REPORT

on

IASLU - STUDY OF SOCIAL HOUSING FUNDS IN
BRAZIL, El SALVADOR, MEXICO, PANAMA AND PERU

Prepared for:

Office of Housing and Urban Programs

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INTRODUCTION

This study of Social Housing Funds (SHFs) operating in 5 selected Latin American countries was prompted by an AID and IASLU desire to better understand the historically acute cyclical fluctuations in the shelter sector and the use of financial resources as a means of minimizing that phenomenon. For this purpose, information has been gathered on SHFs in the five subject countries and is presented herein in a descriptive manner, with any comparison, evaluation or recommendations to be presented in a second phase of the study.

The study was carried out by Dr. Guillermo Le-Fort Campos, Research-Director of the IASLU and Ramon Undurraga Montes, a consultant to that institution. During visits to Brazil, El Salvador, Mexico, Panama and Peru, data was collected on all aspects of SHFs including:

- legal and regulatory framework
- administrative and operational organization
- source and nature of funds
- recovery of investment
- beneficiaries
- asset/liability composition
- connections with shelter sector, and
- macro-economic impact.

Having recently compiled all this data, proceeding with the second phase of the study involving analysis and recommendations would be convenient, and would convert the study into a useful tool for those formulating and executing finance and housing policies in various countries.

BRAZILIAN YEARS OF SERVICE GUARANTY FUND

1. Institutional Structure and Objectives

In the 1930s, Brazilian workers achieved recognition of their right to stable employment, and with it the creation of pension and retirement institutions. Though these social advances relieved some problems, the right of job stability transformed itself into a source of injustice and social tension, while failing to produce any real improvement in living conditions.

The concept of a job security fund, to which employers contributed directly, evolved over time as a means of achieving more equitable and efficient social relations between employers and employees. In September 1966, such a fund, the Years of Service Guaranty Fund (FGTS or Fund) was established under the administration of the National Housing Bank (BNH). Workers were given the choice of participating in either the old pension and retirement programs or the new one. With the FGTS, employees were assured payment of an indemnification corresponding to the number of years worked no matter what the cause of termination. Rather than a lump sum payment, workers receive monthly remittances from an FGTS account which has built up in their name and is considered their property.

In recent years, Brazil's high inflation rate and system of monetary correction have posed problems for the FGTS since the UPC (the pricing unit for the monetary correction system) failed to maintain the real value of workers' accounts, and courts of law ruled that businesses had to cover the deficiencies.

The FGTS proposes to look after the well being of workers and employers particularly in their old age through its indemnification program based on the amount of time employed. In addition, the FGTS promotes housing construction, especially for low cost households, together with facilitating the acquisition of housing by workers as well as the establishment of commercial, industrial or agricultural enterprises.

The FGTS offers the worker a fund, at no personal cost, providing income for the retirement period, even if the person changed jobs or employer. The worker's account provides for periods of professional transition, unemployment as well as financing of home ownership.

2. Source and Nature of Funds

The FGTS receives no governmental allocations nor any payments from the workers. It's funding consists solely of a compulsory monthly payment by employers equivalent to 8 percent of the worker's earnings. The payment is directly deposited in a bank mutually agreed to by worker and employer in the first 20 days of the month following the subject month of employment. Late payers are fined and required to pay the respective monetary correction factor.

Individual banks transfer the funds to the BNH within a specified period. In certain regions of the country the BNH appoints one bank to collect FGTS contributions from individual depository institutions, and subsequently pass those funds on to it within 7 days of receipt.

Under the FGTS, the 8 percent monthly contribution is paid into a savings account opened in the employee's name. Workers participating in the old pension system have their funds deposited in the employer's name, with all interest income and monetary correction benefits belonging to the employer, until such time as the worker makes a rightful claim to the account. The FGTS presently has 43 million active accounts.

All businesses or employers, public and private must make the 8 percent monthly contribution throughout a worker's term of employment including periods of military service, sick leave, maternity leave and job related injury. The 8 percent remittance is calculated according to the base salary plus any additional compensation such as commissions and bonuses, but excluding items such as travel or equipment allowances.

FGTS funds deposited on behalf of an employee receive trimestral adjustments of the balance to correct for inflation. To accomplish this, balances are stated both in Cruzeiros (Brazilian currency) as well as UPCs, the pricing unit for the monetary correction system. A theoretical currency, the UPC changes periodically according to adjustments in the real purchasing power of the Cruzeiro. As of July 1982, the FGTS has mobilized approximately US$11 billion.

Each adjustment of an account's Cruzeiro balance is made by an interest remittance currently at a rate of 3 percent p.a., with this yield progressively increasing to 6 percent according to an employee's length of service. The interest payments as well as monetary correction adjustments are made by the FGTS itself, with the federal government guarantying individual accounts.

An FGTS account holder can withdraw all or part of the funds, provided it be for reasons legally permitted such as termination of an employment contract, retirement or death. Outside of circumstances such as unemployment, retirement or death, FGTS accountholders may make full or partial withdrawals for the purpose of:

- establishing a commercial, industrial or agricultural enterprise;
- home acquisition (workers with 5 years' service only);
- emergency needs of the worker and his family; and
- wedding expenses for female workers.

3. Management and Administration

The FGTS has no individual legal status, but rather is attached to the BNH which supervises it, and accounts for FGTS operations independent of its other functions. For this role the BNH receives a monthly commission of between 0.1 and 0.2 percent of the FGTS's total value as of the first day of each month.

The FGTS Administrative Council is made up of the BNH President, representatives of several ministries as well as one representative each elected by the "economic and professional sectors." The Council formulates general policy, approves budgets and sets the FGTS's investment strategy.

The BNH handles the details of preparing the FGTS budget and investment alternatives, the focus of which is shelter development. The FGTS covers its own operating costs from the return on investment of its resources.

