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SUMMARY AND CRITIQUE OF THE HOUSING FINANCE STUDY OF CHILE

APRIL 30 1977

PREPARED BY
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April 30, 1977

Mr. Mario Pita
Office of Housing
Agency for International Development
Room 300 F, SA 2
Washington, D.C. 20523

Dear Mr. Pita:

Please find attached our report evaluating the housing finance study of Chile performed by the economics department of the University of Chile.

This report is based on a careful examination of a summary of the full report which has been translated into English, and several hours of interviews with the staff director of the study. While the examination of the summary and the in-depth interviews with the study director did not allow me to precisely determine every point covered by the report, I believe a full understanding of the report was obtained from our investigations, and that our analysis of the report considers all of the major points developed.

I believe several important benefits have been achieved from AID's sponsorship of the report including the following:

1. Apparently, for the first time, all sectors of the government and private industry involved in housing have gotten together to discuss the housing and housing finance problems existing in the country.

2. The report seems to have generated enthusiasm on the part of the government and the Central Bank for a program in housing finance.

3. The report dealt with many of the crucial problems existing in housing finance in Chile, and has provided a substantial set of recommendations to deal with these problems.

4. The report has resulted in the establishment of an intergovernmental committee committed to making a housing finance system work, and appears to have generated a committment from the government for funds to carry out a housing finance program.

A great deal of work has been accomplished since my previous review of the housing finance study and it represents a much more germane and significant document than was the case at an earlier date.

The shortcomings of the report, to the extent that they exist, are largely in two areas. First, the report essentially deals with the present situation and does not seem to provide an adequate framework for incorporating substantial amounts of private savings into the system should they become available in later time periods. The study director was made aware of this situation and I believe that steps will be taken to deal with it in the implementation of the system. The second situation which requires additional attention is the development of the actual plan and procedures for implementing the housing finance system. It is understandable that the University's study dealt more with the issues and concepts in view of the normal orientation of a university, and the difficulty in obtaining people with a technical knowledge in both breadth and depth concerning the development of a housing finance system. The University and the government are well aware of the problem of implementing the system and, as I understand it, has asked AID for support or advice in this regard.

It is my opinion that the housing study provides a significant step in developing a feasible system for generating financial capital. I believe that AID's participation in the provision of additional technical assistance, probably in the form of an individual in residence in Chile for 60 to 90 days, can provide substantial benefits to the Chilean economy and help assure that an effective and efficient housing finance system is actually dev oped in the country.

The attached report provides a specific list of additional areas which should be kept in mind as Chile develops its housing finance system. In addition, I have provided an analysis of the housing finance study incorporated in a general analysis of the present situation and appropriate avenues for prospective development.

In addition, I left a very short outline with the Chileans of some of the operational type questions which they should begin to consider in developing a housing finance system.

Sincerely,

Richard T. Pratt

Richard T. Pratt
President

RTP/mb

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I

SUMMARY AND CRITIQUE OF THE HOUSING FINANCE STUDY OF CHILE

The study of mortgage lending in Chile, conducted by the National University of Chile, provides a substantive beginning for the reform of mortgage lending. While there are elements within the study on which reasonable individuals may disagree, and additional elements which are compromises resulting from the economic realities of the country, the proposals represent a substantial beginning in providing a mortgage banker approach to a revitalized housing finance system for the country. Perhaps, more importantly, the study offers a program to again provide housing finance of any type within the nation. The objectives of this study are encompassed in the following points:

1. The Approach to Mortgage Lending

The system should be open to all potential mortgage lenders, both those who wish to specialize in the provision of mortgage finance, and those who engage in a wide range of financial services. This implies that the present savings and loan associations must survive in a competitive market while competing against the more generalized financial institutions having broader asset and liability powers. Mortgage funds will not be provided to a specialized mortgage lending institution on a preferred basis. The present plan for distribution of mortgage funds as far as governmental sources are concerned, is based on the solicitation of bids from financial institutions for mortgage funds. The bids would be accepted based upon the spread between the interest rate to the consumer receiving the mortgage loan and the interest rate which the lender is willing to pay for the use of funds. Financial institutions would be competing against each other on the basis of being able to provide mortgage loans for the least possible origination and servicing costs. The report contemplates the housing bank, or the Central Bank's section on housing finance purchasing bonds or mortgages from the lending institutions based on the above bid process. The bonds or mortgages would be essentially pass-throughs of the original mortgages, and the lenders in terms of using government funds would act as mortgage bankers.

