5380004.1

PD-AAF-242

CARIBBEAN REGION

INTEGRATED REGIONAL DEVELOPMENT

FY 72 - 81

PUBLIC SAFETY ADMINISTRATION PROJECTS (700 PURPOSE CODES)

NO ABSTRACT ENTERED IN THE DIS SYSTEM

AID 1025-1 (7-71) (PAGE SHEET)
NONCAPITAL PROJECT PAPER (PROP)

Attachment A to M.O. 1025.1
(TL 9:172)

PAGE 1 of __ PAGES

I. PROJECT IDENTIFICATION

1. PROJECT TITLE
Caribbean Development Bank
Housing Program Assistance

APPENDIX ATTACHED
☒ YES ☐ NO

2. PROJECT NO. (M.O. 1025.1)
538-11-995-004.1

3. RECIPIENT (specify)
☐ COUNTRY
☒ REGIONAL Car. Regional ☐ INTERREGIONAL

4. LIFE OF PROJECT
BEGINS FY 73
ENDS FY 76

5. SUBMISSION
☒ ORIGINAL August 10, 1972
☐ REV. NO. ____ DATE
CONTR./PASA NO.

II. FUNDING ($000) AND MAN MONTHS (MM) REQUIREMENTS

A. FUNDING BY FISCAL YEAR	B. TOTAL $	C. PERSONNEL (1) $	C. PERSONNEL (2) MM	D. PARTICIPANTS (1) $	D. PARTICIPANTS (2) MM	E. COMMODITIES $	F. OTHER COSTS $	G. PASA/CONTR. (1) $	G. PASA/CONTR. (2) MM	H. LOCAL EXCHANGE CURRENCY RATE: $ US ____ (U.S. OWNED) (1) U.S. GRANT LOAN	(2) COOP COUNTRY (A) JOINT	(2) COOP COUNTRY (B) BUDGET
1. PRIOR INPUT ACTUAL FY												
2. OPRN FY		15537										
3. BUDGET FY		12525.5										
4. BUDGET +1 FY		45	7									
5. BUDGET +2 FY												
6. BUDGET +3 FY												
7. ALL SUBS. FY												
8. GRAND TOTAL		325										

9. OTHER DONOR CONTRIBUTIONS

(A) NAME OF DONOR	(B) KIND OF GOODS/SERVICES	(C) AMOUNT

III. ORIGINATING OFFICE CLEARANCE

1. DRAFTED E. Lijewski	LA/DR/PED		TITLE Financial Analyst	DATE 8/11/72
2. CLEARANCE OFFICER F. Schieck	LA/DR		TITLE Chief, Lending Division	DATE 8/11/72

IV. PROJECT AUTHORIZATION

1. CONDITIONS OF APPROVAL

2. CLEARANCES

BUR. OFF.	SIGNATURE	DATE	BUR. OFF.	SIGNATURE	DATE
LA/DR	(DRAFT) H. Robinson	8/11/72	LA/OPNS	(DRAFT) H. Myers	8/11/72
LA/DR	F. Kimball	8/11/72	LA/CAR	(DRAFT) W. Wheeler	8/11/72
LA/DP	(DRAFT) S. Chernenko	8/11/72	SER/H	(DRAFT) P. Kimm	8/11/72

3. APPROVAL AAs OR OFFICE DIRECTORS

SIGNATURE [signature] DATE 9/28/72
TITLE Deputy U. S. Coordinator

4. APPROVAL A.I.D. (See M.O. 1025.1 VI C)

SIGNATURE N.A. DATE —
ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Herman Kline (9/28/72)

BEST AVAILABLE DOCUMENT

A. Statement of Goal

1. Goal:

To contribute to efforts of the Caribbean-area governments to alleviate the housing deficit in their areas.

2. Measures of Goal Achievement

a. A decrease in the present low-income housing deficit in the Caribbean area. Presently the annual low-income housing need for the area involved is estimated at 3200 units per year.

b. Satisfaction of one-third or more of the estimated effective mortgage demand for middle income housing over three year period from beginning of loan disbursements. This demand has been estimated at 2,910 units. The Secondary Mortgage market feature will enable an estimated 1,125 (or more) units to be built.

c. Generation of employment and business activities in housing and construction areas. Measures will be economic and business statistics for pre - and - post project periods.