4. Operations

All FGTS funds should be protected by the monetary correction system; all investments must produce a yield superior to the real cost of deposits received; and all investments must be secured by mortgages. Budgets prepared trimestrally, semi-annually and annually must give priority to housing programs. For this purpose the BNH is authorized to borrow funds from the FGTS at interest rates and maturities determined by the Administrative Council and the BNH itself. These investments by the BNH are protected by the monetary correction system as well. Excess liquidity of the FGTS may be invested in various financial instruments such as Treasury obligations, provided such investments offer monetary correction and sufficient yields.

Investment of FGTS funds can be done either by the BNH itself, or through any number of financial agents including institutions such as specified commercial and development banks and savings and loans (S&Ls). To act in the capacity of financial agent, subsequent to Central Bank approval, institutions sign an agreement with the BNH entitling them to a maximum 1 percent fee on any sum passed through them for reinvestment.

FGTS investments yield anywhere from 1 to 10 percent according to the repayment capacity of the borrower. Loans are granted for 20 years with possible 10-year extensions. More than 2 million families have benefited from the FGTS in the following ways:

a. production of low cost housing;

b. installation of infrastructure facilities in connection with housing projects;

c. urban improvement programs including transportation, sanitation and community facilities;

d. research, training and technical assistance in support of the National Housing Plan;

e. additional financing designed to guaranty the financial equilibrium of the BNH and institutions under its management.

The 8 percent employer contributions as well as interest income on FGTS accounts all enjoy tax exemption.

The FGTS handles about 40 percent of all housing finance in Brazil. Thirty-two percent of the Brazilian population is affiliated with the Fund. FGTS resources satisfy 24 percent of the country's housing needs arising from population growth.

EL SALVADOR - SOCIAL HOUSING FUND

Prior to establishing El Salvador's Social Housing Fund (FSV or Fund), housing finance in that country was handled by various institutions corresponding to different income levels, but largely neglecting the urban and rural private sector working class. The government studied the experience of other countries with a similar problem, especially Mexico, and in 1973 created the FSV as a public credit corporation operating as an autonomous agency within the Ministry of Public Works.

FSV's principal source of funds is direct payments by employers as well as workers, collected by the Salvadoran Social Security Institute, which receives a fee of 1 percent of the total sums remitted. FSV has also borrowed from such sources as the Venezuelan Investment Fund (US$ 19.3 million) and the Central American Economic Integration Bank (US$13 million), and sold portions of its mortgage portfolio to Salvadoran S&Ls to generate further resources.

The basic objective of the Fund is to serve the housing needs of the workers by maintaining a permanent flow of resources for this purpose, and thus avoid adverse cycles further limiting their access to "comfortable, sanitary and safe shelter." An initial non-reimbursable cash contribution by the state was made to establish a capital base for the Fund.

1. Management and Administration

The FGTS has 5 principal administrative groups.

i. Assembly of Governors (AG): This is the chief authority of the institution comprised of 5 different ministers, 2 elected representatives of business and 2 elected representatives of the workers. The Assembly meets twice a year to formulate policy and operating goals in general terms.

ii. Board of Directors (B.D.): Administrative responsibilities are attributed to this group presided over by an Executive Director appointed by the President of the Republic. The Director meets weekly with the B.D.'s four other members named by the AG in order to grant loans, manage personnel and authorize research related to carrying out the Fund's objectives.

iii. Executive Director and General Manager: The Executive Director is the FSV's legal representative in addition to his responsibility for supervision and coordination of all activities. Reporting directly to the Director is a General Manager. The Executive Director's specific duties include:

- call and preside over Board meetings and orient the debate
- supervise general operations of the Fund and communicate Board Resolutions to the Management
- authorize the FSV's financial and commercial operations.

The General Manager's responsibilities include:

- financial management, including production of financial statements and reports
- make recommendations to the Executive Director concerning personnel management.

iv. Supervisory Council: This four member body supervises the proper application of the law to the Fund's operations.

Approval of the FSV's budget at the federal level is handled by the National Accounting Office.

2. Sources and Nature of Funds

The Fund's resources consist basically of the initial US$10 million capital contribution from the State plus subsequent remittances by employers and workers. Additionally, the FSV receives occasional allocations from the federal budget and has incurred debt, especially vis-a-vis certain external institutions referred to earlier.

Employers pay 5 percent of their laborers monthly earnings to the Fund which is supplemented by a 0.5 percent monthly contribution from employees. Together these are credited to an account in the worker's name, earning interest at 0.5

percent paid at the time of a claim on the deposits. Both the monthly remittances and interest earnings are deductible and exempt from income taxes for both employer and worker.

The law exempts federal and municipal government entities and their employees from payment to the Fund, as well as agricultural and part-time or temporary laborers. Statistics on the number of affiliated workers reflect a drop in the number of employees of large firms, only partially offset by the establishment of new businesses during the last several years.

3. Beneficiaries

The beneficiaries of the total 5.5 percent payments are the workers for whom the Fund maintains individual accounts, keeping track of the accumulated balance plus interest. The ultimate use of the funds is the social security of the workers, but in the interim the funds serve to meet housing needs of those affiliated.

Employers remit the full 5.5 percent payment having retained the employee's 0.5 percent portion from his salary to the Social Security Institute (SSI) within 15 days of the end of the month to which the remittance applies. Late remittance by employers is punished by a fine of 1 percent per month. Businesses may not deduct any portion of their 5 percent contribution for which they are responsible from worker pay, and are subject to fines for so doing.

The 5.5 percent requirement is, in principle, applied to all methods of compensation whether full, part-time or occasional labor. Travel expenses, Christmas gifts or unusual allowances, as well as monthly income below US$34 or above US$280 are exempt.

Beneficiaries may withdraw funds in cases of permanent disability, old age, retirement or death. In cases where the worker is indebted to the Fund (e.g. for housing finance) the debt must be retired prior to liquidating the worker's account. Worker deaths account for the largest number of account withdrawals, having increased from pay outs of US$12,471 in 1974, to US$852,000 in 1981.

El Salvador's economic difficulties have caused a net decrease in the number of contributors to the Fund. In order to offset this drop and maintain its level of housing production in 1981, the FSV in 1981 took out a total of US$13 million in loans from the Central American Economic Integration Bank and a US$19.3 million loan from the Venezuelan Investment Fund, of which US$4.8 million had been disbursed in 1982.

