

PROJECT TITLES

PRIVATE SECTOR LOW COST SHELTER

515-HG-007

USAID/CR/GDD

4. EVALUATION UNIT: (Enter the number maintained by the reporting unit, e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) 87-2

REGULAR EVALUATION SPECIAL EVALUATION

A. KEY PROJECT IMPLEMENTATION DATES			B. ESTIMATED PROJECT FUNDING		C. PERIOD COVERED BY EVALUATION	
A. First PRO-AG or Equipment FY 1983	B. Final Obligation Expected FY 1987	C. Final Input Delivery FY 1988	A. Total \$ 24.3	B. U.S. \$ 20.3	From (month/yr.) 3/83	To (month/yr.) 9/86
					Date of Evaluation Report 9/86	

B. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., program, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
1. Request DECAP/BANHVI to provide U.S. AID with cash flow projections supporting the following: a) Use of the remaining \$6 million to be contracted under 515-HG-007. b) Conversion of remaining amount of \$5 million ESF loan (K-040) into mortgage portfolio. c) Liquidation of \$4 million advance under 515-HG-007.	MHO/GDD Jeffery Boyer, with manager of DECAP or BANHVI	August 31, 1987
2. Prior to the disbursement of the \$6 million DECAP/BANHVI and the S&L should take the following actions: a) Determine the cost of their operations, margins required to cover their operating costs and resources. b) Evaluate the borrowing and on-lending rates between BANHVI and the S&Ls with the intent to strengthen the SNAP?	MHO/GDD Jeffery Boyer, with manager of DECAP or BANHVI	September 30, 1987
3. Contract technical assistance to undertake a comprehensive analysis of the major problems of SNAP and each S&L association to examine the following: Cost and profitability of their operations, mobilization of resources with a special emphasis on low-cost savings their loan delinquency rates and related factors affecting these operation and repossessed properties owned by S&Ls. Develop a long-term strategy to achieve the revitalization and financial stabilization of the SNAP.	Jeffery Boyer, MHO/GDD with Manager of DECAP/ BANHVI	August-December, 1987

B. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

- | | | |
|---|--|--|
| <input checked="" type="checkbox"/> Project Paper | <input type="checkbox"/> Implementation Plan e.g., CPI Network | <input type="checkbox"/> Other (Specify) _____ |
| <input checked="" type="checkbox"/> Financial Plan | <input type="checkbox"/> PIO/T | _____ |
| <input type="checkbox"/> Logical Framework | <input type="checkbox"/> PIO/C | <input type="checkbox"/> Other (Specify) _____ |
| <input checked="" type="checkbox"/> Project Agreement | <input type="checkbox"/> PIO/P | _____ |

12. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

- A. Continue Project Without Change
- B. Change Project Design and/or Change Implementation Plan
- C. Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

Jeffery Boyer, Mission Housing Officer/GDD
 Roberto Cossani, General Manager of Banco Crédito Agrícola de Cartago (DECAP)
 Luis Salas, General Manager, Mutual de Ahorro y Préstamo de Cartago

12. Mission/AID/W Office Director Approval

Signature: *[Signature]*
 Typed Name: Richard K. Archi
 Date: 6-24-87

EVALUATION COST DATA

USAID/ Costa Rica or Bureau/Officer _____

Form completed by Jeffory Boyer GDD 12-06-87
Typed Name Office Date

1. No. and Title of Project/Activity: EVALUATION OF PROJECTS 515-HC-007.
(or Title of Evaluation Report) 515-0188 ESF K-040 and financial position
of the Savings and Loans System in Costa Rica.

2. Date of Evaluation Report: September 1986
Date of PES (if different): _____

3. Mission Staff Person Days Involved in this Evaluation (estimated):
2 Professional Staff 24 Person Days
1 Support Staff 30 Person Days

4. AID/W Direct-Hire or IPA TDY support funded by Mission (or office) for this evaluation:

<u>Name</u>	<u>Period of TDY (Person-Days)</u>	<u>Dollar Cost: (Travel, Per Diem, etc)</u>	<u>Source of Funds*</u>
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5. Contractor Support, if any, for this evaluation:**

<u>Name of Contractor</u>	<u>Contract #</u>	<u>Dollar Amount of Contract</u>	<u>Source of Funds*</u>
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*Indicate Project Budget, PD&S, Mission O.E. or Central/Regional Bureau funds

**IQC, RSSA, PASA, PSC, Purchase Order, Institutional Contract, Cooperative Agreement, etc.

EVALUATION

PROJECT 515-HG-007

"PRIVATE SECTOR LOW COST SHELTER"

1987

13. SUMMARY

A. Introduction

The Project successfully supported AID's long-term strategy in Costa Rica emphasising greater reliance on the part of the public and private financial system for mobilizing increased local resources for the shelter sector and to expand the role of the private sector in both the mobilization of internal resources and the production of housing solutions with minimum subsidies for families below the median income.

During a critical period in Costa Rica's economic development the project contributed to amelioration of, if not a definitive solution to, the financial crisis facing the National Savings and Loan System or SNAP (the S & L associations) and the central regulatory organism the "Departamento Central de Ahorro y Préstamo del Banco Crédito Agrícola de Cartago, (DECAP). These institutions were confronted with substantial losses due to the sharp rise in the cost of short-term resources and the fixed rate on mortgage loans. This negative spread on their financial operations plus the losses suffered from the low returns on existing mortgage portfolios threatened the financial existence and the continued viability of the S & L system. Furthermore, access to external resources was shut-off due to Costa Rica's inability to meet its foreign debt obligations. Without AID assistance, the S & Ls would have disappeared in the period after 1982.

To assist the Costa Rican Savings and Loan System under these difficult circumstances this project contained two major components to deal with the problems: 1) a \$20 million Housing Guaranty loan complemented by a local counterpart of \$4 million to be mobilized by the S & L associations; and (2) a \$300,000 development grant for technical assistance and training.

B. Major Conclusions

B.1 Major Achievements

The project has had a substantial impact in the following areas: (1) enabling the S & L system to mobilize a considerable amount of private capital and domestic savings, thereby contributing to improve profitability and increase net worth; (2) a revitalization of the construction industry as evidenced by the widespread participation by private developers in the program; (3) a permanent change in expectations for shelter, as indicated by reduced construction standards that have gained widespread acceptance by consumers, developers and financial intermediaries, and (4) prompting debate within Costa Rica on steps required to further strengthen the housing finance sector culminating in the recent establishment of the Banco Hipotecario de la Vivienda BANHVI. Overall the project has enhanced the adaptability of the SNAP to operate more effectively in the face of changing economic conditions.

The task, however, is not yet complete. The SNAP still is beset by serious deficiencies which will need to be addressed if the large goals of reduced dependency on external resources is to be realized. Among the areas requiring additional attention are: (1) Asset and Liability management; (2) reduction of administrative inexperience; and (3) improved quality of credit portfolio management.

The Mission's strategy is to focus assistance on BANHVI as the vehicle for channeling both technical and capital resources to the shelter sector including SNAP. In this context, discussions currently underway with BANHVI are focussed on a final determination with regard to how the \$6 M uncontracted of the 515-HG-007 project could be used to further strengthen the financial situation of the system.

The SNAP was severely decapitalized in 1982, before the implementation of programs 515-HG-007 for \$20 million and the infusion of financing on soft ESF terms of the loan 515-K-040 for \$5 million.

- This financing plus the Technical Assistance Grant provided SNAP the funds and support necessary for it to generate new resources, e.g., free savings, time deposits, stock exchange operations, and to register a profit thereby, strengthening their net worth.
- This positive impact of the AID programs on SNAP served to stabilize their financial condition and encouraged their growth. This allowed them to continue to perform their main function of producing loans for lower and middle income families, both through their own resources and with the long term financing available through the Housing Program.
- Loan production has advanced at an adequate pace with less progress shown by the home improvement loan component.
- The financing of 515-HG-007 was well planned. Once the borrowing terms were known, however, the effects of the 3 year capitalization of interest should have been more closely evaluated. This capitalization condition reduced to some extent the beneficial financial effects that the program should have had on SNAP, mainly DECAP.
- The infusion of term money with soft interest rates through ESF 515-K-040 could have been for greater amounts at the time it was put through DECAP, and under conditions more favorable to the S & Ls. rather than to DECAP, to provide a longer lasting benefit to the S & L Associations.
- DECAP should evaluate its on-lending rates (007 and 040) to the S & Ls, to transfer a larger portion of the spread to them; otherwise, the expected capitalization effect of these loans will take longer and will be affected by inflation, since the SNAP assets will lose their real value over time.

-- In spite of the improvement noticed in SNAP as it stands today, probably it would be unable to continue its trend of growth if additional financing, on soft terms, is not added to the presently existing uncontracted balance of \$6 million remaining in the 515-HG-007 Program.

Selected Financial Indicators of SNAP
(1982 - 1985)

Investment in Millions of Colones

	<u>1982</u>	<u>1985</u>	<u>Change</u>
Total Liabilities	1,404.8	4,059.9	2,655.1
Net Profit	-19.6	39.2	19.6
Net Worth	-21.0	117.6	96.6

The above figures show the considerable progress made in such a short time: from August, 1983, when the first AID funds were delivered, to December, 1985, when this comparison was made. However, it must be explained (as shown below) that this recovery is still not enough to achieve SNAP's final stability.

B.2 Major Problems Encountered

National Economic Situation:

At the time the 515-HG-007 project was starting-up (1983) SNAP was suffering through a major recession that had begun in Costa Rica's economy in 1980. Despite having financed an accumulated total of 37,777 mortgages since the system's birth in 1969, the country's unfavorable economic conditions had caused SNAP's mortgage financing activities to sharply decline from a peak of 4,432 mortgages generated in 1979 to only 1,392 mortgages in 1983.

Furthermore, this crisis brought about a strong increase in inflation which, in turn, dramatically affected the people's capability for repaying loans, and to save and invest. This was a serious set-back for the development of the project, which was to try to reach the people in the lower income brackets.

Popular Views on Housing in Costa Rica

Up until the inception of Project 515-HG-007, both the builders and finance companies, and the beneficiaries of low-cost housing had a deeply ingrained concept of shelter. Up until that time and for several decades, government administrations, on the basis of completely demagogic political stands, had imbedded into the Costa Rican people the idea of a minimal shelter consisting of 60 square meters of construction on 200 square meter lots. This has perhaps been the most difficult situation to overcome in the implementation of the project.

Project Design Problems:

During the implementation of the Project, practical experience made it necessary to make certain changes in the original design. For example, the component for "Housing Improvement Loans" was reduced to 50% of the amount originally set in the PP for that purpose. The original allocation of \$10 million (50% of the total HG loan) was reduced to \$5 million. The limited demand shown by low-income families for home improvement financing was due to the fact that most of them already had to repay a mortgage on the house they bought or built and their family income was not sufficient for them to pay an additional loan obligation. In other words, it was a question of income affordability. Another change made in the Project was in the family-income targets. The PP established a 25th income percentile as the average home improvement financing. During implementation the 50th income percentile was set as the upper limit, mainly due to the fact that few families at the 25th percentile level owned their own home and therefore little demand existed for loans to financing improve houses. Furthermore, the three components of the project for buying a lot, for buying a lot and building a home, and for buying or building a home, were changed to two categories; that is, from the 0 - 35th percentile and from 36th to 47th percentile. The three categories set by the PP were aimed at the 0 to 25th, 26th to 35th, and 36th to 47th income percentiles.

Limitations of Law 4338 governing activities of SNAP:

The PP included outputs which could not be attained without introducing changes to Law 4338. This included: that DECAP would make profound changes in its policies and directives to the SNAP; that DECAP would issue new regulations for the use of interest rates; that DECAP, together with the SNAP would diversify their operations to become more profitable in new lines of credit, etc.

SNAP, that is DECAP and the S & Ls have only slight political influence at the national level. For this reason, they did not influence the National Assembly to make the above changes in Law 4338 and therefore, the aforementioned objectives have not been achieved. However, the efforts made

toward this end ultimately supported the enactment of an entirely new piece of legislation on housing in Costa Rica, which has created the "National Housing Financing System", which is made up of the "Banco Hipotecario de la Vivienda", (BANHVI) as the main entity, and of the authorized entities provided for in the Law. The present SNAP will have a special status among these entities, and DECAP will become part of BANHVI. This new national legislation gives the SNAP greater operating flexibility. For example, in the future as a measure for diversification, the SNAP will be allowed to provide interim construction financing for home building, i.e., financing for constructors to build homes and sell them to interested parties who obtain long term mortgage loans to buy them. This new law also gives BANHVI capacities to instruct and control the entities, which DECAP never had.

14. EVALUATION METHODOLOGY

The evaluation has been conducted under the direction of the Chief of RHUDO/CA Lee Denison Roussel and Jeffery Boyer, Mission and Regional Housing Officer assigned to Costa Rica, by Eliécer Fernández, RHUDO/PSA and the Economist Elena Wachong. The field work for this assignment took four weeks which started on September 1, 1986. The consultants appreciate the assistance and cooperation given to them by Mission's staff and officers of DECAP, and the Savings and Loan associations.

The objectives of the evaluation were:

- 1) Evaluate the implementation of the program with respect to pre-established goals as defined in the Project Paper (PP), Logical Framework Implementation Plan, Memorandum of Understanding (MOU), etc;
- 2) Determine the key factors that have played a major positive and/or negative role in the execution of the program;
- 3) Review the hypothesis stated in the PP and MOU and their planned targets, given Costa Rica's shelter conditions, and compare them to the actual situation;
- 4) Evaluate the appropriateness of the program's initial design and projected outputs, and subsequent changes that have been incorporated to facilitate program implementation; and
- 5) Assess the performance of the various institutions including AID, DECAP, S & L Associations Mutuales and others that are involved in implementing the program.

The consultants made their evaluation in coordination with DECAP and with each of the S & Ls making up the National Savings and Loan System of Costa Rica, and the Mortgage Department of the Banco Crédito Agrícola de Cartago,

the latter also being considered as a S & L for the purposes of the program. The sources of information used were used were: the files of the RHUDO Project and of USAID/CR (GDD); the documents and accounting records on the project kept by DECAP and by each S & L; and visits conducted with representatives of all of the above mentioned entities. Furthermore, additional and updated information was requested of DECAP and the S & Ls, including a projection for the use of the \$6 million still to be contracted out of the total \$20 million authorized.

15. EXTERNAL FACTORS

A. Inflation and Cost of Living

Prior to 1981, Costa Rica's economy was relatively stable, with an inflation rate of less than 20 percent and an unemployment rate of less than five percent. The year 1980 marks the beginning of one of the toughest economic crises the country has undergone in recent times. Economic growth in 1980 was in the order of 0.8 percent, and in 1982 there occurred the deepest drop in this period, down to -7.3 percent.

This crisis is revealed in the decrease in real income and in consumption; and an unprecedented increase in inflation, which exceeded 90% in 1983. Employment dropped sharply during this period and the unemployment rate doubled, from 5% to about 10%. These severe macro-economic conditions have affected the shelter sector especially in terms of higher construction costs and escalating interest rates.

Increases in construction costs are frequently cited as a obstacle to project development. In 1978 it was estimated that costs for solutions ranged from ₡5,740 (\$672) for some home improvements to ₡23,750 (\$2,780) for a lot and a basic core unit, using and exchange rate of ₡8.50 to US\$1.00. The most expensive solution was estimated to be affordable to a family earning ₡1,667 per month, which was calculated at that time to be affordable to families at the 35th income percentile in the Metropolitan Area of San José.

The inflation factor used in calculating unit costs during the period 1979-1982 was 15.6 percent per year. It was assumed in the PP that all unit types would be affordable up to the 45th percentile of the median income. However, actual inflation in the construction sector was 20 percent in 1980, 64 percent in 1981, 85 percent in 1982, and has since declined to 15 percent in 1983, and 12 percent in 1984 and 1985.

B. Housing Affordability

While construction costs have increased by about 200 percent over the past five years, various estimates of the median income for households during the same period showed an increase of more than 500 percent. The median income

was established at ¢3,193 in 1980, ¢4,400 in 1981, ¢6,250 in 1982, ¢7,690 in January 1983 and ¢13,000 in July 1983, ¢14,400 for the first half of 1984 and ¢22,901 in the second, and for the first half of 1986 ¢23,260 and ¢23,620 in the second. This rapid increase of the median income facilitated the project's development at the upper income range (45% percentile level). However, lower income groups were more adversely impacted because salary increases did not keep pace with other cost of living factors, forcing many potential buyers out of the housing market.

