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**DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523**

**HOUSING GUARANTY PROJECT PAPER**

**Proposal and Recommendations  
For the Review of the  
Development Loan Committee**

PARAGUAY - HOUSING INVESTMENT GUARANTY

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AID-DLC/P-2119

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July 21, 1975

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Paraguay - Housing Investment Guaranty

Attached for your review are the recommendations for authorization of a housing guaranty in an amount not to exceed Four Million Dollars (\$4,000,000) in face amount, assuring against losses (of not to exceed one hundred per centum (100%) of loan investment and interest) with respect to loans by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing in Paraguay.

No meeting will be scheduled for this Housing Investment Guaranty. However, please advise us of your concurrence or objection as early as possible, but in no event later than close of business on July 28, 1975. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee  
Office of Development Program  
Review

Attachments:

Summary and Recommendations  
Project Analysis  
Annexes A - D

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Rate of Exchange: \$US 1.00 = 126 Guaranies



PART I THE PROJECT

A. Background

In May of 1971, the Housing Guaranty Review Committee approved using up to \$4 million of HG resources to support the growth of the then planned savings and loan system in Paraguay. In September of that year, AID made a \$100,000 technical assistance loan to the Government of Paraguay (GOP) related to the formation and development of that system. During 1972, AID and the GOP signed a development loan for \$2 million that is being used by the newly created National Savings and Loan Bank (BNAP), to purchase mortgages from the new S&L associations.

In September of 1974, in response to BNAP's continued interest in obtaining a HG loan, and at the request of the Mission, a SER/H team went to Paraguay to carry out a Shelter Sector Study. The team recognized the need to continue to support the S&L system and recommended that AID support be used to assist BNAP initiate new programs within the system aimed at improving the housing situation for low-income families.

On April 25, 1975, the DAEC approved in principle a HG loan for up to \$4 million to initiate such a program. While the PRP proposed a \$2 million loan, intensive review indicates that the system needs the higher amount to accomplish the desired objectives. BNAP and the League representing the three S&L associations, have confirmed their strong interest in participating in the program.

B. Project Description

The Housing Guaranty loan to the National Savings and Loan Bank of Paraguay (BNAP) is designed to encourage the savings and loan system of Paraguay to adapt its existing organization and capabilities to undertake, on an ongoing basis the financing, design and implementation of shelter programs for lower income families.

The Loan will make available up to \$4 million to the savings and loan associations of Paraguay to finance approximately:

- 1) 650 loans to improve, expand and complete existing houses occupied by low income families (average loan - \$750);
- 2) 750 loans to low income families who own lots to build a house "-self-help" (average loan - \$2000).
- 3) 625 loans for development and financing of contractor planned and built projects for low income families (average loan - \$3200).

In addition, BNAP and the S&Ls will receive short-term technical assistance to help them adopt their capabilities to administer programs for lower income families.

### C. Rationale

The intensive review of elements and factors bearing on this loan has revealed a positive and favorable environment in which to develop a lower income housing initiative.

An examination of the current AID program in Paraguay suggests that this proposed loan will complement the overall foreign assistance effort. AID inputs have been largely responsible for the development of the highly successful savings and loan system which finances a substantial proportion of the housing that is currently generated in Paraguay. The development of the savings and loan system has done a great deal to improve the housing outlook for middle-income families. The suitability of the savings and loan system, and the demand for such financing mechanism, is attested to by the success that the system has enjoyed. The project is a logical extension of the earlier AID efforts in Paraguay to expand the existing institutional network to reach lower income families.

The existing savings and loan system is responsible and well managed with a sound financial and institutional base. It is anticipated that the system will be able to make the needed adjustments in its staffing patterns to meet the new demands placed upon it by this project. There will be, however, areas in which short-term technical assistance will be needed to assure success of the project.

There is a suitable existing framework in Paraguay in terms of architectural and engineering capabilities to design and contract the housing that is contemplated under the loan. No difficulty is expected in obtaining the needed land, materials, or supplies. The construction industry has the capacity to absorb the work involved in the production of the contractor-built components of this program. The self-help elements of the program will continue using the same techniques and materials that have traditionally been utilized.

USAID/Paraguay has expressed its support for the Program.

### D. Recommendation

On the basis of the points raised and examined during the intensive review this project paper recommends approval for a guaranty loan in the amount of \$4 million.

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PART II      PROJECT ANALYSIS

A. Institutional Analysis

The HG loan will be channeled through the savings and loan system which, in Paraguay is composed of two entities -- the savings and loan associations and the regulatory institution, BNAP.

1. The National Savings and Loan Bank

BNAP, a government corporation established by Law No. 325 of December 10, 1971, commenced operations in July 1972. Its principal functions and responsibilities are to:

- a. Approve and charter savings and loan associations.
- b. Regulate and supervise the administrative, financial and technical operations of the chartered associations.
- c. Provide financial and technical assistance to the associations.
- d. Provide savings insurance on the accounts deposited with the associations.
- e. Provide mortgage insurance of the FHA type.
- f. Provide fire and other hazard insurance on the houses mortgaged by the associations.

