited to S&L associations. In serving this range of home credit institutions, CABEI is tapping a primary source of funds not otherwise being made available for housing. Through its distribution of risk over five countries and its potentially larger consolidated, external borrowings, moreover, CABEI is in a position to compete better in the money markets for funds for relending.

IV. INTEREST SPREAD AND FORM OF CABEI ASSISTANCE:

The original concept of CABEI envisaged CABEI investing in newly created mortgages to the extent of 80%, with the primary lending institution receiving an interest spread of 3-4% on its 20% investment and a 1% service charge on CABEI's 80% investment. CABEI's profit would be used for relending. This was changed during implementation to loans by CABEI at 6% and mortgage loans of 9% or a 3% spread to the primary lending institution on CABEI's 80% investment and a 3-4% spread on the primary institutions' own 20% investment. The reason was twofold: 1) lack of existing eligible mortgages and a desire to place the whole risk on the primary lending institution to assure their careful lending practices. The former situation could have been resolved by participation purchases by CABEI, with advance commitments. However, if greater risk in the primary lending institutions is desired, the terminology-participation purchase with recourse or lending - becomes immaterial.

CABEI - with the endorsement of AID's consultants - determined that the risk, initially, should be in the primary lending institution in order to assure their careful appraisals and servicing of the mortgages. This argument has merit but should not be applied universally. For example, mortgages issued in Guatemala can be FHA insured. Lending institutions should be prepared to accept a lower spread because of the reduced risk. It might also be possible

- 4 -

to establish a sliding scale of interrelated spreads and percent of participation which would result in more comparison purchases or loans by CABEL.

V. MAGNITUDE OF SECOND ROUND ASSISTANCE:

The first \$10 million loan has been fully disbursed to CABEL, and approximately \$5 million has been disbursed by the borrowing institutions. \$4.5 million was loaned to public housing institutions (INVA, INVI and INVU) but these will no longer be eligible for assistance. The CABEL applications for loan and investment guaranty assistance suggest a present institutional demand in excess of \$20 million. Effective demand could utilize this amount.

Investment guaranty applications submitted by September 17, 1966, total \$6.7 million. While there are patently ineligible applicants, there are undoubtedly sufficient applications to use the \$10 million allocated to Central America.

VI. LOANS OR INVESTMENT GUARANTIES:

At the time the first loan to CABEL was under consideration, the Regional Housing Adviser suggested either a less restricted interpretation of the Foreign Assistance Act or an amendment to permit AID investment guaranties of loans to CABEL. The Capital Assistance Paper reflects this suggestion. In fact, the latter course was taken and the FMA has been amended to permit AID guaranties of loans to home credit institutions.

Use of the investment guaranty authority, however, would generally make impossible any interest spread accumulation in CABEL to build up the lending potential of CABEL. Although a guaranteed loan of 25 years with home mortgages of 15 years would yield some profit return to CABEL. The limited amount of investment guaranty authority would, moreover, not permit sufficient assistance to CABEL. It is, therefore, suggested that in addition to providing investment guaranty authority, an AID loan at 2-1/2% interest also be made to add further to CABEL's financial position.

VII. TECHNICAL ASSISTANCE:

The primary lending institutions contain a reservoir of mortgage lending experience and ability. This know-how can be tapped by including representatives of these institutions in the Advisory Committee already provided for in the CABEL Norms. In addition, there is a definite need for an aggressive U.S. mortgage advisor to provide a stimulus and initiative in the development of new forms of arrangements between: a) CABEL and the primary lending institutions and, b) between CABEL and external and internal markets for CABEL's own Home Loan bonds or borrowings. At the primary lending institution level, there is still need for education as to the markets for lower cost housing, development of project type lending, and attraction of savings.

VIII. BACKGROUND

On November 29, 1963, AID executed a loan agreement with the Central American Bank for Economic Integration (CABEI) in the amount of \$10 million to enable CABEI to establish a Home Loan Department which would act as a secondary market facility for home mortgages issued by home credit institutions in Central America. The full \$10 million has been committed by CABEI.

CABEI has now submitted an application for a loan of \$15 million and an investment guaranty in the amount of \$15 million to enable it to continue the purposes of the original loan. At the same time, Financiera Nacional de la Vivienda de San Salvador has submitted a request for a loan of \$6 million to supplement the \$3.1 million loan made to it by AID on May 21, 1965, as "seed" capital for a savings and loan system. USAID/Honduras is considering submitting a request for a "seed" capital dollar loan if proposed savings and loan legislation is enacted. These requests have raised the following issues (Exhibits A, B, C, C1, C2):

1. How has CABEI's Home Loan Department operated in the past and what is its potential for the future?
2. Should AID make bilateral loans and investment guarantees to home credit institutions in Central America or should assistance be channelled through CABEI? (It is assumed that AID, rather than IDB, will provide financial assistance.)

A. Objectives

The Presidential Declaration of the President of the United States and the Presidents of the five Central American countries of March 18, 1963, included the following language:

"The Presidents also agree that opportunities should be given to the people of Central America to build and purchase their homes. There exists in Central America national savings and loan institutions which have been assisted under the Alliance for Progress, and others are about to be created. In order to give further support for those national efforts the Presidents of Central America suggest that a Regional Home Loan Department, which would be a secondary source of Home Mortgage Funds, should be created as a division within the Central American Bank for Economic Integration and the President of the United States agrees to offer technical and financial assistance to it."

This statement reflected recommendations to President Kennedy by AID (Exhibit D). It also reflected a Resolution of the Board of Directors of CABEI that CABEI is an adequate financial organization to activate non-public housing, and that one means of promoting housing would be through financing of savings and loan associations, housing cooperatives, mortgage discounts and savings deposit insurance (Exhibit E).

- 6 -

Following that Declaration, an AID/W-ROCAP-CABEI team developed a CAP which resulted in the execution, on November 29, 1963, of a loan agreement providing for a loan of \$10 million by AID/W to CABEI (Exhibits F and G). To date 21 Letters of Implementation have been issued (Exhibit H).

The purpose of the loan is expressed in the Capital Assistance Paper of October 28, 1963, as fourfold: 1) to create a permanent mechanism to help meet the housing needs of the Central American Common Market; 2) to encourage the creation of savings and loan associations and home loan departments of commercial banks and other financial institutions; 3) to help standardize building construction materials and provide employment, and 4) provide housing.

As expressed in the "Norms and Operating Plan" of the Home Loan Department of CABEI (Exhibit I) the purpose of the program is sevenfold: to promote regional policies, strengthen existing financial institutions and stimulate new ones, increase competition among such institutions, promote a Central American construction industry, increase economic levels and greater employment and strengthen economic integration.

B. Loan Agreement

The existing AID loan is in the amount of \$10 million at 3/4% interest for 40 years and a ten year period of grace. The CAP, loan authorization and loan agreement contemplated purchase by CABEI of 80% participations in existing mortgages with a 1% annual servicing fee to the savings institution. In fact, CABEI makes loans to institutions at 6%, plus a 3/4% commitment fee on amounts not drawn down, and the institutions reloan at 9%. Mortgages are limited to 12-20 years with a maximum dwelling unit sales price of \$10,000; downpayments may range from 10-20%; and interest may range from a minimum of 8% to a maximum of 12%, although presently only 9% is approved. The CAP was based upon a family income of \$90-400 per month (Exhibit J).

In order to protect against exchange fluctuations, CABEI loans dollars to the respective Central Banks at 3/4% for 40 years and a ten year grace period, and the Central Banks loan local currency to CABEI at a similar rate with the repayment obligation of the Central Banks limited to local currency made available by CABEI.

C. Eligible Institutions

The Capital Assistance Paper lists four types of institutions in Central America which accept savings and make housing loans: 1) banks, public and private; 2) mutual or stock savings and loan associations; 3) private savings and loan companies which are also in the business of developing land and constructing houses or operate under the contract; and, 4) government housing agencies. It states that the Housing Department of CABEI is designed to assist only institutions in the first two categories and declares ineligible institutions in the last two categories. The loan agreement itself does not

- 7 -

state what types of institutions are eligible as borrowers. It merely states that the loan is made "to assist in the financing of a Home Loan Department within Borrower, which will act as a source of secondary financing for home mortgage institutions in Borrower member countries, retaining or selling the portfolio accumulated and selling participations in this portfolio." However, the rules and regulations adopted by CABEI in February 1965 and approved by ROCAF declare eligible: 1) public and semi-public savings and loan institutions, 2) mutual and stock savings and loan associations; 3) housing cooperatives; 4) private and public banks and credit institutions which engage in savings and loans for housing; 5) public and private insurance companies which finance middle-income housing; 6) contract associations which agree to convert and; 7) under exceptional circumstances and temporary conditions, public housing agencies.

D. Borrowing Institutions (Exhibit R)

1. Loans by CABEI

a) Costa Rica

INVU (public housing agency)	\$ 1,000,000
Banco Nacional (public commercial bank)	1,000,000

b) EL Salvador

Banco Hipotecario (mixed public and private commercial and mortgage bank)	2,000,000
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c) Guatemala

Banco Granai-Towson (commercial bank)	963,000
Credito Hipotecario Nacional	437,000
Banco de Occidente (commercial bank)	500,000
Cia de Seguros Cruz (insurance company)	250,000

d) Honduras

Cia de Seguros Interamericana (insurance co.)	250,000
INVA (public housing agency)	1,500,000

e) Nicaragua

INVI (public housing agency)	<u>2,000,000</u>
	\$10,000,000

- 8 -

2. Also declared eligible by CABEI:

a) Costa Rica

Banco Credito Agricola de Cartago (public commercial bank)
Banco Anglo Costarricense (public commercial bank)

b) El Salvador

Financiera Nacional de la Vivienda (FNV)(Home Loan Bank)

c) Guatemala

Comercial Asegurado Suizo Americana (insurance company)

d) Honduras

Banco Atlantida (Chase Manhattan)
El Ahorro Hondureño

E. Differences Between Capital Assistance Paper
and Actual Operation:

1. Dwelling Unit Cost. The CAP contemplated a \$10,000 maximum selling price with a floor of \$2500 and an average of \$5000. This maximum has been retained except that, in accepting collateral for loans CABEI, with ROCAP approval, will accept mortgages on housing costing \$20,000 to be replaced by eligible mortgages.
2. Eligible Institutions. The CAP restricts eligible institutions to public and private banks with savings departments, cooperatives and S&L associations, and commercial banks with savings departments. It expressly prohibits contract associations and public housing agencies. CABEI, with ROCAP approval, permits contract associations and public housing agencies to be included under certain circumstances, e.g., in the case of contract associations, if they agree to convert, in the case of public agencies, if they establish savings departments.
3. Participation in Mortgages. The CAP seed capital loan agreement contemplated CABEI purchasing 80% participations in existing mortgages with the issuing institution receiving a 1% service charge. CABEI, with ROCAP approval, is making loans backed by a pledge of mortgages and allowing the borrowing institution a 3% spread between CABEI's charge and the mortgage interest. Defaulting mortgages must be replaced by sound mortgages.

- 9 -

- F. Disbursements. As of December 31, AID has disbursed \$9 million to CABEI and CABEI had disbursed \$5,335,000 to the following institutions. The latter had disbursed \$4,550,000. Houses completed totaled 934 and under construction, 763, with an average price of \$8300.
- G. Existing Savings and Loan Systems. Two countries, El Salvador and Nicaragua, have legislation providing for S&L systems. Guatemala has three S&L associations operating under general law and an FHA. Costa Rica's home credit institutions are nationalized. Honduras is considering legislation.
1. El Salvador. On May 21, 1963, AID executed a \$3.1 million loan agreement with the GON. The loan is for 40 years with a ten year grace period. During the ten year grace period, a service fee of 3/4% is charged. Thereafter, interest is at the rate of 2%. FNV may make deposits in, loans to, or buy mortgages from S&L associations. In fact, FNV makes loans to associations. To date it has loaned \$3.3 million to the three stock associations. Association loans have resulted in 628 mortgages totaling \$5.6 million.

FNV has requested a second loan of \$6 million. Based upon a report by a consultant, an IPR for \$3 million has been approved subject to a determination whether a loan should be made to CABEI or to FNV. The consultant's report recommends a loan.

At the time of the original \$3.1 million loan to FNV, the question of a bilateral loan versus a loan to CABEI was raised (Exhibit L). In addition to the fact that a commitment had been made to the GOES, it was decided that a bilateral loan would be more effective in creating a system which could subsequently take advantage of CABEI. However, both the Capital Assistance Paper and loan agreement contain statements to the effect that Financiera will not act as a secondary market facility but that CABEI would exercise that function (Exhibit M). For example, the following statements appear in the Capital Assistance Paper:

"AID funds will not be used in secondary mortgage financing without prior concurrence of AID*** this project will provide institutions through which CABEI can utilize the \$10,000,000 AID loan. ***Thus, loan funds may not be used by the Financiera to engage in rediscounting of mortgages in direct competition with CABEI.

Although the Charter of the Financiera permits the corporation to engage in secondary mortgage financing, it is not proposed to utilize the AID loan funds for this type operation."

- 10 -

In the Loan Agreement, the following conditions and covenants appear:

"A report describing the substance of consultation between the Borrower and the Central Bank for Economic Integration (CABEI) on the subject of Borrower's cooperation with CABEI as an intermediary or otherwise for CABEI secondary mortgage financing operations in El Salvador." (Condition Precedent)

"Except as AID shall otherwise agree in writing Borrower shall use loan funds for secondary mortgage financing only to the extent that funds for such secondary mortgage financing are not available from other sources on satisfactory terms." (Covenant)

2. Nicaragua. A \$3.7 million loan from AID has been approved but not yet executed. It is a two-step loan: 40 years at 2-1/2%, with a grace period of 10 years at 1%; the GON will make pesos available to the NHB for 30 years at 3%, with a period of grace of eight years at 2%. The NHB will: a) reloan to associations at 5-1/2%; b) make deposits at the dividend rate; or c) buy mortgages. It is contemplated that mortgage rates will approximate 10%, with a 4-5% spread between NHB charges and mortgage rates. The maximum sales price is \$10,714.
3. Guatemala. Guatemala has not requested assistance from AID and none is contemplated. Its systems presently has net savings of \$5.3 million executed in 1962 allocates \$2.5 million for a savings and loan system but has not been utilized.
4. Costa Rica. There is a suggestion of an interest in a private S&L system, but no affirmative steps have yet been taken.
5. Honduras. Honduras does not now have a S&L system but is considering legislation.

IX CABEI HOME LOAN DEPARTMENT AS A MEANS OF ECONOMIC INTEGRATION:

AID policy is to foster Central America economic integration through CABEI. This was reiterated as late as December 9, 1966, by AID Administrator Gaud. The purpose of the establishment of a Home Loan Department in CABEI and of the \$10 million loan was, inter alia, the economic integration of Central America. The loan is intended to help achieve this purpose by: a) providing one central source of secondary financing for savings generating home credit institutions (not only S&L associations), b) standardizing mortgage and lending procedures rates and documents, c) standardizing design and construction forms, and d) making it possible, through economies of scale, to borrow money externally. The Board of Directors has stated on several occasions that loans would be made on the basis of need rather than by country

- 11 -

allocation (Exhibit C1). In fact, of course, each country has received an equal share. The experience of other multi-country financing agencies (IDB, UN) is similar. This characteristic of multi-country agencies should not, however, deter attempts at integration. CABEI's Home Loan Department has already achieved two steps toward home credit integration: a) standardization of design and financing for the five countries; b) identical agreements with five Central Banks for protection against exchange rate fluctuations that might affect CABEI's fiscal position; and c) local institutions approaching a Central American agency for assistance.

On January 9, 1967, the Executive Vice President of CABEI admitted to the Evaluation Team that the first \$10 million was disbursed on a country basis but is confident that a second phase would disregard this arbitrary criteria and operate on a "where needed" basis and in response to interest rate competition.

EXHIBIT "A"

AIRGRAM

TO : AIDTO CIRCULAR XA 833

FROM : AID/W

SUBJECT: Housing and Urban Development - CABEI Home Loan Department

For some time we have felt the need for an evaluation of the \$10 million housing loan to CABEI and of the potential of CABEI's Home Loan Department. This need was accentuated recently by the submission of a request by the Government of El Salvador for a second "seed" capital loan for its S&L system and by the submission by CABEI of a request for a \$15 million investment guaranty and a second A.I.D. loan of \$15 million. We propose to meet this need by a study by Harold Robinson, Deputy Director of LA/HUD assisted by a consultant from the Federal National Mortgage Association, probably its Associate General Counsel Benjamin Wesson, and a consultant from the Washington Federal S&L Assoc., its President, Jack Gordon, which is under contract with A.I.D. to evaluate requests by home credit institutions for investment guaranties. John Martin, ROCAP S&L Adviser, and Joseph Grimes, ROCAP Legal Counsel, will be requested to assist in the study.

The study will consider (a) the original concept and purpose of the \$10 million loan and its past implementation, (b) the potential of CABEI as a source of secondary financing for home mortgages for Central America, including the possibilities of its acting as a mortgage insurance facility, (c) the relative merits of further loans and the investment guaranty route, and (d) the advantages and desirability of bilateral assistance and/or assistance through CABEI. Mr. Robinson will be funded regionally, Mr. Wesson by ROCAP, and Mr. Gordon under the regional contract with the Washington Federal S&L Association.

Under separate cover, ROCAP is being requested to furnish factual material dealing with the forms of loans already made by CABEI, the borrowing institutions, and the progress of these loans.

HRobinson:dg

LA/HUD

David Bronheim

SBaruch, LA/HUD(draft)
PGlaessner, LA/CD(draft)
OSauso, Guatemala/ROCAP(substance)
RWitherell, LA/CEN /S/

AIRGRAM

EXHIBIT "B"

TO : GUATEMALA TOCAP A-53

10-18-66

FROM : AID/W

SUBJECT: Housing and Urban Development - CABEI Home Loan Department.

AID/W is contemplating a study of the implementation of the \$10 million housing loan to CABEI, CABEI's potential as a secondary market facility for home mortgages, and the form further A.I.D. assistance, if any, should take. This study is not aimed at criticizing any past implementation of the existing loan but as an evaluation of CABEI's potential.

In preparation for the study, certain information is needed. Some of this has already been furnished in various monthly reports from ROCAP. However, it would be most helpful to AID/W and reduce the time necessary for the study, if the following information were assembled in one document and forwarded to AID/W as soon as possible. (It is assumed that Mr. John Martin, ROCAP S&L Adviser, can collect and correlate the information).

1. Copies (3) of the current rules and regulations of CABEI's Home Loan Department.
2. Loans made by CABEI, dates, dollar amounts and terms.
3. Status of disbursement under each loan both to the Central Banks, to the borrowing institutions, and by the borrowing institutions.
4. Home credit institutions declared eligible by CABEI and approved by ROCAP. Also list those institutions declared eligible by CABEI but not yet approved by ROCAP and those submitted by CABEI to ROCAP and found ineligible by ROCAP.
5. Brief description of each eligible institution, including whether private, public, mixed, stock, mutual, major activity, assets amount of portfolio (exclusive of CABEI loan) devoted to home mortgages, and rate of accumulation of new savings available for home mortgages.
6. Terms of loans by home credit institutions, plus other charges not included in interest.
7. Interest paid by government agencies or other institutions (by country) for savings or bonds. Tax free features

HRobinson

RAWitherell, LA/CEN
OSause, Guatemala ROCAP

CABLEGRAM

EXHIBIT "C"

TO / : GUATEMALA

STATE 84192

AIDAC

TOCAP 115

SUBJECT: Housing and Urban Development - CABEI Housing Loan

REFERENCE: a) CAPTO 241; b) TOCAP 106; c) TOCAP A-53

1. Respective roles AID-IDB in field housing still under consideration. CABEI evaluation for purpose determining; a) efficacy and desirability loan to CABEI for home credit institutions; b) whether support national savings and loan system bilaterally or through CABEI on assumption final determination AID-IDB role will include AID continuing support intermediate credit institutions.

2. Team planning visit early December dependent receipt requested information from ROCAP and review and report investment guaranty application by Washington Federal. ROCAP reminded refair b) requested PIO/T cover Wesson visit.

KATZENBACH

HRobinson:dg

LA/HUD

8847 11-14-66

Stanley Baruch, LA/HUD

EXHIBIT "C"

TO : Mr. Philip Glaessner, LA/CD, 3243 NS
FROM : Harold Robinson, LA/ID/SCDD, 3731 NS
SUBJECT: Housing and Urban Development - CABEI Housing Loan - Investment Guaranties.

October 16, 1963

During the Executive Staff Meeting on the proposed housing loan to CABEI, consideration was given to the issue of investment guaranties. This raises anew the issue I have raised on several occasions: the authority to guaranty investment in institutions or the issuances of such institutions.

Section 221(b)(2) of the Foreign Assistance Act limits all risk guaranties to 75% of the U.S. investment except that, in the case of "housing projects", a virtual 100% guaranty is authorized. The inclusion of the word "projects" has raised a question whether "housing projects" refers solely to physical projects such as those contemplated under Section 224 or may mean investment in home financing institutions or their issuances. This is more than academic in view of suggestions that the investment guaranty is used to a) implement the proposed legislation to permit savings institutions to invest in foreign home savings institutions as suggested by the Administrator in his testimony before the House Banking and Currency Committee, b) enable the Home Loan Department of the Central America Bank for Economic Integration to sell participation certificates collateralized by its own home mortgage portfolio and c) enable central housing cooperative institutes to sell similar certificates or resell mortgages of their member cooperatives.

Actually, guaranties of investments in a, b or c would have a greater and more far reaching effect and benefit than investment in specific, physical projects. This could be accomplished, if a limited interpretation is used, by deleting the word "projects" in Section 221(b)(2) with appropriate language in the Senate Report to indicate the reason or by adding after the words "housing projects" the words "or housing investments in home financing or cooperative housing institutions".

I suggest that steps be taken to provide for such an amendment in the Foreign Assistance Act of 1963.

EXHIBIT "C"

TO : Mr. Oliver L. Sause, Director, LA/CAP
FROM : Harold Robinson, LA/ID/SCDD
SUBJECT: CABEI Home Loan

Mr. Jack D. Gordon called from Miami to report on the meeting in Tegucigalpa on September 9 and 10. The following points were resolved:

1. The four Central Banks (Nicaragua was not present) agreed on a means of guaranteeing the proposed loan, i.e., the dollars would flow from A.I.D. to CABEI to the Central Banks and the Central Banks would loan local currency to CABEI for purchases from the local savings institutions.
2. The Central Banks are opposed to any allocation between countries since that would be contrary to the interest of integration.

The next step should be for Mr. Gordon and Mr. Mooney (possibly meeting in Miami) to draft the language to be added to the present loan paper draft setting forth the understanding of the flow of monies and the part to be played by the Central Banks.

The Central Bank representatives will be in Washington, D. C. for an International Bank meeting on October 1st. It would be most desirable to have an authorization by that date.

An issue that merits serious attention is the use of the investment guaranty authority. This was referred to at the Managua meeting and again at the September 9-10 meeting. However, it is my understanding that our LA legal office has taken the position that the conception of "housing projects" in Section 221(b)(2) of the Foreign Assistance Act would not apply to issues of the CABEI Home Loan Department. That is, CABEI would be limited to a 75% guaranty (see my memorandum to Mr. Sternfeld of June 5, 1963, attached). If this is the case, steps should be taken to amend the legislation now before the Senate Foreign Relations Committee.

HRobinson:ch:9/11/63

EXHIBIT "E"

MEMORANDUM

TO : Central American Ministers of Foreign
Relations and Economy

FROM : President of Central American Bank

SUBJECT: Regional Housing Financing

DATE : March 14, 1963-----

The Central American Bank for Economic Integration (CABEI), interested in contributing to the solution of the housing problem under conditions that will make it accessible to the area's low and medium income population through regional programs which complement national efforts, has been making studies and inquiries for this purpose.

In the First Board of Governor's Meeting held March 1962, the Bank's Board of Directors submitted to its consideration Resolution BCIE/SE-AG-/DT which in part says:

- 1.- To expressly recognize that the Central American Bank for Economic Integration is an adequate financial organization to activate housing construction in Central America for the use of the large section of the population not usually included in the plans of the national housing institutions.
- 2.- To request the technical and financial organizations who study and execute the housing programs included in the declarations of the Charter of Punta del Este and previously in the Act of Bogota that is referably considered to channel the resources for these purposes through the Central American Bank in all aspects relating to the Central American region as a whole.

-2-

EXHIBIT "E"

3.- That due to said directives in investment fields of said institutions in its Charter, the Bank's action to handle or administer the special funds designated for these purposes will be made without affecting its ordinary resources."

The above project was fully discussed by the Governors who recognizing the importance of its content, put their interest on record by stating that the Bank should continue the studies in order to find a more adequate form by which it could contribute to the solution of the problem.

The Bank has made inquiries before various private and international organizations, including the Inter-American Development Bank and the Agency for International Development (A.I.D.) of the United States Government. The officials responsible in the latter agency have expressed their interest in cooperating with CABEI in the solution of a problem of this nature, with the assurance that it not only contributes to bettering the standard of living of less fortunate sectors but also, operating on a regional level, gives a great boost to the economic integration of the Central American Republics.

On the other hand, many groups of persons interested in obtaining their own housing, as well as representatives of private institutions operating in the housing financing field, have approached the Bank with the desire of receiving its cooperation to fulfill their needs.

It is of interest to mention the loan application received from the National Union of Cooperative Associations of Honduras, Ltd. (UNACOHL) for \$4,000,000 simultaneously presented to the Agency for International Development (A.I.D.) and CABEI. Should the loan be granted, the latter will administer it as fiduciary. CABEI's Board of Directors, by Resolution DI-74/62

-3-

EXHIBIT "E"

dated July 20, 1962, accepted the responsibility to administer the loan. The Bank and the A.I.D. Mission in Honduras have been interested in granting the loan indicated and we understand that the application is under study in Washington, pending resolution.

Likewise, possibilities have been explored for the Bank to more fully intervene in the development of housing programs and in this respect close contact has been maintained with the officials of IADB and A.I.D., the latter through ROCAP. From these conversations it has been concluded that one of the possible ways of promoting housing programs would be to facilitate financing to savings and loan institutions, cooperative associations, etc. through mortgage discounts, the insurance of savings deposits for housing and mortgage loans for this same purpose.

A plan of this nature requires laborious investigations to more concretely define the Bank's plan of action. In this respect, the Bank and ROCAP have begun such work. Our institution has assigned a high level official who will lend his cooperation to the expert designated by ROCAP.

It is expected that with this study a formula will be found to obtain funds from the Alliance for Progress, through CABEI, for the activities above mentioned. In view of the first observation it is considered possible to place insured mortgages on the stock markets. In order to achieve this, it would be necessary that the Governments of the countries where resources exist to be channeled into these operations authorize savings and other institutions to acquire mortgage securities. Legal regulations recently adopted by the United States Government lead us to believe in the possibility of making more extensive use of this mechanism.

-4-

EXHIBIT "E"

Once the studies are terminated and the plan of action approved, it would be necessary to organize the program's administrative group. CAREI has the capacity of lending the above service while the size of housing operations do not justify the creation of a new regional financial institution.

AIRGRAM

EXHIBIT "F"

TO : AIDTO CIRCULAR XA-1180
FROM : AID/W 4-24-63
SUBJECT: Housing - Central Home Loan Bank for Central America

The Presidential Declaration of the Presidents on March 18, 1963, states:

"The Presidents also agree that opportunities should be given to the people of Central America to build and purchase their homes. There exist in Central America national savings and loan institutions which have been assisted under the Alliance for Progress, and others are about to be created. In order to give further support for these national efforts, the Presidents of Central America suggest that a Regional Home Loan Department, which would be a secondary source of Home Mortgage Funds, should be created as a division within the Central American Bank for Economic Integration and the President of the United States agrees to offer technical and financial assistance to it."