3. Means of Verification

a. CDB reports

b. CDB member states economic reports

c. State-AID economic reports

d. Contractor reports

4. Assumptions about Goal Achievement

a. That no unexpected acceleration occurs in either new household formation or immigration into the Caribbean countries participating in the program.

B. Statement of Purpose

1. Purpose

a. Institute a low income housing program in the Caribbean area.

b. Create a Secondary Mortgage Market capability in the Caribbean Development Bank.

2. <u>End of Project Status</u>

a. Low-Income Housing

i)	1st year	=	0 units completed
	2nd year	=	500/600 units completed
	3rd year	=	1000 units completed
	4th year	=	1000/1500 units completed

b. Secondary Mortgage Market

i) Operational Secondary Mortgage Market measured by disbursements from AID loan for mortgage purchases estimated as follows:

1/4 of AID loan disbursed by 1st year
2/5 of AID loan disbursed by 2nd year
3/5 of AID loan disbursed by 3rd year
3/4 of AID loan disbursed by 4th year
100% of AID loan disbursed by 5th year

ii) Improvement in allocation of housing resources in area measured by middle-income housing construction undertaken in <u>all</u> areas of Caribbean showing no areas possessing abundant housing resources nor areas with extreme shortages of housing resources.

iii) Expansion of available mortgage funds for middle-income housing by <u>more</u> than $10.5 million (comprised of following inputs: AID Loan 4.0 million; HIG Guaranteed Loan - $2.0 million; CDB additional equity - $3.0 million; and Home owners new equity - $1.5 million) after loan disbursement is complete. The effect intended here is the attraction of more funds into the savings/housing system by the AID/CDB provided "seed capital."

3. <u>Means of Verification</u>

a. CDB Reports

b. Contractor Reports

c. Loan Status Reports

d. HIG Status Reports

e. PAR

4. Basic Assumptions for Achievement of Purpose

a. That an AID loan of $10.3 million composed of $6.0 m for low income housing, $4.0 m for Secondary mortgage markets, and $300,000 for T.A. to the CDB, is made to the CDB, and that an AID Guaranteed Housing Loan of $2.0 m is made to the CDB.

b. That CDB provides pari passu with the AID loan and AID Guaranteed Housing loan $3 million in equity financing for the Secondary Mortgage Fund; and that mortgages provide $1.5 m in equity.

c. That public or private institutions will respond to CDB's assistance to low income housing programs.

d. That local governments contribute land and urbanization costs as well as any construction costs over $10 per square foot.

e. That the U.N.D.P. provides its agreed-upon technical assistance input.

f. That no undue delays are encountered in loan/project implementation.

C. Statement of Project Outputs

1. Outputs

i) Formulation of housing program criteria.

ii) Develop application forms and procedures for handling/processing.

iii) Development and publishing of housing standards under low-income program.

iv) Conducting of further market analyses in each island.

v) Formulation of Secondary Market procedures.

vi) Review site selections, refine housing standards, negotiate program activities with local authorities.

vii) At the local level, provision of in-service training and seminars on overall aspects of the program, resulting in increased and strengthened CDB and local institutional staff, together with enlarged budgets supporting the expanded program.

2. Output Indicators

i) Formulation of housing program criteria to be completed during 1st year.

ii) Applications Procedures and Forms designed to be completed during 1st year.

iii) Publishing of Housing Standards to be completed during 1st year.

iv) Further market analyses conducted during 1st year.

v) Secondary Mortgage Market procedure formulated during 1st year.

vi) Applications processed, site selections reviewed, housing standards refined, program negotiated with local authorities; begun during 1st year and continuing each year.

vii) At the local level, providing in-service training and seminars on overall program aspects, resulting in increased and strengthened CDB and local institutional staff, begun during first year and continuing each year.

3. Means of Verification

a. Quarterly reports from CDB.

b. Quarterly reports from Contractors.

c. Loan Status reports.
d. HIG Documentation and Reports

4. Assumptions for Achieving Outputs

a. Same as for purpose, plus:

i) That no significant (more than 10%) loss of trained technicians occurs at any level or institution important to the program.

