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IMPROVING THE ACCESS OF WOMEN-HEADED HOUSEHOLDS TO SOLANDA HOUSING: A FEASIBLE DOWN PAYMENT ASSISTANCE SCHEME

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Summary and Recommendations

Under USAID contract "Women's Contribution to Urban Development in Ecuador", the International Center for Research on Women (ICRW) has undertaken a feasibility analysis of housing down payment assistance for women heads of households applying to the Solanda housing project in Quito, Ecuador. Since approximately 30% of Solanda applicants are women who head households, the project will be faced with the challenge of providing these women — who are economically disadvantaged — access to low-cost housing solutions.

The analysis herein relies on information derived from a 10% representative sample of a group of women heads of households identified during ICRW's November 1982 technical assistance trip to Quito, and from interviews and discussions with a substantial number of financial institutions in Quito.

One of the more striking findings of the survey is that 46% of applicant women heads of households will be ineligible for Solanda housing because their incomes are too low to meet the cost of housing under the policy of the Banco Ecuatoriana de la Vivienda (BEV) that only 25% of household income go to housing payments. These women must have lower cost housing solutions. Only 26% of women heads of households surveyed had incomes high enough for them to be eligible for Solanda housing — without exceeding the AID-supported housing income cutoff of Sucres 10,716. The analysis in this report is, unless otherwise noted, restricted to these "income eligible" women with an income range of Sucres 7,800 - 10,716.

The women interviewed for this study were enthusiastic about the opportunity to obtain housing in Solanda and were confident that they would be able to raise the down payment funds through a variety of strategies. When income, expenditure, and savings data are analyzed, however, the results show that:

- only 15.4% of income eligible women have current savings enough to make the minimum down payment required;
- adding potential savings during 1983 does not change that proportion;
- it is only when we assume that households use all current savings and liquify all assets that 69% of income eligible women have funds enough to make the minimum required down payment;
- under the more reasonable assumption that only half of the value of total

assets can be recovered, only 46% of income eligible women have enough funds for the down payment;

- these women have limited experience with borrowing, even from relatives and friends; yet they will have to borrow substantial amounts to raise the Solanda housing down payment.

A look at existing financial mechanisms reveals several potential sources of housing finance for women heads of households:

- Total housing finance through the Social Security System (IESS). This option would be restricted to those who are employed, versus self-employed, and there are doubts about the viability of this source given the small number of loans that were made through IESS in 1982.

- BEV's 'Rent with Option to Buy'. Assuming the maximum repayment term under this option, those with incomes above Sucres 10,200 would be eligible — the upper 23% of income eligible women heads of households.

- Financing the down payment through IESS or a savings and loan cooperative. Financing the entire down payment through IESS would be available to those with incomes above Sucres 8,972 who are employed, i.e. 23.5% of income eligible women; financing half the down payment would be available to those employed with incomes above Sucres 8,431, i.e. 43% of income eligible women. Financing the full down payment through an S&L is not feasible; financing half the down payment would be available to those with incomes above Sucres 9,615 — 23% of income eligible women.

Clearly women-headed households need an alternative source of down payment finance. Discussions with financial institutions, however, revealed no interest in or support for the establishment of a housing down payment loan fund due to the perceived high costs of administering small, short-term loans.

It is recommended, therefore, that a dual approach be taken to housing finance assistance to women-headed households in Solanda. A Down Payment Guarantee Fund should be deposited with BEV to be utilized as a guarantee against total or partial down payment deferments for selected beneficiaries, for up to ten years. Beneficiaries would be required to save a given amount per month in addition to making the established BEV monthly mortgage payment for a given housing solution. Savings would eventually be used to pay BEV the deferred down payment.

The guarantee fund, deposited with BEV, would be invested at a high long-term rates of return; returns would be used to: defray the administrative costs to BEV of the guarantee program; defray the cost to BEV of foregoing an up-front down payment; and further capitalize the fund.

A pilot project of $50,000 to assist one-third of income eligible women-headed households is suggested.

In order to ensure that women heads of households under the guarantee program would be able to maintain monthly housing payments and savings, it is further recommended that a Solanda Multi-Purpose Cooperative be developed. This cooperative could be utilized by the 38 percent of women heads of households found to be self-employed, as well as by the total Solanda population, to meet the financing requirements of small enterprises which is so crucial to their growth and, thus, the growth of households' incomes.

The Federation of Cooperatives (FECOAC) is interested in participating; first year start-up costs and seed capital required are estimated at $25,000.

I. Terms of Reference

Following the terms of USAID grant "Women's Contribution to Urban Development in Ecuador" and according to the terms of a convenio with the Fundacion Mariana de Jesus (FMJ), the International Center for Research on Women (ICRW) has carried out a feasibility analysis of a housing down payment fund to be utilized by women heads of households who are applicants to the Solanda Housing Project in Quito, Ecuador. Background work for the assignment including the development of a detailed questionnaire began in Washington, D.C. in December 1982. Fieldwork was carried out in Quito during the period Jan. 11-Jan. 23, 1983. The following is a report of the analysis, beginning with a discussion of the rationale for considering housing down payment assistance to women heads of households, the methodology used to carry out the study, a note on income distribution, demand for and supply of finance, and the results of the analysis.

II. Down Payment Assistance for Women Heads of Households: Rationale

Women in Ecuador—as in all countries, to one degree or another—face problems derived from their lower social standing regardless of whether they are rich or poor, living in the city or in the countryside. Poor women, of course, are in the particularly difficult situation of having to deal with both social barriers that are magnified because of their poverty and heavy economic burdens.

In low-income groups, especially, women tend to be less educated than men and thus restricted to low status, low-paying jobs. In Ecuador, where the economy is clearly divided between an informal or traditional sector and a more formalized modern sector, most poor women are involved in the informal sector. This sector is characterized by very low productivity, marginal employment, high underemployment and wages so low that they barely permit individuals to survive.

Poor women are also overrepresented in the relatively low-paying service occupations—as formal or informal workers. In the informal sector, 80% of women workers are involved in service jobs. Moreover, the majority of urban working women (53%) are concentrated in formal and informal service occupations.