BNAP is governed by a five-man Board of Directors comprising a chairman designated by the President of the Republic, one member named by the Minister of Economy, one member representing the Central Bank of Paraguay and two members representing the private sector.

The organization is composed of the Departments of Finance, Engineering Administration and Operations and Control. In addition, there are supporting staff functions of Internal Audit, Legal, and outside consultants. The total professional staff is about twenty five, which the shelter sector team has judged adequate for the present level of activities. However, the savings and loan system is growing at a significant rate, and corresponding expansion of the Bank staff is contemplated.

The Bank has been in operation for three years. All indications, including periodic financial reports, indicate that BNAP is a well organized and competently run organization. Certainly the success of the savings and loan organizations is due in large part to effective BNAP guidance.

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2. The Savings and Loan Associations

BNAP has chartered three savings and loan associations in Asuncion as follows:

Progreso, S.A.	January 1973
Hogar Propio, S. A.	February 1973
Ahorros Paraguayos, S. A.	December 1973

A fourth association will be operating shortly in Encarnacion.

It appears that the monitoring of the associations by the BNAP is thorough and extensive. The associations submit periodic reports giving a full picture of their operations - especially the status and activity of deposits and mortgage placements. Their success in attracting savings has already been documented. Mortgage terms are a minimum 20% downpayment, 11% interest rate, and up to 15 year terms. BNAP regulations permit terms up to 25 years, but it has been the associations' practice to allow not more than 15 years. All mortgage loans may be prepaid by homeowners without penalty.

The associations also provide construction financing at 11% with an added 5% one-time fee. The commercial bank rate for construction financing is 18% with additional fees.

Regarding the selling prices of the mortgaged houses, of the 833 mortgages placed to August 31, 1974, approximately 200 are on units under \$10,000, and these divide approximately equally among three categories: Under \$5,000, \$5,000 to \$8,000 and \$8,000 to \$10,000.

B. Financial Analysis

The financial soundness of this project is dependent upon two factors: the ability of individual borrowers to repay loans to the S&Ls and the financial viability of the implementing agencies. The recipients of individual loans, whether for purchase of a new home or for improvement of an existing structure, must demonstrate that family income is sufficient to make the required monthly home payments and yet still be able to cover other fixed non-housing expenses. It is assumed that a family can allocate 25% of its monthly income to housing and 15% to home improvements.

Based on this assumption, this program is affordable to the target group as follows:

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<u>Type of Loan</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Terms</u>	<u>Monthly Payment</u>	<u>Required Monthly Income</u>	<u>Approx. Population Percentile</u>
Buy lot & house	\$3,150	11%	25 years	\$31.37	\$125.50	50%
Build house on own lot	\$2,000	11%	25 years	\$19.61	\$ 78.44	30%
Home Improvement	\$ 750	11%	5 years	16.31	65.00	20%

The financial outlook for the two implementing agencies is bright. BNAP is operating slightly in the red, which is not uncommon for newly created institutions, given the high, one-time costs of initiating operations. Principal sources of income are contributions from the GOP, insurance premiums and commissions, and interest collected on loans to the savings and loans associations.

Considering the short time BNAP has been in operation, the financial picture is considered favorable and indicates a well-organized and competently-run organization.

The Bank is actively attempting to establish a secondary mortgage market in Paraguay as required by the AID seed capital loan, and has been attempting to interest commercial banks and insurance companies to buy its mortgages. Currently BNAP is allowed to sell individual mortgages but it will have to await passage of a new law before it can package and sell participations. The establishment of a secondary mortgage market, will, however, be a slow process and will not alleviate the Bank's shortage of capital in the reasonably near future.

The S&Ls were chartered with an initial capitalization of \$150,000 each. Since then they have been exceptionally successful in attracting savings deposits, and have far exceeded the most optimistic forecast in this regard. The savings accounts of the three associations as of December 31, 1974, were as follows:

	<u>No. of Accounts</u>	<u>Amount in Dollars</u>
Progreso	3,559	\$3,800,357
Hogar Propio	1,995	2,300,563
Ahorros Paraguayos	1,563	2,501,492

The interest rate on passbook savings accounts is 6% and on most time accounts 8%, all computed quarterly. These interest rates are attractive, especially in view of the monetary correction feature and the tax exemption provided by the GOP.

