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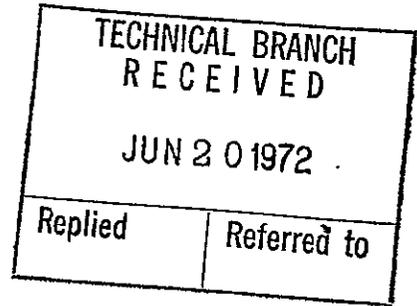
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1200 17th STREET, N.W.

WASHINGTON, D.C. 20036



MANAGEMENT AND FINANCIAL EVALUATION
REPORT

DOMINICAN REPUBLIC PROJECT 517-HG-006

SUB-PROJECTS SAN GERONIMO AND POPULAR

May 16, 1972

To: Peter M. Kimm, Deputy Director
SER/H
Agency for International Development
Washington, D.C.

Through: James D. Klink, Project Director
National League of Insured Savings Associations
Washington, D.C.

From: David Cole, Fiscal Inspector
National League of Insured Savings Associations
Washington, D.C.

HOUSING GUARANTY PROGRAM

Contract No. AID/csd-3317

DOMINICAN REPUBLIC PROJECT 517-HG-006

SUB-PROJECTS SAN GERONIMO AND POPULAR

In response to the request to visit the Dominican Republic from May 4, 1972 through May 12, 1972, to review the financial position of the above referenced sub-projects and their sponsor, Viviendas y Construcciones, C. por A. (VICO), and to review a new joint \$10 million proposal by Gulf and Western Americas Corp. and the Dominican Republic Government, the following is a summary of my findings, action taken, conclusions, and recommendations:

I. FINDINGS

A. San Geronimo Project

1. The sponsor and builder (VICO) has received DR\$ 558,392 in construction financing (from banks and associations only) out of a total commitment of DR\$ 564,805. There is DR\$ 6,413 still available from their construction loan with Asociacion Popular. However, Asociacion Popular does not intend to make the remaining DR\$ 6,413 available. The construction financing is as follows:

Banco Popular	DR\$ 250,000
Asociación Popular	194,805
Banco Nacional de la Vivienda (BNV)	100,000
Bank of America	20,000
	<u>DR\$ 564,805</u>

VICO also has lines of credit with several material suppliers in addition to the above construction financing.

2. The BNV paid Tavares Industrial, C. por A., a material supplier, DR\$ 100,000 in order for them to continue supplying material for the project so the homes could be finished. In return, Tavares Industrial which receives DR\$ 1,361 from the builder for each completed house, assigned its right to these monies to the BNV for the next DR\$ 100,000.

3. Mr. Manuel Alsina Puello, who is the Secretary of Public Works in the government is the new president of the board of directors of VICO, and Mr. Aybar de Castro is the new technical director, and runs the company's daily operations. However, it is possible that the former head of the company, Mr. Federico Infante, may return to run the company in approximately 3 months.

4. VICO had started building 183 homes in the San Geronimo Project. Of these 183 homes, 48 have been completed and turned over to the homeowners as of May 9, 1972. In addition, there were another 135 homes in the project in various stages of completion as follows:

(a) 30 homes are completed and there should be a closing with the Administrator next week.

(b) 30 homes are approximately 80% complete according to the inspector from FHA, and the builder/sponsor is hoping to have a closing with the Administrator in about 20 days.

(c) 60 homes are approximately 43% complete according to the inspector from FHA, and these homes have only the basic concrete shell. The builder/sponsor feels that these homes will be completed by June 30, 1972. However, the builder is having trouble procuring his long lead time mechanical items, such as plumbing and electrical fixtures, plastic parts, medicine cabinets, etc. It does not appear likely that he can finish all 60 of the homes by June 30, but it is possible he could finish about 20 if everything goes well according to the FHA inspector.

(d) 15 homes are only approximately 20% complete, and due to the bad weather season and procurement problems, these homes will probably be finished about August according to the FHA inspector.

(e) There are no roads in the project at this time, and the FHA inspector estimated 40-60 working days to put the roads in. However, the rainy season has started and it is difficult to work on the roads at this time.