Women who are heads of their households (due to separation, divorce, abandonment, death of spouse, etc.) find themselves in a particularly precarious position. They are, on the one hand, worse off than are male heads or joint heads of households (compare the income distributions reported in Table 1.A and 1.B, (pp. 7); on the other hand, they typically bear greater economic responsibilities than the general population (larger household size, higher dependency ratios). In addition, partly because of their unstable economic situation, these women have especially limited access to the credit, and development assistance that would help them to improve their welfare. Although large numbers of poor women tend to apply for housing projects, for example, only a small proportion are selected to participate in these projects. When women do succeed in becoming participants, however, and when projects are designed and implemented with their needs in mind, they are enthusiastic participants who perform well and contribute to project success.

Since a preliminary analysis of Solanda applicants has indicated that approximately 30% are women who head households, it appears that the Solanda project will provide an opportunity to face the challenge of providing these women access to low-cost housing solutions. Housing down payment assistance may be one way to increase the chances of women heads of households to gain entry to the project.

Such assistance, if warranted, should be viewed not as special treatment of a certain group, but rather a legitimate attempt to open the project to a substantial portion of the applicant population who are economically disadvantaged vis-a-vis the general population. ICRW, in undertaking the feasibility analysis of this assistance, has always viewed it as a type of experimental program which should initially be directed to women who are heads of households (in light of their economic situation), but with the hope that, ultimately, this mechanism would provide an avenue of assistance for all low-income or economically disadvantaged groups.

III. Methodology

A two-part methodology was employed in this study to determine both the need for down payment assistance to women heads of households (demand) and the institutional support that is currently available, or could feasibly be developed, to meet such a need (supply):

Demand. In order to characterize as accurately as possible what demand might exist for a housing down payment fund, a detailed income/expenditure/savings/credit questionnaire was developed in Washington, D.C. and refined in Quito with the assistance of staff and social workers at the FMJ, to suit the Ecuadorian context. The questionnaire was designed to elicit information regarding applicants':

1. planned strategies for making a housing down payment if selected for Solanda housing;
2. current ability to make a down payment from savings;
3. potential ability (in one year's time) to make a down payment from savings and assets;
4. experience with, and modes of, borrowing in order to determine the preferred structure of a down payment fund if the need for one exists.

The questionnaire was administered under the auspices of the FMJ to 50 women, a 10% representative sample of 520 women heads of households identified during ICRW's visit to Quito in November, 1982. The sample was chosen to reflect the age, educational, and occupational structure of the identified women heads of households, as well as the distribution of income among these women and their current residential location in Quito. Because it was considered desirable to work with FMJ staff in the selection of the sample, selection was made by hand in Quito. The sample chosen, therefore, does not perfectly reflect the characteristics of the 520 identified women heads of households to the extent that complete cross-tabulation of characteristics could not be accomplished by hand selection in a limited amount of time. In addition, of course, not all women originally chosen were available for questioning. These women then had to be replaced in the field by alternates who might or might not have precisely the same characteristics. As tables M1-M4 show, however, the chosen sample is certainly representative of the larger group of women.

Table M-1

AGE OF APPLICANT

Years of Age	% of 520 Women Heads of Household (WHH)	% of 50 WHH (Sample)
Less than 30	17	12
30 - 50	70	70
Over 50	13	18

Table M-2

OCCUPATION OF APPLICANT

	% of 520 WHH	% of 50 WHH
Professionals, Proprietors of Shops	4	4
Para-professionals, Technicians	10	12
Laundresses, Seamstresses	17	16
Service Workers	10	10
Laborers	12	16
Merchants	20	18
Others	27	24

Table M-3

APPLICANT'S INCOME AS % OF HOUSEHOLD INCOME

	% of 520 WHH	% of 50 WHH
Over 50%	88	80
90-100%	54	48

Table M-4

MONTHLY HOUSEHOLD INCOME

Sucres	% of 520 WHH	% of 50 WHH
4,000 - 6,000	20	36
6,001 - 10,000	50	30
Over 10,000	30	34

Supply. In order to determine the extent to which the need for down payment assistance could be met through existing financial and development institutions in Quito, representatives of seven institutions were interviewed regarding currently available mechanisms or future funding options for housing finance to low-income households. Both current administrative costs and costs of several alternative approaches to housing down payment assistance were discussed; in addition, the representatives of the institutions visited were asked how their organization could assist in raising the "seed capital" for a down payment fund, and in administering such a fund.

The institutions visited are: the Junta Nacional de la Vivienda (JNV); the Banco Ecuatoriano de la Vivienda (BEV); Banco del Pacifico; Banco de las Cooperativas; Asociacion de Cooperativas del Ecuador (ANME); Federacion de Cooperativas de Ahorro y Credito (FECOAC); and Fundacion Ecuatoriana.

IV. A Note on Income Distribution

The population eligible for Solanda housing in terms of income (i.e., "income eligible") will be that segment of the population with monthly household incomes less than Sucres 10,716 per month—the maximum income allowable for beneficiaries of the AID-supported housing in the Solanda project--and at least as great as Sucres 7,890 per month--the minimum income necessary to buy the least expensive AID-supported housing option under BEV's proposed graduated payment financing scheme.*

As can be seen from Table 1.A, 28% of the surveyed population will not be income eligible for AID-supported Solanda housing because their household income is too high; on the other hand, 46% of the surveyed population will be excluded from the project because of insufficient income. Thus, only 26% of women-headed households are eligible, on the basis of income, for Solanda housing. In comparison, only 15% of households in general would be excluded (according to the income distribution for

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* Based on BEV's restriction that only 25% of household income be used for housing payments. This assumes a down payment of 15% and a primary, graduated mortgage payment on 85% of the unit sales price.

Table 1.A

INCOME DISTRIBUTION FOR WOMEN-HEADED HOUSEHOLDS (WHH)

% of WHH		Monthly Income (Sucres)
46%	14	4,000
	8	4,500 - 5,500
	14	5,550 - 6,000
	10	6,050 - 7,700
26%	8	7,800 - 8,400
	8	8,600 - 8,900
	4	9,000 - 9,600
	6	10,000 - 10,716
28%	28	10,720+

Table 1.B

INCOME DISTRIBUTION FOR QUITO POPULATION

% of Population	Monthly Income
15	0 - 7,337 Sucres
35	7,820 - 10,716 Sucres
50	10,717 Sucres and up

Quito, Table 1.B) because their incomes are too low; 35% would be eligible on the basis of income.