The associations are required to maintain a 10% reserve on savings accounts. Though the S&Ls have been very successful in attracting savings, the need to meet a tremendous demand for mortgage financing forced the associations to report to BNAP in January 1974 for additional mortgage funds. As of December 31, 1974, the associations had made the following mortgage commitments:

	<u>No. of Mortgages</u>	<u>Amount in Dollars</u>
Progreso	346	\$3,319,341
Hogar Propio	361	2,859,738
Ahorros Paraguayos	<u>300</u>	<u>2,917,524</u>
	1007	\$9,096,603

Currently, BNAP allows the savings and loan associations to charge an interest rate of 11%. The HG loan will be made available to BNAP at approximately 9-1/2% and to the homeowner at 11%. BNAP will retain 1/2 of one percent and the S&Ls will keep one percent. Other income is derived directly or indirectly from the HG loan. First of all by opening the system to a large new clientele there should be a considerable increase in savings - at an estimated cost of 6-8% per annum against the 11% earned from lending. Second, per current practices the S&Ls are assured a 5% one-time fee on construction loans made under the program. Third, the S&Ls will have the income derived from closing fees charged on all mortgages. Finally, the S&Ls will sell or otherwise dispose of their mortgages to raise capital which can be invested in new mortgage and thereby provide additional income to the system.

A further incentive to the system can be explained by the fact that only one year ago the Asuncion market for mortgages above \$15,000 was large enough that the S&Ls were not interested in smaller mortgages. Today the above-\$15,000 market is saturated and the \$10-15,000 level is becoming very tight. With an eye to the future, the Associations are very much interested in broadening their market bases to include mortgage for families earning below median incomes.

### C. Technical Analysis

As concerns architectural or engineering considerations, this project proposes no technical innovations. The design of this house is related to the traditional technology of the country; its marketability; possibilities of expansion and minimum cost. The contractor-built house will have two rooms, kitchen and bathroom with a total area of 32 m<sup>2</sup>, built on a 200 m<sup>2</sup>, lot.

The system of construction is the traditional type; cyclopean concrete footings, brick walls plastered on one side, cement tile flooring, clay tile roofing, wooden window frames and doors and electrical and sanitary fixtures. The proposed selling price of this unit as of September 1974 was around \$3,500 and the monthly payments would be in the vicinity of \$31/month.

The capacity of the construction industry is adequate for the undertaking of this program. Of the 70 builders in Asuncion 4 are large contractors and 20 are smaller ones capable of handling up to 100 unit housing projects. There is a capability of building 200 above-\$15,000 houses each month but currently that market is so saturated that only 50-100 of these units are being built. The trickle-down of this capacity only would be sufficient to absorb the demand of the contractor-built project component of this program. Furthermore, the opening of a new market should provide a favorable environment for the creation of additional construction companies.

In the past, the two greatest obstacles or risks which builders faced in working with projects for low-income families were their inability to secure construction financing and the inability of the low-income families to obtain mortgage financing. This program meets those problems head on by guarantying the availability of short-term construction and long-term mortgage financing.

#### D. Social Analysis

This HG project opens up the doors of housing financing institutions to people who were previously excluded.

The direct beneficiaries of this project will be those low income families <sup>1/</sup> who are able to obtain mortgage financing for new units or for self-help and home improvement loans through the S&L system. This project seeks to offer to Asuncion's lower income families a wide range of housing options designed to coincide with the families' varying capacities to repay loans. The self-help and home improvement loans will reach well below the 50th percentile income level while mortgages for contractor-built homes will probably be most appropriate for those families with near median incomes.

The Shelter Sector team estimated the profile of monthly family incomes in metropolitan Asuncion as of September 1974 as follows:

<sup>1/</sup> for further discussion on the target group refer to pp. 18-27 of the Shelter Sector Analysis distributed prior to DAEC consideration of the Paraguay PRP.

Monthly Family Incomes (U.S. Dollars)			No. of Families	Metropolitan Asuncion		
				%	Cum %	
\$ 10-	30	Target	6,567	6.91	- -	6.91
30-	61	Income	11,148	11.73	6.91-	18.64
61-	91	Group	14,816	15.59	18.64-	34.23
91-	122		14,512	15.27	34.23-	49.50
122	183		16,498	17.36	49.50-	66.86
183	244		10,844	11.25	66.86-	78.11
244	366		10,844	11.41	78.11	89.52
366	508		4,429	4.66	89.52	94.18
508	762		3,355	3.53	94.18	97.71
762	1,016		1,986	2.09	97.71	99.80
1,016	-		152	0.16	99.80	-

#### E. Economic Analysis

The most immediate and significant economic effect will be employment generation. Assuming housing built under this program is a new activity, i.e. that these units or improvements would not be built if the HG loan were not made, then new jobs will be created in the construction and building materials industries and related activities. There is a multiplier effect here which, if successful, could create a mass market for low-income housing and lead to even more employment in the building trades.

Construction costs in Paraguay have increased markedly since 1972 but the price of housing has risen at a slower rate than overall prices. <sup>1/</sup> It is not envisioned that this project will seriously impact either the cost or availability of construction materials.