16. INPUTS

A. Summary of Inputs

1. AID:

- a) LONG TERM LOCAL CURRENCY LOANS: The \$14 million in HGs have been obtained at loan interest rates below those of the local market, which has allowed the SNAP to cover most of their operating costs. These resources are being directed to benefit families below the median income.
- b) WORKING CAPITAL: In order to quickly reverse the substantial losses suffered by the SNAP (1981-1983) due to inflation and the higher cost of funds, a \$5 million ESF loan was provided. This working capital at favorable interest rates provided the SNAP with profits to overcome the loss of earnings caused by previous fixed interest rates on old mortgages. (Annex II)
- c) TECHNICAL ASSISTANCE: These combined resources, supported by a technical assistance grant of \$300,000 to overcome operational weaknesses of the SNAP, have allowed the SNAP to continue its operation and to partially meet a portion of the shelter needs of medium and lower income groups in the country. (Annex III)

2. Mobilization of Local Resources: \$12.0 million
- 1) Free savings with lower cost 4.8 million
 - 2) Other savings 7.2 million

B. Project Paper Statement of and Their Relation to Specific Problems

Problem: Limited production for the target group.

- o Input: The HG resources are being directed to families below the median income. Moreover, the program is designed to have at least \$4 million in internal resources of the system directed toward the same target group. (See "Outputs" New Housing Solutions).

Problem: Lack of financial policy which takes into account cost of resources.

Input: The HG resources would be loaned to the Central Bank of Costa Rica (BCCR) which in turn would onlend to DECAP in local currency. BCCR's rate to DECAP is estimated at 15 1/2% which includes 1/2 percent for BCCR's administration. The grace period and repayment period of the U.S. loan (10 and 25 years respectively) would be held constant in the BCCR-DECAP relationship. DECAP would provide HG resources to the system at a cost of 18%.

The active rate of interest used in the program's design and which is reflected in the cash flows in the Project Paper was 23.5%. This rate of interest takes into account the rate of return on the present portfolio, the cost of HG funds, the estimated cost of internal resources, and estimated increases in administrative costs expected from diversification. The rate of 23.5% would be the minimum needed by the associations to establish an equilibrium and to start to accumulate a surplus for reinvestment. The planning process initiated during the program's design stage will continue through the period of implementation, supported by short and long-term technical assistance. (See "Outputs" Financial Planning)

Problem: Heavy dependency of DECAP and SNAP on high cost external loans.

o Input: An initial advance of \$4 million of HG resources was made. Additional disbursements of the HG resources were made on the basis of (1) evidence that loans to low-income families have been completed in an amount equal to the disbursement requested; and (2) evidence that the system is generating internal savings in an amount adequate to meet the target of \$12 million by the time of the last disbursement. The HG input not only supports the production of low cost shelter, but also encourages the generation of internal resources. (See "Outputs"-Mobilization of Internal Savings.)

4) Problem: Lack of policy for diversified lending.

o Input: As a condition precedent to the first disbursement of \$4 million, DECAP must issue proper regulations formalizing the different lending activities the associations can undertake under the present governing law. The shelter typology affordable to families below the median income represents one new lending area for the system. But other diversification efforts are critical to the success of the savings mobilization program. (See "Outputs"-Mobilization of Internal Savings and Diversification).

5) Problem: Some associations are operating below acceptable margin levels.

- o Input: The HG program required efficiency from the system. The associations which generate savings and produce loans for the target population received the bulk of the resources. The technical assistance was designed to help the associations with management difficulties, but they will be rewarded only when performance proves that savings and loan production has improved. (See "Outputs" Improved Productivity)

17. OUTPUTS

A. New Housing Solutions and Mortgage Loans

- o PP proposed: New types of shelter solutions for low income families. Approximately 16,000 shelter solutions, 8,700 new solutions and 7,300 home improvement loans.

- o Result:

As has been explained in other sections of the report, the inflationary impact between the years 1980 and 1983 pushed up the the construction cost indexes from 15% to about 90%, which obviously reduced the overall number of units to be financed. At present, it is estimated that the number of units financed will be 60% of the number estimated in the PP.

Until AID started to cooperate with SNAP, the minimum type or size used in Costa Rica was a shelter with a minimum area of 54m², and only in some programs of the GOCR had a smaller unit been made, and only a few of such units.

As the program has begun to be implemented, both the users of the shelters and the builders have been gradually accepting the idea of smaller units, and already, quite a few units of less than 36m² have been built and sold. Furthermore, there has been a serious effort on the part of builders, to improve design creativity, building methods, etc., since competition is increasing in the construction and marketing of low-cost housing units.

Up until the beginning of the HG-007 program, Costa Rica's SNAP had carried on its housing financial activity largely on the basis of individual operations without acting on the housing producer i.e., without promoting among builders or developers the mass production of units which could later be acquired by the beneficiaries of the system's mortgage loans.

This situation was a problem in the implementation of the program since there were no housing units for sale and consequently it became necessary to promote the construction of homes for sale, for which purpose the S&Ls had to activate the productive sector by promoting low-cost housing projects on a larger scale. This situation has been improving gradually.

Project after project has been started, construction has increased and thus the necessary supply has been created to meet the demand brought about by the new funds that have become available to the S&Ls for financing.

Many developers and builders are beginning to realize that the lower income market is profitable and therefore, are producing lower cost solutions as long as the financing is available.

The program was originally designed to allocate a larger portion of the funds for the target group up to the 25th percentile of the income scale. Actual experience showed that there was limited effective demand at this level due to: 1) high originating costs of a loan; 2) requirement of 10% downpayment; and 3) the limited payment capacity of a family with repayment of the loan for a serviced lot while they still had to pay rental costs. As a result, the plan had to be modified. Subsequent revisions as shown below have made the program feasible as the SNAP learned to operate in the changing housing market.

ORIGINAL IMPLEMENTATION PLAN AND SUBSEQUENT REVISIONS

	Original Plan	First Revision 2/85	Second Revision 10/85
<u>Typology I (New house loan)</u>			
0-25 Percentile			
Amount	6,000,000	6,000,000	
% of Resources	24%	24%	
Projected Units	4,086		
<u>Typology II (New house loan)</u>			
26-35 Percentile			
Amount	3,000,000	6,000,000	
% of Resources	12%	24%	
Projected Units	1,316		
<u>Typology I & II (Previous)</u>			
0-35 Percentile			
Amount			10,000,000
% of Resources			40%
<u>Typology III (New house loan)</u>			
36-47 Percentile			
Amount	6,000,000	8,000,000	10,000,00
% of Resources	24%	32%	40%
Projected Units	2,003		
<u>Typology IV (Improvement loan)</u>			
0-25 Percentile			
Amount	10,000,000	5,000,000	5,000,000
% of Resources	40%	20%	20%
Projected Units	6,211		
0-50 Percentile			
Total Resources	25,000,000	25,000,000	25,000,000
Projected Solutions	13,616		

As of September 30th, 1986, the SNAP had generated 4,081 loans, counting the loans being processed which are already guaranteed by FHA. These loans have been distributed among the various typologies shown above, as follows:

NUMBER OF UNITS AND INVESTMENT LEVEL PROVIDED

<u>Housing Typology</u>	<u>No. Units</u>	<u>Amount Invested</u> <u>Investment</u>	<u>Percent of</u> <u>%</u>
I y II	2,021	¢313.128.318.85	45.5
III	<u>1.120</u>	<u>299.630.723.12</u>	<u>43.1</u>
Subtotal	3,141	¢612.759.041.97	88.2
IV	<u>940</u>	<u>81.945.922.25</u>	<u>11.8</u>
TOTAL	4,081	¢694.704.964.22	100.0

Using an average rate of exchange of ¢55.00 per \$1.00, the ¢695 million mean \$12.6 million, which represents 50% of the project total, which amounts to \$25 million, counting HG and the local contribution.

DECAP and the S & Ls received ¢640.6 million in AID disbursements. The total value of the loans generated with FHA certificates at an 80% discount rate is equivalent to ¢555.8 million, thus leaving ¢84.8 million or 13.23% of the total disbursed to be generated to liquidate the \$14 million contracted, including an advance of \$4 million.

Loans Generated by SNAP vs Loan Disbursement
(In Thousands of Colones)

Total amount disbursed to DECAP/Mutuales by AID \$14 million including advance for \$4 million:	¢640.600
Total value of discounted loans generated-80% of ¢694.7:	¢555.8
Total value in loans at 80% to be generated to cover the total amount of \$14 million:	¢ 84.8

The S & Ls are facing difficulties in complying with the home improvement component program which was identified to some extent as problematic in the Project Paper mainly due to the following:

1. Home improvement loans are made to individuals that already own a house which may need some kind of improvement. These financial transaction in most cases, require a second mortgage obligation which the person may not want to assume under the present unstable economic conditions in Costa Rica.
2. An applicant for a home improvement loan may not be eligible if his/her payment for the first and second mortgage exceeds the 25% of income eligibility criteria guideline established by DECAP.
3. The home improvement component is not as profitable to the S & Ls due to high administrative costs. Also, loan delinquencies in second mortgages are perceived to be higher by the S & Ls and they prefer not to expose themselves to these risks.

DECAP, within the context of the Program, was expected to intervene more in the implementation of it; however, Law 4338 does not give much regulatory power to DECAP and therefore certain actions could not be undertaken which would have assisted in the implementation of the program. Nevertheless, DECAP within its limited powers, has contributed much to the success of the Program.

Up to September 30, 1986, a total of 70% of the HG funds has been disbursed (\$14 million of the \$20 million) and 86.76% of the disbursed resources had been converted into mortgages (¢555.8 million of ¢640.6 million) and 4,081 housing units mentioned above have been financed.

At this stage of the project implementation, mortgage financing is being done exclusively from the 35th percentile level down, which has been one of the most difficult goals to meet because both the S&Ls and the builders had never before worked with this segment of the population but with socio-economic levels considerably higher. This has meant a slowing down of the rate of project implementation that was maintained at a high level while working with the 47th income percentile. Consequently, it was necessary to make a change in the original project design with respect to the time established in the PP for the project's implementation. Rather than an implementation period of 4 years, it should be extended to approximately 5-1/2 years or until September of 1988.

The "AID/Special Trust Fund for Housing - COFISA" project started in May, 1985, is providing interim construction financing to builders, especially for projects within the financial means of families of the 35th income percentile or below. This activity is gradually increasing the housing supply at the lower levels of incomes. However the shelter projects are only now being initiated at the pre-design stage which implies a lengthy approval process in Costa Rica for the building of homes, independently of the construction itself.

As may be seen from the above information, the Program has made substantial progress and the aforementioned operational changes made to the original PP targets are considered appropriate project adjustments made on the basis of actual experience in carrying out the project.

The balance of the loan of \$6 million should generate colones at the rate of exchange on the date of DECAP's disbursements from Central Bank. However, increased construction costs and the increase in the median income are significantly reducing the number of solutions to be delivered.

Under the terms of the Trust Agreement, COFISA will provide interim construction financing to builders and the S & Ls are providing the long-term mortgage financing by using the proceeds of the \$6 million. This project has over 2,000 housing units development in various stages of progress whose total financial needs exceed the present funding capabilities of HG-007.

Consequently, at this time it is not foreseen that the SNAP will have any difficulties in using the proceeds of the \$6 million loan, since COFISA, through OVI/OVA, has demonstrated its capabilities in promoting the acquisition of housing units throughout the country's urban and rural areas.

B. Shelter Sector Delivery System

PP Proposed:

Developers organize low income families to acquire units; units meet paying capacity of beneficiaries; risks borne by developers who will channel buyers to S & L associations to obtain financing. Affordable units are developed, built and sold to target group by private developers.

Result:

Given the long time lag required to re-activate, organize new shelter projects, and process construction loans, and until projects are completed and occupied and disbursements generated, the SNAP's progress in loan generations has been acceptable. This is particularly true, if one takes into consideration that the SNAP has had to adapt to a changing financial environment, compete more aggressively for resources, seek to improve internal controls and accommodate to new information and regulatory requirements of DECAP and the AID program.

A large part of the activities of the first year after the Implementation Agreement was signed was devoted by DECAP, the resident consultant and the various consultants that provided supporting technical assistance to issuing operating guidelines to help the S&Ls understand and begin the implementation of the program. Furthermore, it was necessary to inform and instruct the productive sector, builders and developers, that it was to their advantage to participate in the Project. Extensive effort was invested in convincing potential beneficiaries to accept the idea of a progressive shelter solution (30-36 m²), the smallest ones that had ever been financed in Costa Rica.

Gradually, both sectors (the builders and the buyers) have been informed and are responding favorably. Also progress has also been made in expanding the capacity of the SNAP in general to meet the increased demand for their operations, particularly in financing low-cost solutions.

The S&Ls have been working intensely with developers/promoters in trying to attract more people into the SNAP, including and the participation of the so-called "Solidarity Associations", which operate in the private sector as an example of joint effort between employers and workers to provide better social and economic benefits for the laboring class. During the last year and a half of the program, USAID/CR project, "AID/Special Trust Fund for Housing-COFISA", has contributed significantly to the program OVI and OVA ("Oficina de Vivienda Industrial" and "Oficina de Vivienda Agrícola", respectively) working under COFISA to promote the construction of low-cost housing projects and to link-up the supply and demand sides of the housing equation through the long-term mortgage financing of the S & Ls. To date, there are over 1,800 units in these project pipeline and the prospects for the future appear very bright.

C. Financial Planning
PP Proposed:

A financial policy which will be based on financial costs of different sources of money, financial returns of investments, and other factors that will assure the growth and financial strength of the S & L system. A computer model which will be used as a basis for assigning interest rates for the SNAP according to the various lines of credit to be extended. The model will combine various sources of funding to determine costs and will be tied to yield of the portfolio to establish the spread necessary to maintain the viability of the S & L system.

Result

Considerable progress has been made, in spite of the fact that it is still necessary and advisable to continue with technical assistance in these areas. Ever since the technical assistance and training seminars were conducted, a positive change has been noticeable in the motivation and financial thinking of the SNAP and DECAP to improve their financial planning and administrative operations.

At the present time, all of the S&Ls are installing computer equipment that will enable them to keep more timely and appropriate information. Each of them has taken steps to set up some regular routine for conducting financial analysis based on the ideas presented at the financial seminar in Panama by the consultant Pedro Lasa. The Lasa methodology using a series of 20 financial indicators is being used on a permanent basis by three of the S & Ls and DECAP. In becoming more aware of financial matters, the S and Ls have realized the profound effect of a good or poor recovery of mortgage loans. For such purposes DECAP has organized seminars specifically on collections and each S&L has reinforced this activity. Unfortunately, Law

4338 which governs this matter, does not give the SNAP the authority to make collections quickly and efficiently through legal action. Fortunately, this situation has been corrected in the law creating the BANCO HIPOTECARIO DE LA VIVIENDA. Similarly, the Law 4338 does not allow the S&Ls to operate with rates of interests freely established; instead, they must operate with rates set up by DECAP. The latter, in turn, has to operate as determined under Law 4338, "in keeping with the economic and banking policy of the State". In order to observe said legal provision, after various consultations and legal studies made years ago, DECAP sets up the rates in accordance with what the Costa Rica Central Bank, in turn, decides. In order to make the best possible use of the money and the rates of interest as proposed in the PP, it is necessary to change the law. The SNAP, which represents less than 12% of the national housing finance and which comprises six small organizations plus the central organization, has not had the national weight nor the political influence required to be heard by the government and the country's legislative power, to effect such legal changes. Below is a table showing the various housing financial agencies, and the number of housing units financed.