D. Inputs

1. Inputs

a. $75,000 for one and one-half years of short term specialized assistance in the secondary market field under contract with a U.S. secondary market facility, such as either F.N.M.A., F.H.L.M. Co, or G.N.M.A. as follows:

1st year $50,000 13 man-months
2nd year $25,000 6.5 man-months

b. $250,000 for three years of short-term specialized assistance, with a non-profit operation such as FCH, at the low income level, as follows:

1st year	$105,000	24 man months
2nd year	$100,000	19 man months
3rd year	$ 45,000	7 man months

2. Implementation Target

	FY 73	mm	74	mm	75	mm
Low income =	$105	(24)	$100	(19)	$45	(7)
Secondary Market	$ 50	(13)	$ 25	(6.5)		
TOTAL	$155	(37)	$125	(25.5)	$45	(7)

3. Means of Verification

AID/W disbursement records and contractor plus CDB report.

HIG Disbursement records.

4. Assumptions for Achieving Inputs

a. That $10.3 million loan is made to CDB as contemplated and that $2.0 million HIG Guaranteed loan is made by a U.S. investor.

b. That funds for T.A. are available.

c. That CDB provides its inputs, both financial as well as personnel as required by the project.

E. Rationale

(The technical assistance provided by this grant is complementary and essential to the financial assistance accorded the CDB through the $10.3 million authorized loan. The following narrative-rationale draws heavily from the Capital Assistance Paper (CAP); additional details can be found in the CAP.

1. Background

The eight territories comprising the lesser developed members of the Caribbean Development Bank (Antigua, Dominica, Grenada, Montserrat, St. Kitts/Nevis, St. Lucia, St. Vincent and British Honduras) have a population of approximately 650,000 and by 1980 should have a population exceeding 750,000. They have an increasing housing deficit and increasing unemployment. In the lower income levels, there have been some sporadic attempts by governments to build housing, primarily for rent, but the total has been miniscule in comparison to the need. In the middle income area adequate long-term financing is lacking.

In 1967, the Barall Report suggested several forms of regional activity in the field of housing, including a regional secondary market patterned after the Federal National Mortgage Association (FNMA) in the United States. The Barall Report was never implemented. The Caribbean Development Bank, however, has recently been subjected to pressure by its members to do something about housing, particularly low income housing. As a result, the CDB requested assistance from AID at two levels: (1) a concessional loan which, coupled with CDB equity, would help create a secondary market for mortgages generated by savings institutions dealing mainly with middle income families, and (2) a concessional loan which, coupled with local contributions, would permit reaching low income families through low-cost housing programs. A precedent exists in the Caribbean in the recent AID loan to the Jamaica Mortgage Bank.

Taken individually, the needs and capabilities of the above mentioned territories are so small as to make difficult any approach on an individual country basis. Collectively a limited secondary market is feasible and a pattern of assistance to low income families can be developed.

Following CDB's application to AID for loan financing, a team of low cost housing and secondary market experts visited the East Caribbean to explore with the CDB the feasibility of the proposed approaches and made recommendations embodied in the loan paper.

2. Nature of the Project

a. Primary, Low Income Housing Program

The CDB is desirous of meeting the pressing political, social and economic needs of the East Caribbean. A plan has been devised for sub-loans to public or private non-profit bodies for the development of low cost housing projects. Because of the cost of even basic construction, some subsidization is essential. This will be in the form of capital, and possibly debt service contributions by the local territories.

In essence, sub-loans for construction will be made to local institutions at 4% per annum amortized over 20 years. These will be coupled with local contributions of land and urbanization, and of construction costs exceeding EC$10.00 (US$5.50) per square foot.

Presently, the cost of construction ranges from a low of EC $9 per square foot in Dominica to EC$13.50 in St. Lucia to EC$21.00 in Antigua. In lieu of outright sales supported by home mortgages, houses will be assigned on a Hire-Purchase arrangement with the occupant obtaining title at the end of twenty years. During that period, the occupant will pay 4% per annum on a maximum loan of EC$5,000 (US$2,800) for the house (costs in excess of this amount will be covered by capital contributions of the host territory). Occupants will also pay 2% per annum on the EC$5,000 (US$2,800) to cover maintenance and management.

It is contemplated that, with possible savings in construction costs will range as low as EC$2700 (US$1800). On the basis of 25% of occupant income for debt service, there is a market in for low income housing. Because it is customary in the islands to pay anywhere from 33% to 50% of personal income for rent, strict adherence to a 25% of income ratio is not necessary. Moreover, there is a sufficient gap between the incomes of "low" income and "middle" income families to provide a cushion of demand.

Subsidies are a normal form of assistance for low income housing programs throughout the world. Written down land values is the most painless form of subsidy for governments. Absorption of part of the interest is another tool. The Caribbean follows this pattern.

