

524 800 200 184 |
PD-AAH-211



Auditor General

524-8002

524-2 3

HOUSING INVESTMENT GUARANTY PROJECT

NICARAGUA

Audit Report Number 80-3

Issue Date November 14, 1979

Area Auditor General, Washington
Agency for International Development
Washington, D.C. 20523

HOUSING INVESTMENT GUARANTY PROJECT

NICARAGUA

Project Numbers

524-HG-002

524-HG-003

Audit Report No. 80-3

Issue Date: Nov. 14, 1979

HOUSING INVESTMENT GUARANTY PROJECT

NICARAGUA

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
INTRODUCTION AND SCOPE	1
Introduction	1
The Value of HIG Programs in Nicaragua	2
Scope of Audit	3
The Current Political Situation in Nicaragua	3
FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	5
Unexpended Funds Should be Used or Returned	5
Borrower's Reporting Practices	6
Home Owners Delinquent in Mortgage Payments	7
Mortgage Files of Borrower	8
Repayment Delinquency by Savings and Loan Associations	9
Houses Constructed and Approved for Mortgage Financing	10
Unsold and/or Unoccupied Development Houses	11
Inspection Visits to Housing Development Areas	12
List of Recommendations	13
EXHIBITS	
A - Statement of Financial Condition	
B - Statement of Houses Planned and Constructed	
C - Statement of Mortgages Payment Delinquencies	
D - Statement of Repayments of Loan Principal and Interest to Investors and AID Fee	
REPORT RECIPIENTS	

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

HOUSING INVESTMENT GUARANTY PROJECT NICARAGUA

EXECUTIVE SUMMARY

Purpose of Review

The review was made to determine the adequacy of Banco de la Vivienda de Nicaragua (BAVINIC) and the Savings and Loan Associations' accounting records, reporting systems, and effectiveness of operating procedures as they relate to use of project funds for financing eligible first mortgages. As of December 31, 1978, BAVINIC (the Borrower) had financed, with project funds, eligible first mortgages totaling \$3,924,129 and \$4,743,990 under Project Nos. 524-HG-002 and 524-HG-003, respectively.

The report's findings and recommendations on these two Housing Investment Guaranty (HIG) projects are made in relation to conditions as they existed when the audit was made in January and February 1979. We recognize the political climate has changed since then due to the civil disturbances in Nicaragua; however, we believe the report will be useful to HIG management when viewed with the understanding that the recommendations should be implemented as soon as conditions permit. Consistent with this understanding, we are not recording the recommendations as requiring implementation action by the Office of Housing at this time. However, prior to obligating or funding additional first mortgages, the recommendations should be addressed by the Office of Housing.

Findings

Unused Funds

The Borrower had on hand unused funds totaling \$331,881, because lists of eligible mortgages required to be prepared, were not. As a result, potential homeowners did not get available financing. Of this amount, \$75,871 was attributed to Project No. 524-HG-002, and \$256,010 to Project No. 524-HG-003. (See page 5)

Deficient and Incomplete Mortgage Files

BAVINIC's mortgage files were incomplete; documentation was either missing or its location was not indicated in the files. As a result, mortgage balances could not be verified. BAVINIC personnel indicated that many of the files were destroyed by fire in the 1972 earthquake. Attempts are being made by the bank's auditors to reconstruct the missing records. (See page 8)

Savings and Loan Association Mortgage Files

The files of the Savings and Loan Associations were found to be complete and contained adequate mortgage documentation and payment data. However, the mortgage amounts reported by the housing bank and the Savings and Loan Associations did not agree with the outstanding loan balances. This difference was attributed to the Borrower's failure to prepare the required Certificate of Mortgage Collateral reports for AID, thus insuring that the Borrower and the Savings and Loan Associations presented mortgage listings equal to the total outstanding loan obligations. (See page 9)

Delinquent Reports and Repayment of Mortgages

Required project reports have not been prepared by BAVINIC since CY-1977, and AID has not requested the reports. Consequently, AID was not aware of the unused funds and could not adequately monitor mortgage delinquencies. In this regard, fifty percent of BAVINIC's mortgages have been delinquent for periods in excess of one year, and no foreclosure actions have been initiated. Also, the Savings and Loan Associations are delinquent in their repayment of borrowed funds to BAVINIC. The delinquencies were attributed to the country's current economic ills and the high homeowner delinquencies. (See pages 6 - 9)

Site Appearance

Housing sites were in need of street maintenance. There were potholes in the streets and concrete cement curbs were broken. Debris had collected in the streets which block the flow of water into the drains. City officials were aware of the problems, but due to the lack of funds had not been able to resolve them. (See page 12)

Conclusions and Recommendations

The overall physical and financial condition of the HIG project is poor. Lack of monies, due to high delinquencies, has created serious cash flow and maintenance problems. BAVINIC, the Borrower, and AID have not monitored the projects' daily operations. This lack of attention has seriously jeopardized the projects' chances of survival.