Comparison of Public and Private Sector
Production of Shelter Solutions

	Number of Housing Units Financed				Change % in Growth 1982 - 1984
	1982		1983 and 1984		
	No.	%	No.	%	
A. Public Sector					
1) Banks					
a) Banco CAC	535		653		22.1%
b) Banco A	400		450		12.5%
c) Banco CR	217		307		41.5%
d) Banco Nal	<u>533</u>		<u>845</u>		<u>58.5%</u>
Sub-Total	<u>1,685</u>	12.5%	<u>2,255</u>	7.2%	<u>33.8%</u>
2) Others					
a) INVU	315		8,128		2,480%
b) CCSS	660		1,012		53.3%
c) INS	251		1,047		317.1%
d) Banco Pop	564		1,609		185.3%
e) IMAS	<u>112</u>		<u>493</u>		<u>340.1%</u>
f) Subtotal	<u>1,902</u>	14.1%	<u>12,289</u>	39.0%	<u>5.4%</u>
3) Subtotal	<u>3,587</u>	<u>26.6%</u>	<u>14,544</u>	<u>46.2%</u>	<u>305.5%</u>
B. Private Sector					
1) SNAP	1,492	11.1%	3,692	11.7%	147.5%
2) Others	<u>8,380</u>	<u>62.2</u>	<u>13,244</u>	<u>42.07</u>	<u>58.0%</u>
3) Sub-Total	<u>9,872</u>	<u>73.4%</u>	<u>16,936</u>	<u>53.8%</u>	<u>73.3%</u>
C. Total					
	13,459	100%	31,480	100%	133.9%

In general, the local capital markets of Costa Rica remain limited. Over the last few years, there have been substantial changes in the financial structure of the country. The SNAP operates currently in a highly competitive market. The National Banking system, composed of 4 very large banks with many branches throughout the country provides full banking services, checking accounts, and mortgage loans. The state banks control 91% of the total assets of the country's financial institutions. Therefore SNAP has a very limited segment of prospective clients, who consist mainly of middle and lower income groups who aspire to own a home and have the possibility of obtaining a mortgage loan. Despite the competition from the national banking system, the private sector has blossomed in the last few years. In contrast to the limited role of private financial institutions in the 70's, private banks and financial institutions have now joined the Costa Rican Stock Exchange, in competing for scarce resources with attractive interest rates. This has limited the areas into which the SNAP can expand, to capture cheaper sources of funds. The local stock exchange provides all other widely accepted investment possibilities at a higher return.

Furthermore, passbook saving accounts with interest at 8% have existed for over 30 years and have always been handled by the State banks. The low-income public uses them as a means to control their expenses and, to a lesser extent, as a means to save. This situation makes it extremely difficult to change those long-established habits formed on the basis of confidence in the State, toward a profound change such as trusting private operations. Nevertheless, the SNAP has managed to promote and to capture a sizeable amount of these resources. While they do not exceed 6% of the total national savings, they do represent average balances of more than \$4 million.

In this environment, the SNAP has been very successful in maintaining and increasing their deposit base, especially since the SNAP has few resources to provide mortgage loans, and interest rates are regulated by the Central Bank. The improvements made by the SNAP can be considered remarkable, as may be seen in the schedule "Selected Financial Indicators of SNAP", included in section 13 of this report. However, this progress may not be sufficient for the SNAP to continue to operate in the future in financing lower cost solutions without some additional support.

D. Mobilization of Internal Savings

PP Proposed:

Reorientation of SNAP liability structure by generating increased levels of internal resources, particularly lower cost free savings, which will reduce the overall cost of resources. SNAP was to generate at least \$12 million in internal resources of which \$4.8 million was to be low cost free savings (passbook accounts).

Result:

The PP's overall goal for savings mobilization during the anticipated life of the project (4 years), has been substantially surpassed over the past 37 months. Since the project's start-up in August, 1983, SNAP has increased its mobilization of resources by ₡2.186 million or roughly \$37.6 million at the current exchange rate (\$1 = ₡58). This represents an increase of 313% beyond the global target of \$12 million in savings mobilization as set forth in the PP. The distribution of the \$37.6 million in new resources captured by SNAP is shown by type of financial instrument used:

SNAP's Increase Savings Mobilization
(August, 1983 - September, 1986)

<u>Source of financing</u>	<u>Balance (Sept 30/86)</u>	<u>Balance (Aug 31/ 83)</u>	<u>Increase ₡</u>	<u>% Increase</u>	<u>\$ Million</u>
Passbooks	₡ 261.819.582.63	₡ 91.782.584.60	₡ 170.036.998.03	185.26	\$2.93
Mortgage Participations	1.772.603.413.16	207.781.607.56	1.564.821.805.60	704.98	26.99
Time Deposits	<u>1.331.177.263.19</u>	<u>879.442.141.91</u>	<u>451.735.121.28</u>	<u>51.37</u>	<u>7.62</u>
TOTAL	₡3.365.600.258.98	₡1.179.006.334.07	₡2.186.593.924.91	185.46	\$37.60

In regard in regular savings accounts, there has been an increase of \$2.93 million. Annex A of the Implementation Agreement includes in the mobilization of local, low-cost resources, the 20% of local financing use in mortgage loans made under the program. Given these facts that the SNAP has exceeded the PP target of \$4.8 million as shown below:

- o Increase in passbook savings accounts \$2.93 million
- o 20% of the mortgage loans (\$12.6 million) \$2.50 million
- o Total in low-cost resources \$5.43

This same increase may be observed by analyzing the growth in funding of the S & Ls, as shown below:

Growth in Saving Mobilization by S & L Associations
(1982 - 1985)

<u>S & L Associations</u>	<u>1982</u> <u>¢ Million</u>	<u>1985</u> <u>¢ Million</u>	<u>Change</u>	
			<u>1982 - 1985</u> <u>¢ Million</u>	<u>%</u>
Cartago	388	884	495	127
La Vivienda	344	1,504	1,159	336
Heredia	208	490	281	135
Alajuela	338	715	376	111
Puntarenas	53	211	158	300
Guanacaste	38	168	129	335
Total	<u>¢1,371</u>	<u>¢3,972</u>	<u>¢2,598</u>	<u>189</u>

The increase of ¢2,600 million in the SNAP is equivalent to US\$53 million dollars (at the US\$1.00/¢48.75 exchange rate existing in 1983). If the US\$14 million HG-007 loan and the \$5 million ESF loan are deducted, this leaves the equivalent of \$39 million that were generated through internal resources. This is three times the original goal of \$12 million target proposed by the Project Paper. It is expected that the total amount mobilized will fluctuate upward or downward depending on market conditions and economic cycles in the country.

4. Diversification
PP Proposed:

Reorientation of SNAP's asset structure by diversifying investments into short-term, higher yield lending activities. DECAP has issued regulations on interest rate policy for new lines of credit, variable rates, graduated paymets for low cost housing.

Result:

Under the strict restrictions imposed by the Law 4338, the SNAP has sought and established the operating diversification that it is allowed to apply. These are very few and do not actually represent a "diversification", such as setting up new lines of credit, for example. In this regard, the SNAP has made very modest expansion at its operations to include: loans for improving housing units, loans for purchasing lots only, renegotiating debts and other similar operations that only constitute a small deviation from loans for building or buying homes. Also the S & Ls have incorporated into their activities some services, such as receiving payments for electric service, water, some taxes, etc. In regard to mortgage loans, they have set up a system of graduated payment mortgages and have incorporated the use of variable interest rates.

Largely due to the results of the efforts made to increase the mobilization of resources, that is, due to the considerable increase obtained in mortgage participations and/or time deposits, most of the S & Ls have started to make short-term investments in the national stock market ("La Bolsa"). However, even though these transactions represent additional profits that improve the financial results, they mean an operating risk, so they must be closely controlled.

In general, outside of the stock market transactions, the SNAP has been able to do very little in the way of diversification under the Law, and with very meager positive results. This situation is expected to improve substantially under the new law 7052.

4. Improved Productivity

PP Proposed:

Implement operational and management reforms that improve productivity of the S & Ls, particularly the S & Ls, with problems.

Result:

To realize this goal it was necessary to attain a real financial improvement, overcome the internal deficiencies that existed in the SNAP as a system and in each of the S & L's, and surmount the external obstacles to the system such as permits procedures, etc., in order to recover the production level that it had before 1980 if subsequently exceed that operational volume. The installation of computer systems, the new analysis techniques and financial decisions pointed out by AID at various seminars which had already been put into practice by some of the S & Ls, agreements to promote and expand the SNAP as joint effort of all of the S & Ls; the motivation of traditional home builders to move into lower cost units carried out from the beginning of the Program; the seminars and practical experience obtained by DECAP in conjunction with the S & Ls in the recovery of the portfolio; the substantial increase in capturing local resources; and the increase in investments since in 1983; improvement in SNAP assets; and the generation of profits after several years of operating at a loss; etc. are concrete examples which demonstrate that the productivity of SNAP has improved substantially.

These improvements have not been easy to achieve since there were certain aspects connected with the human element that makes up the SNAP, particularly at the S & Ls, which have been overcome slowly and with great difficulty and which, in some cases, still persist.

There are 29 employees working at DECAP including security and service personnel, and there are a total of 207 at the S & Ls. DECAP's personnel can be considered generally efficient and with fair experience,

particularly since most of them have been doing this work for over 5 years. This is not the case with the S & Ls where, for example, at "La Vivienda", "Heredia", and "Guanacaste" there have been considerable personnel turnover due largely to the low salaries paid at lower and intermediate working levels. This has affected their performances, particularly in the areas of maintaining operating records, information, systems and overall financial productivity.

Another question that has affected and continues to affect the proper administration of the S & Ls, is the limited knowledge possessed by most of the directors in general administration and particularly on financial administration. This situation has been improved over the three years due to changes which have resulted at the recent elections of Boards of Directors.

The technical assistance provided by AID through the Grant Agreement 0188 has been decisive since the seminars and the advisory service have had an excellent response and have awakened considerable interest at all levels of personnel in enhancing their knowledge and working with greater efficiency. It is expected that the SNAP can further improve its operations through better controls and administrative systems, automatization of accounts, additional publicity, etc. But it was not likely that a major change can be expected within the existing legal and financial structure. The S & Ls in other countries have been faced with similar problems. In Costa Rica the new law has to reform the National Housing Finance System.

This law creates the National Housing Finance System and its central regulatory entity, the Banco Hipotecario de la Vivienda (BANHVI). The DECAP is integrated into BANHVI and the S & Ls are part of the finance System as authorized entities. It is anticipated that BANHVI will be able to mobilize financing for the S & Ls, particularly lower cost resources for targeted low-income programs, since an important part of the funds that will make up its operating capital will originate from captive public mandatory savings being held by institutions such as the "Caja Costarricense de Seguro Social (CCSS)", "Asignaciones Familiares", etc.

This new legislation, by integrating DECAP into BANHVI, and incorporating into the assets of BANHVI the aforementioned funds, fulfills an important covenant contained in the PP: "DECAP will continue to seek additional resources for shelter finance through the associations from national social security, insurance, and other agencies with capacities to attract massive internal resources".

B. S & Ls with Problems

The S & Ls in Puntarenas and Guanacaste are two of the youngest members of the SNAP. They are located geographically a long distance from San Jose, the seat of government and financial center of the country. Both S & Ls serve a special rural market, since their housing programs are spread over a much larger territory, with less accessible transportation systems. In addition, the economic resources of these areas are more highly dependent on agricultural and port operation cycles than the rest of the SNAP system. Furthermore, they are located in areas that have started only recently to participate actively in the country's economic growth and development.

Guanacaste has strong housing demand but few sources for capturing funds. In addition the Guanacaste S&L, from the time it was created in 1977 up to the present, has had difficult problems in administration, which have compounded the problems or limitations originating from its geographic location.

Although Law 4338 gave DECAP authority for the approval of new S & Ls and the dissolution of existing ones, its routine sanction powers were very limited, and its efforts to improve S & L administration and operations have had only slight success.

DECAP, in line with the provisions of the Implementation Agreement, in 1983 made studies and held several meetings with officials of the Guanacaste S & L and other S & Ls of SNAP. As a result of these actions, DECAP decided to give one more chance to the Guanacaste S & L to continue operating as an independent entity instead of dissolving it and transferring its activities to other S & Ls.

In 1984, after new meetings with the Guanacaste S & L and other important people in the area, DECAP managed to make a change in the membership of its Board of Directors. This change led to the replacement of the manager, the accountant, and other employees lacking the required skills for the job. Under the new administration, Guanacaste has started gradually to consolidate the basis of its operations. It has been concentrating its efforts on its internal accounting, administrative and operating organization, and at the same time, devoting special effort to improving collections. Guanacaste's portfolio has the highest rate of delinquency of all of the SNAP. Parallel to these actions, it has been slowly reducing and controlling the distorted growth of its investments, a large part of which have been financed with resources of DECAP.

Guanacaste's management reports the AID-financed technical assistance provided by Mr. Mario Galeano was very useful and that they are in the process of implementing his recommendations. Guanacaste will probably require larger amounts of support over a longer period of time, as will Puntarenas. It is expected that it will take both of them a longer period of time to meet loan production goals.

Continuous supervision by DECAP and injections of technical assistance will be required to improve general administrative capacity, especially in reducing delinquent loans, a priority for both S & Ls. It should be added that the efforts made to improve these S & Ls have not brought forth the expected results, and the problems, while considerably reduced and controlled, continue to persist. In addition, during the past two years there have been serious economic problems in both areas where they are located. One of these factors has been the work stoppage of the large banana company in the southern zone centered near Golfito. The loss of jobs has caused a dramatic drop in local incomes, and has forced the out-migration of part of the labor force. This has affected both provinces and, consequently, both S & Ls.

In view of the above, both of these S & Ls will have an in-depth financial analysis conducted by BANHVI. BANHVI, as the regulatory body, will have to make the final decision regarding this problem. Since the new housing law gives it more authority for control and intervention than what DECAP had the task will be less complicated from a legal view point.

18. PURPOSE

The purpose of the program is to assist Costa Rica's private sector establish a replicable, nonsubsidized, low-cost shelter program for low-income families. Furthermore, to create in the private sector a more efficient and integrated delivery system for low-cost shelters.

As of September 1986, three years after the first disbursement were made in August, 1983, and 3-1/2 years after the Implementation Agreement was signed in March, 1983, 75% of the implementation period has elapsed in the first case and 79% of the time in the second. In addition, 70% of the \$20 million HG loan funds authorized or \$14 million have been disbursed. Of this total SNAP has used \$12.5 million or 89% of these funds for mortgage loans financing or considering the combined total of AID and counterpart funding (\$25 million), the amount invested in mortgage loans is 50% of the total funds for the program. The remaining balance of \$1.5 million from the \$14 million disbursed is part of the original of \$4 million advance. This is invested in more profitable investments that help to improve the financial situation of the SNAP, while housing projects are being developed. AID's \$12.5 million have been used to finance over 4,000 housing units within the affordability range of low-income families, under the 50th median percentile.

Based on the aforementioned facts and figures, it is clearly evident that the purpose of this program is being accomplished. The fact that slightly more than 50% of the program has been implemented in 75% or 79% of the time (depending on the date use as the initiation of the program's implementation),

would mean that there has been a 25% delay in achieving full implementation in 4 years. However, the additional time that will be required for completion of the program, an additional 25% or approximately an extension of one year, has been due precisely to the complying with the statement in the second paragraph of the purpose: "To create in the private sector a more efficient and integrated delivery system for low-cost shelters". In order to achieve this point in the program's implementation, it was necessary, during the first year of work to first introduce and establish an understanding of the fundamental bases among the participants, that is, DECAP as the main entity of SNAP, the S & Ls as implementing entities, the companies and individuals engaged in developing and construction and sale of housing projects, and lastly, among the beneficiaries of the mortgage loans. These ideas that have been set forth in the PP and continue to be implemented, include the following: (1) the organizational functions of DECAP, combining them with new elements such as promotion, orientation and advisory services, as well as incorporating new financial administrative and operational concepts; (2) specific measures/actions leading to an efficient administration of the S & Ls; (3) promoting and orienting the productive sector to build for low-income levels; (4) orienting and providing technical information to users in order to achieve an understanding and acceptance of smaller, less costly shelter typologies, etc. Consequently, due to the time spent on these initial promotional and instructional activities, the implementation time has been delayed approximately 25% of the time period estimated in the PP.

It should be noted that the SNAP and the DECAP were not been able to carry out fully their proposed objectives set forth in the PP due to the operating limitations that exist under law 4338,. On the other hand, probably the BANHVI will be able to attain them given the provisions of the new law. BANHVI will have a large volume of resources, including part of the social funds that the PP proposed that DECAP should capture; it will be able to regulate all of the housing finance agencies in the country, both public and private; audit will have much more legal authority to regulate than DECAP did particularly, in the of promotion, orientation, financing and supervision of the S & Ls.

