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REPORT AND RECOMMENDATIONS CONCERNING DEVELOPMENT  
OF A SAVINGS AND LOAN INDUSTRY IN THE DOMINICAN REPUBLIC  
WITH AGENCY FOR INTERNATIONAL DEVELOPMENT ASSISTANCE

July 12, 1962

Ashley Foard

Lyndon R. Day

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INTRODUCTION

This report is being written by Mr. Ashley Foard and Mr. Lyndon R. Day upon their return from a one week trip to the Dominican Republic as consultants for the AID agency in connection with a loan application for \$10 million to help establish a savings and loan system. A copy of the loan application is attached as Exhibit G and supplemental information in connection therewith as Exhibit H.

Our primary assignments were to (1) determine more specifically certain basic facts relevant to the pending application, (2) consider the soundness, feasibility and effectivness of the proposed operation, and (3) advise on how AID could best assist in the development of the savings and loan system in the Dominican Republic.

To obtain the most reliable information and to assist wherever possible, we met on separate occasions with the board of directors of the Banco Nacional de la Vivienda or National Housing Bank (the Government agency to provide government assistance to the savings and loan system), with the board of directors of the association being established in Santo Domingo, and with representatives of the association in process of organization in Santiago. We also had the opportunity to meet with Ambassador Martin and his assistants; with Senor Enrique Compos del Torro, Chairman of the Board of the First Federal Savings and Loan Association of Puerto Rico, who has been a moving force in the initiation of the savings and loan concept in the Dominican Republic; and with other business and civic leaders of the country. A complete list of the persons who were met is contained in Exhibit A.

There is a tremendous potential for the proposed savings and loan system to encourage savings and to help meet an obvious need for housing moderate income families such as white collar workers and the higher income industrial workers in the Republic. The proposal is realistic and feasible from a technical standpoint. It has the enthusiastic support of a broad base of the business community, and there is every indication that the Banco Nacional de la Vivienda and the two savings and loan associations in process of organization have capable and experienced men in control of them. (See Exhibits C, D, and H)

SUMMARY OF RECOMMENDATIONS

Before proceeding with our report, we wish to emphasize the following major recommendations:

1. A loan, in such form as AID prescribes, should be in an amount sufficient to cover the AID share of initial costs of establishing the Banco Nacional de la Vivienda and the costs of operations to June 30, 1963. As will be explained, this is roughly estimated to be \$3½ million. While we have made a projection of operations through June 30, 1964, as shown in Exhibits E and F, we

feel there may be a lack of realism and that operations should be reviewed at some point to ascertain conditions then existing as to volume of activity and financial soundness of operations. If otherwise feasible, assurance of continued AID assistance beyond June 30, 1963 could be provided.

2. The loan or commitment therefore should be made before the end of this month in order to avoid delays and disruption of plans for the opening of savings and loan operations in the two largest cities of the country.
3. One or more technicians should be sent immediately by AID to assist in the preparation of necessary rules and regulations for the operation of the savings and loan associations, for insurance of accounts, and for the operation of the Banco Nacional de la Vivienda. Major policy questions have been discussed and in general have been resolved, and some progress has been made in the development of operating procedures. The remaining work is essentially technical but important and time consuming, so that the technicians sent should remain until the work has been completed. Regulations applicable to the operations of the Banco Nacional de la Vivienda are particularly important because much of its authorizing legislation is in very broad terms.
4. Arrangements should be made for AID to finance the cost of employing an experienced savings and loan official to assist the Banco Nacional de la Vivienda and the associations for an indefinite period. We have been advised that a savings and loan official from the First Federal Savings and Loan Association of Puerto Rico could be made available for this work.
5. Some form of periodic reporting to the AID agency by Banco Nacional de la Vivienda should be required so that financing needs can be estimated in advance.

#### NEED FOR HOUSING

Little economic data exists which helps to measure the overall housing needs of the population or the precise volume of need in any particular income group. This lack of information is of no particular significance in connection with action on the proposed loan or in shaping an immediate program because housing needs are great and obvious with respect to all income levels which would be reached with the proposed savings and loan system.

A few facts may give some helpful background. The population has been increasing rapidly, as in other Latin American countries. In 1930, it was about 1.3 million, and in 1960 it had reached something over 3 million. According to recent studies, the population is increasing about 90,000 a year. Since 1930 the urban sector is estimated to have increased from 17 percent to about 30 percent.

Apparently no reliable statistical data exists on types of housing and the income of occupants, but informed persons estimate about 10 percent of the population reside in good frame or cement houses. The families living in these are in the upper or higher middle income levels. The average family is about 6 persons.

There has been almost no construction of low or moderate priced homes in recent years. Some 2500 moderate cost homes (estimated at \$4,000 or \$5,000 value) were built by the Trujillo government for selected officials and friends of the regime in Santo Domingo. Houses were transferred to such persons without any known pattern or prices. Sugar companies also built a considerable number of houses for their workers, often as part of their compensation. We are informed that housing construction has even been less in Santiago than in the capital. New homes are comparatively few and the total deficit of homes in the country has been estimated as high as 150,000. Taking into account the annual population increase which must be housed and the existing deficit, it is readily apparent that the need for housing is unquestionable.

A significant and outstanding characteristic of the housing situation in the larger cities, such as Santo Domingo and Santiago, is the large volume of squatter shacks built near the outer boundaries. These vary greatly in size and condition, but a surprising number of them, although unpainted and small, show considerable care in construction and consist of new lumber.

#### GENERAL ECONOMIC CONDITIONS.

Informed sources advise that the Dominican Government will have a deficit of from RD \$10 million to RD \$20 million this year with a budget of RD \$126 million, but which may reach RD \$130 million. Taxes and confiscated properties brought less receipts than expected during the first half of this year. During the second half of the year increased revenues are expected from income taxes, and there has been a 1 percent increase in the amount of import taxes. Central Bank reserves have gone to \$18 million from a negative reserve under the old regime. A better fiscal situation is expected for the next year. The government wishes to avoid a currency deflation and desires to continue to maintain parity with the dollar.

During the Trujillo regime there was a general appearance of prosperity through the maintenance of construction activity but one which was not soundly conceived. As was to be expected, the bubble burst causing heavy unemployment, and other aspects of an economic depression. Some recovery has been made and the outlook is brighter than at any time in the past two years.

There are serious economic problems which plague the country. The major product is sugar which creates 60 percent of the country's foreign exchange and which is grown on 7 percent of the productive land. Diversification of agricultural activity is badly needed as well as the development of other natural resources, such as bauxite.

### SAVINGS AND LOAN ASSOCIATIONS AS AN AID TO HOUSING

Savings and loan associations have a tremendous opportunity to help meet an important part of the housing needs of the country, because (1) there are presently no savings institutions whatsoever engaged in long-term home financing, (2) there is a substantial segment of urban dwellers with incomes adequate to make payments on housing at costs contemplated under the proposal, as will be discussed, and (3) there exists a construction industry with large unemployment.

There are of course no institutions in existence in the Republic similar to savings and loan associations. Commercial banks make loans up to  $2\frac{1}{2}$  years, and we were told of some cities with no banks of any kind. The construction of homes has been deterred by the lack of financing facilities. At one time a government agency, Salyida, made some housing loans but these were concentrated in the capital and resentment still lingers in outlying areas at the preferential treatment. In addition, kickbacks to Trujillo caused construction costs to far exceed actual values. The general public is unacquainted with housing costs and this ignorance can be overcome by missionary activity by the associations which in turn will lead to the desire for home ownership.

Savings institutions should be particularly attractive to investors because of the limited facilities now existing. There is no securities market and businesses are usually either closed family operations or owned by the government. Banks in larger cities apparently have not encouraged savings by small depositors. At present there remains a certain distrust of banks, as a result of their use by the Trujillo regime. Taxation has been on the basis of capital rather than on property and this discouraged deposits which became subject to taxation. It is reported that under the new income tax law, the income on deposits bringing less than a 6 percent return is exempt.

Salaries and wages are in general low but not as low as in some other Latin American countries. Agricultural wages are regulated in certain sections, including those applicable to sugar, coffee, and rice production. Workers in sugar mills have had recent wage increases of 100 to 150 percent. Minimum wages are usually \$2 a day and the government pays \$2 a day for roadwork and for unskilled work in general. Wages for skilled construction workers is from \$3.50 to \$5 a day. Many white collar and other employees earn more than \$175 a month. In one cement plant in Santo Domingo with 250 employees, an estimated 25 percent of the employees earn over \$150 a month. It may be noted that only a very small percentage of the employees of this plant, those in one of the larger commercial banks, and those in a large peanut oil industry with 450 employees, own their own homes. It was estimated in connection with the recently adopted income tax law of the country that about 10 percent of the people would have incomes of more than \$1200.

Many people in the Republic realize the significance of housing production of all kinds as an aid to relieve unemployment. Unemployment is much feared as an instigator of dissent and unrest and these are known to exist. Evidence of substantial unemployment exists in Santo Domingo and other cities. American

Embassy economists report that unemployment in cities has been 12 percent to 15 percent, but has improved slightly. However, unemployment in the construction industry is far greater and some estimate that it was as high as 70 percent this year.

Because of the status of the construction industry, housing production can be of particular benefit to the country. In fact, it affords a means not otherwise available. The two principal industries of the country can be stated as sugar first and, second, agriculture generally, which offer little opportunity to substantially absorb the unemployed in cities where most of the unemployment exists. As always in the case of housing construction, employment in allied industries is equally as important as employment on the construction site.

Fortunately, although unemployment has been high in the construction industry, there is an ample number of builders in the larger cities who could proceed with home construction if financing were available. For example, there are 25 or more builders in Santo Domingo, many of whom are idle.

#### SAVINGS POTENTIAL

In the four months period ending April 30, 1962, savings accounts in commercial banks have increased RD \$4,300,000 to a total of RD \$12,700,000. This may be taken as an indicator of a trend for returning confidence on the part of the public, particularly with respect to the government. The various persons consulted felt that savings could be attracted in savings and loan associations but there was no agreement as to the amount or rapidity with which they might flow in.

The estimates of savings balances shown on Exhibit E represent evaluation of the opinions expressed and are believed to be conservatively stated. Knowing that two associations will begin operation on July 30 with RD \$400,000 on hand or subscribed, it seems reasonable to assume an increase in the first five months of operation as the savings and loan concept becomes increasingly better known. In addition, it is realistic to assume that three other associations may be organized and ready for operation at December 31, 1962. Initial savings balances of RD \$100,000 each are less than those established for POPULAR and CIBAO but this lower amount is in keeping with the smaller populations of the cities in which the associations would be formed.

The attraction of savings capital is dependent upon several factors. The Dominicans generally do not have a concept of thrift as the Trujillo administration destroyed any tendency for savings in financial institutions by the rank and file of the people. It is believed, however, that a goodly amount of "sugar bowl" and "mattress" savings do exist and which may be attracted into savings and loan associations. No information is available as to the extent of investments by Dominicans outside the country and thus no conclusion can be reached as to whether any such funds would be returned and invested in savings and loan associations.

Another factor, of course, is the extent and kind of promotional activity which may be used to induce people to invest in savings and loan associations. Enthusiasm for this savings medium has been generally limited to the persons approached by the two organizing groups and by the directors and general manager of the Banco Nacional de la Vivienda. The response to date calls for an optimistic conclusion that the associations will be able to attract savings from among a wide group once the concept becomes better known.

A third consideration is the matter of the rate of return to be paid on savings. It is anticipated that a rate of 4 percent per annum can be paid by each association from their respective net earnings. This rate is believed to be high enough to be attractive to persons who are not now savers in financial institutions. The rate currently paid on savings by commercial banks is  $2\frac{1}{2}$  percent.

The fourth factor, which is not unrelated to the other three stated above, is the promotion of public confidence in savings and loan associations. The two major considerations are (1) insurance of accounts, and (2) United States backing by the early granting of a loan or loan commitment.

The extent to which insurance of accounts may engender confidence is not readily apparent since the concept is entirely new. Local officials felt, however, that knowledge by the saver that the Dominican government was backing the savings and loan system would tend to overcome some degree of reluctance to invest in a new financial enterprise. The second point is of inestimable importance in getting the program launched and for a successful continuance. The organizing groups in Santo Domingo and Santiago are willing to go ahead with plans for opening institutions without the assistance that the United States Government could provide through the granting of a loan, but they feel their chances for successful operation are greatly enhanced by the knowledge of United States Government support. The feeling exists that when the public is apprised of the confidence of the United States Government in the undertaking to the extent of making loans in support of their institutions, then the public itself will generate its own confidence in the system.

#### MORTGAGE LENDING PRACTICES

In conversations with the managements of the two organizing groups it was ascertained that loans will be made on a take-out basis only, that is, permanent financing for the home-owner and not the financing of a builder during the course of construction. It is understood, but not verified, that the Chase Manhattan Bank is willing to engage in the construction lending in Santo Domingo to the extent of \$5,000,000 and provide expert appraisal and land title advice. The local manager of the Chase Manhattan branch in Santo Domingo expressed a keen interest in the possibility of construction lending projects.

Mortgage loans would be made for a maximum term of 20 years although a term of 25 years is permitted under the law. The interest rate is anticipated as 8 percent per annum which provides a satisfactory spread to cover operating costs,

a dividend on savings of 4%, and the building of reserves. The monthly payments on a 20-year loan at 8% amount to \$8.37 per \$1,000 and cover principal and interest. Since construction will generally be of concrete, fire and earthquake insurance premiums are nominal. At the present time there are no real estate taxes to be considered.

The management of the ASOCIACION POPULAR in Santo Domingo advised that its proposed requirement on down payments by purchasers would be 10% for a house costing \$5,000, 15% for one costing \$7,500, and 25% on one of \$10,000. A fee appraiser would be used in making appraisals. Loans would be approved by a three-man loan committee of the Board of Directors. To the extent that credit reports were available they would be utilized but in most instances the investigation of loan applicants will have to be conducted on a personal basis as to employment record, character, and the like. The Torrens title system is in effect in the Republic and the majority of the land has been brought under the system.

It is anticipated that a worker with a monthly income of \$175 would be able to carry the monthly payments on a home costing \$5,000 where a down payment of \$500 had been made. Payments of approximately \$40 monthly would be within the ratio of 25% of income for housing expense. As has been pointed out earlier, there are a substantial number of workers having this minimum income or more, and who possess the ability to make the down payment. The limiting factor on the growth of savings and loan associations is the availability of savings for lending purposes and not persons seeking homes to be financed.

The Banco Nacional de la Vivienda, in the explanatory statement concerning its loan application advises that it will restrict associations in their lending practices by requiring that 50% of their resources must be invested in loans not exceeding RD \$5,000; 40% in loans not in excess of RD \$7,500, and the balance of 10% in loans not in excess of RD \$10,000.

### HOUSING CONSTRUCTION

The ASOCIACION POPULAR in Santo Domingo, while not yet in operation, has received several proposals for housing projects to be financed. There are appended hereto as Exhibits B<sup>1</sup>, B<sup>2</sup>, and B<sup>3</sup> architects plans for a typical house to cost approximately RD \$5,000, including the land. No effort has been made to evaluate the plans in terms of United States construction or costs and they are presented for illustrative purposes only. Measurements are in meters. The cost of construction for a typical house was stated to be between \$40 and \$65 a square meter.

A great deal of land in desirable locations is available within Santo Domingo and to a lesser extent in Santiago. The possibility exists of utilizing Trujillo family lands, of which there is a substantial amount, in project developments.

Advice was provided that profiteering on construction is at a minimum due to (1) keen competition among builders, and (2) speculation or profiteering is considered a serious offense which is a reaction against practices prevalent in the Trujillo regime.

DEVELOPMENT OF THE SAVINGS AND LOAN CONCEPT

## 1. BANCO NACIONAL DE LA VIVIENDA

The Government of the Dominican Republic has furnished RD \$500,000 to the Banco Nacional de la Vivienda, which is deposited to the credit of the bank in the Banco de Reservas (a commercial bank administered by the Government). The Government's total commitment in providing capital to the Bank is RD \$2,000,000. In view of the demands on the treasury of the country at this time, there is every indication that the initial amount of RD \$500,000 represents a substantial contribution and a real stake in the success of the savings and loan system being established. Mission Director Williams and others have provided assurance that this contribution would in no way be reimbursed from other funds coming from AID or other outside sources.

The application of the Banco Nacional de la Vivienda for an AID loan (Exhibits G and H) states that the Bank would charge 4 percent on its advances to savings and loan associations which in turn would be permitted to charge up to 8 percent on their loans. This is a broader spread than exists in the operation of savings and loan associations in the United States. We understand that a comparable 4 percent rate was permitted under some loans already made to assist savings and loans in other countries, but only where severe inflation problems existed.

It is not recommended that the 4 percent rate on advances be increased in order to reduce the above spread in rates, although a higher rate might be workable. The differential will permit the associations to build reserves for the protection of investors and will provide a bulwark if the associations are for some reason forced to sell mortgages at a discount. To the extent reserves are created they constitute a substitute for "seed money" in the form of grants or permanent investments which would be less desirable. No funds would be furnished by the Banco Nacional de la Vivienda to the associations which would not be repayable.

The organization of the Banco Nacional de la Vivienda has been completed as far as the establishment of the board of directors is concerned. A general manager has been selected and an initial office staff of three other persons is now in operation. A list of the five directors of the bank and their alternates appears in Exhibit H.

Office quarters are presently located in the National Archives Building but will be removed to another government office building when remodeling has been completed. The functions of the bank encompass the chartering and supervision of savings and loan associations and providing them with insurance of their accounts. The bank also has the authority to make investments in the associations and loans to them. Under the recently adopted law the bank can insure the mortgages held by the associations and those made by other mortgage lenders.

A special meeting of the board of directors was attended by the undersigned at which many questions were raised by the directors and answers were provided in so far as possible. There is a general comprehension of the scope of the bank but there is difficulty in translating these broad considerations into specific operating details. For example, the by-laws of the bank need to be drafted. There is need for rules and regulations for the chartering, operation, and supervision of savings and loan associations, and rules and regulations for insurance of accounts. There was general agreement that while insurance of mortgages was also of importance it would be possible to defer this activity until the others mentioned above had been satisfactorily concluded.

During the course of the meeting proposed interim regulations were drafted which would provide for insurance of accounts for the two associations which anticipate opening on July 30. It was felt that if insurance of accounts could be publicized in connection with the opening of these institutions it would have a salutary effect in generating interest and enthusiasm for the savings and loan program. The proposed regulations provided that the initial capital of the Savings Insurance Department would be RD \$100,000 which would be supplied from the RD \$500,000 of initial capital of the Dominican Republic. There was considerable discussion as to the maximum amount of insurance for each account and a tentative decision was to place the initial limit at RD \$3,000 rather than at the \$10,000 as found in the United States. The amount of the premium for insurance of accounts was not determined although the general thinking ran to a figure of 1/6 of 1 percent per annum.

There is a great need for providing detailed guidance and assistance to the directors and officers of the bank. They are receptive to ideas, they are eager and willing to develop the concepts provided in the various laws, but they are uninformed as to the savings and loan concept. It is highly important that technical assistance be made available at the earliest possible date in order that this national housing bank may begin operations on a sound basis for it is necessary that the officials of the bank in turn provide guidance and direction to the managements of the savings and loan associations which are to be chartered.

## 2. ASOCIACION POPULAR DE AHORROS Y PRESTAMOS

The organization of the Asociacion Popular de Ahorros y Prestamos in Santo Domingo has been perfected and the organizers are planning on a formal ceremonial opening ceremony on July 29. The association will open officially for business on the following day. Office quarters have been obtained on a prominent corner in the financial district with the other three corners occupied by the branch of the Chase Manhattan Bank, Bank of Nova Scotia, and Royal Bank of Canada. The Banco de Reservas, official depository of the Republica Dominicana will be next door to the association. The building at one time housed the branch of the First

National City Bank of New York and is adaptable to association requirements with a minimum of alteration.

Exhibit C gives the names of the directors of the association and lists brief pertinent data as to age and occupation. Of interest are the relatively young ages of the men and the importance of their professional accomplishments. A personal meeting with the board provided the distinct impression of aggressive enthusiasm and sincere interest in establishing a sound financial operation. At the meeting attended certain by-law changes were discussed at length and the by-laws were given final approval.