5. A financial projection for the San Geronimo Project was prepared by the BNV with the help of the association Popular, with respect to VICO (Exhibit 1 c). The top half of this exhibit shows the total financing committed and available (DR\$ 940,104.28) to VICO versus the total revenue to be realized (DR\$ 1,001,754.60) from the sale of the remaining homes. The bottom half of the exhibit shows the total of the committed financing that has been used, (DR\$ 798,478.41) by VICO versus the total revenue to be realized (DR\$1,001,754.60) from the sale of the remaining homes. This shows that VICO still has the potential to finance DR\$ 203,276.19 of the total cost needed to complete the remaining 135 homes and the urbanization required.

6. Exhibit 1b. shows the estimated cost to complete the remaining homes and urbanization, according to the FHA inspector, based on the original cost estimates from VICO. VICO is in the process of updating these costs with the FHA inspector for Mr. Roxby's visit this week. He is the Regional Inspector from the National League of Insured Savings Associations. Based on the existing cost information, the FHA inspector determined, as shown in exhibit 1 B, that the estimated cost to complete the remaining homes under construction to be DR\$ 242,331.81, and the estimated cost to complete the related urbanization to be DR\$ 69,820.31, for a total estimated cost to complete of DR\$ 312,152.12, excluding indirect costs (overhead).

7. Exhibit 1a. is a summary of the financial position of the project with respect to VICO. From this, one can see that the remaining estimated costs exceed the remaining available financing by DR\$ 108,875.93. Based on this information, the BNV decided to extend a line of credit to VICO of up to DR\$ 150,000 in order to provide them with the financial ability to finish the remaining homes and have a closing. The BNV will provide DR\$ 100,000 by buying DR\$ 100,000 worth of Mortgages (assets) from VICO's own portfolio. These mortgages are not related to any of the BNV or AID projects. The additional DR\$ 50,000 is not secured by anything. at this time. The BNV will disburse these monies on behalf of VICO by use of a joint check system or some other method that the BNV chooses to use. Also, the FHA department is initiating a very strict construction completion schedule, so that costs don't run higher than are necessary.

8. In addition to the financial information relating to the project, additional financial information was requested from VICO. I was told that the last financial statement that was done was as of June 30, 1971, and that it would not be possible to get a current financial statement during the time I was there. However, I did get from VICO a complete list of all people who have paid any money to them for a house, according to their records. The San Geronimo Project was originally planned for 353 houses, but for various reasons, the total was reduced to 344. VICO's records showed a list of 344 people meaning that the project is completely sold, with an additional 50 to 60 people on a "waiting list." The list of the 344 people was supplied by VICO and verified by the BNV's auditors. Also, it was stated by the BNV's auditors that VICO's receipts to these people were not numbered in any way, so that it would be impossible to tell if these were in fact the only people who VICO had collected money from. In addition, if VICO should not be able to build more than the 183 homes they have started, then the money collected from the remaining people would have to be returned to them. However, on the basis of comparison between the amount that VICO admits to having collected (including the DR\$ 36.00 overcharge on closing costs) and the amount that the Administrator had on his records as being received from VICO, it appears that VICO is retaining just under DR\$ 80,000 in homebuyers money which it claims it cannot repay. VICO management admitted in a meeting with the BNV that they are retaining that amount of money. (See III. D. E.)

9. The insurance premiums on VICO's construction performance bond are past due. They owe DR\$ 2,963.36 to both Cia. Nacional de Seguros, C. por A., and Seguros America, C. por A. in insurance premiums. (See III. A.)

B. Popular Project

1. VICO had started building 64 homes in the Popular Project. Of these 64 homes, 12 have been completed and turned over to the homeowners as of May 9, 1972. In addition, there were another 52 homes in the project in various stages of completion as follows:

(a) 12 homes are completed and there should be a closing with the Administrator next week.

(b) 12 homes are approximately 85% complete according to the FHA inspector, and VICO is hoping to have a closing with the Administrator in about 15 days.

(c) 12 homes are approximately 40% complete according to the FHA inspector, and the homes have only the basic concrete shell. VICO hopes these homes will be completed by June 30, 1972, but like in the San Geronimo project, the builder is having trouble procuring his long lead time mechanical items. At this time it is difficult to determine how many of these will really be completed by June 30.

(d) 12 homes are approximately 20% complete according to the FHA inspector, and VICO is hoping to finish these homes by August.

(e) 4 homes out of another group of 12 have just been started (floor slabs were poured) and VICO was planning to start the other 8 homes very shortly. VICO is hoping to finish these 12 homes by October of this year.