19. GOAL/SUBGOAL

The goal of the program is to improve the shelter conditions of low income families. To reach this goal, the private sector low income shelter production would be restored to or exceed the level of shelter production achieved in 1979 by the end of Program. It is very likely that the 1979 production will be reached. Even if the optimistic time table was not achieved, progress attained to date should be considered an important contribution towards the achievement of the long-term stability of the SNAP. The following table shows the number of housing units produced in Costa Rica from 1982 to 1984.

It may be observed that, as a whole, the SNAP and the rest of the private sector have produced, in 1984, 53.8% of the national housing production while in 1982 they produced 73.4%. Their relative share of production dropped 19.6% in spite of having increased production in absolute terms by 7,064 units an increase of more than 70% of what was financed in 1982. In contrast the public sector, improves its relative position by jumping from 26.6% in 1982, to 46.2% of the national production in 1984. This presents an increase of 10,957 or +305.5% of what was produced in 1982.

Costa Rica's Production by Sectors

	1982		1984		Change 1982 to 1984 Growth %
	No.	%	No.	%	
A. Public Sector					
1) Banks					
a) Banco CAC	535		653		22.1%
b) Banco A	400		450		12.5%
c) Banco CR	217		307		41.5%
d) Banco Nal	533		845		58.5%
Sub-Total	<u>1,685</u>	<u>12.5%</u>	<u>2,255</u>	<u>7.2%</u>	<u>33.8%</u>
2) Others					
a) INVU	315		8,128		2,480%
b) CCSS	660		1,012		53.3%
c) INS	251		1,047		317.1%
d) Banco Pop	564		1,609		185.3%
e) IMAS	112		493		340.1%
f) Subtotal	<u>1,902</u>	<u>14.1%</u>	<u>12,289</u>	<u>39.0%</u>	<u>5.4%</u>
3) Subtotal	<u>3,587</u>	<u>26.6%</u>	<u>14,544</u>	<u>46.2%</u>	<u>305.5%</u>
B. Private Sector					
1) SNAP	1,492	11.1%	3,692	11.7%	147.5%
2) Others	8,380	62.2	13,244	42.07	58.0%
3) Sub-Total	<u>9,872</u>	<u>73.4%</u>	<u>16,936</u>	<u>53.8%</u>	<u>73.3%</u>
C. Total					
	<u>13,459</u>	<u>100%</u>	<u>31,480</u>	<u>100%</u>	<u>133.9%</u>

From this trend in shelter production it must be inferred that in Costa Rica, the achievement of the goal of the Program must be reviewed in relationship of the changing role of the private and the public sectors. In the event that the public sector continues to substantially surpass the efforts of the private sector, it is worth reexamining AID's policy objectives in small countries with a very closed economy such as Costa Rica. The state's influence in economic matters and financial affairs is decisive. The complementary roles of the public and private sectors should be carefully examined and appropriate strategies developed.

20. BENEFICIARIES:

The beneficiaries of this Program may be divided down into four groups:

1. Beneficiaries of the mortgage loans
2. The S&Ls and DECAP
3. The construction industry
4. The Costa Rica Central Bank

1. Beneficiaries of the Mortgage Loans:

Originally, the beneficiary families were classified into four different income levels, all of them under the median income scale in Costa Rica as measured in percentiles. These levels in the Master Project Delivery Program were identified with a typology of financing loan and used to identify the various income target groups. Each level or typology, in turn, was assigned a part of the program's total resources. As a result of the practical experience gained from implementation only two, instead of three typologies or target groups proved useful for programming the new homes, the 0 - 35 percentile and the 35 - 47 percentile. Consequently, a redistribution of the resources more closely adapted to the realities of the housing market place. The table below, indicates the number of families actually benefitted to date (September, 1986). See also the tables on pages 10 and 11.

Housing Loans Formalized under AID Program

<u>Financing Typology</u>	<u>Income Target Group</u>	<u>Number of Beneficiaries</u>			
		<u>Actual</u>	<u>%</u>	<u>Original PDP</u>	<u>%</u>
I - II	0 - 35 Percentile	2,021	49.5	5,402	39.7
III	35 - 47 Percentile	<u>1,120</u>	27.4	<u>2,003</u>	14.7
	Subtotal	3,141		7,405	
IV	0 - 50 Percentile	<u>940</u>	<u>23.0</u>	<u>6,211</u>	<u>45.6</u>
	Total	4,081	100.0	13,616	100.0

The reasons for making these revisions were mainly due to income affordability problems (lack of demand) particularly at the 25 income percentile and below. This target group could not make two payments: one to pay for the urbanized lot it may have purchased, and the other to continue rent payment while their house was built. Similarly, in the home improvement loan component, families at the 0-25 percentile level it was discovered that many families do not have their own homes so there was only a limited demand for these lines of credit and it was advisable to change the original PP's distribution of resources.

2. The S & Ls and DECAP as Beneficiaries:

Even though the financial restabilization of the SNAP in Costa Rica has not been achieved, it is clearly evident to the six private S & Ls and DECAP that AID's assistance has been a major factor in their survival of the severe economic crisis that hit the country between 1981-1983.

As explained in other sections of this report, SNAP dropped to 35% of the number of mortgages financed in 1979 (4432 vs 1583). The HG-007 program helped the SNAP to withstand the crisis with the \$4 million advance and it provided liquidity to the S & Ls not only to make loans but also to improve their mobilization of other resources. The increase of \$39 million in assets strengthened and helped reactivate their operations. In addition, they have benefited both in the short and long-term by AID's technical assistance to address operational and major structural problems affecting SNAP's position in the market place.

3. The Construction Industry as Beneficiary:

The construction industry, represented by builders, developers, professional participants, etc., have directly benefitted from AID's injection of new resources through this program, which currently exceeds \$695 million. These funds have contributed directly to reactivating the industry, which had been almost at a standstill in 1981 - 1982. The program has directly generated approximately 26,000 man/months of work. The indirect impact on the suppliers of building materials, and other related industries is estimated to be 2.5-3.0 times the direct employment generation.

4. The Costa Rica Central Bank

The same as benefits for SNAP, i.e., the help to mitigate the economic crisis, and inflationary impacts, etc., can also be applied to the Costa Rica Central Bank. The initial advance made in dollars and the subsequent dollar disbursements have helped the Bank in meeting its foreign exchange needs and improving its credit position before other credit institutions.

21. UNPLANNED EFFECTS:

A. Unplanned positive effects:

The most important of the unplanned positive effects is the one mentioned below.

National Housing Finance System:

The program identified the need for the SNAP in Costa Rica to broaden its financial operations/services a broad operating (diversification), which required necessary in Law 4338, which governed the System. During the process of studying what legal changes needed to be made, AID's consultants and the Costa Rican authorities decided to organized a National Housing Congress in February, 1983. Over 300 representatives from various areas of the country participated in this five day Congress. As a result of this Congress, it was decided that, instead of making changes to Law 4338, it was preferable to develop a special piece of legislation to reform the entire housing finance system in the country. For three and a half years various participating groups worked on the implementation of this idea. In 1986, a new draft law was prepared with direct participation of AID consultants and financial resources and the final revision was enacted on September 13, 1986.

This system includes the "Sistema Nacional de Ahorro y Préstamos de Costa Rica" (SNAP); it has integrated DECAP into BANHVI, and the S & Ls, as authorized entities, will become a part of this new national finance system as well as other agencies operating in the home finance field. BANHVI's resources will come mainly from various social funds existing in the country. One of them is the "Fondo de Asignaciones Familiares" (Family Allowance Fund). Another is the "Fondos para Pensiones de Invalidez y Vejez" (Incapacity and Old Age Pension Fund). This provision is a major and far reaching step in Costa Rica because these new mandatory savings represent a significant mobilization of additional resources to the shelter sector.

B. Unplanned negative effects:

It might be stated that negative effects have arisen largely due to the following factors:

1. Macroeconomic Factors:

When the Project PID and PP were prepared, it was evident that the country was heading for a serious economic crisis. However, it was not foreseen that the crisis would experience these acute problems for more than one or two years. Unfortunately, this

serious situation continued from 1979 through 1984, when it started to abate. The most serious impacts were the rate of inflation, the country's decapitalization, the strong increase in unemployment, the dramatic decline in investment, and extreme distortion in rate of exchange policies. Furthermore, at this stage, the housing construction industry had been seriously affected by the lack of housing development bringing the industry to a practical standstill.

The SNAP was seriously affected by the factors mentioned before and its operations dropped dramatically to the point that in 1983, they were down to 31% of the transactions it had made in 1979, when the crisis started (4,432 units financed in 1979 compared to 1392 finance in 1983).

In the projections made in the FID and in the PP, this impact of the macroeconomic national environment was not anticipated in its entirety. The possibility for SNAP's recovery were considered independently, and no leeway was left for the project to develop at a similar pace to the nation's economic recovery. In fact, this is what has actually happened so SNAP's recovery has been slower than was anticipated in AID's planning and design documents.

2. Political Factors:

The marked differences in macroeconomic and sociopolitical philosophy and actions in general, and in particular regarding the housing sector, which the various governments of Costa Rica have had since 1981, have seriously affected the development of the program. Mr. Carazo's administration was characterized by the application of measures that did not bring forth many results. During the administration of Mr. Monge a series of actions were initiated to attain national stability. During this administration the excessive intervention of the GOCR in housing matters was deeminished because the pertinent Ministry was eliminated, which allowed the private sector, particularly SNAP, to operate more freely, particularly in the mobilization of resources. The present administration of President Arias, upon declaring the housing problem a national emergency and a matter of top priority, reactivated the Ministry and consequently the participation of the state, to attain an objective of building 80,000 housing units. This has presented a new change in policies, programs, strategies and related support activities to the shelter sector. These dramatic changes have seriously affected the SNAP and the implementation of the HG-007 program.

3. Institutional Factors:

The SNAP is made up of the Central Organization (the "Departamento Central de Ahorro y Préstamos" - DECAP), which is a special department within the "Banco Crédito Agrícola de Cartago", and six non-profit "Asociaciones

Mutualistas de Ahorro y Préstamo" (S & Ls), namely: The Alajuela S & L, the Cartago S & L, the Guanacaste S & L, the Heredia S & L and the Puntarenas S & L. The System is governed by Law No. 4338, of May 12th, 1969.

In designing the program, the negative effects of the way in which the SNAP is structured and the limitations contained in the S & L law were not considered to their full extent. The central organization is not an independent entity. DECAP forms part of and acts in accordance with the provisions of the Board of Directors of the "Banco Crédito Agrícola de Cartago", which is a state bank that operates in the general banking field, with a Board of Directors which is not specialized in housing and much less so in the significance of being a central organization for the Savings and Loan system.

This situation, which often gave rise to conflicts of interest and fundamental operating discrepancies has resulted in weak actions and relatively low priority to address SNAP's fundamental problems. This has led DECAP to exercise minor control of SNAP and perform as a second rate financial entity and underwriter without taking decisive actions orientating, promoting, and improving its operations. This combination of circumstances, added to the limitations of the law regarding the extent of intervention that DECAP could take, have seriously affected the development of SNAP's activities in general, and particularly in the proper implementation of the HG-007 program as contemplated in the PP. For example, the PP mentions as one of the tools for improving the System's situation "the operational diversification", which is expressly prohibited in the text of the law. A series of other actions that were to be taken by DECAP or the S & Ls to act have not been fully implemented due to the aforementioned institutional and legal limitations.

In addition, the structure of "non-profit Mutual Associations" applied to the Savings and Loan Associations for housing in Costa Rica has consistently posed a problem in connection with its financial development. The directors of these mutual entities, who operate in housing without having a basic corporate capital and depend on the savings they capture, are mostly members of the same community whom they seek to serve. They do not always have the necessary knowledge and much less so the preparation required for sound financial management. This gives rise to a situation where the technical personnel, having a certain amount of the training, is constantly struggling with the erroneous attitudes of a benevolent board of Directors. The AID's technical assistance and training has achieved considerable changes but the process has been and still continues to be difficult and slow.

These negative unplanned effects in their full magnitude in the design of the program were underestimated or not considered. In order to attain additional progress in these areas, it will be necessary to extend the project's implementation an additional 18 to 24 months.

LESSONS LEARNED/SUMMARY RECOMENDATIONS

A. Lessons Learned

1. Design of the Program:

The general situation in the country, particularly regarding political, economic and social aspects existing at the time the project design was being prepared, must be given more serious consideration to anticipate the probable changes likely to occur during the life of the project. The housing sector has very broad impacts and is easily affected by a whole set of national policies and actions. Consequently, the sector cannot be considered in isolation. For example, in the case of the S & Ls, the basis of its operating capital lies in capturing resources in the national capital market. In this respect, government policies, actions and customs that have existed for years have considerable impact on these transactions. In short, in the designing of future programs, prime importance should be given to the national environment, legal frameworks, institutional behavior, etc.

2. The Legal Structure that Affects SNAP in Costa Rica

Under this program there had been attributed to DECAP a number of capacities and responsibilities that it does not have or that the S & L law restricts or prohibits. When a program is essentially based on the operating capacity of a given organization, which is the case with DECAP, it is indispensable to analyze in-depth the laws and/or other regulations that govern it. It is essential to properly measure its operating capacity and its political power to successfully make any necessary changes set forth in the project design document.

3. SNAP

The PP expectations of SNAP were set too high given the characteristics of its legal structure and relationships to DECAP as set forth in Law 4338. The historic body of practical experience since the start-up of SNAP clearly demonstrates major weakness inherent in the mutual system and all that this involves in terms of philosophy, leadership risk taking etc.

B. Summary Recomendations:

Listed below are specific action recommendations that the central regulatory agency (DECAP or BANHVI) of the SNAP should carry out to overcome identified problems affecting the implementation of the 515-HG-007 of the S & L system in Costa Rica.

1. Re-evaluate the on-lending interest rates to the S & Ls based on the internal and external effective borrowing rates with the objectives of providing maximum liquidity for the SNAP.

2. Monitor on a day-by-day basis DECAP/BANHVI's cash position vs. a periodically revised projection, including the debt-service ratio. Also, the financial position vs. its pro-forma financial statements, should be analyzed regularly.
3. DECAP or BANHVI should provide AID the assurance that DECAP or BANHVI and the S & Ls will concern themselves with the following:
 - a) Mobilization of low financial cost instruments, if feasible.
 - b) Obtaining internal resources in the form of borrowing at short, medium and long terms.
 - c) Renegotiation of the Central Bank's debt for the exchange fluctuation payments.
 - d) Reduction to the extent possible in the Stock Exchange operation, e.g., 20% per year.
4. Provide AID with a cash flow projections for the following:
 - o Use of the \$6 million remaining to be disbursed under 515-HG-007;
 - o Liquidation of the \$4 million advance contracted under 515-HG-007; and
 - o Conversion of the \$5 million (K-040) into mortgage portfolio;
5. The SNAP, under their present improved financial position, should:
 - a) Evaluate the lending rates vs. their borrowing rates and discuss with DECAP or BANHVI the possibility of restructuring the borrowing rates of 007 and K-040.
 - b) Improve their portfolio condition with respect to delinquent accounts, which could be done through a collection mechanism in which the Federation could participate.
 - c) Plan and implement the required actions to sell and liquidate the real estate owned (REO) which is a non-income generating asset and subsequently adversely affects their cash flow and reserves;
 - d) Collectively underwrite a major publicity campaign to attract regular passbook and other low-cost resources;

- e) Adopt appropriate investment strategies to minimize their operations and dependency on the Stock Exchange and monitor their Stock Exchange operations (Asset and Liability) in order to prevent a non-liquid position and the eventual collapse of the System
6. The Central Bank of Costa Rica and DECAP/BANHVI should analyze the need for contracting the remaining \$6 million of 007. Prior to AID's approval of any contract DECAP/BANHVI and the S & Ls should submit a long-term stabilization plan of how they intend to place DECAP BANHVI and SNAP in a self-supporting position. If the loan is contracted under the present scheme of discounted interest for three years, the on-lending terms should be established before contracting takes place.
7. The long-term stabilization plan mentioned in the preceding paragraph should include a two-year projection on the basis of the design of an operating and financial plan aimed at strengthening the SNAP, which should indicate the requirements of the System for low-cost funds to achieve such strengthening and the prospects for increasing their mobilization.
- The plan should include a program for improving the mortgage portfolio, that is, making a substantial improvement in collections, a program for capitalization, etc.
- If from the above-mentioned projection it is evident that the S & Ls, in order to continue financing low-income families, would need low-cost funds from sources other than their own capturing, the BANHVI could advise AID to what extent it would contribute towards the purpose. AID could, in turn, study the possibility of additional contribution.
9. The refinancing of the \$14 million loans should be explored, even though the Loan Agreements exclude the prepayment option of the loans.