At year end 1982 total FSV resources of US$196.9 million consisted of the following:

Source	Amount	% of Total
Employer Contributions	144.3 million	73.3
Worker Contributions	14.5 "	7.3
Government Capital Contributions	10.0 "	5.0

Reserves	10.0	million	5.0
Operating Revenues	3.5	"	2.0
External Financing	14.6	"	7.4
TOTAL	196.9		100.0

Cash generated through mortgage sales to S&Ls and other institutions, figures in the FSV's reserves and operating funds.

4. Operating Scope

The FSV is adequately structured to accomplish its stated objectives. It is capable of financing and constructing housing either directly or by granting loans to workers and businesses, and additionally finances cooperatives and other operations such as building materials companies. The Fund's operations have produced a permanent surplus resulting in an increase in operating capital. This surplus rose from a level of US$1.4 million in 1977 to US$3.479 million in 1982.

The principal operational function of the FSV is to provide adequate housing for contributing workers. Only workers affiliated with the Fund can benefit from it. To achieve this end, the Fund grants 4 categories of loans: direct home purchase, purchase of land, construction of houses, and home improvement.

The law allows the FSV to refinance credit obtained elsewhere by workers, but this has had little application. Most financing is for home purchases (about 80 percent of activity) followed by site acquisition and construction financing.

The Fund has a close relationship with the S&L system. Typically the S&L's finance construction of housing projects with the FSV providing the long term mortgages to workers acquiring units in given developments. Construction companies are able to get short term financing from the S&Ls after obtaining a purchase feasibility certificate indicating the Fund's approval of the project and the contractor's role. The Fund will also grant mortgages on housing developed independently by the S&Ls. The extent to which the Fund supports S&L activity is reflected by the fact that in recent years as much as 65 percent of the units produced by the S&Ls were financed with FSV resources.

Loans originated by the Fund must be secured by a mortgage and comply with guidelines set by the Assembly of Governors. The FSV can develop its own projects for direct sale to affiliates. In 1981, the Fund invested US$21.9 million in housing programs plus US$6.9 million in land for future projects. The Fund has the ability to finance housing constructed by employers, for sale or lease to affiliated workers. Additionally, the Fund will provide financing for direct purchase of units by workers.

The Fund is authorized to administer on a non-profit basis, resources provided for developing housing projects to replace slum areas. FSV programs have benefited more than 23,000 families. The Fund will not finance units larger than 36m2, and maximum loan amounts are set according to salary levels.

5. Characteristics of the Mortgage Portfolio

Loan yields range from 4 to 10 percent with 3/4ths of the portfolio earning 4 to 8 percent. Borrowers' incomes range from US$120 to US$160 monthly, and they generally contribute between 20 and 28 percent of monthly income for debt service. Loans are amortized over 20 to 25 years.

The Fund has both graduated and fixed payment plans, with the fixed payment loans constituting a slightly higher percentage of the overall portfolio. As of December 31, 1982, the Fund was receiving about US$300,000 monthly in payments, and US$5 million, or 3.46 percent of the portfolio was classified as delinquent.

Workers who have received loans from the Fund are to have their debt payments made by employers who deduct the amounts due from salaries. At the time of loan application, the worker gives authorization for this procedure. It us becomes the employer's responsibility to make the mortgage payments and a 1 percent penalty is applied on amounts remitted late.

6. Other FSV Investments

The Fund can finance the creation or development of building materials companies either directly or via the Salvadorian Institute for Industrial Development. The Fund can engage in secondary market activities, for example by selling its own mortgages, or placing mortgage collateralized securities to mobilize greater liquid resources for its operations. The Fund can in turn invest its own excess liquidity in securities. The FSV has the power to buy and sell real estate, stock-shares, or take an ownership position in a corporation, provided these activities are consistent with its functions. The FSV can borrow from the Central Bank or any other financial institution. It can discount its loans to serve as collateral for such borrowings.

7. Macroeconomic Impact

FSV affiliated workers constitute less than 20 percent of the country's economically active population. In 1981, an estimated 18,000 new housing units were needed to offset population growth, and the Fund contributed about 2,800 units, or 16 percent of the total. FSV investments in that year amounted to 0.9 percent of GNP while actual payments of the Fund constituted 0.6 percent of GNP.

The Fund itself pays no taxes, and is exempt from payments of custom duties on imports related to its activities. All real estate transactions financed by the FSV are tax exempt, as are the FSV loans themselves, and all registration charges are waived. All contributions to the Fund and interest earned are free from tax, and deductible from taxable income.

Real property financed by the Fund may not be taxed or transferred without the permission of the FSV. FSV mortgages are considered to be binding, i.e. secured, effective the date of loan approval by the Fund. FSV loans contain an accelaration clause triggered by such points as:

- serious physical deterioration of the mortgaged property
- delinquent payments
- unauthorized sale or transfer of interest in the property, and
- unauthorized use of loan proceeds.

APPENDIX

It has been deemed necessary to attach this Appendix in order to clarify two operational points at the FSV. The first concerns the Fund's inspection responsibilities, which involve visits to places of work to verify that employers and workers are making their requisite monthly contributions. Inspectors have the right to request employment and personnel data to facilitate their task. If employers fail to maintain payroll and personnel records in such condition that inspectors are able to complete their verifications, or if they fail to facilitate the inspections, then the Fund will make its own determinations regarding monthly payment compliance based on information it is able to gather. A fine of up to US$22,000 may be imposed on employers who do not fully comply with monthly remittance requirements or cooperate with FSV inspectors. Fines of up to US$80 can be imposed on workers failing to provide debt and employment information to their employers or the Fund.

The second operational point concerns the settlement of disputes concerning compliance with FSV regulations. In the case of dispute the concerned party presents his complaint to the Fund's Executive Director who in turn names an arbitrator for the case. The arbitrator's decision can be appealed before a 3 person court chosen from the Fund's Board of Directors. The court's decision, whether confirming, revoking or annulling the arbitrator's finding is final.

