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UNCLASSIFIED

CLASSIFICATION

PROJECT EVALUATION SUMMARY (PES) - PART I

Report Symbol U-47

1. PROJECT TITLE  SAVINGS AND LOAN SYSTEM			2. PROJECT NUMBER Loan 522-W-023	3. MISSION/AID/W OFFICE USAID Honduras
6. KEY PROJECT IMPLEMENTATION DATES			4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY)	
A. Firm PRO-AG or Equivalent: FY <u>75</u>	B. Final Obligation Expected FY <u>75</u>	C. Final Input Delivery FY <u>79</u>	<input type="checkbox"/> REGULAR EVALUATION <input checked="" type="checkbox"/> SPECIAL EVALUATION	
6. ESTIMATED PROJECT FUNDING			7. PERIOD COVERED BY EVALUATION	
A. Total \$ <u>5,405,000</u>			From (month/yr.) <u>March 75</u>	
B. U.S. \$ <u>4,000,000</u>			To (month/yr.) <u>Oct. 79</u>	
			Date of Evaluation Review <u>11/19/79</u>	

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
<p>Note: This was a final project evaluation. There remain no pending A.I.D. actions. FINAVI and the Borrower have initiated action on all of the consultants recommendations that warrant action.</p>		

<p>8. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS</p> <table> <tr> <td><input type="checkbox"/> Project Paper</td> <td><input type="checkbox"/> Implementation Plan e.g., CPI Network</td> <td><input type="checkbox"/> Other (Specify) _____</td> </tr> <tr> <td><input type="checkbox"/> Financial Plan</td> <td><input type="checkbox"/> PIO/T</td> <td>_____</td> </tr> <tr> <td><input type="checkbox"/> Logical Framework</td> <td><input type="checkbox"/> PIO/C</td> <td><input type="checkbox"/> Other (Specify) _____</td> </tr> <tr> <td><input type="checkbox"/> Project Agreement</td> <td><input type="checkbox"/> PIO/P</td> <td>_____</td> </tr> </table>	<input type="checkbox"/> Project Paper	<input type="checkbox"/> Implementation Plan e.g., CPI Network	<input type="checkbox"/> Other (Specify) _____	<input type="checkbox"/> Financial Plan	<input type="checkbox"/> PIO/T	_____	<input type="checkbox"/> Logical Framework	<input type="checkbox"/> PIO/C	<input type="checkbox"/> Other (Specify) _____	<input type="checkbox"/> Project Agreement	<input type="checkbox"/> PIO/P	_____	<p>10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT</p> <p>A. <input type="checkbox"/> Continue Project Without Change</p> <p>B. <input type="checkbox"/> Change Project Design and/or <input type="checkbox"/> Change Implementation Plan</p> <p>C. <input type="checkbox"/> Discontinue Project</p>
<input type="checkbox"/> Project Paper	<input type="checkbox"/> Implementation Plan e.g., CPI Network	<input type="checkbox"/> Other (Specify) _____											
<input type="checkbox"/> Financial Plan	<input type="checkbox"/> PIO/T	_____											
<input type="checkbox"/> Logical Framework	<input type="checkbox"/> PIO/C	<input type="checkbox"/> Other (Specify) _____											
<input type="checkbox"/> Project Agreement	<input type="checkbox"/> PIO/P	_____											

<p>11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Name and Titles)</p> <p>Peter Orr - Project Officer <i>PO</i></p> <p>Other participants listed in attached report.</p> <p>Julius P. Schlotthauer - Mission Evaluation Officer <i>JS</i></p>	<p>12. Mission/AID/W Office Director Approval</p> <p>Signature <i>John R. Oleson</i></p> <p>Printed Name John R. Oleson</p> <p>Date <u>8/15/80</u></p>
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## FINAL EVALUATION

### Savings and Loan System (FINAVI)

- I. Project Goal and Purpose: "The goal of the Project is to increase the rate of middle income housing construction in Honduras. The purpose of the Project is to create an institution which will: (a) provide a source of liquidity for Savings and Loan Associations (S&Ls) so that they may provide a greater level of mortgage lending resources to the public and the attraction of savings for housing; (b) provide FHA-type mortgage insurance in order to increase the flow of internal capital into mortgage financing; and (c) provide the supervisory and regulatory authority necessary to the planned and orderly growth of an S&L and mortgage finance system."