Over a four year period (the first year will be a programming, pre-construction phase), the housing construction industry in the islands has the capacity to build over 3000 dwelling units as compared to the 2200 estimated to be built from the initial $6,000,000 loan.

b. Secondary Mortgage Market

The need for a secondary market in the Caribbean for home mortgages has been apparent for a number of years. The resources of existing thrift and mortgage institutions serving the various territories in the area, taken individually, are of limited volume, liquidity and mobility. Collectively, however, these institutions represent a relatively substantial source of housing funds if a way could be found to coordinate and augment them. The Caribbean Development Bank (CDB), which has been in operation for approximately two years, could achieve these goals through establishment of a secondary mortgage operation. The resulting increased liquidity and access to additional resources would make possible accomplishments that the individual institutions by themselves are not able to achieve. With this as background, Sir Arthur Lewis, President of the CDB, on December 21, 1971, requested A.I.D.'s assistance in establishing a secondary mortgage market operation in the Bank.

A feasibility study of the project was conducted April 10-28, 1972 by a team which included personnel from A.I.D.'s Latin American Bureau, the A.I.D. Office of Housing (SER/H), the International Affairs Division of HUD, and the Federal Home Loan Mortgage Corporation, a recently created secondary mortgage operating agency for the U.S. savings and loan industry.

(1) Nature of a Secondary Mortgage Market

A secondary mortgage market is created when an entity purchases home mortgages or participations in them from original lenders (generally home finance institutions) at price sufficient to yield to the purchaser a return adequate to cover the cost of money to it, its administration costs and servicing costs. Purchases may be of existing mortgages or, where the situation warrants, in the form of advance commitments for mortgages existing at the time of transfer to the CDB.

The secondary market provides a means for providing liquidity to participating primary lenders, for geographically redistribuding resources as the situation permits and warrants, and for tapping resources not otherwise available for home mortgages.

In order to secure a continuous flow of funds to the mortgages originating institutions, the purchase of mortgage loans from primary lenders has to be combined with the marketing of CDB securities designed to augment funds available for housing. CDB plans to pool mortgages or participations purchased from primary lenders with other assets against which it will issue general obligations backed by its guaranty.

CDB does not wish to divert funds from existing sources into the secondary mortgage market, but rather intends to develop new sources fo funds. CDB, therefore, plans to take the necessary steps to tap some of the capital expatriated by foreign-owned commercial banks and insurance companies for investment in the secondary mortgage facility. Other sources of financing may include international borrowings, such as those made available through A.I.D.'s Housing Guaranty Program. The effective pooling of housing mortgage demand by the CDB through the secondary mortgage market technique provides a market sufficiently large to interest international lenders whereas individual local institutions do not.

By virtue of its ability to provide the resources for home financing and the conditions for their use, CDB will be in a position to influence substantially the direction of housing and housing finance policy in its area.

3. Technical Assistance

Technical assistance is needed for both aspects of the project: low income housing and secondary market. Through this PROP AID proposes to provide technical assistance on a grant basis in the amount of approximately $325,000 over a three year period.

a. Secondary Market:

Grant funds in the amount of approximately $75,000 will be provided for technical assistance from U.S. sources to assist the CDB in establishing rules and regulations for purchasing mortgages, procedures for issuing bonds and other obligations of the CDB to raise funds for continuation of the program, techniques for determing yields, and in establishing proper accounting procedures. It is proposed that a contract will be entered into with a qualified institution such as the Federal National Mortgage Association (FMNA), the Federal Home Loan Mortgage Corporation (FHLM) or the Government National Mortgage Association (GNMA) to provide a package of technical assistance on a programmed basis. The professional skills will be provided on a short-term basis and will include a secondary market generalist, loan administrator, accountant, statistician, Financial Manager and Auditor over a one and a half year period. A precedent for estimating technical assistance requirements and costs is the FNMA contract with the Jamaica Mortgage Bank using the same technique of short term specialists. This T.A. contract for similar services with the Jamaica Mortgage Bank and FNMA was budgeted at $50,000 for one year. The proposed assistance to the CDB for longer duration is budgeted at $75,000.

b. Low Income Housing:

This part of the program requires technical assistance at two levels, the CDB and the sub-borrowers. The CDB has been advised by UNDP that it will fund a full-time three year resident adviser to advise the CDB on low cost housing techniques, design and project development, and to help the CDB expedite and coordinate use of the loan funds. This technical adviser will be supported by short term advisers, AID grant funded at a cost of approximately $105,000 in the first year, $100,000 in the second year and $45,000 in the third year for a total of $250,000.