I. HOUSING FUNDS IN MEXICO

Over the years in Mexico the basic attitude that it is the employer's responsibility to provide workers with suitable housing or pay them a housing allowance has evolved. In 1960 FOVISSSTE (State Workers' Housing and Social Security Fund), a fund to meet the housing needs of public employers, was established. In 1963, two trusts were set up under the Bank of Mexico to facilitate granting of housing credit through State and credit institutions, respectively called FOVI (Bank Discount Fund for Housing) and FOGA (Guaranty Fund for Low Cost Housing Credit).

A government goal of establishing a global approach to housing for the entire working class prompted the creation of a national housing fund within the context of the social security system. Constitutional reforms were proposed to allow all private employers to contribute to such a national housing fund which would make loans to workers for the purchase, construction or improvement of their homes. This was also perceived as a means of stimulating the economy by creating jobs and boosting construction activity. INFONAVIT (Institute of the National Housing Fund for Workers) was established with representatives of the Federal Government, employers and workers, as the agency to manage the new national housing fund.

The following table reflects the respective importance of several of Mexico's housing Funds.

NUMBER OF COMPLETED HOUSING UNITS (1977-1980)

YEAR	INFONAVIT	FOVISSSTE	FONHAPO	FOVI FOGA
1977	20,385	9,263	9,914	11,135
1978	30,463	11,905	24,018	20,239
1979	40,991	6,135	22,137	28,157
1980	37,737	12,137	20,152	28,480

Mexico has had rapid urban growth with an average annual rate of 6.3 percent in recent years. Combined resources of the housing funds total about 1 percent of GNP. Building activity financed by these resources has accounted for about 8 percent of jobs in the construction industry. Twenty-nine percent of the economically active population is affiliated with the various funds.

Institute of the National Housing Fund for Workers (INFONAVIT or Fund)

1. Institutional Structure and Objectives

Established in 1972 INFONAVIT was the first national institution to undertake the task of providing housing for private sector workers. INFONAVIT (Fund) is an autonomous State Corporation with tri-partite management consisting of the State, workers and employers. All INFONAVIT financed construction programs are exempt from Federal district or state taxes.

Upon presenting the bill to Congress for the creation of INFONAVIT, the Mexican President stated that the housing shortage was of such magnitude that "resources of the Fund, especially at first, will not be sufficient to solve it. Along with the Fund, other financial mechanisms and State efforts would be expanded as part of an integrated policy for housing, social security, regional development and urban renewal."

INFONAVIT is governed by a General Assembly, a Board of Directors, an Administrative Committee, a Director General, an Assessment Commission and a Regional Advisory Commissions.

The General Assembly's 45 members exercise the highest powers at INFONAVIT. Fifteen members are named by the President, 15 by national labor organizations and 15 by national employers organizations. They enjoy 6 year terms and are removable by those who named them. Various labor and business organizations have powers to select representatives among themselves according to size and prestige. The Assembly holds semi-annual meetings to address the following matters:

- review of year end financial statements and reserve requirements
- review reports from the Administrative Committee
- review of external auditor's report

- review Director General's report on INFONAVIT activities; and

- review budget and financial plan.

Special meetings may be called in order to review policy and operational matters as is periodically necessary.

The Board of Directors is responsible for direct administration of the Fund. It has 15 members, 5 of whom are selected by the President, 5 by the workers and 5 by employers. Board members may not be members of the Assembly. Their terms are 6 years, and they can be removed by those who elected them.

The Board's powers include:

- formulate investment strategy for INFONAVIT

- set general operations policy

- manage Regional Advisory Commissions

- review and approve the Fund's budget and finance plans (INFONAVIT's annual operating budget may not exceed 1.5 percent of the Fund's resources)

- review the Director General's recommendations for management personnel; and

- formulate lending policies and strategy for managing deposits.

The Board meets twice monthly and on special occasions.

The Administrative Committee has 9 members, appointed by the General Assembly with 3 members from each one of the tri-partite divisions. Committee members may not be on the Board of Directors or the General Assembly. Appointments are for 6 years, and are subject to removal by the Assembly according to a request from the nominating sector. The Committee is authorized to:

- verify that operational activities (use of funds) comply with the law and regulations for the Fund;

- select an outside auditor and present the audit and verification of accounts to the General Assembly; the committee should, where appropriate, reappraise values attributed to the Fund's assets; and

- make operational recommendations to the Assembly and Board.

The Director General is proposed by the President of the Republic and appointed by the General Assembly. The Director is a legal representative of the Fund, and further empowered to:

- submit financial statements and annual reports to the Board, as well as anticipated expenditures, projects and the financial plan for the coming year

- attend Board and Assembly meetings with speaking privileges but no voting rights

- implement Board agreements
- submit to the Board monthly reports on INFONAVIT activities; and
- make personnel decisions.

The workers' representatives to the Assembly have the right to propose a Sectoral Director, as do the employer's representatives. The 2 Sectoral Directors act as liason between their sector and the Director General. They can attend board meetings with speaking privileges but no vote. No member of the Assembly, Administrative Committee or Board of Directors can be a Sectoral Director.

The Assessment Commission has 3 members, with one representing each respective sector of the Fund. Members are appointed by the Board after recommendations of each individual sector.

The Commission is responsible for reviewing, substantiating and resolving any grievance submitted following an act that may have damaged workers or employers. Parties to a complaint have the alternative of seeking resolution of the problem through the regular judicial system, and any disputes relating to a debt of a worker to the Fund must be resolved via the regular courts.

The Commission reviews disputes related in any way to the monthly contributions, such as discrepancies between records of employer and worker, or those parties and the Fund itself.

The Regional Advisory Commissions are composed on the tri-partite basis with one member for each sector. Their membership and jurisdiction is determined by the Board of Directors. The Commissions' functions include:

- recommending site selection and pricing for individual housing projects
- evaluate project proposals submitted to the Fund;
- organize lotteries for selection of workers to receive housing units; and
- supervise terms and conditions of project construction bids, and verify that work is completed according to plans and specifications;

For each Regional Advisory Commission there is a Regional Director named by the Board of Directors who has the following powers:

- implement regulations and agreements of the General Assembly, Board of Directors and General Directorate.
- execute administrative functions in their jurisdiction.