In order to implement this determination and U.S. commitment for technical and financial assistance, a preliminary meeting on the form and financing of a Home Loan Department of CABEI (CAHLD) was held in El Salvador on April 19 and 20 between Harold Robinson, Regional Housing Adviser, Anthony Solow, ROCAP Infra-Structure Adviser, Jack D. Gordon, Housing Finance Consultant, and Jorge Sol and Rafael Callejas of CABEI, followed by a meeting of Messrs. Robinson, Gordon, DuFloa, and Marasciulo in Guatemala on April 20.

The following tentative timetable of implementation has been formulated:

1. Collection of Information. Various agencies will be requested by letter and telephone to furnish material already assembled on a) housing need and supply, b) income levels, c) potentials for saving, d) forms of home lending institutions, e) availability of building material and labor, f) construction costs, etc. For example, Mr. Robinson will contact PAU, IDB, AID, IHFA; Mr. Callejas will contact CEPAL, CINVA, SIECA and the various Central American housing institutions.

2. Review of material. This material will be reviewed and digested by Messrs. Callejas and Sol in preparation for a meeting in Guatemala some time between May 15-20 of Messrs. Callejas, Gordon, Robinson, Sol and Solow. At this meeting, a determination will be made regarding further information needed.

3. Visit to Central American countries. Visits will then be made by some members of the group to the various countries of Central America to fill in the gaps in information.

4. Formulation of Plan. Beginning about June 1, work will be started on a proposal for submission to AID/W, CABEI and ROCAP by the middle of June, including recommendations for provision for A.I.D. loans and/or investment guaranties. At this time, the ROCAP Loan Officer will also become involved.

Generally, and tentatively, the following principles were agreed upon:

1. CAHLD will be a source of secondary financing, only. Its resources will probably be a combination of loans, investment guaranties and sale of participation certificates.

2. It should assist that lower and middle income group which does not require any form of subsidy - possibly a \$100 per month income floor.

3. Mortgage loans eligible for CAHLD refunding should be limited to homes whose value is not more than twice the annual income of the home purchaser.

4. Debt service should approximate 20% of annual income.

5. Some equity in the form of prior savings, downpayment or land ownership should be involved in the original home financing.

6. Only mortgage loans issued on new construction subsequent to the establishment of CAHLD will be considered for CAHLD assistance.

7. Consideration should be given to 15 years, 8% mortgages.

8. Tentatively, it is thought that home mortgage institutions will sell mortgages to CAHLD, but keeping a 20% interest; CAHLD will sell participation certificates, guaranteed by CAHLD and A.I.D., to the extent of an additional 60%.

The USAIDs will receive from ROCAP a suggested timetable of visits following the May 15 meeting in Guatemala. The above principles should be regarded as tentative and preliminary guidelines, only, and may be changed drastically during the ensuing visit and discussions. It would be preferable, therefore, not to discuss them outside the USAIDs at this time.

CABLEROOM: Please send to the following Missions:

San Salvador	ROCAP/Guatemala City
San Jose	Guatemala City
Managua	Tegucigalpa

HRobinson:CH

LA/ID/Housing 5422 4/23/63 Oliver Sause, LA/CAP

EXHIBIT "G"

Memorandum No. 33

TO : Mr. Henry A. DuFlon, Director
ROCAP/Guatemala

FROM : Anatole A. Solow, ROCAP - Physical
Planning and Infrastructure Advisor

SUBJECT: Summary of Meeting on Housing Finance
Program by CABEI.

April 25, 1963

1. Meetings were held in the ROCAP Office in San Salvador on April 19th and 20th for the purpose of determining what steps to take in order to implement the Presidential Declaration of Central America regarding the establishment of a Home Loan Department in CABEI.
2. Participants in the meetings were: Rafael Callejas, CABEI staff engineer, Jack Gordon, AID/ROCAP Housing Finance Advisor, Harold Robinson, AID/LA Housing Chief, Jorge Sol, CABEI housing consultant, Anatole A. Solow, ROCAP Physical Planning and Infrastructure Advisor.
3. The pertinent text of the Declaration states:

"The Presidents also agree that opportunities should be given to the people of Central America to build and purchase their homes. There exist in Central America national savings and loan institutions which have been assisted under the Alliance for Progress, and others are about to be created. In order to give further support for these national efforts, the Presidents of Central America suggest that a regional Home Loan Department, which would be secondary source of home mortgage funds, should be created as a division within the Central American Bank for Economic Integration and the President of the United States agrees to offer technical and financial assistance to it."
4. In addition, Mr. Gordon's letter to Mr. DuFlon, dated December 31, 1962, was used as a guide to the discussions.
5. It was agreed that, based on analysis of existing data, fact finding in the field and consultation with C.A. Governments, concrete proposals for implementation of the Declaration should be formulated by a working group and submitted to CABEI for its consideration at the earliest possible date.
6. The proposals would define the kind of regional housing finance program which CABEI could develop in cooperation with the individual countries and with AID in accordance with the terms of reference of the Declaration of

7. The proposals would define the scope and nature of the program, propose the method of financing, outline the required organization, personnel, administrative and legal mechanism.

8. It was felt that while CABEI's role as a Central American Bank should emphasize the financial aspects and should consider ways and means to attract private capital for housing for middle income families, such a program should be developed with due consideration of the total housing problem and in conformance with overall housing policies and development plans in each of the Central American countries.

9. It was also agreed that any program by CABEI should be so flexible as to permit the mobilization and use of funds from all possible national, U.S. and international sources, and to make it possible for CABEI to deal with any suitable national institutions (not just savings and loan associations). Particular attention would be paid to investment guaranties. Any regional plan would have to take into account the laws and institutional mechanisms in each of the Central American countries.

10. The Working Group will collect and analyze existing information, make a fact finding survey in the Central American countries and consult the governments and meet to prepare a final report and recommendations, in accordance with the attached "Plan and Time Schedule".

11. The Working Group will consist of Rafael Callejas, Jack Gordon, Jorge Sol, Messrs. Solow and Robinson will participate whenever possible. Mr. Gordon will participate in the field survey of Guatemala and El Salvador, in meetings with ROCAP, SJECA and CABEI, and in the meeting to draft final report and recommendations.

12. A more detailed plan of A.I.D. Technical Assistance through ROCAP to CABEI not only for the formulation of the program but also for its implementation, was also discussed and will be formally proposed to CABEI and A.I.D.

PLAN AND TIME SCHEDULE OF OPERATIONS TO FORMULATE
A PROGRAM FOR HOUSING FINANCE BY CABEI.

I. PREPARATORY PHASE: Collection and Analysis of Existing Data

- April 22 - May 7 : Collection of data and existing reports - Callejas for CEPAL, SIEGA, C.A. countries - Robinson for IDA, OAS, AID, HHFA.
- May 8 - May 18 : Review and analysis of collected data by Jorge Sol and Rafael Callejas (this may be in San Salvador or Tegucigalpa).

May 20 - May 21 : Meeting in Guatemala to review general approach and amplify questionnaire, Participants: Gordon, Robinson, Sol, Callejas, Solow, Mooney.

II. FACT FINDING AND CONSULTATIONS IN THE FIELD

May 22 - May 24 : Survey in Guatemala, consultations with SIECA, ROCAP, Gordon, Sol, Callejas. (Solow and Robinson if possible).

May 24 - May 29 : Survey in San Salvador, by Gordon, Sol, Callejas, Solow.

May 29 - June 1 : Survey in Honduras by Sol and Callejas.

June 3 - June 6 : Survey in Nicaragua by Sol and Callejas.

June 7 - June 12 : Survey in Costa Rica by Sol and Callejas (with cooperation of A.I.D. Advisor Silberman).

III. PREPARATION OF REPORT AND RECOMMENDATIONS

June 12 - July 10 : Preparation of Draft Report by Sol and Callejas (Gordon, Robinson and Solow to meet with Sol and Callejas if possible for two-day consultation on June 14 or June 21).

July 10 - July 17 : Meeting in Tegucigalpa or Guatemala to review and formulate final recommendations for submission to CABI. (Sol, Callejas, Gordon, Robinson, Solow, Mooney).

EXHIBIT "H"

LETTERS OF IMPLEMENTATION

1. March 1, 1964. Recites conditions and covenants.
2. March 1, 1964. Extends terminal date for fulfillment of CPs 30 days.
3. May 7, 1964. CP to initial financing approved. CP to financing in each country met for Honduras. El Ahorro Hondurño Cia de Seguros, Banco La Capitalizadora Hondureño and Banco de la Propiedad acceptable to A.I.D.
4. Jan. 6, 1965. Banco Hipotecario of El Salvador satisfactory.
5. March 29, 1965. Bedito Hipotecario Nacional and Banco Occidente of Guatemala satisfactory.
6. April 19, 1965. Banco Granai-Townson
7. April 19, 1965. INVU of Costa Rica acceptable.
8. May 21, 1965. Cia de Seguros Cruz Agul and Cia Seguros and Inversianes of Guatemala acceptable.
9. May 17, 1965. Cia Seguros and Inversionies of El Salvador acceptable.
10. June 18, 1965. Financiera Nacional (FNV) of El Salvador acceptable.
11. Aug. 9, 1965. Banco Anglo Costarricense of Costa Rica acceptable.
12. Aug. 24, 1965. Banco Nacionale of Costa Rica acceptable.
13. Aug. 25, 1965. Approved participation of insurance companies for Resolution DL-70/65.
14. Aug. 27, 1965. Authorized financing in Guatemala.
15. Nov. 12, 1965. INVI of Nicaragua approved subject to review of draft of sub-loan agreement.
16. Dec. 10, 1965. Approved draft of agreement with INVI of Nicaragua.
17. Dec. 17, 1965. Approved extension of terminal dates for requests for commitment documents and disbursements to Dec. 1, 1966, and June 30, 1967.
18. Dec. 18, 1965. Comercial Aseaginedora Suizo Americana of Guatemala acceptable.

-2-

EXHIBIT "H"

19. April 26, 1966. Approved \$250,000 sub-loan to Conepaina Inter-Americana de Seguros of Honduras and \$1.5 million to INVA (\$1 million to be relent through separate S&L department, part of \$1 million for cooperatives and possibly Sitraterco; \$500,000 for S&L).
20. July 11, 1966. Approved last draft of July 7, 1966, with INVA of Honduras.
21. July 22, 1966. Approved changes of July 19, 1966, on INVA agreement.

LOAN AGREEMENT

(596-L-003)

Amount: \$10,000,000

Date of Execution: November 29, 1963.

Date Conditions Precedent: April 29, 1964.

Interest: 3/4 of 1%, beginning 6 months after disbursements.

Terms: 40 years - 10 year period of grace.

- Conditions:
- (a) No commitment documents to be issued for requests received after June 1, 1966.
 - (b) No disbursements to be made against documentation received after December 1, 1966.
 - (c) CABEI investment not to exceed 80% of outstanding principal value of each mortgage.
 - (d) Mortgage terms to be from 12-20 years; interest rates on mortgages to be 8% - 12%, including all charges.
- (Dates of (a) and (b) extended by Implementation Letter #17 to December 1, 1966, and June 30, 1967.)

EXHIBIT "K"

COSTA RICA -

BANCO NACIONAL DE COSTA RICA

Year Founded: 1914

Type Institution: National Commercial Bank (Public)

Type of banking functions: Full service commercial bank

Major Activity: Agricultural Loans

Assets as of 9/30/66: \$117 million

Amount of own Residential Real Estate Portfolios: \$11 million

Amount of C/BEI: Real Estate Portfolio: \$848,400

Amount invested in Residential Real Estate per year: \$1.1 million approx.

Terms of Loans: 6% - 8% - 10 to 20 years

Other Changes: None

Amount of savings in force 9/30/66: \$11.28 million

Interest paid for savings: 4% quarterly

Rate of accumulation of new savings per year: \$221,000

Tax free features:

- a. on savings - tax free
- b. on loans - tax free

This bank has branches, agencies, and rural offices throughout the country.

EXHIBIT "K"

COSTA RICA -

BANCO CREDITO AGRICOLA DE CARTAGO

Year Founded: 1918

Type Institution: Nationalized Commercial Bank (Public)

Types of Banking Functions: Full service commercial bank

Major Activity: Agricultural Loans

Assets as of 9/30/65: \$9.4 million

Amount of own Residential Real Estate Portfolio: 9/30/65 - \$9.4 million

Amount of own Residential Real Estate Portfolio: 9/30/65 - \$1.15 million

Amount of CABEI Real Estate Portfolio: None

Terms of loans: 7% - 10 years

Other Charges: 1% Service Fee

Amount of savings in force: 9/30/65 - \$111,000

Interest paid on savings: 8% quarterly

Rate of accumulation of new savings per year: \$18,000 approx.

Tax-free features:

- a. On savings: tax free
- b. On R.E. Loans: tax free

By the time this bank was approved by CABEI, all CABEI funds had been committed.

EXHIBIT "K"

COSTA RICA -

BANCO ANGLO COSTARRICENSE

Year Founded: 1963

Type Institution: National Commercial Bank (Public)

Types of Banking Functions: Full Service Commercial Bank

Major Activity: Agricultural Loans

Assets as of June 30, 1966: \$25,255,000

Amount of own Residential Real Estate Portfolios: 6/30-65 - \$793,000

Amount of CABEL Real Estate Portfolios: ---

Terms of Loans: 6% to 8%, 10 to 20 years

Other Charges: 1% Service Fee

Amount of Savings in force 6/30/65: \$1,989,000

Interest paid for savings: 4% quarterly

Rate of accumulation of new savings for year: \$19,000

Taxi-free features: Savings accounts are tax free

This bank has not participated in the CABEL home loan program due to lack of funds on part of CABEL.

EXHIBIT "K"

EL SALVADOR

FINANCIERA NACIONAL DE LA VIVIENDA (FNV)

Year Founded: 1963

Type Institution: Autonomous Government Housing Finance Agency for
Savings and Loan Association

Types of Banking Functions: Similar to Federal Home Loan Bank operations in U.S.

Major Activity: To land support to and supervise activities of savings and
loan associations.

Assets as of 9/30/66: \$3,163,000

Amount of Real Estate Portfolio: None

The F.N.V. is authorized to make deposits in, make loans to and buy mortgages from savings and loan associations. The F.N.V. is also authorized to issue national housing bonds with prior approval of the Congress. In addition, the F.N.V. has the responsibility of supervision of the savings and loan associations.

At present there are three savings and loan associations operating under the supervision of the F.N.V. These associations will be the institutions working with CABEI through the Financiera, once the system here is in a position to utilize the CABEI funds. At present there are funds available to the savings and loan associations from the Financiera, and funds having come from a grant from the Government of El Salvador of 2.5 million and an A.I.D. loan of \$.1 million. Until these funds are utilized by the Financiera, there will be no attempt to utilize the services of CABEI.

EL SALVADOR

EXHIBIT "K"

BANCO HIPOTECARIO DE EL SALVADOR

Year Founded: 1934

Type Institution: Mixed Public and Private Commercial and Mortgage Bank

Type Banking Functions: Full service commercial bank

Major Activity: Agricultural Loans

Assets as of June 30, 1966: \$81,656,000

Amount of own Residential Real Estate Portfolio: \$3,627,300

Amount of CABEI Real Estate Portfolio: \$1,076,000

Terms of Loans:

- a. With own funds: 9% - 12 years
- b. With CABEI funds: 8% - 20 years

Other Charges: 1% Service fee - all loans

Amount of Savings in force, 9/30/66: \$7,279,400

Interest paid for savings: 4% on daily basis semi-annually

Taxi-free features:

- a. On savings accounts - tax free
- b. On mortgage bonds - tax free

GUATEMALA

EXHIBIT "K"

COMERCIAL ASEGURADORA SUIZO-AMERICANA, S.A.

Year Founded: 1946

Type Institution: Private Capital Stock Insurance Company

Major Activity: General Insurance including life

Assets:

Amount of own Residential Real Estate Portfolio:

Amount of CABEI Real Estate Portfolio: None

Terms of loans: 8% - 20 years

Other Charges: 1% service fee plus 1% FHA fee

This company has not participated in the CABEI program due to a lack of funds on the part of CABEI.

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

UNCLASSIFIED

AID-DLC/P-857
August 11, 1969

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Central America: Central American Bank for Economic
Integration

Attached are revised pages to be inserted in the subject
Housing Guaranty Paper.

The recommendations for authorization of a guaranty of
not to exceed \$10,000,000 securing against losses of not to exceed
one hundred percentum (100%) of loan investment(s) by an eligible
U.S. Investor or Investors acceptable to A.I.D. for the long-term
financing of mortgage credit institution housing projects to be
constructed in Central America were discussed by the Development
Loan Staff Committee at a meeting on Wednesday, July 30, 1969.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments: Revised August 11, 1969
Attachment 10, pp. 2, 3 and 4

Previously Distributed: July 25, 1969:
Memorandum for the DLC
Attachments 1--10

UNCLASSIFIED

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

UNCLASSIFIED
AID-ILC/P-857
Attachment 10
Page 1 of 4

A

Dr. Enrique Ortez Colindres
President, Central American
Bank for Economic Integration
Tegucigalpa, D.C., Honduras, C.A.

Dear Dr. Ortez:

We are pleased to inform you that on the basis of your application dated September 12, 1966, as revised and amended March 28, 1969, and the discussions between our respective representatives, The Agency for International Development (A.I.D.) has authorized the issuance, within not to exceed one (1) year from this date, of a guaranty protecting against loss of one hundred percentum (100%) of a loan investment of not to exceed ten million dollars (\$10,000,000) by eligible United States investors (Investors) to the Central American Bank for Economic Integration (CABEI) for the long-term financing of housing in Central America.

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

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

1. The guaranty of the loan shall extend for a period of up to twenty-five (25) years from the date of the respective disbursements of the loan.
2. The rate of interest payable to the Investors, with respect to the loan, shall not exceed the allowable rate of interest prescribed by the A.I.D. Administrator.
3. CABEI shall provide its full faith and credit guaranty of dollar repayment of the loan.
4. The fee of A.I.D. shall be payable monthly in dollars and shall be one-half of one percent ($\frac{1}{2}\%$) per annum of the outstanding guaranteed amount of the loan.

Dr. Enrique Ortez Colindres
Page 2

5. There shall be submitted, within sixty (60) days hereof, evidence satisfactory to A.I.D. of a firm commitment for the long-term mortgage financing from an Investor or Investors acceptable to A.I.D.

6. There shall be submitted, within one hundred twenty (120) days hereof, a draft contract of guaranty and related documents.

7. CABEI shall utilize the proceeds of the guaranteed loan investment only to purchase participation in eligible mortgages except as A.I.D. may otherwise agree. The percentage of participation shall be no more than 65% unless otherwise approved by A.I.D. Eligible mortgages are defined as:

a. Mortgages which are placed on dwelling units the construction of which was completed subsequent to the date of the Contract of Guaranty; and which was commenced and performed in accordance with the technical standards of CABEI.

b. Mortgages which are placed on dwelling units having a sales price, including land, not exceeding \$6,500.

c. Mortgages which have terms of not less than twelve years nor more than 20 years.

d. Mortgages which do not exceed 90% of the sales price of the housing including developed land.

All participations in mortgages so purchased by CABEI shall be with recourse against the selling institution, and the selling institution shall obligate itself to replace mortgages which are delinquent beyond the standard established by CABEI and approved by A.I.D. and shall agree to provide mortgage servicing in all cases.

8. The funds disbursed by CABEI for the purchase of participation in eligible mortgages shall be in local currency in the various countries, which CABEI borrows from the respective Central Bank while simultaneously lending dollars to the Central Bank; all in accordance with the agreements between CABEI and the Central Banks.

9. CABEI will purchase participations in eligible mortgages only from the eligible institutions agreed to by A.I.D. and CABEI.

10. While allocation of funds to each member nation in CABEI will be based solely on demonstrated need, demand, and capacity to invest, CABEI may, with the approval of A.I.D., reserve a specified amount of the investment guaranty, for a period of not to exceed 12 months from the date of the guaranty contract, for utilization by any member

Dr. Enrique Ortez Colindres
Page 3

nation(s) not immediately able to demonstrate capacity to properly utilize the investment. In such case, CABEI shall specify the steps which must be taken by the member nation in order to provide such demonstrated capacity, e.g., the enactment and implementation of legislation creating a savings and loan system.

11. CABEI shall, prior to execution of the Contract of Guaranty by A.I.D., have established an Advisory Committee in accordance with Section 2.3 of the Home Loan Department Norms and Operating Plan such Advisory Committee to be required to meet regularly for the purpose of advising, through the Board of Directors, the management of the CABEI Home Loan Department on lending policy.

12. CABEI shall agree to utilize, to the maximum extent practicable, its other financial and administrative resources to further:

- a. reduction of the cost of land development;
- b. standardization of building materials;
- c. improvement of organization and methods in the home construction industry;
- d. lending to home builders for modern construction equipment.

13. CABEI shall agree to retain long-term technical assistance by a recognized expert in the field of mortgage banking with special reference to secondary mortgage financing. The cost of such assistance shall not be borne by A.I.D. The duration of such technical assistance should be not less than one year.

14. CABEI shall agree to prepare a mortgage bond issue in the face amount of \$10 million within twelve (12) months of the date of the Contract of Guaranty, and shall, to the satisfaction of A.I.D. undertake the issuance of such mortgage bonds in increments to be agreed upon between CABEI and A.I.D. over a specified period of time, with which it will supplement the proceeds of the guaranteed loan investment and provide a reserve for liquidity designed to induce lending for home mortgages by local institutions.

15. CABEI shall attempt to borrow from private sources outside Central America (without an A.I.D. guaranty) an amount of at least \$1 million, utilizing as collateral a block of mortgages, mortgage participations, and/or pledges of collateral security, which CABEI now holds in connection with its sub-loans from A.I.D. loan 596-L-003. This offering should be in general conformity with recommendation number three of the Glikbarg report.

Revised August 11, 1969

Dr. Enrique Ortez Colindres
Page 4

16. No concentration of more than 20% of the sub-lending by CABEI shall be made to any single eligible institution without the express prior approval of A.I.D.

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

Should you have any questions concerning this letter, the guaranty, or the program, please feel free to contact this office or the A.I.D. Regional Office for Central America and Panama, in Guatemala City, Guatemala.

Sincerely yours,

Stanley Baruch
Director
Housing and Urban Development

GUATEMALA

EXHIBIT "K"

BANCO DE OCCIDENTE, S.A.

Year Founded: 1931

Type Institution: Private Commercial Bank

Type Banking Functions: Full Service Commercial Bank

Major Activity: Agricultural Loans

Assets as of 31 August 1966: \$22,638,000

Amount of Residential Real Estate Portfolio:

Amount of CABEI Real Estate Portfolio at 9/30/66: \$17,700

Terms of Loans:

- a. With own funds: 8% - 15 years
- b. With CABEI funds: 8% - 20 years

Other Charges: 1% Service Fee plus 1% FHA Charge

Amount of Savings: 8/31/66 - \$7,164,000

Interest paid for Savings: 6% semi-annually, June 30 and December 31

Rate of accumulation of new savings per year: \$1.3 million approx.

Tax-free features:

- a. Savings Accounts - tax free

The principal objective of the Bank are to give impulse to and to foment production in the western part of the country. Very little has been done by the Bank in the matter of real estate lending for housing.

GUATEMALA -

EXHIBIT "K"

BANCO GRANAI-TOWNSON DE AHORRO Y PRESTAMO PARA VIVIENDA, S.A.

Year Founded: 1962

Type Institution: Private, Capital Stock Commercial Bank

Type of Banking Functions: Full service commercial bank

Major Activity: Real Estate Mortgage Loans

Assets as of September 30, 1966: \$10.1 million

Amount of own Residential Real Estate Portfolio: \$5.8 million

Amount of CABEI Real Estate Portfolio: \$657,500

Terms of Loans:

- a. With own funds: 8% - 15 years
- b. With CABEI own funds: 8% - 15 years

Other changes:

- a. With own funds: 1 $\frac{1}{2}$ % Service fee plus 1% FHA fee
- b. With CABEI funds: 1% Service fee plus 1% FHA fee

Amount of savings as of 9/30/66: \$8 million - 24,000 accounts

Interest paid for savings: 6% without lottery, 4% with lottery

Rate of Accumulation of new savings per year: \$2 million approx.

tax-free features: Savings accounts are tax free.

The Bank has converted on November 1, from a bank devoted exclusively to residential real estate lending to a full-scale commercial bank. The conversion, it is reported, will not affect the mortgage lending operations which involve the investment of approximately \$500,000 per month for real estate loans. The commercial bank functions will be simply an additional service offered to the public.

GUATEMALA

EXHIBIT "K"

BANCO CREDITO HIPOTECARIO NACIONAL DE GUATEMALA

Year Founded: 1929

Type Institution: Government Autonomous Bank

Type of Banking Functions: Full Service Commercial Bank

Major Activity: Agricultural Loans

Assets as of September 30, 1966: \$60,975,000

Amount of own Residential Real Estate Portfolio: \$9 million

Amount of CABEI Real Estate Portfolio: \$437,000

Terms of Loans:

- a. With own funds: 8% - 10 years (may go to 25 years but ties mortgage loan maturities to mortgage bond maturities of 10 years).
- b. With CABEI funds: 8% - 20 years

Other Charges: No service fee, 1% FHA Insurance Fee

Amount of Savings in force at 9/30/66: \$13.9 million

Interest paid for savings: 6% - semi-annually, June 30 and December 31.

Rate of accumulation of new savings per year: \$25 million approx.

Tax-free features: Savings accounts and mortgage bonds are tax free.

Although this is a public bank, capitalized by the government, it maintains its autonomy and changes in political parties do not result in changes in its personnel. The bank has authority to contract loans in foreign countries.

GUATEMALA

EXHIBIT "K"

COMPANIA DE SEGUROS CRUZ AZUL, S.A.

Year Founded: 1931

Type Institution: Private Insurance Company

Major Activity: Life Insurance

Assets as of 6/30/66: \$2,177,336

Amount of own Residential Real Estate Portfolio: \$1,472,000

Amount of CABEI Real Estate Portfolio: \$195,400

Terms of Loans:

- a. With own funds: 8% - 5 to 20 years, average 10 years
- b. With CABEI funds: 8% - 20 years

Other Changes:

- a. Own funds: 2% Service Fee plus 1% FHA fee
- b. With CABEI funds: 1% Service Fee plus 1% FHA fee

Although the Company has not made many real estate loans in the past, the policy is to invest more heavily in home mortgages in the future.

HONDURAS

EXHIBIT "K"

COMPANIA DE SEGUROS INTERAMERICANA, S.A.

Year Founded: 1957

Type Institution: Privately owned Insurance Co.

Major Activity: Automobile Insurance

Assets as of 9/30/66: \$1,830,000

Amount of own Residential Real Estate Portfolio: \$675,000

Amount of CABEI Real Estate Portfolio: none

Terms of Loans: 8% - under 10 years; 9% over 10 years - 10 to 20 years
loans

Other Charges: 1% Service Fee

This company has as its principal objective the sale of life insurance, but up to now the main insurance portfolio is made up of automobile insurance policies.