The association will open with initial savings capital of over RD \$200,000 obtained from over 100 individuals. Each organizing director has been responsible for obtaining commitments for savings accounts in the form of checks. Persons prominent in the financial, commercial, and governmental life of Santo Domingo have become informed of the savings and loan concept and have responded enthusiastically. One director remarked in passing that he had never experienced a situation before where his requests for financial participation had met with no refusals. In addition, voluntary subscriptions have been tendered by middle income persons who have heard of the formation of the association. A young lawyer has been selected to be the managing officer and he has received two weeks training in the First Federal Savings and Loan Association of Puerto Rico. Other personnel have been selected tentatively.

### 3. ASOCIACION CIBAO DE AHORROS Y PRESTAMOS

Exhibit D presents the list of organizers for the Asociacion Cibao de Ahorros y Prestamos to be located in Santiago. As in the case of the Asociacion Popular in Santo Domingo, the directors are men of substance and standing in the community.

The lack of time prevented personal visits to Santiago; however, Sr. Gustavo A. Tavares accompanied by Sr. Miguel A. Lama Mitre, a director, and Sr. Jose Rafael Mera, an architect, came to Santo Domingo to explain the progress being made in Santiago.

Plans have been formulated for the formal ceremonial opening of the association on July 29 and the opening for business on July 30. Initial savings capital in the present amount of RD \$200,400 has been subscribed by 95 individuals, businesses, and business associations. Discussions have been held with business people in Moco, about 15 miles from Santiago, and in other nearby communities and favorable response to the savings and loan idea has been received. It is planned to provide an educational campaign for various employee groups to acquaint them with the facilities which the association will offer.

An office for the association has not been selected as yet but three are under active consideration. A young lawyer has been selected as manager and he has received two weeks of intensive instruction in the First Federal

Savings and Loan Association of Puerto Rico. Accounting and other operating forms are in the process of procurement, some are coming from Puerto Rico and some will be printed locally in Santiago. By-laws are in the process of development and must be completed before a franchise (charter) will be issued by the Banco Nacional de la Vivienda.

#### 4. OTHER ORGANIZING ACTIVITY

The general manager of the Banco Nacional de la Vivienda has held preliminary discussions with community leaders in San Francisco de Macoris, San Juan de la Maguana, and San Pedro de Macoris. Enthusiastic response was received in all three places and they are desirous of getting the organization of a savings and loan association under way as soon as possible. Citizens of Azua and La Romana have visited the bank's general manager asking for information on the savings and loan concept and expressing a desire for the formation of an association in their respective areas. Exhibit I presents a study of population density and shows the locations of the savings and loan associations proposed to serve the country initially.

The feeling exists that the establishment of two sound operating institutions in the country's two largest cities is all that can properly be undertaken at the present time. The factors limiting the organization of associations in other areas are (1) financial resources of the bank, (2) the immediate need for the establishment of implementing rules and regulations for the operation of the associations and for insurance of accounts, (3) the need for technical guidance and assistance, and (4) present personnel limitations. The board of directors of the bank has expressed itself as feeling that favorable action on its AID loan request is a prerequisite to the organization of additional associations.

#### PROJECTION OF OPERATIONS

There is shown on Exhibit E a projection of operations for balances on various dates for the savings capital which can be reasonably anticipated to flow into savings and loan associations, for the investments which can be expected to be made by the Banco Nacional de la Vivienda in the savings and loan associations, and the total of mortgages held by the associations.

#### Savings Capital of Savings and Loan Associations

There is shown for July 30, 1962 the amount of RD \$200,000 each for the Popular Asociacion in Santo Domingo and for the Cibao Asociacion in Santiago. It is reasonable to assume that in the five months of operation to December 31, 1962, that savings in the Popular Asociacion will increase to RD \$400,000 and in the Cibao Asociacion RD \$325,000. The increase for Popular would be 100% and for Cibao 62½%. In addition it can be expected that three additional associations could conceivably be ready to open for business by the first of 1963 and we have

estimated the initial share capital to be RD \$100,000 each. It is estimated that total savings in all associations on December 31, 1962 would total RD \$1,025,000. It cannot be ascertained where the three associations that are likely to open by the end of the year are located except that considerable interest has been expressed in San Francisco de Macoris, San Juan de la Maguana, and San Pedro de Macoris.

For the six months period of operation ending June 30, 1963, it is estimated that share capital will increase to a total of \$2,475,000. As will be noted on Exhibit E, the savings capital of each association will have increased substantially and in addition three other associations would be expected to be ready for opening by June 30, 1963. While the projection beyond June 30, 1963 leaves a great deal to be desired as far as exactness may be concerned, it is felt that a projection is desirable nevertheless. Again it will be noted that increases in the savings capital are shown for each of the eight associations which are expected to be in operation. The total of the savings is RD \$4,400,000, which does not seem to constitute an unobtainable goal.

#### Investments by Banco Nacional de la Vivienda

In the initial stages of the operations of the bank it is anticipated that investments will be made in the various savings and loan associations which are organized. These investments are in contrast to the making of loans, or advances as they are more technically known. The advantage of the investment operation is that funds can be more readily made available in sufficient quantity, giving a flexibility which would not exist if advances were made to the institutions. It is felt that the associations need every opportunity to increase their earning assets as rapidly as possible in order that they may meet obligations of overhead and the payment of a dividend to the investors. At the expiration of a two or three year period, when investments are being repaid, then advances can be made by the bank to the associations on a more formal and secured basis. Further, the ratio of investment by the bank to private investments is calculated on an approximate 3 to 1 basis. This ratio seems realistic when consideration is given to the emphatic need for funds for home financing and is in keeping with generally recognized concepts. A lesser ratio would not provide a sufficient amount of the funds required and a greater one might create a difficulty in the repayment of the investment within a reasonable period. The projections for investments by the bank have been made on the above bases.

It is expected that the Popular Asociacion will have an early demand for mortgage financing and will be able to utilize RD \$1,000,000 of investments by the bank. It is estimated that the Cibao Asociacion can use RD \$800,000 of bank investments during the first five months of operations. For the six months operating period ending June 30, 1963, it is anticipated that additional funds will be supplied by the bank; RD \$1,100,000 to Popular and RD \$800,000 to Cibao, as well as RD \$400,000 each to three newly organized institutions.

For the 12 months period from July 1, 1963 to June 30, 1964, it seems reasonable to assume that Popular could utilize to advantage RD \$1,200,000 of additional bank investments, Cibao RD \$1,300,000, and the other six associations a proportionate

amount. The total investment by the bank on June 30, 1964, is estimated to be RD \$11,300,000. On Exhibit E the total of mortgages held by the various associations as of the dates of December 31, 1962, June 30, 1963, and June 30, 1964, are the total of the savings capital plus the investments by the bank for each of the associations for each date. On December 31, 1962, the two associations, Popular and Cibao, would hold a total of RD \$2,525,000 in mortgages; on June 30, 1963 the Popular and Cibao, plus three other associations, would hold RD \$7,100,000 in mortgages and on June 30, 1964, the eight associations would hold a total of RD \$15,750,000.

In order to give some magnitude of the scope of savings and loan financing based on the projection of operations, over 500 houses at an average cost of approximately RD \$5,000 could be provided, or in process of construction, by December 31, 1962. At the end of June 1963 the cumulative total of houses financed could be over 1400, and by June 1964 over 3,000. While these figures are modest in relation to need, they are indicative of what may be accomplished through the savings and loan medium. As has been stated previously, the determining factor with respect to the number of homes that can be financed is the inflow of savings capital in conjunction with investments by the bank from funds supplied by the Dominican and United States Governments.

#### PROJECTION OF OPERATIONS - Summary of Funds (Cumulative)

Exhibit F presents a summary of information appearing on Exhibit E with the addition of an estimate of AID funds that could be used to the maximum advantage.

The Dominican Government is expected to deposit RD \$2,000,000 for the capital of the Banco Nacional de la Vivienda. Of this amount RD \$500,000 is currently on deposit and RD \$100,000 of the RD \$500,000 is being ear-marked as the initial capital for the Savings Insurance Department of the bank. Presumably the balance of RD \$400,000 would be available for investment in or advances to the associations which will be in operation. Thus on June 30, 1962, the bank would have RD \$400,000 in capital which it could lend, and the associations would open for business with private share capital of RD \$400,000, either held or subscribed to, making a total of RD \$800,000 available for mortgage lending. On December 31, 1962, the capital of the bank is shown to have increased by RD \$500,000, an AID loan of RD \$1,000,000 has been received, private share capital has increased by RD \$625,000 and the total available funds for mortgage lending have amounted to RD \$2,925,000. By this date it is expected that the associations will have actually made mortgages totaling RD \$2,525,000.

Using the projection for the need for funds as shown on Exhibit F and assuming the inflow of private share capital already noted the total of the AID loans on June 30, 1963 should equal RD \$3,500,000. Again, it is assumed that the Dominican Government will have deposited RD \$500,000 in additional capital for the bank and total funds available for lending will equal RD \$7,375,000. Mortgages held by the associations, or commitments made therefor, would total RD \$7,100,000.

Carrying the projection on for the year period ending June 30, 1964, it would be expected that the balance of capital for the bank of RD \$500,000 would have been deposited and there would be a need for an additional AID loan of RD \$6,500,000. Private capital would have increased by RD \$1,925,000 and total available funds would be RD \$16,300,000, of which RD \$15,750,000 would already have been invested in mortgages.

The need for assistance in the form of loans from AID is clearly shown in these projections. It is to be recognized that the proceeds of a loan cannot be utilized all at one time, but the need will be a constant one over a period of time. There is no doubt that AID can make the proceeds of a loan available to the Banco Nacional de la Vivienda as funds would be required. Some method is easily devisable whereby a simple reporting system will indicate the needs in advance of their becoming an actuality.

It is not believed desirable to make any commitment for funds needed beyond June 30, 1963, but that a fresh evaluation of circumstances and conditions existing at that time would provide the basis for subsequent action. In any event periodic reporting should be established to provide guidance to AID in the disbursement of funds.

The loan applied for would have a term of twenty years and this is considered reasonable. Any shorter period would create undue hardship in repayment and a longer period might create the impression that permanent capital is being supplied.

The repayment of the loan can be effected in an orderly manner after the savings and loan associations have gone through a development process and have become established as an important segment of the financial community. During this period the Banco Nacional de la Vivienda will have gained recognition and will be able to develop sources of funds for loan repayment in conjunction with the savings and loan associations.

#### SUMMARY AND CONCLUSIONS

Specific recommendations will be found near the beginning of this report. We cannot emphasize too strongly the need for housing of all types and especially for the type which savings and loan financing would supply. We recognize that housing needs can be only partially met in this area since the amount of available savings is the limiting factor rather than the need for housing.

We found that the savings and loan idea has been warmly received by top government officials and by business leaders. It is their opinion that the savings and loan idea will be accepted by the general public once the concepts of savings and of home ownership are explained to the people. We recognize that a great deal of missionary activity must be undertaken but we feel that this will be done based upon expressions by the two organizing groups in Santo Domingo and Santiago, as well as by the management of the Banco Nacional de la Vivienda.

There exists a realization on the part of those who are pioneering the savings and loan idea in the Dominican Republic that herein lies a tool for self-help which can be of tremendous benefit in several ways. By stimulating savings and making productive use of them the economy will be greatly strengthened and the effect will be felt not only in the construction industry but throughout the entire economy. Savings and home ownership can serve as a bulwark against the inroads of communism and there is an excellent opportunity to further the political principles of democracy. There is no idea here of gifts or grants of funds from the United States; instead the desire is to provide self-help but with the realism that loans from the United States are necessary to assure the success of the program.

There is an eagerness to get the program under way, not only from the standpoint of the benefits to be derived within the country, but also to show the United States and neighboring Central and South American countries that the Dominican Republic is taking its place among the free nations, in contrast to its endurance of an absolute dictatorship for 31 years. The people wish to achieve recognition by creating a successful savings and loan system which can serve as a model to other nations.

Our comments appearing under the heading of "Projection of Operations", above, with details presented in Exhibits E and F, show that an AID loan of \$3,500,000 to the Banco Nacional de la Vivienda is recommended for the period to June 30, 1963. This total amount is not needed immediately but the advantage of making a commitment for a specific amount prior to July 29 cannot be overstated. To do so will not only generate confidence on the part of those actively engaged in promoting the savings and loan idea but also on the part of the public upon whom rests the responsibility for the acceptance of the idea and the benefits which can emanate therefrom.

Respectfully submitted,

---

Ashley Foard

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Lyndon R. Day

July 12, 1962

PERSONS CONSULTED OR INTERVIEWED

John B. Martin, Ambassador to the Dominican Republic

Alton Hamba, Deputy Chief of Mission

Lewis M. White, Second Secretary and Economic Officer

Newell Williams, Director of United States AID Mission

Norman Ward, Deputy Director of United States AID Mission

Enrique Campos del Toro, Chairman of the Board, First Federal Savings and Loan Association of Puerto Rico

Thomas Carter, Manager, Branch of Chase Manhattan Bank, Santo Domingo

E. Salas, Manager, Branch of First National City Bank, Santo Domingo

Juan Bernal, Architect and Contractor, Santo Domingo

Juan J. Pujadas, Architect and Contractor, Santo Domingo

Gustavo A. Tavares G., President-Administrator, Ml de Js Tavares Sucs., C. for A., Santiago

Victor J. Espaillat, President, Asociacion para el Desarrollo, Inc., Santiago

Jose Rafael Mera, Architect and Contractor, Santiago

Miguel A. Lama Mitre, David Lama Sucs., Santiago

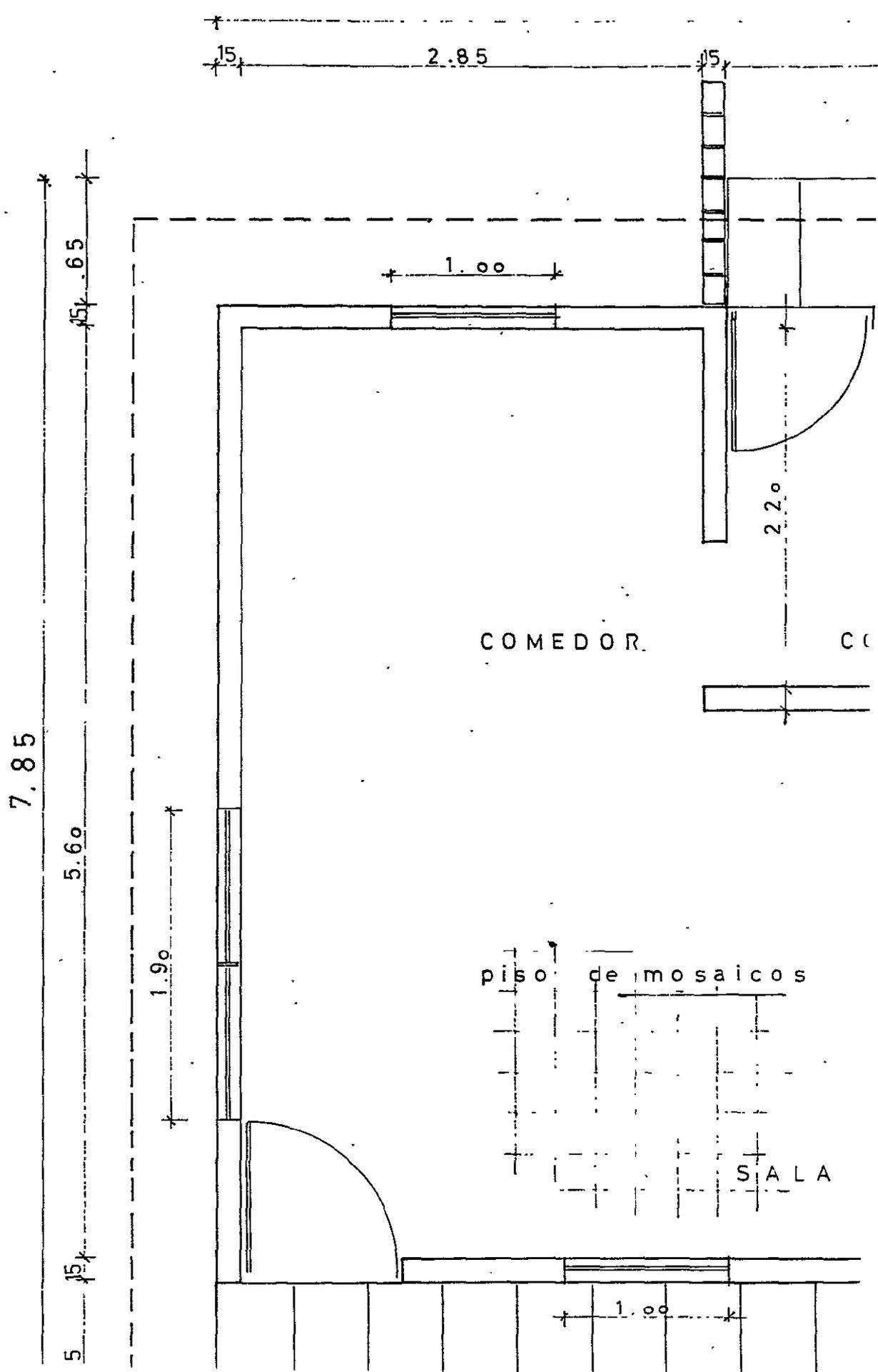
Dr. Eduardo Paradas Veloz, President, Banco Nacional de la Vivienda, Santo Domingo

Dr. J. Manuel Pittaluga N., General Manager, Banco Nacional de la Vivienda, Santo Domingo

Board of Directors, Banco Nacional de la Vivienda (See Exhibit H)

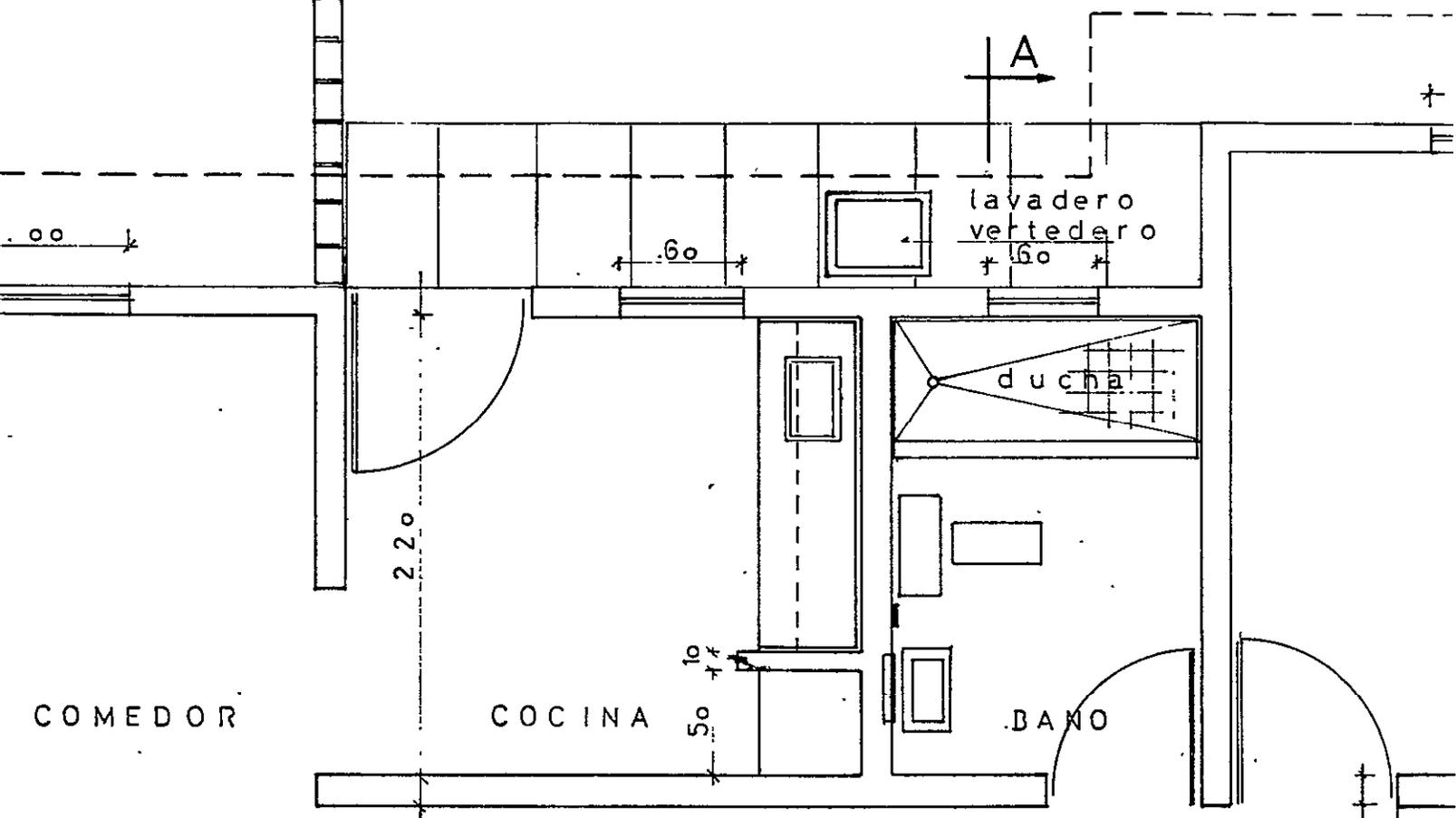
Gustavo A. Tavares, President-Administrator, Fabrica de Mosaicos Tavares, C. for A., Santo Domingo