Given the economic situation of women in Ecuador, ICRW expected to find a disproportionate number of women-headed households lacking sufficient funds to make a housing down payment; it was also expected that a large proportion of women-headed households would be found below the 50th percentile of the income distribution. A cost of housing so high as to exclude the majority of women-headed households from the Solanda project was not, however, anticipated. These households will not, of course, be helped by any down payment finance scheme that may be adopted in Solanda, and if the project is to be an example of innovative approaches to meeting the housing needs of women-headed households, a development finance scheme not restricted to providing down payment assistance should be seriously considered. Without attention to improving the incomes of women who head households, or reducing the monthly costs of Solanda housing, it appears that no more than 26% of women heads of households who apply for Solanda housing will be eligible on the basis of income alone. The following section discusses the ability of those who are currently income eligible for Solanda to make the necessary housing down payments.

V. The Need for Down Payment Assistance: Demand

When asked how they plan to raise the required housing down payment if accepted into Solanda, the women interviewed for this study seemed to respond with virtually every option that might be available for generating funds. Most respondents mentioned at least three strategies by which they intended to raise the money required. The most frequently mentioned strategies were: using current savings (38%), saving more/spending less (42%), and borrowing money (40%).* Collecting money due/selling assets was also a popular response (see Table 2). These responses clearly indicate intentions to sacrifice a great deal in order to obtain housing. How do these intentions stand up to the reality of the women's situation?

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* Because the question elicited multiple responses, percentages add to over 100%.

Table 2

MEANS OF RAISING DOWN PAYMENT FUNDS

	% of Population
Savings Already in Bank	38
Save More/Spend Less	42
Help from Children	10
Collect Money Due/Sell Assets	26
Borrow Money	40
Change/Increase Work	18
Profits from Work, Business	8
Don't Know	2

(Note: This table refers to percentages of the total population surveyed, i.e. 50 women heads of households.)

Current Savings. Table 3 shows the distribution of current savings. Under the recently approved scheme for providing Solanda housing through graduated payments financing, the down payment required on the lowest cost AID-supported housing option will be Sucres 35,000; the highest cost AID-supported housing will require a down payment of Sucres 50,000. Thus, only 15.4% of the women interviewed who are eligible for housing in terms of income, currently have enough savings at home, in BEV, and in other banks and cooperatives, to make at least the minimum down payment (35,000 Sucres). However, an additional 15.4% of the women could pay at least half of the minimum down payment.

When savings in the home are excluded from the analysis, on the assumption that such money is actually required for working capital, the savings distribution is virtually unaffected—presumably because the majority of the surveyed population keep 90-100% of their savings in formal institutions (see Table 4).

Save More/Spend Less. Table 5 shows the distribution of the eligible population's average savings per month calculated from current bank balances and date on which the account was opened. If past savings behavior were to continue, these households would save no more than 821 Sucres per month, on average, over the next year. This would not shift the savings distribution enough to allow additional women to make the full maximum housing down payment by the end of 1983. It would, however, allow an additional 7.7% of the women (total = 23.1%) to make at least one-half of the minimum down payment (see Table 6).

It is probably unreasonable to expect past savings rates to be maintained given current rates of inflation and economic difficulties in Ecuador. Nonetheless, since 42% of the population believes that they will save more/spend less in order to raise money for a down payment, we have calculated total savings at the end of 1983 (= current savings plus savings during 1983) assuming that average savings per month could actually be increased by 10%. As can be seen from Table 7, the change in the savings distribution is negligible; no additional women could make either full or half minimum down payments under this scheme.

Sell Assets/Collect Money Due. When money owed to the head of household and the households' total assets are calculated, excluding household effects and—for the self-employed—cars and business equipment, the women's perception that they could raise

Table 3

CURRENT SAVINGS

Sucres	% of Population
2,421 - 17,000	69.2
17,500 - 35,000	15.4
35,000+	15.4

Table 4

SAVINGS INSTITUTIONS AS A PERCENTAGE OF TOTAL SAVINGS

% of Savings	% of Population
91 - 100%	84
81 - 90%	4
71 - 80%	2
61 - 70%	2
51 - 60%	2
31 - 50%	2
21 - 30%	2
0 - 20%	2

(Note: These tables refer to the "income eligible" women surveyed, i.e., those with incomes of Sucres 7,800 - 10,716.)

Table 5

AVERAGE SAVINGS PER MONTH

Sucres	% of Population
0 - 30	2
170 - 240	1
241 - 300	2
400 - 500	3
501 - 700	1
900 - 1,300	1
1,301 - 2,050	2
3,000+	1

Average = 821 Sucres/mo.

Table 6

TOTAL SAVINGS, END 1983
(Based on past savings rates)

Sucres	% of Population
2,493 - 17,000	61.5
17,500 - 34,000	23.1
35,000+	15.4

(Note: These tables refer to the "income eligible" women surveyed, i.e., those with incomes of Sucres 7,800 - 10,716.)

Table 7

TOTAL SAVINGS, END 1983
(Assuming 10% increase in savings rates)

Sucres	% of Population
2,500 - 17,009	61.5
17,500 - 34,500	23.1
35,000+	15.4

Table 8

TOTAL CURRENT SAVINGS AND LIQUID ASSETS

Sucres	% of Population
15,244	7.7
17,500 - 34,000	23.1
35,000+	69.2

(Note: These table refer to "income eligible" women, those with incomes of Sucres 7,800 - 10,716.)

Table 9

TOTAL LIQUID ASSETS AND SAVINGS, END 1983
(Based on past savings rates)

Sucres	% of Population
15,257	7.7
17,500 - 34,000	23.1
35,000+	69.2

Table 10

CURRENT SAVINGS AND 50% OF LIQUID ASSETS

Sucres	% of Population
8,831	30.8
17,500 - 34,000	23.0
35,000+	46.2

(Note: These tables refer to "income eligible" women, those with incomes of Sucres 7,800 - 10,716.)

the housing down payment by collecting money due them, selling jewelry, etc., is somewhat borne out. Table 8 shows the distribution of current savings plus total liquid assets. On this basis of rather stringent divestiture, 69.2% of the eligible population could afford to make at least the minimum housing down payment; another 23.1% could afford to pay at least 50% of the minimum down payment. Thus a total of 92.3% of the population could raise at least half the minimum amount required for the least expensive AID-sponsored housing units.