2. A statement on the financial position of the Popular Project was unobtainable while I was in the Dominican Republic, because I had asked VICO to concentrate on the financial information on the San Geronimo Project because it was more critical. However, I did request VICO and the BNV to send me financial information on the Popular Project similar to that provided for the San Geronimo Project - (Exhibits 1a, 1b, and 1c).

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3. The Popular Project is a duplex project, and the sponsor claims that due to this fact, they are having a difficult time selling. VICO management stated that they have 40 buyers in the project, 12 of whom have already moved in. The sales figure has not been verified by the BNV's auditors yet, but it does seem that the sponsor has built more homes than he has buyers for, and that the problem of the retention of the downpayments by the sponsor appears to be minimal when compared with the San Geronimo Project.

C. Substitution of Non-Project Mortgages

1. Due to the problems encountered in the above two projects and several others, the BNV has found itself short of mortgages on AID approved projects to fulfill the requirements to drawdown the \$1,850,000 allowed for non-project mortgages under Section 5.03 of the Administration Agreement. Therefore, the BNV is requesting AID approve the substitution of mortgages from the following 2 projects:

(a) Ensueño Project - 130 homes with a total mortgage value to the U.S. Investor (75% U.S./25% local financing) of DR\$629,688.54.

(b) Las Colinas Project - 106 homes with a total mortgage value to the U.S. Investor of DR\$461,560.58.

(c) These two projects are located in or near Santiago and represent 236 of a total of 295 mortgages the BNV is planning to submit under Section 5.03. Also, these two projects represent a total of DR\$1,091,249.12 out of a total of DR\$1,387,864.80 worth of mortgages that the BNV is planning to submit. This is the total amount of mortgages that the BNV is planning to submit at this time out of a maximum of \$1,850,000 allowed by Section 5.03 of the Administration Agreement.

(d) According to BNV management, the total delinquency factor for all 295 homes is 4.7% (11 mortgages), and only one (1) person is 3 months past due, all other mortgages are 2 months or less delinquent.

2. As a result of the BNV requesting to substitute the two (2) above mentioned projects, it is also requesting that Section 5.03 of the Administration Agreement be amended so that these projects and their mortgages would be eligible under this section. Several problems presently exist that make these two projects ineligible at this time, including the following:

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(a) The projects and the prices of the homes have not been approved by AID as of May 9, 1972.

(b) The mortgages from these projects have different interest rates and different terms than those mortgages for the AID projects. However, the BNV has agreed to make up the deficiency in the mortgage payments, so as to make these mortgages on a par with the present AID project mortgages.

D. Joint Proposal by Gulf and Western Americas Corp. and the Dominican Republic Government.

1. A joint proposal made to the business industry as a whole with regard to low-cost government subsidized housing.

2. See the report from NLISA to Mr. Peter Kimm, dated May 22, 1972, regarding this subject.

II. CONCLUSIONS

A. VICO is in a weak position financially in both of the referenced projects, and as a company as a whole, and they also need good management direction and control. However, if they can get some work completed and produce some positive cash flow, the company still has a chance to survive.

B. If VICO cannot finish the work they have started, it will probably cost the BNV approximately DR\$ 100,000 to DR\$ 150,000 as things now stand, providing the construction performance bond is still good and will cover 10% of the construction cost of Phase II now under construction.

C. Should VICO not continue with the project, the DR\$ 80,000 of initial and downpayment monies collected from the homebuyers will have to be returned. If VICO does not have sufficient money for this, then the BNV will probably have to cover the balance.

D. VICO will probably only be able to complete about 80 more homes on the San Geronimo Project and about 24 more homes on the Popular Project on the basis of information provided by the BNV's FHA department, by June 30, 1972.

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E. Although the BNV's management and their attorney stated verbally that the insurance for the construction performance bond would be in effect as soon as the premiums are paid due to the old "moral obligation law" with respect to insurance companies, the attorney did not want to give me a written legal opinion on this subject until he had researched the subject further.

F. The records of VICO show that they have received initial or downpayment money from 344 homebuyers and VICO management admits that they are still retaining almost DR\$ 80,000 of these payments, but it is impossible to tell if there are any more. However, this is a definite problem that the BNV will have to watch closely and handle very carefully.