2. State Participation in the Housing Markets

The report sets as an objective the minimization of government participation in the housing markets and has, as a portion of this, two specific goals:

a. To get the social security systems out of the direct provision of housing. In the past, social security administrations have contracted for the production of housing and provided the finance for such housing for social security members. This has generally been a poorly conceived and executed effort resulting in the social security administration providing heavy housing subsidies, and, in some cases, virtually giving houses away. Under the proposed plan, social security administrations would channel housing funds to financial institutions through a section of the central bank acting as a housing bank.

b. The second aspect of this objective is to get the Ministry of Housing out of the direct production of "A" and "B" type housing. "A" and "B" type housing is housing provided above the minimum shelter level and is housing which it is believed could be produced in the private sector. This housing would be of a similar quality level to that being supported by AID guaranteed funds in the country of Chile.

3. <u>Improving the Functioning of the Housing Markets in Chile</u>

The main idea provided in improving the housing markets in the country of Chile is to provide financing and to improve the housing markets for existing housing. The contemplated program based on the study provides for mortgage lending for existing houses and further provides for mortgage loans for home improvement and repair. These would seem to be important factors in helping the housing market function effectively. Presently, it is difficult for housing to be provided to low income individuals through the "trickle-down" effect which operates in more advanced companies in the housing markets. Because of lack of financing for existing houses, it is difficult for home owners having adequate income to move into higher quality housing, thus releasing their house for subsequent low income purchasers.

4. Improving the Efficiency of the Financial System and Institutions

The report states the belief that mortgage lending will be more efficient if the types of financial institutions making mortgage loans is broadened. The report indicates that a substantial monopoly position is presently enjoyed by the savings and loan system in the country in terms of middle income mortgage lending and that these institutions are not providing credit on an efficient basis. The following figures are cited in support of this contention. For example, the closing cost on a savings and loan association loan within the country is presently as follows:

a. 4% of the principal amount, loan origination fee plus 20% tax equals 4.8%.

b. 1/2% for appraisal and inspection plus tax of 20% equals 6/10ths of 1%.

c. 4% transfer tax to government equals 4%.

d. 2.5% notary and attorney's fees plus 20% tax equals 3%. Total closing costs of loan equals 12.4%.

These origination fees, for example, would compare with less than two percent normally charged in the United States. The total fees charged by savings and loan associations when combined with their twelve year mortgage loan and 12 percent interest rate, provides an interest rate of 15.4 percent per annum on a real basis after adjustment for inflation. If the land transfer tax is removed from the transaction, the effective yield drops to 14.23 percent.

On the loans which are sold to the Central Bank from the savings and loan associations, a two percent fee is charged for every dollar of collection handled by the savings and loan association. Thus, the spread between what the customer pays and the cost of money at the wholessale level is the difference between 14.23 percent to savings and loan associations and the eight percent cost from the central bank. The gross spread is thus, 9.47 percent. Either one of two things is happening: the savings and loan associations are grossly inefficient in their handling of funds or finally, the volume of the savings and loan associations is so small that their costs are extremely high. While it is recognized that the volumes which Chilean associations enjoy is much lower than comparable institutions in the United States, the fact that U.S. savings and loan associations operate on a spread of approximately two percent with no adjustment for inflation indicates the problem in the operation of Chilean associations.

The second aspect of improving the efficiency with which the housing finance system in Chile operates is based on the separation of finance and subsidy. In the past, there has been a complete hodge-podge mixture between housing finance and housing subsidy. Housing finance has been granted on the basis of market interest rate with readjustment, at one extreme, to a highly subsidized basic interest rate with no readjustment at the opposite extreme. The latter procedure has resulted in the complete giveaway of housing and the wasting of housing finance funds. The report contemplates the complete separation of housing finance and subsidy which should allow for the financial accounting for subsidy payments as separate from the profit or loss resulting from the basic operation of a housing finance system.