If conditions in Nicaragua permit, the Office of Housing (DS/H) and the Borrower should take a close look at the projects as they exist and coordinate their efforts to eliminate the financial and physical problems discussed in this report. In doing so, interested parties could be reasonably assured that intended objectives will be met. In this report, we are making six recommendations (see page 13), which should be implemented prior to obligating or funding additional first mortgages.

Management Comments

AID's Office of Housing took no exception to the findings presented in this report but said it would not be practical at this time to act on our recommendations. We were advised that developments in Nicaragua will be followed very closely so that each of the recommendations can be acted upon as soon as possible. (See page 4)

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

HOUSING INVESTMENT GUARANTY PROJECT - NICARAGUA

INTRODUCTION AND SCOPE

Introduction

The Housing and Investment Guaranty (HIG) program for Latin America is administered by the Agency for International Development (AID) through its Office of Housing. The program is authorized by the Foreign Assistance Act of 1961, as amended (FAA). In Latin American countries, the purpose of the program is to assist in the development of self-liquidating housing projects, including cooperatives, free labor unions, savings and loan type institutions, and other private enterprise programs engaged directly or indirectly in the financing of home mortgages; the construction of homes for lower income persons and families; the increase in mobilization of savings; and the improvement of housing conditions.

A Contract of Guaranty between AID and the U.S. Investor insures the Investor against loss of its investment in an AID-approved housing program. AID normally secures the services of a financial institution in the host country which originates and services the mortgages financed under the program. Also, required is a guaranty of repayment of the investment and AID Guaranty Fee in U.S. dollars, carrying the full faith and credit of the host country. This guaranty extends until the loan is repaid. The investment must be in the form of a dollar loan by the investors and carry a mortgage from 20 to 25 years for the financing of home ownership.

The mortgage financing, together with the down payment and closing costs, are generally sufficient to cover the cost of a dwelling to the home owner. AID charges the Borrower a Guaranty Fee of one-half of one percent per annum. The interest rate due the Investors is fixed at no more than one percent above current rate of interest applicable to home mortgages insured by the Federal Housing Authority (FHA) in the U.S.

The Value of HIG Programs in Nicaragua

The Housing and Investment Guaranty program for Nicaragua began with Project No. 524-HG-001 financing eligible mortgages in the housing development area of El Porvenir. The project was authorized May 21, 1965, with a Contract of Guaranty signed March 1, 1966, for \$6,925,000. In the development area 757 houses were constructed and sold at an average sales price of \$10,322.

Project No. 524-HG-002 followed with the signing of a Loan Agreement for \$4,000,000 on March 15, 1970, between the Banco de la Vivienda de Nicaragua (BAVINIC) (Borrower), an autonomous agency of the Government of Nicaragua, and the Federal Home Loan Bank of Boston (Investor). The Borrower was to utilize the funds for the purpose of financing eligible first mortgages of Savings and Loan Associations operating in Nicaragua in conformity with all applicable laws, rules, regulations and procedures of the Government (GON) and the Borrower. A Contract of Guaranty was signed between AID and the Investor insuring the repayment to the Investor of the \$4 million loan. The Investor was to receive scheduled repayments of principal from the Borrower and 8-1/2 percent annual interest on the unpaid principal. AID's Guaranty Fee was one-half of one percent payable quarterly.

Project plans called for the construction of 1,395 single dwellings, with financing of eligible mortgages limited to 90 percent or more of the dwelling's sales price of under \$5,000, except where 25 percent or more of the financing of the mortgage was obtainable within Nicaragua, then the sales price limitation was \$6,500. The sales price limitation could be increased only upon approval of AID.

Prior to the completion of Project No. 524-HG-002, Nicaragua experienced a severe earthquake on December 23, 1972, which was reported to have caused the death of 10,000 inhabitants and injured another 20,000. The earthquake destroyed or severely damaged almost all government offices, the important financial center, and the entire commercial section, including about 2,500 small-scale manufacturing and retail trading firms. The destruction has been estimated at between 40,000 and 50,000 housing units occupied by about 150,000 to 250,000 people, four hospitals with a total of 1,650 beds, about 4.3 million square feet of commercial buildings and warehouses, and 1,100 classrooms. To assist in immediate relief and recovery, the United States and international financial institutions provided about \$143 million in assistance.¹ Emergency shelters for 11,000 families in the "Las Americas" project were provided. Additional assistance for low income housing in the form of an AID development loan was signed.