Board of Directors, Asociacion Popular de Ahorros of Prestamos, Santo Domingo (See Exhibit C)

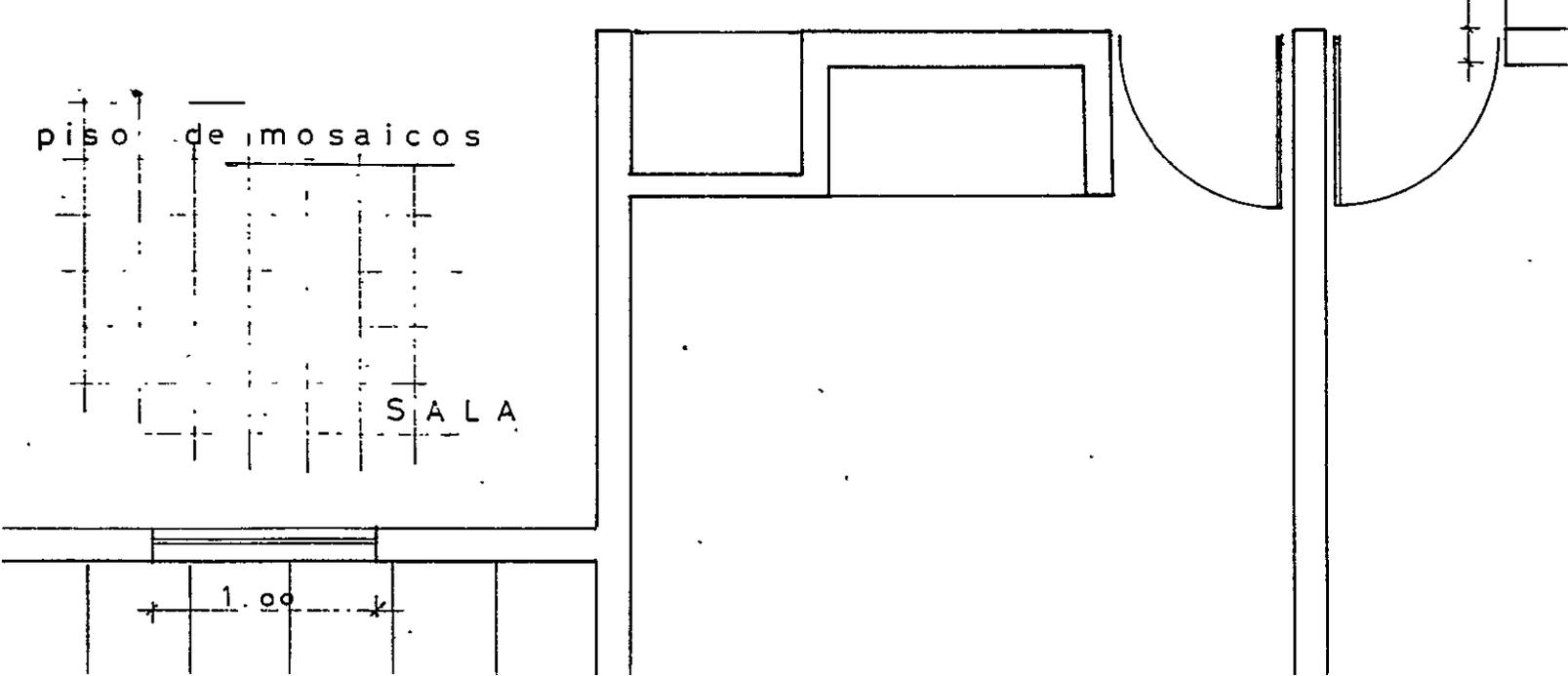


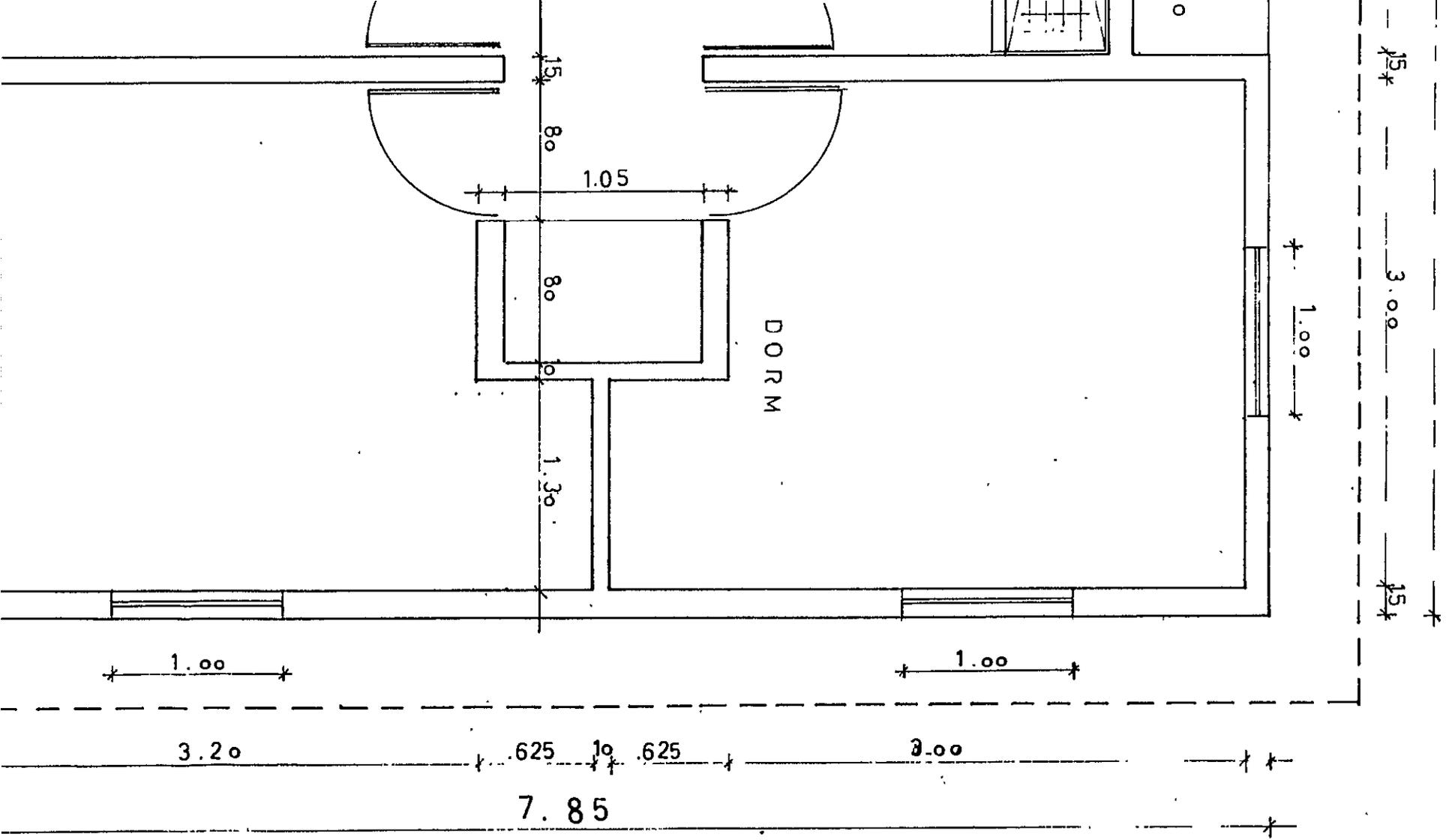
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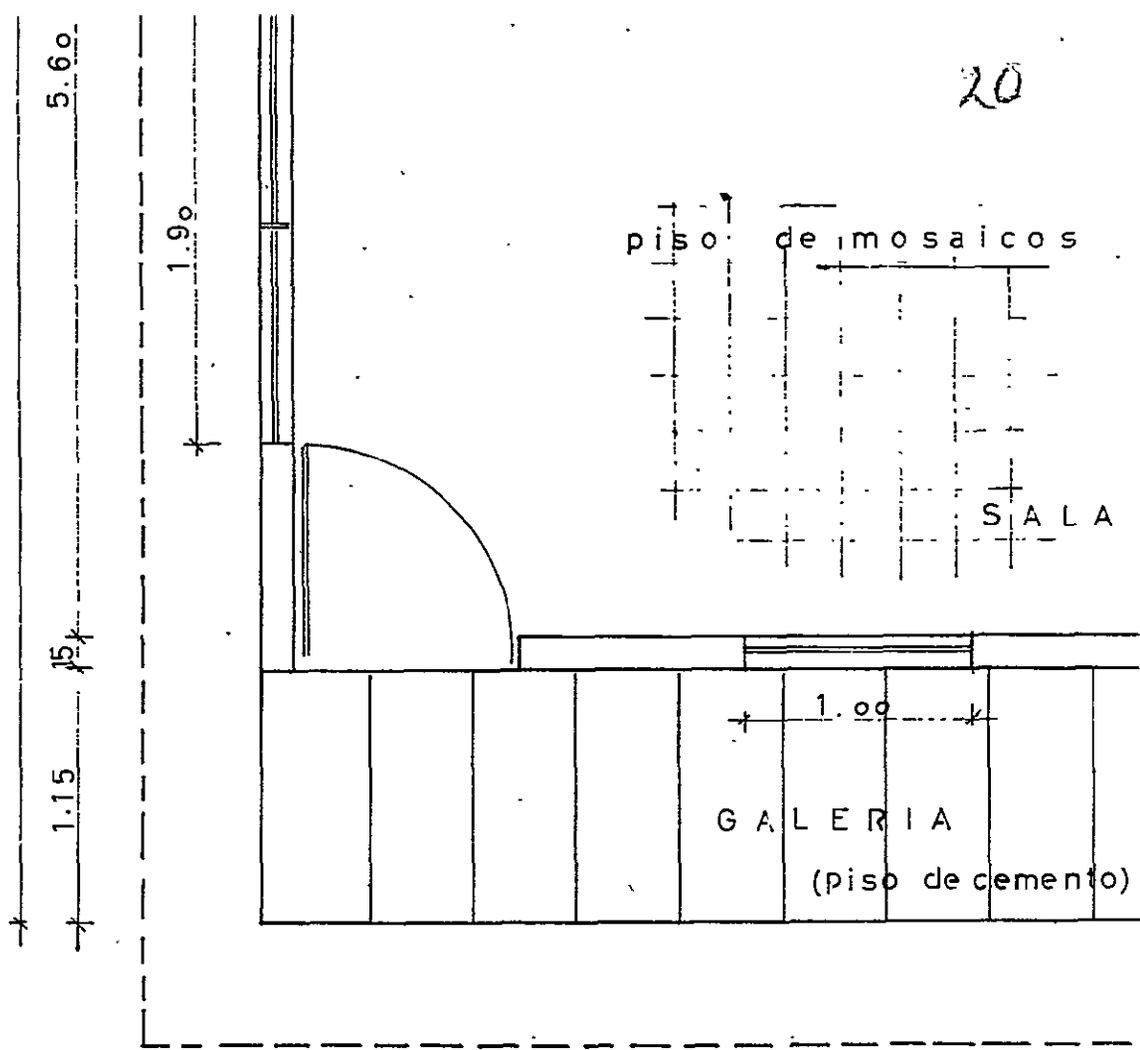


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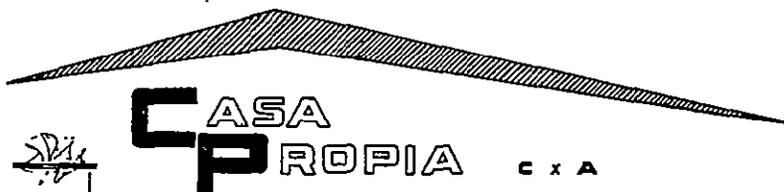




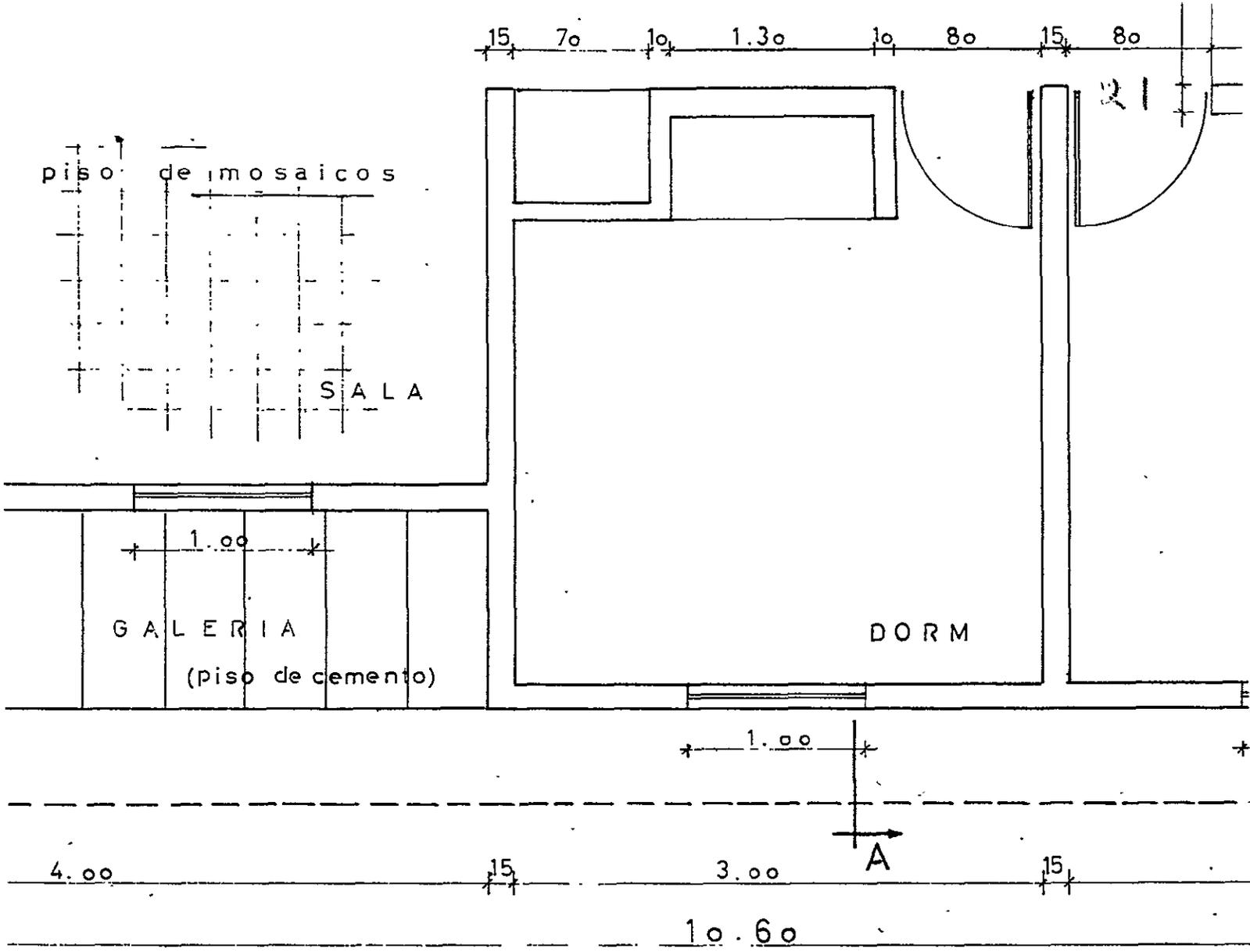
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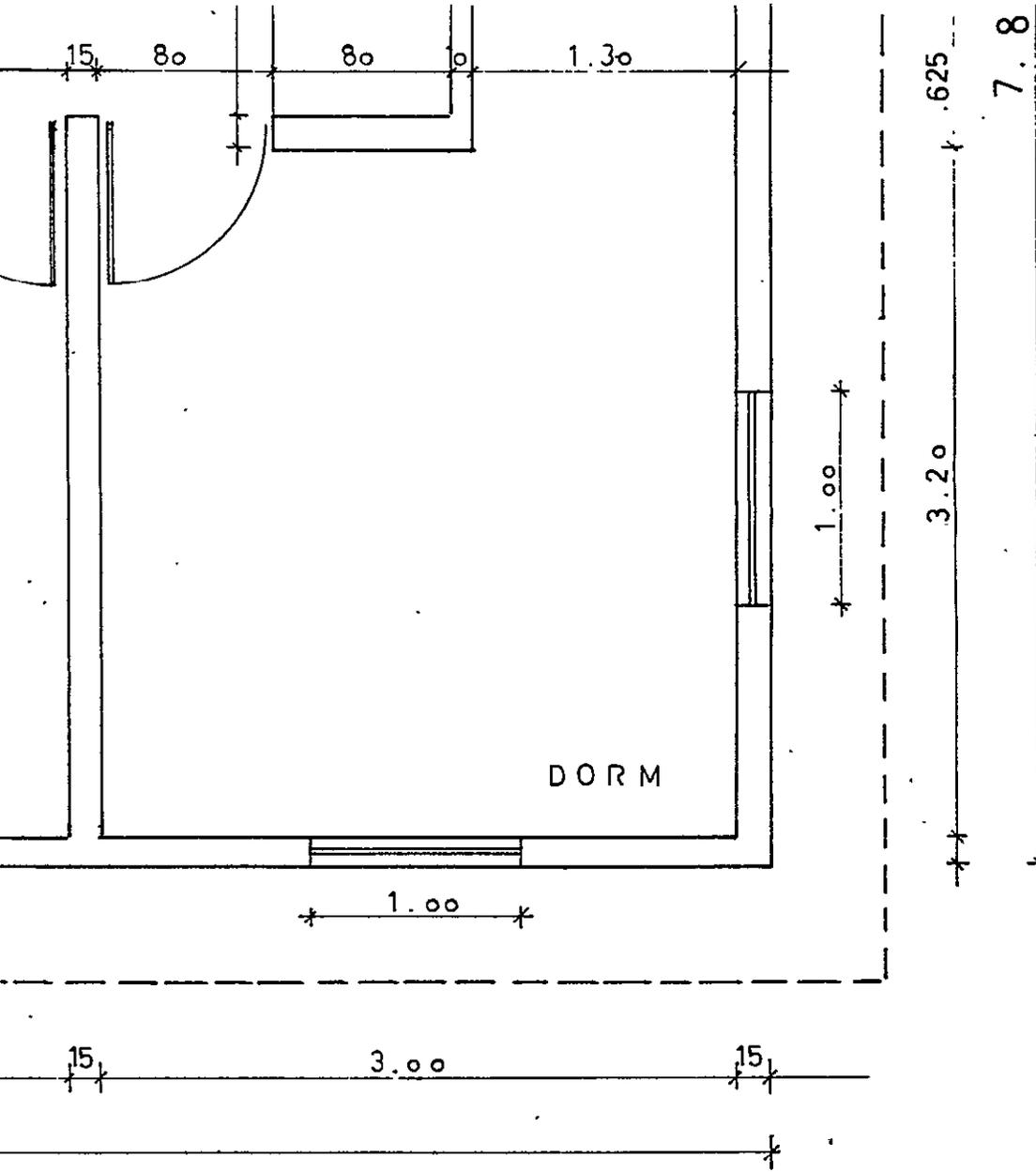
PLANO P  
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E S C A L A . 03