G. The BNV needed to grant a line of credit to VICO sufficient to complete the remaining homes under construction, and to possibly have access to the money from the closings, because it would cost the BNV more than the line of credit if they have to finish the project themselves.

H. Due to the problems that have arisen with sponsors and the number of homes that have been completed and sold, the BNV will have very few non-project mortgages that can qualify under Section 5.03 of the Administration Agreement.

I. The BNV seemed to be handling the situation fairly well at this time, although they should not have let things get out of hand the way they did. I think that from this point on, they will be watching this sponsor and his projects much closer. As far as AID is concerned, there is no problem in any way concerning the repayment of the Bowery loan as a result of VICO's problems, and the construction financing was strictly between the BNV and the commercial bank, and did not involve AID in any way.

III. ACTION TAKEN

A. I requested the BNV to pay the insurance premiums to protect the construction performance bond on behalf of VICO from the DR\$ 150,000 line of credit, and both BNV and VICO management agreed to this. I also asked the BNV's attorney to give me a written legal opinion as to the status of the performance bond on VICO. (See I. A. 9.)

B. I had VICO provide financial information on the San Geronimo project which was verified and used in Exhibit 1 c. I also requested a complete list of homebuyers and the amounts received from each and had this list compared to the Administrator's records. (See I. A. 8.)

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C. I requested VICO and BNV management to forward the same financial information provided for the San Geronimo project, including the list of homebuyers, for the Popular project as soon as possible. (See I. B. 2.)

D. As a result of my findings with regard to VICO retaining homebuyers' money, I had the BNV instruct VICO to write a letter to all homebuyers immediately, informing them that from that date on, all payments were to be directed to the Administrator rather than to VICO. This was made a condition to the granting of the line of credit, and VICO's management agreed. (See I. A. 8.)

E. I suggested to the BNV management that rather than disbursing any money directly to VICO, they should disburse funds under tight control and in a joint check type method or through payment on behalf of VICO at VICO's request and authorization. The BNV management agreed that they would disburse funds in a way similar to what I had suggested.

F. I wrote a letter while in the Dominican Republic to Dr. Pittaluga (Director-Manager of the BNV) on May 11, 1972, (Exhibit 2), strongly recommending that the BNV instruct the Administrator to escrow DR\$ 80,000 from the interim closings between the sponsor and the Administrator. (See I. A. 8.)

IV. RECOMMENDATIONS TO SER/H

A. I recommend that SER/H write a letter to the BNV requesting that they keep SER/H informed of the status of both the San Geronimo and Popular projects. Also, that SER/H be kept apprized of VICO's financial position, the amount of money disbursed from the line of credit, and the amount of funds escrowed, if and when this occurs.

* * *

Any additional information or clarification of the present report will gladly be submitted upon request.

PROYECTO SAN GERONIMO

9 de mayo de 1972

Trabajos por ejecutar para completar 135 viviendas (según presupuestado)	RD\$ 312,152.12 *
Menos: Disponibilidad, según proyección	<u>203,276.19</u>
Diferencia	<u>RD\$ 108,875.93</u>

- * Este monto representa el costo directo, ya que los gastos indirectos han sido invertidos en aproximadamente un 100%. Este monto es igual para 183 viviendas.

Note: Prepared by the BNV

PROYECTO SAN GERONIMO
9 de mayo de 1972

Resumenes de los trabajos dejados de ejecutar.-

1.- Viviendas		
135 x 4,192.22	RD\$ 565,949.70	
Menos:		
Trabajos ejecutados	<u>323,617.89</u>	
Valor de trabajos que faltan por ejecutar en (135 viviendas)		242,331.81
2.- Sistema de Agua Potable	11,675.17	
3.- Sistema de Alcantarillado Sanitario	7,594.44	
4.- Sistema de Alcantarillado Pluvial	8,050.00	
5.- Construcción Calles, Aceras y Contenes	30,019.10	
6.- Movimiento de Tierra	3,802.35	
7.- Sistema Eléctrico	<u>8,679.25</u>	
Valor de trabajos que faltan por ejecutar en urbanización de 135 viviendas		<u>69,820.31</u>
Total General de trabajos a efectuar (costo directo)		312,152.12
Gastos Indirectos 27.83%		<u>86,871.93*</u>
Costo Total General		RD\$ <u><u>399,024.05</u></u>

* Los gastos indirectos correspondientes al proyecto completo han sido invertidos en aproximadamente un 100% a la fecha.