NICARAGUA

EXHIBIT "K"

INSTITUTO NICARAGUENSE DE LA VIVIDENDA

Year Founded: 1959

Type of Institutions: Public Housing Institute

Major Activity: Low cost housing - construction and finance

Assets as of 9/30/66: \$16,255,000

Amount of own Real estate Portfolio exclusive of CABEI: \$4.7 million

Amount of CABEI Real Estate Portfolio: \$1,314,000

Terms of Loans:

- a. With own funds: 4%, 5%, and 7½% - 10 to 20 years
- b. With IDB funds: 2% up to 25 years
- c. With CABEI funds: 8% up to 25 years

Other changes: None

Amount of Savings in force: 10/31/66 - \$108,500

Interest paid for savings: 5% semi-annually

Rate of accumulation of new savings per year: \$100,000 approx.

The difference between total assets and the amount of the Real Estate portfolio is made up largely by houses under construction and houses complete but on which mortgages have not been signed in the amount of approximately \$8.9 million.

Interest paid by government agencies or other institutions for savings or bonds and tax-free features:

a. Costa Rica

Government Bonds - 5 $\frac{1}{2}$ % to 8% payable quarterly redeemable on demand at par. Earnings are tax free.

b. El Salvador

Government Bonds - 6.1% - 5 to 10 years, payable semi-annually redeemable at par on dates due.

Banco Hipotecario issues mortgage bonds at 6% and 7% - 5 to 10 years, interest payable semi-annually redeemable at par on dates due. Earnings are tax free.

c. Guatemala

Government Bonds - 5% - 10 years payable quarterly redeemable on demand at par. Earnings are tax free.

d. Honduras

Government Bonds - 6%, 10 years, payable quarterly redeemable on demand at par. Earnings are tax free.

(Most bonds have been bought by the banks, which receive 4% instead of the 6% which is payable to the public.)

Bonds issued by Empresa Nacional de Energia Electrica (ENEE), the Government Power Company, earn 7% quarterly on a 10-year basis redeemable on demand at par. Earnings are tax free.

e. Nicaragua

- Government Bonds - 8% redeemable at par on demand. Mortgage bonds issued by BNV earn 7% interest redeemable at par on demand. Earnings are tax free.

MEMORANDUM

EXHIBIT "L"

TO : Mr. Robert T. Murphy, LA/CD

FROM : Harold Robinson, LA/ID/SCDD

SUBJECT: Seed Capital Loan of \$6,000,000 to Financiera Nacional de la Vivienda.

I have reviewed TOMID A-526, the request for Intensive Review, and the draft loan paper and have the following comments:

1. The two major issues are a) size of loan and b) necessity or desirability of a loan in view of the CABEI housing loan.
 2. The Request for Intensive Review and Loan Paper are well done and make strong case of a "seed" capital loan of \$6,000,000. The market need conforms to that on which the CABEI Housing Loan was based. While it is not possible to relate exactly need to income (this is the same all over Latin America), certain justifiable assumptions can be made.
 3. This proposal raises a question as to CABEI, its necessity or desirability in view of the CABEI loan. CABEI's funds could be used for the same purpose through advance commitments. However, (a) there has been a commitment of some "seed" capital funds to El Salvador, (b) additional funds could be used to supplement the \$10,000,000 made available to CABEI of which no more than \$2,000,000 could realistically be available to El Salvador for savings and loan associations and other institutions, and (c) a loan to El Salvador would assure the cooperation and participation in the CABEI loan by El Salvador.
- Interest rates on mortgages will approximate 8% (the interest rate contemplated in approving the CABEI loan) with a maximum maturity of 25 years (the CABEI loan contemplates a 20 year maximum so that to qualify for CABEI assistance such mortgages would, in fact, have to conform). It is also contemplated that if mortgages are sold by the associations to Financiera, that the associations receive a 1% service charge, comparable to that suggested in the CABEI loan paper.
4. Technical assistance is essential to the successful implementation of the loan and of the El Salvador system. Financiera has now indicated that it intends to request the Mission for such assistance; This should be responded to favorably as soon as possible. A Spanish speaking savings and loan consultant can be available almost immediately on a contract basis.

Mr. Robert T. Murphy, LA/CD

-2-

The loan agreement suggests including compensation for such a contract adviser in this loan. However, it would be preferable to use grant funds because 1) time will be lost and availability of the consultant must be assured and 2) Financiera will find it difficult to justify the compensation needed if included in the loan.

INCOMING
CABLEGRAM

EXHIBIT "L"

FROM: GUATEMALA

CONTROL: 19833

NO : CAPTO 604, June 20. (Section one of two)

RED'D : June 20, 1964
11:58 AM

PRIORITY.

WASHINGTON FOR STANLEY GRAND

SUBJ: SALVADOR HOUSING FINANCIERA LOAN

CONVERSATIONS JUNE 17 WITH BORROWER AND USAID
REPRESENTATIVES REVEALED PROJECT ALONG FOLLOWING LINES
ACCEPTABLE BOTH PARTIES:

FINANCIERA WOULD INSURE MORTGAGES AND DEPOSITS
ELIGIBLE SAVINGS AND LOAN ASSOCIATIONS, CHARTER AND
SUPERVISE THESE INSTITUTIONS AND MAKE SEED CAPITAL LOANS
TO THEM. LATTER LOANS COULD BE USED SAVINGS AND LOANS
PROVIDE CONSTRUCTION FINANCING AND PRIMARY MORTGAGE
FINANCING. FINANCIERA DOES NOT PROPOSE USE AID LOAN FUNDS
SECONDARY MORTGAGE FINANCING THOUGH ITS CHARTER PERMITS
IT ENTER THIS TYPE OPERATION. SHOULD FINANCIERA DETERMINE
IN FUTURE THAT AID LOAN PROVIDES MORE FUNDS THAN REQUIRED
FOR PRIMARY FINANCING, AID MIGHT THEN WISH PERMIT THEIR
USE FOR SECONDARY FINANCING. BY THAT TIME CABEL OPERATIONS
SHOULD BE FULL SWING AND ASSESSMENT DEMAND THIS TYPE
FINANCING SHOULD BE EASIER TO MAKE. BORROWER FEELS AND
WE AGREE THAT IMMEDIATE NEED SALVADOR AND ELSEWHERE
CENTRAL AMERICA IS PRIMARY FINANCING.

BORROWER INTERESTED IN POSSIBILITY ACTING AS INTER-
MEDIARY FOR CABEL FOR LATTER'S SECONDARY FINANCING IN
SALVADOR.



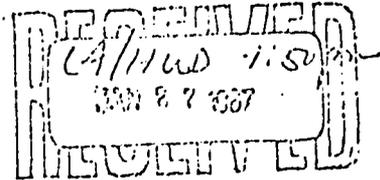
WASHINGTON FEDERAL

SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

JACK D. GORDON
President

ARTHUR H. COURSHON
Chairman of the Board

MERIDIAN AVENUE OFFICE



January 25, 1967

To: Mr. Harold Robinson - AID Washington.

From: Mr. Jack D. Gordon - Washington Federal Savings & Loan Association of Miami Beach.

DRAFT MEMORANDUM ON TECHNICAL ASSISTANCE REQUIREMENTS IN
CONNECTION WITH CENTRAL AMERICAN HOME FINANCING LOAN AND/OR
GUARANTEED PROGRAMS

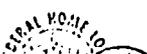
1. There has to be a considerable amount of technical assistance to the Central American Bank if the present loan is to be more effective and if any future loan is to be useful.

Some of the things that need to be done are the following:

1. A meeting of all the eligible lenders that would include not only those who have been declared eligible under this particular loan, but the few institutions which are really eligible but haven't been declared eligible by the Bank because they do not want to be bothered for money they do not have. The representative of these lenders at the meeting, should be the highest ranking official of the institution.

The agenda for the meeting should include a review of the original loan and the reasons for the particular rules.

1. An attempt should be made, which I am sure will not be very difficult, to get the participants to express their criticisms of the operation of the program and suggest some improvements.
2. While there is considerable possibility that these suggestions will be in the direction of easing the loan term, it seems to me that we have to come to grips with



- 2 -

To: Mr. Harold Robinson
1-25-1967

the problem of having the borrowers understand the rationale of the loans and the aims of the Central American Common Market.

3. A third topic should be the cost of housing, how it can be reduced and the role that the lender has to play in bringing about more economical home construction. This kind of discussion would have to include the lender's attitude toward financing experimental housing, the reduction of lot costs and the support of efforts to standardize housing components.
4. Discussion of the techniques and problems of financing individual houses on lots already owned by individuals. This is to look at ways of making use of previously created equity in land which can be converted to housing generally by mortgages of lower percentage of value than the average in the current program.
2. The program of the conference should have a major portion of time devoted to a discussion of techniques for acquiring more savings from individuals, groups, corporations, agencies, and other types of organizations in the various countries. It should be noted, however, that the savings generated are not only in the form of new savings accounts or additions to existing savings accounts, but also by the amortization or repayments on the houses financed since this money does represent savings of the homebuyer and can be used for re-lending purposes.

If the meeting is felt to be a useful one, it might be a good idea to make it a quarterly affair with a program that always includes practical workshop sessions along with a reporting session so that it is possible to assess the progress of each of the institutions. These meetings would require the attendance of various persons in a position to provide necessary technical assistance.

WASHINGTON FEDERAL
SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

Attachment 2
Page 51 of 66

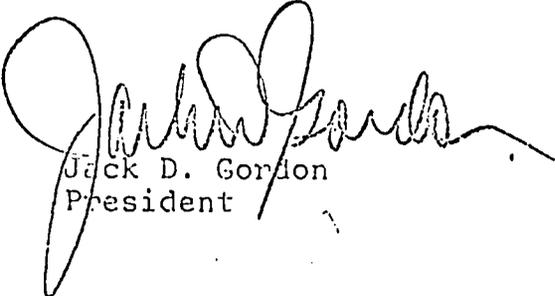
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To: Mr. Harold Robinson
1-25-67

3. A second form of technical assistance would be to call together the proper educational agencies concerned with vocational education and the AID persons also involved and have them meet with the housing people - and see whether there is any value in creating some vocational training projects to train workers in the building trades or in the factories that provide building materials. The education people should also examine the possibility of some courses in small business management which could be most helpful to the proprietors of the subcontracting firms who are very possibly in need of some further training in this field.

This should include some attempts to provide courses or programmed courses in subjects such as bookkeeping, so that cost analyses can be made, and also courses in blueprint reading and quantity estimating to help the people currently in business to function more economically.

4. The various industry officers and advisors to the Central American Industrial Development banks should be brought together and made aware of the existing as well as contemplated housing program. I presume this should be done after the additional loan seems to be well on its way. The purpose of this Meeting would be to see what steps could be taken to increase the efficiency of existing industry making building products. They could also see whether some industries in the region might not now be in a position to make new products currently imported and thus save foreign exchange.


Jack D. Gordon
President

JDG/gm



WASHINGTON FEDERAL

SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

JACK N. GORDON
President

ARTHUR H. COURSON
Chairman of the Board

Attachment 2
Page 52 of 66
MERIDIAN AVENUE OFFICE

December 14, 1966

Mr. Harold Robinson
Deputy Director for Plans and Programs
Housing and Urban Development Division
Bureau for Latin America
Agency for International Development
Department of State
Washington, D.C. 20523

Re: Pre-feasibility Report
CABEI Regional, C.A.
CABEI, Tegucigalpa, D.C.
Honduras, C.A.

Dear Mr. Robinson:

Enclosed are two copies of our Pre-feasibility Report on the above captioned Project.

If the feasibility of this application is considered, we suggest that a letter similar to the following be sent to the applicant:

* * *

Dr. Gustavo Cuerrero, President
Central American Bank for
Economic Integration (CABEI)
Tegucigalpa, D.C.
Honduras (C.A.)

Dear Dr. Cuerrero:

In reviewing your application classified as Categories No. 3 (Local Participation) and No. 4 (Credit Institutions) under the Housing Investment Guaranty Program, we find the following exceptions:

1. U.S. Investor: Because of the expense involved, we question the advisability of using a broker for this particular investment.

.../...2

1761 Meridian Avenue
Miami Beach, Fla.

1234 Washington Avenue
Miami Beach, Fla.

1183 Normandy Drive
Miami Beach, Fla.

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

Miami Beach: Phone JE 5-8452

North Miami Beach: Phone 945-7675

Broward County: Phone JA 4-4077



WASHINGTON FEDERAL
SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

Mr. Harold Robinson
Page - 2
December 14, 1966

* * *

2. Proposed Finance Charges: Application states that the prime interest rate will be from 8% to 12%, depending on the market conditions and, there will be the following additional charges:

CABEI	1%
AID's Guaranty Fee	1/2%

We feel that a more reasonable financial charge would be as follows:

U.S. Investor	.6 1/2%
CABEI	1%
AID's Guaranty Fee	1/2%
Local Financial Institution	1% - 2%
TOTAL:	9% - 10%
	=====

3. Typical Monthly Payments: They are charged with service fee (Guatemala). In this type of application, there should be no service charge.
4. Closing Costs: A more detailed breakdown of the closing costs should be submitted.
5. Market to be Served: Considering the typical monthly payments on the three types of houses, and following the 25% ratio of monthly mortgage payment to monthly family income, we feel that the family income should range from US\$100 to US\$260 (if service fee is charged in Guatemala, the family income should range from US\$120 to US\$300).
6. Exhibit No. 3: A more detailed commitment for borrowing should be obtained from local institutions mentioned therein, giving details of the lending criteria. Is the above a restrictive list or can other institutions be added?

WASHINGTON FEDERAL
SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

Attachment 2
Page 54 of 66

Mr. Harold Robinson
Page - 3
December 14, 1966

* * *

We will appreciate your comments and additional or corrected information on the above mentioned exceptions as soon as possible, so that we may complete our study on this Project.

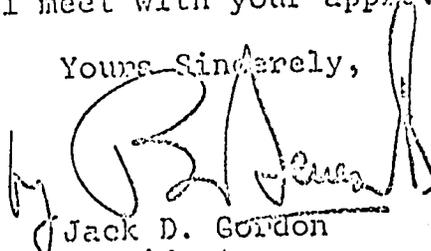
Yours very truly,

Harold Robinson
Deputy Director for Plans
& Programs
Housing and Urban
Development Division

* * *

We trust the aforementioned will meet with your approval.

Yours Sincerely,


Jack D. Gordon
President

FB/gm
Enclosures.

HOUSING INVESTMENT GUARANTEE PROGRAM
WASHINGTON FEDERAL
SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

PRE-FEASIBILITY REPORT

Date: December 14, 1966
Category: Credit Institutions (No. 4)

Project: CABEI
Country: Regional (C. A.) No.
Name: CABEI
City: Tegucigalpa, D.C., Honduras, C.A

I. INVESTOR AND BORROWER

A. U.S. INVESTOR

At present CABEI does not have a commitment from a U.S. Investor. Exhibit 1 is a memorandum from International Charter Development Corp., offering to act as broker for 1/2% commission. Because of the expense involved, we question the advisability of using a broker for this particular investment.

B. LATIN AMERICAN BORROWER

Central American Bank for Economic Integration (CABEI)

1) General

CABEI is a regional public bank which was organized approximately 6 years ago. The stockholders are the five Central American Governments. The main office is in Tegucigalpa, Honduras, and its operations cover the Central American area.

2) Financial Capability

a) Statement of Condition. The Statement of Condition as of June 30, 1966, shows a net worth of \$17,000,000.

b) Income Statements. The Profit and Loss Statement for the year ended June 30, 1966, shows a profit of \$309,000 of which \$25,000 originated from the home financing program. The net profit for the year ended June 30, 1965, was \$46,000. It is quite evident that the Bank is operating on an increasingly profitable basis.

c) Projections. Annex 1 of Exhibit 5b shows a 20 year projection of the use of these funds in addition to the initial \$10,000,000. The projection appears to be accurate and very detailed.

d) Working Capital. Exhibit 5b indicates that the contributions of home purchasers, participating mortgage banks and CABEI will provide 35% (\$8,100,000) of the total project investment. This amount seems to be adequate for a two year period.

3) Reputation

Exhibit 7 gives the history and background of the Bank. In addition, favorable comments of the United Nations on the operations of the Housing Department of the Bank appear on page 6 of Exhibit 5b.

WASHINGTON FEDERAL
SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

-2-

4) Experience

CASMI has had experience in mortgage financing in the operation of the Home Loan Department in the use of the \$10,000,000 AXD loan.

5) Internal Operations

The Bank's internal operations appear adequate. Annexes I and II of Exhibit 7 show the organization chart of the Bank and its Home Loan Department.

IV. REPAYMENT OF PROPOSED U.S. INVESTMENT

The loan will be utilized to purchase participations in new home mortgages held by mortgage banks and Savings and Loan Associations or use CASMI to make available additional seed capital for new mortgage activity. The total amount requested is \$15,000,000 to be used in the next 2 years. The amortization and repayment term will be up to 20 years (average 17 years), the guaranty requested is 100%, and the prime interest rate will be up to 6%.

V. BORROWER'S PROPOSED CRITERIA FOR MORTGAGE LENDING

A. PRICE RANGE, MORTGAGE LIMITS, DOWN PAYMENTS AND AMORTIZATION PERIOD

This application has been presented under category 4, with a local participation investment of 25%. It does not qualify for category 3 because it is not for specific projects. The price range of the houses varies from \$2500 to \$6500, while \$5000 is the maximum under category 4. It would be necessary to waive this limitation in order to accept this application under this category, although there is no question that this is a sui-generis application because it presents a regional secondary mortgage market operation.

If this price range is accepted, we feel that the mortgage limits, down payments and amortization periods are reasonable and adequate.

B. HOMECOUNTRY MORTGAGE INSURANCE, BASIS FOR DETERMINATION OF VALUE AND PROPOSED FINANCE CHARGES

1) Mortgage Insurance

Costa Rica and Honduras do not have a mortgage insurance feature.

2) Basis for Determination of Value

Appears to be adequate.

WASHINGTON FEDERAL

SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

-3-

3) Proposed Flipped Charges

The application states that the prime interest rate will be from 9% to 12% depending on the market condition, and there will be the following additional charges:

CASH 1%
AIG Guaranty Fee 1/2%

This is less than the interest rate (10%) used for the calculation of the typical monthly payment and therefore means that the mortgage term is shorter than shown. This will result in a higher rate of reinvestment so that more houses will be built with the same money. We feel that a more reasonable finance charge would be as follows:

U.S. Investor	6% *
CASH	1%
USAIG Guaranty	1/2%
Local Financial Institution	1% to 2%
Total	8-1/2% to 9-1/2%

Premiums for hazard and life insurance appear proper and reasonable.

*A more realistic rate in today's U.S. market is 6-1/2%.

4. TYPICAL MONTHLY PAYMENTS AND CLOSING COSTS

1) Typical Monthly Payments

Appear to be reasonable and acceptable. The monthly payments of the three types of houses (selling prices of \$2500, \$5000 and \$5500), including all the different items (interest 10%), are approximately \$10 per month per thousand.

In this type of application there should be no service fee charged.

2) Typical Closing Costs

Range from 3.77% to 4.5% of the selling price of the house. Taxes are not included in the closing costs. A more detailed breakdown of the closing costs should be obtained.

IV. MARKET TO BE SERVED

A very detailed presentation is enclosed as Exhibit 3. Considering the typical monthly payments on the three types of houses, and following the 25% ratio of monthly mortgage payment to monthly family income, we feel that the family income should range from US\$100 to US\$260 (if service fee is charged in Guatemala, the family income should range from US\$120 to US\$300).

WASHINGTON FEDERAL

SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

-4-

If the range of \$120 to \$600 presented by CABEI is accepted and these families are willing to move into this type of house, we suggest that the term of the mortgages be reduced substantially. We question the probability of families whose income is \$600 a month purchasing this type of house.

Under this item, the application includes, as part of Exhibit 3, letters from local institutions expressing their willingness to borrow from CABEI for mortgage lending purposes. The following is a summary of these letters:

	<u>Amount Requested</u>	<u>Selling Price</u>
<u>Guatemala:</u>		
Banco de Occidente	\$ 1,500,000	Not stated
Cia. de Seguros Cruz Azul de Guatemala	500,000	6500
Banco Granai & Townson, S.A.	3,500,000	5000 to 8000
Banco Inmobiliario, S.A.	<u>4,000,000</u>	less than 7000
	9,500,000	
<u>El Salvador:</u>		
Financiera Nacional de la Vivienda	<u>4,000,000</u>	Not stated
	4,000,000	
<u>Honduras:</u>		
Banco la Capitalizadora Hondureña, S.A.	1,000,000	Not stated
El Ahorro Hondureño, S.A.	<u>1,000,000</u>	Not stated
	2,000,000	
<u>Costa Rica:</u>		
Banco Nacional de Costa Rica	6,000,000	Not stated
FINSA	250,000	Not stated
Banco Agrícola de Cartago	1,000,000	Not stated
INVU	<u>1,000,000</u>	Not stated
	8,250,000	
<u>Nicaragua:</u>		
None		
 TOTAL	 <u>\$23,750,000</u>	

WASHINGTON FEDERAL
SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

-5-

It is suggested that a more detailed commitment for borrowing be obtained from these and other prospective institutions. Since most do not give details of the lending criteria, it is also important to obtain from CABEI a specific schedule of the use of the funds requested in this application.

Is the above a restrictive list, or can other institutions be added?

V. HOST GOVERNMENT APPROVAL

The approval by the Board of Directors of CABEI carries automatic approval of the five Central American countries, according to CABEI's Charter.

VI. HOST GOVERNMENT GUARANTY

Exhibit 7c explains the different guaranties as follows:

a) The local financial institution which will originate the individual mortgage loans will sell an 80% participation to CABEI with recourse (In Nicaragua, Guatemala and El Salvador, there will be an additional local NHA-type guaranty).

b) CABEI will sell with recourse to the U.S. Investor a 90% participation in its 80% interest in the loans originated by the local financial institution.

The U.S. Investor, therefore, will have a 72% interest in each individual mortgage loan. This arrangement appears to be adequate, in what concerns to local guaranties.

VII. EXHIBITS

The exhibits appear to be complete, with the exceptions mentioned above.

Note: THIS PRE-FEASIBILITY REPORT IS BASED ON THE DATA AND INFORMATION SUBMITTED IN THE APPLICATION, EXHIBITS AND ATTACHMENTS.

AB/lp

T. J. [Signature] 1/23



WASHINGTON FEDERAL

SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

JACK D. GORDON
President

ARTHUR H. COURSHON
Chairman of the Board

MERIDIAN AVENUE OFFICE

December 21, 1966

Mr. Harold Robinson
Deputy Director for Plans and Programs
Housing and Urban Development Division
Bureau for Latin America
Agency for International Development
Department of State
Washington, D.C. 20523

Re: Housing Investment
Guaranty Program -
Pre-Feasibility Report
CABEI

Dear Mr. Robinson:

I am replying to your letter of December 8 to Dr. Bernardo Benes since you provided me with a copy and, as you know, I was consultant to ROCAP on the original loan to CABEI.

Our pre-feasibility report on the above captioned Project was sent to you prior to receipt of your letter.

I will respond to your letter using the same numbers that identify the questions raised in your second paragraph and continuing the numbering system for the items in the third paragraph:

1) The feasibility of building up a potential within CABEI through the guaranty technique. Annex I, Exhibit 5 of the application shows the figures resulting from the use of the initial \$10 million loan plus a new loan for \$15 million. The comparison of this Annex I to Annex II, Exhibit 5, indicates the potential profit created by granting this guaranty loan to CABEI. CABEI will have an additional net profit of \$123,000 for the year 1986.



1701 Meridian Avenue
Miami Beach, Fla.

1234 Washington Avenue
Miami Beach, Fla.

1133 Normandy Drive
Miami Beach, Fla.

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

Miami Beach: Phone JE 5-0452

North Miami Beach: Phone 945-7675

Broward County: Phone JA 4-4077

WASHINGTON FEDERAL
SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

Mr. Harold Robinson
Page 2
December 21, 1966

2) The effect upon monthly charges to the home purchaser.
The effect upon monthly charges to the home purchaser will be determined by the AID fee.

The charges for fees, as proposed in this application, are as follows:

AID guaranty fee	1/2%
CABEI	1%
Total	1-1/2%

If a guaranty loan is granted directly to any financial institution in a member country with a variation in the AID fee, the monthly charges to the home purchaser will vary accordingly.

In order to discover how the monthly payments will be affected if this same loan is granted outside the Guaranty Program, it is essential to have knowledge of the interest on the loan.

3) The spread to the lending institutions. As stated in our pre-feasibility report, we feel that the spread to the local lending institutions should range from 1% to 2%.

4) The relationship to any S & L system where it exists or is being proposed. There are two policy considerations involved here. One is the stated policy of strong support to the Central American common market and to its banking mechanism, which has been reiterated by the President on a number of occasions. Furthermore, there is a long standing commitment in the Declaration of San Jose, signed by President Kennedy and the Presidents of the Central American countries, which requires the United States to support the Housing Department of the Central American Bank.

At the same time, we have a policy of supporting the creation of thrift institutions for the purpose of financing homes in all Latin American countries. It would seem to us that this assistance could be granted to CABEI without

WASHINGTON FEDERAL

SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

Mr. Harold Robinson
Page 4
December 21, 1966

8) The exclusion of public housing institutes as distinguished from public banking institutions. It is our opinion that given the existence of institutions in Central America it is not feasible to exclude public institutions. However, it would seem reasonable to require the development of independent Savings and Loan capability within these institutions in order to create subsidiaries that are able to participate in the program. This, of course, should not preclude the creation of new institutions within those countries as the laws change. One of the best illustrations of this type of institutions is the Savings and Loan Department of the Eastern Nigerian Housing Corporation. It has always been our opinion that life insurance companies have no place in this program since they could make use of their resources to make home loans if they chose and the only reason that they would borrow this money is to sell more life insurance, which is "putting the cart before the horse."

9) The desire to stimulate savings by the lending institutions. The whole purpose of the requiring a 20% participation in the existing loan by the originating lender is that this will represent savings acquired by the institution. In other words, in order to participate in the CAEMI programs, savings have to be stimulated. No other program built in this requirement, which is why such a small amount of free savings has been acquired in many Savings and Loan Associations in Latin America. We feel very strongly that local effort should be tied to loans or guaranties and it seems to us that participation requirement is the most feasible because the savings must be acquired in order to make use of the loan. I am sure you are aware that it is quite difficult to impose conditions on a borrower after he has received the money.

There are two other ways in which savings are stimulated by the program. One is that in the event a higher down payment is made, it serves to shorten the term of the loan rather than lower the monthly payments. This means that the institution will be able to reuse its money more rapidly, which, in turn, provides more funds for housing. Second, the requirement that

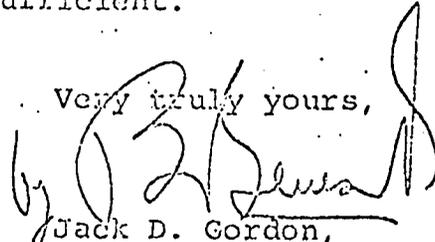
WASHINGTON FEDERAL
SAVINGS AND LOAN ASSOCIATION OF MIAMI BEACH

Mr. Harold Robinson
Page 5
December 21, 1966

payments be a percentage of income also means that the length of the loan is shorter, thus generating more funds for re-lending. Those guaranty programs that are tied to fixed amortization schedules in effect discourage the acquisition of savings represented by larger equities in the home.

I trust that this information is sufficient.