PLANO PARA LA CONSTRUCCION DE UNA  
CASA TIPO TRES DORMITORIOS MODELO A



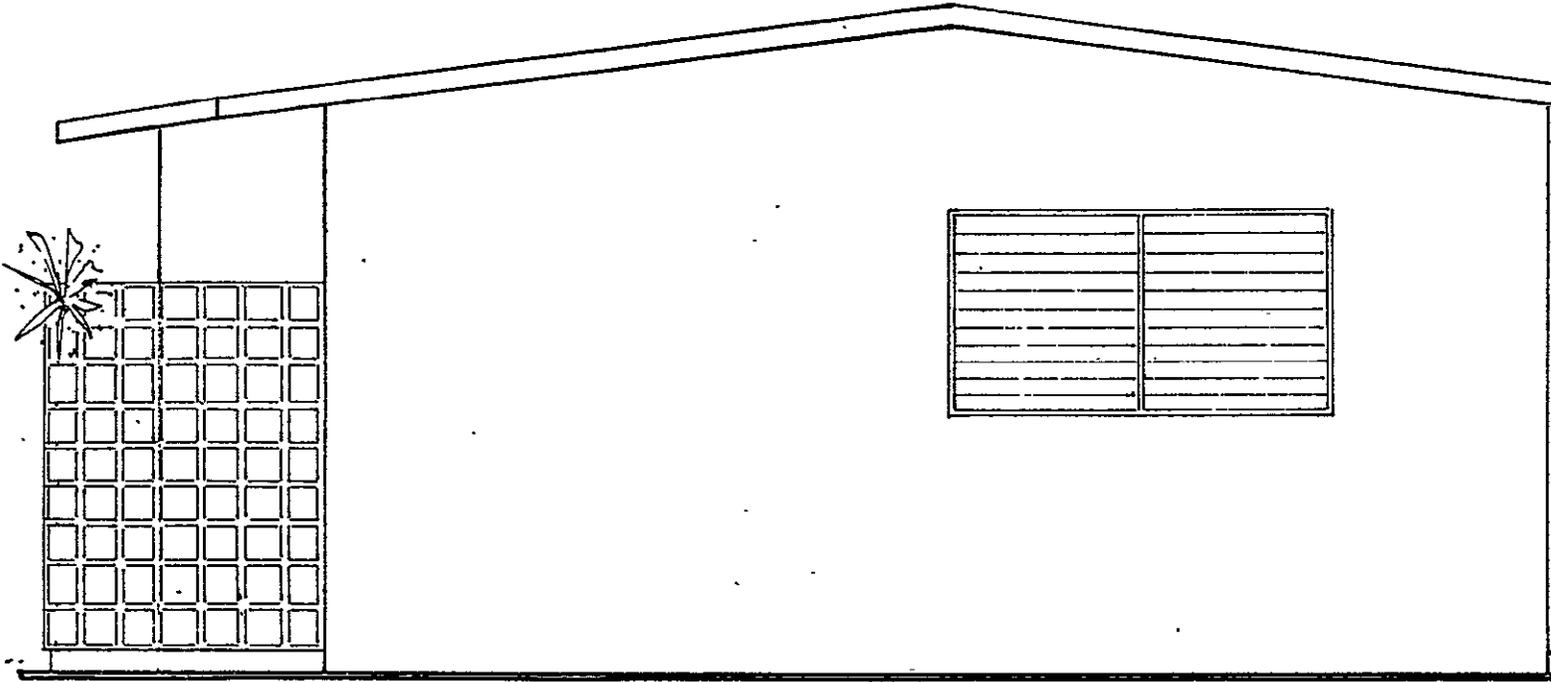
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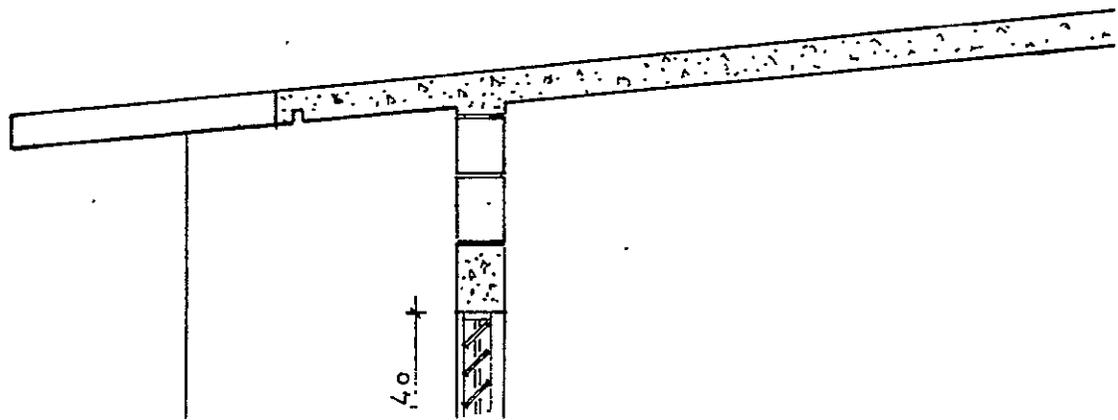
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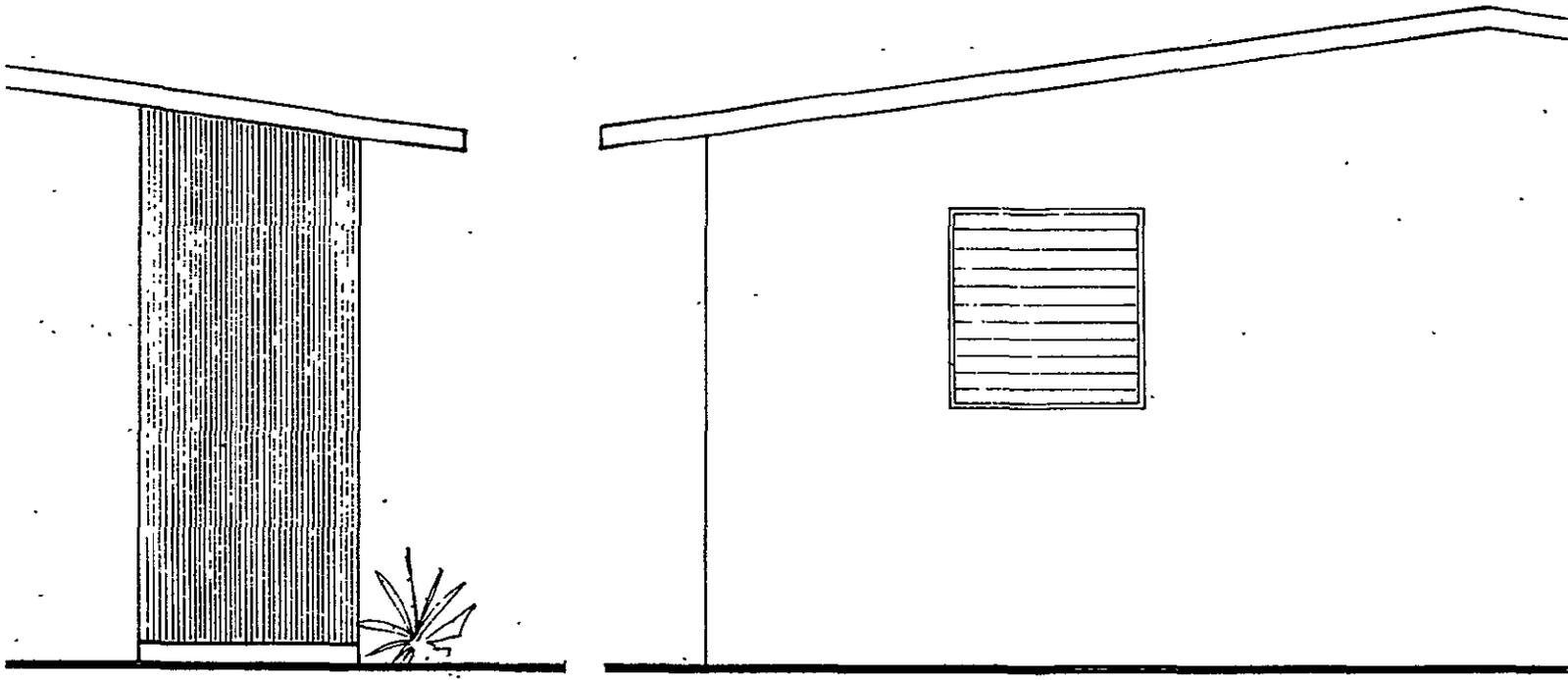
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SANTO DOMINGO JUNIO 1962

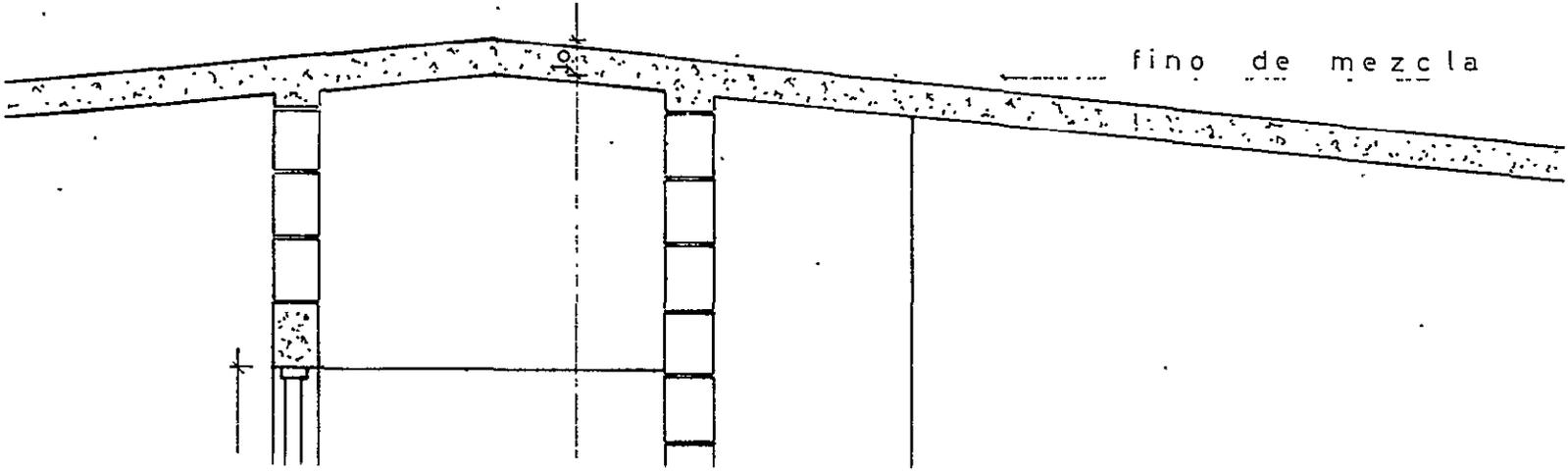


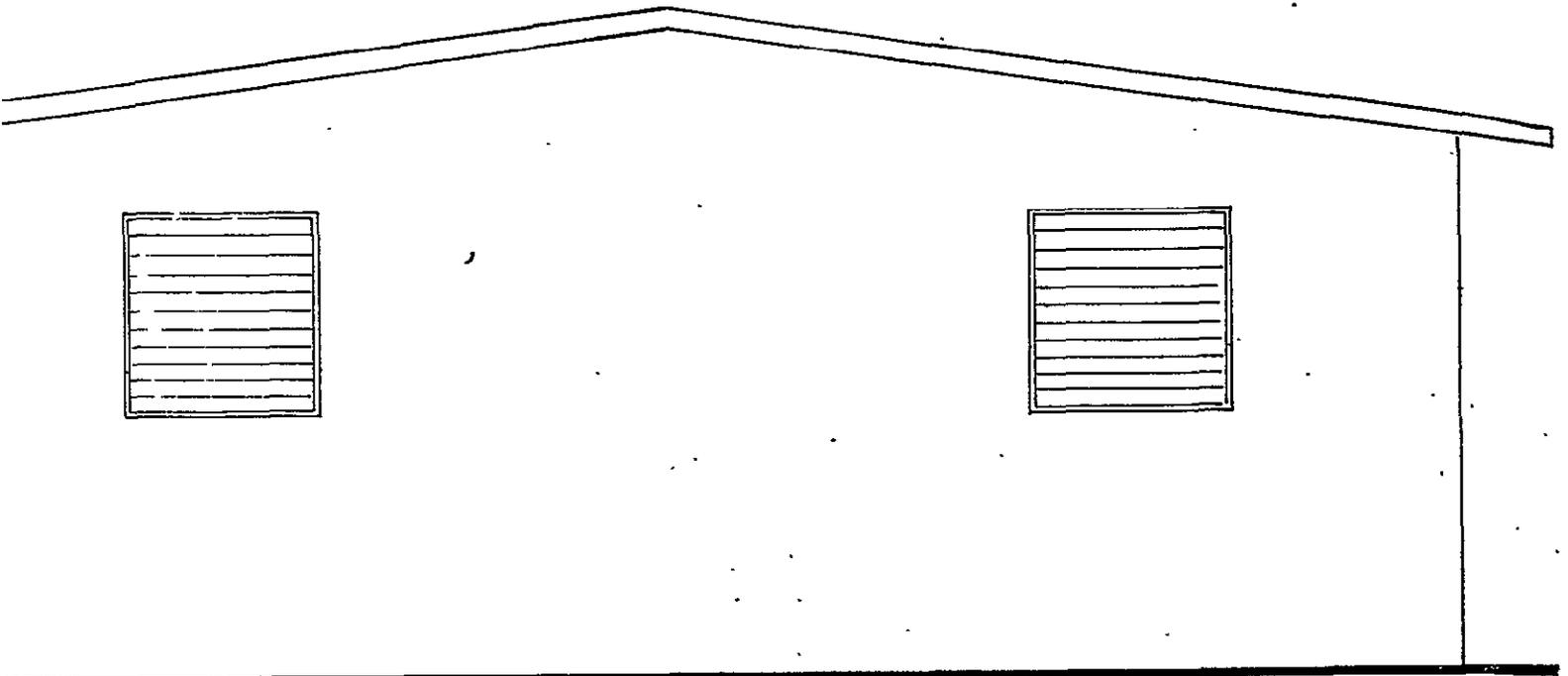
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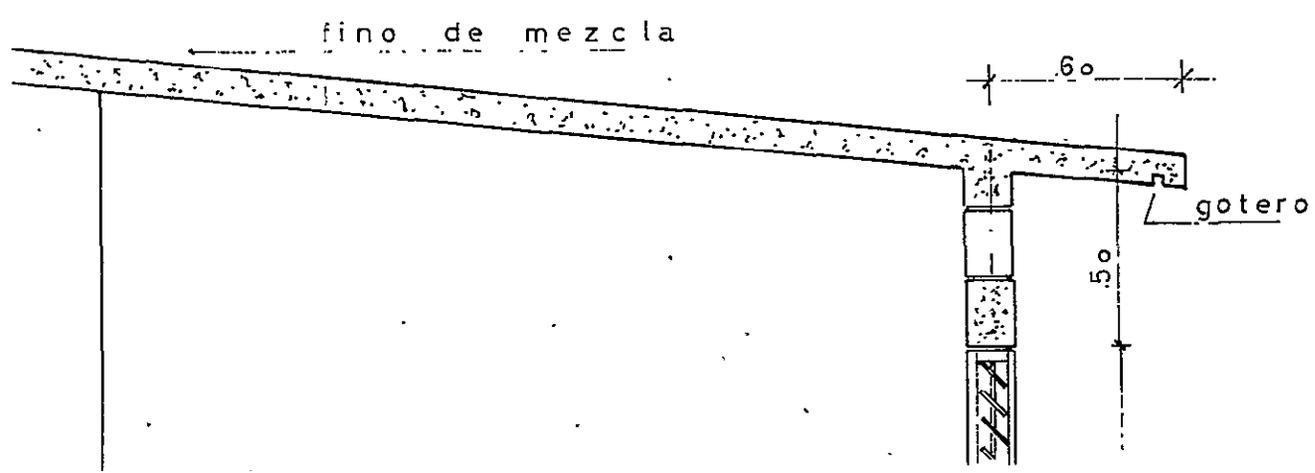


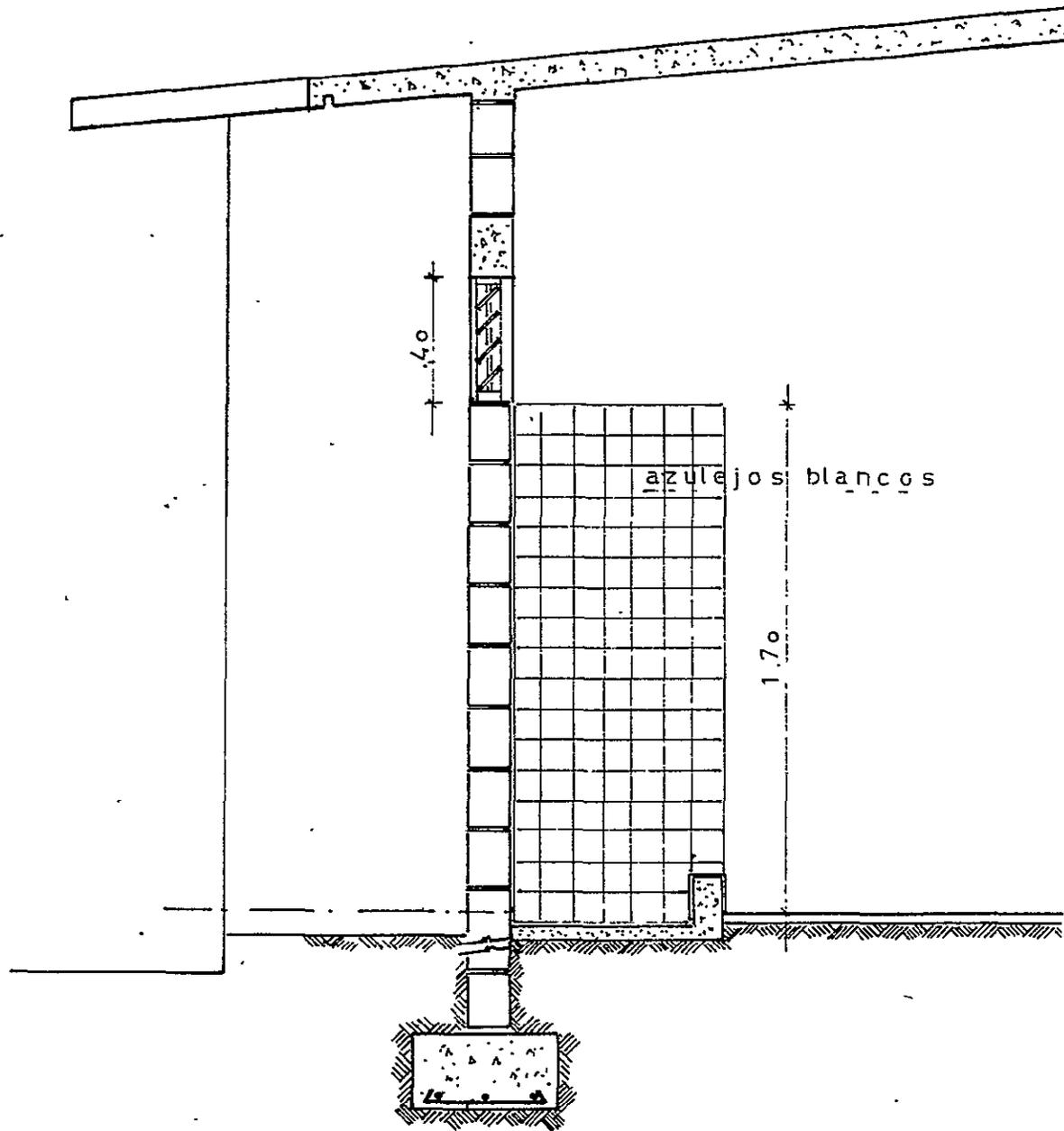
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VACION TRASERA