II. Evaluation Summary Statement:

The quantitative evaluation indicators included in the original evaluation plan reveal the project was successful in meeting the project purpose. While the value of mortgages purchased by FINAVI was 134% under the end of project (EOP) target as of March 1979, by October 1979 it was 40.0% over the target. FINAVI's liquid reserves were 22% under the EOP target in October 1979, but this is neither clearly a positive nor a negative indicator. FINAVI's capital, other than provided by the project, is 300% greater than the EOP target. Bond sales were delayed, but in the first two months of sale the EOP target had been met. With regard to the S&Ls, as of October 1979 the EOP targets had been exceeded by 336% for combined mortgage portfolio, 140% for number of mortgages, and 2.5% for number of mortgages, and 2.5% for construction financing provided. The system shows a marginal operating profit, and delinquency is well under that projected.

While FINAVI itself was able to generate a small operational surplus in 1978, the cost of new capital has increased to the point that unless the ceiling on home mortgage interest rates is raised as FINAVI increases its capital base, FINAVI is unlikely to be able to stay in the black. Although it is possible that the ceiling will be raised, at least for higher priced houses, the GOH appears disposed to allow FINAVI to operate on a deficit.

The AAG has criticized the Mission and FINAVI for not doing enough to encourage the S&Ls to finance low-cost housing. This criticism has some basis, however, it is unclear whether a greater effort would have yielded results due to the fact that private developers do not have a low-cost market orientation. As a result FINAVI has begun to broaden its base to cover institutions other than S&Ls, such as the Federation of Housing Cooperatives (FECOVIL), which are more likely to produce mortgages for lower income groups. While this bodes well for the present A.I.D. target group, the fact that these additional institutions do not attract savings implies that FINAVI would have to deal with them through 100% discounting of mortgages which defeats part of the purpose of the kind of secondary mortgage operation that FINAVI was intended to operate.

SUMMARY OF THE FINAL JOINT EVALUATION MEETING FOR A.I.D. LOAN 522-W-023  
Autonomous Savings and Loan System

Date: November 19, 1979

Place: FINAVI

Participants:

Rodolfo Alvarez Baca - FINAVI, President

Nelson Enrique Jerez - FINAVI, Assistant to the President.

Salomon Galindo - FINAVI, Chief Caja Central

Marcial Solis - FINAVI, Financial Analyst

Marco Odilon Avila - FINAVI, Chief of Savings Promotion

Carlos H. Mondragon - FINAVI, Financial Advisor

Ivis López - FINAVI, FHA Coordinator

Ronald Barahona - Central Bank, Vice President

Armando Ayes Z. - Ministry of Finance, Official Mayor

Fred Hansen - AID, ROCAP

Francis Conway - AID, ROCAP

Peter Orr - AID, Office of Programming and Capital Resources

Tom Fallon - AID, Controller's Office

Ramiro Lanza - AID, Management Office

Reference Documents:

- (1) "Evaluation of FINAVI and the Honduran Savings and Loan System with respect to AID Loan 522-W-023," by the National Savings and Loan League (NSLL), dated June 1, 1979.
- (2) Loan Agreement 522-W-023, Implementation Letter No. 1, Section 5.03, Evaluation Plan.

Purpose of Meeting: To discuss the observations and recommendations contained in the NSLL Evaluation Report, and review the evaluation data requested by Implementation Letter No. 1.

I. The NSLL Evaluation Report - The following are the principal observations and comments made with regard to each of the recommendations contained in the NSLL report. The recommendations are described in abbreviated form. For simplicity, the observations are associated with the respective institution, rather than with a specific individual.

Recommendation No. 1 - That most of the Central Bank's regulatory authority over the savings and loan be transferred to FINAVI.

- A.I.D. expressed the opinion that the Central Bank should set the general parameters for operation of the Savings and Loan (S&L) System in accordance with the Central Bank's role in setting monetary policy, but that FINAVI should have freedom to establish regulations within these patterns. The makeup of FINAVI's Board of Director's would also assure that FINAVI could not become too independent. The opinion was

expressed that this would save Central Bank the need of doing its own audits of the S&L's and that the S&L's would be more attentive if FINAVI regulatory authority were vested in or channeled through FINAVI.