Assuming that households increase their rate of savings by 10% for the next year has, again, no effect on the distribution of total savings and liquid assets by the end of 1983 (see Table 9). Still 69.2% of the eligible population could make a full minimum housing down payment; 23.1% could make at least half of the minimum down payment.

The above analysis begs the questions of whether these households could successfully recall monies lent out and actually sell, at market value, their jewels, bicycles, cars, etc., and if so, whether the benefits of housing in Solanda would outweigh the costs of divestiture. Clearly, however, given the potential of 92.3% of the eligible population to raise down payment funds by selling assets, the viability of this strategy should be further explored. In the meantime, it would seem somewhat safer to assume that households can sell only 50% of their liquid assets (see Table 10) with the result that 46.2% of the population can make a full down payment, and 23% can make one-half of the minimum down payment (refer to Chart I for a summary of the preceding discussion).

Borrowing for the Down Payment. On the basis of the preceding analysis it appears that even if households are willing to use all their current savings and sell 50% of their liquid assets in order to raise funds for the housing down payment, 23% of women-headed households who are eligible in terms of income for Solanda housing will still have to borrow up to one-half of the down payment required, i.e., 17,5000 Sucres; 30.8% of eligible women-headed households will still have to borrow up to the total amount of the down payment required, i.e., 35,000 Sucres. In other words, the willingness to borrow for the down payment, expressed by 40% of the women (Table 2) will be severely put to the test.

Unfortunately, survey questions intended to explore the women's experience with

Chart I

SOURCES OF DOWN PAYMENT FUNDS: SAVINGS AND ASSETS

	Current Savings	Total Savings, End 1983	Current Savings and Liquid Assets	Savings, End 1983 and Liquid Assets	Current Savings and 50% of Liquid Assets
% of Population with Full Minimum Down Payment	15.4	15.4	69.2	69.2	46.2
% of Population with One-half Minimum Down Payment	15.4	23.1	23.1	23.1	23.0
% of Population with Less Than One-half Minimum Down Payment	69.2	61.5	7.7	7.7	30.8

(Note: This chart refers to "income eligible" women, those with incomes of Sucres 7,800 - 10,716.)

borrowing were not as successful as we had hoped they would be. We do know, however, that of twenty women who cited borrowing as a means to come up with the down payment 65% have had no experience in borrowing of any kind. Of the seventeen women heads of households who had borrowed money, for a variety of reasons, 65% were employed and had borrowed through their employer and the social security system (automatic payroll withdrawal). The remaining 35% of women who had borrowed were self-employed and all but one had borrowed from family, friends, business associates and money lenders for their business. The money lenders who work the major market places (where many of the women sell their goods and services) generally charge 3% per month for an annual average rate of 36%. Effective interest rates were recorded at highs of 42% to 48% on an annual basis.

VI. Sources of Housing Finance: Supply

Given the rather clear indications, above, of the potential demand of women-headed households for housing finance--particularly down payment finance--what is the existing supply of such finance in Ecuador? This section of the report discusses housing demand and finance institutions in Ecuador, and reviews the options currently available for housing and down payment finance.

Background of Housing Demand and Finance Institutions. An estimated 37% of urban families, with incomes below the absolute poverty level of U.S. $223 (S/6,700) per month (in 1982 figures) are unable to afford adequate housing in Quito and Guayaquil[1/]. The 1974 census estimate was that 48% of Ecuador's urban housing was "unacceptable," and a fourth of that "unimprovable."

The demand for housing and related urban development actions is as great in Quito as anywhere else in the country. The city has a population growth rate estimated at 5.6% per annum, higher than Guayaquil, and receives some 25,000 migrants per year. A large number of its nearly 900,000 inhabitants live in substandard conditions, principally in the central parts of the city and in spontaneous developments on the city's periphery. Based on an analysis of census and planning data, it is estimated that 9,000 dwelling units would be required annually if the city's housing needs were to be met as compared with the 2,500 being produced institutionally at present.[2/]

Until the 1960's, housing was provided almost entirely by private banks and construction companies for higher-income families and by the informal sector (generally outside the framework of the law and without necessary support from public authorities) for lower-income people. The relatively few mortgage loans of the social security system (Instituto Ecuatoriano de Seguro Social (IESS)) to its members--employed individuals whose employers contribute according to wage levels, time on the job, etc.--represented the

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1/ Staff Appraisal Report. Ecuador: National Low-income Housing. April 1982, World Bank.

2/ Ecuador Project Paper: February 1980. AID only public sector intervention in the housing market. In 1982 only 750 IESS mortgage loans were made per annum.

Existing housing institutions have not focused on low-income groups. A recent conference in Quito (1980) showed that the savings and loan system (mutualistas) currently concentrates on the 66th to 88th income percentile strata of urban households. Projects sponsored by the JNV and BEV have almost completely focused on the 50th to 80th percentile income strata. Only one small JNV/BEV project, Hacienda Mena in Quito, has been able to reach a level below the median income.

BEV/JNV.[3/] The BEV is the Government of Ecuador's principal housing finance institution with broad powers to establish housing credit policy and undertake all normal banking activities. The JNV, an entity with nearly ministerial powers, has a mandate to establish national housing policy, coordinate public and private entities operating in the area, etc. In effect, however, JNV has not used many of its powers and has, rather, been the construction arm of BEV, building housing projects with BEV financing.

The Ecuadorian government's commitm[illegible] to housing is evidenced by the fact that, despite two general budget cuts during 1981 (after the conflict with Peru and again after an unexpected drop in international petroleum prices), its contributions to BEV have recently been slightly increased (to over 12.0 million dollars per annum). Most of BEV's expansion, however, is being financed by debt: to the social security system and the Ecuadorian Development Bank for the Guayaquil Emergency Plan; to IBRD for the Guayaquil Urban Development Project and the proposed National Low-income Housing Project; and to USAID for the Solanda Project in Quito. Annual production for the JNV was around 12,900 units in 1981 versus some 4,500 units the previous year. 1982 production was similar to 1981 and 1982 should show somewhat higher output with the first phase of the Solanda project under construction.