On the macro economic picture, Paraguay has experienced relatively rapid economic growth in recent years and this is expected to continue. The Gross Domestic Product rose at 7.2% per annum in 1973 as compared with 5.3% in 1972 and 4.6% in 1971. On a per capita basis GDP grew at a rate of 4.4% in 1973, 2.7% in 1972 and an average of 2.1% during the previous decade.

Paraguay's impressive record of price stability has suffered a severe set back over the last three years. The consumer Price Index, which in 1965-1970 increased at an average annual rate of only 1.3%, rose in 1971 by 5%, in 1972 by 9.2% and in 1973 by 12.8%. For 1974, consumer prices rose at an annual rate of about 10%. On the side of wages, Paraguay labor laws require an automatic revision of minimum wages whenever the CPI increases by 10%. Although wages have increased by 25% since 1971 and are again due for revision, real wages have declined steadily. In Asuncion real wages declined by about five percent between 1969 and 1973. The Government is making a strong effort to curb inflation and keep the price-wage spiral under control.

## F. Policy Analysis

The GOP does not have an official housing policy. However, in studying existing GOP housing development and finance activities, indications are that there is, in fact, an implicit policy whereby the GOP has given its support to the private sector as the sector most responsible for housing finance. This Housing Guaranty program is in response to a request from BNAP (a government corporation), which is an indication that the GOP wants to encourage the private sector to meet the financial needs of low income families.

Other GOP "policies" which might influence this program include price and wage control, building standards and interest rates. A tough stand against inflation together with the pegging of wages to increases in CPI should help to assure that the housing needs of the target income group will continue to be addressed. Though metropolitan Asuncion requires that all construction be issued building permits, such permits are normally granted to lower-income families without charge or plan approval.

This program is consistent with AID's shelter sector policy, which states that, to the extent feasible, AID's shelter assistance should endeavor to address the shelter needs of the poorer half of a country's urban population.

## G. Issues

1. Consistent with the recommendation by the DAEC PRP review committee, the intensive review explored the feasibility of involving Credit Unions as sub-borrowers for home improvement loans.

Several issues, argue against including the credit unions as sub-borrowers at this time. There is presently a legal constraint to BNAP providing financing outside the S&L system. The credit unions lend to their members at a rate of 14% and have no readjustment mechanism.

If and when these legal and procedural questions can be resolved, it may be possible for CREPICOOP to become a sub-borrower. In the meantime discussions with BNAP and the S&Ls should recognize that the credit unions might be valuable to the program as a collection service or co-guarantor for loans to credit union members.

2. A second issue raised by the DAEC was related to downpayment and tax requirements connected with home financing. Downpayments, taxes and closing costs currently demand that the homebuyers have tremendous amounts of cash at closing. Downpayments of 20% are set by law and taxes and closing costs normally add another 10% to the purchase price.

BNAP is presently drafting legislation to reduce downpayments and taxes and otherwise lower the closing costs. Another possibility for easing the financial burden to the homebuyer at closings would be to permit legal closing costs to be included in the amount of the mortgage. Personal loans are not faced with the problem of high closing costs and downpayments.

### Part III. Implementation and Evaluation

#### A. Implementation Plan

The role of BNAP is to act as borrower of the guaranty funds on behalf of the GOP. In addition, BNAP will set up the general lending policy for the S&Ls; advertise, review and select proposals for contractor-built housing projects; establish criteria for primary loans; regulate and monitor the activities of the S&Ls for this program; allocate funds to the various S&Ls; repay the American investor; and administer the program implemented by the S&Ls. BNAP has basic experience in the processing, review and inspection of housing projects. It expects to boost its staff with two technicians and two administrative officers to handle the HG program.

The role of the three S&Ls is to make primary loans either to individuals purchasing units through builder-developed projects, or to individuals for home improvement and construction activities. The S&Ls will select and advise applicants, disburse the loans, make collections, and repay BNAP which, in turn, will pay the American Investor.

BNAP will provide the S&Ls with a program of norms and procedures to be used in dealing with lower-income families. Short-term technical assistance will be provided the associations to assist them in implementing BNAP directives, especially as they regard design and modification of applicants' self-help and home improvement plans. Each of the S&Ls presently have capable technical staffs which may have to be slightly augmented for this program.

The implementation plan calls for HG funds to be drawn down over a three year period. When the funds become available, it will be BNAP's responsibility to inform the S&Ls how much will be allocated to each institution for self-help and home improvement so that the institution can begin to make individual loans. For contractor built projects, BNAP will elicit proposals via competitive bidding open to all builders. BNAP will inspect and evaluate proposals on a "best project at lowest cost bases" and the winners will be apportioned to the various associations.