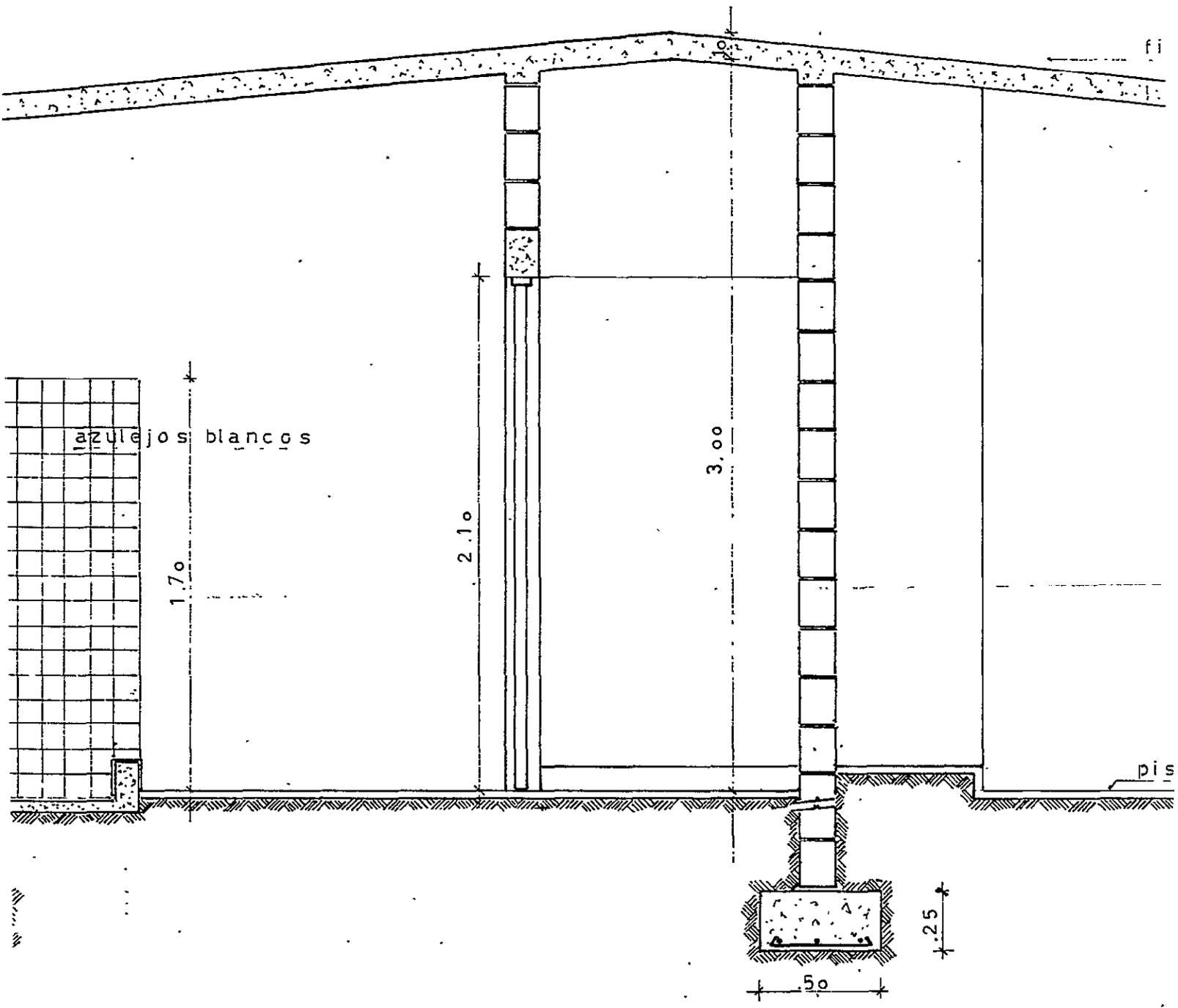




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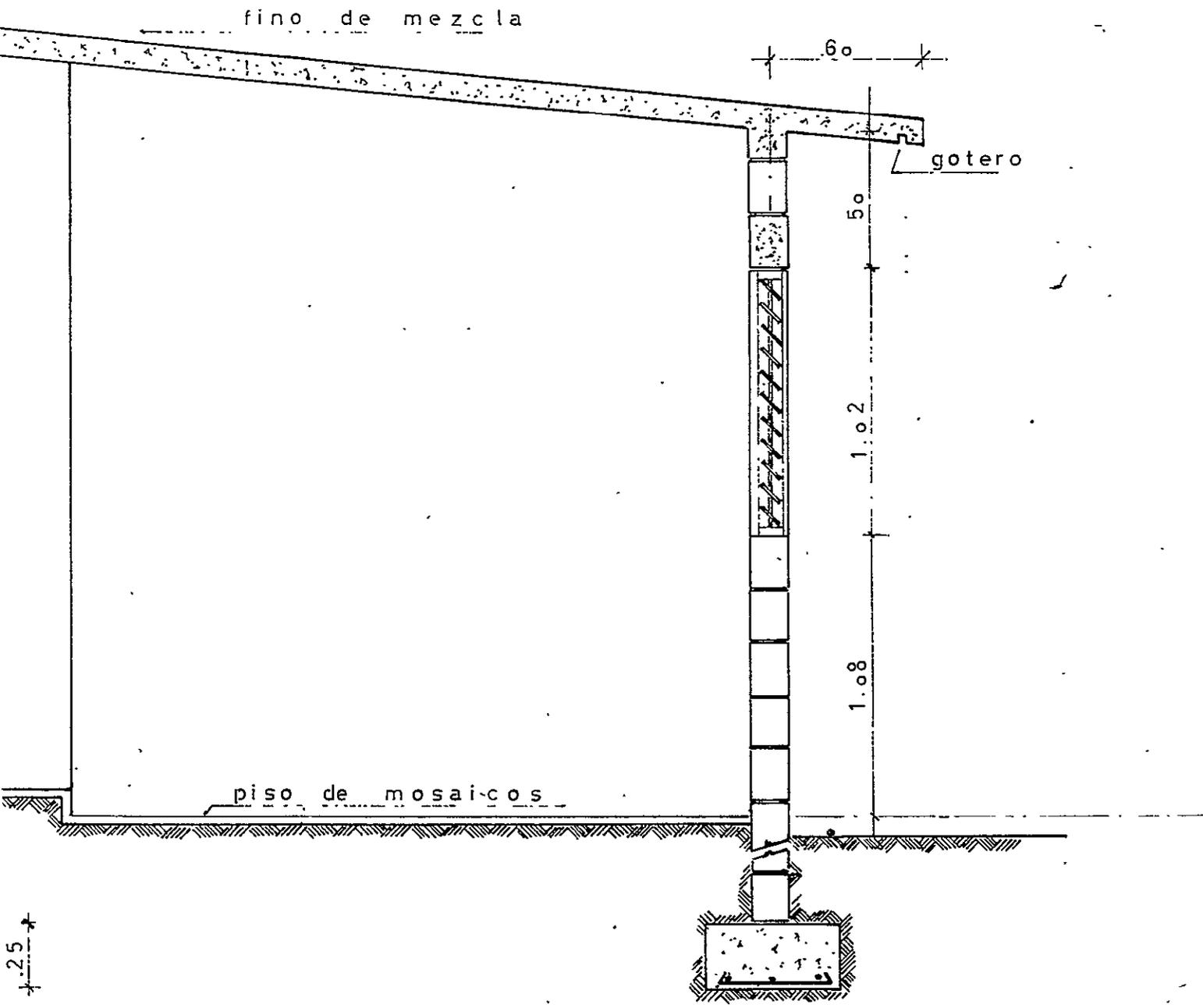


PLANO P/  
CASA TIPO



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PLANO PARA LA CONSTRUCCION DE UNA  
CASA TIPO TRES DORMITORIOS MODELO A



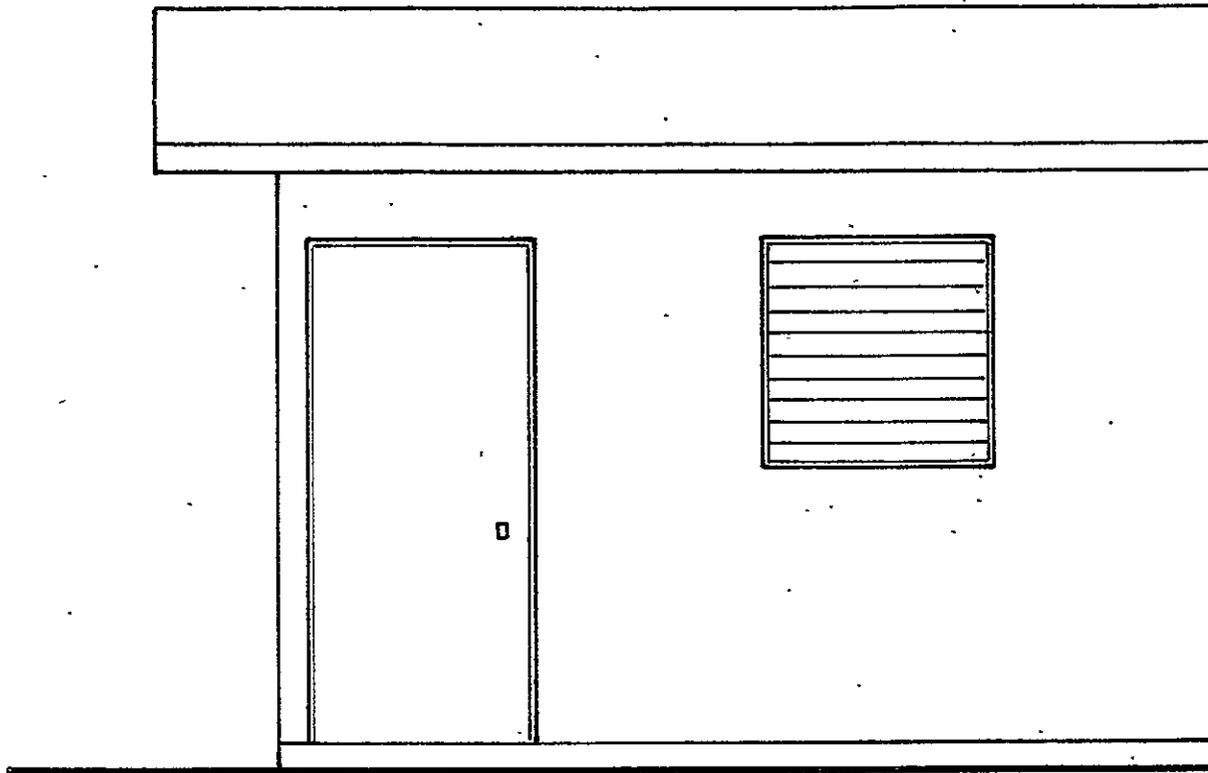
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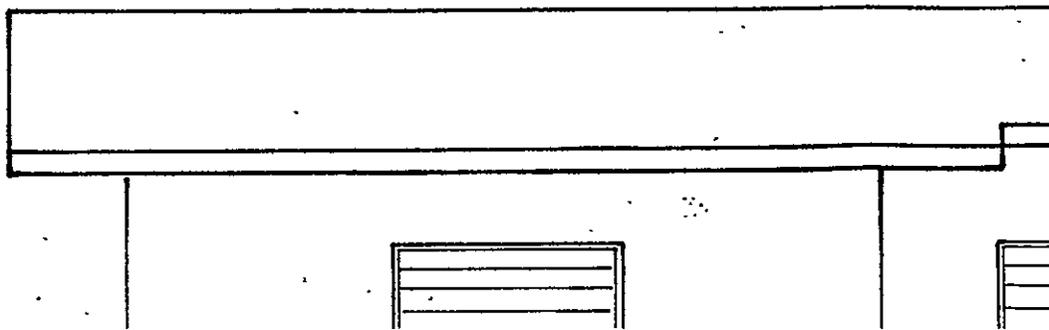
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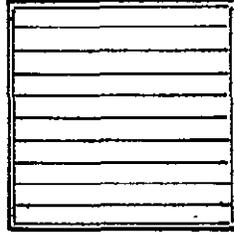
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SANTO DOMINGO JUNIO 1962

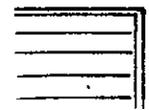


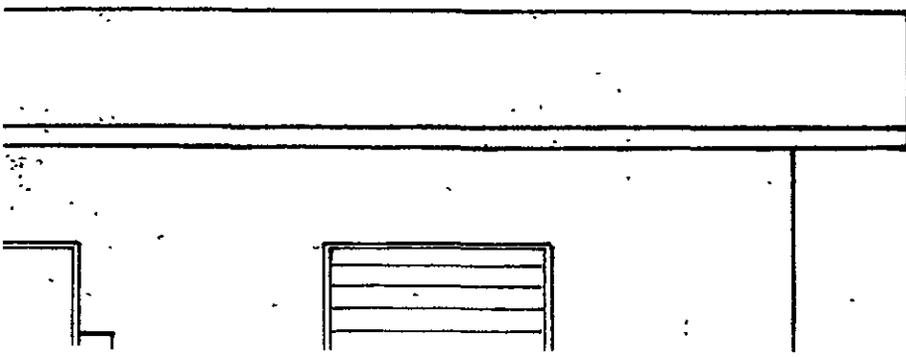
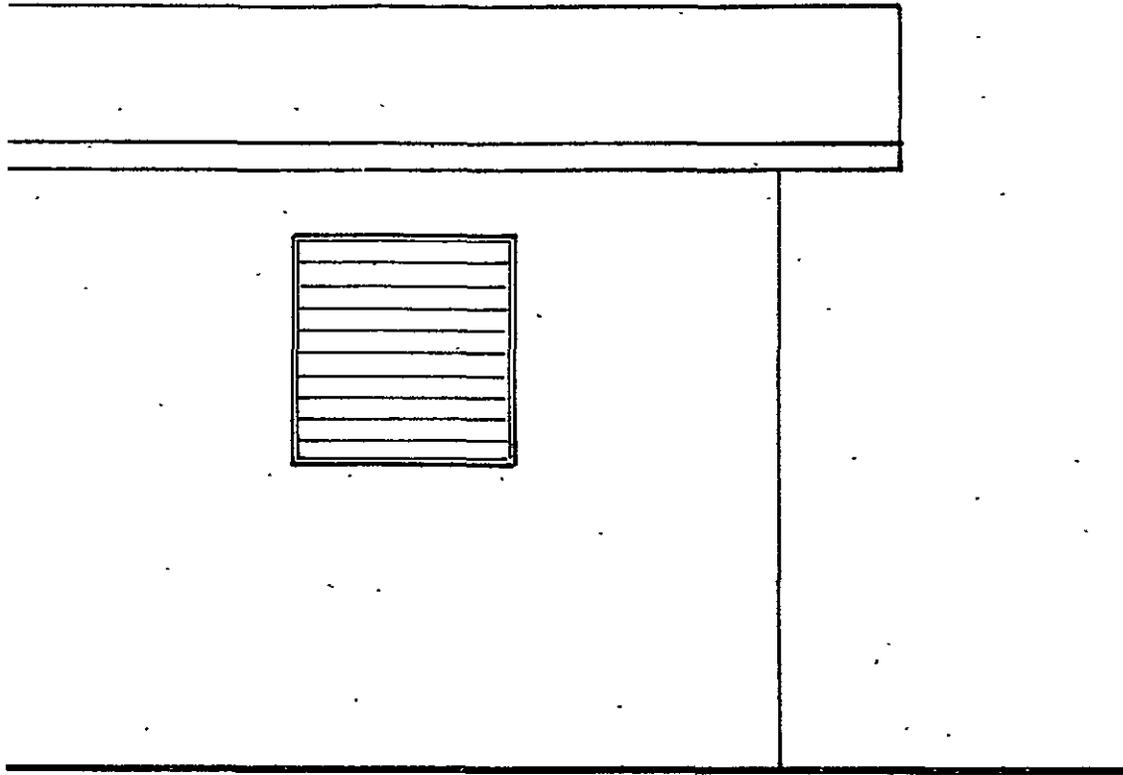
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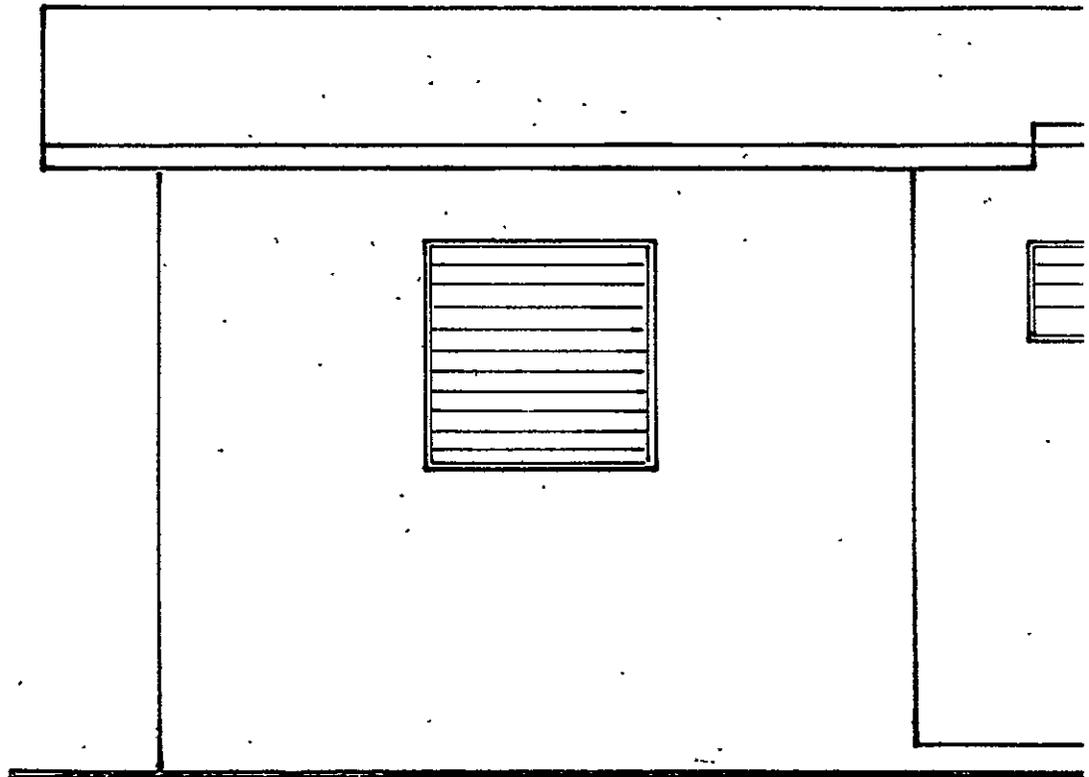