5. Making the System Flexible

The housing finance system of Chile should be sufficiently flexible to deal with the present lack of a long term capital market and the excessive level of inflation. The report indicates that, in order to be successful, the housing finance system must be able to function in both the present environment which is characterized by the absence of a long term capital market and a high level of inflation and a planned future environment having efficient long term capital markets and a manageable level of inflation.

The report proposes to deal with these problems by originally using almost entirely institutional funds. These funds would be composed of approximately 80 million dollars of permanent housing fund, 60 million dollars of funds available from social security surplus, and 25 million dollars of housing subsidy. This is the level of funding which is expected to be available in 1977. The permanent housing fund would stay within the housing markets and would be handled by the housing bank or the section of the Central Bank acting as a housing bank. This housing facility in purchasing mortgages from lending institutions would receive the principal and interest repayments from the mortgages. The principal and interest payments would be adjusted for inflation so the housing bank should recapture the real funds expended plus a real interest rate on these funds. The entire pool of funds would be reinvested in the mortgage market. This would provide a growing pool of funds which, it is expected, can increase at a rate of 10 percent per year over the next two decades. As is evident from this discussion, the system relies to little or no extent on the use of voluntary savings. While the avenue of voluntary savings should not be overlooked, the present prospects for such savings may be relatively minimal. At the present time, the government requires social security payments of approximately 15 percent of gross national product. At the present time, it is also running approximately a five percent surplus in its balance of payments. These two figures combined provide for a forced savings level in the country of 20 percent. It is highly questionable whether individual households have substantial ability to save over and above the forced savings level required. The report does contemplate the gradual substitution of private savings for the almost sole reliance on governmental funds. There is presently no long term private capital market in the country; financial instruments are just now being extended out to the one year range. Six months ago, 90 percent or more of all financial instruments in the country had a maturity of three months or less.

The cost of long term private capital is presently estimated to be approximately 20 percent real rate. It is questionable whether present income levels within the country will allow for the use of these funds in housing finance.

The mortgage finance report contemplates the original use of institutional funds as the primary basis for mortgage lending. This could be supplanted over time by reinvestment of mortgage funds within the system plus the gradual accumulation of private capital through savings and other mechanisms.

II

INSTITUTIONAL FRAMEWORK FOR MORTGAGE FINANCE IN CHILE

The report, in line with its objective of providing an open financial system allowing for both specialized and general lenders to participate in the mortgage markets, perceives three principal sources of mortgage finance. These are, in order of importance:

1. Commercial banks
2. Savings banks, and
3. Savings and loan associations.

It appears to be a source of immediate concern that the study indicates that savings and loan associations, which are traditionally associated with being the major source of residential real estate finance, are relegated to third position in this hierarchy. The problems of getting commercial banks, which have traditionally been conservative short term lenders, into extending long term mortgage credit may be difficult. It may not be possible to stabilize commercial bank mortgage lending during periods of credit stress as well as during periods of high profitability for mortgage lending. The usual limitations placed on savings and loan type institutions, requiring them to hold a substantial portion of their assets as residential mortgage loans, guarantees that they will be strong advocates of home ownership and residential lending and provide a continuing source of credit in the residential real estate markets. The example of the United States, where savings and loan associations provide more credit for new residential mortgage lending than all other financial institutions combined, comes immediately to mind.