AID will provide BNAP with short-term technical assistance in the following areas:

- to establish and/or adopt the norms and procedures of credit review to lower-income families;
- to draw up the specifications for competitive bidding on the contractor-built projects for lower-income families;
- to clarify methods of loan collection from lower-income families;
- to mobilize savings from lower-income families;
- to draw up standardized self-help and home improvement plans for the use of lower income families;
- to adapt existing FHA-type insurance norms and procedures for shelter alternatives for lower-income families.

When BNAP lets the bids for contractor-built projects, the specifications will include a price ceiling affordable by median-income families. Any subsequent letting of bids will be subject to construction cost and income reviews. If the price of the house should rise to where it is no longer affordable by median-income families, reductions may have to be made in material or design standards.

Once a contractor built project has been completed, inspected and certified by BNAP, and once the prospective buyers' credit approval is obtained the S&Ls will make the mortgage loans at about 11%. While the S&Ls will continue to service the mortgages for a 1% interest, BNAP will purchase and seek to sell these mortgages in the secondary market in order to roll over its funds.

An individual wishing a self-help or home improvement loan will go to an association where he will fill out an application form and undergo credit and technical reviews.

Employment, salary and land title will be confirmed and co-signatures may be required. An applicant's proposed design will be reviewed by an S&L's technical department and if needed, modified or redrafted. If an applicant can provide no building proposals, the S&Ls will have standardized BNAP-prepared plans which may be suggested. The S&Ls may also provide advice on obtaining building permits and/or using local builders in a particularly tricky situation.

For small home improvement loans the S&Ls may now accept forms of collateral other than title, including personal signature loans for up to 2 years. BNAP realizes that a 2 year non-mortgage loan for home improvement is clearly too short a term for most low income families and therefore should be extended to at least five years. In the case of loans for purchase or construction of new homes, the S&Ls will issue mortgages insured and purchased by BNAP. Under the HG project, builders will be able to obtain construction financing through the S&L associations.

The self-help and home improvement components of the program would assist the savings and loan system to reach lower income families who already own a piece of land, with or without improvements. The S&L, with BNAP assistance, will put together building guidelines for potential borrowers, so that in most cases, the loans can be covered with BNAP mortgage insurance. There will be times, however, particularly in the case of home improvement loans, where the amount of the loan will be relatively small vis-a-vis the value of the lot and existing structures and the borrowers would not want to give a lien on his property. As an alternative, the S&L could make the loan on the personal recognizance of the borrower, or other collateral, both of which are permissible under existing BNAP regulations for the S&Ls.

The following conditions will be negotiated with BNAP as part of the Implementation Agreement. Prior to the first disbursement:

1. BNAP will submit for SER/H review and concurrence a program of norms and procedures for the technical and financial review of all lower-income applicants for shelter loans. Included within these norms and procedures will be adequate provisions to assure that self-help and home-improvement and contractor built mortgage loans are suitable for those families earning at the 50th percentile income level or below.
  2. BNAP will submit for SER/H review and concurrence a program for the implementation of competitive bidding for the contractor built homes related to this project. BNAP will also provide a plan as to how selected projects will be apportioned among the several S&Ls.
  3. BNAP will submit to AID satisfactory evidence that the mortgage terms, downpayments, loan periods and closing fees are suitable to the target income group.
  4. BNAP and the S&Ls will submit to AID detailed projections of their staffing plans over the duration of the drawdown period.
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**B. Evaluation Plan**

The Logical Framework (Annex A) outlines the basic elements of the proposed HG evaluation system to be used in Paraguay. Subject to further discussion on the adequacy of this Framework with the GOP, the borrower's implementation agreement will contain an evaluation plan that specifies the elements and frequency of periodic evaluations to be conducted, as well as assign responsibilities to the institutions that will participate in the joint evaluation.

Sector Goal

To increase the availability of housing stock for lower income residents by stimulating the private and public sectors to undertake financing, design and implementation of shelter alternatives for them.

Objectively Verifiable Indicators

1. An increase in the percentage of urban housing stock affordable to median and lower income families.
2. An increase in the annual production rate of housing for lower income families.
3. An increase in the number of self-help and home improvement loans.

Means of Verification

1. BNAP housing census.
2. Municipal building permit records.
3. BNAP and S&L records.

Important Assumptions

- Units are affordable by lower-income families.
- Private and public sectors will be motivated to design, finance and implement home improvement and housing projects.
- Housing delivery and financing systems not presently addressing shelter needs of lower income families.

Project Purpose

To increase the amount of self-help, home-improvement and mortgage financing accruing to lower income families.

End of Project Status (EOPS)

1. + 1950 lower income families reached through one of the 3 housing alternatives offered in this program.
2. HG resources fully disbursed.
3. Attainment of a level of domestic financing for target income group equal to level of HG financing.

1. BNAP, S&L and CU records.
2. SER/H records and in-county reviews.
3. BNAP and S&L records of funds earmarked for lower income housing.