¹/ A General Accounting Office report (ID-77-25), dated March 17, 1977, entitled "Nicaragua - An Assessment of Earthquake Relief and Reconstruction Assistance" discusses the earthquake relief and reconstruction assistance provided to Nicaragua.

The pressures for middle income housing resulted in a new HIG loan (Project No. 524-HG-003). The loan agreement was signed November 1, 1973, between BAVINIC and the Pan American Life Insurance Company and Bankers Life Company. The amount of the loan was \$5 million with a total authorization for issuance of a guaranty by AID approved for \$15 million. The second tranche of \$10 million was to become available after the utilization of the first \$5 million and upon a determination that the additional financing would not affect other AID-financed development projects. The determination was made in June 1975 that the second tranche would have a negligible effect, if any, on other AID-financed construction projects. However, deteriorating economic conditions in Nicaragua after 1975 precluded utilization of the second tranche.

Scope of Audit

This is the initial audit of Project No. 524-HG-002 and a follow-up review of Project No. 524-HG-003. The examination covers the period December 1, 1976 through December 31, 1978. The review was made to determine the adequacy of BAVINIC's and the Savings and Loan Associations' accounting records and reporting systems, as well as the effectiveness of operating procedures relating to the use of project funds for financing eligible first mortgages. We visited the office of BAVINIC and the Savings and Loan Associations - Centroamericana (CAPSA), Financiera de la Vivienda, S.A., and Inmobiliaria and examined their mortgage files and reports. Mortgage foreclosure procedures and practices were discussed with the personnel of Fomento de Hipotecas Aseguradas (FHA). Housing sites were visited and occupants of mortgaged dwellings interviewed. Empty model houses were inspected to determine the adequacy of the facilities offered the home buyer.

In early 1977 the Auditor General's office reviewed Project No. 524-HG-003 operations. Audit Report No. 77-112, issued April 17, 1977, contained one recommendation: "SER/H obtain from BAVINIC a status report of project lands transferred, or to be transferred for communal purposes." This recommendation was closed based on a letter dated August 25, 1977, in which Mr. Bayardo Jiron Hannon of BAVINIC stated that the titles of all community areas were transferred to the GON.

The Current Political Situation in Nicaragua

The AID Mission in Nicaragua was closed indefinitely due to the civil disturbances. Based on a February 8, 1979, statement from Congress, there is no indication that the U.S. intends to implement new projects in Nicaragua.

The statement reads as follows, "As a result of the U.S. Government's reassessment of our relationship with Nicaragua, it was announced on February 8 that (a) no new projects with the GON would be considered under present conditions; (b) those AID projects which are well advanced would be continued since they are aimed at the basic needs of the poor, and termination of AID funding at this advanced stage would leave many elements partially completed."

On July 30, 1979, the press reported that the U.S. Ambassador to Nicaragua clarified U.S. policy in Nicaragua by stating - "The United States is providing humanitarian assistance to help satisfy emergency needs in Nicaragua and is prepared to assist the Nicaraguan government in its economic recovery efforts."

Actions of the Office of Housing in connection with the report's findings may not be practical at this time. In commenting on the draft of this report, a representative of that Office stated that present conditions in Nicaragua mitigate against taking any actions on the recommendations at this time. The representative also stated that developments in Nicaragua will be followed so that each of the recommendations can be acted upon as soon as possible.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Unexpended Funds Should be Used or Returned

Borrowed funds totaling \$331,881 remain unused and on the records of the Borrower as of December 31, 1978. (See Exhibit A)

The Savings and Loan Association of Central America (CAPSA) has not complied with the conditions precedent under Projects Nos. 524-HG-002 and 524-HG-003, which call for presenting lists of eligible first mortgages to BAVINIC. To date, BAVINIC has not followed up to ascertain why the lists were never presented.

The lack of attention by BAVINIC may have caused potential homeowners to go without mortgage financing.

In reviewing the circumstances of one portion of the unused funds, we find that \$75,871 was part of \$300,000 provided by the Borrower to members of the Savings and Loan Association for purchasing eligible first mortgages and was received under an early drawdown of loan funds in January 1971. The amount was first reported by BAVINIC as unused by the Savings and Loan Associations in a report dated November 1972. The same amount was subsequently reported in reviews of the project by the National Savings and Loan League (NSLL), under contract with the AID Office of Housing, in reports dated October 18, 1974 and July 22, 1975. The first report stated, "1. Borrower should generate eligible mortgages in the amount of \$75,871 under the terms of the Supplementary Agreement No. 2, Article 1-C." The second report cited "1. Instruct BAVINIC to utilize for financing the \$75,871 which it has held out of the proceeds of Closing No. 4." Both of these reviews were provided in reports to the AID Office of Housing. Also, AID's Housing and Urban Development Officer, in USAID/Nicaragua, brought this finding to the attention of the Borrower in November 1974. AID, at that time, was assured by the Borrower that the funds would be used.