3/ Resource Material: Interviews with institutions and secondary source material from World Bank and The National Savings and Loan League

The new BEV policy is now absolutely committed to directing resources to the needs of low-income families. A conscious decision has been made to leave the bulk of middle-class production to the S&L system. Comments in years past regarding the distribution of resources in the nation's housing finance system had always included mention of the fact that both the BEV and the S&L system were producing for the same population, often in direct competition. The BEV, due to its lower cost of resources, had an advantage.

At present, with the change in direction of policy, this competition may not continue since the principal beneficiaries of the BEV output will be lower-income populations, populations not yet served by the S&L system.

The Social Security System (IESS). The social security system in Ecuador participates, to some extent, in housing finance for the employed (versus self-employed) population. Generally, IESS loans go to landowners for the construction of homes with a top price of 800,000 Sucres--not a particularly low-income market. However, all employees have access to housing loans from IESS including down payment loans for housing regardless of the developer. A person or family gains access to these housing loans by: having been covered under social security for 48 months (4 years), and compiling ten (10) points of a list including one point for each year within social security, two points for each minor child, etc.

The loan can be used for nearly any reason in the broad area of housing development including the purchase of land (for housing). The maximum loan amount is equal to 100 times the average monthly income over the past six pay-checks. The term of the loan is usually 30 years, but other loan terms are available, e.g., 25, 15 and 10 years.

IESS also provides "complementary" housing loans to social security beneficiaries. An indispensable condition to obtaining a complementary loan is that the recipient must have paid at least two years on his/her home mortgage loan. The maximum amount of the loan is S/250,000 for extension, repair, or completion of the house construction.[4/]

4/ It is not clear whether this IESS construction loan condition would eliminate AID/BEV financed housing.

At present, IESS provides progressive rate financing, starting at 8 percent plus .65 percent for insurance--a very low rate. The IESS does have an exceptionally low cost of funds since they are the recipients of payroll deduction, but it is clear to government officials that the IESS has not been capitalizing itself adequately. This situation is very similar to the past performance of BEV and a fundamental reason for the IBRD insistence of a 15% interest rate on BEV mortgages, regardless of family income.

The Savings and Loan System (Mutualistas).[5/] At present, the S&L's in Ecuador have 90 percent of their mortgage portfolio in 12 percent loans. The system is now paying between 12-14% for portfolio savings and 15 percent for savings over one year. Short-term loans are being made at around 15 percent, and long-term loans at 17 percent plus 2 percent commission and .65 percent charge for insurance. Generally, money is extremely tight, there is little confidence in the condition of the economy and very little enthusiasm for mortgage credit.

The law stipulates that 40 percent of the sales of the obligatory bonds[6/] that BEV issues must be distributed to the S&L system and to the cooperative movement. The division of this 40 percent of sales returns should be 60 percent to the S&Ls and 40 percent to the cooperatives. Between 1982 and 1984, BEV is to have issued a total of S/400 million worth of bonds. The S&L system does expect to get some funds from the 1982-1984 sale, but they feel they may have to go to court to get their rightful share.

The relationship between the JNV/BEV and the S&L system is not a close one. The S&L's see the two government agencies as merely another pair of contractors and financial entities, much stronger because of their government support, and competing for the same kind of projects.

Cooperatives/Cooperative Banks. The cooperatives in Ecuador have recently become considerably more active than in the past in housing finance. The savings and loan cooperatives do not fall under the control mechanism established for financial institutions and are able to charge and pay interest on

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5/ Interviews: Mr. Luis F. Madera, Gen. Sec., National Association of Ecuador's S&L's (ANME); Dr. Cesar Rondon, Manager, Coop. Bank of Ecuador.

6/ The private banks must buy these bonds in amounts up to 10 percent of their savings net of the legal reserves. The insurance companeis also must buy them.

savings as they wish. In fact, it appears that they keep their interest rates comparable to those of the other institutions. However, they have become an important factor in competition for funds. Currently, the Cooperative Bank of Ecuador pays 12 percent on savings and lends to individual cooperatives (S&L Cooperatives) at 15 percent. With the local cooperative charging one or two percent for general administration of the account, the beneficiary is paying the going market rate of 17% for funds. What is unique is that beneficiaries can borrow up to three times their savings in the local cooperative.

Total IESS Financing. For the employed applicant to Solanda, the IESS, as previously discussed, provides a mechanism for the borrowing of housing finance including:

a) the initial down payment capital;
b) mortgage financing; and
c) loans to finish, expand, or improve housing.

Assuming an employed applicant can qualify under IESS (receive 10 minimum entry points), IESS transfers to a BEV savings account 15% of the total house price (down payment requirement of BEV) under the applicant's name. This is a pre-condition to purchase a BEV financed house. The down payment as well as the remaining home mortgage can be borrowed through IESS (100% financing). The monthly amortization payments are deducted directly from the employee's paycheck. Depending on the applicant's status, IESS can lend up to 100 times monthly salary for total value of a house purchase.

IESS utilizes a progressive mortgage interest rate and a 20 or 30 year term based on the applicant's age and financial situation. The initial interest can start as low as 8.65% per annum and rise to an average of 10% plus the .65% for insurance.

Table 11 illustrates the official 1983 AID financed housing units, their costs, and potential financing for the employed through social security (IESS) versus financing available to all selected Solanda beneficiaries through BEV. Examining the least costly housing solution, "B2", priced

TABLE 11

AID FINANCED HOUSING IN SOLANDA AND POTENTIAL BENEFICIARY FINANCING MECHANISMS 1/
(Sucres = S/62.0 to $U.S.)

COLUMN A	B	C		D		E	
TYPE UNIT	SALES PRICE 2/	DOWN PAYMENT 3/		MORTGAGE 4/ PAY/MONTH		NEEDED FAMILY 5/ INCOME/MONTH	
		IESS	BEV	IESS	BEV	IESS	BEV
B2	231,295.3	- 0 -	34,694.3	2,141.7 1,803.1	1,972.7 Same	5,354.3 4,507.8	7,890.8 Same
D2	246,730.8	- 0 -	37,009.6	2,284.7 1,923.4	2,104.3	5,711.8 4,808.5	8,417.2
A1	280,369.8	- 0 -	42,055.5	2,596.2 2,185.7	2,391.3	6,490.5 5,464.3	9,565.2
B1	283,352.9	- 0 -	42,502.9	2,623.8 2,208.9	2,416.7	6,559.5 5,522.3	9,666.8
B3-D1	293,373.5	- 0 -	44,006.0	2,716.6 2,287.1	2,502.2	6,791.5 5,717.8	10,008.8
C1	300,558.4	- 0 -	45,083.8	2,783.1 2,343.1	2,563.4	6,957.8 5,857.8	10,253.6
D3	303,307.7	- 0 -	45,496.2	2,808.6 2,364.5	2,586.9	7,021.8 5,911.3	10,347.6
B1	331,650.0	- 0 -	49,747.5	3,071.0 2,585.4	2,828.6	7,677.5 6,463.5	11,314.4

1/ The employed vs. self-employed population is 62%.