- BNAP resources will permit it to continue to provide long-term financing for lower income families.
- There will be adequate demand for shelter alternatives offered.
- Developers will be willing and able to submit competitive proposals for housing projects for lower income families.
- Downpayments on mortgages will provide additional impetus to system.

Outputs

- 1. Technical and financial management staff within BNAP and S&Ls organized to implement lower income housing program.
- 2. BNAP prepares new or revised standards and procedures upon which to base technical and credit reviews for lower-income housing.
- 3. HG financed shelter loans for lower income families.

Inputs

- 1. HG loan
- 2. Short-term TA to BNAP and the S&Ls to adopt norms and procedures to deal with lower-income families in areas of credit review, drafting and modification of specs and plans, mobilization of savings and loan collection.
- 3. 10% downpayment by home-buyers.

Magnitude

- 1. Designation of new or existing staff to handle program.
- 2. New standards and procedures for low income housing.
- 3. a. ± 650 \$750 loans for home improvement.  
b. ± 750 \$2,000 loans to lot owners.  
c. ± 625 \$3,150 loans on contractor built homes.

Implementation Target

- 1. \$4 million
  - a. 2M for contractor-built projects.
  - b. 1.5M for self-built or owned lots.
  - c. \$.5M for home improvement.
- 2. 3-4 man months

Means of Verification

- 1. BNAP, S&L and CU verification.
- 2. - BNAP verification.  
- SER/H review
- 3. - BNAP, S&L records.  
- On site reviews.  
- Construction cost and income reviews.

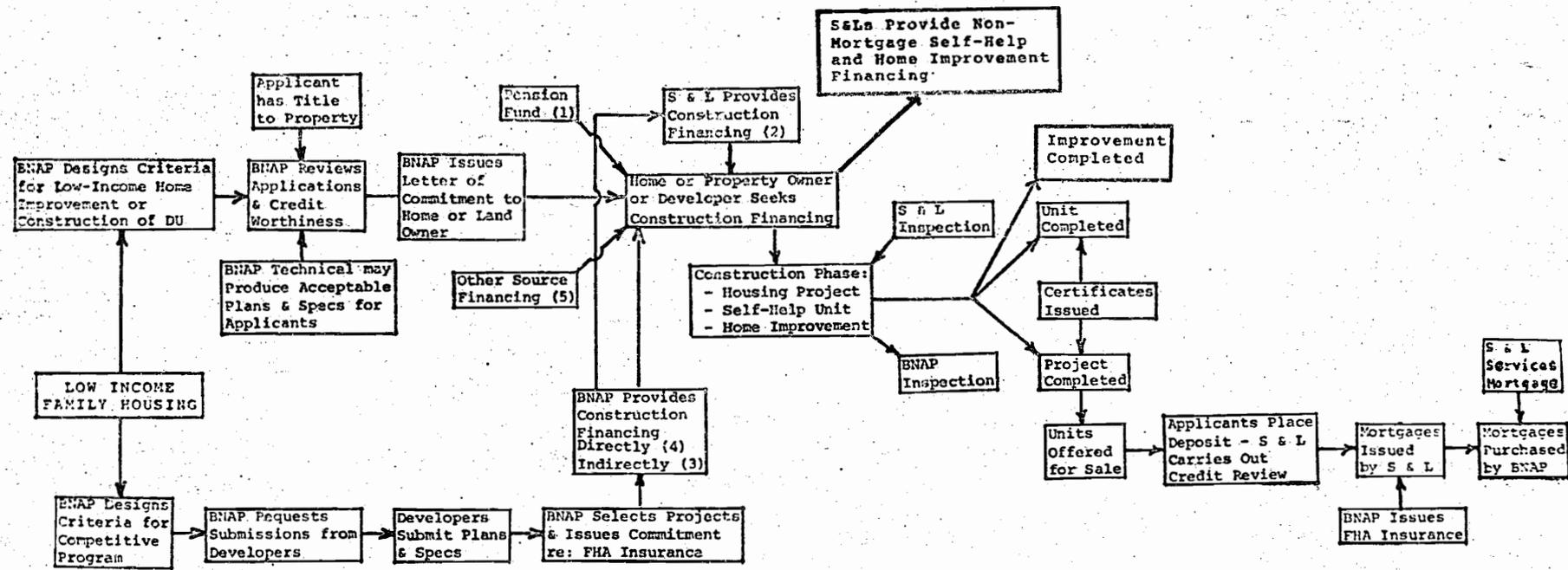
BNAP and S&L records.  
Consultant reports.

Important Assumptions

- With a small amount of training and slight increase in numbers, existing staffs at BNAP, S&Ls would have capacity to implement HG program.
- Technical and credit review standards will be somewhat lower than at present.
- There is an existing set of technical and financial standards.
- Possibility of increased portfolio motivates BNAP to concern itself with low-income home mortgages and to allocate staff.
- G.O.P. will guaranty H.G. loan.
- Limited H.G. resources can be allocated for T.A.
- Consultants with expertise in the area of designing and financing low income houses are available.