Our review of Supplementary Agreement No. 2, dated March 31, 1973, under Article I-A states in part, "...Banco (Banco de la Vivienda de Nicaragua) has borrowed \$2,475,000 ("Borrowed Funds") and may borrow an additional \$1,525,000 ("Remaining Funds"). Further, under Article I-F, we note, "In the event that Banco shall fail to present eligible mortgages within twelve (12) months from each disbursement of the Remaining Funds and Banco shall fail to rectify said breach within a period of sixty (60) days, that the Borrower, upon a request from AID, shall repay the Investor the amount of Remaining Funds."

The Implementation Agreement dated November 1, 1973, for Project No. 524-HG-003, relates to Project No. 524-HG-002 in part as follows under Article III, Section 3.01. "Banco shall not request from the Investors that disbursement be made under the loan until ...(ii) it has satisfied AID that it will be able to present eligible mortgages pursuant to the Implementation Agreement, as amended, for said project." Also, Section 3.04, Conditions Precedent to Initial Disbursement, Part 4, reads, "At least thirty (30) days prior to the time of the proposed initial disbursement under the loan, Banco shall submit to AID, in form and substance satisfactory to AID, evidence that Banco will be able to present eligible mortgages pursuant to the Implementation Agreement for AID Project No. 524-HG-002."

Conclusion and Recommendation

The Borrower failed to fulfill the above mentioned requirement to present the eligible mortgages. This failure by the Borrower to use the funds for the purpose required by the loan, and AID's lack of attention to follow up on this matter may have caused potential homeowners to do without mortgage financing. The Borrower has used the greater amount of the project funds for the intended purpose. In our view, the unused funds should be recalled immediately.

Recommendation No. 1

Office of Housing (DS/H) request the Borrower to present eligible mortgages for the unused amount, if allowable at this time, or return the funds to the Investor.

Borrower's Reporting Practices

The Borrower has not prepared or submitted, nor, as far as we can determine, has the Mission requested any of the required project reports since 1977. Consequently, AID had no knowledge that the unused funds were still outstanding. Also, AID's ability to monitor the increasing delinquencies was difficult.

We were informed by BAVINIC personnel that they had no knowledge of the reporting requirements outlined in the Contract of Guaranty, Loan Agreements, Implementation Agreements or the changes as made in the Supplementary and/or Supplemental Agreements. They further explained that BAVINIC has had nearly a 100 percent turn-over of personnel during the past year and the incoming personnel were not aware that reports were to be prepared.

The delinquent reports are (1) Certificates of Mortgage Collateral, required by Project Implementation Agreements and were to be submitted to AID by the 15th of January, April, July, and October of each year, and (2) the Borrower's Financial Reports required by the Implementation Agreements and due in AID January 31 and July 31 each year. These reports are to be prepared and submitted to AID until the loans are repaid.

Conclusion and Recommendation

The failure of the Borrower to prepare the required reports and of AID's monitoring personnel to request the reports has resulted in a lack of knowledge on AID's part as to unused loan funds and increasing delinquency rates.

Recommendation No. 2

Office of Housing (DS/H) assure that BAVINIC prepares and submits the required reports.

Home Owners Delinquent in Mortgage Payments

The Borrower and the Savings and Loan Associations were not effective in collecting mortgage payments from the home owners nor in processing repossession actions against delinquent owners. As a result, the delinquent balances continue to increase. These delinquencies are adversely affecting operations of the housing projects and the financial institutions. The financial institutions are unable to make repayment of loans on a timely basis and housing sites have numerous physical problems.

Our review of 697 loans under Project No. 524-HG-002 shows a high delinquency rate in the mortgages financed through the Borrower's housing bank. From a listing of 322 reported mortgages, 296 were delinquent. The delinquency rate ranged from 24 percent for the period one-to-three months, to 50 percent for the one year and over period. Of 149 mortgages that were delinquent over a year, 43 mortgages were less than two years, 76 were in the two-to-four year period, and 30 over four years, with the oldest delinquent home owner being behind in payments five and a half years. (See Exhibit C)

We discussed this condition with the Borrower's legal staff and were informed that the current political situation has interfered with taking effective legal action against the home owners. Also, BAVINIC's previous administration was reluctant to process mortgage foreclosures. Presently, the mortgages are being reviewed, and as soon as workable instructions are issued, the delinquent home owners will be presented with foreclosure actions.

