
SECONDARY MARKET FOR MORTGAGE PAPER IN PANAMA

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1. Purpose:

To review the appropriateness of encouraging a secondary market for mortgage paper.

2. Conclusion:

a. Due to recently passed legislation (March 85) fixing mortgage interest at subsidized rates for houses up to \$50,000, investments in this mortgage paper is only marginally more attractive than a pass book deposit in a savings bank and less attractive than a time deposit.

b. However, paper backed by "old" mortgages or mortgages over \$50,000 would make an attractive investment for the public.

c. Legislation appears to be in place which supports the formation and development of a secondary mortgage market. Of special mention are:

1. The tax free nature of investment income managed by the BHN

2. The government guarantee of the instrument
However the law still need clarification

3. Recommendation:

Support the formation of this market

4. Constraints

a. Banks are extremely liquid and may prefer to be direct holders of mortgages due to improved rate considerations. Since they are the largest generators of mortgages and would probably be the largest institutional buyers of secondary paper any reluctance on their part could doom the market

b. In a tight money environment, banks could view the secondary mortgage market as a disintermediating force and could resist the formation of the market. (The tax free nature of the investment makes the return better than that of T.D.'s and the government guarantee makes it safer since there is no insurance of deposits in the banking system in Panama.

Discussion:

All individuals interviewed believed that a secondary market for mortgages under the auspices of the BHN would be a benefit. If properly packaged they tax free nature if the investment and the government guarantee would attract small as well as institutional investors. Presumably banks could sell mortgages held in portfolio to the BHN thus creating liquidity in times of tight cash. The only negative aspects were voiced by banks fearing disintermediation. However the potential size of the market (maximum \$100MM, realistically \$30MM to \$40MM puts this fear in the realm of phantasy).

The law implementing a secondary market has recently been changed and needs clarification. This does not seem to be an overwhelming obstacle. The benefits of such a market far out weigh any objections. Certainly this is the first step toward

the creation of a publicly traded capital market.