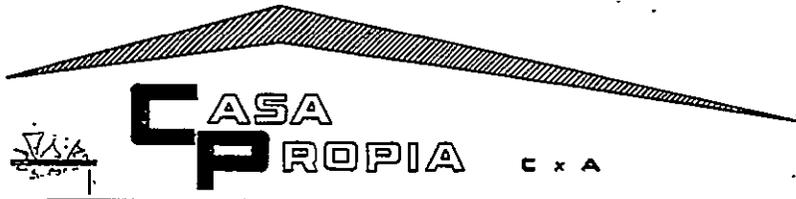
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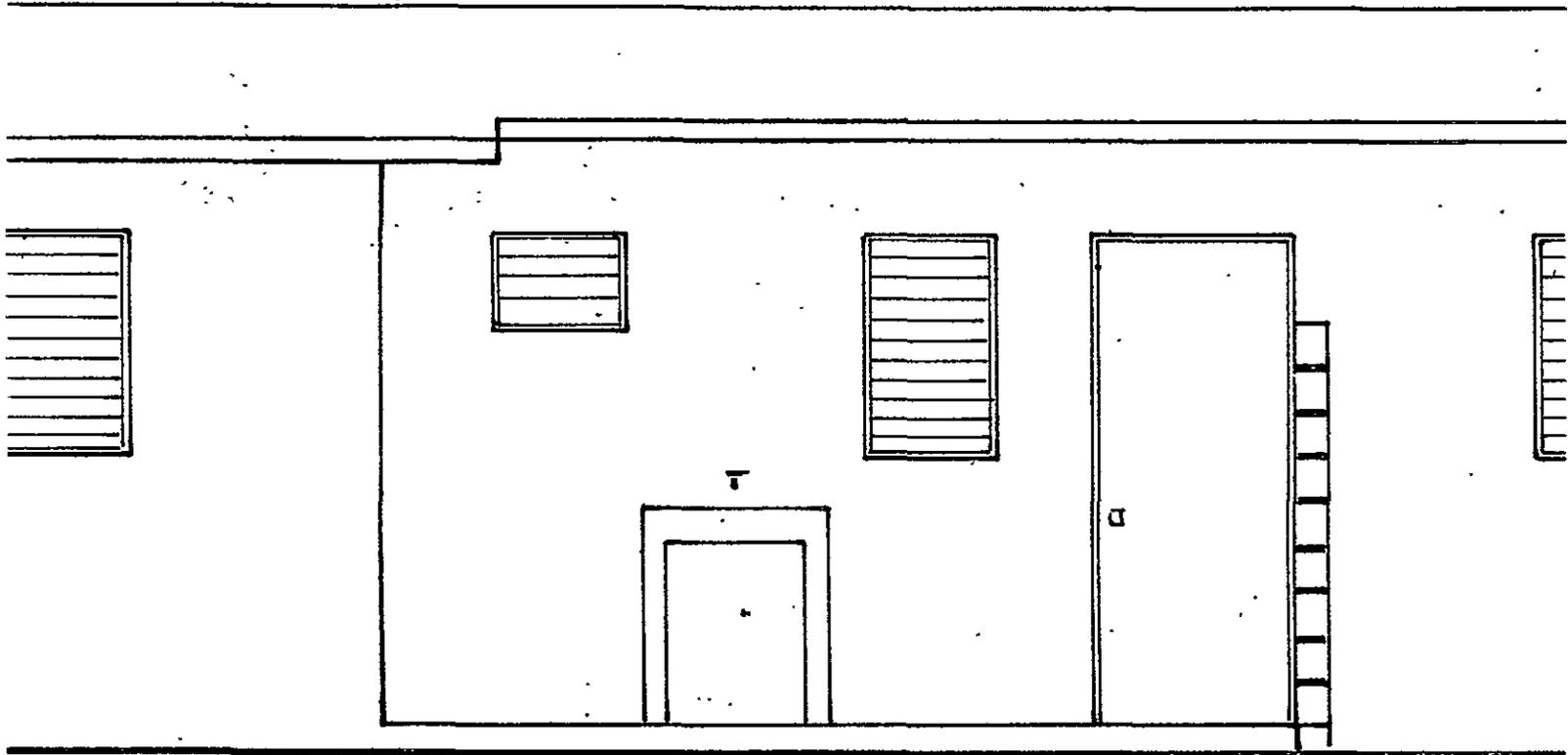




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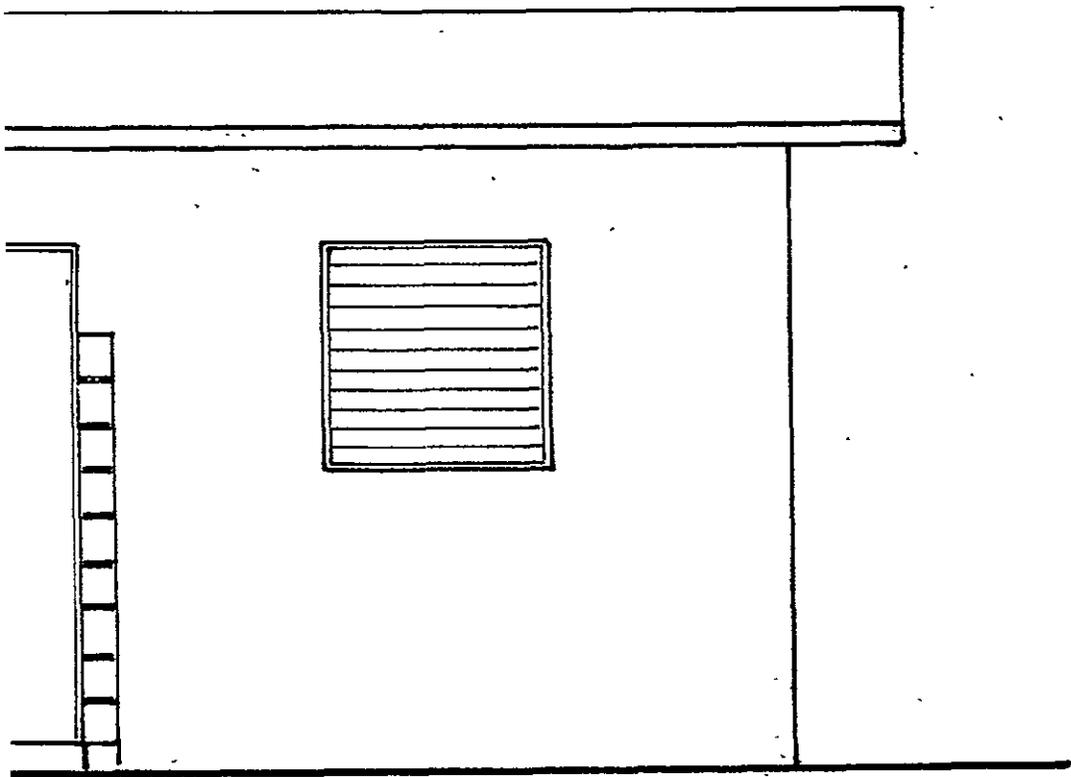


PLANO P/  
CASA TIPO



ON LATERAL

PLANO PARA LA CONSTRUCCION DE UNA  
CASA TIPO TRES DORMITORIOS MODELO A



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Board of Directors

ASOCIACION POPULAR DE AHORROS Y PRESTAMOS  
Santo Domingo, Republica Dominicana

GUSTAVO TAVARES E., President Board of Directors  
Civil Engineer, age 34, Vice-President and General Manager,  
Fabrica de Mosaicos Tavares, C. por A., manufacturer concrete building  
products.

ENRIQUE ARMENTEROS, First Vice-President of Board of Directors  
Age 35, Vice-President of J. Armenteros y Cia. Wholesalers, manufacturers.

DR. MAXIMO PELLERANO, Second Vice-President of the Board of Directors  
Lawyer, Age 36, President of Preetzman Aggerholm & Co.  
Insurance Agents

RAFAEL DEL TORO, C.P.A.  
Age 47, General Manager of Del Rio Motors Co., Ford Dealers for the  
Dominican Republic

DR. COSME GOMEZ PATINO, General Practitioner and obstetrician,  
owner Patino Medical Center. Age 42

AUGUSTO SAVINON  
Age 39, Auditor, Frederick Schad, C. por A. shipping agents KNSM,  
London Mail Lines etc.

FELIPE VICINI  
Age 30, partner Vicini Enterprises Sugar Cane mills, industrials

DR. JOSE RAMON HERNANDEZ LEBRON  
Age 36, Vice-Pres., General Manager, Comercial Distribuidora, C. por A.  
home appliances, Agents for Kelvinator, Zenith radios etc.

JAIIME ESTEVA  
Age 34, Vice-Pres., R. Esteva y Cia. appliance distributor - frigidaire,  
National Cash Register, Remington Rand, Phillips Radio etc.

Board of Directors

ASOCIACION CIBAO DE AHORROS Y PRESTAMOS  
Santiago, Republica Dominicana

ARTURO GRULLON E.  
Industrial Engineer (Plastics)  
Industrias Asociadas, C. por A.

GUSTAYO A. TAVARES G. (37 years)  
President-Administrator  
Ml. de Js. Tavares Suc., C. por A.  
Department Store - Rum Manufacturers

DR. JOSE DE JS. JIMENEZ (56 years)  
Internist

TABARE ESPAILLAT (42 Years)  
Administrator  
Clodomiro Checo & Cia., C. por A.  
(Importer Wholesaler Hardware Dry Goods)

JUAN TOMAS CHECO (38 years)  
Manager Retail Department Drug Store  
Daniel Espinal, C. por A. (Farmacia "Normal")

JOSE TOMAS CRUZ (39 years)  
Chief Accountant Textile Importers  
(Wholesalers-Manufacturers)  
Augusto Espailat Suc., C. por A.

CARLOS A. BERMUDEZ (32 years)  
Industrialist (Tannery)  
Teneria Bermudez, C. por A.

MIGUEL A. LAMA MITRE (34 years)  
Dry Goods Retailer  
David Lama Suc.

VERUTIDIO RAMIREZ  
Accountant  
J. Armando Bermudez, C. por A.

PROJECTION OF OPERATIONS  
Savings and Mortgages of Savings and Loan Associations  
Investments by Banco Nacional de la Vivienda

	<u>POPULAR</u>	<u>CIBAC</u>	<u>ASSN. A</u>	<u>ASSN. B</u>	<u>ASSN. C</u>	<u>ASSN. D</u>	<u>ASSN. E</u>	<u>ASSN. F</u>	<u>TOTAL</u>
<u>Savings Capital of Savings and Loan Associations</u>									
7-30-62	RD\$ 200,000	RD\$ 200,000	RD\$ -	RD\$ 400,000					
12-31-62	\$ 400,000	\$ 325,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ -	\$ -	\$ -	\$1,025,000
6-30-63	\$ 800,000	\$ 650,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 100,000	\$ 100,000	\$ 75,000	\$2,475,000
6-30-64	\$1,200,000	\$1,000,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 250,000	\$ 250,000	\$ 200,000	\$4,400,000
<u>Investments by Banco Nacional de la Vivienda</u>									
Cumulative to 12-31-62	\$1,000,000	\$ 800,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,800,000
Cumulative to 6-30-63	\$2,100,000	\$1,600,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ -	\$ -	\$ -	\$4,900,000
Cumulative to 6-30-64	\$3,300,000	\$2,900,000	\$1,200,000	\$1,200,000	\$1,200,000	\$ 500,000	\$ 500,000	\$ 500,000	\$11,300,000
<u>Mortgages Held by Savings and Loan Associations</u>									
12-31-62	\$1,400,000	\$1,125,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,525,000
6-30-63	\$2,900,000	\$2,250,000	\$ 650,000	\$ 650,000	\$ 650,000	\$ -	\$ -	\$ -	\$7,100,000
6-30-64	\$4,500,000	\$3,900,000	\$1,700,000	\$1,700,000	\$1,700,000	\$ 750,000	\$ 750,000	\$ 750,000	\$15,750,000

PROJECTION OF OPERATIONSSummary of Funds  
(Cumulative)

	<u>Capital</u> (Dominican <u>Republic)</u>	<u>AID</u> <u>Loan</u>	<u>Private</u> <u>Share Capital</u> <u>in Associations</u>	<u>Total Available</u> <u>Funds for Lending</u>	<u>Mortgages</u> <u>Held by</u> <u>Assns.</u>
7-30-62	RD \$ 400,000	RD \$ -	RD \$ 400,000	RD \$ 800,000	RD \$ -0-
12-31-62	900,000	1,000,000	1,025,000	2,925,000	2,525,000
6-30-63	1,400,000	3,500,000	2,475,000	7,375,000	7,100,000
6-30-64	1,900,000	10,000,000	4,400,000	16,300,000	15,750,000

BANCO NACIONAL DE LA VIVIENDA  
SANTO DOMINGO, REP. DOM.

May 19, 1962

Hon. Teodoro Moscoso  
Administrator, Latin American Program of  
Alliance for Progress  
New Department of State Building - Room 3498  
Washington, D. C.

Dear Ambassador Moscoso:

Enclosed please find application addressed to your agency requesting a loan of ten (10) million dollars for the Banco Nacional de la Vivienda.

We trust that this application will meet with your approval and that the funds requested will be placed at our disposal as soon as possible. As you know, time is of the essence.

Sincerely yours,

/s/ Eduardo Paradas Veloz

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Presidente,  
Banco Nacional de la Vivienda

APPLICATION FOR A LOAN

May 19, 1962

International Aid Agency  
Washington, D. C.

Gentlemen:

The Government of the Dominican Republic has established and organized a Banco Nacional de la Vivienda (National Housing Bank), whose main purpose is to provide funds for the creation and functioning of a System of Savings and Loan Associations; to supervise said associations and to act as financial agent for the Instituto Nacional de la Vivienda, in charge of low cost housing for workers and for other such persons of low income. The National Housing Bank is ready to start its operations. The National Housing Bank has powers, functions and purposes similar to those of the Federal Home Loan Bank in the United States. It is supervised by the Superintendent of Banks of the Dominican Republic, and will operate as a Reserve Bank for the savings and loan associations which are authorized to purchase stock in it. It cannot engage in direct lending to the public or receive individual deposits or accounts from the public, but must operate through the savings and loan associations and the Instituto Nacional de la Vivienda.

Its authorized capital will amount to ten (10) million dollars of which two (2) millions will be contributed by the Dominican Government immediately. This bank proposes to lend to the savings and loan associations at a rate of interest of four (4) percent payable in a term not to exceed ten (10) years.

A copy of the law is herein attached and made a part of this application.

The National Housing Bank contemplates fostering the establishment of eight (8) savings and loan associations in the following locations:

- 1 - Santo Domingo City
- 2 - Santiago de los Caballeros
- 3 - La Vega
- 4 - Puerto Plata
- 5 - San Francisco de Macoris
- 6 - San Juan de la Maguana
- 7 - San Pedro de Macoris
- 8 - Barahona

It is estimated that these eight associations will open their doors with an initial capital of a million dollars. In order to accomplish the objectives for which these associations are established, and in order to promote the prompt recovery of the economy in the Republic, now stagnant, and in order to help to create a strong construction industry, (second to the sugar industry) these associations need financial assistance to be provided in the form of seed capital and loans from the National Housing Bank.

It is estimated that for the purpose of providing seed capital to these eight newly created institutions, the National Housing Bank will need three (3) million dollars or, in other words, three times the initial capital subscribed by the associations.

It is also estimated that the associations to be established in Santo Domingo, the capital, and Santiago, the second city, will need, the first, two (2) million dollars, and the second, a million dollars, in loans, to take care of the construction projects that are already being worked in the planning stage. It is also estimated that the other six associations will need three (3) million dollars in loans at an average of \$500,000.00 each for the same purpose.

It is also contemplated that the National Housing Bank will start a section, bureau or office for the purpose of insuring the deposits in the savings and loan associations for which purpose the National Housing Bank will need at least a million dollars. In total, for seed capital, loans for the associations and for the creation of an insurance instrumentality, the National Housing Bank needs ten (10) million dollars.

It is hereby assured that the funds or resources of the associations will be placed into privately owned low and medium cost houses. No loan will be made in excess of ten (10) thousand dollars, and the loans will be written for a period of not more than twenty-five (25) years.

|||

It is also assured that fifty (50) percent of the resources of the associations will be invested in loans not exceeding five (5) thousand dollars, with a downpayment of not less than ten (10) percent; forty (40) percent will be invested in loans from \$5,000 to \$7,500, with a downpayment of not less than fifteen (15) percent, and the ten percent (10) balance in loans from \$7,500 to \$10,000, with a downpayment of not less than twenty-five (25) percent.

50/40/10

Rules and regulations will be issued with force of law by the National Housing Bank covering the granting of loans or the giving of

financial assistance to the savings and loan associations and other particulars pertinent to the sound and efficient operations of the associations. Long-term loans to the savings and loan associations by the National Housing Bank will be secured by collateral consisting of first mortgages. The rate of interest to be charged to borrowers by the savings and loan associations will be regulated by the National Housing Bank and is expected not to exceed eight (8) percent.

The construction industry at the present time is in a critical stage in the Dominican Republic, as low as 20% of what it was in 1959, at which time it was deteriorating. At the present moment there is unemployment of the available working forces in the Dominican Republic estimated as high as 70%. Financial assistance is urgently needed to provide work for this tremendous segment of manpower which is unemployed. The situation is really critical.

In view of the facts heretofore stated, the National Housing Bank of the Dominican Republic, the undersigned, in its name, hereby submits an application for a loan in the amount of ten (10) million dollars to be used for the purposes herein stated, which loan will be repayable in a period of twenty (20) years with interest at 2-1/2%.

The undersigned hope that the information herein submitted will be sufficient to enable you to consider favorably this application. In the event that additional information is needed in support of this application, please do not hesitate to call upon us.

Respectfully submitted,

BANCO NACIONAL DE LA VIVIENDA

/s/ Juan Pacheco Morales  
 \_\_\_\_\_  
 Dr. Juan Pacheco Morales  
 Member

/s/ Eduardo Paradas Veloz  
 \_\_\_\_\_  
 Dr. Eduardo Paradas Veloz  
 President

/s/ Juan A. Alfonseca  
 \_\_\_\_\_  
 Juan A. Alfonseca  
 Member

/s/ Manuel E. Tavares  
 \_\_\_\_\_  
 Ing. Manuel E. Tavares E.  
 Member

Director General del  
 INSTITUTO NACIONAL DE LA VIVIENDA

/s/ Luis José Alvarez  
 \_\_\_\_\_  
 Luis José Alvarez, Member

BANCO NACIONAL DE LA VIVIENDA  
SANTO DOMINGO, REP. DOM.

June 14, 1962

Mr. Teodoro Moscoso, U. S. Co-ordinator  
Latin American Program of Alliance for Progress  
New Department of State Building - Room 3498  
21st and Virginia Avenue, N. W.  
Washington 25, D. C.

Attention: Miss M. Kranz

Dear Mr. Moscoso:

In order to provide more detailed information in connection with a loan application originally submitted to you on May 19, 1962, I have enclosed a memorandum setting forth answers to a Checklist of Information supplied to us by your Agency for this purpose.

The loan amount is \$10 million, for the Banco Nacional de la Vivienda (National Housing Bank) of the Dominican Republic.

I am also enclosing a copy of the official publication of Law No. 5897.

Since this information is considered necessary for further consideration of our loan application, we would like this letter and its attachments to be made part of our original application.

A brief outline of our housing program and the related laws now in effect may be useful to you in consideration of our application.

In the Dominican Republic, three laws have been promulgated recently for the purpose of meeting the critical housing needs of the Republic. These laws are:

1. Ley Organica del Banco Nacional de la Vivienda (No. 5894). (Organic Law for National Housing Bank).
2. Ley sobre Asociaciones de Ahorro y Prestamos para la Vivienda (No. 5897). (Law for Savings and Housing Loans Association).
3. Ley que crea el instituto Nacional de la Vivienda (No. 5892). (Law that established the National Housing Institute).

In order to provide the essential part of this program embodied in the first two laws mentioned above with the necessary seed capital to begin operations, we have made an application for a loan of \$10 million to AID.

For the programs prepared under the third law listed above, an application has been formally made to the International Development Bank for a loan of \$5 million.

We have also formally requested the IDB for technical assistance in putting into operation the entire housing program outlined in the three new laws.

This assistance will consist of three technicians who will lend their respective talents to three different areas of the program: legal matters, savings and loan associations, and Government-supported housing.

The legal adviser will remain in Santo Domingo for approximately one month; and the other two technicians will stay for a period of not less than one year.

The enclosed memorandum sets forth in detail answers to your Checklist, with specific reference to the appropriate law. If any additional information is needed in connection with this application, please do not hesitate to let me know.

Sincerely yours

Eduardo Paradas Velos  
President  
Banco Nacional de la Vivienda

Enclosures

- 1 - Checklist dated June 12, 1962
- 2 - Answer dated June 14, 1962 to Checklist
- 3 - Copy of Law No. 5897 for Savings and Housing Loans Association

11-1  
June 14, 1962

Memorandum setting forth answers to the Checklist of Information as requested by the Agency for International Development and submitted as part of the \$10 million loan application from the Banco Nacional de la Vivienda.