ANNEXES

Departamento Especial de la Caja de Ahorro y Préstamo (DECAP)
Balance Sheet
As of December 31, 1982, 1983, 1984, 1985 and June 30, 1986
In Thousands of Colones

	1982	1983	1984	1985	1985 Absolute Terms	Variance / Relative Terms 1982	06/30/1986	Variance 1986/1982 Relative Terms
Assets								
Cash	2904	413	63222	3213	309	11%	15726	44%
Loans Portfolio and Mortgage Participations								
Loans Reservable			112950	38816			36816	
RID/BIAPE	13501	12957	12481	12005			11754	
All 515-HG-007 & 040 Savings and Loan's Participations		372400	372400	733805			732807	
	<u>939060</u>	<u>872172</u>	<u>841452</u>	<u>770623</u>			<u>730333</u>	
	<u>952581</u>	<u>1257529</u>	<u>1339003</u>	<u>1555249</u>	<u>602668</u>	<u>63%</u>	<u>1511710</u>	<u>5%</u>
Investments								
Stock Exchange	236487	122359	218449	79446	(157041)	(66%)	97103	(59%)
Sinking Fund (Capitalized Interest 007)				108202	108202	100%	133602	100%
Accrued Interest on Investments & Liens	8206	11324	13740	32737	24531	29%	39377	38%
Fixed Assets - Net of Depreciation	1689	1575	1851	2758	1069	63%	2525	49%
Other Assets								
Exchange Fluctuation-Central bank	460322	554556	716696	711321	250999	55%	766256	66%
Other	27361	32041	29037	147180	119819	43%	158145	47%
	<u>487683</u>	<u>586597</u>	<u>745733</u>	<u>858501</u>	<u>370818</u>	<u>7%</u>	<u>924401</u>	<u>90%</u>
Total Assets	<u>1689550</u>	<u>1979797</u>	<u>2382278</u>	<u>2640106</u>	<u>950556</u>	<u>56%</u>	<u>2724444</u>	<u>61%</u>

198

Liabilities

Loans Payable								
Central Bank of Costa Rica	331400	679800	866734	1306123	974723		1351894	
Government of Costa Rica	6221	13586	5792	5577	(644)		5557	
AID	18956	8094	7924	7774	(11182)		7774	
BID/BLAPE	24000	10248	10248	10248	(13752)		10248	
AID/BLAPE	60000	25620	25620	24355	(35645)		23722	
BLAPE	47500	15556	9763	3969	(43531)		1069	
CABEI	248520	225127	189405	158290	(90230)		129921	
ORION Bank Ltd	500000	213500	159155	159155	(340845)		159155	
Canadian American Bank	100000	42700	31055	31055	(68945)		31055	
	<u>1336597</u>	<u>1234231</u>	<u>1305696</u>	<u>1706546</u>	<u>369949</u>	<u>2%</u>	<u>1720395</u>	<u>29%</u>
Tertiary Mortgage Market	13795	13815	19958	195659	181864	13.1%	507749	3581%
Time Deposits	129854	421410	675328	173571	43717	34%	28289	(78%)
Other Payables	141303	185045	243398	409784	268481	19%	301223	113%
Total Liabilities	<u>1621549</u>	<u>1854501</u>	<u>2244380</u>	<u>2485500</u>	<u>864011</u>	<u>53%</u>	<u>2557656</u>	<u>58%</u>
Insurance Reserves	21545	24430	27944	32974	11429		35621	
Accumulated Profit (Loss)	46456	100366	109954	121572	75116		131167	
	<u>68001</u>	<u>125296</u>	<u>137898</u>	<u>154546</u>	<u>86545</u>	<u>127%</u>	<u>166788</u>	<u>145%</u>
Total Liabilities and Reserves	<u>1689550</u>	<u>1979797</u>	<u>2382278</u>	<u>2640106</u>	<u>950556</u>	<u>56%</u>	<u>2724444</u>	<u>61%</u>

54

Costa Rican Savings and Loan Associations
 Combined Balance Sheet
 As of December 31, 1982, 1983, 1984, 1985 and June 30, 1986
 In Thousands of Colones

	1982	1983	1984	1985	1985 Absolute Terms	Variance /	1982 Relative Terms	06/30/1986	Variance 1986/1982 Relative Terms
<u>Assets</u>									
Cash	12842	80661	210881	150665	137823		9731	39588	2081
Mortgage Loans	1230233	1446490	2317405	2940031	1709798		1391	3140547	1551
Investments	16042	2239	2600	2600	(13442)		(841)	2600	(841)
Legal Reserve									
Bonds and Other (Stock Exchange)	72682	852358	578586	742000	669318		9211	598723	7211
	<u>88724</u>	<u>854597</u>	<u>581186</u>	<u>744600</u>	<u>655876</u>		<u>7391</u>	<u>601323</u>	<u>5781</u>
Fixed Assets-net of Depreciation	19199	31594	35479	81718	62519		3201	90074	3691
Other Assets									
Accrued Interest	33202	65279	99139	173722	140520		4231	207956	5261
Real Estate Owned (REO)	8333	7445	13041	57169	48136		5861	90801	9901
Other	11430	9731	16092	29558	18128		1591	42140	2691
	<u>52965</u>	<u>82455</u>	<u>128272</u>	<u>260449</u>	<u>207484</u>		<u>3921</u>	<u>340637</u>	<u>5441</u>
<u>Total Assets</u>	<u>1403963</u>	<u>2495797</u>	<u>3273223</u>	<u>4177463</u>	<u>2773500</u>		<u>1981</u>	<u>4212429</u>	<u>2001</u>

47

Liabilities

<u>Deposits</u>								
Free Savings	90066	119379	207966	232135	142069	1589	216022	1409
Time Deposits	446400	1172375	1507770	1469289	1022889	2298	1080899	1429
	<u>536466</u>	<u>1291754</u>	<u>1715736</u>	<u>1701424</u>	<u>1164958</u>	<u>2178</u>	<u>1296921</u>	<u>1429</u>
 <u>Secondary Mortgage Market</u>								
Stock Exchange	110810	296621	559586	999756	888946	8029	1428536	11899
Mortgage Participations(DRCAF)	723935	854778	680709	644809	(79126)	(1118)	612746	(158)
	<u>834745</u>	<u>1153399</u>	<u>1240295</u>	<u>1644565</u>	<u>809820</u>	<u>978</u>	<u>2041282</u>	<u>1451</u>
 <u>Loans Payable 007 and 040</u>								
Other Liabilities	-	-	177000	616334	616334	1008	631881	1008
<u>Total Liabilities</u>	<u>33683</u>	<u>43948</u>	<u>62448</u>	<u>97544</u>	<u>63861</u>	<u>908</u>	<u>129242</u>	<u>2848</u>
	1404894	2489101	3195479	4059867	2654973	1899	4099326	1929
 <u>Reserves</u>								
Accumulated Profit (Deficit)	20101	27302	35799	66077	45976	2299	74271	2699
Net Reserves	(21032)	(20606)	41945	51519	72551	2459	38842	1859
	<u>(931)</u>	<u>6696</u>	<u>77744</u>	<u>117596</u>	<u>118527</u>	<u>125318</u>	<u>113103</u>	<u>121499</u>
 <u>Total Liabilities and Reserves</u>	<u>1403963</u>	<u>2495797</u>	<u>3273223</u>	<u>4177463</u>	<u>2773500</u>	<u>1988</u>	<u>4212429</u>	<u>2009</u>

Costa Rican Savings and Loan Association
 Combined Income Statement
 Year ended on December 31, 1982, 1983, 1984, 1985 and six months on June 30, 1986
 In thousands of Colones

	1982	1983	1984	1985	Variation		06/30/86
					1985 / 1982	Relative Terms	
Financial Operation							
Interest Earned	189240	222642	350685	551765	362525	192%	325635
Mortgage Portfolio Investments	17944	88111	155360	161427	148483	1147%	113006
	<u>202184</u>	<u>310753</u>	<u>506045</u>	<u>713192</u>	<u>511008</u>	<u>253%</u>	<u>439501</u>
Interest Paid	<u>212339</u>	<u>300061</u>	<u>421939</u>	<u>624124</u>	<u>411715</u>	<u>194%</u>	<u>404629</u>
Net Interest Earned	(10155)	10672	84126	89068	99223	87%	34872
Plus:							
Commissions Earned	<u>14396</u>	<u>18513</u>	<u>39910</u>	<u>34296</u>	<u>14899</u>	<u>136%</u>	<u>16298</u>
	<u>4241</u>	<u>29185</u>	<u>124036</u>	<u>123363</u>	<u>119122</u>	<u>2809%</u>	<u>51176</u>
Less:							
Administrative Expenses	<u>25191</u>	<u>34513</u>	<u>56286</u>	<u>87430</u>	<u>62239</u>	<u>247%</u>	<u>46111</u>
Profit or (Loss) before Other Income and Expenses	(20950)	(5328)	67750	35933	56883	172%	3059
Other Income	2305	8196	6761	7162	4857	211%	4480
Other Expenses	<u>962</u>	<u>1162</u>	<u>3414</u>	<u>3417</u>	<u>2999</u>	<u>330%</u>	<u>2444</u>
	<u>1397</u>	<u>7008</u>	<u>3147</u>	<u>3255</u>	<u>1858</u>	<u>133%</u>	<u>2036</u>
Net Profit or (Loss)	(19553)	1688	71097	39188	48741	410%	50958

58

Evaluation Report
AID-HG-007
AID-HG-a-040

TITLE: Cost Breakdown by Savings and Loan Association
1982

Date: _____
Period: 1982
Colones Thousands

	(1)	(2)	(3)	(4)	(5)	(6)	
Savings & Loans Association	OURTADO ¢ M	La Vivienda ¢ M	Heredia ¢ M	Alajuela ¢ M	Esitarenas ¢ M	GuanaCasto ¢ M	TOTAL ¢ M
1. Gross Interest Earned	55,158	55,003	29,001	51,064	7,184	4,774	202,184
2. Interest Paid	60,453	56,243	29,923	53,206	7,132	5,382	212,339
3. Net Interest Earned (Loss)	(5,295)	(1,239)	(922)	(2,143)	52	(607)	(10,155)
4. Administrative Expenses a) Salaries and related b) Other Expenses	6,502	6,619	4,737	4,721	1,397	1,214	25,191
5. Net Total (Loss)	(11,797)	(7858)	(5659)	(6864)	(1345)	(1,621)	(35,346)
6. Other Income							15,791
7. Net Profit (Loss)							(19,554)
INDICES:							
1) Interest paid as a percentage of gross interest earned	109.6	102.2	103.2	104.2	99.3%	112.7%	105.0%
2) Admin. Exp. as a % of Net Interest earned	(133%)	(534%)	(614%)	(22%)	2,00%	(2%)	(24%)

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Balance Sheet Report
AID-44-1-67
AID-44-1-68

TITLE: Cost Breakdown by Savings and Loan Association
1985

Date: _____
Period: 1985
Colonos Thousands

	(1)	(2)	(3)	(4)	(5)	(6)	
Savings & Loans Association	CAROLCO P M	La Vivienda P M	Heredia P M	Alajuela P M	Puriscal P M	Guanacaste P M	TOTAL P M
1. Gross Interest Earned	157,059	270,389	80,659	141,101	34,974	29,009	713,192
2. Interest Paid	140,408	235,759	66,973	123,531	29,197	24,388	624,124
3. Net Interest Earned	16,651	34,630	13,686	17,569	5,777	4,621	89,068
4. Administrative Expenses	23,622	22,312	12,313	16,362	7,832	4,987	87,430
a) Salaries and related	12,452	10,104	6,557	6,702	4,646	2,527	42,991
b) Other Expenses	11,170	12,208	5,756	9,660	3,186	2,460	44,439
5. Other Income							37,549
6. Net Profit (Loss)							39,187

INDICES:

1) Interest paid as a percentage of gross interest earned	89.4%	87.2%	83.0%	87.5%	83.5%	84.0%	87.5%
2) Admin. Exp. as a % of Net Interest earned	141.8%	64.4%	89.9%	93.1%	135.6%	107.9%	98.2%

10

Evaluation Report
AID Loan

TITLE: Growth in Funding Sources by
Savings & Loan Association
1982 - 1985

Colones Thousands

SAVINGS & LOANS ASSOCS.	CARIBEO	LA VIVIEN.	HEREDIA	ALAJUELA	PUNTARENAS	GUANACASTE	DEPTO. HIPOTE- CARIO	TOTAL AVERAGE
								90,000
A. Savings & Passbook								232,135
1982	21,993	14,267	19,460	29,002	2,774	2,571		156%
1985	55,419	59,725	37,182	64,068	10,015	5,705		
Growth %	151%	316%	91%	121%	261%	122%		
B. Time Deposits								446,400
1982	102,370	83,344	57,190	192,007	5,892	5,598		1,469,268
1985	180,417	967,213	93,672	203,837	3,609	19,639		229%
Growth %	76%	1061%	64%	6%	(35%)	252%		
C. Mortgages (Boles)								110,610
1982	53,191	27,967	5,012	19,535	2,592	2,114		999,756
1985	295,461	209,510	154,591	288,376	43,585	8,232		802%
Growth %	455%	649%	2,984%	1,376%	1,356%	287%		
C. Total Financial Liabilities								1,371,211
1982	308,701	344,365	208,704	338,113	52,800	36,528		3,962,323
1985	884,062	1,503,568	490,437	715,011	211,436	167,806		189%
Growth %	127%	336%	135%	111%	76%	335%		

Evaluation Report
AID Loan

TITLE: Growth in Assets of Savings Loans
Association
1982 - 1985
(colones - thousands)

SAVINGS & LOANS ASSOCS.	CARTAGO P.M.	LA VIVIEN. P.M.	HEREDIA P.M.	ALAJUELA P.M.	PUNTARENAS P.M.	GUANACASTE P.M.	DEPTO. HIPOTE- CARIO P.M.	TOTAL P.M.
A. Mortgage Loans								
1982	362,358	336,613	184,506	266,611	48,532	13,613		1,250,233
1985	773,086	915,469	389,623	591,155	151,659	119,038		2,940,030
Growth %	113%	172%	111%	122%	212%	774%		139%
B. Investments								
1982	14,583	12,564	11,608	47,259	152	1,050		84,215
1985	43,014	485,635	60,274	91,106	29,834	34,736		744,599
Growth %	194%	3765%	419%	93%	1,952%	3,206%		753%
C. Total Assets								
1982	401,839	362,118	212,535	338,256	53,968	35,247		1,403,964
1985	931,473	1,598,162	506,574	751,941	219,829	169,483		4,177,462
Growth %	132%	341%	138%	122%	307%	380%		197%

42

**TITLE: Profitability by Savings and Loan Association
By Earning Category**
Composition of Revenues in each category as a
Percentage of Total Revenues
1982

Period: 1982
Colones Millions

Savings & Loans Association	CAROLINO		LA VIVIENDA		HEREDIA		ALAJUELA		PUNTA ARENAS		GUAYACASTE		TOTAL	
	¢ MM	%	¢ MM	%	¢ MM	%	¢ MM	%	¢ MM	%	¢ MM	%	¢ MM	%
A. Gross Revenues														
Interest earned on Mortgages	53.7	89.2	53.3	90.3	27.5	87.6	42.7	78.3	7.2	86.7	4.7	90.4	189.2	86.5
Interest on Investments	1.4	2.3	1.7	2.9	1.4	4.5	8.2	15.0	0	-	-	-	12.9	5.9
B. Commissions Earned	4.1		3.7		2.5		2.8		1.0		0.5		14.4	6.6
C. Other Income	1.0		0.3		-		0.8		0.1		-		2.3	1.1
D. total Revenues	60.2	100.0%	59	100%	31.4	100%	54.5	100%	8.3	100%	5.2	100%	218.8	100%

8

**TITLE: Profitability by Savings and Loan Institution
by Earning Category
Composition of Revenues as a Percentage of Total Revenue
1985**