In spite of the reservations and problems enumerated above, the solutions suggested by the University of Chile may be both a rational and reasonably efficient given the present financial framework existing in the country of Chile. The financial position of the savings and loan associations is reported to be immensely impaired. At the present time, these associations are making less than one tenth of the loans that they were making at their past peak. At the same time, the associations are burdened by the ownership of property acquired as a result of imprudent management combined with imposed political decisions of the past several years. The extent to which savings and loan associations were forced into the construction business and the development of real estate, only to have their funds disappear before the completion of projects, has left them with a nearly insurmountable burden. The previously discussed cost of credit from the savings and loan associations and the amount of spread which they require in order to continue operation is so great as to possibly preclude their being an effective source of mortgage lending in the near future. Conversely, the commercial banks are generally stronger and have a higher volume of funds handled, providing some economies of scale. The arrangement which the report suggests of having financial institutions bid on the basis of spread for mortgage funds seems to provide some safeguards against the dangers which might otherwise be associated with shifting mortgage lending strongly in the direction of commercial and savings banks. First, the commercial and savings banks would have to use the funds received for housing in the housing markets. Second, the commercial banks and savings banks would, in effect, act as mortgage bankers in terms of the governmental housing funds used. Thus, they would have little reason to fear the extension of long term mortgage credit, inasmuch as they would bear no market risk for these instruments.

It may be that the report is mistaken in its view that commercial banks will willingly and actively participate in the mortgage market. In the event that this view is correct, the housing funds available would again flow to the savings and loan associations inasmuch as they could then be expected to provide a bid having the lowest spread between the cost to the borrower and the rate of interest on the housing funds from the Central Bank. Other countries have demonstrated that mortgage lending can occur in a relatively diverse set of financial institutions. The United States provides a fair example of this phenomenon with substantial mortgage lending being conducted by mortgage bankers, savings and loan associations, commercial banks, and insurance companies.

To the extent that it is believed that a strong savings and loan system is necessary for active mortgage lending, achieving such a system may present great difficulties in the country of Chile. The savings and loan system experienced a financial disaster and has failed to recover from its problems. The confidence in the savings and loan institutions seems to be relatively low. It appears unlikely that the government will be willing to grant privileges to savings and loan associations not shared by other mortgage lenders. A substantial cause of the present problem in the savings and loan business is the excessive financial advantage which these institutions enjoyed and the resulting uncontrolled inflow of funds which resulted from the financial advantage. As a result of this experience, all levels within the government seem to be highly adverse to again instituting operating advantages such as exist in the form of regulation Q in the United States. Based on the political realities, the immediate solutions suggested by the University of Chile's study may be a reasonable alternative.

1. <u>The Housing Bank Function</u>

The report suggests the establishment of a type of secondary mortgage finance institution which will be referred to as a housing bank but which does not necessarily resemble housing banks as they are found around the world. This institution is closer to a federal home loan bank as found in the United States. The housing bank would receive housing funds from the Ministry of Finance, from the social security system, and from the Central Bank, and would channel these to the mortgage lenders on the basis of bidding for funds as previously described. In many ways, the housing bank would operate similarly to the Federal National Mortgage Association in the United States, essentially conducting auctions to distribute its funds to the mortgage lenders and selling mortgage-backed obligations, either in the form of mortgage participation certificates or mortgage-backed bonds to the Central Bank, the social security administration, the Ministry of Housing, and other parties such as insurance companies which may be providing wholesale mortgage funds. Because of a reluctance within the government to form a new bureaucracy, it is believed that this institution may initially be a section within the Central Bank rather than an independent institution. If this is the case, it is attendant with some risks inasmuch as the central bank has the overriding responsibility of maintaining orderliness in the nation's money and capital markets and controlling the nation's money supply. It may be difficult for the housing funds managers to resist the general economic pressures which may exist in a Central Bank under such an arrangement.

In addition to providing a basic mortgage banking operation, it is suggested that the housing bank would provide liquidity for the savings and loan system in the country of Chile, making short term loans to savings and

..oan or other mortgage lending institutions as was necessary for their cash flow management.

2. Regulation and Supervision

The report suggests that the policies to be followed by mortgage lending institutions would be set by the Monetary Board which is composed of representatives of the Central Bank, the Ministry of Finance, and other agencies. The report proposes that the mortgage lending institutions be supervised by the Superintendancy of Banks which now supervises nearly all financial institutions except savings and loan institutions. Savings and loan associations are presently supervised by the Caja Central. However, the Caja Central seems to be in the process of disappearing. The Caja Central is no longer an independent organization, but is now part of the Central Bank, and is headed by an officer of the Central Bank. Whether or not the report, as presently outlined, is accepted, it appears likely that the Caja Central will disappear at least as a practical fact. The Caja Central no longer exists as any independent source of funds, but only as an arm of the Central Bank. In the event that mortgage lending supervision is transferred to the Superintendent of Banks, it's last remaining function would have disappeared.