2. Source and Nature of Resources

INFONAVIT capital comes from the monthly private sector employers' contributions equivalent to 5 percent of salaries, as well as recovery on investment of the monthly contributions (i.e. loan repayments), cash allocations and subsidies from the Federal Government, plus any securities or titles which the Fund might acquire.

In 1982, 169,047 employers with 4,889,456 workers made contributions to the Fund. Corresponding 1981 figures were 168,222 employers and 5,252,141 workers.

The Federal Labor Law requires all businesses to furnish comfortable and sanitary housing to their workers, and the 5 percent contribution is the standard means of compliance. The State as an employer is exempt from the 5 percent contribution. Autonomous State corporations and organizations with partial government ownership are obligated to contribute. It is the obligation of the employer to register his business and its employees with INFONAVIT. Workers have the right to request information on their account from their employer or the Fund as a means of verifying that contributions are being made.

At the time of retirement or in the event of disability, workers receive double the total amount contributed. In case of death, the heirs receive double the accumulated sum. Prior to payment, any outstanding debt to the Fund is deducted. Workers fifty years of age or more are eligible to receive the amount in their account if their employment is terminated.

When a worker borrows from INFONAVIT, 40 percent of the funds in his account are used to establish equity (i.e. downpayment) on the property being financed. Over the life of the loan, 40 percent of the employer's contribution is applied progressively against the loan balance. In order to maximize INFONAVIT resources, balances in the worker's account do not earn interest.

In 1982, the Fund returned 273 million pesos to 56,842 retiring workers, 84 million pesos for 3,335 deaths, 50 million pesos for 2,643 cases of disability, and 324 million pesos for 22,228 cases of employment termination. The total paid out was 737 million pesos, representing 1.6 percent of contributions collected.

The 5 percent contribution is based on full pay, including regular wages and bonuses. Travel expenses and equipment expenditures are exempt, as are profit sharing and overtime. The contribution must be paid every two months within 15 days of the end of the 2 month period in question. Payments are made to the Secretariat of the Treasury which, in turn, remits the funds to INFONAVIT within 15 days of receipt.

3. Operations

All of INFONAVIT's operations relate to housing, with the basic exception involving eventual return of contributions to the Fund's beneficiaries, the workers. Fund activities involve:

- financing the acquisition, construction or improvement of workers' shelter

- refinancing debts incurred outside the Fund for the above mentioned purposes; and

- direct financing of housing projects for sale to workers and the acquisition of real estate for this purpose.

In 1982, the Fund made 50,695 loans to finance home construction or improvement. Thirty percent of the loans went to workers earning 1-1.25 times the minimum salary, 37 percent to workers earning from 1.25 to 2 times the minimum salary, and 3[illegible] percent of the loans were received by workers earning more than twice the minimum.

The Department of Treasury has the power to verify proper use of funds by INFONAVIT. All of the Fund's excess liquidity must be invested in convertible government bonds and held by the Bank of Mexico.

Allocation of resources by the Fund must be handled equitably taking into consideration balanced regional distribution, acuteness of need, priority of low income workers, feasibility of proposed projects, and the number of workers and amount of funds contributed by an area or community under consideration.

Worker selection depends on factors such as family size income of both spouses, as well as the design and price of available units. Lotteries are held when the number of qualified workers exceeds available units. Maximum unit prices and loan amounts, as well as the ratio of the loan amount to worker income is determined by the General Assembly. Sales of units must be approved by the Fund. All INFONAVIT loans carry insurance of the borrower's life at the Fund's expense. Land value may not constitute more than 35 percent of the total value of INFONAVIT financed units. Loans carry a 4 percent rate of interest, with terms of between 10 and 20 years.

Financing of projects is evaluated on a case by case basis, with builders submitting bids. Construction loans carry 18 month maximum terms. The Fund does not take responsibility for the administration or maintenance of such projects.

The 5 percent employers contribution is considered a social security tax, and is deductible from taxable income. Contributions to workers' accounts and the eventual doubling of the balance are fully tax free. Any revenues of INFONAVIT are tax free. All projects and individual transactions financed by INFONAVIT are free of tax or duties.

The Secretariat of Labor and Social Security can impose fines of $100 to $10,000 pesos (approximately US$.70 - $70.00) for non-compliance with the laws governing the Fund. Offences include evasion of contribution and misrepresentation in order to obtain credit. Late contributions are assessed a penalty, plus an interest surcharge for the period of delinquency.

II. STATE WORKERS' HOUSING AND SOCIAL SECURITY FUND (FOVISSSTE) - MEXICO

Established in 1960 to serve the housing needs of public workers, FOVISSSTE (Fund) operates quite similarly to INFONAVIT, so only a brief summary is presented herein.

Its basic objectives are to maintain a financial system through which workers can obtain credit for the acquisition, construction or improvement of their shelter, and develop specific housing projects for sale to workers.

1. Management

The Fund is governed by its Board of Directors, Executive Committee and Executive Director.

The Board reviews the budget and financial and operating plans. It reviews FOVISSSTE's financial statements sets, credit policy and manages use of deposits, placing excess liquid reserves in government bonds. FOVISSSTE's annual budget may not exceed 1.5 percent of total resources.

The Executive Committee handles operations, including specific investment decisions, preparation of the budget, work and financial plans, and establishes specific credit criteria.

The Executive Director attends Board and Executive Committee meetings, presenting information and recommendations, including the financial statements and reports on specific activities.

2. Resources

Fund resources include a 5 percent contribution made by public entities based on their worker's salaries, the return on investment of these funds (i.e. housing loans) plus the value of any securities or titles acquired by FOVISSSTE.

Contributions do not earn interest but are deposited on behalf of workers subject to the following conditions:

- when a worker is granted a loan, 40 percent of the funds in his account are used as a down payment on the transaction
- thereafter, 40 percent of the employer's regular contribution will be applied against the loan balance until retired
- once a worker no longer is employed by a public entity, is disabled or dies, the funds deposited to his account shall be paid out less any possible outstanding debt to FOVISSSTE.