- 1 (a) The National Housing Bank will make loans to the Savings and House Loan Association, but only for financing construction, acquisition or improving the home. The terms are fixed by the law for no more than 10 years. (See Law, Art. 1, paragraph 1; and Art. 8, paragraphs 2 and 3.) The law does not fix the rate. This authority is delegated to the Administration Board of the Bank. As stated in the May 19th application, the Bank proposes to lend to the savings and loan associations at a rate of 4%. (See original May 19, 1962 application, page 2.)
- (b) The National Housing Bank can make deposits in savings and loan associations, but only with the approval of its Board of Administration. The deposits could not be made for a term exceeding 5 years and they will receive a rate of interest lower by one point to the one received by the savings depositors. (See Law, Art. 9.)
- (c) The National Housing Bank will make loans to the savings and loan associations with up to 90% of the unpaid balance of the mortgages offered as a guarantee of the loan. (See Law, Art. 8, paragraph 3.)
- (d) The National Housing Bank will guarantee both the repayment of outstanding principal amount of deposits and the repayment of mortgage loans. (See Law, Art. 1, paragraph 5; Art. 13, paragraph 9.)
- 2 (a) The savings and loan associations will operate under the specific regulations of their own law No. 5897. (Law for Savings and Housing Loan Associations). They will also operate under the proposed regulation to be prepared by the Administration Board of the National Housing Bank with the approval of the Junta Monetaria (Monetary Board) which is the highest Board in the Dominican Banking System. (See Law No. 5897. See Law, Art. 13).

Legal assistance of technicians from the U.S.A. has been formally requested to advise us in the preparation of this proposed National Housing Bank regulations. In this regulation we will follow quite closely the Federal regulations for the equivalent institutions in the United States. (Federal Home Loan Bank Board and Federal Savings and Loan Insurance Corporation.)

- (b) To grant charters to individual associations they need to be approved by the Administration Board of the National Housing Bank. This Board will check if it meets the conditions required by the law. (See Law, Art. 5; see Law No. 5897, Art. 5)
- (c) The plan of operation for the savings and loan associations is fixed in Law No. 5897. The associations will also have to follow the rules dictated by the National Housing Bank. In addition, savings associations will have their own bylaws.

The dividend rates with respect to depositors will be fixed, of course, by the market, but it is expected that will be at least one point higher than the rate paid by commercial banks.

(See Law, Art. 13, paragraph 1. See Law No. 5897, Art. 12, paragraph 9)

- (d) The rates of the home mortgage loans made by the savings and loan associations will be fixed by the Administration Board of the National Housing Bank with the approval of the Junta Monetaria (Monetary Board). The National Housing Bank proposes that the rates of interest to be charged to borrowers by the savings and loan associations will not exceed 8%. (See Law, Art. 13, paragraphs 1 and 5; Law No. 5897, Art. 32; and Original application of May 19, 1962, page 4).
- (e) We expect the savings and loan associations in the Dominican Republic will have the same success as experienced in U.S.A., by giving government protection to the savings accounts through an insurance system established by the National Housing Bank. (See Law, Art. 1, paragraph 5).

We will also try to make people in the Dominican Republic understand and feel the convenience of this system.

If this system, typical product of the U.S.A., has had success in Puerto Rico, which has a very similar psychology to ours, we are convinced that by following the same principles our program will be a success.

3 - The ability to repay the AID loan will be provided adequately by the guarantee of the Dominican Republic government. The authorized capital of the National Housing Bank is \$10 million of which \$2 million will be contributed by the Dominican government immediately. Since this Bank is patterned after a similar system in the United States which is self-sufficient, it is believed this National Housing Bank will be self-sufficient from receipts from insurance fees, examination charges and interest returns on advances.

- 4 - The list of the major cities in which savings and loans will be established is provided in the original application. (See page 2). These cities are:

1. Santo Domingo City
2. Santiago de los Caballeros
3. La Vega
4. Puerto Plata
5. San Francisco de Macoris
6. San Juan de la Maguana
7. San Pedro de Macoris
8. Barahona

More detailed information in this connection will be provided as the associations are established.

- 5 - In preparing the regulations for the National Housing Bank and the ones for the savings and home loans associations, the Board of Administration of the Bank with the collaboration of the legal adviser from the United States will establish a Minimum Property Standards. It will be similar to those established by the Federal Housing Administration of U.S.A. The purpose is to obtain those characteristics in a property which will assure present and continuing utility, durability and desirability as well as compliance with basic safety and health requirements. To provide these, the Board will set forth the minimum qualities considered necessary in an existing construction or in the planning, construction and development of the property which is to serve as security for an insured mortgage.
- 6 - The upper limits amount of an individual mortgage loan or series of mortgage loans, to be made to any individual by any savings and loan association will be fixed by the Board of Administration of the National Housing Bank with the approval of the Monetary Board. (See Law, Art. 13, paragraph 7)

In our original application the Administration Board agreed that 50% of the resources of the associations will be invested in loans not exceeding 5 thousand dollars; 40% will be invested in loans from \$5,000 to \$7,500 and the 10% balance in loans from \$7,500 to \$10,000. No loan will be made in excess of ten thousand dollars, and the loans will be written for a period of not more than 25 years. (See original application, page 3.)

- 7 - We anticipate the most savers will come from the middle class, with average incomes ranging from \$150 to \$300 per month. The range for high income families is approximately \$300 to \$500 per month.

Workers in the higher incomes are usually employed in the Government, in larger business firms, and in professional services. The middle class workers are small businessmen, and Government workers. Lower income workers are found in factories, farms and other manual work.

It is expected that monthly mortgage payments in each of the above income levels will approximate the current rent now being paid by these families.

Water and electricity would be no more since it is generally paid by the renters. Houses are of masonry with little fire hazard and fire insurance rates would be low if required. There is at present no real property tax.

- 8 - The major departments of the Bank will include chartering of the savings associations, supervision, insuring of deposits, insuring of mortgages, and credit advances. In the beginning we anticipate that all of these functions will be handled by one department as I understand was true in the case of the Federal Home Loan Bank Board in the United States when it was first established.
- 9 - The five Bank directors have been carefully chosen and designated by the President of the Republic in this form:

Two recommended by the Junta Monetaria; two recommended by the Secretary of Finances, and the General Director of the Instituto Nacional de la Vivienda, which is designated also by the President of the Republic. (See Law, Art. 20.)

Each member has a substitute. The whole Board is composed as follows:

- 1. Dr. Eduardo Paradas Veloz, President - dominican citizen, attorney at law, has been for more than seven years General Secretary of Banco de Reservas of the Dominican Republic, with a brief interruption during which he was a member of the Legal Department of the Banks of the State in the Dominican Republic.
- 2. Ing. Manuel E. Tavares, dominican citizen, civil engineer, formerly Secretary of Finances in the Dominican Republic, and actually General Director of the Corporacion de Fomento Industrial, an autonomous organization of the State.
- 3. Luis Jose Alvarez Pereyra, dominican citizen, General Manager of the Shell Company in the Dominican Republic.
- 4. Dr. Juan Pacheco Morales, attorney at law, member of the Planification Board in the Dominican Republic.
- 5. Juan A. Alfonsaca, General Director of the Instituto Nacional de la Vivienda, member ex officio Dominican citizen.

The substitutes are as follows:

1. Dr. Alfonso Petit Fondeur, substitute for the President, dominican citizen, attorney at law, has belonged to the personnel of Banco de Reservas of the Dominican Republic for more than 18 years. He has been also Comptroller of Banco Central of the Dominican Republic.
2. Juan Santoni Calero, dominican citizen, Manager of Implementos y Maquinarias, a commercial firm of the Dominican Republic which trades in heavy machinery.
3. Aquiles O. Farias, dominican citizen, Public Accountant, formerly member of the personnel of Banco de Reservas and actually member of the personnel of Banco Agricola of the Dominican Republic.
4. Horacio Alvarez, dominican citizen, Manager of the Pepsco-Cola Bottling Co. in the Dominican Republic.

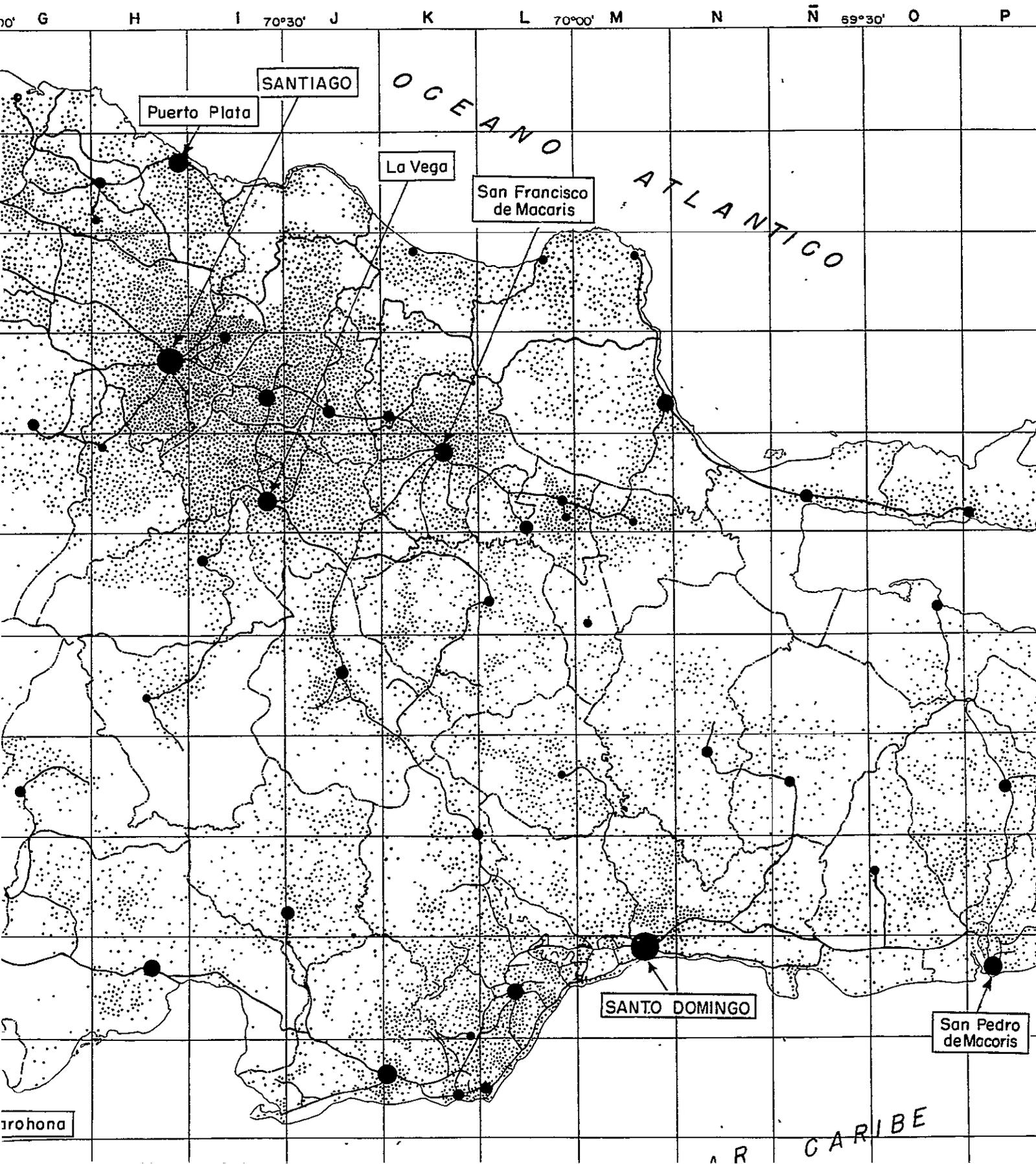
The General Manager of the National Housing Bank is Dr. Manuel Pittaluga, dominican citizen, attorney at law, and has worked in the projects of the National Housing Bank Law.

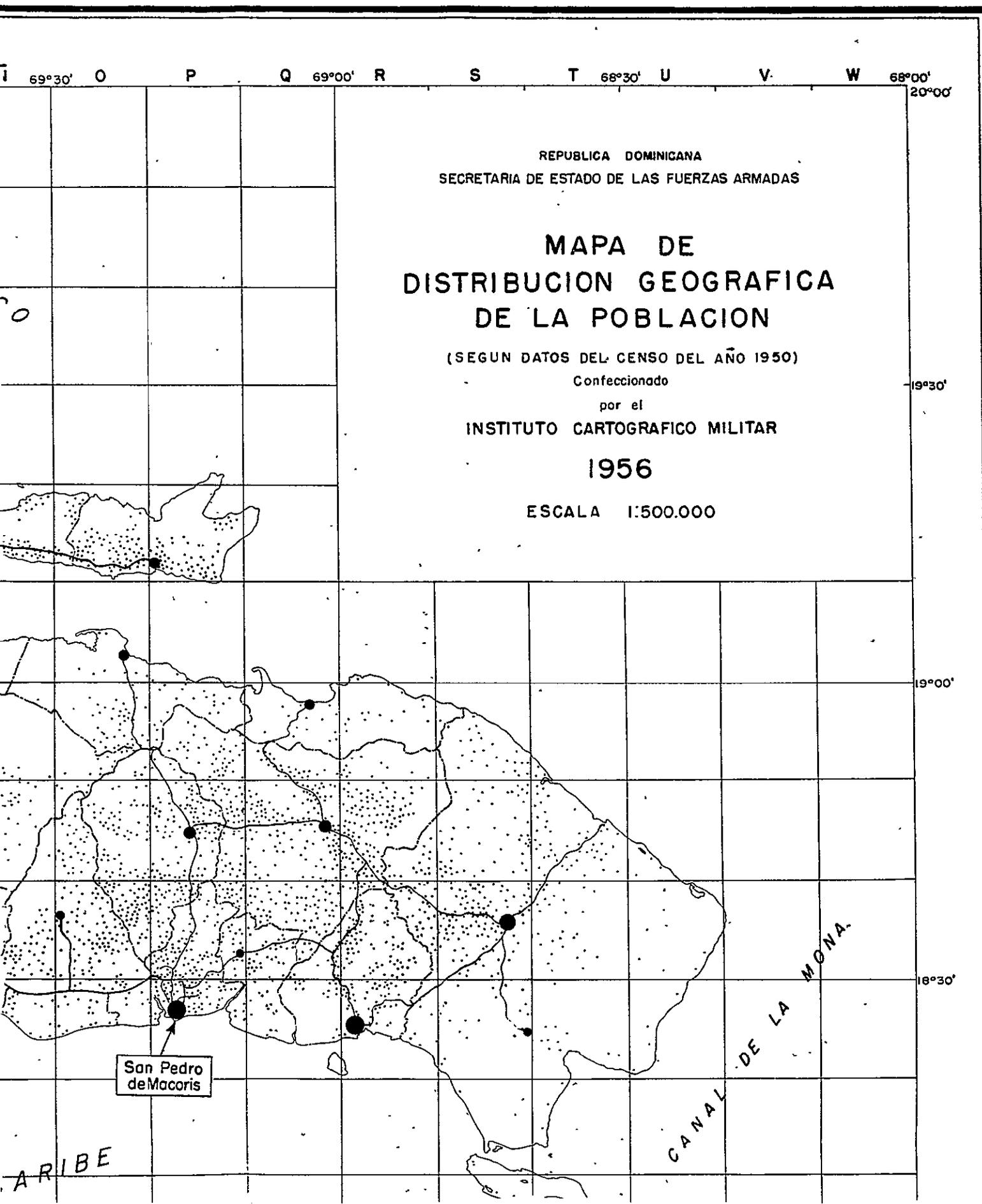
All the members of the Board of Directors, its substitutes, as well as the General Manager of the Bank, are upstanding citizens, with a good reputation and well respected in their profession. None of them has been in professional politics.

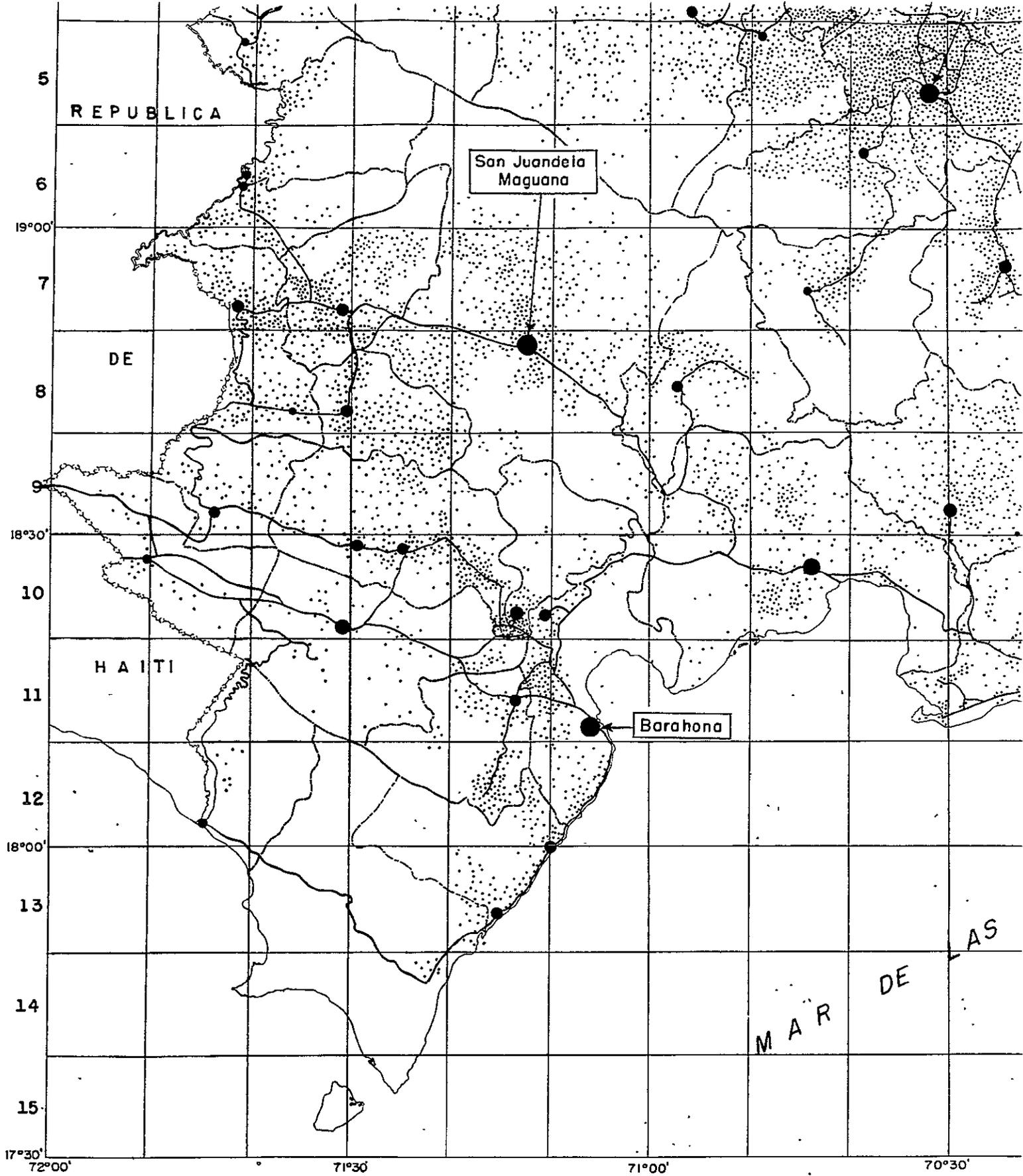
Dr. Eduardo Paradas Veloz  
President  
Banco Nacional de la Vivienda

NOTE: When in this memorandum we refer to "Law" only, we are referring to the Organic Law for the National Housing Bank (Law No. 5894).