III

MORTGAGE INSTRUMENTS

The report analyzes four types of mortgage contracts which are as follows: 1) mortgages repayable in fixed real installments, 2) mortgages with variable interest rate, 3) mortgages with upward graduated, real repayments, 4) mortgages with upward, graduated, real repayments and variable interest rate. The report takes no position on which of these is superior to the others but suggest that all should be allowed in the capital markets.

While the report seems justified in not restricting the type of mortgage instrument which can be allowed, there is a strong argument for favoring the variable, real interest rate loan. At the present time, the country of Chile is coming out of a period of severe economic disruption, resulting from the previous political situation. As a result of this immense disruption of the economic system, real interest rates have been extremely high, as cited earlier, perhaps as high as 20 percent real rate for long term finance. Assuming that the present trend of economic improvement and stabilization is successfully pursued, it can be expected that the real rate of interest will fall substantially, reflecting the lower risks in the economy. If this were to take place, it would be highly desirable that the real rate of interest be reevaluated periodically on mortgage loans. If this were not done, an unfair burden would be placed on the borrower as the earlier contracted for real rate of interest becomes higher and higher in relationship to the then current interest rates existing in the economy.

It would also seem prudent to recognize the problems associated with mortgages of graduated real repayments. The history in many countries has indicated that mortgages having upward graduated repayments proved to be uncollectable as the payments began to escalate. This results in an unintended subsidy to the house purchaser and the complete disruption of a mortgage lending system based on upward graduated repayment.

The report examines the various methods of readjusting for inflation and comes to the conclusion that the most effective method would be the use of the consumer price index as the index for inflation adjustment. While no index will meet all of the needs in an inflationery economy, the consumer price index seems to be a reasonable compromise. Over extended periods, the movement of the consumer price index should be correlated with, and not greater than, the increase in wages and salaries earned within the country. This index has the further substantial advantage of being almost universally used in other readjustable contracts within the country. Its shortcomings are that in the short run it does not guarantee that housing funds will necessarily be fully recaptured. This is true to the extent that indexes which reflect the cost of residential buildings increase faster than the consumer price index. At the same time, it does not assure the average employed person will be able to pay his housing payments in the short run. This is true to the extent that the consumer price index increases faster than an index of wages and salaries. On the other hand, over the long run, the ability to purchase should be adequate and to the extent that there are gains from productivity, the burden of house purchase should actually fall over time.

The report suggests that the mechanics of readjustment be based on a concept known as the housing unit, where a mortgage would represent so many housing units in terms of the structure which could be purchased for that sum. The housing unit would be repriced frequently, perhaps on a daily basis, from presupplied schedules, and the payment necessary to amortize the housing unit would be calculated on a similar daily basis. The monthly payment for the housing unit would then be the sum of the daily payments during that month. While this sounds like a complicated adjustment, in practice it is relatively simple and could be determined from presupplied schedules which cover several months at a time.

IV

SUBSIDY

The report makes the case that the main justification for subsidies is the fact that the populace has come to expect housing subsidies and a sudden removal of them would cause severe social and political problems. In fact, if housing subsidies were to be instantaneously removed, the funds saved from removal of such subsidies would probably not result in corresponding tax reductions. The report does suggest that subsidies be eliminated over time and the subsidy mechanism be used as a primary tool for bringing the populace's expectation as to the housing unit they can afford closer to the actual unit which they can afford. Given the basic assumption that subsidy is a necessary social phenomenon, the report indicates that several possible objectives may be achieved within the subsidy framework. These include:

1. Stabilization of national productive activity
2. Increase in the level of employment among the working force
3. Promote national savings, and
4. Bring about a redistribution of income within the economy.

The fifth important aspect, not included in the report summary, would seem to be the goal of increasing the production of housing. Because subsidies in kind, such as housing subsidies, are generally a poor source of income redistribution it is appropriate that the housing finance subsidy be oriented to increasing employment and increasing the production of housing. To the extent that unemployed workers are put to work, the general standard of living increases and the subsidy is reduced as a result of increases in tax collections from the newly employed.