Both FINAVI and the Central Bank agreed that the working relations between the two institutions are so good as to prevent conflicts over policy or regulatory authority. FINAVI finds the Central Bank gives full consideration to the needs of FINAVI and the S&L system, and the Central Bank involves a representative of FINAVI whenever a decision is to be made which will affect FINAVI or the system.

A.I.D. responded that this favorable situation may be dependent upon the present personalities involved, and suggested that the relationship be legally formalized.

The Central Bank responded that the law which controls the operations of the Central Bank has not been modified in about 30 years, and that whenever a revision of the law is undertaken, those aspects of the law which relate to the S&L system could be refined. The Central Bank also clarified that the inspections of the Superintendencia de Bancos only are to verify that the S&L's are meeting the reserve requirements.

Recommendation No. 2 - That the 20% reserve requirement (40% on foreign currency deposits) be reduced to approximately 10% on all deposits to free more savings for mortgage investments.

FINAVI pointed out that since the NSLL report had been written the reserve requirements had been reduced to 15% on local currency deposits and 30% on foreign currency deposits, and that FINAVI's request is being considered by the Central Bank to allow up to 5 of the 15% reserve requirement be met with FINAVI bonds.

A.I.D. did not venture an opinion as to whether an even lower percentage would still be advisable given the monetary policy of the Government of Honduras.

Recommendation No. 3 - That the Central Bank should be persuaded of the wisdom of removing the limitation that only 20% of capital can be invested in one project. This should be done in order to encourage low cost projects.

A.I.D. introduced this topic by admitting that another A.I.D. financed consultant had advised against relaxing this requirement at this time.

FINAVI stated that such a change was presently under consideration by the Central Bank, but that certain legal questions would require further study.

Recommendation No. 4 - That FINAVI should divest itself of the Mortgage Life Insurance operation, and that accounting records for this and the FHA operation should be kept distinct.

FINAVI stated that it wants to maintain the Mortgage Life Insurance operation because it is profitable. To avoid having to maintain and build large reserves against claims, FINAVI has decided to purchase reinsurance. Both

the FHA and the Mortgage Life Insurance operations now have separate accounting records according to FINAVI.

Recommendation No. 5 - That FINAVI obtain special foreclosure authority that would permit speedy foreclosure of FHA cases. A.I.D. mentioned that another consultant while working with INVA discovered that there are provisions in existence that would allow for speedy foreclosure, and that it was actually not necessary to have a new law. Hacienda was familiar with the procedure and thought it should be tried. A.I.D. will forward the detail to FINAVI.

Recommendation No. 5.2 - That the FINAVI review of loan applications by the technical section should be streamlined.

FINAVI stated that improvements have been made and that an individual house can receive technical approval in a week and a project in 15 days. Board approval takes one week.

Recommendation No. 5.3 - That the FHA should spot check loan applications rather than conducting a second credit review.

FINAVI agreed that it should move toward system of selective credit checks, but believes that the S&L's need further training in credit analysis. Such training has been planned, and FINAVI believes that in 1980 it can begin to implement selective credit analysis audits for the more capable associations. According to FINAVI, their credit check~~s~~ now takes 5 days.

Recommendation No. 5.4 - The line responsibility of the accounting section

should be transferred from the General Administration Department to the Financial and Promotion Management Department.

As A.I.D. pointed out this recommendation is based on the fact that the Chief of the Financial Management Department should rely heavily on the reports and analyses prepared by the accounting section.

FINAVI responded that the two organizational alternatives reflect alternative management philosophies, and that FINAVI prefers the present organization because the accounting section services the FHA and Mortgage Life operations also, and these are not within the responsibility of the Financial Management Department.

Recommendation No. 5.5 - That the Assistant to the Executive President assume control of day-to-day operations to allow the Executive President to concentrate on top executive work.

This recommendation has been implemented.

Recommendation No. 6.1 - That FINAVI should hold regular meetings with the S&L's management to improve understanding.

Regular Meetings with the presidents of the S&L's are now held.

Recommendation No. 6.2 - That FINAVI require that certain basic clauses be included in every mortgage deed document.

FINAVI stated that the Board of Directors has recently approved the regularization of certain mortgage clauses and terms.

With regard to standardization A.I.D. mentioned that FINAVI should also develop accounting manuals to be used uniformly by all S&L's. FINAVI said it planned to do so in 1980.