On December 31, 1978, the Savings and Loan Associations under Project No. 524-HG-002 reporting on 375 loans indicated 276 were delinquent, or a delinquency rate of 74 percent. Eighty-six percent of the delinquent home owners were in the period one-to-three months, 12 percent in the four-to-six months, and 2 percent for longer periods. In Project No. 524-HG-003, 250 of 302 mortgages, or 83 percent, were delinquent. One hundred sixty-seven, or 67 percent of the home owners, were delinquent one-to-three months, 35 or 14 percent were delinquent four-to-six months, 25 or 10 percent of the delinquent home owners were delinquent from 7 to 12 months, and 22 or 9 percent were over one year. Those 22 delinquent home owners for periods in excess of one year were reported by CAPSA as being under review for possible foreclosure action. Other financial institutions mentioned that efforts are continuing to reduce their mortgage delinquencies. However, because of the current economic problems in Nicaragua, the institutions are not pressuring their delinquent home owners for mortgage payments at this time.

Conclusion and Recommendation

Unless immediate attention is given to correcting the delinquency problems, the project's survival will be seriously jeopardized.

Recommendation No. 3

Office of Housing (DS/H) assure that effective collection actions are taken including foreclosure proceedings on long outstanding delinquent home owners.

Mortgage Files of Borrower

The mortgage files maintained by BAVINIC for Project No. 524-HG-002 funds were lacking the necessary supporting documentation. Because of inadequate documentation and mortgage data, we could not verify the accuracy of the amounts reported as mortgage balances to support the outstanding balances of the loans due the Investors.

Our test of seven files disclosed that three folders contained only one form report. The form document had the Mortgagee's name, the loan amount and the mortgage number. Payment data were not recorded or referenced, and no explanation recorded as to why the data were missing. In discussions with BAVINIC's personnel we were informed that due to the earthquake in December 1972, and the resulting fire in the bank, many of the mortgage files were destroyed. Mortgage files were reported as lost in a subsequent move of the remaining files to the bank's new location. We noted that during our visit, the bank's internal audit staff were engaged in reconstructing the records and files. Bank officials hope to have the files restored in this calendar year.

During our audit, BAVINIC requested and received monthly mortgage listings from the Savings and Loan Associations. These listings, together with the Borrower's own listing of financed mortgages, were compared with the amounts of the outstanding loans and differences were noted. Our computations show the Borrower was short in amounts of mortgage collateral of approximately \$476,000 under Project No. 524-HG-002 and \$574,000 under Project No. 524-HG-003. The respective Savings and Loan Associations, together with the Borrower's housing bank, had not provided mortgage collateral to support the outstanding loan amounts. This deficiency was attributed partially to the Borrower's failure to prepare the required collateral reports as previously mentioned in the report. The Borrower has requested AID's assistance in the preparation of the Certificates of Mortgage Collateral and in obtaining complete listings of the outstanding loans.

Recommendation No. 4

Office of Housing (DS/H) should monitor more closely the submission of required documentation and assist the Borrower in obtaining complete listings of the outstanding loans.

Repayment Delinquency by Savings and Loan Associations

The Savings and Loan Associations were delinquent in their repayment of borrowed loan funds to BAVINIC. Non-payment of amounts due was attributed to the present economic condition of the country which resulted in an increasing number of home owners not making monthly payments on their mortgages. These conditions have caused the Savings and Loan Associations

to be short of operating funds and, therefore, unable to make regular monthly principal and interest payments to BAVINIC.

At the close of December 1978, the Savings and Loan Associations owed BAVINIC the following estimated amounts:

<u>Savings & Loan Associations</u>	<u>Months Payments Delinquent Year 1978</u>	<u>Amounts Due (Totals)</u>	
		<u>Principal</u>	<u>Interest</u>
<u>Project No. 524-HG-002</u>			
Financiera	Sept. thru Dec.	\$ 12,514	\$ 1,702
CAPSA	Oct. thru Dec.	<u>10,631</u>	<u>10,343</u>
Totals		<u>\$ 23,145</u>	<u>\$ 12,045</u>
<u>Project No. 524-HG-003</u>			
CAPSA	Oct. thru Dec.	\$ 21,250	\$ 46,224
Financiera	Nov. and Dec.	<u>8,516</u>	<u>18,696</u>
Totals		<u>\$ 29,766</u>	<u>\$ 64,920</u>
Grand Totals		<u>\$ 52,911</u>	<u>\$ 76,965</u>

The Savings and Loan Associations are aware of their indebtedness to BAVINIC. However, because of their inability to collect from the home owners, they are unable at this time to make their scheduled loan repayments.