The number of workers affiliated with FOVISSSTE grew from 1,068,400 in 1978 to 1,400,500 in 1982. The Fund's loans carry a 4 percent rate of interest with 10 to 20 year terms. In 1981 FOVISSSTE financed 13,455 units, and 17,595 in 1982. The level of investment for those years was 12.4 million pesos in 1981 and 13 million pesos in 1982.

Income and credit requirements, as well as tax related incentives are nearly the same as for INFONAVIT in most cases.

III. FOVI AND FOGA TRUST FUNDS - MEXICO

FOVI and FOGA were established in 1963 as a result of the realization that a portion of savings deposits at financial institutions would be needed to supplement government resources for financing the increased housing demand. The FOVI-FOGA scheme emphasized low cost housing for low income families, but with repayment capacity based on loan amortization over a reasonable period of time, with a durably constructed unit offering acceptable loan collateral to lending institutions. Minimum and low income households have recently received financing of $33m^2$ to $49m^2$ units costing between 986,000 and 1.55 million pesos. Maximum household incomes for these two types of housing are 62,000 pesos and 93,500 pesos respectively.

1. FOVI

FOVI, the Operations and Discount Housing Fund was created within the Bank of Mexico to:

- promote the construction or improvement of low cost housing and direct the investment of credit institutions toward housing programs consistent with the objectives of the National Housing Development Plans

- give financial support to lending institutions to complement their investment in housing finance.

FOVI's resources consist of 3 percent of bank loans and are passed through the Bank of Mexico. FOVI makes this money available to financial institutions subject to investment conditions relating to low cost housing. These institutions assign mortgage collateral to FOVI as security for resources received. FOVI has auditory privileges in order to verify use of its resources.

2. <u>FOGA</u>

FOGA, the Low Cost Housing Guaranty Fund was established simultaneously with FOVI as a trust fund within the Bank of Mexico in order to reimburse financial institutions for costs related to granting credit for low cost housing. FOGA financial support takes the form of:

- providing liquidity in cases of late payment or deficiencies in loan recovery

- discounting interest rates on these operations and subsidizing life and hazard insurance costs.

FOVI and FOGA are administered together under the same management facilitating a more efficient pursuit of their objectives.

3. <u>Low Cost Housing</u>

Criteria for what constitutes low cost housing have been developed regionally in Mexico taking into consideration local environmental factors. The basic goal is to benefit the greatest number of people at minimum cost. A National Low Cost Housing Index sets maximum prices four times yearly, as well as descriptions of unit types and qualifying incomes. Projects already underway are adapted to price changes by adjusting the construction financing and overall budget accordingly. Close communication between FOVI and developer/builders is required for this to be effective.

Mortgages granted by financial institutions for low cost housing are made to both individuals for the purchase, construction or improvement of single or multi-family dwellings, as well as construction firms for housing projects.

Individual loans may be for up to 95 percent of the structure's value, at rates between 10.5 and 14 percent depending on the type of unit. Loan contracts allow for variable rates according to FOVI's cost of resources. Loan terms are from 10 to 20 years, but negative amortization is permitted.

Construction loans for housing projects carry rates between 11.5 and 15 percent p.a. This financing can include the cost of land where the borrower is a government entity. A one time fee of 1 percent can be charged at the time of loan origination.

Project criteria to qualify for FOVI backed credit are published in the Bank of Mexico circulars. Both FOVI and the direct lending institution have project monitoring rights, and FOVI collects a 0.5 percent fee (of project cost) from the lender, for carrying out inspections.

Applicants for home loans must meet the following criteria:

- unit must be owner occupied, and sole home owned by members of the household
- capacity to make down payment and monthly remittances; and
- monthly income must not exceed FOVI program limits as set quarterly by the Bank of Mexico.

FOVI has a technical review process that all project financing requests must pass. The process involves analysis of all project documents for conformity to Bank of Mexico specifications, beyond which the direct lending institution may apply its own criteria. FOVI approval after technical review holds the technicians who prepared project documents responsible for the proper execution of the project.

In 1981 and 1982 FOVI-FOGA accounted for 27 percent and 30 percent respectively of the financing of public sector housing. These trust funds financed 35,961 units in 1981 and 48,600 units in 1982.

IV. LOW COST HOUSING TRUST FUND (FONHAPO)

FONHAPO was created in April 1981, to meet demands for low cost housing recognizing the acute shortage of shelter in this category. Established under the auspices of the National Bank for Public Works and Services (BANOBRAS), FONHAPO (Trust Fund) has received capital from the accumulated assets of the Social Housing Fund up to December 31, 1980, plus contributions from the Federal Government and other public and private agencies.

The Trust Fund finances land acquisition for housing projects, construction and improvement of low cost housing.

The 1983 maximum loan amount was 455,000 pesos. Eligible borrowers include:

- federal, state or municipal institutions
- cooperatives, or
- private organizations having two or more years' experience in public housing construction.

In 1981 FONHAPO invested US$2 million in 10,888 housing loans, and in 1982 this increased to 20,020 loans totalling US$3.5 million.

Applicants must comply with FONHAPO's Operations Manual to qualify their projects for financing. The Trust Fund's rates are set according to project size and cost. FONHAPO allows developers to apply a 2.5 percent fee in order to recover planning and administrative costs from the buyers.

FONHAPO interest rates are adjusted annually according to the institution's cost of funds. Unit purchasers must bear the cost of providing the Trust Fund with life and hazard insurance. The total monthly principal interest and insurance premium payment should not exceed 30 percent of the owner's income.

Borrowers pay a surcharge of 20 percent over their regular interest rate for payments more than 2 months delinquent. Loan terms vary between 5 and 15 years with interest rates of 8 to 13 percent.

FONHAPO also finances the construction of centers for the manufacturing, storage and distribution of building materials. Loan proceeds may be applied with 40 percent going for construction of the facility and 60 percent for acquisition of inventory. Loan terms are for 10 years minimum, at variable rates of interest. A minimum 25 percent down payment is required, and FONHAPO holds title to both the real estate and material inventory as loan collateral. FONHAPO will finance materials centers with the capacity to support at least a 100 unit project, and the centers it finances must sell their products at below market prices.