Very truly yours,


Jack D. Gordon,
President

JDG/lp

DISTRIBUTION BY FAMILY INCOME OF TOTAL URBAN FAMILIES BY COUNTRY

ANNUAL FAMILY INCOME	%	GUATEMALA	%	EL SALVADOR	%	HONDURAS	%	NICARAGUA	%	COSTA RICA
		NUMBER OF FAMILIES								
0-100	49.4	98,800	49.8	80,700	69.9	81,000	61.3	74,200	38.0	30,400
1000-2000	31.2	62,400	25.5	41,300	25.8	30,000	28.4	34,400	32.2	25,800
2000-3000	12.3	24,600	9.7	15,700	2.6	3,000	4.9	5,950	16.3	13,000
3000-4000	4.4	8,800	3.9	6,310	1.7	2,000	2.1	2,550	3.5	2,800
4000-and up	2.7	5,400	11.1	17,980	-	-	3.3	4,000	10.0	8,000
TOTAL URBAN FAMILIES	100%	200,000	100%	162,000	100%	116,000	100%	121,000	100%	80,000

GRAND TOTAL URBAN FAMILIES - 5 COUNTRIES - - - - - 679,000

NOTE: Percentages were obtained from each country's statistical reports as accurately as possible.

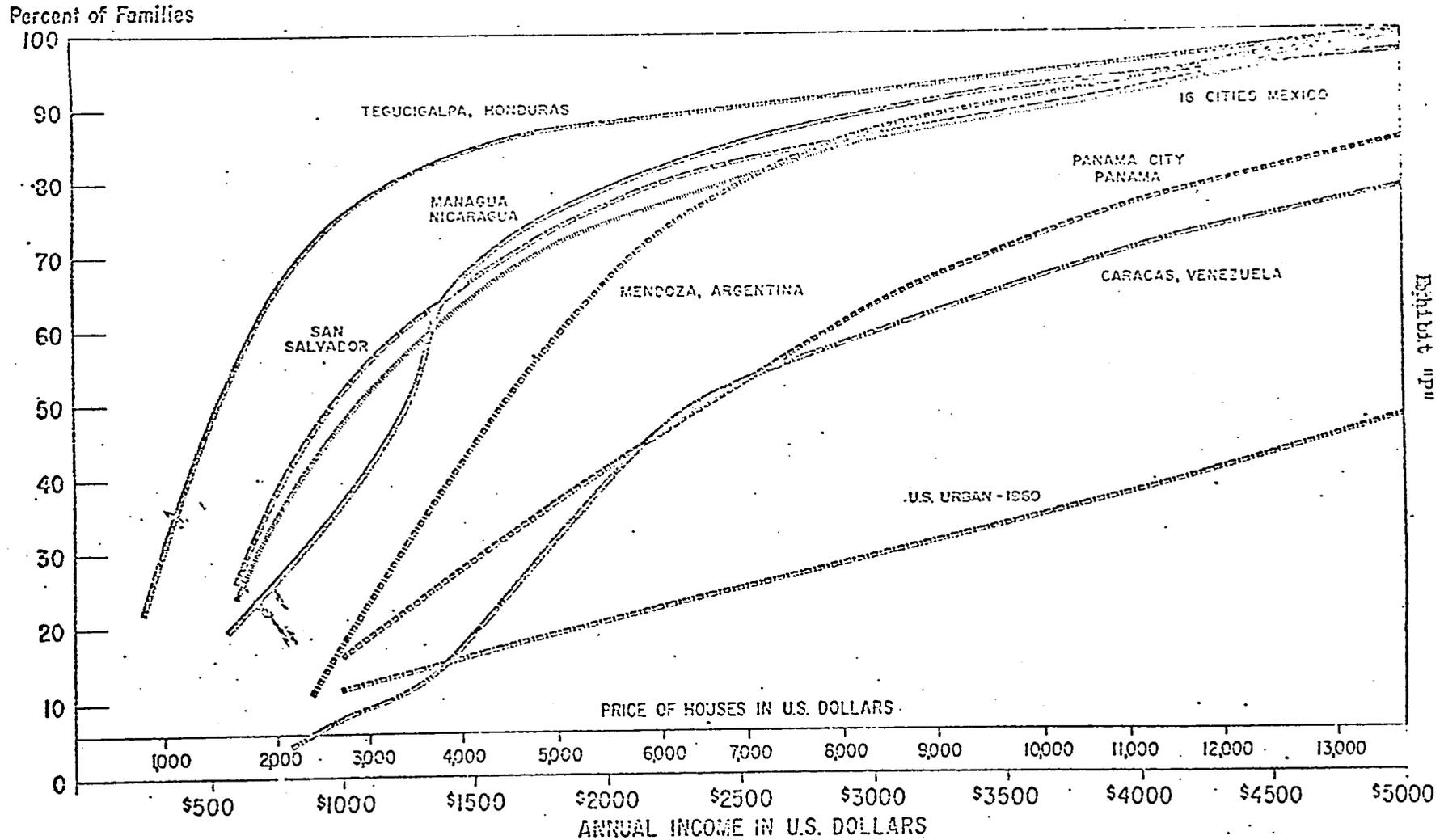
ESTIMATE OF 20 YEAR HOUSING NEEDS FOR EACH COUNTRY

<u>COUNTRY</u>	<u>TOTAL HOUSING 1961</u>	<u>INCREASE OF URBAN FAMILIES IN 20 YR PERIOD</u>	<u>TOTAL NEED 1961 TO 1981</u>	<u>\$ BETWEEN \$1-4000</u>	<u>\$1-4000 INCOME GROUP 20 YEAR AVERAGE ANNUAL NEED</u>	<u>AVERAGE ANNUAL DEFICIT</u>	<u>TOTAL ANNUAL AVERAGE DEFICIT ALL INCOME GROUPS</u>
Guatemala	75,000	160,000	235,000	47.9	112,565	5,628	11,750
El Salvador	66,000	30,000	196,000	39.1	76,636	3,832	9,800
Honduras	46,000	94,000	140,000	29.4	41,160	2,058	7,000
Nicaragua	58,000	99,000	157,000	35.4	55,578	2,779	7,850
Costa Rica	<u>32,000</u>	<u>65,000</u>	<u>97,000</u>	52.0	<u>50,440</u>	<u>2,522</u>	<u>4,850</u>
TOTAL	277,000	548,000	825,000		336,379	16,819	41,250

NOTE: Total Housing Needs - 1961 were determined from various statistical reports.

1954 FAMILY INCOMES IN SELECTED LATIN AMERICAN CITIES

BY PRICE OF HOUSING THEY CAN AFFORD



REPORT AND RECOMMENDATIONS

ON THE

HOME LOAN DEPARTMENT

OF THE

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Consultant: William K. Glikberg

Secretary : Ma. Hortensia de Martel

Tegucigalpa, Honduras
October 10, 1968

INTRODUCTION

The purpose of this report is to recommend ways in which the Home Loan Department of the Central American Bank for Economic Integration (CABEI) may improve its performance in accordance with the goals set forth in the Norms and Operating Plan (Document BCIE-HLD-2) of the Home Loan Department of CABEI and in accordance with its contractual obligations to the Agency for International Development (A. I. D. Loan No. 596-L-003, - November 29, 1963). In view of the nature of this report it is largely critical. At the outset, therefore, let the record be clear that the author of this report is impressed with what has been accomplished and nothing contained in this report should be interpreted as derogatory of either CABEI as an institution, or of any of the people that comprise it, present and past. The goals established by CABEI for itself are laudatory and for a group of people in five separate and developing nations (with a history of conflict for centuries) to attempt to cut across national boundaries and to attain goals that even wealthy and highly developed countries, within their own borders are struggling to accomplish, is evidence enough of the dedication, ingenuity and tenacity of the people involved.

I am told that there is a pre-columbian truism which says: "Everyone speaks from his own sandals." A slight word about the author may, therefore be useful: I am an attorney,

Lastly, this report is the product of a 30 day contract with CABEI. Without, therefore, the extreme cooperation of CABEI personnel, nothing would have

been possible and the author's appreciation is expressed at this time. Errors in either facts or judgments which are noted by readers of this report should be attributed solely to the author.

HISTORY

For the sake of completeness a brief history of CABEL and its Home Loan Department follows.

CABEL is a multi-national public development banking institution which was established on May 8, 1961 by the governments of El Salvador, Guatemala, Honduras and Nicaragua. These nations constituted the entire membership of the Central American Common Market at that time. The purpose was to finance projects which would benefit the members of the Central American Common Market and foster the integration movement. Costa Rica subsequently joined the system. CABEL today, therefore, is owned by its five member nations.

The Home Loan Department was organized by a declaration on March 19, 1963. The Declaration establishing the Home Loan Department reads in part as follows:

"The Presidents also agree that facilities should be given to the people of Central America for the construction and purchase of their homes. National savings and loan institutions are now being established in Central America. The additional facilities will give added support to these national efforts. The Presidents of the Central American countries suggested that a Regional Mortgage Department be established, as a Division of the Central American Bank for Economic Integration, to act as a secondary source of funds for housing mortgages, and the President of the United States wishes to offer technical and financial assistance for this purpose".

On November 29, 1963 an AID Loan Agreement was signed which agreement incorporated the following terms:

Loan Amount : US\$ 10,000,000.00 = CA\$ 10,000,000.00

Term : 40 years

Repayment : Interest only for ten years and then thirty year amortization in semi-annual payments of principal and interest.

Interest Rate : Three quarters of one percent

Collateral : None

AID described the purpose as follows:

" To (a) create within CABEI a Home Loan Department on a basis which would permit it to become a permanent mechanism to significantly help to meet housing needs in the member countries of the Central American-Common Market; (b) encourage the creation of savings and loan associations and home loan departments in the commercial banks and possibly other financial houses in the region which should serve as long-term means of attracting savings for housing and implementing housing projects; (c) provide impetus to the construction industry in the region with a view towards standardizing building construction materials, reducing their costs and as a peripheral benefit, providing employment within the construction and the construction materials industry; and (d) provide housing to Central Americans who are now living at a standard far below that which their income would provide if adequate credit were available, and who, as a consequence, represent a major source of dissatisfaction and potential threat to orderly economic and political development." (Source: AID-DLC/P-186 October 28, 1963: Capital Assistance Paper).

The approach was to create a Home Loan Department of CABEI, which would serve as secondary mortgage market by acquiring an 80% interest in qualifying first mortgages and, further, through its relations with local institutions to foster saving and loan associations, housing construction, standardization of lending and conveyancing practices, etc., all as set forth in CABEI's Norms

and Operating Plan. The goal was to produce middle income housing which, for this purpose, might be defined as any family which can buy a house without public assistance. In other words, the buyer of the home must have the ability to make a down payment on the purchase price from his own savings and have the earning power to make regular monthly payments so as to pay the balance of the purchase price, including interest, in fifteen to twenty years. Specifically, the home purchaser must be earning between approximately CA\$ 100 and CA\$ 400 per month. (In the housing field, the United States policy through AID is to assist foreign countries to meet middle income housing demands so that the foreign country can devote more of its resources to meeting the housing demands of people who require public assistance and subsidy. The International Development Bank, also strongly supported by the United States, on the other hand, lends funds for subsidy housing projects).

Initial difficulties, the impact and importance of which should neither be underestimated nor forgotten, include currency exchange problems, lack of fully qualified home loan institutions in the member countries, lack of trained and experienced personnel in either the institutions of the member countries, or in CABEI itself, lack of a viable primary market, lack of modern and standard conveyancing and mortgage practices in the various member countries, all of the urban problems plaguing all of the Central American countries, (water, sewer, streets, etc.) all of the social and economic problems existing in all of the Central American countries (poverty, education, etc.).

This report is not an economic study but for the sake of the perspective of the reader who lacks general familiarity a few facts are set forth below:

1. Central America is about the size of California. It is a mountainous rugged beautiful country, rich in many natural resources. Over-simplifying, the temperature is hot at sea level and warm, cool, and cold as one goes up its mountains. The major urban areas typically enjoy pleasant temperatures.

2. It contains approximately 12,500,000 people. The United States Government General Accounting Office Report date August 8, 1968, addressed to ROCAP* and entitled Memorandum No. 2 states, that the urban population of the five countries of Central America in 1961 was estimated by AID to be 679,000. The CABEL statistical booklet entitled "Hacia Un Programa de Vivienda Media Urbana Para Centro America", contains at page 12 the chart set forth on the next succeeding page. (Chart I).

3. The effective housing demand of the middle income group was estimated by CABEL in September, 1967; for the next five years, including, as the writer understands it, the maintenance of an orderly market, as follows:

<u>COUNTRY</u>	<u>ANNUAL EFFECTIVE DEMAND</u>
Guatemala	6,800 houses
El Salvador	4,400 houses
Honduras	1,200 houses
Nicaragua	1,900 houses
Costa Rica	2,200 houses
Total	<u>16,500 houses</u>

*ROCAP-CA is the Regional Office for Central America and Panama set up by AID.

CHART I

POPULATION DISTRIBUTION BY MONTHLY INCOME
OF FAMILIES FOR URBAN SECTIONS-1963*

Monthly Income CASH	GUATEMALA (1)			EL SALVADOR (2)			HONDURAS (3)			NICARAGUA (4)			COSTA RICA (5)			CENTRAL AMERICA			Family Median Income
	Families	%	% Cumulative	Families	%	% Cumulative	Families	%	% Cumulative	Families	%	% Cumulative	Families	%	% Cumulative	Families	%	% Cumulative	
0 - 90	126.256	48	48%	113.392	55	55%	55.511	70	70%	72.148	68	68%	45.954	54	54%	413.261	56	56%	-
90 - 134	57.867	22	70%	28.863	14	69%	15.067	19	83%	19.098	18	86%	15.318	18	72%	136.213	18	74%	136.213
134 - 235	52.607	20	90%	32.987	16	85%	7.137	9	98%	10.610	10	96%	17.020	20	92%	120.361	16	90%	120.361
235 - 302	13.152	5	95%	6.185	3	88%	793	1	99%	1.061	1	97%	1.702	2	94%	22.893	3	93%	22.893
302 - 400	5.261	2	97%	4.123	2	90%	793	1	100%	2.122	2	99%	2.553	3	97%	14.852	2	95%	14.852
400 ó más	7.891	3	100%	20.617	10	100%	-	-	100%	1.061	1	100%	2.553	3	100%	32.122	5	100%	-
T O T A L	263.034	100%		206.167	100%		79.301	100%		106.100	100%		85.100	100%		739.702	100%		294.319

SOURCES: (1) Direccion General de Estadistica. Monthly Bulletin 1957; (2) Division Desarrollo Economico BID 1960; (3) Instituto Investigación Economica University of Honduras, 1962; (4) Annual Report INVI (Now Banco de la Vivienda), 1959; (5) Population Census, 1963.-

* Adjusted Figures up to 1963

:mhm

4. An over-riding factor which is obviously beyond the scope of this report but is of major significance in any serious economic study of Central America is the balance of payments situation.

5. Guatemala at one date had several successful saving and loan associations. These have all converted to banks but they continue to be very housing minded. In addition, Guatemala has a successful operating government home mortgage insurance program.

6. El Salvador has three successful operating saving and loan associations. To some extent the El Salvadoran government is operating a secondary mortgage institution. This institution is currently out of funds.

7. Nicaragua has, I am advised, 3 operating savings and loan associations (CABEI had no material on such an institution and time did not permit my going to Nicaragua. I was advised by mortgage people in both Guatemala and El Salvador, that Enrique Pereira was the person to contact in Nicaragua).

8. Honduras recently passed a savings and loan law. It appears likely that a savings and loan association will be operating in Honduras in 1969.

9. Costa Rican banks are all nationalized. It has been suggested that with encouragement appropriate legislation for a private savings and loan system would be passed. Time did not permit my going to Costa Rica. I was advised by people in Guatemala, El Salvador and Honduras, that there is significant dissatisfaction by both, government people and the public generally with the banking system and hence a private saving and loan system is being discussed. The nationalized banks will be a political issue in the 1970 election.

WHAT WAS DONE WITH AID ORIGINAL LOAN FUNDS

Harshly, speaking, the Board of Directors of CABEI divided the CA\$10,000,000 loan into equal \$2,000,000 increments and each Director placed CA\$2,000,000 in his own country. This is humanly understandable but there is obviously no relationship in this division to applying the funds based on any economic standard. No consideration was given to the size of the various housing deficits in each country or the quality and capacity of existing institutions, to produce more appropriate mortgages.

The operating policy manual of CABEI and the understanding with AID was that CABEI would acquire an 20% interest in a first mortgage where the sales price of the house involved did not exceed \$6,500 and where the purchaser made a down payment of not less than 10%. (There are also formulae for the relationship between the home purchasers monthly income and his monthly payments and the sales price of the house. The Norms and Operating Plan manual of CABEI is worth reading in this regard as it is well written. This manual, of course, has not been followed).

A first step for CABEI to be able to disburse the \$ 2,000,000 in each country was to have a Currency Exchange Agreement. Since the AID loan is in dollars and is to be repaid in dollars, CABEI had to enter into a Currency Exchange Agreement with the Central Bank of each country. Instead of CABEI preparing and insisting on a standard form for this purpose a separate and different agreement was entered into in each of the five countries. Relying upon the

translations provided to me; each agreement is briefly summarized below:

1. COSTA RICA: To the extent that CABEI requires Colones for its housing program in Costa Rica the Central Bank of Costa Rica promises to provide such Colones provided dollars are concurrently deposited with the Central Bank. The exchange rate is to be equal to the exchange rate on the date "of signatures on corresponding contracts." The repayment schedule is to correspond to the AID repayment schedule. Paragraph 6 provides that all surplus Colones are to be invested in Costa Rica unless there is no demand for three years. Houses are restricted to a maximum sales price of CA\$ 10,000.
2. EL SALVADOR: The Central Bank of El Salvador may decline any offer to loan dollars to it but if it accepts CABEI's offer then the Central Bank must loan CABEI Colones with the exchange rate being established as of the date the corresponding contracts are signed. The Central Bank of El Salvador may make a prepayment at anytime but CABEI is not required to likewise prepay. Paragraph 12 provides that all amortization of capital and interest must remain in El Salvador to the extent not needed by CABEI to repay AID.
3. GUATEMALA: The Banco de Guatemala promises to provide Quetzales in accordance with CABEI's AID requirements as CABEI deposits dollars. Neither side may prepay without the consent of the other.
4. HONDURAS: This agreement provides that to the extent that CABEI requires Lempiras for its housing program the Central Bank of Honduras promises to provide such Lempiras, the amount of Lempiras to be

delivered by the Central Bank to be established at the exchange rate on the day the dollars are delivered to the Central Bank by CABEI. The Central Bank's obligation to repurchase Lempira's except for interest required to be paid by CABEI to AID, cannot be enforced for ten years. Presumably, it can thereafter be enforced on the demand of CABEI.

5. NICARAGUA: It is my understanding that there is no general separate agreement with Nicaragua. CABEI and the Central Bank of Nicaragua simply exchanged mutual promises in identical terms as dollars were advanced by CABEI and Cordobas were advanced by the Central Bank. AID terms of payment and interest and so forth are followed.

If a true regional secondary mortgage market is to be realistically developed by CABEI, CABEI must be in a position to transfer funds freely within the five countries. Assuming that the goal is to place CABEI in this position it becomes apparent immediately that there should be no relationship between CABEI's obligations to AID and the various Central Bank's obligations to CABEI. When CABEI deposits dollars in a Central Bank it must be able to obtain currency of that country and when mortgages "owned" by CABEI are repayed in whole or in part, CABEI should be free as its account develops in currency of the particular country to convert its funds on demand. (Because of the manner in which CABEI invested its funds in the various countries I have temporarily put marks around the word "owned" and this point will be subsequently discussed).

RECOMMENDATION NUMBER ONE

The writer urges that CABELI should strive toward the goal of free convertibility. In recognition of the fact that this may not be readily attainable CABELI should, as a first step, seek revision of all Currency Exchange Agreements which freeze all funds in the particular country involved. Future additional fundings might be utilized as leverage in this regard.

Of course, even if one assumes that no change can be made in agreements where the funding has already occurred, it should be pointed out that there is nothing in the existing Currency Exchange Agreements which prevents the funds which are accumulated in the account of CABELI being worked to the maximum in each such country. This will be discussed subsequently in this report.

CURRENT LOAN STATUS BY COUNTRIES

On the next page there is set forth a chart (Chart II) utilized by CABELI in making regular reports to ROCAP. I arbitrarily selected the June 30, 1958 report. It provided me with a point of reference for focus and analysis.

Following the format of that report each loan listed in Chart II will be briefly discussed.

At the outset, however, it will be useful to describe the format that CABELI worked from in making these loans. Basically it executed two agreements with each borrowing institutions. For convenience I will label one of these two agreements on the "Loan Agreement". The other, a printed form prepared

CHART II
 LOAN SITUATION SUMMARY CUMULATIVE THROUGH JUNE 30, 1968
 AID LOAN 596-L-003 - US\$ 10,000,000.00
 CARI HOME LOAN DEPARTMENT
 (In Central American Pesos)

COUNTRY & INSTITUTIONS	SUB LOAN				Location of Property	Number of Units	Home Mortgages Executed	Amount Disbursed by AID	GUARANTEES	
	Amount	Disbursed	Amortization	Balance					Temporary	Final
GUATEMALA						191	252			
Banco Granal & Townson	1,063,000.00	946,000.00	61,569.94	1,001,430.06	Guatemala	190	188	1,063,000.00	361,250.00	876,245.50
Banco de Occidente	500,000.00	275,000.00	4,286.80	495,713.20	Guatemala	93	25	500,000.00	158,158.00	188,650.00
Credito Hip. Nacional	437,000.00	437,000.00	43,699.98	393,300.02	Quezalt.	2	2			
Cruz Azul	250,000.00	250,000.00	9,051.61	240,948.39	Guatemala	63	-	437,000.00	314,500.00	-
					Guatemala	45	44	250,000.00	384,000.00	-
EL SALVADOR						441	430			
Banco Hipotecario	2,000,000.00	2,000,000.00	100,629.56	1,899,370.44	S. Salvador	368	357	2,000,000.00	-	2,500,000.00
					Sonsonate	58	58			
					Sta. Ana	9	9			
					La Libertad	2	2			
					Usulután	1	1			
					La Unión	1	1			
					S. Miguel	1	1			
					S. Vicente	1	1			
HONDURAS						182	70			
Instituto de la Vivienda	1,500,000.00	540,800.00	-	1,500,000.00	Tegucigalpa	97	35	1,500,000.00	400,905.00	262,994.00
Cia. Seguros Interamericana	250,000.00	250,000.00	13,157.88	236,842.12	S. P. Sula	50				
					Tegucigalpa	35	35	250,000.00	-	281,366.00
NICARAGUA						337	316			
Banco de la Vivienda	2,000,000.00	2,000,000.00	65,152.17	1,934,847.83	Managua	239	236	2,000,000.00	-	In Process
					Carazo	23	19			
					Leon	13	11			
					Granada	11	8			
					Masaya	10	10			
					Matagalpa	6	5			
					Chinandega	17	10			
					Madriz	2	2			
					Rivas	5	5			
					Chontales	1	1			
					Jinotega	3	3			
					Esteli	7	6			
COSTA RICA						420	480			
I.N.V.U.	1,000,000.00	1,000,000.00	37,469.40	962,530.60	San José	247	237	996,960.99	420,902.00	832,766.00
					Alajuela		162			
					Heredia		22			
					Guanacaste		27			
					Cartago		6			
					Limón		7			
					Puntarenas		3			
						1	10			
Banco Nacional	1,000,000.00	1,000,000.00	44,238.15	955,761.85	San José	243	243	999,986.65	In Process	
					Alajuela	168	168			
					Heredia	39	39			
					Guanacaste	23	23			
					Cartago	4	4			
					Limón	7	7			
					Puntarenas	1	1			
						1	1			
TOTAL	10,000,000.00	8,678,800.00	372,255.42	9,620,744.51		1041	1559	9,920,000.00	1,125,160.00	1,125,160.00

by CABEI is labeled "General Loan Conditions" (Document BCIE-HLD-5 is the CABEI file reference).

The General Loan Conditions agreement is incorporated by reference into each Loan Agreement. Briefly the General Loan Conditions agreement may be summarized as follows:

1. The loan is described as being for the purpose of promoting the construction of middle income housing.
2. It provides for interest to be paid quarterly based on regular calendar quarters.
3. The first reference to "collateral" appears in Section 2.3 of Article II. It states that extraordinary principal payments are to be made whenever the loan balance exceeds 80% of the "unpaid balance on the mortgage loans submitted as collateral to CABEI".
4. The borrower is obligated to make quarterly reports to CABEI on forms approved by CABEI. These reports are to present in summary a statement of the principal balance of each mortgage loan held by CABEI as collateral.
5. The borrower is also to make monthly reports on all collateral that is delinquent for a period of more than two months. There is also to be a monthly report the number and value of family units build under the program, the number and value under construction, the number and value completed and the number and value sold. The monthly report is to contain any other information CABEI requests.

6. The agreement provides for the receipt by CABEI of non-qualifying mortgages (non-qualifying in the sense of having mortgage balances of up to C/\$ 20,000) which non-qualifying mortgages are on a schedule over two years to be replaced with qualifying mortgages. The net effect of the agreement was to allow the borrower to use the loan funds for construction purposes and to give CABEI temporary collateral. Since at this date substantially all construction has been completed and the substitution (or at least the "delivery") has been carried out in accordance with the plan, there is no need to discuss this operation.

7. The agreement provides that CABEI has limited rights in designating who holds custody of the collateral.

8. The borrower is obligated, of course, to repay CABEI the total amount loaned. In addition the borrower is obligated to see that the collateral consists of a first mortgage, that the house involved is insured against fire, etc.

Paragraph i) of Section 6.1 of article VI reads:

"j) To redeem for its account or substitute any mortgage credit CABEI considers unacceptable either through default of the debtor or through title defect or other factors affecting in CABEI's judgment, the value of such mortgage as collateral; and. . . ."

9. CABEI has full inspections right.

10. The agreement describes in detail how the Borrower is to operate (Article VII). Included are restrictions that the Borrower does not now or in the future engage in activities related to the subdivision of land or the construction of housing nor have an interest in such activities.

11. Home purchasers are defined: not less than CA\$90 per month income nor more than CA\$ 400 per month income; subject to exceptions; all income of all members of the family are to be included in the computation; the sales price of the house is not to exceed CA\$10,000; etc.

12. A down payment schedule is established: 10% down on first CA\$ 6,000 15% on next CA\$ 2,000; 20% on final CA\$ 2,000. The down payment is to be in cash or home purchasers previous equity in land.

13. Home purchaser's interest charge is not to exceed 12% per annum nor be less than 8% per annum. Casualty insurance premiums are included in this computation.

14. There are many other details: control on builders profit, standards of habitability, value of lot in relation to value of house, etc.

15. What constitutes a default is described. In the event of a payment default CABEI may, if the default is not cured in 60 days, accelerate its loan.

Speaking from my sandals as a lawyer, the General Loan Condition Agreement, despite its length, lacks the critical language of a collateral pledge agreement. There is no system set up for CABEI to acquire the collateral. CABEI would have to go to court if it wished to obtain the collateral.

In short, the net effect of the agreement as a practical matter is to leave CABEI virtually unsecured. It has at best a "string" on the collateral which could be pursued if the borrowing institution went bankrupt but short of that the collateral is substantially a fiction.

The related loan agreement does not alter the collateral situation. It sets forth the term of the loan and some of the procedures.

Given a CA\$ 10,000,000 unsecured loan it would seem desirable for CABEL to buy assets (mortgages) on which it could borrow additional funds. Under what I describe as a "blanket loan with collateral" (and that is not accurate as previously explained) CABEL has a valid claim against the borrowing institution but CABEL does not own an asset which is as bankable as owning a direct interest in mortgages.