Houses Constructed and Approved for Mortgage Financing

One thousand three hundred ninety-four houses were constructed with Project No. 524-HG-002 funds. Originally, the sales price of the houses was \$5,000 or less. Later, the sales price was changed to \$8,500 because construction costs increased. AID approved the increase after reviewing the cost data presented by the Borrower.

Project No. 524-HG-003 funds were used for financing first mortgages on homes with an initial sales price limitation of \$5,500 which was subsequently increased to \$11,605. This price increase was approved by AID.

Under this project, 1,175 houses were completed by December 31, 1978, and 133 dwellings were under construction. Additional financing for houses was planned in the areas of Villa Ruben Dario and Villa Flor. Currently, 301 mortgages have been drawn up and approved by AID and 26 other mortgages are awaiting the signature of clients. The increased sales prices, caused by the escalating costs of construction, have reduced the number of houses constructed with project funds. However, the Borrower, to a certain extent, had financed with its own funds the construction of many houses in the project areas to assure the supply was consistent to the needs and within the income levels of the people. The Borrower has programmed the use of all funds under this project for use by the end of CY-1979. AID is delaying consideration of the second tranche of \$10 million under Project No. 524-HG-003 pending improvement in the financial condition of Nicaragua and its banking institutions.

Recommendation No. 5

Office of Housing (DS/H) obtain an understanding from the Borrower on the amount of additional funds they intend to allocate for building of new homes.

Unsold and/or Unoccupied Development Houses

On December 31, 1978, the Savings and Loan financial institutions reported 33 new houses as unsold and 145 dwellings vacant. We note that 17 of the new houses and 47 of the repossessed units are in Jardines de Varacruz where 133 new houses are undergoing construction. Personnel of the financial institutions expect the number of unsold houses to escalate because of the country's financial problems. Foreclosure on delinquent home owner mortgages will increase the number of unsold houses.

The unsold dwellings are a drain on the resources of the financial institutions which are obligated to repay the BAVINIC loans used to construct the homes. One of the financial institutions, CAPSA, is considering renting the empty houses. According to CAPSA, at least some funds would be received and the vacant houses would no longer be subject to deterioration and vandalism due to unoccupancy. The entire housing problem has received constant review by the banking community and remedial measures are taken when possible to reduce the number of vacant dwellings.

Recommendation No. 6

Office of Housing (DS/H) discuss with the Borrower the possibilities of renting vacant units. Also, consider giving these renters an option to purchase at some later date.

Inspection Visits to Housing Development Areas

Owners have improved their homes through supplemental construction and landscaping. We were informed by the financial institution's personnel that additional funds are not currently available to continue home improvements. We noted some of the community areas visited needed improved maintenance, streets contained pot-holes, and some of the curbsings were broken, filled with debris, or filled in to provide driveways for the homeowner's vehicle. Accompanying personnel from the financial institutions said that city officials who are responsible for providing public services were aware of the problems. However, money was not available to pay for the needed street maintenance. The available city funds are being used to provide electricity and water to the new houses.

List of Recommendations

Recommendation No. 1

Office of Housing (DS/H) request the Borrower to present eligible mortgages for the unused amount, if allowable at this time, or return the funds to the Investor.

Recommendation No. 2

Office of Housing (DS/H) assure that BAVINIC prepares and submits the required reports.

Recommendation No. 3

Office of Housing (DS/H) assure that effective collection actions are taken including foreclosure proceedings on long outstanding delinquent homeowners.

Recommendation No. 4

Office of Housing (DS/H) should monitor more closely the submission of required documentation and assist the Borrower in obtaining complete listings of the outstanding loans.

Recommendation No. 5

Office of Housing (DS/H) obtain an understanding from the Borrower on the amount of additional funds they intend to allocate for building of new homes.

Recommendation No. 6

Office of Housing (DS/H) discuss with the Borrower the possibilities of renting vacant units. Also, consider giving these renters an option to purchase at some later date.

EXHIBIT A

Statement of Financial Condition
as of December 31, 1978

<u>Project Nos.</u> <u>and</u> <u>Loan Amounts</u>	<u>Financing Institutions</u> <u>Borrowing</u> <u>Funds</u>	<u>Borrowed</u> <u>Amounts</u>	<u>Unused</u> <u>Funds</u>	<u>Expended</u> <u>Amounts</u>
524-HG-002 \$4,000,000	BAVINIC	\$	\$	\$
	Sub-Borrowers:			
	Financiera	625,000		625,000
	Inmobiliaria	992,590		992,590
	CAPSA	781,539		781,539
	BAVINIC	<u>1,600,871</u>	<u>75,871</u> ^{1/}	<u>1,525,000</u>
		<u>\$4,000,000</u>	<u>\$75,871</u>	<u>\$3,924,129</u>

1/ Funds unused by BAVINIC.
"Borrower" since CY 1972.