Period: 1985
Columns Millions

Savings & Loans Association	CARINCO		LA VIVERIDA		HEREDIA		ALAJUELA		PUNTAARENAS		GUARACASTE		TOTAL	
	¢ MM	%	¢ MM	%	¢ MM	%	¢ MM	%	¢ MM	%	¢ MM	%	¢ MM	%
A. Gross Revenues														
Interest on Mortgages	138	82.6	173.9	61.3	69.8	21.3	120.3	82.4	28.1	73.9	21.3	66.6	551	73.2
Interest on Investments	18	10.8	96.5	33.8	10.8	12.6	20.8	14.2	6.8	17.9	7.6	23.7	161	21.4
B. Commissions Earned	9	5.4	11.8		4.7		4.4		2.7		1.2		34	4.5
C. Other Income	2	1.2	2.0		0.6		0.7		0.7		1.6		7	0.1
D. total Revenue	167	100.0%	284		85.9		146		38		32		753	100%

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TITLE: Administrative Expenses as a
Percentage of Total Assets
1982 - 1985

Colones Thousands

Savings & Loans Association	CAROLINO C M	La Vivienda C M	Heredia C M	Alajuela C M	Puntarenas C M	Guanacaste C M	TOTAL C M
1) 1982							
a) Total Assets	401,839	362,118	212,535	338,256	53,968	35,247	1,403,964
b) Total Admin Exp	6,502	6,619	4,737	4,721	1,397	1,214	25,191
c) Admin Expenses as a % of Total Assets	1.62%	1.83%	2.23%	1.39%	2.56%	3.44%	1.79%
2) 1985							
a) Total Assets	931,473	1,598,162	506,574	751,941	219,829	169,483	4,177,462
b) Total Admin Exp	23,622	22,312	12,313	16,362	7,832	4,987	87,430
c) Admin Expenses as a % of Total Assets	2.54%	1.39%	2.43%	2.17%	3.56%	2.94%	2.09%

55

FINRA Past Due Portfolio of Savings & Loans Associations
By Typology - AFD 60-007 Loan - 1988

Colonos Millones

Savings & Loans Association	CAROLINA \$ MM	LA VIVIENDA \$ MM	HEREDIA \$ MM	ALAJUCA \$ MM	PUNACUERPO \$ MM	GUADALUPE \$ MM	DEPTO. HIPOTECAR. \$ MM	TOTAL \$ MM
A. Current	103.4	59.1	29.4	32.4	15.3	24.4	52.0	316.1
B. Past Due								
1) Type I & II	6.5	2.2	4.1	0.9	5.8	2.2	4.2	25.6
Less than 6 months	1.8	5.0	4.0	0.1	6.8	2.5	2.0	22.4
6 months or more	4.7	7.2	8.1	1.0	12.6	4.7	6.2	48.6
Sub-Total								
2) Type III	11.9	14.3	1.9	2.2	11.3	8.9	6.8	59.2
Less than 6 months	5.6	1.6	0.9	0	15.6	6.6	1.8	32.8
6 months or more	17.5	15.9	2.8	2.2	28.9	15.5	8.6	91.4
Sub-Total								
3) Type IV	2.1	0.9	0.4	0.6	3.7	0.1	0.6	11.0
Less than 6 months	0.8	1.9	0.2	0	1.1	0.5	0.3	2.8
6 months or more	2.9	2.8	0.6	0.6	4.8	0.6	0.9	11.0
Sub-Total								
4) Total Past Due	28.7	25.0	11.5	3.6	46.3	20.8	15.7	150.4
C. Total Portfolio	131.6	84	40.9	36.2	61.6	45.2	67.7	466.5

Indicadores

Past Due % of Total	8	8	8	8	8	8	8	8
Type I & II	6.3	8.6	19.8	2.7	20.4	10.4	9.2	16.5
III	13.3	18.9	6.8	6.0	46.9	34.3	12.7	19.6
IV	2.2	3.3	1.1	1.5	1.6	2.9	1.3	2.9
Sub-Total Past Due %	21.8	28.7	27.7	10.7	75.2	46.0	23.2	32.2

4/6

ANNEX I/15

Evaluation Report
AID LoanTITLE: Past Due Portfolio of Savings and Loans Associations
Number of Loans by Association: 515-HG-007 Loan.

Period: June 30, 1966

Savings & Loans Association	CARACAS	LA VIVIENDA	HEREDIA	ALAJUELA	PUNTARENAS	GUAYACASTE	DEPTO. HIPOTECAR.	TOTAL
A. Current	719	254	198	196	113	142	332	1954
B. Past Due								
No. of installments 2	54	48	19	23	55	26	34	259
No. of installments 3	32	14	11	4	31	11	20	123
No. of installments 4	21	9	6	1	33	13	10	93
No. of installments 5	15	4	7	-	14	12	8	60
No. of installments 6	6	1	3	-	17	6	5	40
More than 6	32	45	29	1	105	55	27	294
Sub-Total Past Due	160	121	75	29	255	125	104	669
Total Loans	879	375	273	225	368	267	436	2623
<u>Indices</u>								
a) Past Due as a % of Total	18.2%	47.6%	27.5%	12.9%	69.3%	46.8%	23.8%	30.7%
b) More than 6 months Past Due as a % of Total	3.6%	12%	10.6%	0.4%	28.5%	20.6%	6.2%	10.4%

27

Evaluation Report
AID Loan

TITLE: Volume of Operations of the
Savings and Loan System
1986

Savings & Loans Association	CARAGO	La Vivienda	Barrovia	Alajuela	Puntarenas	Guancaste	DEPTO. HIPOTEC	TOTAL NUMBER	Average Size
1) HEADCOUNT (No. of employees)	36	34	46	35	27	20*	40*	238	
2) OPERATIONS									
a) No. of Savings Passbooks	26,607	14,724	23,476	17,671	12,190	5,175	9,130	118,973	C2,000
b) No. of Loans	6,228	5,946	3,295	3,939	1,051	782	5,010	26,251	C134,000
c) No. of Fast Dis Loans	1,815	2,327	1,263	1,515	349	486	2,320	10,075	C156,000

*This data is approximate

Notes: All figures in this report are rounded. Some figures do not balance as a result of minor differences in registration, definition or source used. These differences are not considered significant in the analysis of results.

Queso Rican Savings and Loan System
Balance Sheet
As of December 31, 1967 and 1965
In thousands of Colones

	1967	1965	Variance	
			Absolute Drams	Relative Turns
Assets				
Cash	15746	153470	137724	87%
Loan Portfolio	1230233	2970047	1740114	14%
Other Loans Receivable	228046	137619	(90427)	(40%)
	<u>1454875</u>	<u>3116466</u>	<u>1661591</u>	<u>114%</u>
Investments				
Legal Reserves	16042	2600	(13442)	(84%)
Stock Exchange	309169	821446	512277	166%
Sinking Fund	-	106202	106202	100%
	<u>325211</u>	<u>932248</u>	<u>607037</u>	<u>187%</u>
Fixed Assets	<u>20888</u>	<u>84476</u>	<u>63588</u>	<u>304%</u>
Other Assets				
Exchange Fluctuation	460322	711321	250999	55%
Accrued Interest	33202	173722	140520	423%
Real Estate Owned	8333	57169	48836	586%
Other	38791	176736	137947	356%
	<u>540648</u>	<u>1118950</u>	<u>578302</u>	<u>107%</u>
Total Assets	<u>2361372</u>	<u>5406218</u>	<u>3044846</u>	<u>129%</u>
Liabilities				
Free Savings	90066	232135	142069	158%
Time Deposits-Assess.	446400	1469289	1022889	229%
Stock Exchange	110810	999756	888946	802%
Loans Payable	1336597	1706540	369949	28%
Tertiary Mortgage Market	13795	195659	181864	1318%
Time Deposits-DECAP	129854	173571	43717	34%
Other	166780	357120	190340	114%
	<u>2294302</u>	<u>5134076</u>	<u>2839774</u>	<u>124%</u>
Total Liabilities	<u>2294302</u>	<u>5134076</u>	<u>2839774</u>	<u>124%</u>
Reserves				
Insurance Reserves	21545	32974	11429	53%
Other Reserves	20101	66077	45976	229%
Accumulated Profits	25424	173091	147667	581%
	<u>67070</u>	<u>272142</u>	<u>205072</u>	<u>306%</u>
Total Reserves	<u>67070</u>	<u>272142</u>	<u>205072</u>	<u>306%</u>
Total Liabilities and Reserves	<u>2361372</u>	<u>5406218</u>	<u>3044846</u>	<u>129%</u>

CHANGE IN THE COMPOSITION OF FUNDING

SNAP, June 30, 1986

There is a noticeable change in the composition of the liabilities of the SNAP which is reflected in the June 30, 1986 balance sheets of the combined S & Ls. This has been caused mainly by a sudden drop in investors' confidence in La Vivienda, which required substantial support from the Costa Rican Government. All Mutuales should be monitored closely to ensure that this erosion in private depositors' confidence does not lead to additional withdrawals in unmanageable amounts.

Starting in the second half of 1983, the S & Ls in general, for the purpose of obtaining larger revenues started to increase the operations that they used to carry out to a lesser extent in the stock market through the "Bolsa Nacional de Valores". Up to that time, the S & Ls transacted their investment largely on their own premises.

The Mutual La Vivienda, during 1984, substantially increased these stock exchange transactions and reached the point of having 82% of the SNAP total on the Exchange. For this purpose and in an attempt to increase its profits, it managed to capture large sums of money from Autonomous Entities of the State, all of them for short terms, which often forced the Mutual la Vivienda to issue mortgage participations which almost exceeded or represented practically 100% of its portfolio. Due to this situation, the "Bolsa Nacional de Valores" (National Securities Exchange) in order to forestall any problem that might arise both for La Vivienda and, through it, to all of the SNAP in the event of an excessive offering without due backing, etc., decided to require the Mutual to gradually decrease these transactions and finally for a period of over one month it did not let La Vivienda engage in any transactions at the Exchange. DECAP, in turn, had intended to do something about this but, as has been repeatedly mentioned in this connection, Law 4338 does not give DECAP clear and sufficient authority and when DECAP tried to take action against Mutual La Vivienda in regard to its securities exchange transactions, the Mutual considered that DECAP had no rights in this case and took legal action against DECAP preventing DECAP from doing anything about this matter.

During all this process, part of the large sums received by the Mutual was invested for longer terms than those for repayment, which made it difficult for it to meet its repurchase commitments. In view of this situation, the Mutual resorted to the GOCR and obtained help through investments made by several government institutions.

These problems affected SNAP in general, to a certain extent, although fortunately it did not become an important negative impact. The changes that took place in the make-up of the liabilities, viewed individually, reveal in part this effect, notwithstanding the fact that the grand total of Assets and liabilities suffered no major changes. The following table shows this situation.

As shown in the following Table, the SNAP does not show a major change in total assets or liabilities. However, the composition of liabilities is substantially different.

Comparative Balance Sheets of SNAP
First Semester 1986

(Colones Millions)

	12/31/85 CMM	06/30/86 CMM	Change CMM
A. Assets			
1. Cash	150.7	39.6	(111.1)
2. Loans	2,940.0	3,140.5	200.5
3. Investments	744.6	601.3	(143.3)
4. Other	<u>342.1</u>	<u>431.0</u>	<u>88.9</u>
5. Total Assets	<u>4,177.4</u>	<u>4,212.4</u>	<u>35</u>
B. Liabilities			
1. Savings	232.1	216.0	(16.1)
2. Time Deposits	1,469.3	1,080.9	(388.4)
3. Mortgages (Bolsa)	999.8	1,428.5	428.7
4. DECAP Loans	644.8	612.7	(32.1)
5. AID Loans	616.3	631.8	15.5
6. Other	<u>97.5</u>	<u>129.4</u>	<u>31.9</u>
7. Total Liabilities	<u>4,059.8</u>	<u>4,099.3</u>	<u>39.5</u>

Passbook savings dropped by $\text{C}\text{16}$ Million and a massive $\text{C}\text{388}$ million were withdrawn in time deposits. In order to pay for these commitments, cash was used in the amount of $\text{C}\text{111}$ million and $\text{C}\text{143}$ million in short term investments were sold.

In addition, the SNAP generated funds to cover the $\text{C}\text{200}$ million growth in new loans by placing mortgage bonds in the amount of $\text{C}\text{428.7}$ million. It is reported that the latter amounts were basically provided through the Costa Rican government, which made these amounts available to prevent a crisis in the SNAP, due to the problems with La Vivienda. It is reported that the National Insurance Institute (INS), the Social Security Institution (CCSS) and other institutions provided up to about $\text{C}\text{400}$ million in the form of an emergency loan with unspecified repayment terms to that S & L.

Some of these major changes could be caused by cyclical factors, but the following table indicates the source was more probably a "run" on La Vivienda which affected the whole S & L system.

9

Comparative Balance Sheets of La Vivienda
First Semester 1986
(Colones Millions)

	<u>QMM</u> <u>12/31/85</u>	<u>QMM</u> <u>06/30/86</u>	<u>Change</u> <u>QMM</u> <u>85-86</u>
A. <u>Assets</u>			
1. Cash	90.3	14.7	(75.6)
2. Loans	915.5	995.6	80.1
3. Investments	485.6	147.6	(338.0)
4. Other	106.8	121.6	14.8
5. Total Assets	<u>1,598.2</u>	<u>1,279.5</u>	<u>(318.7)</u>
B. <u>Liabilities</u>			
1. Savings	59.7	37.5	(22.2)
2. Time Deposits	967.9	769.2	(198.7)
3. Mortgages (Bolsa)	209.5	110.0	(99.5)
4. DECAP Loans	159.3	155.6	(3.7)
5. AID Loans	107.1	114.4	7.3
6. Other	34.4	92.8	58.5
7. Total Liabilities	<u>1,537.9</u>	<u>1,279.5</u>	<u>(258.4)</u>

La Vivienda's total liabilities dropped by Q258 Million. It lost Q22.2 Million in passbook savings passbooks, Q198 million in time deposits, and Q99 Million in mortgage bonds. In order to cover these demands for payment, La Vivienda sold off Q338 million in investments and used up Q75.6 million in cash. This has effectively shrunk La Vivienda's balance sheet by about Q318 Million.

Although the immediate crisis is over, special attention is required to forecast the effects of this crisis on La Vivienda and the repercussions it could have on the overall S & L system. The gains made by the system in increasing its funding from local resources can be set back by this type of withdrawals.

The SNAP system has shown resilience in dealing with this crisis since in effect the system's total savings accounts decreased less than those of La Vivienda, but it is doubtful that it can withstand another crisis without additional emergency support.

In particular, the long range effects of this crisis on La Vivienda and SNAP should be reviewed in depth to determine the consequences it might have on the future viability of the system. The following are a sample of the financial effects that should be monitored:

52

1. La Vivienda may not be able to recover the funds it has lost in the private sector except over a long period of time. If government funds are not retained in La Vivienda, it may be unable to maintain its profitability and furthermore its ability to fund construction loans and meet its payment obligations may be jeopardized.
2. The loss of Q22 million in passbooks savings , when the average passbook is about Q2,000.00 means that it may take a long time to recover this volume and that in the meantime, the average cost of funds for the S & L will increase.
3. It is unknown at this time whether the SNAP will further deteriorate due to additional withdrawals or what effects this could have on cash flow and long term profits.
4. It is suggested that technical assistance funds be used to have here a consultant who can address the following two areas:
 - 1) long range financial impact of this drop in private investors' confidence on SNAP ability to perform;
 - 2) provide training and implement effective supervision of the SNAP operations in the local market and on their liquidity position.

PROFITABILITY

All of the S & Ls were showing a net loss and a negative return on assets in 1982. The system as whole reported net losses of £19 million that year. By 1985, the SNAP reported net profits of £39 million an increase of £58 million between those periods.

There are several reasons for this increase in the S & Ls profitability.

1. Cost of Funds and Composition of Assets:

One of the major factors in the losses that were reported in 1982 was the very high cost of funding, when compared to the low interest earned on their existing portfolio of long term mortgages with fixed interest rates.

The numbers show that in 1982, the S & Ls were losing £10 million in interest differentials, as the cost of funds was higher than interest earned. In 1982, as a result of negative interest earned, the S & Ls were unable to cover their administrative expenses, leading to even larger losses at year's end (£35 million).

The above situation improved greatly in 1985. The S & Ls showed positive interest differentials, totalling £87 million, which enabled them to cover a portion of administrative expenses. Three S & Ls were able to absorb all administrative expenses; the rest covered only a portion.