PANAMANIAN THIRTEENTH MONTH HOUSING FUND

Based on something of a spontaneous precedent by individual employers, in 1971 the Panamanian government passed a law requiring all private businesses (and eventually public as well) to pay their employees a benefit equivalent to one month's salary or wages. This bonus was divided in 3 parts. One part to be allocated to annual education costs, the second part to be retained in a fund to support a housing program for low income households, and the 3rd part paid out as a Christmas bonus.

This law was changed in August, 1983 so that effective in 1984, the second part of the 13th month contribution would be paid directly to the workers, rather than be retained in a fund for housing.

1. Objectives

Originally, this 2nd part of the 13th month (2nd Part or Fund) was held for a period of 10 years during which it would be invested in workers housing programs. The National Mortgage Bank (BHN) was created to use the resources of the 2nd Part in financing these projects, as it has done since 1973. Cutting off the BHN's main source of funds will create serious liquidity problems for the institution.

2. 13th Month Bonus Payments

Both private and public employers have been obligated to pay the 13th Month Bonus in benefit of their workers. Public employees cannot receive more than $400.00 yearly in the form of the Bonus. The Bonus is calculated on base pay, and excludes overtime, travel or other expenses. Bonus payments are deductible from taxable income for employers, but for the workers this exemption does not apply.

Between August 15 and September 15 each year the employers must deposit the 2nd Part with the Social Security Fund (SSF). The SSF in turn must transfer these funds to the BHN by October 1. Total resources collected is about $140 million, with annual earnings running about $20 million in recent years.

The BHN, which also serves as the regulatory agency for Panama's S&Ls, administers the Fund as part of its assets. The BHN transfers the Fund's resources to the ministry of Housing (MIVI) for direct investment in housing projects. The sums received by the BHN from 1973 through 1983 must be repaid to the SSF in corresponding annual remittances beginning in 1984, for use by the SSF in its disability and old-age programs. With all of this money invested in housing loans, generally with terms greater than 10 years, the BHN's repayment obligation will almost certainly exceed its capacity to pay. Accordingly, the BHN is requesting an extension of the repayment requirement from 10 to 25 years. Simultaneously, the BHN is requesting amendments to the Stautes which would enable it to execute its functions as the public sector housing finance agency as well as regulator of the S&Ls much more vigorously and effectively.

3. Housing Loans

Under the past BHN - MIVI relationship, MIVI developed low cost housing projects with BHN funds, and closed individual home mortgages on behalf of workers' families in the BHN's name. These loans carry $7,000 maximums, and once disbursed, property titles and documents are transferred to the BHN. The MIVI actually administers the portfolio acting as collection agency.

Eligible borrowers may not own another home, and must demonstrate repayment capacity for a 25 year loan at 8 percent interest. This system has produced about 3,000 units per year.

The 2nd Part is estimated to have increased Panama's GNP by 0.5 percent annually. Affiliated workers represent about 44 to 46 percent of the economically active population. The Fund finances about 40 percent of the housing demand rising from annual urban growth.

PERU -NATIONAL HOUSING FUND (FONAVI)

In order to maintain a consistent flow of resources for use by Peru's Ministry of Housing and Construction in furnishing shelter to low income families, FONAVI (the Fund) was established in 1979. The Fund's objectives were specifically stated to be:

1. provide housing compatible with the country's level of development according to the demands and income levels of the workers, and

2. increase sources of employment while maintaining permanent growth in housing construction.

1. Sources of Funds

FONAVI receives 3 types of funding: compulsory, optional and operational. Compulsory contributions carry no withdrawal or repayment rights. This obligation applies to employees, workers, FONAVI funded construction companies, building materials companies and the government. These contributions are tax deductible. As of August 31, 1983, contributions to FONAVI totalled about US$108 million.

The optional contributions apply to the self-employed who voluntarily choose to contribute. These funds are not reimbursable either.

Operational resources are those funds obtained by the sale or lease of property built through FONAVI's programs, plus interest earnings on loans and investments, and external borrowings.

a. Compulsory Contributions

All public and private sector employers and workers are obliged to contribute to FONAVI. The worker contribution is 0.5 percent of wages, while the employer pays 4 percent. Special or holiday bonuses, vacation pay and seniority benefits are exempt from application of the 4.5 percent total. Maximum payments of 5 minimum urban wages are set for both employers and workers. Employers are responsible for payroll deduction of employee contributions.

Construction companies building with FONAVI funds must contribute 3 percent of total funds received. This applies to sub-contractors and suppliers involved in FONAVI financed projects. Suppliers also contribute 4 percent of wages paid as employers. Those who choose to contribute voluntarily pay 5 percent of wages up to a maximum of 5 minimum urban wages.

The government contributes to the Fund 20 percent of the annual contributions of all workers and employers. Real property can be transferred to FONAVI by the government, in lieu of cash, to make this contribution. However, this 20 percent equivalency contributed in whatever form, does not exempt the government from contributing on behalf of its own employees.

Remittances must be made to the National Bank (Banco de la Nacion) during the first 15 days of the month following that to which the payment applies. The National Bank credits these funds to the FONAVI account at the National Housing Bank, and receives a fee of 1 percent of sums collected and remitted for its services. The General Bureau of Contributions supervises payment and transfer of these funds.

2. Administration and Management

FONAVI is an organizational unit of the Housing Bank with separate accounting and budget as a means of differentiating its activities and resources from those of the Bank. The Housing Bank as the chief administrator of the Fund receives a fee of 2 percent of annual contributions for its services.

The administrative framework of the Housing Bank, which also serves as regulatory body for the Peruvian S&L systems, carries over to the Fund's operations. Thus the Fund's administration consists of the Bank's own Board of Directors, General Manager, with the latter person heading FONAVI.