The report discusses a number of ways that subsidies can be distributed and various criteria for the allocation of subsidies. The report suggests that subsidies should flow entirely to the home purchaser, or the demand side of the transaction, and should not be provided for the housing producer. The report discusses subsidies of the mortgage interest rate and subsidies in the form of an original grant. The advantages of each type of subsidy are discussed and the report concludes that either type may be appropriate. The report does not seem to provide a clear suggestion for the provision of subsidies and this will be a crucial element in making the housing finance system, including subsidies, operate effectively.

It is suggested that the government of Chile consider a relatively simple subsidy system to the extent that such subsidies are desired. Such a system might operate in the following manner: The housing authority gives assurances to a real estate developer-builder that if he builds homes to certain specifications that these homes will be eligible for a subsidy. As the homes are completed, for example, when a group of two hundred homes of a certain size and price range are completed, it is advertised that the homes will be sold to owner occupants and that they will be sold on the basis of those requiring the least subsidy receiving the first homes. Thus, if the one hundred low income homes are offered for sale and if an individual buyer who is willing to occupy the home indicates that he could buy the house with the subsidy of $100 and if this were the lowest subsidy requested, he would have the first priority for a home. Additional bidders would be accepted in order of increasing subsidy required until the last home available had been sold. This approach accomplishes several things. First, it provides the maximum amount of housing for a given amount of subsidy; no home is sold with a greater subsidy attached to it than the minimum necessary to cause the sale of the property. Second, to the extent that homes eligible for subsidies are in a certain size and/or price class, and to the extent that owner occupancy for a period of time is required, complicated tests of income and wealth can be ignored. Occasionally, a person of great wealth or income may choose to live in a modest home. However, the number of individuals choosing to do so is likely to be inconsequential. Third, in addition to maximizing the production of homes, this scheme would, in a similar manner, maximize the number of individuals able to obtain housing. To the extent that certain families were continually outbid for the new housing units, their ability to achieve improved housing would still be enhanced. This scheme produces the maximum number of houses for the amount of money expended. Everyone is presently in a dwelling of some sort. To the extent that those buying new houses with relatively minimal subsidies are already occupying a dwelling unit, this dwelling unit becomes available and allows those who are more poorly housed to move up into the newly available unit. This approach then allows the "trickle-down" phenomena of housing to operate in addition to the stimulation of new housing starts.

V

SUMMARY AND CONCLUSION

While the report of the Chilean housing finance system prepared by the University of Chile does not deal in great detail with every aspect of the housing finance problem, it appears to provide a massive step in the direction of making housing finance operate efficiently within the country, especially in the short run when little private capital is available. The suggestions provided by the study, including such things as relying on general suppliers of credit to aggressively lend in the mortgage market, present some risks. However, given the institutional realities of Chile at this time, these suggestions may provide the most realistic chance for mortgage lending success. Several steps are now of crucial importance to see that the study does not go unheeded. These are:

1. The assignment of an individual having access to the appropriate ministers in either the Ministry of Finance or the central bank to coordinate the development of housing finance over the coming two year period.

2. Appointment of a committee representing the various areas of concern to develop the legal and institutional framework in which the new system can operate. This committee must:

   a. assign responsibilities for various functions required

   b. develop the credit instruments necessary for mortgage lending to function efficiently

   c. develop the staff necessary to coordinate the various institutions and activities involved

d. draft the legislation and regulations necessary for the system to operate.

3. A timetable and plan of implementation for achieving the study's goals should be immediately prepared and responsibility assigned for the various phases outlined.

4. U.S. AID should consider sending a specialist in mechanics and institutions of mortgage lending to be in residence in Chile for a period of approximately three months to aid in the development of institutions, instruments and regulations, and legislation.