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FLOW CHART  
LOW-INCOME HOUSING PROJECT  
PARAGUAY



Banco Nacional de Ahorro y Préstamo para la Vivienda

BRAPV Nº 186/75

Asunción, 21 de Mayo de 1975.

Señor  
Oliver L. Sause, Director  
USAID/Paraguay  
C i u d a d

De mi consideración:

Es de su conocimiento que el Sistema de Ahorro y Préstamo del Paraguay cuyo desarrollo y dirección la Ley encomienda al Banco Nacional de Ahorro y Préstamo, ha logrado un éxito muy apreciable en los dos años y medio que tiene de existencia debido, primordialmente, que ha sabido captar la confianza del público en la eficiente administración e inversión de los ahorros privados. Lo anterior se debe en parte también al impulso que la A.I.D. nos dió para poner en marcha este mecanismo financiero de viviendas mediante el crédito para capital semilla que concedió al Banco en 1971.

Durante estos dos años y medio, el Sistema ha impulsado, a través de sus operaciones, la actividad constructora de viviendas para los sectores medios de nuestra sociedad a los cuales ha dado financiamiento por más de US\$12.000.000.-

Ahora bien, desde hace tiempo el Banco ha estado considerando los medios que le permitan orientar al Sistema hacia el financiamiento de viviendas de costo bajo para beneficiar a las familias de ingresos menores del país y con ese fin hemos decidido solicitar a la A.I.D. un crédito por US\$4.000.000. bajo el programa de inversiones garantizadas para viviendas. Este crédito será utilizado para facilitar la construcción, compra de vi-



*[Handwritten signature]* ...//..

*Banco Nacional de Ahorro y Préstamo para la Vivienda*

21.05.75.-

...//... Sr. Oliver L. Sause.

Hoja 2.-

viendas nuevas, mejoramiento de viviendas existentes, todas para familias que obtienen ingresos mensuales inferiores al ingreso mediano y sería implantado a través del Sistema paraguayo de ahorro y préstamo actuando el Banco en calidad de Proveedor/Administrador.

Sin otro particular, saludo a Ud., atentamente.



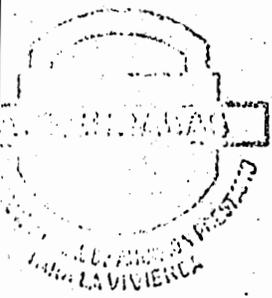
*Dr. Eligio Tomás Franco M.*

Dr. ELIGIO TOMAS FRANCO M.  
Presidente

ETFE/hlm.

NOTA: Hemos remitido en la víspera a A.I.D./Paraguay la Proyección Financiera 1975 y datos de Progreso del Sistema a Marzo/75.

BEST AVAILABLE COPY



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TRANSLATION

5/29/75 (C.L. Elmendorf)

NATIONAL BANK OF SAVINGS & LOAN FOR HOUSING

Asuncion, 21 May 1975

Mr. Oliver L. Sauce, Director  
USAID/Paraguay  
City

My Dear Mr. Sauce:

As you are aware, the Savings & Loan system of Paraguay, the development and direction of which Law entrusts to the BNAP, has enjoyed substantial success in its two and one-half years of existence, principally because it has been able to win the confidence of the public in the efficient management and investment of private savings. This has, further, been due in part to the stimulus that AID gave us to set in operation this system for housing finance, by virtue of the seed capital loan it gave the Bank in 1971.

In the course of their two and one-half years, the system has stimulated, through its operations, the construction of middle-income housing, to which it has supplied more than U.S. \$12 million of financing.

Well, now, for some time the Bank has been considering means that would allow it to focus the System on the financing of low-cost housing to benefit the country's lower-income families, and to this end we have decided to request of AID a loan of U.S.\$4 million under the HIG program. This credit will be used to facilitate the construction and purchase of new homes, and the improvement of existing dwellings, all for families with incomes below the median, and would be channelled through the Paraguayan Savings & Loan System, with the BNAP acting as Borrower/Administrator

With no further ado, I greet you cordially,

Dr. Eligio Tomas Franco F.  
President

P.S. We sent to AID/Paraguay the 1975 Financial Projection and data on the Program of the System to March 1975.

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20 de Mayo de 1975

032/75

Estimado señor Director,

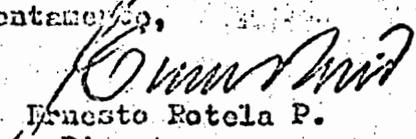
Nos es grato manifestarle que esta Cámara, en representación de las tres Sociedades que la integran, tiene interés en participar en la realización de Programas de Viviendas para sectores de población de menores ingresos.