The increase in profit margins was due to several factors, among them the following:

- a. An increase in the interest earned on both mortgages and investments. In 1982, average interest earned on both was below 16%. By 1985, average interest earned was above 18%. The interest earned on mortgages increased by an average 3.3%, while interest earned on investments jumped by an average 6.8%, yielding a strong 21.6% return on these investments..
- b. A shift in the composition of revenues of the S & Ls. In 1982, interest earned on mortgages represented 86.5% of the total earned. By 1985, this percentage had dropped to 73.2%. The difference was picked up by interest earned on investments, which grew from 5.9% to 21.4%.

54

2. Administrative Expenses:

A second major factor in the losses reported in 1982 were administrative expenses, ¢25.2 million. These have grown by ¢62 million by 1985, to ¢87.4 million (24%), but have not increased noticeably as a percentage of total interest earned..

On the average, about half of administrative expenses are due to salaries paid; As a percentage of total assets, administrative salaries grew from 1.79% to 2.09%. There is an open question as to whether these administrative expenses can be reduced. It would require an in depth study to determine if the SNAP can become more efficient and such an issue is beyond the scope of this report.

However, the general impression is that the geographical distribution of the S & L's, the present volume of their operations and the difficult economic environment in which they operate would not allow substantial savings.

The six S & Ls were originally organized along geographical territories. Each had its main office in a provincial capital and addressed housing needs in the nearby areas. As a result of expansion, some have branches in other territories which they currently retain to increase their depositor base and as a convenient collection office for loans still outstanding. The advantages of the reorganization of the SNAP should be evaluated.

Until recently, all of the S & Ls managed their operations manually, since none had electronic or computer systems available. With the growth in volume and the high cost of managing and collecting on loans aimed at lower income groups, it is expected that these administrative expenses will increase.

The average size of a passbook is about ¢2,000 (or US ¢33) and the average size of a loan is ¢134,000 (or US ¢2,243). The S & Ls handle approximately 118,000 passbooks, 26,000 loans with monthly collections (10,000 of which are past due at least 60 days), and on any given day have some 800 outstanding operations in the stock market. To open a savings passbook, the minimum deposit is in the range of ¢25.00 to ¢100.00 each (US \$.42 to US \$1.66).

This is a large number of operations to manage manually, and there is a possibility that the sheer volume of transactions may overload the system, with a loss of quality and control in the SNAP.

Given the large number of loans past due, and from experience in recovery efforts in other private sector institutions, it is estimated that it takes three times as much effort to collect on loans of poor quality and in the re-sale of repossessed real estate, than to manage a normal operation that is current.

Annex I/B

In view of these needs, the impressions are that some improvements can be achieved, but that the Mutuales will in effect have to increase administrative expenses in excess of mandated salary increases in the future, in order to avoid a severe deterioration of the quality of their portfolio and the adequate financial control of their funds.

Based on the above, the Mutuales will have to increase their net interest earnings and their commissions in order to be able to absorb the expected higher administrative costs of their operations, without showing a loss in the future.

Alternatives available:

Given the strong market competition for scarce resources and the existing regulations within which SNAP currently operate, the alternatives available for the Mutuales are the following:

a) Reducing cost

- 1) Increase the number and size of savings passbooks to reduce the average cost. While the number and total amounts of the total "free savings" have grown impressively this growth is unlikely to keep up with the more intense competition existing currently. In real terms, the savings deposits have maintained their share of total liabilities, but have not grown. However, even if the total goal cannot be achieved, some increase in passbook accounts would provide substantial benefits and strong efforts to this end should continue.
- 2) Lower the cost of borrowing from DECAP. This possibility should be considered, if the latter is able to afford it.
- 3) Provide new low cost loans for a medium/long term period.

b) Increasing interest rates of loans

This would however make loans more expensive to the lower income groups, probably slowing down the speed of shelter construction. Payment of 22.5% p.a. for long term mortgages is already stretching the payment capacity of some of these sectors, as reflected in delinquent loans and interest averages.

However, the System should increase its efforts to expand its investments with its own resources in higher loans to families whose income is above the median which, in line with the procedure followed to charge higher interest rates on higher loans, could raise the average received for interest and commissions.

PAST DUE PORTFOLIO: HG - 007 LOAN

This section refers specifically to the past due situation of loans within the AID Housing Program.

As of June 30, 1986, the S & L System reports total HG-007 loan outstandings of \$465.5 MM, of which 869 loans are past due. By amounts, this represents 32% of total AID Loans outstandings.

Since the HG program is recent, this is a relatively high rate of past dues, which could be the result of several factors:

1. Weak credit analysis and approval process
2. Deficient collection efforts/insufficient collection personnel
3. Inadequate payment capacity of the borrower
4. Deterioration in the real income of the borrowers.

A more detailed study of the S & Ls' control systems and the borrower's income is necessary to pinpoint the areas which may be causing such a high delinquency. It is suggested however, that there may be omissions in the evaluation process that can be contributing to the problem:

1. Closing costs may be too high for a borrower to pay from savings, requiring him to borrow the funds. These might be financed as part of the loan, and legal fees might be negotiable by the S & Ls. Closing costs are in the range of 9% of the loan.
2. The lower income borrower seems to be qualified on his disposable income prior to becoming a homeowner, and the installments are scheduled to be no more than 30% of disposable income, at the time of borrowing.
3. There are additional expenses that are incurred when the borrower becomes a homeowner. (Land and other taxes, water and sewage, garbage collection, etc.), which may mean that the installment is too large a percentage of his disposable income after the loan is made.

The highest delinquency is registered in typology III, both by number of loans and by amounts. This would seem unusual since it is presumed that these borrowers are more capable of paying than the other typologies. 60% of delinquencies are concentrated in typology III and, with the exception of Heredia, all S & Ls show a worse past due situation in typology III than in the others.

Puntarenas and Guanacaste are particularly noticeable for their high delinquency in older loans, but La Vivienda and Heredia are fast approaching levels of past due that are not acceptable. The case of these two S & Ls is more serious because the level of delinquency they have reached cannot be

51

Annex I/C

justified from any standpoint since they are located in the main urban centers of the country, they are two of the first S & Ls, etc. On the other hand, Puntarenas and Guanacaste are new and are operating in areas that are deeply depressed and that the GOCR at present is trying to develop.

Lately, certain activities have been undertaken which in the future could improve the income of the local population. Furthermore, both provinces are very extensive, and with an urban sector only slightly developed and distributed among many small towns and some cities that could be considered secondary urban centers. The Puntarenas S & L, furthermore, has suffered from a serious economic slump affecting the area due to the closedown of large banana companies, which is a very serious problem at the national level. This, for example, is the case of the small city of Golfito, which depends heavily on banana production. The closing down of these enterprises has brought about an emigration from Golfito and the families that have emigrated have left their shelters behind. Something similar, but not so extreme and on a smaller scale, has happened in Guanacaste.

Due to the high number of loans that are delinquent and the strong physical effort that is necessary to contact and negotiate with 869 borrowers (especially given widespread geographical distribution), it is recommended that a joint collection effort of the S & L be studied. Given limited personnel of the S & Ls, it is suggested that a special collection team representing all the S & Ls might be more effective in the short term.

As additional indicators of the collection problem that the S & L System has developed, the following tables show the growth in unproductive assets reported by the S & Ls over the 1982 - 1985 period.

Interest Earned Uncollected
of Saving and Loan Association
1982 - 1985

	Colones Thousands		Growth %
	1982	1985	
Cartago	7,418	34,825	369
La Vivienda	6,251	69,534	1,008
Heredia	7,925	21,416	170
Alajuela	9,651	23,502	143
Puntarenas	1,151	14,420	1,153
Guanacaste	806	10,023	1,143
TOTAL	33,202	173,722	423

58

This table shows the amounts reported by the S&Ls of interest earned and uncollected. In 1982, this amounted to ₡33 million, versus the ₡173 million reported in 1985. This represents a 423% increase, with the largest growth noticeable in La Vivienda, Puntarenas and Guanacaste.

A consequence that follows parallel to the increase in delinquency, as a result of applying maximum collection action, that is, foreclosing on the mortgages to the point of auctioning off the houses, is that the S & Ls have replaced the asset of delinquent loans with an asset in real estate, which is the end result of an unpaid mortgage loan. This means that, on the one hand, the S & Ls have replaced their assets properly, but as regards liquidity or cash flow, this situation affects their operations and will continue to affect it until they can sell such real estate on the basis of granting new loans, etc. The following table shows the value of the properties that have been acquired by the S & Ls as result of non-payment, and after the case has been decided by the courts.

Repossessed Property of Savings & Loans Association

Colones Thousands

	1982 ₡ M	1985 ₡ M	Growth %
Cartago	1,506	14,661	873
La Vivienda	187	2,901	1,451
Heredia	983	1,294	32
Alajuela	2,868	21,261	641
Puntarenas	2,219	16,079	625
Guanacaste	569	971	71
TOTAL	8,332	57,177	586

All of the above lead to the conclusion that there has been a strong deterioration in the quality of the credit portfolio and that it is necessary to correct this tendency as soon as possible. The S & Ls in general have increased their efforts to improve collections and have implemented various collection procedures. DECAP, in turn, has been constantly insisting on this matter and in 1986 held two complete seminars with the full participation of the S & Ls, of lawyers, of experts in collection, etc.

Annex I/C

Nevertheless, and in spite of these real and appropriate efforts, the delinquency situation continues and in some cases has increased. Consequently, each S & L and the System as a whole should become increasingly aware of the seriousness of this problem that is having an increasing effect on their financial operations.

The use, by each S & L, of the resources originating in the balance of \$6 million of the program should be conditioned on their reducing delinquency to a given level within a specific period of time.

Evaluation of 515-K-040 - \$5 MillionA. Objectives Of The Program

The main objectives of the program are:

1. To strengthen the SNAP in Costa Rica by providing low cost medium term funding that would help the S & Ls recover from the losses of previous years.
2. To provide long term funding to the S & Ls that would enable them to continue to finance shelter solutions, emphasizing homes for Costa Ricans with incomes below the median level.

These objectives are set forth in Implementation Letter No. 11 and the documents described below.

AID Loan 515-K-040 is part of an Assistance Agreement dated Dec. 13, 1982, signed between AID and the Central Bank of Costa Rica, to promote financial stabilization and economic recovery. As amended on August 29, 1983, the loan is to be disbursed to the Central Bank, which in turn will transfer the proceeds in colones to the DECAP for the purpose of on-lending these to the S & Ls. The S & Ls are required to amortize the loans through sale of new or existing mortgages to DECAP. The beneficiaries of the mortgages may include families with incomes above the median, provided such financing is related to programs or projects in which not less than sixty percent of the mortgages or loans are for families of below median income. The S & Ls will complete the sale of mortgages to DECAP, thereby repaying the loan, within a period of five years from the date of the loan disbursement. Prior to final repayment date, the S & Ls will invest the funds in high yielding financial instruments for a minimum period of one year. The S & Ls will pay an interest of 10% p.a. on the outstanding balances, semi-annually.

B. Program Implementation

Loan K-040 was disbursed and transferred to the S & Ls on May 3, 1983. As shown in the following table, there was an adjustment to the colon amounts assigned to each S & L in February 1986. This was basically to provide the two weakest S & Ls, Puntarenas and Guanacaste, with the means to improve their profits. No redistribution of these amounts is currently expected.

DISTRIBUTION OF K-040 LOAN
BY SAVINGS AND LOAN ASSOCIATION

(Colones Thousands)

	<u>May 1983</u>	<u>February 1986</u>
	¢ M	¢ M
Cartago	58,000	47,000
La Vivienda	38,000	27,000
Heredia	26,000	24,000
Alajuela	33,000	29,000
Puntarenas	10,000	20,000
Guanacaste	10,000	30,000
Depto. Hip. (DECAP mortgage dept)	25,000	23,000
<u>TOTAL</u>	<u>200,000</u>	<u>200,000</u>

These amounts have been invested by the S & Ls in short-term (less than one year) high yielding financial instruments at an above average rate of return. This infusion of capital has not only strengthened the SNAP through increased profits, but it have also helped to attract additional sources of funds, which has contributed to the S & Ls' ability to finance additional housing units from their own resources.

This positive impact is most easily seen through a comparison of the S & Ls growth in assets and liabilities, and the effect on overall profitability, as described in the next section.

C. Financial Structure of S & Ls

The \$5 Million loan, in conjunction with the \$4 Million advance of HG loan 515-HG-007, has provided the S & L System with approximately ¢438 million, at a lower cost and for a longer term than is available in the local capital markets. This has substantially improved the financial structure of the Mutuales.

1. Growth in Liabilities

As a direct result of these loans, the liabilities of the S & Ls increased, but indirectly, they also created increased public confidence in SNAP, allowing the S & Ls to capture additional funding through their diversified operations.

Between 1982 and 1985, AID loans represent about 30% of total financial liabilities, but participated in the overall growth of the S & Ls' funding sources. The S & L s increases financial liabilities by ¢2,591 million, or an average 189% growth between 1982 and 1985.

62

Annex II

All S & Ls registered some growth in each type of funding source. Growth was strongest in the sale of mortgage participations through the local stock exchange (802%), followed by time deposits, which increased 229%. The smallest growth was in savings passbooks as a source of funds: 158%. The latter is much more important, however, as each colon increased in this account is worth 3 colones in time deposits, given their lower interest cost.

In summary the AID programs have contributed substantially to the stabilization of the SNAP and stimulated growth of other sources of funds available to it. As a result of this growth in short term resources, the S & Ls have been able to devote at least a portion of them to financing home mortgages for medium and lower income families.

2. Growth in Assets

Total assets grew 197% from ₡1,404 million to ₡4,177 million. The strongest growth was in short term investments in the local stock exchange and other private sectors. Included in the investments figure are the proceeds of the K-040 loan, which contributes to this large increase.

The smallest growth was in the mortgage portfolio, which increased 139%, to ₡2,940 million. Although this figure is not impressive relative to the inflation rate over the period, it does show that the S & Ls have increased loans for shelter by ₡1,710 million. The HG 007 program accounted for about one third of this amount.

In addition to strengthening the S & L System, the AID programs have provided stability and encouraged growth that has allowed the S & Ls to continue to service the housing needs of the country with their own resources.

NUMBER OF LOANS PRODUCED BY SNAP SYSTEM
1984 AND 1985

	<u>Number of Loans financed by S & Ls resources</u>	<u>Number of Loans financed by AID Program</u>	<u>Total Loans produced</u>
Cartago	839	857	1,696
La Vivienda	1,108	386	1,494
Heredia	401	257	658
Alajuela	685	227	912
Puntarenas	181	367	548
Guanacaste	146	253	399
DECAP Mort. Dept.	296	407	703
TOTAL	3,656	2,754	6,410
Amount in Colones (Millions)	1,593M	457M	2,068M
Average Size of Loan			
a) in colones thousands	436M	172M	322M
b) equivalent in dol- lars at ₡60.	7,266.00	2,866.00	5,366.00

This Table shows that during 1984 and 1985 the system generated a total of 6,410 loans. The S & Ls financed 57% of these with ¢1,593 million of their own resources. The AID program financed 2,754 units with ¢475 million. The average size of the S & Ls loans was approximately US \$7,266 while the average size of AID loans was US\$ 2,866.

In reviewing the growth in assets and liabilities of each separate S&L, it should be noted that Puntarenas and Guanacaste continue to show very unstable behavior. On the other end of the scale, La Vivienda persistently registers changes that are inconsistent with the average. It may be advisable to perform an in depth analysis of the latter to ensure that the large growth it shows is sound in the long term. The effects of the crisis in any one S&L might detrimentally affect public confidence in the others that could result in a withdrawal of funds from the SNAP. It is also suggested that DECAP perform an in depth analysis of each S & L on a quarterly basis. This could be done through the control unit that will be financed by the technical assistance grant to ensure detection of possible problems at an early stage.

3. Improved profits

The K-040 loan has contributed to the profitability of the SNAP. The S & Ls are earning the difference between the 10% cost of the loan, and the 21.9% average they can earn by investing these funds in local securities. The K-040 loan has therefore earned the S & Ls approximately ¢22 million per year, and are a major component of the net profit in the period. The S & Ls reported a net profit of ¢39 million in 1985.