<u>Project Nos.</u> <u>and</u> <u>Loan Amounts</u>	<u>Financing Institutions</u> <u>Borrowing</u> <u>Funds</u>	<u>Borrowed</u> <u>Amounts</u>	<u>Unused</u> <u>Funds</u>	<u>Expended</u> <u>Amounts</u>
524-HG-003 \$5,000,000	BAVINIC	\$	\$	\$
	Sub-Borrowers:			
	Financiera	1,021,891		1,021,891
	CAPSA	1,700,000		1,700,000
	BAVINIC ^{3/}	2,022,099		2,022,099
	"	96,180 ^{2/}	96,180 ^{2/}	
<u>Morgan Guaranty Trust Co. Escrow Acct.</u>		<u>(*)159,830</u>	<u>159,830</u>	
		<u>\$5,000,000</u>	<u>\$256,010</u>	<u>\$4,743,990</u>

(*) In Escrow: Available for draw-down

2/ Funds unused by BAVINIC

3/ Mortgages are being registered

Statement of Houses Planned and Constructed
With Approved Selling Price Range
as of December 31, 1978

Project Nos. and Amounts	Project Locations	Number of Houses			Approved Selling Price Range
		Planned	Constructed	Under Construction	
24-HG-002 4,000,000	Bosques De Atamira	595	595	0	\$ 7,136
	Las Brisas	35	34	0	\$ 6,929
	Bello Horizonte	439	439	0	6,643
	Additional: Various Locations	<u>326</u>	<u>326</u>	<u>0</u>	<u>1/ 9,500</u>
	Totals:	<u>1,395</u>	<u>1,394</u>	<u>0</u>	
Plus Closing Costs:					
24-HG-003 5,000,000	Posada Del Sol	106	110	0	\$6,330 \$ 9,620
	Ciu. Ind. Xolotian	222	222	0	4,304 10,772
	Jardines de Veracruz	625	492	133	11,605
	Villa Ruben Dario	327	327	0	5,428
	Villa Flor	<u>24</u>	<u>24</u>	<u>0</u>	9,222 10,569
	Totals:	<u>1,304</u>	<u>1,175</u>	<u>133</u>	
	Grand Totals:	<u>2,699</u>	<u>2,469</u>	<u>133</u>	

Statement of Mortgages Payment Delinquencies
Project No. 524-HG-002
as of September 30, 1978

Financial Institution	Total Loans & No.	Monthly Mortgage Payments											
		Paid-Up		Delinquencies--Monthly Periods (1-3, etc.)									
	No.	&	%	Total	%: 1-3	%: 4-6	%: 7-12	%: 12 +					
VINIC	322	26	8	296	92	72	24	40	14	35	12	149	50
Percent of total			8		92								
Percent of delinq.							24		14		12		50

as Borrower (B.V.N., BAVINIC) was only able to provide the data above on its own representations during the audit. No information on loans or delinquents as of 12/31/78.

Project No. 524-HG-002
as of December 31, 1978

Financial Institution	Total Loans & No.	Monthly Mortgage Payments											
		Paid-Up		Delinquencies--Monthly Periods (1-3, etc.)									
	No.	&	%	Total	%: 1-3	%: 4-6	%: 7-12	%: 12 +	%:				
troamericana	111	29	26	82	74	68	83	12	15	--	--	2	02
anciera	124	46	37	78	63	60	77	15	19	3	04	--	--
obiliaria	140	24	17	116	83	108	93	7	06	1	01	--	--
INIC **													
total	375	99		276	236		34		4		2		
Percent of total			26		74								
Percent of total delinq.							86		12		01		01

No data provided.

Project No. 524-HG-003
as of December 31, 1978

Financial Institution	Total Loans & No.	Monthly Mortgage Delinquencies											
		Paid-Up		Delinquencies--Monthly Periods (1-3, etc.)									
		No.	%	Total	%:	1-3	%:	4-6	%:	7-12	%:	12 +	%:
ntroamericana	158	24	15	134	85	82	61	16	12	14	10	22	16
nanciera	144	28	19	116	81	86	74	19	16	11	10	--	--
VINIC**	---	---	---	---	---	---	---	---	---	---	---	---	---
Total	<u>302</u>	<u>52</u>		<u>250</u>		<u>168</u>		<u>35</u>		<u>25</u>		<u>22</u>	
Percent of total			<u>17</u>	<u>83</u>									
Percent of total delinq.						<u>67</u>		<u>14</u>		<u>10</u>		<u>9</u>	

EXHIBIT D

**STATEMENT OF REPAYMENTS OF LOAN PRINCIPAL
AND INTEREST TO INVESTORS ALSO AID FEE
as of December 31, 1978**

Project No. 524-IG-002

Project No. 524-IG-003

Loan Amounts: **\$4,000,000.00**

\$5,000,000.00

Less:
Pending adj. In
Escrow account

16,360.94

Funds remaining
in Escrow account.