ADDITIONAL QUESTIONS

It is suggested that the following additional questions not dealt with in the report be considered, and some allowance for these factors be provided for in the new system. The areas of concern are:

I. The Role of Private Savings

II. The Role of Cooperatives

III. The Provision of Construction Finance

IV. The Role of Private Investors in Providing Housing

V. Suggestions for Initial Steps in Implementing a Housing Finance System

I. The Role of Private Savings

The University's report essentially concludes that, at the present time, little or no private savings, over and above compulsory savings, can be generated. At the same time, the report has as one of its objectives reducing the role of government in the housing process. The only way the study's objective can be reconciled with the present money and capital market is by providing a mechanism whereby private capital sources, as they develop, can be tapped and made available for housing. Based on the apparent government priorities and directions, it appears that the government's presence will be reduced in the nation's money and capital markets while private markets assume a greater role in facilitating savings and investment.

A mechanism for assuring a continuation in the growth of housing capital is required. One factor of some importance in this regard seems to be the continued existence of the savings and loan system (A.A.P.) in some form. Every attempt should be made to preserve this system and to encourage associations to compete aggressively for private savings as this market develops.

At a later time it might be suggested that private savings be allowed as an alternative to compulsory savings now required. For example, an employed worker might be allowed to reduce the portion of his wages taken for social security in return for putting an equal amount of money in a presavings program for housing purchase.

II. The Role of Cooperatives

While the cooperative movement was discussed in the report, its role in the new approach to housing finance is unclear. It is important to note that cooperatives have been an important vehicle in facilitating home ownership for moderate income families. Questions that might be answered concerning the role of cooperatives include:

1. Where will cooperatives obtain funding under the new system?
2. Should cooperatives be allowed to borrow directly from the housing bank?
3. Should cooperatives be allowed to service their own loans?
4. Can cooperatives self-insure their mortgages and, as a result, receive lower interest rates or higher loan to value ratios?
5. Are cooperatives adequately monitored to protect the consumer funds with which they are entrusted?
6. Should open cooperatives be regulated as a financial institution?
7. Should a subsidy in funds or support services be provided directly to cooperatives?

III. Construction Lending

While the outline of the University study did not call specifically for a section on construction lending, it appears important to incorporate a construction lending program in the housing finance system. The following questions might be addressed in this regard:

1. What are the present sources of construction finance?
2. Are present sources adequate?
3. What is the cost of construction money?
4. What will be the sources under the new plan?
5. How should the system operate?

IV. The Role of Private Investors in Providing Housing

The study outline worked out jointly with the University of Chile did not deal with the question of rental housing built for investment purposes. However, in implementing the housing finance system, this consideration should not be overlooked. In all countries operating under a market system, a role is normally provided for the landlord who wishes to construct residential dwellings for rental purposes, and the future of this could prove to be an important source of housing for the country of Chile, and questions concerning its development should be considered and proceed to be incorporated in the housing finance system. Some of the questions which should be dealt with are:

1. What would be the source of housing finance for the builder for investment purposes?

2. Will individuals who would qualify for subsidies in owner-occupied dwellings have an opportunity of receiving subsidized housing from private landlords?

3. What changes or improvements need to be establisheed in law and regulations, such as zoning, in order to allow for the development of a healthy investment sector in housing?

V. Suggestions for Initial Steps in Implementing a Housing Finance System

A. A coordinator should be appointed to follow up on the housing finance study. It would seem most appropriate if the coordinator were from the Ministry of Finance or from the Central Bank. He should be at a high enough level to effectively communicate with the Minister of Finance as well as be able to effectively work with other governmental and private agencies. The coordinator should be given highly specific targets and a specific timetable for achieving housing finance targets.

B. A committee should be established to work under the direction of the coordinator of housing finance. This committee should be charged with developing the housing finance system as suggested by the University's study. It is suggested that the committee be composed of a representative from each of the following:

a) Ministry of Finance

b) Central Bank

c) Ministry of Housing

d) Caja Central

C. The coordinator and committee should begin to function as quickly as possible to develop the procedures and institutional arrangements necessary to allow the housing finance system to begin functioning effectively. An example of the functions which which might be performed by the committee include:

a) Developing a standard mortgage instrument

b) Organizing a wholesale housing finance activity

c) Providing a mechanism for allocating housing subsidy

d) Developing a system of regulation and supervision for mortgage lenders.