2/ Weighted average of AID/BEV financed housing approved figures, Jan. '83, AID/BEV

3/ IESS = 0; BEV = 15% of sales price

4/ The upper case monthly mortgage payment for IESS is the higher cost case for the 30-year progressive mortgage plan (starting at 8.65% and reaching 10.65% during the amortization schedule). The lower case shows the potential starting point or 8.65% first year monthly mortgage. The BEV monthly mortgage is the (AID/JNV) approved graduated mortgage payment plan at 15% average for 25 years.

at S/231,295.3, the IESS loan (no down payment required) results in a monthly mortgage rate of S/1,803.1 (initial year at 8.65% for 30 years) --the lower case in Table 11. This monthly mortgage is S/169.6 less than the 85% financing and S/34,694.3 down payment requirement of the BEV financing plan. The graduated mortgage plan of BEV's increases 4% per annum and at the end of 25 years the monthly mortgage cost to the beneficiary will equal S/5,258.9 compared to the IESS financing which at the end of 30 years will cost the beneficiary S/2,141.7 per month at the top 10.65% interest rate per annum.

To qualify for an IESS loan, monthly payments can absorb up to 40% gross monthly salary. As illustrated in Table 11, a lower-income family could enter Solanda under the IESS mortgage (S/4.507.8 first year monthly income compared to the S/7,890.8 qualifying income of BEV due to their policy requiring total household income four times greater than total monthly housing costs).

Although this is a hypothetical presentation and "qualifying" at IESS for a home mortgage is reportedly bureaucratic and time consuming, this option offers clear advantages for the employed applicant entering Solanda.

Again, assuming the capacity to carry increased debt, after paying on the IESS mortgage for two years, the beneficiary can borrow a "complementary" loan for up to S/250,000 for home completion, expansion or general improvement.

However, with conditions this favorable for housing finance with IESS, the fact that IESS reportedly provided just 750 loans on an annual basis (all housing) in 1982 suggests that either:

1) IESS does not adequately promote these home financing schemes to low-income households;
2) The application and selection process are bureaucratic and time consuming;
3) There is defacto institutional resistance to 100% financing for housing; or

4) There is resistance by the employed (low-income) to carry such debt service combined with the automatic salary deduction for payment.

BEV's "Rent with Option to Buy". BEV is authorized by the Banks' Directorate to contract with a person to rent a house or apartment with the option to buy. The purchase contract is exercised once the renter has completed a savings program in the amount of the down payment. The requirements are straight forward, e.g., the person must be legally capable, a certified non-owner of a home, etc.

Once the renter has signed the contract with BEV, the renter must open a savings account in BEV and on a monthly basis deposit the agreed amount until such time as the down payment is saved. The account earns 7% interest annually. The monthly savings cannot be less than 25% of the rent amount, nor can it exceed 75% of said amount. The term is a maximum of five years.

Assuming a full 60-month term (5 years to save the down payment), the combined monthly payment made by the "renter" is assumed to be equal to the BEV monthly mortgage for each housing type illustrated in Table 11, added to the saving requirement of the down payment divided by 60 (months). Beneficiaries could apply for only unit B2 (S/10,203.6 monthly combined payment). Any other unit costs would require a total monthly income surpassing AID's ceiling of S/10,716.0.[7/] Only 23% of income eligible women heads of households could take advantage of this program.

7/ As before, the assumption is that BEV would enforce their "minimum family income rule" of four times monthly housing payments.

Financing the Down Payment with a Principal Mortgage (85%) through BEV. Clearly not all women heads of households in need of assistance with housing finance will be eligible for, nor desire, total IESS financing (which is available only to the employed vs. the self-employed) or BEV's 'Rent with Option to Buy' mechanism. For such women an alternative may be to borrow funds for the housing down payment from IESS or an S & L while financing the principal housing mortgage through BEV.

IESS Down Payment Financing. Table 12 illustrates the (employed) beneficiary applying to IESS for just the housing down payment (15%) financing the remaining or primary mortgage (85%) with BEV. The monthly payment for the IESS down payment is shown at S/271 for the 'B2' type unit and S/331 for the 'B1' type unit. Assuming BEV would finance the 85% of the units sales price, the combined monthly mortgage for both loans (column E) would amount to S/2,243 for the type 'B2' house and S/2,748 for the type 'B1' house. Assuming in turn that BEV would require gross family monthly income to be four times greater than the combined monthly mortgage (column E), all units other than the two lowest cost, 'B2' and 'D2', would require a gross family income above AID's income ceiling established at S/10,716 (50th percentile). Thus, of the women heads of households with monthly incomes between 7,800 Sucres and 10,716 Sucres, approximately 38% could afford Solanda units of types B2 or D2, providing they are employed, not self-employed, and therefore eligible for IESS financing. Since our study indicates that 62% of women-heads of households are employed, it is more likely that only 23.5% (38 x .62) would actually be able to take advantage of this financing scheme.

S & L Down Payment Financing. As previously noted, S & L loans are currently being made at approximately 17% per annum. At that rate, financing the housing down payment with an S & L and the principal mortgage through BEV would require an income greater than 10,716 Sucres per month due to BEV's policy of requiring that only 25% of monthly income go to housing payments. Therefore, this is not a tenable option for financing Solanda housing.

Financing Half of the Down Payment with Principal Mortgage through BEV. With just over 15 percent of the eligible population currently capable of making one-half of the minimum down payment (see Chart I), examining the option of financing half of the down payment through existing channels, would appear to be a useful exercise.