143,469.29

Total Drawdowns: **\$4,000,000.00**

\$4,840,169.77

Less: Principal Repayments

BORROWER PAYMENT DATA

Total Payments	Dates		Principal	Interest	AID-Fee	Total Payments	Dates		Principal	Interest	AID-Fee
	Due	Paid					Due	Paid			
28,599.33	12/31/73		\$ 28,599.33	\$ 7 1/	\$ 7 1/	\$250,255.00	8/1/77	8/1	\$31,505.00	\$206,250.00	\$12,500.00
105,491.51	3/31/74	4/1	16,734.99	83,825.60	4,930.92	250,089.24	2/1/78	2/11	32,800.00	204,950.00	12,339.24
106,691.50	6/30/74	6/24	17,111.52	84,636.65	4,943.33	250,089.24	8/1/78	8/1	34,160.00	203,595.00	12,253.24
106,091.50	9/30/74	9/20	17,496.53	83,673.03	4,921.94	Notes:					
106,091.50	12/31/74	1/1/75	17,890.21	83,301.22	4,900.07	PROJECT NO. 524-IG-002					
106,091.50	3/31/75	4/11	18,292.73	82,921.06	4,877.71	1/ Borrower records show no data on Interest or A.I.D. fees paid prior 12/31/73.					
106,091.50	6/30/75	6/26	18,704.32	82,532.34	4,854.84	2/ Shortage in Principal Payments \$24,978.43 as of 9/30/78					
106,091.50	9/30/75	9/26	19,125.17	82,134.87	4,831.46	3/ Shortage in Borrower Repayments etc. as of 12/31/78 \$106,091.50.					
106,091.50	12/31/75	12/31	19,555.48	81,728.46	4,807.56	Borrower assessed \$2,254.44 in late payment charges.					
106,091.50	3/31/76	3/26	19,995.48	81,312.91	4,783.11	Total Borrower shortage, as of 12/31/78, \$133,324.37 (\$24,978.43 + \$2,254.44 + \$106,091.50)					
106,091.50	6/30/76	6/28	20,445.38	80,888.00	4,758.12	PROJECT NO. 524-IG-003					
106,091.50	9/30/76	9/28	20,905.40	80,453.54	4,732.56	Borrower up-to-date on payments					
106,091.50	12/31/76	12/28	21,375.77	80,009.30	4,706.43						
106,091.50	3/31/77	3/30	21,856.73	79,555.05	4,679.71						
106,091.50	6/30/77	9/7	22,348.50	79,090.61	4,652.39						
106,091.50	9/30/77	9/28	22,851.35	78,615.70	4,624.45						
106,091.50	12/31/77	12/28	23,365.50	78,130.11	4,595.89						
106,091.50	3/31/78	3/28	23,891.23	77,633.59	4,566.68						
106,091.50	6/30/78	6/27	24,428.77	77,125.91	4,536.82						
81,113.07	9/30/78	12/29	-0- 2/	76,606.79	4,506.28						
-0- 3/	12/31/78	-	-0-	-0-	-0-						

\$2,019,359.41

\$394,974.39

\$1,534,174.75

\$90,210.27

\$750,352.48

\$98,465.00

\$614,795.00

\$37,091.48

Balance
Unpaid Principals:
12/31/78

\$3,605,025.61

\$4,741,704.77

HOUSING INVESTMENT GUARANTY PROJECT

NICARAGUA

REPORT RECIPIENTS

Deputy Administrator	1
Assistant Administrator, Bureau for Development Support (AA/DS)	1
Director, Office of Housing (DS/H)	5
Assistant Administrator, Bureau for Latin America and the Caribbean (AA/LAC)	1
Office of Central American and Panamanian Affairs (LAC/CAP)	2
General Counsel (GC)	1
Office of Legislative Affairs ((LEG)	1
Office of Financial Management (FM)	2
Office of Financial Management/Loan Management Division (FM/LMD)	2
Auditor General.	2
AAG/LA	2
AAG/EA	1
AAG/NE	1
AAG/EAFR	1
AAG/Egypt	1
AAG/W	1
AG/IIS	1
AG/PPP	1
AG/EMS	12
DS/DIU	4

The mortgage files maintained by BAVINIC for Project No. 524-HG-002 funds were lacking the necessary supporting documentation. Because of inadequate documentation and mortgage data, we could not verify the accuracy of the amounts reported as mortgage balances to support the outstanding balances of the loans due the Investors.