3. Operations

FONAVI's principal goal is to provide housing for affiliated workers by:

- financing housing projects approved by the Ministry of Housing and Construction, carried out by ENACE (the National Building Company) based on its contract with the Fund. FONAVI handles the sale or lease of completed units to the workers

- financing home acquisition through the public mortgage system
- contributing to efforts of the Building Materials Bank in areas such as self-help construction and improvement of low cost units; and
- financing of commercial entities within housing projects.

The great majority of FONAVI's resources are applied on ENACE built projects, thus there is little financing of the purchase or the improvement of individual homes. ENACE is an autonomous government agency established for the purpose of implementing FONAVI funded projects. These projects all built on FONAVI owned land are designed to serve low and middle income workers, and designs include sites and services, core units, and 2 or 3 bedroom units. Unit values can not exceed the equivalent of 360 minimum wages (about US$13,000). Priority is given to developing projects outside of Lima, and government contribution of land for this purpose has become increasingly important to FONAVI's operations.

FONAVI affiliated workers purchasing or leasing ENACE built units must occupy the property, may not own other housing, and must have at least one year on the job. No downpayment is required and the purchase price is amortized over 25 years. Mortgage payments are calculated at 1/12th of 5 percent of the current value of the property, and lease payments are based on 1/12th of 3 percent of the current value.

Monthly payments are made via payroll deduction which includes project maintenance and administration fees assessed both homeowners and tenants.

To protect FONAVI resources from inflation, home values are updated annually based on adjustments of the Lima Provincial minimum wage. Principal pre-payments are prohibited except in cases of death, disability, lay-off, resignation, or sale of the property. FONAVI requires life and hazard insurance of its borrowers. Lessees may, after 24 months of occupancy and consistent payments, convert to an ownership plan. Units are allocated through a lottery system.

FONAVI loans carry an acceleration clause triggered by cases of 3 1/2 months delinquency or the use of a unit for unauthorized purposes. All FONAVI loans are secured by mortgages.

FONAVI financing of homes acquired outside ENACE built projects involves a mixture of low rate FONAVI resources with the market rate funds of the financial institution with whom FONAVI has contracted for administration of the mortgages. This system of "social mortgages" as it is called has been suspended due to heavy FONAVI commitments to project financing. Of approximately US$407 million collected by the Fund, US$332 million has been invested, and the balance committed. Participating lenders include the S&L system, the Housing Bank, the Central Mortgage Bank and the Lima Savings Bank. Normally, 30 percent of FONAVI's resources would be allocated for the "social mortgage" program with 50 percent of that figure going to the S&Ls. These loans call for a 10 percent down payment. Seventy percent of the funds disbursed come from the FONAVI contribution, and 30 percent from the lender.

FONAVI resources presently carry a 3 percent interest rate for a 10 year term. The financial institutions lend at a market rate which was running at 63.5 percent in October, 1983. Repayment of social mortgages is according to the terms of the direct lending institution. Participating lenders are paid a 0.5 percent commission based on the sales price for the following services:

- processing and closing the mortgages

- providing security in structures awaiting occupancy

- preparing by-laws of ownership associations and delivery to the association all common facilities

- securing mortgage and hazard insurance policies.

FONAVI is empowered to issue bonds in the name of the Housing Bank for sale to the Social Security Administration, insurance companies or in the capital markets in general. The Fund may, under the auspices of the Housing Bank, incur internal or external debt.

As of August 31 1983, FONAVI had invested US$70.7 million in rental housing, and US$399 million in 161 projects to construct units for sale. This included 8,198 single family units, 13,134 apartments, 3,292 core units and 1,148 sites and services.

4. Borrower Eligibility

FONAVI has a detailed housing allocation process covering project promotions, applicant registration and pre-qualification, the lottery, and loan closing.

Ten percent of the units in each project must go to education personnel. Any of the financial institutions participating as direct lenders on a project are also authorized to handle the procedures of the allocation process. The principal elements of the process involve the following:

A. Promotion - whereby at least 10 days before applications are accepted, the lending institutions must publicly announce basic data concerning the application procedures, description of the project and units, income requirements and lottery date.

B. Application - Interested persons may obtain application packages at the publicized sites, and submit the information assuming they meet minimum eligibility criteria such as affiliation with FONAVI, one year on the job, no ownership of other housing and minimum income levels. Those who meet the pre-selection criteria have their names published in lists.

C. Lottery - A lottery is then held under the supervision of a Notary Public to select housing recipients at random. A list of those selected, as well as alternates is published along with the financial institution to whom they should go for loan processing. Selection of the lender is based on preference of the applicant.

5. Final Processing and Loan Closing

Selected recipients must comply with the specific requirements of the lender, and will be replaced by the alternate if they fail to qualify. Sales and mortgage loan agreements prepared according to the Housing Bank's format are prepared by the lender.

All compulsory contributions to FONAVI are tax deductible, as are bonds issued by the Fund. All FONAVI financed houses are exempt from real estate taxes.

Nationally, FONAVI provided about 25 percent of the investment in housing in recent years, meeting about 9 percent of housing demand arising from urban population growth.

ANNEX 1

ARGENTINA - NATIONAL HOUSING FUND (FONAVI or Fund)

FONAVI was created in 1972 under the auspices of the Secretariat of Housing and Urban Development. The Fund's resources include 47.73 percent of resources collected by the National Revenue Agency, donations or grants, revenue from certain economic sanctions as well as return on its own investments.

FONAVI invests in:

- construction of housing for low income families
- infrastructure services for low income areas, and
- research and development of technical and socio-economic programs.

In the first half of 1983, FONAVI financed the construction of 136,000 housing units for low income recipients, (what they probably mean is 136,000 total units as of the first half of 1983).

ANNEX 2

COLOMBIA - NATIONAL SAVINGS FUND

The National Savings Fund (NSF or Fund) was established in 1968 as part of the Ministry of Economic Development. Initially administered by the Central Mortgage Bank, it later became autonomous in this respect.

Its objective has been to manage unemployment programs for public sector agencies, excluding the armed forces. Some 155 entities are affiliated with the Fund.

The Fund provides unemployment assistance equal to one month's wages for each year employed. The NSF invests in housing in order to provide shelter for public employees while protecting its Fund's purchasing power.