Note: Prepared by the BNV

PROYECTO SAN GERONIMO

PROYECCION FINANCIERA AL 9 DE MAYO 1972

Producto de 140 viviendas a 7,155.39 c/u

RD\$ 1,001,754.60

Pagos pendientes de Cesiones de Crédito (140 viviendas) y Créditos Concedidos

Compañía Nacional de Seguros C. por A.	(136 x 21.79)	2,963.36
Seguros America C. por A.	(136 x 21.79)	2,963.36
Bank of America	(5 x 416.70)	2,083.65
Banco Nacional de la Vivienda	(73.5 x 1,361.00)	100,000.00
" " " " - Intereses al 30-6-72		1,687.43
" " " " - Solares	(140 x 475.20)	66,528.00
" " " " - Cloaca	(140 x 170.00)	23,800.00
" " " " - Agrimensor	(140 x 25.00)	3,500.00
Tareas Industrial, C. por A.	(66.5 x 1,361.00)	20,292.96
Banco Popular Dominicano	(5 x 450.00)	2,250.00
" " " "	(82 x 2,000.00)	164,000.00
" " " "		11,750.00
Mercantil del Caribe, C. por A.	(140 x 150.00)	45,815.00
Aronio P. Haché & Co., C. por A.	(140 x 773.37)	213,412.67
Asociación Popular de Ahorros y Préstamos		188,392.31
" " " " - Intereses al 30-6-72		10,665.54
Retención de Iniciales por Depositar en APAyP		80,000.00

940,104.28

Resultado

61,650.28

Producto de 140 Viviendas a 7,155.39

1,001,754.60

Pagos pendientes de Cesiones de Crédito (140 Viviendas)

Compañía Nacional de Seguros, C. por A.	(136 x 21.79)	2,963.36
Seguros America, C. por A.	(136 x 21.79)	2,963.36
Bank of America	(5 x 416.70)	2,083.65
Banco Nacional de la Vivienda	(73.5 x 1,361.00)	100,000.00
" " " " - Intereses al 30-6-72		1,687.43
" " " " - Solares	(140 x 475.20)	66,528.00
" " " " - Cloaca	(140 x 170.00)	23,800.00
" " " " - Agrimensor	(140 x 25.00)	3,500.00
Tareas Industrial, C. por A.	(66.5 x 1,361.00)	20,292.96 (90,540.00)
Banco Popular Dominicano	(5 x 450.00)	2,250.00
" " " "	(82 x 2,000.00)	164,000.00
Mercantil del Caribe, C. por A.	(140 x 150.00)	21,080.00
Aronio P. Haché & Co., C. por A.	(140 x 773.37)	108,271.80
Asociación Popular de Ahorros y Préstamos		188,392.31
" " " " - Intereses al 30-6-72		10,665.54
Retención de Iniciales por Depositar en AAyP		80,000.00

798,478.41

Resultado

203,276.19

Note: Prepared by the BNV

May 11, 1972

To: : Dr. J. Manuel Pittaluga N.
From: : David Cole
Subject : Project 517-HG-006 San Gerónimo

As a result of several meetings with the Banco Nacional de la Vivienda (BNV) and Viviendas y Construcciones, C. por A. (VICO) Management, and as a result of certain financial information provided by the BNV and VICO, it has been mutually determined that VICO presently has approximately DR\$80,000. of home buyers' initial payments and/or downpayments (including the DR\$36 overcharge) which it has collected but cannot presently pay to the Administrator. Also, the urbanization work, especially the streets, is incomplete.

Therefore, I strongly recommend that the BNV request the Administrator to escrow DR\$80,000. from the next two interim closings between the Administrator and the Sponsor, in order to avoid any potential problems with future homeowners in this regard. Also, any other monies for urbanization, etc., that the BNV may wish to escrow at this time, in order to protect existing loans would seem reasonable, providing VICO would still be able to finish the homes they have started as of this date.

If you have any further questions, please feel free to contact me.

Very truly yours,



David Cole, NLISA

DC:cv

cc: Mr. Peter Kimm
Mr. Juan Cabrero
Mr. Stanley Ott
Mr. Mario Pita
USAID/Santo Domingo
Mr. Rubén Polanco
Mr. Luis De Pool
Mr. John Glakes, A/ACC