TABLE 12

IESS FINANCED DOWN PAYMENT AND BEV FINANCED PRIMARY MORTGAGE

(Sucres)

COLUMN A	B	C	D*	E	F
TYPE OF UNIT	SALES PRICE	DOWN PAYMENT	DOWN PAYMENT MORTGAGE IESS/ PRIMARY MORTGAGE BEV	COMBINED MONTHLY MORTGAGE	NEEDED FAMILY INCOME PER MONTH
B2	231,295	34,694	271/1,973	2,243	8,973
B1	283,353	42,503	331/2,417	2,748	10,992
C1	300,558	45,084	351/2,563	2,915	11,660

* IESS down payment financing is illustrated at the first year rate of 8.65% interest over 30 years. This interest rate currently increases to 10.65% over the life of the mortgage. The BEV rate illustrated is the AID/JNV approved graduated mortgage payment plan.

Table 13 represents the four lowest cost housing solutions planned for Solanda. The Table demonstrates the combined monthly mortgage (column E) of one-half the down payment financed through IESS or an S & L and the BEV-graduated mortgage payment, assuming that employed heads of households obtain the half down payment loan through IESS and the self-employed receive support through an S & L cooperative.

As demonstrated in column "F", only housing solutions 'B2' and 'D2', with either IESS or S & L cooperative financing, would allow the employed or self-employed to purchase Solanda housing and remain within the BEV/AID monthly household income policies. In contrast, housing solutions 'A1' and 'B1' financed in the manner outlined above could be afforded only by the employed borrowing through IESS while adhering roughly to the BEV/AID income policies.

Thirty-one percent of the eligible population of women-headed households recorded a total household income of less than S/8,400 per month (Table 1.A, 8% as a proportion of 26%). Therefore, 'B2', the least costly housing solution, can be afforded by only the upper 69% income grouping of the eligible population, with half of the down payment financed by IESS, provided they are employed. Again, since only 62% of the population is employed, only the upper 43% income grouping (.62 x 69%) actually could take advantage of this financing.

For the self-employed, the cost of the least expensive solution, 'B2' would be affordable by only the upper 23% of the eligible population—through an S & L cooperative.

<u>The Need for an Alternative Source of Finance</u>. For the majority of women heads of households, financing one-half of the down payment, let alone 100%, is not viable unless they are employed and can qualify for IESS housing loans.

With 62% of the women heads of households employed, clearly the optimum financing option for them would be to finance 100% of the Solanda housing through IESS. The caveat to this financing option with IESS is the institution's reported low level of loans awarded per annum and the bureaucratic and time-consuming application process.

TABLE 13

IESS/COOPERATIVE FINANCED HALF DOWNPAYMENT AND BEV GRADUATED MORTGAGE PLAN

COLUMN A	B	C	D 1/	E 2/	F 3/
TYPE UNIT	SALES PRICE	ONE HALF DOWN PAYMENT	1. MORTG. IESS 2. MORTG. COOP. 3. MORTG. BEV	COMBINED MONTHLY MORTG. (1+3)AND(2+3)	NEEDED FAMILY INCOME PER MONTH (BEV)
B 2	231,295.3	17,347.2	1. 135.2 2. 431.1 3. 1,972.7	(1+3) 2,107.9 (2+3) 2,403.8	8,431.6 9,615.2
D2	246,730.8	18,504.8	1. 144.3 2. 459.9 3. 2,104.3	(1+3) 2,248.6 (2+3) 2,564.2	8,994.4 10,256.8
A1	280,369.8	21,027.8	1. 163.9 2. 522.6 3. 2,391.3	(1+3) 2,555.2 (2+3) 2,913.9	10,220.8 11,655.6
B1	283,352.9	21,251.5	1. 165.7 2. 528.2 3. 2,416.7	(1+3) 2,582.4 (2+3) 2,944.9	10,329.6 11,779.6

1/ Column "D" Mortgage financing is the financing of column "C" (one-half the down payment); 1) by IESS, assuming 30 year term and first year interest at 8.65%; 2) by an S&L cooperative utilizing financing available through the cooperative bank for a term of five years at 17%; 3) represents the 85% sales price mortgage financing made available by BEV.

2/ Column "E" represents the financing of one-half the down payment by either IESS (1) or an S&L cooperative (2) and with the principal mortgage by BEV.

3/ Column "F" represents the "necessary family income" for the combined housing financing of Column "E", (1+3) or (2+3), according to BEV policy.

Therefore, it seems clear that there is a need for an alternative source of financing to ensure that women-headed households have access to Solanda housing (refer to Chart II for a summary of the preceding analysis).

Chart II

FINANCING OPTIONS

	TOTAL IESS FINANCE	RENT - OPTION TO BUY	FINANCING DOWN PAYMENT		FINANCING ONE-HALF DOWN PAYMENT	
			IESS	S&L	IESS	S&L
Beneficiaries	Employed; income above S/4,500	Income above S/10,203	Employed; income above S/8,972	NONE	Employed; income above S/8,431	Income above S/9,615
Type of Housing	All Options	B2	B2, D2	NONE	B2, D2	B2, D2
% of WHH Who Have Incomes of 7,800-10,716 Sucres ("income eligible")	***	Approximately 23	23.5	0	42	23

***Under this option, all WHH with incomes over S/4,500 and below AID's cutoff of S/10,716 are eligible = 58% of all WHH.

VII. The Potential for a Down Payment Loan Fund

Because no monies have actually been comitted for a housing down payment loan fund, discussions with financial institutions in Quito regarding the management and viability of such a fund were necessarily of a general nature, and per the request of USAID/Quito touched on the institutions' potential contribution to the fund.

A general concern among private bankers was the assumed high costs of administering a second mortgage down payment fund. The loans would be small, e.g., $US 800 to 1000; they would take a second position to the BEV loan; and finally, there would be high costs associated with determining the real capacity of a family to pay for a short-term (1-5 years) high interest loan. Collection costs could also prove to be time consuming and costly. Thus, no bank would utilize any of its own funds without a guarantee.

The Bank of the Pacific would accept a down payment fund only on deposit, to be reinvested and managed by the Bank. However, the Bank would not assume any responsibility to administer the program. The FMJ or some other entity would have to administer the credit fund, drawing down on the account in the Bank of the Pacific.

The General Secretary of the National Association of the Mutualistas of Ecuador (ANME) flatly stated that there are presently no funds in the S & L's and there would be little or no interest in managing a second mortgage fund of this type. The S & L's have been established by and are operated for the middle and upper income family.