In spite of DECAP's attempts to regulate the type of financial instruments that the S & Ls can invest in, it does not have the legal ability to effectively monitor them. It is assumed that a major portion of the loans are invested in short term, high yielding securities traded on the stock exchange, and that differences in earnings among the S & Ls are due to geographical location and access to the stock exchange, as well as to different qualities of management. Some unusual results are probably due to different accounting practices, which should be standardized.

No analysis of the cost of managing these resources has been made. It is assumed that it is not a meaningful amount as a percentage of the overall administrative expenses of each institution.

Since the conversion period ends in May 1988, it is expected that the S & Ls will be able to meet the deadline. Closer supervision of Puntarenas and Guanacaste and specific attention to La Vivienda is recommended to ensure the goal is met, or that the allocations are re-assigned on time.

D. Repayment of Loan through Sale of Mortgages to DECAP

In February 1986 only Cartago had sold mortgages to DECAP for ¢35 million. By June 30, 1986, Puntarenas and the Mortgage Department of Banco Crédito Agrícola de Cartago had brought the total sales to ¢60 million.

DECAP reports that the mortgages it has bought include the undiscounted portion of prior mortgage loans under a CABLI program which allowed eligibility for an entire project if at least 60% of the buyers had less than median income.

As of September 3, DECAP reported it had received and was reviewing 641 million in loan requests from Heredia, Alajuela and Guanacaste. Assuming all the latter loans qualify, the S & Ls will have converted 68% of the loans into mortgages.

The sole exception to the above is La Vivienda, which had not presented any mortgages for sale to DECAP. La Vivienda indicates it expects to complete the sale of mortgages to DECAP within six months, and will be submitting shortly 16 million. Puntarenas and Guanacaste estimate it will take them a longer time because they have to generate new loans, but should meet the final date of March 1988.

E. Role of DECAP

In its role as supervisor of the SNAP, DECAP has defined for the S & Ls the terms of borrowing, the procedures for handling funds, and the requirements that must be fulfilled by the loans that are discounted with DECAP. The following sections describe these operating frameworks.

1) Borrowing Terms

a) In accordance with the promissory note signed May 5, 1983, the Banco de Crédito Agrícola, as DECAP, promises to pay the Central Bank of Costa Rica the amount of 200,000,000.00 as follows:

1. 6 years of grace; first installment to be due 5-1/2 years after the first interest payment is made. A total of 29 payments every six months will be made:

- a) 10 installments of 4,950,000 each
- b) 10 installments of 6,950,000 each
- c) 9 installments of 9,000,000 each

2. Interest of 5% p.a. will be paid at the end of each semester.

DECAP reports it is current on interest payments to date.

b) In accordance with the Program's aims, DECAP in turn signed a contract with each S & L, on or about the same date, which incorporated the following major terms and conditions:

65

Annex II

- 1) The S & Ls borrow a specific amount in colones, for the purpose of investing the funds in securities of low risk and high return, such as Central Bank Stabilization Bonds. These investments would be retained for a minimum one year period.
- 2) The S & Ls are to repay the loan to DECAP by transferring to the latter new or old mortgage loans that fall below the median income, in accordance with the criteria established for these loans. The deadline for this transfer of loans is 5 years from the date the funds were received i.e., May 5, 1988.
- 3) In the event that an S & L does not provide evidence that it will be able to comply with the foreseen use of funds, DECAP can re-assign the funds and the S & L will be requested to prepay the unused portions.
- 4) The S & Ls will have to amortize the mortgage loans transferred to DECAP in 29 equal installments every six months. The first installment is due 5-1/2 years after the first interest payment is made.
- 5) The S & Ls will pay a 10% p.a. interest rate every six months.
- 6) The S & Ls agree to maintain adequate loan and investment records and controls.
- 7) The S & Ls agree that all interest earned on investments will be re-invested to ensure adequate returns on both principal and interest.
- 8) The S & Ls agree that DECAP can establish inspection requirements and that both AID and DECAP can examine documents and housing construction quality, as required.
- 9) The S & Ls will pay a 1% late fee in the event of delays of payment of interest or principal.

To date, the DECAP reports that the S & Ls are up to date on their interest payments. Principal payments are not due until 1988.

- 10) The S & Ls agree to provide DECAP with a new mortgage loan, in the event that those previously transferred to DECAP are delinquent more than 90 days, within the next month.
- 2) DECAP: Regulations for loans to qualify under AID program 515-K-040.
 - a) Purpose of loan: to finance mortgage loans to families whose incomes are at or below the median income level.

66

Annex II

- b) Types of operation:
 - 1) to purchase an existing house
 - 2) to purchase a lot and build a house
 - 3) to build a house on own land.
- c) Qualification of borrower: family income cannot exceed the median income level and the installment of interest and principal cannot exceed 35% of that income, except that projects can be financed when at least 60% of the buyers are at or below median income.
- d) Appraised value of housing unit (land and building) cannot be in excess of what a median income borrower can afford, calculated at 20 years, at the ongoing interest rate, and the maximum 35% installment limit indicated above.
- e) Loan amounts may not exceed 90% of appraised value, as approved by the S & Ls' appraisers.
- f) Interest rates are adjustable every 6 months, as established by DECAP.
- g) Loans can be for a maximum of up to 20 years and in all cases must provide a first mortgage on the property.
- h) Borrowers agree to obtain fire insurance on the property and to provide all necessary information.
- i) The S & Ls agree to adequately supervise and control work in process, to ensure the units are completed on time, and that the first payments are scheduled to coincide with the final delivery of the unit.
- j) The S & Ls agree to maintain adequate records in order to comply with the above requirements and the program, especially with regards to the accuracy of appraised values and to the household income.

In addition to the above, DECAP has sought to implement specific control accounts that would enable DECAP to monitor the effective use of funds.

From this overview, it seems that existing DECAP staff is insufficient to be able to effectively review and control the S & Ls' use of funds in detail, although it does seem to review the home mortgage loans more carefully.

The list of loans that have been transferred to DECAP indicate that borrowers' incomes range from £1,900.00 per month to £20,500.00 per month (US\$32.00 per month to US\$341.00 per month).

3) Conclusion and Expected Results

The major goals of loan K-040 have been met. First, it has provided the S & Ls with medium term, low cost funds that have increased the SNAP's profits. Second, it has helped stabilize the System with a reliable source of funds that has increased the operating volume from local private sources. Third, it has provided the country with foreign exchange and relieved the Government from an impending bail-out of the SNAP. Fourth, it is providing funding for low income shelter solutions through DECAP.

The need for sustained funding of this type cannot be overemphasized. It is especially necessary for the more troubled S & Ls such as Puntarenas and Guanacaste. It has low cost interest rates and low overhead.

Besides providing the SNAP with better profit margins which help to absorb both the more expensive HG-007 funds and administrative expenses, it seems to encourage confidence in the SNAP system, thereby allowing the S & Ls to operate in the stock market using it as a source to earn profits and to provide liquidity.

Consideration of additional or continuing funding of this nature should be matched with improved supervision of the S & Ls financial condition and their placements in the stock market. A part time consultant on both stock market regulations and with experience of "Treasury" functions may be rewarding.

This function could be assigned to DECAP's new control unit or to the recently formed Federation of S & Ls through additional seminars on stock exchange risks and regulations. This might have the advantage of providing higher volumes and better average yields to all S & Ls, regardless of geographical location or trading expertise of each individual S & L.

It is expected that the program will continue to meet its main objectives and that it will be concluded on time if effective supervision of the S & Ls is performed.

89

Annex III

3. Savings mobilization. In order to increase the resources of the S&Ls, a market study was to be performed, to analyze depositors' behavior and develop a marketing plan to attract new savings, including use of new instruments to capture more deposits. This study was completed with the assistance of the Federal Home Loan Bank Board.
4. Financial Planning/Organization Management. In order to improve long range planning of the S&Ls' financial condition, a computer model was to be designed and implemented through DECAP. The computer model or program was designed and follow-on training seminars were conducted by consultant Pedro Lasa. Subsequent financial analyses using various indices are being done by DECAP and the S&Ls, and have served to standardize the information that the SNAP uses. The model has provided a good format for analysis, but until all the S&Ls apply the same accounting techniques and concepts and both DECAP and the S&Ls use the financial indicators as an analysis and control measure, its usefulness as a planning tool will be limited.

Messrs. Pedro Lasa and Flavio Labarca also performed a survey on the organizational structure and staffing of the S&Ls. In addition, Mr. Mario Galeano made an in depth study of Puntarenas and Guanacaste. The consultants wrote reports making recommendations regarding the development of policies, internal procedures, organizational needs, training needs, etc.

From the comments of some of the S&Ls it would appear that with the analyses and reports that have already been done, the next step is to develop a long range plan to implement the recommendations through a unit in DECAP that can provide continuous guidance and participate in the execution of the recommendations.

5. Analysis of DECAP Regulations affecting S&Ls. An analysis of how policies are formulated, channeled and applied by the S&Ls and means to improve the adequacy of the regulations was prepared by Pedro Lasa in 1985. DECAP initiated some actions to improve its procedures and to preoccupy itself more so with the form and substance of its rules and guidelines. Completion of this work has been postponed until the new law creating a new mortgage bank is reasonably organized and functioning.

Annex III

6. Data Processing. Consultants were contracted to study the needs and to work on the design and application of a computer system for the S&Ls. This process had been slowed down by the difference in perceived needs of each Mutual, but they have finally agreed on a computer design and hardware that will be applicable to SNAP, instead of to individual needs. It is still necessary to determine if the hardware can be purchased within the existing budgets, or if financing will be needed.
7. Training. Several areas of concern have been identified, for training in-country and abroad. These have included seminars for employees and sought to involve policy makers of the S&Ls (the Board of Directors level) in order to provide a better understanding of the S&Ls.

B. Technical Assistance Contracted by DECAP and Progress of the Report

DECAP coordinates with the S&Ls and supervises the process whereby training courses are selected and local consultants are hired. It follows up on areas of interest to the S&Ls and contributes to the structuring of the seminars and description of the terms of reference for the local consultants.

DECAP also reviews the qualifications of attendants to the scheduled seminars, to ensure that the level and contents of the courses are appropriate for the candidates and their position within the S&Ls.

There is some evidence that the slow advance of the computer program is due to the lack of agreement among the S&Ls. In the specific case of implementing a computer system, discussions with the S&Ls were initiated in August, 1984. The bids were reviewed in November 1985, and in June 1986 a choice was made, initiating procedures to implement the contract.

The following list indicates the Technical Assistance that has been performed, as well as additional activities that are being considered.



Annex III

1) Technical Assistance Activities Completed:

Start	Dates		Work Performed	Commitment	Amount
	Start	End		US\$	Paid US\$
1/10/84	6/30/85	Resident Housing Advisor Mr. Flavio LaBarca	95,254.90	95,254.90	
12/11/85	9/30/86	Analysis of Computer Needs Mr. Rodolfo Calvo & Ronald Monge	14,111.00	8,256.88	
9/27/83	10/20/84	Financial Analysis of S&Ls Pedro Lasa	2,140.00	2,140.00	
8/01/84	10/20/84	Evaluation of DECAP Pedro Lasa	5,185.00	5,185.00	
4/14/85	09/29:85	Administrative Analysis and recommendations for Puntarenas & Guanacaste, Mr. Mario Galeano.	8,062.00	4,800.00	
1/27/86	11/02/86	Translation of U.S. S&L Technical Articles Mr. Edgar Heymans.	2,000.00	2,000.00	
8/06/84		Analysis and Recommendations to the S&Ls (colones)	128,077.90	116,961.78	
6/30/1986		Seminar on Property Appraisals	119,000.00		
1/02/86	1/27/86	Seminar on Introduction of PC Computer Uses	5,893.36	5,893.36	
8/22/83	8/24/83	Observation Trip to Honduras, re: construction of progressive shelter solutions for low income levels.	3,580.43	3,580.43	
3/11/84	3/17/84	Seminar on Financial Administration in Panamá.	5,808.94	5,808.94	
September, 1986		TOTAL	143,360.63	132,244.51	

Annex III

2) Technical Assistance Activities in Process and/or Proposed

Items that are reported to be in process

	<u>Budget US\$</u>
1. Evaluation of HC-007, K-04 and 188, (Mr. Eliécer Fernández and Elena Wachong)	25,000.00
2. Market Analysis of Home Improvement Loans (Bolivia: Mr. Eduardo Frías)	10,000.00
3. Design of Computer Processing Systems for S&Ls.	30,000.00
4. Establishment of Permanent Training & Control Department in DECAP - Preparation of Basic Training Courses. (Mr. Jorge R. Fernández)	10,000.00
a) Organization and Proposed Executive Management Seminar	12,000.00
b) Study of Laws & Regulations, related to Central Mortgage Bank, and S&Ls.	17,000.00
TOTAL	<hr/> 104,000.00

Annex III

C. Programs that are in Process or under Consideration

Training:

1. Seminar on appraisal of guarantees
2. Introduction to computers
3. Analysis of computer needs in SNAP Ing. Rodolfo Calvo & Ing. Ronald Monge (Requested by DECAP on Dec. 5, 1986)
4. Seminar on past due obligations. Dr. Alfredo Tapia (Requested by DECAP March 1986).
5. Seminar to introduce Mutuales to marketing techniques to increase savings. (Requested by DECAP, April 1, 1986).
7. Seminar on evaluation of construction projects (Requested by DECAP, March 21, 1986)
8. Seminar for Directors of S&Ls; Administration and Managerial Leadership (Requested May 5, 1986)
9. Formation of DECAP Control Unit. (Requested by DECAP August 9, 1985)
10. Seminar on accounting and administration for middle level personnel of Mutuales to include processing savings, loans and collections.

D. Expected Results and Recommendations

- a) Extension of PACD from November 2, 1986 to November 2, 1987

It is recommended that this date should be extended for 18-24 months. This is suggested for several reasons:

1. The S&Ls operate in different geographical locations and markets. Therefore, it takes a long time for them to agree on the common problems that can be addressed by technical assistance funds.
- 2) The S&Ls are not used to operating with the complex bidding system applied to government agencies. Implementation and progress towards stated goals and objectives is slow and difficult to achieve without substantial efforts being invested.
- 3) The number of qualified and interested consultants is not always available on a timely basis, either in Costa Rica or abroad. The lack of timely availability of key consultants has noticeably slowed down progress of this program.

13

Annex III

b) Suggestions:

To address some of the above problems, it is suggested that the TA program be used to fund a medium term local consultant who would be responsible to generate specific schedules and goals for the S&Ls and to participate in their long range implementation. This would include the application and supervision of all other related reports and recommendations, as well as promoting more timely solutions to administrative delays. It is foreseen that changes in regulations and market conditions will absorb more management time over the next year, leaving the S&Ls and DECAP with less ability to improve the speed of delivery of these programs.

- 1) In view of the long delays in selecting consultants and obtaining approvals from AID, it is also recommended that the "pool" of available consultants, both local and foreign be enlarged so that scheduled programs are not delayed beyond 3 months, as this may have negative repercussions on the development of the Mutuales.
- 2) It is important to complete contracting of the "DECAP Control Unit" personnel as quickly as possible, for the well being of the programs.

c) New Technical Assistance Needs

The areas that have been addressed by the consultants and training has provided a base of information that will allow the S&Ls to strengthen their administration in the long range.

It is suggested that in the short range, allocations be reviewed to address the following specific areas that can contribute to improved operations:

- 1) Allow a certain percentage of funds to be used to solve specific problems of each Mutual:
 - a) Puntarenas and Guanacaste require help in collecting their delinquent portfolios, which in some cases is spread over a rural area that is located up to 400 miles away.
 - b) La vivienda will need to stabilize depositor confidence and redress its liquidity position to become less dependant on temporary government funds which are supporting it now.
- 2) As part of the DECAP, or the recently formed Federation of S&Ls:
 - a) Consider formation of a "collection unit" that will help the S&Ls:
 - 1) reduce delinquent loans (at least \$150 Million) to generate cash,

Annex III

- 2) re-condition and sell housing units that have been repossessed by the Mutuales which amounts to approximately 257 million in 1985.
- b) Consider pooling the S&Ls' service needs within the Federation with regards to:
- 1) technical field supervision of construction actually underway,
 - 2) legal fees and collection fees from lawyers.
- c) Consider hiring a consultant who is experienced in the "Bolsa" that will help the S&Ls:
- 1) obtain the best return on investments,
 - 2) seek to develop new instruments that will enlarge the S&Ls ability to capture funds,
 - 3) counsel the S&Ls on control of their liquidity position and market shifts.

15