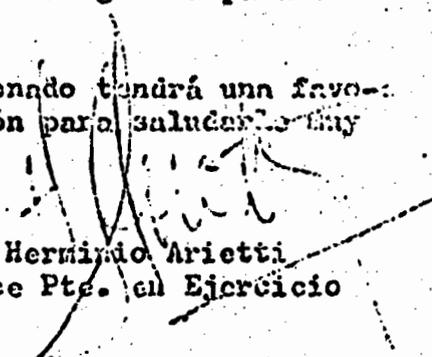
Para la concreción de esta idea, hemos formado una Comisión de Estudio que formulará los proyectos que permitan llegar a dicho objetivo.

Conforme a lo conversado con usted en la reunión mantenida últimamente, reiteramos nuestro deseo de obtener el asesoramiento técnico de funcionarios de A.I.D., especializados en Viviendas Económicas, para asesorarnos en este Proyecto.

Asimismo, esperamos poder contar para su ejecución con la ayuda financiera de los Estados Unidos, a través del Programa de Garantías de Inversiones de la Vivienda, de la Agencia para el Desarrollo Internacional.

En la seguridad de que el Proyecto mencionado tendrá una favorable acogida, hacemos propicia la ocasión para saludarlo muy atentamente.

  
Ernesto Rotela P.  
Director

  
Hernando Arietti  
Vice Pte. en Ejercicio

Señor  
OLIVER SAUCE, Director  
Misión Económica de los EE.UU.  
en el Paraguay.  
Av. Kubistchek y Mcal. López  
Asunción

ASUNCION, PARAGUAY

20 May, 1975

Esteemed Mr. Director:

It is our pleasure to advise you that this League, representing the three Societies that compose it, is interested in participating in Housing Programs for low-income sectors of the population.

To give substance to this idea, we have formed a Study Commission which will devise projects which will allow us to reach their goal.

Following our discussion at the recent meetings, we reiterate our wish to obtain technical assistance from AID experts specializing in low-cost housing, in connection with this Project.

In a like fashion, we hope to be able to count on the financial assistance of the U.S. in its (Project's) execution, through the AID/HIG program.

With confidence that this project will enjoy a favorable reception, we take this opportunity to greet you very warmly.

/Signed/

Ernesto Rotela P.  
Director

/Signed/

Herminio Arietti  
Vice Pte. en Ejercicio

Senior  
OLIVER SAUCE, Director  
Mision Economica de los EE.UU.  
en el Paraguay.  
Av. Kubistchek y Mcal. Lopez  
Asuncion

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A. STATUTORY CHECKLIST

Section 222 (b) (1) (2) (3) and (4):

The proposed guarantied loan will be for: (1) private housing projects of types similar to those insured by the Department of Housing and Urban Development; (2) credit institution projects as described in subparagraph 2 of this section; (3) housing projects for lower income families and persons as described in subparagraph 3 of this section and; (4) projects that support cooperatives as described in subparagraph 4 of this section.

Section 222 (c):

The total face amount of guaranties, including the one for the subject project, shall not exceed \$550,000,000.

Section 223 (a):

The A.I.D. guaranty fee will be in an amount consistent with fees previously charged for housing guaranties authorized by A.I.D. in accordance with the powers delegated by the President.

Section 223 (f):

The maximum rate of interest allowable to the eligible U.S. investor to be prescribed will not be more than one percent above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development.

Section 223 (h):

No payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible.

Section 238 (c):

The guaranty agreement will cover only lenders who are "eligible United States Investors" within the meaning of this section of the statute at the time the guaranty is issued.

Section 620:

There is no available information prohibiting the furnishing of assistance to Paraguay.

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DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D. C. 20523

GUARANTY AUTHORIZATION

Provided From: Housing Investment Guaranty

Paraguay: Banco Nacional de Ahorro y Prestamo

Pursuant to the authority vested in the Assistant Administrator, Bureau for Latin America, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed four million dollars (\$4,000,000) in face amount, assuring against losses (of not to exceed one hundred per centum (100%) of loan investment and interest) with respect to loans by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing in Paraguay.

This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans shall extend for a period of up to thirty years (30) from the date of disbursement of the first installment of the loans including a grace

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period on the repayment of principal not to exceed ten (10) years. The guaranty of the loans shall extend for a period beginning with the first disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.

2. Interest Rate: The rate of interest payable to the Investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223 (f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans.

3. Government of Paraguay Guaranty: The Government of Paraguay shall provide for a full faith and credit guaranty to A.I.D. in United States dollars assuring against any and all losses to A.I.D. by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable in dollars and shall be one-half of one per centum ( $\frac{1}{2}\%$ ) per annum of the outstanding guaranteed amount of the loans plus the fixed amount of \$40,000 to be paid as A.I.D. may determine upon disbursement of the loan.

5. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

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Assistant Administrator  
Bureau for Latin America

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Date

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