RECOMMENDATIONS NUMBER TWO AND THREE

CABEL should: (1) buy mortgages and (2) utilize its interest in these mortgages to borrow funds.

Going into further details on this point, let me point up a few facts:

1. By buying a mortgage "with recourse" CABEL continues to have the full obligation of the "borrowing institution" (the originating lender).
2. At the time of the purchase of the mortgage the seller should agree not only to recourse, but should also obligate itself to replace mortgages which are delinquent beyond the standard established by CABEL.
3. The mortgage seller should agree to handle collections and make reports as required by CABEL.
4. At the time of the purchase the mortgage seller should certify that the middle income housing program standards are met. The form of this certification can set forth the various items in the General Loan Conditions

Agreement.

The present loans, subject to verifying that they are not bankable in their present form are bankable if purchased, would be purchased. From the point of view of the present borrowers (who, under my suggestion, would become sellers) a sale appears highly advantageous for the following reasons:

1. It removes a liability from the balance sheet of the seller. The recourse obligation would or should appear as a footnote.
2. By removing a liability on the balance sheet, it increases the capacity of the institution to make loans where the local law restricts the loan portfolio to a multiple of the net worth of the institution. In other words, for example, if an institution cannot have aggregate loans outstanding equal to more than ten times its net worth the sale of loans frees up the lending capacity of the seller to the extent of the sale. (This is true in Guatemala).

3. If CABEI can borrow more funds the selling institution has an opportunity to sell more loans to CABEI.

It is my belief that if CABEI owns mortgages it can borrow against the collateral of these mortgages. In this regard, I would urge that this be investigated with one or more banks in the United States. To be as specific as possible I suggest the following:

1. Seek a loan of ten year term and 6 3/4% interest rate. (The precise terms should be flexible depending upon the requirements and the policies of the lender).

2. Offer an initial package CA\$ 2, 000, 000 of Guatemalan loans. Point out that each loan carries with it in addition to the obligation of the home purchaser the obligation of the selling institution and Guatemalan FHA insurance.*

3. The full faith and credit of CABEI would also be involved.

4. Ideally, significant compensating cash balances could also be maintained by CABEI with the lender. It is my understanding that in connection with highway disbursements by CABEI that, compensating balances of CA\$1, 000, 000 are reasonable.

The present blanket loan arrangement involves CABEI having an 80% interest in a mortgage which was 90% of the sales price. This means that if a loan equal to 70% of the 80% interest in the loan is sought by CABEI the lender to CABEI would be protected by a 44% margin in the collateral, i. e. 70% of 80% or a 56% interest in the property. Although utilizing 80% interest in individual mortgages is feasible I personally would recommend that an effort be made to convince the propose lender that in view of the recourse provision (both against the institutions which sells to CABEI and against CABEI itself) that CABEI should buy 100% of the 90% mortgage and borrow 70% of the 90%.

* The Guatemalan home loan insurance program appears to be a highly successful program. If a loan is delinquent two payments or more, -- lawyers and lenders personnel in Guatemala advise me that the Guatemalan FHA delivers a government bond bearing interest equal to the interest rate on the loan and with a like remaining term and payment program and that the process is completed in approximately 90 days to a maximum of 120 days.

This simplifies the paper work and is significantly more practical in my opinion.

To summarize, it is my opinion that CABEI has basically made unsecured loans to various lenders and I recommend that subject to verification that CABEI can borrow funds on mortgages it owns at a rate and on terms that are attractive, that CABEI purchase either on on 80% interest in individual mortgages or, preferably, a 100% interest in individual mortgages. The ownership of mortgages by CABEI and subsequent borrowing from foreign (U. S. or other) banks could after two or three years performance on the part of CABEI possibly place CABEI in a position to seek public funds in the open market at rates and on terms even more advantageous than, say, ten year borrowing from banks. In other words, the long term goal might be to place CABEI in a position as set forth in its original plan to issue long term secured debentures.

Having pointed up the defects in the present set up, I will now review the loan made to each institution. I will follow the order of Chart III.

GUATEMALA

BANCO GRANAI & TOWNSON, S. A.

Banco Granai & Townson was formerly a savings and loan association. All savings and loan associations in Guatemala recently converted to banks. Its primary officers are extremely knowledgable in the field of housing construction and housing finance. The controlling stockholders also control corporations engaged in the construction business. (In my opinion major financial transactions in developing countries where there are several successful com-

peting institutions if the quality of the houses and the quality of the institutions and their business practices are satisfactory, there should not be any objection to the self-dealing aspects.

It is a question of judgment and I indorse fully the doing of business with the Banco Ciudad & Townson. *

CABEI does not maintain data on the financial growth and record of the various housing institutions with which it does business. It would seem desirable to do so, in order to operate appropriately as a secondary mortgage market. Although I do not propose in this report to set forth data on each institution at least in this first instance in order to show what savings and loan growth is possible let me set forth a few statistics on this particular bank:

Assets as of:

December 31, 1965	CA\$ 7,154,046.31
December 31, 1966	10,521,769.37
June 30, 1967	13,291,485.46
June 30, 1968	18,353,896.06

Mortgage Portfolio:

<u>Year</u>	<u>Total</u>	<u>Cumulative</u>
1965	3,874,429.00	7,410,129.00
1966	5,073,871.00	12,484,000.00
1967		
1968, June 30		approx. 14,375,000.00

Number of Loans:

<u>Year</u>	<u>Total</u>	<u>Cumulative</u>
1965	518	968
1966	617	1,585

* At this date CABEI has not done business with the Banco Inmobiliario. Its quality and capacity are in my opinion excellent and I urge that it immediately be approved as a qualified institution.

CABEI granted Banco Granai & Townson two loans, each with a 16 year term and at an interest rate of 6%. Chart II sets forth the status as reported to ROCAP. Chart III sets forth additional information based on the books of account and the contractual obligation. Briefly, CABEI loaned Banco Granai & Townson \$1,063,000 and this loan now has as collateral 190 mortgages.

The June 30, 1968 quarterly report from this Bank reveals the following:

1. The report is in two sections. One form gives the loan number, the name of the borrower, the original loan balance and the number of payments by which the home purchaser is delinquent. The other section involves a different group of loans. It gives all the foregoing plus the street address, the date of the original mortgage, the date the final payment is due, the sales price of the home, the amount of the monthly payment and what the loan should be paid down to.

2. Loan amounts vary from an original maximum of CA\$ 9,100 to an original low of CA\$ 5,400.

3. Twenty seven loans are delinquent four payments or more.

4. The collateral aggregates CA\$ 1,230,159.11. 80% of this figure is CA\$ 984,127.29.

My general comments concerning present "housekeeping" practices will be set forth subsequently as a specific recommendation which applies more or less to all loans.

My special comments on Banco Granai & Townson are as follows:

1. The primary contacts with this bank are Mario Asturias and Saa del Rio. They are able and well informed.
2. This bank is interested in selling mortgages to CABELI now.
3. It will cooperate in converting existing documentation if required.
4. All its loans are government insured.

BANCO DE OCCIDENTE, S. A.

This is an old bank with its headquarters located outside of Guatemala City. It has been active in farming communities and until recently has not been very active in middle income housing. It has recently become active in this field and is anxious to proceed both in Guatemala City and in other communities. It received a CA\$ 500,000 loan at 6% on a 20 year term. The documentation follows the pattern described for Banco Granai & Townson.

The bank is growing at the rate of about CA\$ 2,000,000 per year and its present (August 31, 1968) assets aggregate CA\$ 24,274,279.00.

As Charts II and III indicate the loan is only partially disbursed. The June 30, 1968 quarterly report does not set forth delinquencies. The collateral aggregates in completed mortgages \$ 211,003.18. It has pledged other collateral which has been approved by CABELI.

The Guatemala City manager is Juan Carlos Vercessi. He is able and well informed. He is the current President of the Banker's Association (the immediate past President being Mario Mory of the Banco Inmobiliario).

This bank will cooperate both in changing its reporting form and in selling the qualifying mortgages presently under blanket loan with CABELI if so .

requested by CABEL.

This bank needs an immediate 12 month commitment from CABEL to buy a 100% interest or an 80% interest in loans to be originated in connection with the construction and sale of houses involving a sales price of CA\$ 6,500. I visited the project in question in order to have the background to discuss whether the Commitment Letter approach described below was practical and desirable from the point of view of banks, such as the Banco de Occidente. (I found enthusiasm for the Commitment Letter approach from all bankers that I met in Guatemala and El Salvador).

The Banco de Occidente has financed 46 houses (23 duplex) in Guatemala City involving a sales price of approximately CA\$ 6,500. The units were, I am told, sold out in two months. The builder owns adjacent land ready to go for over 400 more units. The Banco de Occidente is interested in financing a second unit involving CA\$ 350,000 as it lack funds with which to hold the final mortgage. It is prepared to pay CABEL a fee of 1% of CA\$ 350,000 to CA\$500,000 in cash now in consideration of a commitment letter from CABEL which incorporates the following:

1. CABEL upon delivery and acceptance of its commitment letter receives the 1% commitment and processing fee.
2. CABEL promises to buy an 80% interest (or 100% if CABEL so elects) in individual first mortgage on the houses in question.
3. The houses will be build in accordance with the plan and specifications which exist now and which are approved by CABEL before it issues its commitment letter.

4. The lots involved will be described by specific legal description.
5. The general protective language concerning fire insurance, good title and so forth would set forth in the commitment.
6. The loans would bear interest at 8% net to CABEI and be government insured.
7. The purchase from the Banco de Occidente would be with recourse against the bank. The bank would obligate itself to buy at par plus accrued interest any loan that went delinquent four payments or more.
8. All loans would be Guatemalan FIA insured.
9. The Banco de Occidente would make regular reports and handle collections and transmission of funds.

The commitment Letter approach has the following advantages for CABEI:

1. Other than an initial inspection and a final inspection no field work is necessary. The personnel performing this work do not necessarily require an engineering degree.
2. There is no exposure to CABEI during the course of construction and sales. CABEI receives completed "loan packages".
3. The commitment and processing fee meets the cost of initial work.
4. The "loan packages" are bankable.
5. The full faith and credit of the seller is behind each loan.
6. It allows CABEI to place anticipated cash receipts. Banco de Occidente would be interested in using the commitment letter approach for a 20 to 25 houses development in a smaller community if CABEI will advise the Banco de Occidente that CABEI is interested in receiving such an application.

My special comments on the Banco de Occidente are as follows:

1. The primary contact is Juan Carlos Vercesi.
2. Consideration should be given to issuing this bank two commitment letters along the lines described above.
3. It will cooperate in converting existing documentation.
4. All loans are government insured.

CREDITO HIPOTECARIO NACIONAL

This is a government institution. I do not have information in much depth on this situation. Briefly, my information is as follows:

1. In 1965 this bank had CA\$ 51,230,198 in assets of which CA\$6,031,596 was represented by 1,453 housing loans.
2. It received a CA\$ 437,000.00 loan from CABEI on September 29, 1965, with the typical documentation.
3. The construction of 63 houses was commenced, but during the course of construction the purchasers (apparently an established group) all received salary increases, so the houses were upgraded to a sales price over CA\$10,000.
4. CABEI and this bank have agreed that new mortgages will be substituted. This is nearing completion. The yield to CABEI may be increased from 6% to 8%.
5. Collateral approved by CABEI has been posted.
6. There are no reports.

It is my opinion that the promotion of the goals of CABEI are not as well served by dealing with or buying mortgages from this institution as opposed to doing

business with Banco Granel & Townson, Banco de Occidente, Banco Inmobiliario and similar such institutions.

Qualifying loans on a with recourse basis should be bought from this institution in keeping with the program outlined for creating bankable loan packages in the name of CABEI.

COMPAÑIA DE SEGUROS CRUZ AZUL

This is an insurance company. I am advised by Ricardo Pennington that his father obtained control of this insurance company, approximately two years ago. The company writes life insurance and casualty insurance.

This institution is not regular engaged in working with builders in causing houses to be built. In my opinion Cruz Azul looked upon its loan with CABEI as a banking transaction in which Cruz Azul could develop and receive a percentage over-ride.

The loan documentation follows the usual pattern. Of the 44 loans that constitute the so-called collateral, 37 were acquired, in effect, through the Banco Inmobiliario and monthly collections are being handled by this latter institution.

The collateral aggregates CA\$ 299,730.22. It is therefore approximately CA\$ 10,000 short under the 80% rule.

Eight loans are delinquent four payments or more. Cruz Azul apparently has an insurance reserve liquidity problem. I learned that it is attempting to sell its position at a profit to Banco de Occidente. Cruz Azul cannot meet its problem by selling CABEI an 80% interest in each loan.

If CABEI desires, and I so recommend, Banco de Occidente (or Banco Inmobiliario) will join with CABEI on a 20%/80% basis in buying this package from

Cruz Azul, give CABEI a $7\frac{1}{2}\%$ yield on its 80%, and stand behind all loans purchased under the format suggested above for all purchases. These loans are Guatemalan FBA guaranteed. This matter appears to require fairly immediate attention as some of the unverified information I received was disturbing.

Before completing Guatemala, reference should be made to its national housing institution known as INVI. Through the joint efforts of an employer group, INVI, the Banco de Occidente and AID Mission Housing Director Henry Shipherd, a program for a cooperative housing tract has been developed. INVI and the Banco de Occidente seek an immediate twelve month commitment letter from CABEI for CABEI to purchase 20.8% of a mortgage, the face amount of which would be approximately CA\$ 465,000 (or an investment on CABEI's part when and if the loan is delivered of approximately \$ 96,720.00). The commitment letter in addition to the standard items described above under the Banco de Occidente heading would incorporate the following:

1. Yield : 8%
2. Term : 20 years
3. Sales Price per unit : Under CA\$ 4,000
4. Location : Escuintla
5. Borrower : Cooperativa El Modelo, R. L.
6. INVI would guarantee the loan. (INVI is getting a guarantee from Employer's group)
7. Property : 188 duplexes (plans and specifications are complete and have been approved by AID)
8. Commitment and Processing Fee: $\frac{3}{4}$ of 1%.

I recommend that this application be given prompt processing. It is my understanding that this has been under discussion with CABEI for over six months and is ready to proceed immediately. The contacts are Ernesto Viteri and Henry Shepherd and Juan Carlos Vercesi.

EL SALVADOR

There are three successful savings and loan associations operating in El Salvador. They are fairly closely supervised and the laws appear to be excellent. The top personnel of each of these institutions are knowledgeable and all seek an immediate opportunity to sell loans to CABEI. Some will sell at 9% if necessary although 8% is favored. They appear well run. The following men were interviewed: Roberto Frensd of Atacatl, Guillermo Novoa of CASA, and Rafael Alegria of Credito Inmobiliario. They were impressive. I recommend that some appropriately qualifying mortgages be acquired from these institutions on a purchase basis with the terms of purchase following along the lines previously discussed.

BANCO HIPOTECARIO

CABEI's transactions in El Salvador consist of two loans aggregating CA\$ 2,000,000.00 loaned to the Banco Hipotecario. It follows the usual loan documentation.

This is a private bank. Its assets as of December 31, 1966 aggregated CA\$ 78,617,829. At the same date its housing portfolio aggregated CA\$ 16,858,540. It had CA\$ 7,344,840.00 in savings at this same date.

I met with the manager, Jose Humberto Girón, for the purpose of discussing his quarterly report and to attempt to determine whether this bank would convert its loan along the purchase basis described above. I also had intended to discuss the housing market but basically Mr. Girón is not a housing man. He is, of course, a well-informed and qualified banker.

The loan report indicates a collateral balance of CA\$ 2,266,649.67. This is over CA\$ 100,000 short of the required amount. In addition the report contains obvious errors in it. A choice example appears in loan # 13556 (40755 Angela Elizabeth Rivera). The original loan balance was ₡ 19,000 - colones - The payment chart states that on June 30, 1968 it is supposed to be paid down to ₡ 18,136.41. The June 30/68 balance was likewise ₡ 19,000.

The monthly payment is ₡ 179.67. The Banco Hipotecario report states the loan is current! There appear to be a significant number of mistakes in this report.

The manager took the position with me that there are undoubtedly errors in the report, but that is in view of the fact that the CABEI receives its payments promptly, CABEI should not be concerned. (See Chart III on this report). He also stated that he did not know if the Bank could sell an 80% or a 100% interest in the collateral loans to CABEI, but he would be happy to investigate. (I took the position, on an entirely friendly basis, that if the documentation was to be meaningful it should be maintained accurately).

A rough estimate on my part suggests that approximately 10% of the collateral loans are delinquent four payments or more.

It is my recommendation that future secondary mortgage activity eliminates this bank and that an effort be made to buy these loans if such acquisition results in bankable paper based on the Guatemalan pilot investigation discussed above.

HONDURAS

Two loans were made in Honduras.

INSTITUTO DE LA VIVIENDA

This is the national housing agency. CA\$ 540,800 of a CA\$ 1,500,000 loan has been disbursed to it according to Chart II.

In attempting to understand the present disposition of the balance of these funds and all other funds of the Home Loan Department, I received five sheets broken down by countries. This cash report as received by me in Spanish for Honduras is set forth below:

<u>Depositos en Bancos con Restricciones</u>		50,841.57
Recuperaciones	13,157.88	
Depositos C. C.	11,700.00	
Productos de Inversiones	<u>25,983.69</u>	
<u>Depositos en Bancos Sin Restricciones</u>		
Depositos Cuentas Corrientes	6,431.75	
<u>Depositos a Plazo - Con Restricciones</u>		847,500.00
Honduras	847,500.00	
<u>Valores Renta Fija - Con Restricciones</u>		
INVA - AID-003	100,000.00	
Productos Inversiones	<u>45,000.00</u>	
Total Honduras		<u>1,049,773.32</u>
Menos: Fondos Condicionados	500,000.00	
Pendientes Desembolsar		
al INVA	<u>459,200.00</u>	<u>959,200.00</u>
Disponibilidad		<u>90,573.32</u>

As I understand the above, CA\$ 500,000 is in an interest bearing account (4% to 5½%) and is ear-marked as the seed capital for the first savings and loan that is formed in Honduras. CA\$ 459,290 is available to INVA for the production of more mortgages.

The loan documentation follows the usual pattern. The June 30, 1968 collateral loan reported by INVA reflects a collateral loan balance outstanding of CA\$ 333,996. There appears therefore to be a collateral shortage of approximately CA\$ 273,800. The delinquency portion of the report appears to call a loan "current" if the last payment was made even though one or more prior payments have been missed and not paid. Loan No. 33 for example, is indicated to be current yet the present loan balance is CA\$15,898.93 and the original loan balance was CA\$ 15,200.

It is clear that the report form should be changed. I also recommend that idle funds be put to work by buying mortgages. In the case of funds ear-marked for seed capital I suggest that an understanding be sought with AID to provide the seed capital funds to CA BEL as fresh funds and that the CA\$500,000 no longer be left in effect idle.

There appears to be two groups contemplating forming a savings and loan association in Honduras. The opportunity appears excellent provided the law is adequate. Although I did not attempt a serious economic study of the feasibility of a savings and loan association in Honduras the following may be reported (hearsay sources).

1. The Honduran Government sells tax exempt bonds redeemable on demand at par and yielding 6% interest. It has sold L. 21,000,000. *
2. The banks in Honduras pay from 4% to as much as 5½% on time deposit. The interest is taxable. L. 23,000,000 is on time deposits. The reason given for the banks ability to obtain these funds is because people can only obtain commercial and personal financing if they have good banking relations.
3. Savings and loans will be allowed to pay 1% over the maximum rate banks pay on regular time deposits.
4. So called mortgage bonds are merchandizable in Central American countries. Without going into detail, since it is beyond the scope of this report, in Honduras these are being marketed at 7%.
5. Honduras does not have an FIIA.
6. One savings and loan group estimates its first years growth at approximate L. 1,250,000.
7. One savings and loan group considers present legislation adequate; the other group believes a slight change may be desirable and forthcoming.
8. INVA has collected L. 80,000 in savings at 5% interest which it will turn over to the first savings and loan association which is formed in Honduras.

COMPANIA DE SEGUROS INTERAMERICANA

The other CABEI loan is to an insurance company. It aggregates CA\$250,000. The loan documentation followed the usual pattern. The June 30, 1968 collateral loan report reflects a principal balance of CA\$234,979.54 which would

* One Lempira equals CA\$ 0.50 = US\$ 0.50

support a loan of approximately CA\$ 186,000. The collateral, therefore, is obviously inadequate. Five loans of the 35 loans appear to be delinquent four payments or more. One is nine payments delinquent; one, fourteen.

Both, INVA and Seguros Interamericana caused houses, to be built by a builder known as "Hasban". All houses are in the same area. Although the quality and character of projects is not my domain I would suggest that the commitment letter approach could be utilized to avoid at least two of the problems, which exist in the Hasban projects. The houses are in fact quite nice, but:

1. Streets have not been completed. Families are complaining.
2. The water source consists of four wells owned by Hasban. No water rate contracts have, I am told, been established, and the strenght and quality of the wells is not known.

(While on the topic projects, I cannot help but comment how impressive the INVA Colonia Kennedy project in Honduras is. For one making a visual inspection the under CA\$ 4,000 unit when combined with the pride of ownership that the Honduras home purchasers have demonstrated makes it a show place). In Honduras the simple truth is that other than INVA there appear to be no regular housing mortgage institutions and the great need for a savings and loan association appears obvious.

The Instituto de la Vivienda as of December 31, 1965 had CA\$ 1,799,686 in assets. It accepts savings from the public and is pay 4 and 5%.

Seguros Interamericana was founded in 1957. It had CA\$1,976,669 in assets as of December 31, 1966. It made 27 loans in 1966.

NICARAGUA

BANCO DE LA VIVIENDA

CABEI loaned the Banco de la Vivienda CA\$2,000,000. This is a government institution. It also serves as "the Central Bank for the savings and loan system". As indicated previously, I did not go to Nicaragua. I have been told by savings and loan people in Guatemala and El Salvador that Nicaragua has a successful savings and loan system and that the person to contact is Enrique Pereira. Presumably there are three associations operating in Nicaragua but CABEI has not worked with them.

Banco de la Vivienda had CA\$ 17,034,429 in assets on December 31, 1966.
(CA\$ 1.00 = Cordebas = SC\$ 7.00).

I am advised that the agreement followed the usual pattern. The Banco de la Vivienda June 30, 1968 collateral report is IBM produced. It reflects CA\$2,217,195.40. Since the principal balance outstanding on the loan was CA\$1,934,847.83 under the agreement the loan should be reduced by CA\$161,091 or alternatively, the collateral increased.

The delinquency situation in this portfolio can only be described as appalling. Over 29% of the portfolio is delinquent four payments or more. This represents approximately CA\$ 660,000 in principal of collateral.

This institution should be given sixty days notice to submit additional and substitutional qualifying mortgages or to reduce the balance of its loan or a com-

bination thereof.

Possibly some arrangement can be worked out to transfer the account to a savings and loan if a responsible savings and loan is operating and willing to become involved. In any event the matter requires immediate attention and probably initially should be handled by a personal visit with the head of the Banco de la Vivienda.

If this situation is not corrected a demand for payment in full of the entire loan should be made and the fact that CABEI is prepared to go to this length should be impressed upon the Banco de la Vivienda.

COSTA RICA

Two loans were made in Costa Rica, aggregating the usual CA\$ 2,000,000.

INSTITUTO NACIONAL DE VIVIENDA Y URBANISMO (INVU)

One was to the Instituto Nacional de la Vivienda. As the name suggests its function is to attend to national housing problems and to assist in the planning and development of Costa Rican cities. As of September 30, 1966 its assets totalled CA\$ 28,209,273 and its "Housing Investments" totalled CA\$18,838,353. (CA\$ 1.00 = Colones = ₡ 6.65). The loan agreement follows the usual pattern.

As of June 30, 1968, the collateral loan report reflects a principal balance of CA\$944,144. The collateral shortage, therefore, approximates CA\$200,000. Six loans had not had a payment since the February payment. Twenty loans had not had payments since the March payment. The report is not fully detailed but the situation does not appear as out of hand as it does in Nicaragua.

Two loans are delinquent since dates in 1967 and foreclosure would appear in order on these two properties. (Foreclosure, of course, is not CABEI's problem. CABEI should simply require that these two mortgages be removed either by INVU's substituting new qualifying loans or by reducing the balance owed to CABEI).

BANCO NACIONAL DE COSTA RICA

The other loan was to the Banco Nacional de Costa Rica. It, too, of course, is a government institution since as previously indicated, all banks in Costa Rica have been nationalized. (The present President of Costa Rica favors, I am advised, returning the banks to private control. He does not have a majority in the legislature and the question of denationalizing the banks will be a major issue in the 1970 election. Apparently there is an interest in creating private savings and loan associations).

The Banco Nacional de Costa Rica has CA\$ 113, 940, 635 in assets as of December 31, 31, 1966 and CA\$ 5, 265, 908 in housing mortgages.

Its June 30, 1968 collateral report (IBM) indicates CA\$ 1, 188, 400. This is within CA\$ 5, 000 of supporting the CA\$ 955, 761.85. The delinquency situation is detailed in Costa Rican Colones as follows:

<u>Delinquencies</u>	<u>Amount</u>	<u>No. of Loans</u>	<u>%</u>
More than 90 days	1, 073, 905.59	33	13.2
90 days	723, 140.00	22	9.2
60 days	798, 111.39	29	10.0
30 days	3, 655, 839.22	110	46.3
Current	1, 652, 076.00	49	20.9
T o t a l :: :: :: :: ::	7, 903, 072.26	243	100.0%

The need to improve the delinquency situation is obvious.

RECOMMENDATION NUMBER FIVE - HOUSEKEEPING

Accepting the existing documentation as is, a major housekeeping job should immediately be undertaken and carried out. Basic points to be covered include the following:

1. Send payment notices to the institutions at an earlier date and indicate that payments in the future must be made promptly on the last days of each quarter. There appears to be a perpetual late payment situation allowed to exist.
2. Prepare a standard form for the quarterly reports on the collateral.
3. Prepare a standard form for monthly reports on delinquencies and require monthly reporting on the delinquent loans. (A standard of three or four payments delinquency rather than the two set forth in CABEI's norms may be more appropriate at this time).
4. Require that the collateral be maintained at a proper figure in accordance with the 125% rule. Advise all institutions that the December 31, 1968 report must indicate adequate collateral and that to the extent it does not the balance owed to CABEI must be reduced by January 15, 1966.
5. Require that all collateral loans which are, say, six months delinquent or more, be eliminated from the collateral portfolio either through replacement with a qualifying loan or a pay down of the balance owed to CABEI. CABEI should advise all borrowers now and indicate that the situation must be corrected by December 31, 1968. (In the case of Nicaragua it appears that an immediate meeting should be held so that it is clear that CABEI if necessary will demand payment in full in January).

6. Establish a form for the head of the Home Loan Department to utilize in making monthly reports to the President, Vice President, and others. This form should cover collections, amount of collateral in relation to loans, delinquency status, and so forth.

7. Establish a form for reporting on Home Loan Department operations to the Board of Directors.

8. Establish and maintain cash flow projections.

RECOMMENDATION NUMBER FIVE - FUTURE OPERATIONS -

There has previously been reviewed a program for improving the currency exchange agreement and a program for attempting to raise additional funds from private sources either based on the existing documentation (which I have indicated I believe to be inadequate) or on modifying the existing documentation through the purchase of mortgages. The purpose of recommendation number five is to outline the operational goals that I believe CABEI should seek to attain and to set forth with some degree of specificity the approach I recommend to attain these goals.