II. Evaluation Plan, Implementation Letter No. 1

The following is information presented in relation to the specific evaluation indicators contained in the implementation letter.

1. Value of total mortgages purchased:

Target for end of project - \$5,000,000

Achieved as of March 31, 1979 - \$4,329,849

Achieved as of October 31, 1979 - \$6,949,849

2. Amount of liquidity reserves (current assets, defined as assets with term of less than 18 months):

Target for end of project - \$1,350,000

Achieved as of October 31, 1979 -

cash - \$180,522

Central Bank bonds - \$35,100

Loans - \$825,000

3. Effective FHA mortgage operation established. The NSLL consultants examined the FHA operation, considered it effective, and made the recommendation contained in the NSLL Evaluation Report.
  
4. "After the first full year of operation be earning a net return on capital and by the third full year of operation be able to absorb total operating costs without further Honduras Government contribution."

During 1978 income

exceeded operating expenses with an income of \$511,585.35 and operating expenses of \$499,244.25.

With the prospect of a less favorable interest rate structure in the future, it becomes even more imperative that FINAVI increase the size of its portfolio to prevent increasing operating losses in the future. During the evaluation meeting FINAVI stated that, given its development role it could not be expected to earn a profit. The Ministry of Finance concurred, and added that it is expected that FINAVI will need the continued support of the Government of Honduras.

With the present ceiling of 12% on the allowable interest rate for home mortgages, FINAVI will face a margin squeeze as it has to turn to higher interest capital sources. For this reason FINAVI has submitted a request to the Central Bank to allow the ceiling interest rate on mortgages to be set at 3% over the cost of financing to FINAVI. This

3% will then have to be divided between the S&L and FINAVI, leaving FINAVI with a margin a fraction of that which it had during the A.I.D. loan disbursement period.

5. Increase in capital beyond that provided by project funds:

Target - L. 2,000,000

Actual - L. 5,000,000 (Central Bank interim loan against FINAVI  
bond issue)

L. 1,046,000 (Loan from BIAPE)

L. 6,046,000

6. FINAVI bonds placed:

a) With insurance companies and public -

Target: L. 1,000,000 \*

Actual: L. 1,050,800 (Sales to date - first two months)

b) With CABEI:

Target: L. 1,000,000

Actual: -.-

\*The total amount of the September 1979 bond issue was L. 10,000,000

7. "The FNV shall have developed sufficient experience and knowledge in the operation of a national housing bank to eliminate the necessity for external technical assistance."

Both FINAVI and A.I.D. agree that FINAVI has successfully developed its

technical capability, but that there will continue to be selected areas in which FINAVI should seek technical assistance in the future to continue to improve the institution as its responsibilities expand.

8. Have established a solid savings promotion campaign.

FINAVI is now working on its seventh savings promotion campaign. As demonstrated below the amount of savings have been far greater than originally expected, but that lack of a promotion evaluation mechanism makes it impossible to conclude with certainty that the successful capture of savings is the result of FINAVI's promotion, the promotion of the S&L or neither.

With regard to the S&L's, the following evaluation indicators were listed:

- a) Increase savings deposits to:

Target - L. 11,000,000

Actual - L. 48,000,000

- b) Combined mortgage portfolio:

Target - L. 7,500,000

Actual - L. 58,000,000

- c) Number of mortgages:

Target - 1,000 to 1,200

Actual - 2,807

- d) Construction financing provided:

Target - L. 20,000,000

Actual - 20,493,428.79

- e) Positive annual operating profit and delinquency rate (over 2 months in arrears) no more than 25% of total mortgage portfolio.

Operating profit as of March 31, 1979: \$39,370.74

Delinquency rate: 15%

- f) "Developed the capability of providing mortgage financing to lower income savers."

The feasibility of providing long-term mortgage financing for very low-cost housing has been established in Honduras. The Central American Bank for Economic Integration (CABEI) is providing 20-year loans at 9 1/2% for 600 units costing about \$2,000 each in two projects in Tegucigalpa. The S & L System itself has yet to make such low-cost loans. The problem does not appear to be one of capability of the system but rather the lack of supply of such low-cost housing.

- g) "Created an estimated total of 600 full time direct jobs in construction annually and 500 indirect jobs in the building industry annually."

Full-Time Direct Jobs	4,216
Full-Time Indirect Jobs	958