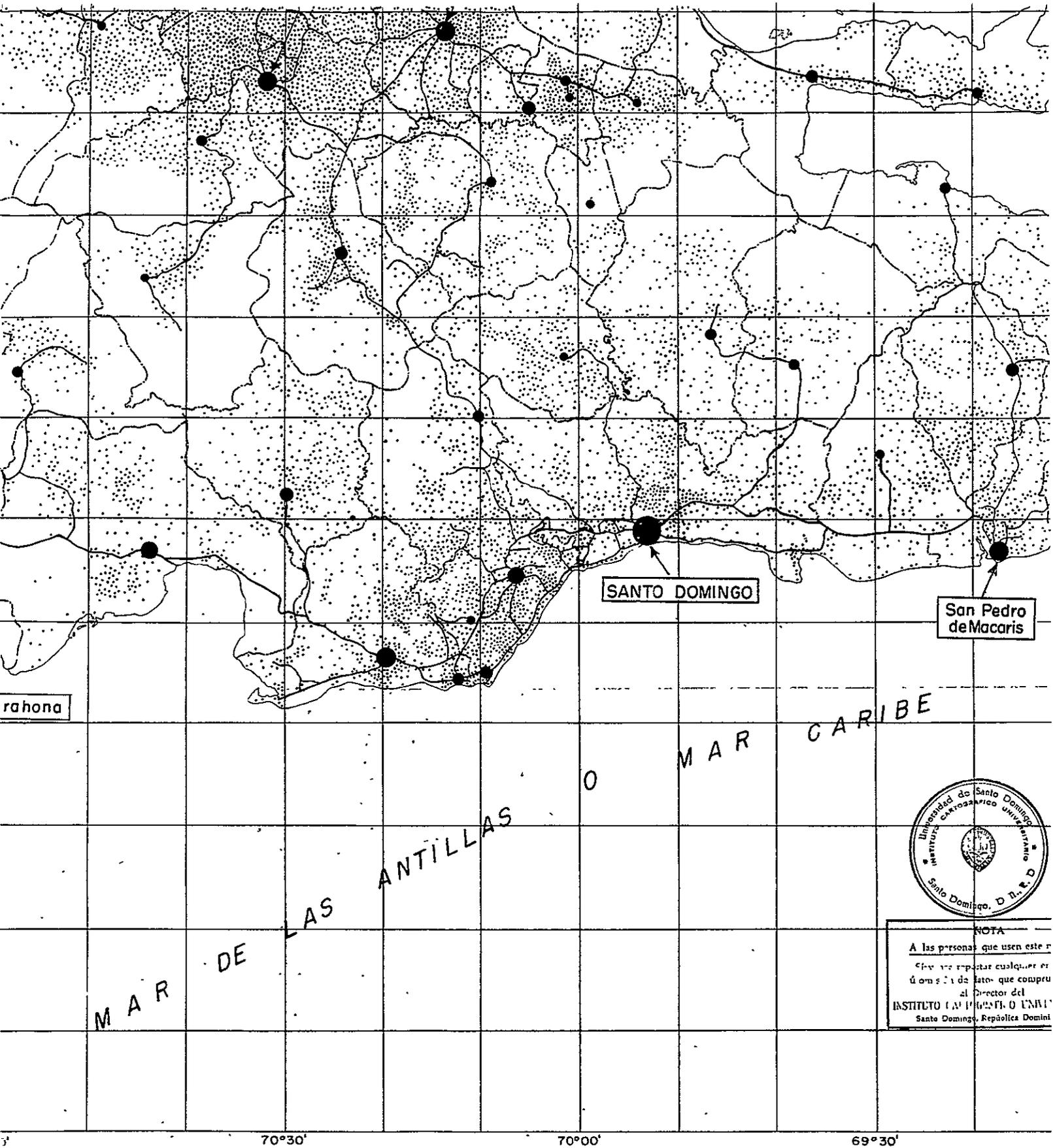


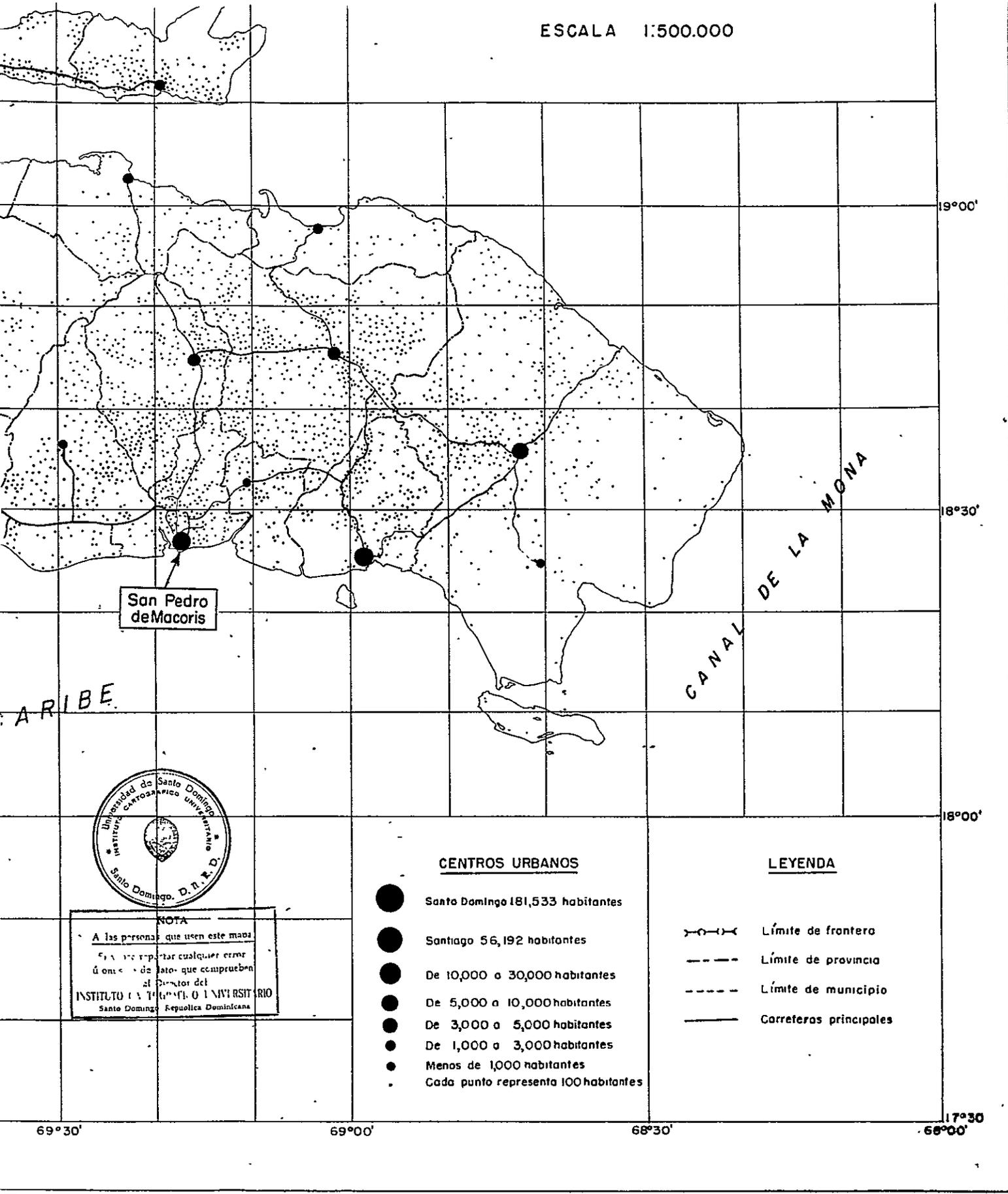




PROVISIONAL

Corregido en Fecha 11-6-59.





San Pedro de Macoris

ARIBE

CANAL DE LA MONA



NOTA  
 A las personas que usen este mapa  
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**INSTITUTO GEOGRAFICO UNIVERSITARIO**  
 Santo Domingo, República Dominicana

CENTROS URBANOS

- Santo Domingo 181,533 habitantes
- Santiago 56,192 habitantes
- De 10,000 a 30,000 habitantes
- De 5,000 a 10,000 habitantes
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- De 1,000 a 3,000 habitantes
- Menos de 1,000 habitantes
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LEYENDA

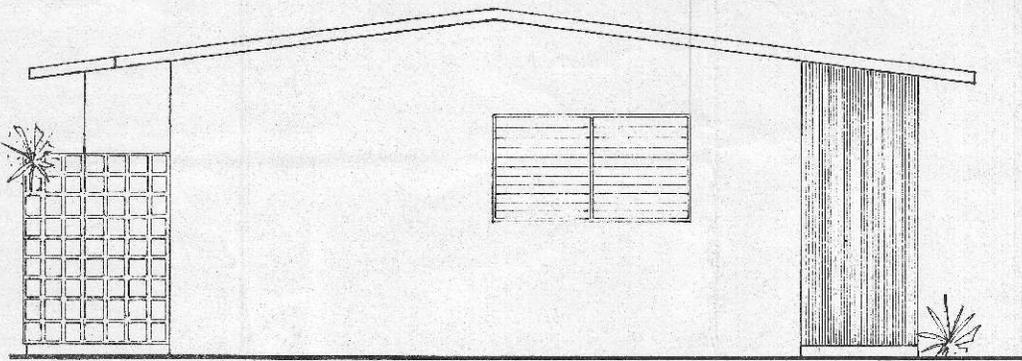
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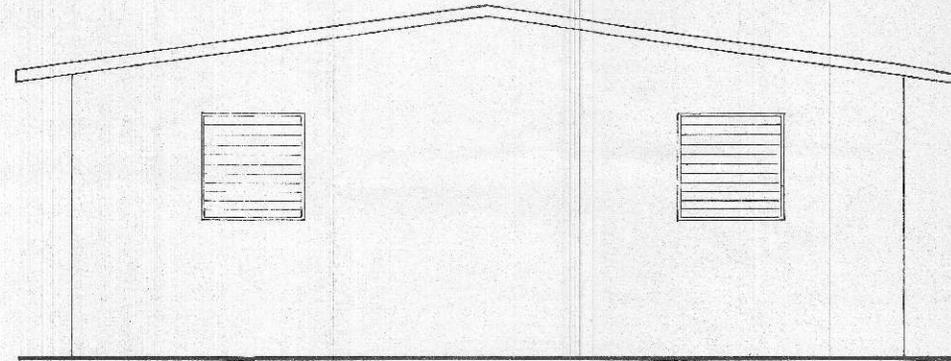
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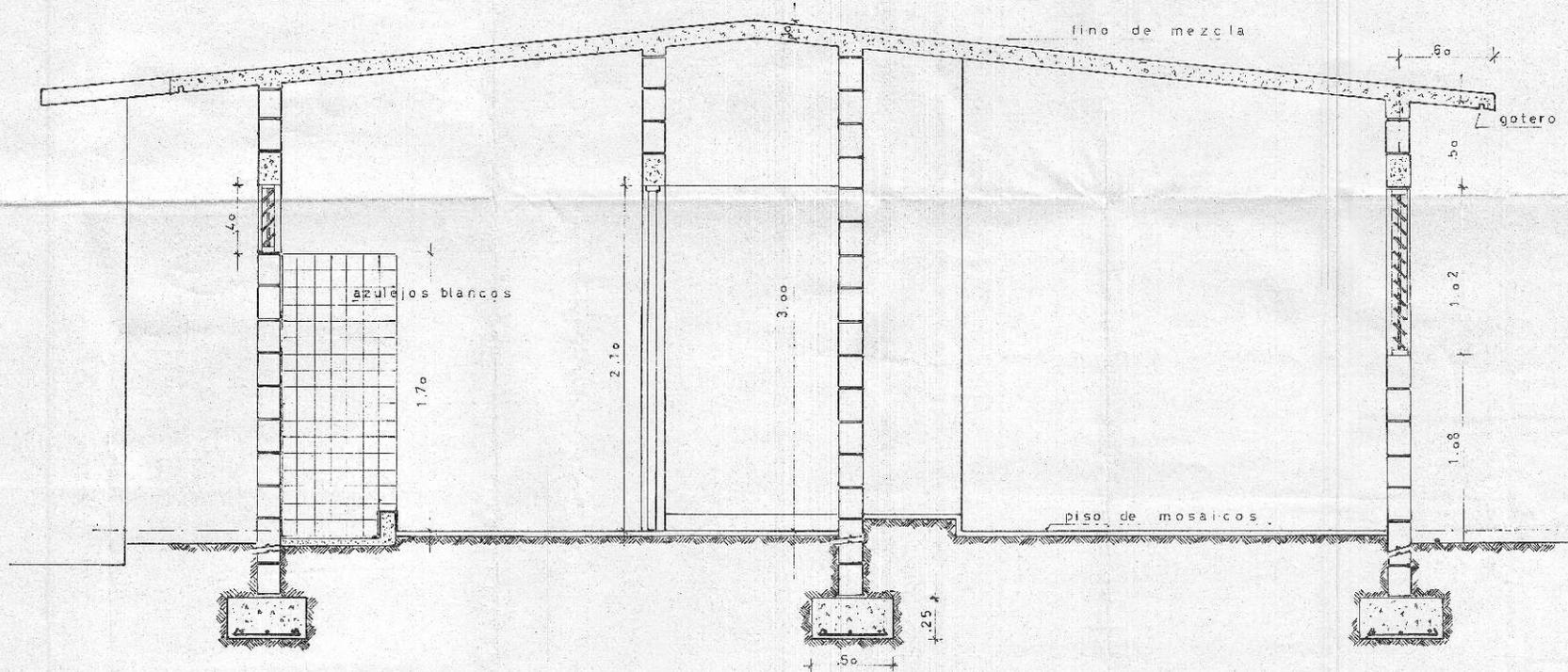




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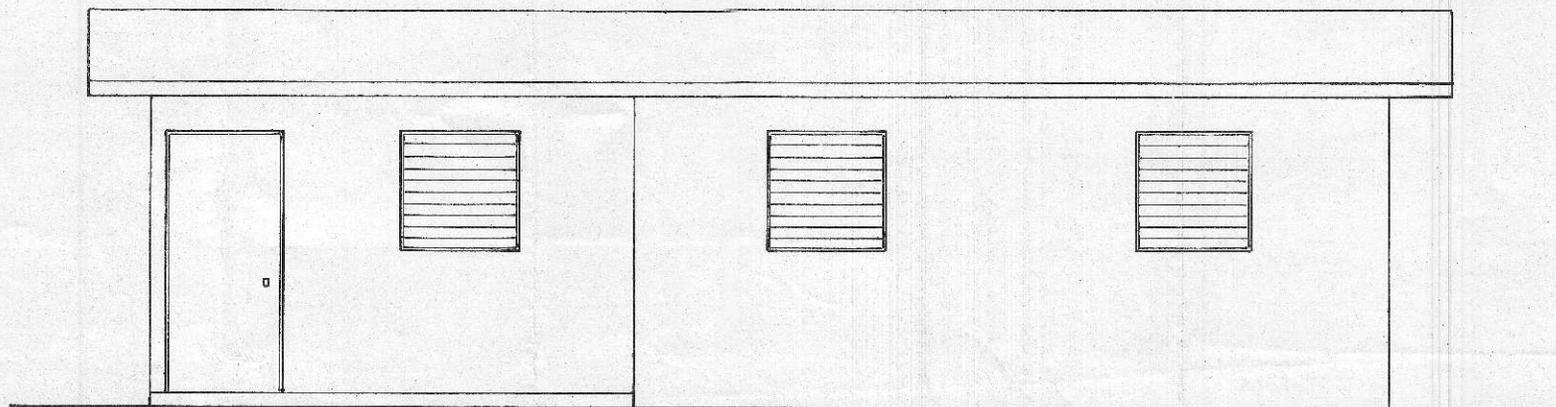
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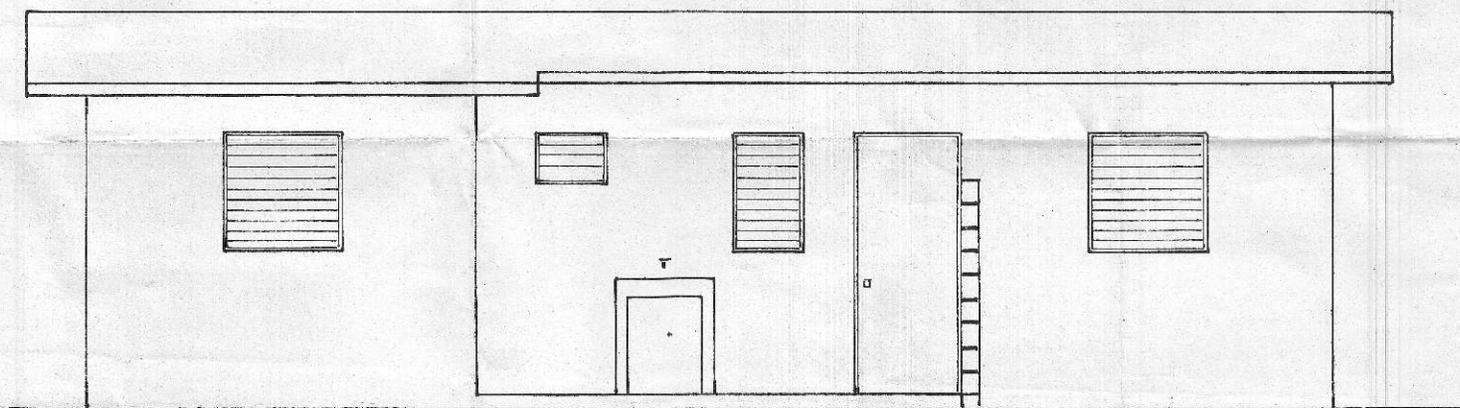
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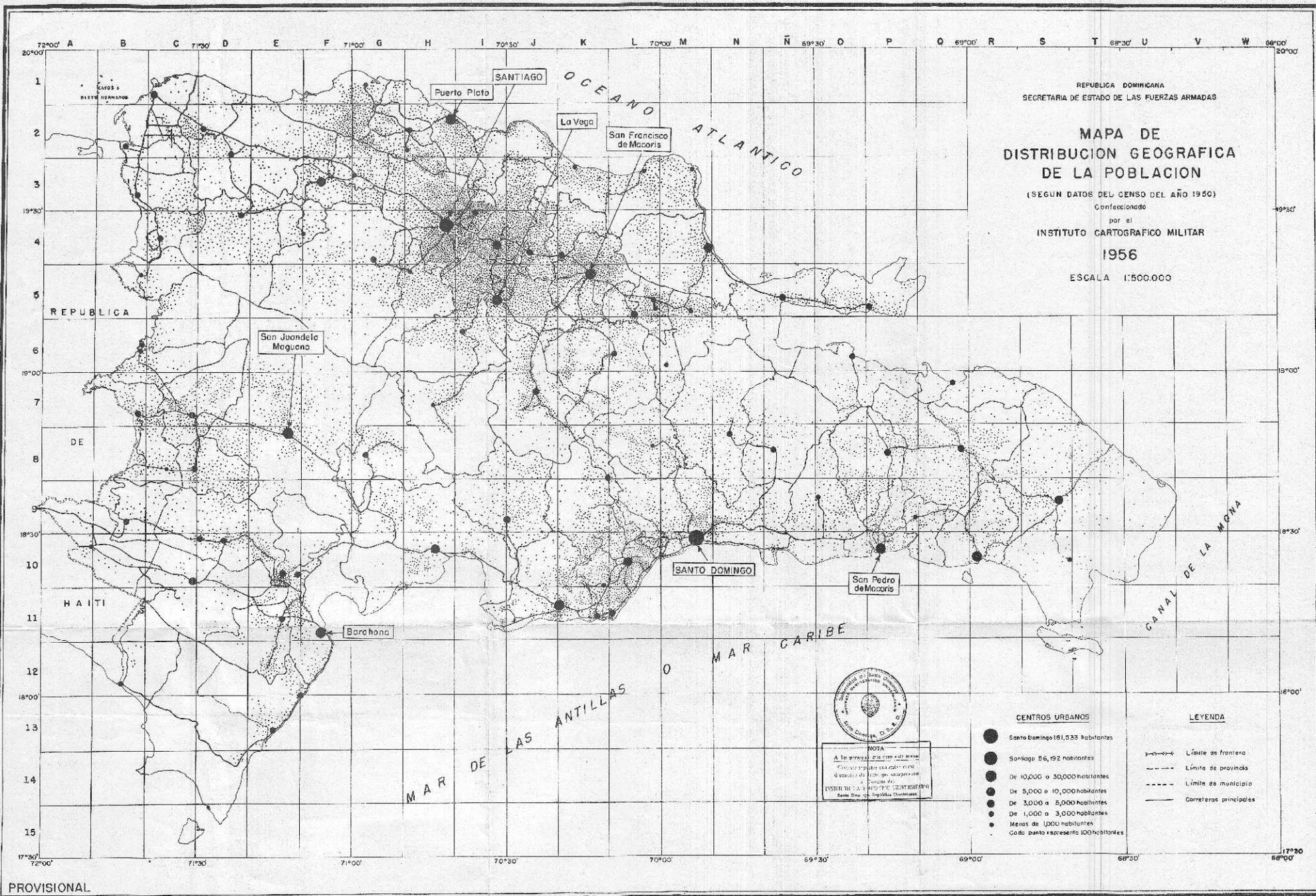
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