It should always be the effort, it seems to me, to build on existing institutions and institutional structures. It is for this reason, for example, that I have recommended that CABEI explore borrowing funds from a private bank without changing existing documentation.

It is not my intention to repeat the goals so well stated by the Declaration establishing CABEI, and so well set forth in the Norms and Operating Plan (Document-BCIE-311D-2).

Being fairly specific, therefore:

1. CABEI should buy mortgages on an immediate delivery basis and should, based on anticipating its cash flow, commit to buy mortgages pursuant to 12 month commitment letters.

2. These mortgages should then be utilized by CABEI to raise more funds.

3. Acceptance of the approach of CABEI's buying a 100% interest in mortgages should be sought.

4. Where there is a local FHA the loans should be insured under such a program if the program is sound.

5. Where there is no FHA agency, unless the selling institution is a large and extremely sound institution (an example might be the Banco Hipotecario in El Salvador) the additional guarantee of a local government agency (the Housing Agency or the savings and loan supervising agency or the Central Bank) which has financial strength should be required.

6. Sales Prices of houses should ultimately be restricted to CA\$6,500.

A ceiling of CA\$6,500 on mortgages appears practical at this date. (The pattern in Latin American countries among new savings and loan associations tends to be that they make loans on upper middle income housing in the beginning. This is understandable because it is probably safer and easier. Since the number of families in the more expensive category is limited, however, the savings and loan associations find their markets moving lower and lower in price range. The Guatemalan market appears to evidence this pattern and the same will probably hold true time in El Salvador. Nicaragua will do like wise in my opinion).

7. On CHART IV there appears the job description of the Home Loan Department as supplied to me by the Acting Head of the Home Loan Department. If the program suggested above is followed the staff in addition to secretaries will consist of one or more mortgage men and one or more accountants. If conversion of documentation becomes a necessity then during the period of handling the first purchaser of loans in each country and the writing of the first commitment letters in each country, a full time attorney may be necessary. Thereafter a real estate attorney on a consulting basis should suffice. The "overhead structure" (personnel, facilities and related expenses but not interest expense) once the volume of mortgage ownership by CABEI has increased to, say CA\$ 15,000,000 should be such that CABEI is satisfied that if it borrows at 7% and lends at 9% it has no problem in meeting its overhead requirements margin. Obviously as the Home Loan Department grows this figure has to be reexamined.

8. The institutions with whom CABEI transacts business should be required to perform as many functions as possible so as to hold the overhead of CABEI to a minimum. For example, in connection with commitment letters CABEI might depending upon the transaction require the selling institution to pay CABEI's legal expense. If CABEI could have all selling institutions utilize IBM programming cards and many already are CABEI itself could have its Home Loan Department portfolio computerized. This could prove very advantageous.

9. An Advisory Board consisting of one or two representatives from each country should be established for the Home Loan Department. These

JOB DESCRIPTION OF HLD'S FORCEACTING CHIEF OF HOME LOAN DEPARTMENT

- a. Establish and control Department's policies.
- b. Make recommendations to higher authorities of the Bank, and maintain relationship with same, and with other offices and departments of the Bank, as well as with local and International Institutions, who finance and cooperate with the Home Loan Department.
- c. Pass judgments to higher authorities and make the necessary recommendations.
- d. Make arrangements for the elaboration of special studies.
- e. Supervise the Department's personnel.
- f. Other.

FINANCIAL ANNALIST

- a. Prepare financial analysis.
- b. Audit
- c. Supervise investments
- d. Control and supervise guarantees
- e. Control disbursements
- f. Supervise and control loans to users
- g. Elaborate amortization tables
- h. Control amortizations and interest payments.

SUPERVISING ENGINEER

- a. Supervise and control investment of funds
- b. Supervise projects, including the laying out of land for building, and control costs.

ASSISTANT FINANCIAL ANNALIST

- a. Accounting, financial and statistic work related to loans made to the five member countries, and cooperate with Financial Annalist in the control and supervision of such loans.
- b. Direct responsibility over control and recording of operations, accounting calculus, financial projections, and monthly reports to CABEI's Administration, and to ROCAI. Preparation of the Home Loan Department's Budget, financial projections for different periods, handling of disbursements to participating institutions in coordination with the Financial Annalist.

BILINGUAL SECRETARY I

- a. Dictation (English-Spanish), transcription and typing of Acting Chief's correspondence, i. e. memoranda, notes, reports, studies, etc.
- b. Write notes and memoranda of routine nature, according to Chief's instructions.
- c. Tabulation and typing of statistical graphs.
- d. Direct responsibility over files.
- e. Translation of correspondence, reports and documents.
- f. Dictation, transcription and typing of correspondence for other HLD's functionaries.
- g. Receipt, distribution and delivery of mail.

CHART IV

Page 3

BILINGUAL SECRETARY II

- a. Dictation (English-Spanish), transcription and typing of the correspondence for HLD's functionaries, and in some instances for the Acting Chief of HLD.
- b. Maintains Attendance Record
- c. Tabulation and typing of statistical graphs
- d. Receipt, distribution and delivery of mail

men should be persons who are actively engaged in the home mortgage field. If appropriate trade associations exist such as the Banker's Association in Guatemala, the trade association should be utilized. I have received strong and cordial enthusiasm for this concept from all of the mortgage men I talked to in Guatemala City, San Salvador. I consider this one of my most important recommendations. This Advisory Board would be utilized in advising at the policy level. The men comprising it would be an outstanding source of information for CABEI. Properly handled it has in my opinion many advantages. It would aid in uniting the region and standardizing forms.

10. Funds are not worked hard enough. CABEI should require that it receives funds no later than the date due. Such funds beyond a minimum checking account should be deposited in a fashion which yield maximum interest from date of deposit to date of withdrawal. An exception is funds required for compensatory balances on any loan. CABEI should place itself in a position of having a mortgage supply available to it for immediate purchase (all approved by CABEI and ready for acquisition) so that as cash is available (mortgages are purchased. In part CABEI should anticipate cash receipts through the writing of commitment letters as described above. CABEI's Home Loan Department can realistically make two year projections which are fairly accurate.

RECOMMENDATION NUMBER SIX - AID LOAN -

CABEI has pending before AID an application for a CA\$ 15,000,000 loan guarantee. This application has neither been accepted or rejected.

SUMMARY

CABEI's Home Loan Department is operative. It needs improving. The various borrowers from CABEI should be educated that CABEI insists on prompt payment, on collateral that equals 125% of the amount owed CABEI, and in holding the delinquencies in the collateral loans to three payments or less. CABEI should invest its Home Loan Department funds promptly and in order to do this a cash flow chart is necessary. CABEI should investigate whether its present portfolio is bankable and if not the portfolio should be converted to bankable form. Lastly CABEI should create an Advisory Board to the Home Loan Department.

The Loan Guarantee policies and procedures have been changed since the date of the application.

I believe that CABEI should investigate amending its present application in accordance with the following:

1. Make such modifications as the new rules and policies require.
2. Write a letter to A. I. D. indicating CABEI's intention to improve its housekeeping and follow up this letter and with subsequent letter or letters reflecting the changes that have been accomplished. (It appears to me that this is a key to the obtaining of a loan guarantee).
3. Subject to A. I. D. 's approval modify the application so as to receive in part loan guarantee funds and in part a direct loan. (If loan fund cost to CABEI is more than 7% the cost is probably excessive. Although the most I can do is estimate I would strive to hold the cost of funds to CABEI to 6½% or lower).
4. In view of the length of time necessary to complete on AID Loan Guarantee Funding and based on my "reaction" (for my work did not include a survey) I would suggest that the Loan Guarantee that be sought be left at CA\$ 15,000,000 unless AID recommended a reduction. CABEI could probably buy CA\$ 4,000,000 in qualifying mortgages today in Guatemala and El Salvador. It could also place commitment letters for several million more in these two countries.
5. CABEI should request commitment from A. I. D. to provide "seed capital" for a savings and loan association in Honduras. This should be a separate contract. See discussions above concerning Honduras.



FINANCIAL INFORMATION

AS OF DECEMBER 31, 1968

CENTRAL AMERICAN BANK
FOR ECONOMIC INTEGRATION

BANK OFFICES

The main office of the Bank is in the city of Tegucigalpa, D. C., Republic of Honduras.

Edif. Banco Central
7th. Floor
Phone 2-22-30
P. O. Box 772
Telex HT 103

The Central American Bank for Economic Integration (CABEI) is an international institution created by an agreement that became effective on May 8, 1961.

The member countries of the Bank are the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica.

The objective of the Bank is to promote the economic integration and the balanced economic development of its member countries.

There are offices of the Bank in the capital cities of the other Member Countries:

Guatemala:

7a. Ave. "A", 9-30
Zona 9
Guatemala
Phone 6-5722

Nicaragua:

Edif. Banco Central
14th. Floor
Managua
Phone 7-2441

El Salvador:

Edif. Banco Hipotecario
San Salvador
Phone 23-48-55

Costa Rica:

Edif. Banco Central
6th. Floor
San José
Phone 21-53-77

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Operations
Fernando Jiménez

Accounting
Mario Castañeda

Economic Research
and Promotion
Ernesto Somarriba

Internal Auditing
Olivio Domínguez

BALANCE SHEET
As of December 31, 1968
(In Central American Pesos Note 1)

<u>Assets</u>	
Cash in banks	SCA 1 147 112
Short-term investments	16 471 263
Loans outstanding	54 981 456
Accrued interest and other charges	1 776 025
Land, office and transportation equipment	507 280
Other assets	<u>585 667</u>
	<u>SCA 75 468 503</u>
<u>Liabilities, Reserve and Equity</u>	
Accrued interest and accounts payable	SCA 486 856
Long-term debt	50 665 407
Reserve for employee benefits	<u>239 864</u>
Liabilities and reserve	<u>51 392 127</u>
Authorized capital (60 000 000)	
Subscribed	40 000 000
Uncalled portion	(20 000 000)
	<u>20 000 000</u>
Donated surplus	2 165 163
General reserve	1 248 765
Current year results (Note 2)	<u>662 748</u>
Equity	<u>24 576 676</u>
	<u>SCA 75 468 803</u>

Notes:

1. The Central American Peso (SCA) is a monetary unit of account equivalent to the United States Dollar.
2. The fiscal year of the Bank ends on June 30.

FINANCIAL RESOURCES

To fulfill its financial objectives within the process of economic integration of Central America, the Bank has the following resources:

Capital Resources

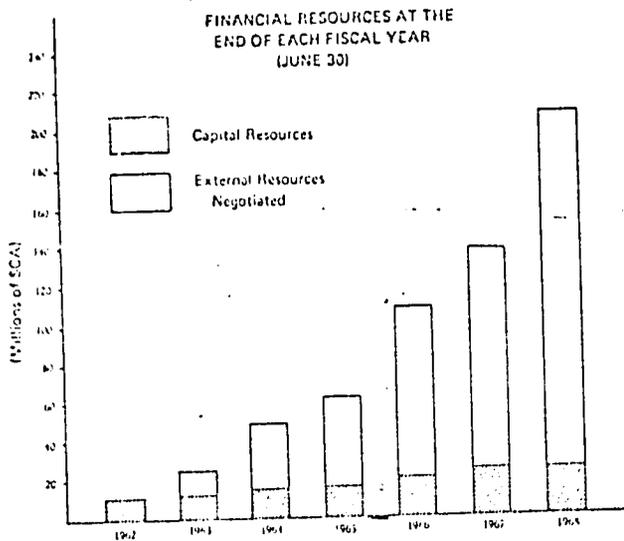
The authorized capital is SCA 60 Million of which SCA 40 Million has already been subscribed and the rest is now in the process of subscription. Paid-in capital amounts to SCA 20 Million and, recently, SCA 12.5 Million has been called for payment.

External Long-term Resources

The Bank has received significant assistance in the form of loans from international financial institutions and from friendly countries, as well as valuable cooperation from central american and foreign banks, as detailed below:

	<u>Millions of SCA</u>
Agency for International Development	82.5
Interamerican Development Bank	42.2
Spain, Mexico and The Netherlands	18.4
Bank Syndicates of France, Italy, Switzerland, Belgium and United Kingdom	36.6
Private U. S. Banks	<u>2.2</u>
	<u>181.9</u>

The Bank is carrying out negotiations to obtain additional resources from some of the above mentioned sources, and to establish financial agreements with other industrialized countries in order to further expand the diversification of its sources of financing.



FINANCIAL STRUCTURE

The internal financial structure of the Bank is divided into three funds.

Ordinary Fund

The resources assigned to this fund are primarily used to finance industrial projects and pre-investment studies.

Central American Fund for Economic Integration

The resources of this fund are used to finance regional infrastructure projects which are selected according to priorities of the integration program.

Home Loan Fund

The objective of this fund is to develop a program of middle-income housing, giving assistance to financial housing institutions operating in the area.

ACTIVITIES OF THE BANK

The financial assistance of the Bank is channeled to projects of the governments, autonomous public institutions and private firms of Central America. These projects must be economically and technically sound and must contribute to the development of balanced economic growth and integration of the area.

To provide this financial assistance, the Bank may:

- Authorize loans to cover the cost of feasibility studies
- Authorize loans for the implementation of projects
- Invest in capital stock of companies
- Act as a financial agent in obtaining loans and guaranties
- Give its guaranty to credits obtained by public and private concerns
- Authorize loans to investors for the purchase of capital stock of private companies

Also, in order to stimulate the implementation of projects, the Bank prepares reports on investment opportunities existing in the area and assists in their promotion.

There are other activities carried out by this multinational development institution, such as participation in the making of studies of important economic sectors of the area, procuring the necessary coordination with the corresponding national institutions and integration organizations.

APPROVED LOANS
Up to December 31, 1968
(Amounts in Thousands SCA)

	<u>Number</u>	<u>Amount</u>
Pre-investment Studies	<u>50</u>	<u>5 544</u>
Investment:		
Industry	134	53 713
Hotels	9	2 995
Electric Power	7	3 678
Highways	21	74 290
Housing	12	10 000
Other	<u>9</u>	<u>3 544</u>
	<u>192</u>	<u>148 220</u>
Total	<u><u>242</u></u>	<u><u>153 764</u></u>

One of the significant figures in the chart above is the financing of industry, which at first was concentrated in traditional industries (primarily textiles and food products), to be broadened later to intermediate and metal-mechanic industries which permit a better basis for the industrial growth of the area.

Another outstanding figure is the financing of highways; in fact, in this sector, the Bank has given priority to the construction of the Central American Highway System which has great importance for the operation of the Common Market.

The financing of pre-investment studies has been an important factor in determining the feasibility of industrial projects of significant impact in the economics of the area, as well as integration highways and other infrastructure projects of regional interest such as the Central American Telecommunications Network, the Regional Grain Storage Program, projects for electric interconnection among Member Countries and projects for the construction or improvement of major ports and airports.

MEDIUM HOUSING MARKET ANALYSIS FOR THE PROGRAM OF

THE CENTRAL AMERICAN BANK
FOR ECONOMIC INTEGRATION

1970 - 1974

HOME LOAN DEPARTMENT

TEGUCIGALPA, D. C.

JUNE 1969

CONTENTS

	Page
INTRODUCTION	1
CHAPTER I	1
Financing and Investment in Urban Housing for the 1960-1968 Period	3
CHAPTER II	
Distribution of the Population by Income	17
CHAPTER III	
Urban Housing Market in Central America	32
ATTACHMENTS	49

MEDLHI HOUSING MARKET ANALYSIS FOR THE PROGRAM OF
THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

INTRODUCTION

The study covered in this pamphlet is for the purpose of determining the magnitude of the Central American market for home financing under the Central American Bank's Program. The market has been delimited according to the present characteristics of the Bank's Housing Program; however, the area that could be financed with funds coming from the investment guaranty requested from AID, is indicated separately in the charts and finally, a chart which shows the effective market for this type of resources is presented.

This analysis does not include the large area of homes for low income people, which could only be financed with government subsidy. It covers the social-economic strata of families whose income ranges between \$CA 90.00 and \$CA 400.00 per month, based on the theory that only homes within prices from \$CA 2,000.00 to \$CA 10,000.00 will be financed.

It is difficult to estimate the potential housing demand and it is subject to margins of errors, but it is even more difficult to estimate the effective demand which involves other factors, such as the population's interest in acquiring a home and their economic capacity, the availability of homes and their cost.

Nevertheless, the estimates of effective housing demand are a guide to evaluate the projects and related risks; and considering other limitations, to calculate the amount of resources needed for the Program.

- 2 -

The information available for developing estimates of the possible housing demand, in regard to family income, is very reduced. The basic data on family-housing ratio is unavailable, and the distribution of the population by range of income is unreliable. Since this information constitutes one of the most important aspects of this work, an additional effort has been made to carry out reasonable estimates of these factors, and the results obtained are believed to be within an acceptable level of reliability.

This work has been done by means of simple and practical estimates of the housing demand, with projections of price ranges for all cities of the region in which the market for secondary mortgage could operate without great difficulty. The demand generated by dynamic factors such as the population growth and the characteristics of the units from 1959 on, has been taken into consideration; the 1959 population was determined utilizing the estimates for different years in different cities, and applying the geometrical rate of growth later census corresponding to each group. The population in the analyzed area has been distributed by income, using the data from housing institutions in the area, who have conducted researches on income distribution, employment and other information, in view of the lack of national income census.

The procedure used by AIB's Latin American Bureau, that utilizes the ratio between the income, the value of the loans and the number of families to be taken care of, was followed in this analysis.

Chapter 1 contains information on home financing and investment during 1960 through 1965, and it is considered a valuable element to measure the region's financing capabilities and the possibilities of its mortgage credit sources.

Additional information on Central American urban housing during the period 1960-1968 and on the Medium Housing Program of the Central American Bank for Economic Integration, is given in the attachments hereto.

CHAPTER I.

FINANCING AND INVESTMENT IN URBAN HOUSING

FOR THE 1960 - 1968 PERIOD

In every market analysis it is extremely important to know the source and application of the funds assigned to attend such market. Since to this date there are no tabular registrations of the total amount of funds directed through different channels to the financing of Central American urban housing, and in view of the importance of this aspect, the information to, at least, determine as accurately as possible, the application of the funds, was obtained from different sources.

The information to establish the financing destined to housing was obtained from specialized housing institutions and from the Superintendency of Banks, as shown in the corresponding charts. In each case, the borrowers contributions were estimated according to each institution's financing policy. The value of the houses built with other funds, has been estimated by deducting the amount financed by the institutions and the borrowers contributions from the total investment registered according to municipal construction permits.

In Central America there are several types of public and private institutions for financing housing programs. In Guatemala, El Salvador and Costa Rica there are national mortgage banks; Savings and Loan Systems are established in Nicaragua and El Salvador, and there are three private stock associations functioning in each country. In these two countries there are also laws for savings and loan associations and savings insurance. In Honduras, proper regulations have been into effect since May 1968 for savings and loan associations; however, at the time being none is in operation. It is known that several groups are progressing toward the organization of this type of financing institution. The Financiera Nacional de la Vivienda of El Salvador

- 4 -

and the Banco de la Vivienda of Nicaragua act as national home banks for the Savings and Loan Associations.

The Instituto de Fomento de Hipotecas Asguradas, known as F.H.A., operates in Guatemala since 1962 and in Nicaragua since 1967; in El Salvador the legislation exists since 1964, but to this date, it has not been put into practice.

The subsidized housing in the region's five countries is attended through autonomous housing institutions, which receive government subsidy and attend the low income families housing needs.

Following is a brief description by countries, of the private and public institutional mechanism for home financing in the area.

GUATEMALA

Banco Granai & Townson and Banco Inmobiliario are the private banks that finance a greater number of homes in this country ^{1/}. Banco de Occidente recently initiated the financing of homes. Credito Hipotecario Nacional, a national bank, have been financing homes for many years, and as of December 1965, had carried out 11,000 operations for a total of \$CA 20.0 million. The Instituto Nacional de la Vivienda, an autonomous organization, have financed around 9,000 homes for a total of \$CA 23.0 million in Guatemala and other cities of the republic. During the 1960-1963 period, the amount financed by private and national institutions was \$CA 118.0 million in 28,000 homes. The borrowers contributions are estimated at \$CA 24.6 million. The total investment for that period reached \$CA 154.0 million in approximately 39,000 homes of which it is estimated that 2,000 were built with other funds, at a cost of \$CA 11.0 million.

A \$CA 3.6 million program administered by Banco Granai & Townson is being developed in Guatemala with AED's Guaranty, and has been included in this bank's operations. See Chart No 1.

^{1/} These banks are now commercial banks, but act as Savings and Loan Associations.

CHART No. 1

GUATEMALA

FINANCING AND INVESTMENT 1960 - 1968

<u>INSTITUTIONS</u>	<u>NUMBER OF HOUSES</u>	<u>AMOUNT \$CA</u>
Banco General & Thomson	2,668	20,896,751.00
Banco Republicano	2,662	25,753,284.00
Crédito Hipotecario Nacional	11,252	20,319,405.00
Banco de Occidente	693	4,041,195.00
Instituto Nacional de la Vivienda -- INVI --	8,647	22,945,447.00
Other Banks and Insurance Companies	<u>2,078</u>	<u>24,161,300.00</u>
TOTAL FINANCED	28,000	118,117,382.00
Borrowing Contributions <u>1/</u>		24,600,000.00
Houses not Financed <u>1/</u>	<u>2,000</u>	<u>11,236,400.00</u>
TOTAL INVESTMENT	<u>30,000</u>	<u>153,953,782.00</u>

1/ Central American Bank's estimates

SOURCE OF INFORMATION: Banco de Guatemala, INVI, F.H.A. and other credit institutions.

EL SALVADOR

The Savings and Loan System of El Salvador functions since 1965 with three private stock Associations, having financed 1,300 homes for a total of \$CA 10.0 million. During the 1960-1966 period, Banco Epitacario of El Salvador financed 4,800 operations for a total of \$CA 28.0 million. Financiera "El Foble", a construction company, financed 433 homes for \$CA 6.0 million.

A program administered by a savings and loan association with AID's Guaranty, is being executed in San Salvador; as of December 1968, 112 homes were built with a total financing of around \$CA 1.0 million.

During the same period, the Instituto de Vivienda Urbana financed \$CA 20.0 million in 7,650 housing units.

The amount financed in El Salvador during the 1960-1968 period was \$CA 101.0 million which was complemented with borrowers contributions of \$CA 14.0 million. The total investment during this period was \$CA 138.0 million in approximately 19,100 homes including \$CA 22.5 million originated from other resources. See Chart N^o 2.

CHART Nº 2

EL SALVADOR

FINANCING AND INVESTMENT 1960 - 1968

<u>I N S T I T U T O R S</u>	<u>N U M B E R O F H O U S E S</u>	<u>A M O U N T \$ C A</u>
Banco Hipotecario	4,783	28,004,058.00
Savings and Loan Associations <u>1/</u>	1,298	10,339,351.00
Financiera "El Roble"	433	6,003,827.00
ATLACATEL <u>2/</u>	112	974,429.00
Instituto de Vivienda Urbana <u>3/</u>	7,850	20,150,856.00
Other Financing Institutions	3,148	35,043,734.00
TOTAL FINANCED	17,624	101,521,265.00
Borrowers Contributions <u>4/</u>		14,112,735.00
Houses not Financed <u>4/</u>	1,476	22,500,000.00
TOTAL INVESTMENT	19,100	138,134,000.00

- 1/ Began operations in 1965
- 2/ AID Guaranty Program
- 3/ Information rendered up to 1967
- 4/ Central American Bank's estimates

SOURCE OF INFORMATION: Banco Hipotecario - Memorias 1960-1968
 Financiera Nacional de la Vivienda - Informes 1965-1968
 Financiera "El Roble" - Memoria 1965
 Informe Asociación Ahorro y Préstamo ATLACATEL
 Informe IVH

HONDURAS

In Honduras there are no private institutions specifically engaged in financing homes on long term credit. The Banco de la Propiedad and Capitalizadora Hondureña, originally constituted as contractual savings and loan banks, were recently changed into commercial banks. There are no records to determine the exact amount of bank funds channeled toward housing, or the number of operations.

Banco Atlántida is administering two programs for a total of \$CA 4.4 million guaranteed by AID, with which they have financed 1,070 houses in Tegucigalpa.

The Housing Cooperatives and Honduran Labor Unions have received assistance from AID in the amount of \$CA 2.4 million, having financed 437 homes in the North Zone of the country, in Tala, La Ceiba and San Pedro Sula.

The Instituto de la Vivienda have financed over 4,600 homes for a total of \$CA 8.0 million.

The investment in approximately 16,600 homes for the 1960-1968 period is estimated at \$CA 66.0 million; the amount financed was above \$CA 50.0 million; borrowers contributed with about \$CA 11.4 million and other sources with \$CA 2.0 million. See Chart N° 3.

CHART NO 3

HONDURAS

FINANCING AND INVESTMENT 1960 - 1968

<u>I N S T I T U T I O N S</u>	<u>N U M B E R O F H O U S E S</u>	<u>A M O U N T \$CÁ</u>
Banco de la Propiedad <u>4/</u>	<u>1/</u>	2,506,785.00
Banco La Capitalizadora Hondureña	<u>1/</u>	3,766,749.00
Compañía de Seguros Interamericana	<u>1/</u>	1,379,308.00
Banco Agrícola <u>2/</u>	1,070	4,370,915.00
Instituto de la Vivienda - IRVA -	4,616	8,078,533.00
Programa Cooperativas y Sindicatos	437	2,432,235.00
Other Banks and Insurance Companies	<u>1/</u>	29,989,892.00
TOTAL FINANCED	<u>1/</u>	52,524,409.00
Borrowers Contributions		11,411,819.00
Houses not Financed	<u>1/</u>	2,063,772.00
TOTAL INVESTMENT	<u>16,600</u> <u>3/</u>	<u>66,000,000.00</u>

- 1/ Unknown
- 2/ AID Guaranty Program
- 3/ Central American Bank's estimates
- 4/ Banco de Comercio since November, 1968

SOURCE OF INFORMATION: Banco Central y Superintendencia de Bancos
Instituto de la Vivienda - IRVA -
Asociación Cooperativas de Honduras
SINDICATO
Other Financing Institutions

NICARAGUA

Prior to the enactment in 1966 of the Law for the National System of Savings and Loan for Housing, there were two contractual saving companies in Nicaragua, with the establishment of Banco de la Vivienda, these were converted into private stock Savings and Loan Associations, a third one being established later on. The Instituto Nicaragüense de la Vivienda, a national organization, was constituted in 1959 and later changed into Banco de la Vivienda by virtue of the Savings and Loan National System's Law.

On the other hand, a program with AIB's Guaranty was initiated in 1966, having financed, as of December 1968, 561 homes for a total of \$CA 5.3 million.

The total amount financed by the Savings and Loan Associations, Contractual Saving Companies, INVI, Guaranty Program and other financing institutions during the 1960-1968 period, was \$CA 43.7 million for 9,900 homes completed with \$CA 17.7 million from borrowers contributions.

The amount invested during this same period is estimated at \$CA 88.0 million for approximately 12,000 homes. Dwellings built with other funds were estimated at \$CA 26.0 million. See Chart Nº 4.