A commonly expressed concern by development organizations and private banks was the perceived administrative difficulties of operating a loan window and the costs associated with collections, late payments and "low-income household financial insecurity in these times", etc.

Discussions suggested that, although a down payment fund (assuming a grant to a given S & L) could be managed by an institution, it would be sounder administratively and financially, if first an S & L cooperative were established in Solanda. It was further suggested that any entity managing the fund could capitalize the fund based on interest earned from the credit turnover, assuming the original fund would not be drawn down below a given minimum amount that would remain in a high yielding account accruing interest income to add to the original fund and/or defray administrative costs.

By establishing a cooperative, say an S & L Cooperative in Solanda and borrowing from the Cooperative Bank of Ecuador (truly the only institutional mechanism designed to work with the low-income households) the cost of the money to the beneficiary would be 17.0%, or more. Basically, the Cooperative Bank of Ecuador would on-lend to the Solanda S & L Cooperative at levels 3 to 5 times the Cooperative's savings (earning 12%) within the Bank. The Cooperative Bank would lend at 15% and assuming the local cooperative would require a spread of two percent, the beneficiary would pay 17.0% annually on loans. This system could assist in providing capital for Solanda residents, but at market rates for the money.

Financing one-half of the down payment by an S & L Cooperative at 17.0% over a five year term has been demonstrated (see Table 13). This does not expand affordability of housing in Solanda for women-headed households. Financing 100% of the down payment with a "Solanda S & L Cooperative" credit line would likewise not expand affordability given AID/BEV income policies and the low incomes of the WHH population.

In conclusion, it appears that a down payment loan fund for women heads of households applying to Solanda is neither feasible nor desirable. Rather, a down payment guarantee fund should be established in BEV. As conceived, there would be no loans to beneficiaries but rather a down payment deferment (total or partial) with a monthly savings requirement to ensure that the deferred down payment would eventually be paid to BEV. This option is discussed in more detail in the following section.

VIII. The Recommended Option

It is recommended that a dual approach be taken to housing finance assistance for women heads of households in Solanda:

A Down Payment Guarantee Fund. Further analysis, design work, and fund raising efforts should be undertaken to establish a down payment guarantee fund within BEV. This fund would be utilized as a guarantee against a total or partial deferment of down payments for selected candidates, for up to ten years.

In a manner similar to the operation of BEV's 'Rent with Option to Buy', beneficiaries of the fund would be required to save a given amount per month (accruing interest of, say, 12%) in addition to making the established BEV monthly mortgage payment for a given housing solution. Savings would eventually be used to pay BEV the deferred down payment, at which time the beneficiary's title to housing would be cleared of, essentially, a "second mortgage".

The guarantee fund, deposited with BEV, would be invested at a high long-term rate of return; returns would be used to: 1) defray the administrative costs to BEV of the guarantee program; 2) defray the cost to BEV of foregoing an up-front down payment; and 3) further capitalize the fund.

Assuming that 30% of 8000 Solanda applicants are women heads of households (=2400), and that 26% of these, as indicated by our study, would have incomes between 7,800-10,716 Sucres, 624 women would be eligible for the program. It is expected (see Chart I) that 23% of these women (=144) would have savings and 50% of liquid assets enough to make at least one-half the housing down payment required. Thus, 144 women would require deferment, under this program, of only half the down payment for a total guarantee of roughly $42,000 (17,500 Sucres x 144). Another 30.8% of income eligible women heads of households (192) would require deferment of the total minimum down payment, or $112,000 (35,000 Sucres x 192). Thus the total guarantee fund required would amount to $154,000. A viable pilot project could effectively operate with one-third this amount, approximately $50,000.

<u>A Solanda Multi-Purpose Cooperative</u>. In order to ensure that women heads of households under the guarantee program would be able to maintain monthly housing payments and savings, it is further recommended that a "Solanda Multi-Purpose Cooperative" be developed. This cooperative could be utilized by the 38 percent of women heads of households found to be self-employed, as well as by the total Solanda population, to meet the financing requirements of small enterprises which is so crucial to their growth and, thus, the growth of households' incomes. In addition, the

cooperative could help to develop healthy savings practices among the population that is not engaged in small enterprise or supplementary economic activities. Although all of the self-employed interviewed in this study felt that they could and would maintain their businesses upon moving to Solanda, approximately 30 percent expressed concerns about moving expenses, costs of establishing their businesses in new homes, new marketing costs, and the need for expansion to improve the income capacity of the household.

Added to the costs which would be incurred in a normal move, households generally, and small enterprise households specifically, will be looking to complete and/or expand their new homes to accomodate their workshops, stores, or beauty parlors, etc. A multi-purpose cooperative could help meet their credit needs.

Development of the cooperative and recruitment of members would, ideally, begin immediately so as to be in place prior to the occupation of the first phase of Solanda housing. Discussions with FECOAC (Federation of Cooperatives), which is to some extent interested in participating in such a development, indicated that two three-hour cooperative orientation sessions could be organized for the interested parties. Each participant would receive written materials, brochures, etc., explaining the function, organization and legal responsibilities of a multi-purpose cooperative. During the first year of organization and operation a cooperative general manager (experienced gerente) would be hired full time, as approved by FECOAC and the Cooperative members.

For the purpose of determining start-up costs of the project, it is assumed that 200 of the total women heads of households applying to Solanda would be accepted into the project during the first phase and 80% would choose to join the multi-purpose (savings and loan) cooperative prior to obtaining their home. On this basis, total first year start-up costs and seed capital required is estimated at $25,000 (see Table 14).

TABLE 14

ESTIMATED FIRST YEAR START-UP COSTS
FOR
THE SOLANDA COOPERATIVE

ACTIVITY	PERSONNEL	COST		
Coop Promotion Meetings at 30 persons per Meeting.	Cooperative Trainer	S/ 20,000 (one month training)		
Promotion Materials		4,500		
First Year Full-time Cooperative Manager	Cooperative Manager	180,000		
Secretary		96,000		
		S/ 290,500	=	$ 5,000 (approx.)
Seed Capital*		S/ 1,200,000	=	$20,000 (approx.)
	Total Pilot Project Seed Capital:			$25,000

* The seed capital figure is representative only. Seed capital for the cooperative loans (for the first year) should be determined through an analysis of enterprise and household need and capacity to pay. In addition, membership capacity to save, through the cooperative, should be estimated.