CHART Nº 4

N I C A R A G U A

FINANCING AND INVESTMENT 1960 - 1966

<u>I N S T I T U T I O N S</u>	<u>N U M B E R O F H O U S E S</u>	<u>A M O U N T \$ C A</u>
INVI <u>1/</u>	6,603	17,322,800.00
Savings and Loan Associations	498	4,467,143.00
Contractual Savings Companies <u>2/</u>	1,668	8,404,428.00
AID Guaranty Program	581	5,276,445.00
Other Financing Institutions	550	8,250,000.00
<u>TOTAL FINANCED</u>	<u>9,900</u>	<u>43,720,816.00</u>
Borrowers Contributions <u>3/</u>		17,735,000.00
Houses not Financed <u>3/</u>	2,100	26,744,184.00
<u>TOTAL INVESTMENT</u>	<u>12,000</u>	<u>88,200,000.00</u>

1/ Department of Banco de la Vivienda - before Instituto Nicaraguense de la Vivienda.

2/ Contractual Savings Companies up to 1966

3/ Central American Bank's estimates

SOURCE OF INFORMATION: Banco Central de Nicaragua
Banco de la Vivienda de Nicaragua
Credit Institutions

COSTA RICA

In this country there are no large private institutions dedicated to home financing. The national banks, only organizations authorized by the National Banking System's Law to receive deposits, grant long term credit for home financing through their Mortgage Department.

The Instituto Nacional de Seguros and the Instituto Nacional de Vivienda y Urbanismo, two autonomous institutions, grant loans, for medium housing the first one, and primarily to low income families the latter. The Caja Costarricense de Seguro Social granted home loans until 1966; subsequently, the funds destined to housing were channeled through the Instituto Nacional de Vivienda y Urbanismo.

The amount financed during the 1960-1968 period, in this case mainly by national agencies, totalled \$CA 68.0 million in approximately 26,500 homes; the borrowers contributions were of \$CA 15.9 million and the cost of homes built without apparent financing was \$CA 6.4 million. The investment for this same period reached \$CA 90.6 million for a total of 29,000 homes. See Chart N^o 5.

CHART Nº 5

COSTA RICA

FINANCING AND INVESTMENT 1960 - 1968

<u>I N S T I T U T I O N S</u>	<u>N U M B E R O F H O U S E S</u>	<u>A M O U N T \$ C A</u>
Banco Nacional	5,984	11,735,192.00
Banco Anglo Costarricense	1,219	3,628,367.00
Banco de Costa Rica <u>1/</u>	3,336	5,077,751.00
Banco Crédito Agrícola de Cartago	1,856	2,286,085.00
Instituto Nacional de Seguros	4,180	21,482,262.00
Instituto Nacional Vivienda y Urbanismo (INVU)	9,450	21,453,012.00
Caja Costarricense del Seguro Social <u>1/</u>	484	2,658,000.00
<u>TOTAL FINANCING</u>	<u>26,509</u>	<u>68,320,669.00</u>
Homeowners Contributions <u>2/</u>		15,897,113.00
Houses not Financed <u>2/</u>	2,500	6,400,000.00
<u>TOTAL INVESTMENT</u>	<u>29,009</u>	<u>90,617,782.00</u>

1/ Information available up to 1966

2/ Central American Bank's estimates

SOURCE OF INFORMATION: Banks
INVU

- 15 -

CENTRAL AMERICA

Based on the investigations performed, it was determined that from 1960 to 1968, a total of approximately \$CA 537.0 million was invested in the construction of urban housing in Central America, which represents an average of \$CA 60.0 million per annum. Within this total, the national housing institutions financed 16.8% the savings and loan systems 11.4%; the borrowers contributions and other funds invested in housing 28.4% and other financing institutions 43.4%.

In each country the borrowers contributions vary depending on the policies of their financing institutions and these variations could range between 5% to 50%, from one country to another, depending on whether the borrower buys a home or builds on his own land.

The amount financed by the credit institutions herein referred to during the 1960-1968 period was \$CA 384.0 million for the construction of 106,700 homes. This represents approximately 72% of the total investment.

It is important to point out that this part of the analysis refers to a nine year period. Also, the housing financing covers all levels of family income including subsidized housing.

Chart No 6 provides a summary of the financing and investment in the region's urban housing during the 1960-1968 period.

- 16 -

CHART N° 6

CENTRAL AMERICA

FINANCING AND INVESTMENT IN URBAN HOUSING
URING THE PERIOD 1960 - 1968

<u>C O U N T R I E S</u>	<u>NUMBER OF HOUSES</u>	<u>AMOUNT FINANCED \$CA</u>	<u>TOTAL INVESTMENT \$CA</u>
GUATEMALA	30,000	118,117,302.00	153,953,782.00
EL SALVADOR	19,100	101,521,265.00	138,134,000.00
HONDURAS	16,600	52,524,409.00	66,000,000.00
NICARAGUA	12,000	43,720,816.00	88,200,000.00
COSTA RICA	29,000	68,320,665.00	90,617,782.00
TOTAL CENTRAL AMERICA	106,700	384,204,541.00	536,905,564.00

SOURCE OF INFORMATION: Indicated in the corresponding Charts

CHAPTER II

DISTRIBUTION OF THE POPULATION BY INCOME

The estimate of potential housing demand is of major help to determine the effective demand, if the data on family income distribution does not define the needs of each stratum, assigning a value to the units required, based on the fact that there is willingness and ability to acquire a home. Unfortunately, in the region there are no adequate and detailed studies on income distribution which can be utilized accurately, and the census did not cover other than employment aspects, in regards to the population, from the economic point of view. A study of this nature is a regional necessity and constitutes a very important and costly endeavor, very seldom found in the American Continent. In lieu of such study we have decided to work with researches made during previous years in different Central American countries, as stated in the Introduction, establishing the raise in income during the analyzed period, as follows:

According to social security statistics in Central America, the laborer's income have increased at a rate which vary between 4% and 8% per annua. In this case we have applied a uniform rate of 4% which is adequate for family income at a long term. This is a conservative assumption, but the salary information alone, could involve structural changes that would alter the data.

- 18 -

GUATEMALA

Our analysis is based on a study of the Instituto de Fomento de Hipotecas Anegredas published in January 1967, under the heading "Appreciations on the Possible Housing Market in Guatemala City".

Unfortunately, there is no data for other cities and urban areas in Guatemala, therefore our study is limited to the capital city. However, it is important to note that the other cities and urban areas do not greatly influence the market.

According to the above mentioned study, in 1964 Guatemala City inhabited 102,560 families and have had a geometrical growth of 5.4% per annum.

Based on the above figures, we have estimated that in 1969 there are 141,330 families living in the capital. For the stratification of the population's income we have used the 1964 distribution, projecting it to 1969 as indicated in Chart N° 7.

- 19 -

GRADE N° 7

GUATEMALA 1/POPULATION BY INCOME
1969

<u>QPA / MONTH</u>	<u>NUMBER OF FAMILIES</u>	<u>%</u>	<u>% ACCUMULATED</u>
0 - 50	45,226	32.00	32.00
50 - 100	31,800	22.50	54.50
100 - 150	19,726	14.00	68.50
150 - 200	9,105	6.50	75.00
200 - 250	4,240	3.00	78.00
250 - 300	4,240	3.00	81.00
300 - 350	2,120	1.50	82.50
350 - 400	2,120	1.50	84.00
400 - 450	1,413	1.00	85.00
450 - 500	2,826	2.00	87.00
500 - 600	1,413	1.00	88.00
600 - 700	2,120	1.50	89.50
700 - 800	2,120	1.50	91.00*
800 or more	<u>12,720</u>	<u>9.00</u>	100.00
T O T A L	<u>141,330</u>	<u>100.0%</u>	

1/ Guatemala City

Footnote based on Study of the Guatemalan Mortgage Credit Insurance Institute (IMC) "Appreciation on the Possible Housing Market in Guatemala City" - January, 1967.

EL SALVADOR

The information obtained from Instituto de Vivienda Urbana and Direccion de Estadistica y Censos allowed us to estimate that in 1969 there are 92,900 families living in San Salvador and 147,000 families in San Salvador and other principal cities in the country. The distribution of the population is shown in Charts N° 8 and 9.

CHART NO. 8

EL SALVADOR 1/

POPULATION BY INCOME

1969

<u>BOA / MENS</u>	<u>NUMBER OF FAMILIES</u>	<u>%</u>	<u>% ACCUMULATED</u>
0 - 50	22,300	24.00	24.00
50 - 100	32,050	34.50	58.50
100 - 150	13,460	14.50	73.00
150 - 200	7,900	8.50	81.50
200 - 250	4,180	4.50	86.00
250 - 300	1,830	2.00	88.00
300 - 350	935	1.00	89.00
350 - 400	930	1.00	90.00
400 - 450	465	0.50	90.50
450 - 500	465	0.50	91.00
500 - 600	1,830	2.00	93.00
600 - 700	930	1.00	94.00
700 - 800	930	1.00	95.00
800 or more	<u>4,640</u>	<u>5.00</u>	100.00
T O T A L	<u><u>92,900</u></u>	<u><u>100.0%</u></u>	

1/ City of San Salvador

Footnote based on information presented by the Instituto de Vivienda Urbana of El Salvador to the II Interamerican Housing Congress, Caracas 1969 and the 1967 Statistical Yearbook of the Dirección de Estadística y Censos- Demography of El Salvador.

CHART Nº 9

EL SALVADOR 1/

POPULATION BY INCOME

1969

<u>\$CS / MONTH</u>	<u>NUMBER OF FAMILIES</u>	<u>%</u>	<u>% ACCUMULATED</u>
0 -- 50	41,900	28.50	28.50
50 -- 100	50,710	34.50	63.00
100 -- 150	19,650	13.50	76.50
150 -- 200	10,250	7.00	83.50
200 -- 250	6,610	4.50	88.00
250 -- 300	4,410	3.00	91.00
300 -- 350	1,470	1.00	92.00
350 -- 400	735	0.50	92.50
400 -- 450	735	0.50	93.00
450 -- 500	735	0.50	93.50
500 -- 600	1,470	1.00	94.50
600 -- 700	735	0.50	95.00
700 -- 800	1,470	1.00	96.00
800 or more	<u>5,680</u>	<u>4.00</u>	100.00
T O T A L	<u>147,030</u>	<u>100.0%</u>	

1/ Includes: San Salvador, Nueva San Salvador, Santa Ana, Sonsonate, San Miguel, San Vicente, Usulután & Ahuachapán.

Estimate based on information presented by the Instituto de Vivienda Urbana of El Salvador to the II Interamerican Housing Congress, Caracas 1969 and the 1967 Statistical Yearbook of the Dirección de Estadística y Censos - Demography of El Salvador.

GRUPO Nº 10

HOENDEMAS 1/

POPULATION BY INCOME

1969

<u>\$01. / MONTH</u>	<u>NUMBER OF FAMILIES</u>	<u>%</u>	<u>% ACCUMULATED</u>
0 - 50	16,720	22.00	22.00
50 - 100	24,320	32.00	54.00
100 - 150	17,480	23.00	77.00
150 - 200	7,600	10.00	87.00
200 - 250	3,800	5.00	92.00
250 - 300	1,140	1.50	93.50
300 - 350	380	0.50	94.00
350 - 400	380	0.50	94.50
400 - 450	190	0.25	94.75
450 - 500	190	0.25	95.00
500 - 600	760	1.00	96.00
600 - 700	760	1.00	97.00
700 - 800	760	1.00	98.00
800 or more	<u>1,520</u>	<u>2.00</u>	100.00
T O T A L	<u>76,000</u>	<u>100.0%</u>	

1/ Includes: Tecuigalpa, San Pedro Sula, La Ceiba, Puerto Cortés, El Progreso & Choluteca.

SOURCE OF INFORMATION: Banco Central de Honduras, Banco Nacional de Fomento and Instituto de Investigaciones Económicas de la Universidad de Honduras

NICARAGUA

Chart Nº 11 shows a pattern of the income distribution for the city of Managua, taken from the Housing Market Study elaborated by the Banco de la Vivienda of Nicaragua. Chart Nº 12 shows an estimate of the number of families in Managua and eight of the most important cities in that country during 1969, classified by family income; it includes Managua, Leon, Chinandega, Granada, Jinotega, Esteli, Diriamba, Matagalpa and Masaya. In this respect, when it refers to the effective demand for 1969-1972, generated by dynamic elements, the Banco de la Vivienda indicates that for the distribution of income in the nine cities above mentioned, the figures which basically approximated the income distribution was the employment data of the 1963 population census. From a comparative point of view, the structural similarity between Managua and the other cities may appear surprising, but the fact is that the employment structures, as far as income goes, are very similar. On the other hand, the available information shows that in Leon and Chinandega, the income is 20% lower than Managua's and 30% lower than other minor cities.

Notwithstanding the casualness and intuitive character of the method by which the income structure was estimated for cities other than the capital, it is an adequate approximation that could only be sensibly improved, for practical effects, at a great cost.

CHART # 11

REGIMEN 1/

POPULATION BY INCOME

1969

<u>\$00 / MONTH</u>	<u>NUMBER OF FAMILIES</u>	<u>%</u>	<u>% ACCUMULATED</u>
0 - 50	8,117	14.40	14.40
50 - 100	21,195	37.60	52.00
100 - 150	13,529	24.00	76.00
150 - 200	4,397	7.80	83.80
200 - 250	2,424	4.30	88.10
250 - 300	1,635	2.90	91.00
300 - 350	338	0.60	91.60
350 - 400	225	0.40	92.00
400 - 450	564	1.00	93.00
450 - 500	564	1.00	94.00
500 - 600	282	0.50	94.50
600 - 700	282	0.50	95.00
700 - 800	564	1.00	96.00
800 or more	<u>2,255</u>	<u>4.00</u>	100.00
T O T A L	<u><u>56,371</u></u>	<u><u>100.0%</u></u>	

1/ City of Managua

Estimate based on information presented by Banco de la Vivienda of Nicaragua in its Study "Housing Demand 1969 - 1972" January, 1969

COUNT NO 12

NICARAGUA 1/

POPULATION BY INCOME

1969

<u>\$00 / MONTH</u>	<u>NUMBER OF FAMILIES</u>	<u>%</u>	<u>% ACCUMULATED</u>
0 - 50	19,299	21.36	21.36
50 - 100	32,876	36.39	57.75
100 - 150	17,496	19.37	77.12
150 - 200	6,989	7.74	84.85
200 - 250	3,443	3.81	88.67
250 - 300	2,171	2.40	91.07
300 - 350	1,016	1.12	92.19
350 - 400	466	0.52	92.71
400 - 450	947	1.05	93.76
450 - 500	1,341	1.48	95.24
500 - 600	621	0.69	95.93
600 - 700	523	0.58	96.51
700 - 800	734	0.81	97.32
800 or more	<u>2,425</u>	<u>2.68</u>	100.00
T O T A L	<u>90,347</u>	<u>100.0%</u>	

1/ Includes: Managua, Leon, Chinandega, Granada, Jinotega, Estelí, Diriamba, Matagalpa and Masaya.

Source: based on information presented by Banco de la Vivienda of Nicaragua in its Study "Housing Demand 1969-1972" January, 1969.

- 25 -

COSTA RICA

Charts N^o 13 and 14 show the distribution of the population by monthly income in the city of San Jose, and an estimate of the number of families by monthly income in San Jose and other principal cities in Costa Rica. This estimate is based on 1969 information from Instituto Nacional de Vivienda y Urbanismo and according to the 1966 Statistical Yearbook of the Dirección de Estadística y Censos of Costa Rica. A 4.61% annual geometrical rate of growth has been applied for San Jose and 4.25% for San Jose and other principal cities in Costa Rica, in population projections.

CHART NO 23

COSTA RICA 1/

POPULATION BY INCOME

1959

<u>\$/CA / MONTH</u>	<u>NUMBER OF INDIVIDUALS</u>	<u>%</u>	<u>% ACCUMULATED</u>
0 - 50	14,585	26.00	26.00
50 - 100	13,460	24.00	50.00
100 - 150	9,535	17.00	67.00
150 - 200	7,850	14.00	81.00
200 - 250	4,450	8.00	89.00
250 - 300	1,680	3.00	92.00
300 - 350	840	1.50	93.50
350 - 400	560	1.00	94.50
400 - 450	840	1.50	96.00
450 - 500	560	1.00	97.00
500 - 600	280	0.50	97.50
600 - 700	280	0.50	98.00
700 - 800	560	1.00	99.00
800 or more	560	1.00	100.00
<u>T O T A L</u>	<u>56,000</u>	<u>100.0%</u>	

1/ Includes the Metropolitan Area of San Jose.

Estimate based on information from Instituto Nacional de Vivienda y Urbanismo, 1959 and 1966 Statistical Yearbook of the Direccion de Censos y Estadistica of Costa Rica.

CHART Nº 14

COSTA RICA 1/

POPULATION BY INCOME

1969

<u>\$/ MONTH</u>	<u>NUMBER OF FAMILIES</u>	<u>%</u>	<u>% ACCUMULATED</u>
0 - 50	21,350	26.00	26.00
50 - 100	19,704	24.00	50.00
100 - 150	13,950	17.00	67.00
150 - 200	11,500	14.00	81.00
200 - 250	6,579	8.00	89.00
250 - 300	2,460	3.00	92.00
300 - 350	1,230	1.50	93.50
350 - 400	821	1.00	94.50
400 - 450	1,230	1.50	96.00
450 - 500	821	1.00	97.00
500 - 600	410	0.50	97.50
600 - 700	410	0.50	98.00
700 - 800	821	1.00	99.00
800 or more	<u>821</u>	<u>1.00</u>	100.00
T O T A L	<u><u>82,098</u></u>	<u><u>100.0%</u></u>	

Includes: Metropolitan Area of San José, Cartago, Alajuela, Heredia, Liberia, Puntarenas, Turrialba and Limón.

Estimate based on information from Instituto Nacional de Vivienda y Urbanismo, 1969 and 1966 Statistical Yearbook of the Dirección de Censos y Estadística of Costa Rica.

GENERAL AMERICA

The family income situation in the region's five countries is shown on the graph of curves which summarize Charts N^o 7, 9, 10, 12 and 14.

Based on this and applying the Norms of the Bank's Program, the number of units and required investment in housing for the 1970-1974 period, was determined as shown in Chapter III. Said Norms establish a limit to the price of the house of 25 times a monthly family income of \$CA 267.00 or more, and 22 1/2 times for lesser amounts.

DISTRIBUTION OF THE POPULATION
BY INCOME

1969



CHAPTER III

URBAN HOUSING MARKET IN CENTRAL AFRICA

A market analysis determine the housing demand in terms of ability and willingness of the families to acquire houses of different types and prices. This information is essential for an adequate urban development, and convenient for a realistic and orderly planning.

The housing demand should be classified in terms of ability of families to afford such housing; in this manner the limited resources available could be directed toward the strata that need more assistance.

Housing need differs from effective housing demand in that housing need is equal to the number of new family formations due to population growth plus the number of families who lack housing or who live under substandard conditions or in dangerous overcrowded housing. The effective demand is determined by the number of families in need of housing, who are able to afford them at market prices.

The Bank's Program has limitations which relates the family income to the price of the house and monthly payments for amortization of the principal and interest. The family income to housing price ratio appears in Chart N° 15, starting at an income of \$CA 90.00 to \$CA 400.00 per month for houses worth \$CA 2,000.00 to \$CA 10,000.00.

CLAVE Nº 15

RATIO BETWEEN MONTHLY INCOME
AND PRICE OF THE HOUSE 1/

<u>MONTHLY FAMILY INCOME</u> <u>SCA</u>	<u>MAXIMUM PRICE OF THE HOUSE</u> <u>SCA</u>
90.00	2,000
133.32	3,000
177.77	4,000
222.22	5,000
266.67	6,000
266.91	6,500
269.00	7,000
320.00	8,000
360.00	9,000
400.00	10,000

1/ Calculated according to the Norms of the Central American Bank's Medium Housing Program

The region's market estimate has been made by utilizing the factors shown in Chart N° 15. The estimated number of families for 1969 is based on this year's population estimate and the average number of family members in each city. The 1970-1974 demand was computed by projecting that population on the basis of the geometrical growth indicated in Chart N° 16. Since in this estimate we consider dynamic elements, growth and replacements, the constructions were given a lifespan of 50 years, that is, a 2% per annum replacement of existing housing in each of the analyzed years.

The number of houses in each stratum and the required investment for the principal cities, was obtained by relating the total demand for the indicated period, with the stratification of the population by monthly income and the cost of the houses. See Charts N° 17 through 24.

If we consider the effective housing demand for the principal cities in each country, in the 1970-1974 period there is a need for 86,546 houses, at a price range between \$CA 2,000.00 and \$CA 10,000.00, with an investment of \$CA 346.7 million. See Chart N° 25. This housing demand is shown again in Chart N° 26 but grouped by countries and reflecting financing needs of \$CA 248.0 million in a separate column, in terms of the maximum allowed by the Bank's Program (80% of the mortgage balance), which theoretically could be handled with funds coming from AID's Loan 596-L-603.

In Chart N° 27 the demand is adjusted to the conditions which could regulate the funds to be obtained under AID's Guaranty Program, that is housing at a maximum price of \$CA 3,500.00 and a 75% financing on the

CHART Nº 16

FACTORS USED TO ESTIMATE THE
BASIC ELEMENTS OF THE MARKET

C I T I E S	RATE OF GEOMETRICAL GROWTH OF POPULATION	FAMILY AVERAGE NUMBER OF MEMBERS	NUMBER OF FAMILIES ESTIMATED FOR 1969
Guatemala City	5.4	5.20	141,330
San Salvador	4.8	5.14	92,900
San Salvador and Principal Cities	3.6	5.14	147,000
Tegucigalpa and Principal Cities	5.0	5.50	71,150
Managua	6.06	5.97	56,371
Managua and Principal Cities	4.60	5.88	90,347
San José	4.61	5.38	56,080
San José and Principal Cities	4.25	5.38	82,098

CHART N° 17

GUATEMALA

URBAN HOUSING DEMAND 1/

1970 - 1975

PRICE RANGES \$GA		NUMBER OF HOUSES 2/	INVESTMENT \$GA
2000 - 3000	ADD Currenty Program	8,314	20,785,000
3000 - 4000		4,890	17,115,000
4000 - 5000		2,445	11,002,500
5000 - 6000		1,834	10,087,000
6000 - 6500		200	1,250,000
6500 - 7000		411	2,774,250
7000 - 8000		1,222	9,165,000
8000 - 9000		1,222	10,387,000
9000 - 10000		1,222	11,609,000
T O T A L		21,760	94,174,750

60,239,500

1/ For Guatemala City

2/ To attend demographic growth and replacement

CHART Nº 18

EL SALVADOR

URBAN HOUSING DEMAND 1/

1970 - 1974

PRICE RANGES \$CA		NUMBER OF HOUSES 2/	INVESTMENT \$CA
2000 -- 3000	ATD Guernsey Program	4,875	12,190,000
3000 -- 4000		3,483	12,190,500
4000 -- 5000		2,090	9,405,000
5000 -- 6000		1,045	5,747,500
6000 -- 6500		110	687,500
		11,604	40,220,500
6500 -- 7000		238	1,606,500
7000 -- 8000		174	1,305,000
8000 -- 9000		174	1,479,000
9000 -- 10000		349	3,305,000
T O T A L		<u>12,536</u>	<u>47,917,000</u>

1/ For the Metropolitan area of San Salvador

2/ To attend demographic growth and replacement

CHART NO 19

EL SALVADOR

URBAN HOUSING DEMAND 1/

1970 - 1974

PRICE RANGES \$CZ.		NUMBER OF HOUSES 2/	INVESTMENT \$CZ.
2000 -- 3000	AID Guaranty Program	7,050	17,625,000
3000 -- 4000		4,610	16,135,000
4000 -- 5000		2,710	12,195,000
5000 -- 6000		1,030	8,965,000
6000 -- 6500		235	1,468,750
6500 -- 7000		470	3,172,500
7000 -- 8000		825	6,112,500
8000 -- 9000		540	4,590,000
9000 -- 10000		540	5,130,000
T O T A L		<u>18,600</u>	<u>75,392,750</u>

1/ Includes: San Salvador, Nueva San Salvador, Santa Ana, Sonsonate, San Miguel, San Vicente, Usulután and Ahuschapán.

2/ To attend demographic growth and replacement

CHART Nº 20

HOUSING

URBAN HOUSING DEMAND 1/

1970 - 1974

PRICE RANGES \$CA		NUMBER OF HOUSES 2/		INVESTMENT \$CA	
2000 - 3000	AID Guaranty Program	7,545	14,071	18,862,500	46,453,250
3000 - 4000		3,190		11,165,000	
4000 - 5000		2,031		9,139,500	
5000 - 6000		1,100		6,380,000	
6000 - 6500		145		908,250	
6500 - 7000		145		978,750	
7000 - 8000		500		4,350,000	
8000 - 9000		290		2,465,000	
9000 - 10000		145		1,377,500	
T O T A L		15,231		55,624,500	

1/ Includes: Tegucigalpa, San Pedro Sula, Puerto Cortes, El Progreso and Choluteca

2/ To attend demographic growth and replacement

CHART No 21

R I C A R A G U A

URBAN HOUSING DEMAND 1/

1970 - 1974

PRICE RANGES \$CA		NUMBER OF HOUSES 2/	INVESTMENT \$CA
2000 - 3000	AID Guaranty Program	6,400	10,000,000
3000 - 4000		2,740	9,590,000
4000 - 5000		1,565	7,042,500
5000 - 6000		783	4,300,500
6000 - 6500		65	400,250
		11,553	37,345,250
6500 - 7000		195	1,310,250
7000 - 8000		391	2,932,500
8000 - 9000		261	2,218,500
9000 - 10000		261	2,470,500
T O T A L		12,621	46,292,000

1/ City of Managua

2/ To attend demographic growth and replacement

CHART N° 22

N I C A R A G U A

URBAN HOUSING DEMAND 1/

1970 - 1974

PRICE RANGES \$CA		NUMBER OF HOUSES 2/	INVESTMENT \$CA
2000 - 3000	} AID Currency Program	7,500	18,750,000
3000 - 4000		3,400	12,100,000
4000 - 5000		2,200	9,900,000
5000 - 6000		1,100	6,050,000
6000 - 6500		92	575,000
6500 - 7000		274	1,849,500
7000 - 8000		550	4,125,000
8000 - 9000		305	3,111,000
9000 - 10000		400	4,376,000
T O T A L		16,032	60,910,500

1/ Includes: Managua, Leon, Chinandega, Granada, Jinotega, Estelí, Diriamba, Matagalpa and Masaya.

2/ To attend demographic growth and replacement

GRANT Nº 25

COSTA RICA

URBAN HOUSING DEMAND 1/

1979 - 1974

PRICE RANGES \$CZ.		NUMBER OF HOUSES 2/	INVESTMENT \$CZ.
2000 - 3000	AID Currenty Program	3,595	8,927,500
3000 - 4000		2,750	9,625,000
4000 - 5000		2,220	9,990,000
5000 - 6000		1,000	5,830,000
6000 - 6500		105	656,250
6500 - 7000		210	1,417,500
7000 - 8000		423	3,172,500
8000 - 9000		211	1,753,500
9000 - 10000		264	2,506,000
T O T A L		10,858	43,983,250

1/ Includes Metropolitan area of San José

2/ To attend demographic growth and replacement

CHART Nº 24

COSTA RICA

URBAN HOUSING DEMAND 1/

1970 - 1975

PRICE RANGES \$CA		NUMBER OF HOUSES 2/	INVESTMENT \$CA
2000 - 3000	ALD Guaranty Program	4,955	12,387,500
3000 - 4000		3,790	13,265,000
4000 - 5000		3,080	13,770,000
5000 - 6000		1,460	8,030,000
6000 - 6500		145	900,250
6500 - 7000		290	1,957,500
7000 - 8000		580	4,350,000
8000 - 9000		292	2,482,000
9000 - 10000		364	3,450,000
T O T A L		14,936	60,600,250

1/ Includes: Metropolitan Area of San José, Cartago, Alajuela, Heredia, Liberia, Puntarenas, Turrialba and Limón.

2/ To attend demographic growth and replacement

CHART No 25

URBAN HOUSING DEMAND IN CENTRAL AMERICA 1/

1970 - 1974

PRICE RANGES \$CA		NUMBER OF HOUSES		INVESTMENT \$CA	
2000 - 3000	AID Guaranty Program	35,364	75,771	28,410,000	258,895,250
3000 - 4000		19,960		69,860,000	
4000 - 5000		12,446		56,007,000	
5000 - 6000		7,164		39,512,000	
6000 - 6500		817		5,116,250	
6500 - 7500		1,590		13,732,500	
7500 - 8000		3,747		28,162,500	
8000 - 9000		2,710		23,035,000	
9000 - 10000		2,733		25,944,500	
T O T A L		86,579		346,709,750	

1/ Includes: Capitals and principal cities of the Region

CHART Nº 26

EFFECTIVE DEMAND FOR THE
CENTRAL AMERICAN BANK'S PROGRAM
WITH AID'S LOAN Nº 590-L-003 1/

NUMBER OF HOUSES, INVESTMENT AND FINANCING
REQUIRED DURING THE 1970-1974 PERIOD 2/

<u>C O U N T R I E S</u>	<u>NUMBER OF HOUSES</u>	<u>INVESTMENT \$CA</u>	<u>CENTRAL AMERICAN BANK FINANCING \$CA 3/</u>
GUATEMALA	21,769	94,174,750	67,225,345
EL SALVADOR	18,600	75,393,750	53,995,921
HONDURAS	15,231	55,624,500	39,921,533
NICARAGUA	16,322	60,910,500	43,624,062
COSTA RICA	14,936	60,606,250	43,452,461
GENERAL AMERICA	<u>86,849</u>	<u>346,709,750</u>	<u>248,237,242</u>

1/ Includes: Guatemala City, Capitals and principal Cities of El Salvador, Honduras, Nicaragua and Costa Rica.

2/ To attend demographic growth and replacement

3/ Central American Bank's 60% participation in financing

CHART NO 27

EFFICIENTS UNDER DEMAND FOR THE
CENTRAL AMERICAN BANK'S PROGRAM
WITH A.I.D. GUARANTEE 1/

NUMBER OF HOUSES, INVESTMENT AND FINANCING
REQUIRED DURING THE 1970-1974 PERIOD 2/

<u>C O U N T R I E S</u>	<u>NUMBER OF</u> <u>HOUSES</u>	<u>INVESTMENT</u> <u>\$CA</u>	<u>CENTRAL AMERICAN BANK</u> <u>FINANCING</u> <u>\$CA 3/</u>
GUATEMALA	17,683	60,258,500	40,658,163
EL SALVADOR	16,235	56,388,750	38,058,294
HONDURAS	14,071	46,543,250	31,353,406
NICARAGUA	14,372	47,455,000	31,644,900
COSTA RICA	13,410	48,358,750	32,039,619
CENTRAL AMERICA	<u>75,771</u>	<u>259,094,250</u>	<u>174,353,482</u>

1/ Includes: Guatemala City, Capitals and principal Cities of El Salvador, Honduras, Nicaragua and Costa Rica

2/ To attend demographic growth and replacement

3/ Central American Bank's 75% participation in financing

-- 47 --

mortgage balance. Thus, the financing need would be around \$CA 174.0 million for the 1970-1974 period.

It seems obvious that there is enough market for new resources of \$CA 10.0 million, that would cover about 1/10 of yearly needs during a three year period.

As of December 31, 1968, the Bank, through its Housing Program, executed 1,650 credit operation for a total of \$CA 10,403,177.00 corresponding to equal number of houses for a total of \$CA 13,217,150.00. Their value range between \$CA 1,504.00 and \$CA 10,000.00 with an average of \$CA 6,758.00 to \$CA 9,763.00 in the different countries.

Based on previous experience, it is estimated that the lower stratum of the Income Scale of the Bank's Program could be better cared for by Cooperatives who can generally provide their associates with technical assistance in the selection of land and utilities, housing construction and essential community services.

The above is a view point that could strengthen the Bank's market, and it will be applied to "Cooperative El Modelo" of Escuintla in Guatemala, whose members could hardly resort to the Housing Program individually. This is a 138 unit housing project at \$CA 2,550 each, at an advanced stage in their negotiations to obtain financing.

- 48 -

A Cooperative in Honduras has begun the proceedings for requesting the financing of 50 homes, and initial contacts have also been made in Costa Rica for another financing of this type.

ATTACHMENT 1

ACHIEVEMENTS OF THE GENERAL AMERICAN BANK FOR
ECONOMIC INTEGRATION AS OF DECEMBER 31, 1968

<u>C O U N T R I E S</u>	<u>NUMBER OF HOUSES</u>	<u>AMOUNT OF LOANS \$CA</u>	<u>PRICE OF THE HOUSES \$CA</u>
GUATEMALA	277	1,980,850	2,183,015
EL SALVADOR	438	2,479,975	3,631,607
HONDURAS	101	1,103,128	1,278,950
NICARAGUA	324	2,395,857	2,879,372
COSTA RICA	400	2,443,367	3,244,206
T O T A L	<u>1,650</u>	<u>10,403,177</u>	<u>13,217,150</u>

SOURCE OF INFORMATION: Home Loan Department - CABEI -

NOTE TO ATTACHMENT 11

This attachment shows the aggregate of the value of homes built in each country to different dates, according to municipal permits, and it includes new housing and enlargements or repairs to existing homes.

With the following adjustments it served as a basis to estimate the financing and investment in urban housing in Central America during the 1960-1968 period. See Chart N^o 6.

1. The number of new homes and investment as of December 1967, June 1968 and September 1968, was projected through December, 1968.
2. The amount corresponding to permits for repairs or enlargements of existing homes was subtracted by means of a choice process.
3. In those cases where the permits only included the value of the construction, the estimated value of the land was added.
4. When not included in the reported municipal permits, the value of the new homes built by housing institutions, cooperatives and labor unions was added.

ATTACHMENT II

ACHIEVEMENTS IN URBAN HOUSING IN CENTRAL AMERICA
DURING THE 1960 - 1968 PERIOD

C O U N T R I E S	NUMBER OF CONSTRUCTIONS DESTINED TO HOUSING	AMOUNT OF INVESTMENT \$CA (LAND AND CONSTRUCTION) <u>6/</u>
GUATEMALA 1/	27,868	148,168,000
EL SALVADOR 2/	18,324	130,134,440
HONDURAS 3/	16,616	65,792,000
NICARAGUA 4/	9,877	82,329,240
COSTA RICA 5/	37,539	103,600,000
T O T A L	110,224	530,033,680

- 1/ New constructions by private enterprise in Guatemala City as of September 1968 and homes built by INVI as of December, 1968.
- 2/ New constructions in urban areas of El Salvador as of June 1968 and houses built by INVU as of December 1967.
- 3/ New constructions, enlargements and repairs in Tegucigalpa, and San Pedro Sula as of June 1968 and houses built by INVA, Cooperatives and Unions as of December 1968.
- 4/ New constructions, enlargements and repairs in Managua as of December 1968 and financing of homes by Banco de la Vivienda as of December 1968.
- 5/ New constructions, enlargements and repairs in the country's urban area including INVU as of December 1967.
- 6/ The cost of the land has been estimated in most cases

SOURCE OF INFORMATION: Bulletin Banco de Guatemala - September 1968 -
Instituto Nacional de la Vivienda - Guatemala -
Statistical Bulletins of El Salvador from 1960 to June/68

Attachment II
page ii
cont'd.

Source of Information: Reports from Instituto de Vivienda Urbana - El Salvador -
Reports Distrito Central and Municipalidad of San Pedro
Sula - Honduras -
Reports Federacion de Cooperativas de Vivienda of Honduras
Reports of STRAPERCO of Honduras
Reports of Instituto de la Vivienda - Honduras -
Oficina Nacional de Urbanismo - Nicaragua -
Banco de la Vivienda of Nicaragua
1960-67 Statistical Yearbook of Direccion de Estadistica
y Censos of Costa Rica.

BANCO CENTRAL DE RESERVA
DE EL SALVADOR

Dollars

Conversion Agreement

General Terms

San Salvador, El Salvador, U. A.

JORGE PCL CASTELLANOS, de cuarenta y nueve años de edad, Abogado -- del domicilio de esta ciudad y de Tegucigalpa, Honduras, actuando -- en calidad de DIRECTOR Y APODERADO del BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA, y GUILLERMO HIDALGO QUEMEL, de cuarenta años de edad, Abogado y Notario del domicilio de San Salvador, El Salvador, actuando en calidad de PRESIDENTE EN FUNCIONES Y REPRESENTANTE del BANCO CENTRAL DE RESERVA DE EL SALVADOR, debidamente autorizados -- por tales Instituciones, que en adelante se denominarán "BANCO CENTROAMERICANO" y "BANCO CENTRAL", de conformidad al contrato de crédito L-903, por DIEZ MILLONES DE DOLARES, celebrado con fecha veintinueve de noviembre del año próximo pasado, entre el Banco Centroamericano y los Estados Unidos de América por medio de la Agencia para el Desarrollo Internacional (en adelante denominada "AID"), destinados a contribuir al financiamiento de las operaciones del Departamento de Préstamos para la Vivienda del Banco Centroamericano, el cual actuará como fuente de financiamiento de segunda instancia para las Instituciones de crédito para la vivienda que operan en sus países miembros, crédito que deberá ser cancelado por medio de comenta y una cuota iguales semestrales, debiendo efectuarse el primer pago nueve y medio años después de que venza el primer pago de intereses, celebramos el presente Convenio para la utilización de dicho crédito por parte de Instituciones de Crédito salvadoreñas dedicadas al financiamiento de vivienda, que se registró por las cláusulas siguientes:

I.- Al recibir una solicitud de crédito para financiamiento

de vivienda de parte de una Institución de Crédito salvadoreña, el Banco Centroamericano deberá solicitar información al Banco Central con el objeto de que el Banco Centroamericano posea mayores elementos de juicio para decidir sobre la concesión del crédito.

II.- Con anterioridad a la concesión de cada crédito a instituciones salvadoreñas, el Banco Centroamericano deberá obtener -- del Banco Central su conformidad para celebrar los respectivos contratos a que se refiere la cláusula siguiente.

III.- Una vez acordada la concesión del crédito por el Banco Centroamericano a la Institución de Crédito salvadoreña, el Banco Centroamericano y el Banco Central celebrarán contratos destinados a la generación de colones para efectuar los desembolsos del -- crédito concedido a la Institución salvadoreña, de acuerdo con los modelos adjuntos que forman parte del presente Convenio.

IV.- Uno de dichos contratos estipulará el otorgamiento de un préstamo en dólares, del Banco Centroamericano al Banco Central, el cual este último podrá hacer uso por medio del sistema de crédito de crédito especial que se emitirá por AID a solicitud del Banco Centroamericano, a favor del Banco Central, en el Banco comercial de los Estados Unidos de América que el Banco Central designe. El préstamo se entenderá utilizado únicamente cuando el Banco Central ya usó la carta de crédito especial.

V.- El otro contrato a celebrarse entre el Banco Centroamericano y el Banco Central estipulará el otorgamiento de un préstamo en colones por parte del Banco Central al Banco Centroamericano, --

que anteriormente podrá ser utilizada por el Banco Centroamericano --- cuando el Banco Central haya hecho uso de la carta de crédito especial a que se refiere el numeral anterior.

VI.- Los contratos de préstamo entre el Banco Centroamericano y el Banco Central, a que se refieren las dos cláusulas anteriores, serán celebrados por cantidades equivalentes, al tipo oficial de cambio del colón, en relación al dólar, vigente a la fecha de celebración de los respectivos contratos, y devengarán el tres cuartos del uno por ciento de interés anual sobre saldos, computados en base de trescientos sesenta y cinco días por año.

Los intereses y el capital deberán cancelarse en las respectivas monedas contratadas en las mismas fechas en que el Banco Centroamericano deba efectuar los pagos de interés y pagos de capital a la FID de acuerdo al contrato L-003 antes mencionado.

VII.- El Banco Central se reserva la facultad de pagar todo o parte de los préstamos en dólares que el importe de este Convenio recibe del Banco Centroamericano, antes de los plazos señalados, --- cuando las circunstancias monetarias de El Salvador así lo requieran, sin que ello implique para el Banco Centroamericano la obligación de pagar la correspondiente suma de colones.

VIII.- Según por cuenta del Banco Centroamericano las comisiones, intereses, cargos bancarios, y otros gastos ordinarios que se originen de la operación de este Convenio, y que acuerden el Banco Central y el Banco Centroamericano por cruce de cartas. Asimismo serán por cuenta del Banco Centroamericano cualesquiera otros cla

de los gastos que se originan por igual concepto, siempre que sean aprobados por ambas partes, mediante cruce de cartas.

XX.- El Banco Central efectuará los arreglos necesarios con los otros Bancos establecidos en El Salvador para operar con éxito los documentos de crédito que emita la AID en relación con los préstamos mencionados.

XXI.- El Banco Centroamericano y el Banco Central llevarán registros adecuados de todas las transacciones efectuadas con base en este Convenio y se permitirán, mutuamente, en horas y días hábiles, el examen de los correspondientes registros.

XXII.- El presente Convenio sólo se aplicará al desembolso y utilización del préstamo de AID al Banco Centroamericano de fecha veintinueve de noviembre del año próximo pasado, para la financiación de vivienda media en Centro América. Cualquier otro arreglo para la generación de moneda local por causa de otras obligaciones que el Banco Centroamericano contraiga en los mercados internacionales de capital estará sujeto a nueva negociación entre el Banco Central y el Banco Centroamericano.

XXIII.- Las cantidades que el Banco Centroamericano recibe de las instituciones de crédito salvadoreñas, en concepto de amortizaciones de capital y pago de intereses, por los créditos que les haya otorgado para el financiamiento de vivienda media en El Salvador, deberán mantenerse en todo momento en el Banco Central, y sólo podrán ser usadas en el financiamiento de nueva vivienda media en El Salvador cuando no sean necesarias para el servicio de sus obligaciones.

en colones para con el Banco Central.

En caso que el Banco Centroamericano desee invertir las recu-
poraciones de capital en otros países centroamericanos debería pro-
visamente amortizarse las obligaciones recíprocas en dólares y colo-
nes en las cantidades equivalentes de acuerdo al tipo oficial de --
cambio que sirvió para el otorgamiento de los contratos que genera-
ron dichos colones.

XIII.- El presente Convenio regirá por el plazo comprendido
entre esta fecha y el veintinueve de noviembre del año dos mil tres.

En fe de lo anterior firmamos el presente Convenio, por tri-
plicado, en la ciudad de San Salvador, a los veinticuatro días del
mes de octubre de mil novecientos sesenta y cuatro.- Enmendado-ante-
riores-este-veintinueve-Vale.-

POR BANCO CENTROAMERICANO DE
INTERACCION ECONOMICA

POR BANCO GENERAL DE RESERVA
DE EL SALVADOR


Jorge Sol Castellanos.


Guillermo Hidalgo Wahl.

ANEXO I

CONTRATO MODELO SOBRE PRÉSTAMO EN DOLARES

actuando en representación del BANCO CENTROAMERICANO
DE INTEGRACION ECONOMICA y

actuando en representación del BANCO CENTRAL DE RESERVA DE EL SALVADOR, debidamente autorizados por tales Instituciones, que en adelante se denominarán "BANCO CENTROAMERICANO" y "BANCO CENTRAL", de conformidad al Convenio firmado entre ambas Instituciones con fecha veinticuatro de octubre de mil novecientos sesenta y cinco, para la utilización del crédito otorgado por los Estados Unidos de América, por medio de la Agencia para el Desarrollo Internacional (en adelante denominada "AID"), el Banco Centroamericano, para contribuir al financiamiento de la vivienda media en Centro América, celebramos el presente Contrato de préstamo que se regirá por las condiciones siguientes:

I. - El Banco Centroamericano otorga al Banco Central un préstamo por la suma de

dólares de los Estados Unidos de América, al tres cuartos del uno por ciento de interés anual sobre saldos.

II. - El Banco Centroamericano solicitará de la AID la emisión de una Carta de Crédito Especial por el monto de este préstamo en favor del Banco Central por medio del Banco

III. - El capital y los intereses deberán ser cancelados al Banco Centroamericano en las mismas fechas en que éste deba efectuar pagos de capital y pagos de intereses a la AID, de conformidad al contrato L-003 celebrado por

Las referidas instituciones con fecha veintinueve de noviembre del año próximo
próximo.

IV. - El Banco Central se reserva la facultad de pagar todo o parte de
este préstamo, antes del plazo señalado, cuando así lo desista, en vista de las
circunstancias monetarias prevalocientes en El Salvador.

V. - Los Bancos Central y Americano por cuenta del Banco Central Americano las comisiones, inte-
reses, cargos honorarios y otros gastos ordinarios que se originan de la opera-
ción de este Contrato, y que acuerdan el Banco Central y el Banco Centro-
americano por cuenta de costas. Asimismo cada uno por cuenta del Banco Centro-
americano cualesquiera otros clases de gastos que se originan por igual motiva-
to, siempre que sean aprobados por ambas partes por escrito de costas.

VI. - El Banco Central efectuará los arreglos necesarios con los Bancos
establecidos en El Salvador para operar con buen éxito los documentos de crédito
que emita la A.M. en relación con este préstamo.

VII. - El Banco Central Americano y el Banco Central llevarán registros
aprobados de todas las transacciones efectuadas con base en este contrato y
de garantías, inmutables, en horas y días hábiles, al amparo de los corres-
pondientes registros.

CONTRATO MODELO SOBRE PRESTAMO EN COLONES

actuando en representación del BANCO CENTRAL DE EL

SALVADOR, y

actuando en representación del BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA, debidamente autorizados por tales Instituciones, que en adelante se denominarán "BANCO CENTRAL" y "BANCO CENTROAMERICANO", de conformidad al Convenio firmado entre ambas Instituciones con fecha veinticuatro de octubre de mil novecientos sesenta y cuatro, para la utilización del crédito otorgado por los Estados Unidos de América, por medio de la Agencia para el Desarrollo Internacional (en adelante denominada "AID"), al Banco Centroamericano, para contribuir al financiamiento de la vivienda media en Centro América, celebramos Contrato de Préstamo que se regirá por las condiciones siguientes:

I.-El Banco Central otorga al Banco Centroamericano un préstamo por la suma de colones, al tres cuartos
del uno por ciento de interés anual sobre saldos.

II.-El Banco Centroamericano no podrá hacer uso de este préstamo más que cuando el Banco Central no haya utilizado la Carta de Crédito Especial en dólares que a solicitud del Banco Centroamericano deberá emitir la AID a favor del Banco Central, de conformidad al contrato celebrado en esta fecha entre el Banco Centroamericano y el Banco Central por el cual el primero ha concedido al segundo un préstamo por la suma de dólares de los
Estados Unidos de América.

III.-El capital y los intereses deberán ser consignados al Banco Cen-

gral en la misma fecha en que el Banco Centroamericano deba efectuar pagos de capital y pagos de intereses a la AID, de conformidad al contrato I-603 celebrado por las dos últimas instituciones con fecha voluntaria de noviembre del año próximo pasado.

IV.-Serán por cuenta del Banco Centroamericano las comisiones, intereses, cargos bancarios y otros gastos ordinarios que se originen de la operación de este Convenio, y que acuerden el Banco Central y el Banco Centroamericano por cruce de cartas.- Asimismo será por cuenta del Banco Centroamericano cualesquiera otra clase de gastos que se originen por igual concepto, siempre que sean aprobados por ambas partes por cruce de cartas.

V.-El Banco Centroamericano y el Banco Central llevarán registros adecuados de todas las transacciones efectuadas con base en este contrato y se presentarán, respetivamente, en horas y días hábiles, el resumen de los correspondientes registros.

VI.-Las cantidades que el Banco Centroamericano reciba de las instituciones de crédito salvadoreñas, en concepto de amortizaciones de capital y pagos de intereses, por los créditos que les haya otorgado para financiamiento de vivienda media en El Salvador, deberán mantenerse en todo momento en el Banco Central, y sólo podrán ser usados en el financiamiento de nueva vivienda media en El Salvador cuando no sean necesarias para el servicio de sus obligaciones en Colombia para con el Banco Central.

En caso que el Banco Centroamericano desee invertir las recuperaciones de capital en otros países centroamericanos se procederá de acuerdo a la cláusula III del Convenio general que sirva de base a este contrato.

STATUTORY CHECK LIST

CENTRAL AMERICA - Central American Bank for Economic Integration

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):

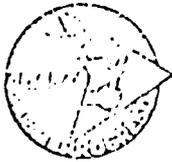
This project meets the intent of the Congress.

Section 224(b) (2):

The sponsor of this project is a credit institution in Latin America engaged indirectly in the financing of home mortgages.

Section 224(c):

1. The total face amount of housing guaranties issued will not exceed \$550,000,000 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.



UNITED STATES COORDINATOR
ALLIANCE FOR PROGRESS

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

UNCLASSIFIED
AID-ELC/P-857
Attachment 9 - Pg 1 of 2

DRAFT
GUARANTY AUTHORIZATION

Provided from: Investment Guaranty Funds

CENTRAL AMERICA: Central American Bank for Economic Integration

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 ten million dollars (\$10,000,000) securing against losses of not to exceed one hundred percentum (100%) of loan investment(s) by an eligible U.S. Investor or Investors acceptable to A.I.D. for the long-term financing of mortgage credit institution housing projects to be constructed in Central America.

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 date of the respective disbursements 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 percentum ($\frac{1}{2}\%$) of the outstanding guarantied amount of the loan per annum.
4. CABEI Guaranty: The Central American Bank for Economic Integration shall provide its full faith and credit dollar guaranty of repayment of the loan.

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-DIC/P-857
Attachment 10
Page 1 of 4

DRAFT LETTER OF ADVICE

Dr. Enrique Ortiz Colindres
President, Central American
Bank for Economic Integration
Tegucigalpa, D.C., Honduras, C.A.

Dear Dr. Ortiz:

We are pleased to inform you that on the basis of your application dated September 12, 1966, as revised and amended March 28, 1969, and the discussions between our respective representatives, The Agency for International Development (A.I.D.) has authorized the issuance, within not to exceed one (1) year from this date, of a guaranty protecting against loss of one hundred percentum (100%) of a loan investment of not to exceed ten million dollars (\$10,000,000) by eligible United States investors (Investors) to the Central American Bank for Economic Integration (CABEI) for the long-term financing of housing in Central America.

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

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

1. The guaranty of the loan shall extend for a period of up to twenty-five (25) years from the date of the respective disbursements of the loan.
2. The rate of interest payable to the Investors, with respect to the loan, shall not exceed the allowable rate of interest prescribed by the A.I.D. Administrator.
3. CABEI shall provide its full faith and credit guaranty of dollar repayment of the loan.
4. The fee of A.I.D. shall be payable monthly in dollars and shall be one-half of one percent ($\frac{1}{2}\%$) per annum of the outstanding guaranteed amount of the loan.

5. There shall be submitted, within sixty (60) days hereof, evidence satisfactory to A.I.D. of a firm commitment for the long-term mortgage financing from an Investor or Investors acceptable to A.I.D.

6. There shall be submitted, within one hundred twenty (120) days hereof, a draft contract of guaranty and related documents.

7. CABEI shall utilize the proceeds of the guaranteed loan investment only to purchase participation in eligible mortgages except as A.I.D. may otherwise agree. The percentage of participation shall be no more than 65% unless otherwise approved by A.I.D. Eligible mortgages are defined as:

a. Mortgages which are placed on dwelling units the construction of which was completed subsequent to the date of the Contract of Guaranty; and which was commenced and performed in accordance with the technical standards of CABEI.

b. Mortgages which are placed on dwelling units having a sales price, including land, not exceeding \$6,500.

c. Mortgages which have terms of not less than twelve years nor more than 20 years.

d. Mortgages which do not exceed 90% of the sales price of the housing including developed land.

All participations in mortgages so purchased by CABEI shall be with recourse against the selling institution, and the selling institution shall obligate itself to replace mortgages which are delinquent beyond the standard established by CABEI and approved by A.I.D. and shall agree to provide mortgage servicing in all cases.

8. The funds disbursed by CABEI for the purchase of participation in eligible mortgages shall be in local currency in the various countries, which CABEI borrows from the respective Central Bank while simultaneously lending dollars to the Central Bank; all in accordance with the agreements between CABEI and the Central Banks.

9. CABEI will purchase participations in eligible mortgages only from the eligible institutions agreed to by A.I.D. and CABEI, unless otherwise authorized by A.I.D.

10. While allocation of funds to each member nation in CABEI will be based solely on demonstrated need, demand, and capacity to invest, CABEI may, with the approval of A.I.D., offer to reserve a specified amount of the investment guaranty, for a period of not to exceed 12

Dr. Enrique Ortez Colindres,
Page 3

months from the date of the guaranty contract, for utilization by any member nation(s) not immediately able to demonstrate capacity to properly utilize the investment. In such case, CABEI shall specify the steps which must be taken by the member nation in order to provide such demonstrated capacity, e.g., the enactment and implementation of legislation creating a savings and loan system.

11. CABEI shall, prior to execution of the Contract of Guaranty by A.I.D., have established an Advisory Committee in accordance with Section 2.3 of the Home Loan Department Norms and Operating plan such Advisory Committee to be required to meet regularly for the purpose of advising, through the Board of Directors, the management of the CABEI Home Loan Department on lending policy.

12. CABEI shall agree to utilize, to the maximum extent practicable, its other financial and administrative resources to further:

- a. reduction of the cost of land development;
- b. standardization of building materials;
- c. improvement of organization and methods in the home construction industry;
- d. lending to home builders for modern construction equipment.

13. CABEI shall agree to retain long-term technical assistance by a recognized expert in the field of mortgage banking with special reference to secondary mortgage financing. The cost of such assistance shall not be borne by A.I.D. The duration of such technical assistance should be not less than one year.

14. CABEI shall agree to have designed a mortgage bond issue in the face amount of \$10 million within twelve (12) months of the date of the Contract of Guaranty, and shall agree to use its best efforts to issue such mortgage bonds in increments to be agreed upon between CABEI and A.I.D. over a specified period of time, with which it will supplement the proceeds of the guaranteed loan investment and provide reserve liquidity within the context of its own regulations and requirements.

15. CABEI shall agree to offer to borrow from private sources outside Central America (without an A.I.D. guaranty) an amount of at least \$1 million, utilizing as collateral a block of mortgages, mortgage participations, and/or pledges of collateral security, which CABEI now holds in connection with its sub-loans from A.I.D. loan 596-L-003. This offering should be in general conformity with recommendation number three of the Glikbarg report.

Dr. Enrique Ortez Colindres
Page 4

16. No concentration of more than 20% of the sub-lending by CABEI shall be made to any single eligible institution without the express prior approval of A.I.D.

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

It is not intended that any information about the terms of the guaranty be released to the public at this time, We shall be pleased to coordinate with you the release of such information at a later date.

Should you have any questions concerning this letter, the guaranty, or the program, please feel free to contact this office or the A.I.D. Regional Office for Central America and Panama, in Guatemala City, Guatemala.

Sincerely yours,

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