In the first year the emphasis would be on programming and the development of criteria and standards. The second year would see the beginning of construction and occupancy procedures. The third year would be one of evaluation and providing assistance based upon the earlier years' experience and would move more heavily toward management. Experts would be experienced in low income housing programming, market analyses, design and site planning, management and collection techniques and in cooperative approaches to low income housing.

Narrative Statement: Goal	Measures of Goal Achievement	Means of Verification	Important Assumptions
To contribute to efforts of the Caribbean-area governments to alleviate the housing deficit in their areas.	a. Decrease, or no worsening, of present low-income housing deficit in area. (Present annual low-income housing need estimated at 3,200 units/year.) b. Satisfy 1/3 or more of middle income housing mortgage demand over next 3 years (demand estimated at 2,910 units; this program will enable est. 1125 units to be built.) Baseline data obtained from CAP paper. c. Generate employment and business activities in housing/construction areas, as measured through economic and business statistics. (See CAP for measures.)	Regional and local reports. CDB reports. Contractor reports.	No unexpected acceleration in immigration or new household formations in area

ANNEX A - 1

arrative Statement: Purpose	End of Project Status	Means of Verification	Important Assumptions
. Institute a low-income housing program in Caribbean area :. Create a Secondary Mortgage Market capability in the .. .CDB.	1. Low-Income Housing: a. 1st year = 0 units completed 2nd year = 500/600 units comp. 3rd year = 1000 units completed. 4th year = 1000/1500 units completed. 2. Secondary Mortgage Market a. Operational Secondary Mortgage Market measured by disbursements from AID loan for mortgage purchases estimated as follows: -1/4 of loan by 1st yr. -2/5 of loan by 2nd yr. -3/5 of loan by 3rd yr. -3/4 of loan by 4th yr. -100% of loan by 5th yr. b. Improved allocation of housing resources in area as measured by middle-income housing construction undertaken in <u>all</u> areas of Caribbean. .. Expansion of available mortgage funds by minimum of $10.5 million after 3rd year. (See text for composition of these funds.)	CDB reports. Contractor reports. Loan Evaluation Reports. HIG Status Reports PAR	..a. That AID Loan and AID Guaranteed Housing Loan are made to CDB. AID loan of $10.3 million composed of: -$6.0m for low-income housing -$4.0 m for secondary mortgage market -$ .3 m for TA to CDB. b. CDB and homeowners' additional equity accompanies AID and AID-HIG inputs. c. Institutional response to CDB's assistance to housing. d. Local governments contribute land and urbanization and land costs over $10/sq. ft. e. UNDP provides T.A. input. f. No undue delays in loan/project implementation.

N

Outputs	Magnitude of Outputs	Means of Verification	Important Assumptions
Development of:		CDB Quarterly Reports Contractor Quarterly Reports Loan Status Quarterly Reports Loan Evaluation Quarterly Reports HIG Documentation and Reports	Same as above, plus: a. That majority of technicians trained at all levels do not leave their jobs.
1. Program Criteria	1. Complete within 1st year.		
2. Applications Forms/ Procedures.	2. Complete within 1st year.		
3. Housing Standards	3. Complete within 1st year.		
4. Market Analyses	4. Complete within 1st year.		
5. Secondary Market Procedures.	5. Complete within 1st year.		
6. Negotiate Program with local governments.	6. Begin in first year; continuing.		
7. Train CDB and local authority housing officers.	7. Begin in first year; continuing.		

Inputs	Implementation Target						Means of Verification	Assumptions
Tech. Assistance Personnel:	FY 73	mm's	74	mm's	75	mm's	AID Records HIG Disbursement Records	a. That AID loan to CDB is made; that HIG Guarantee loan by US investor is made to CDB.
a. to CDB's Low-Income Housing Program.	$105	24	100	19	45	7		b. That funds for T.A. are available.
	50	13	25	6.5				
b. to CDB's Secondary Mortgage Market feature.								c. That CDB interest in housing continues. Provides required financia and personnel inputs.
	$T.155		$125		$45			

ILLUSTRATIVE BUDGET

A. Low Income Housing

First Year: $105,000 — 24 man months

	Man Months
Senior Housing Programmer	4
Site Planner	4
Architect	4
Construction Engineer & Material Man	2
Marketing Consultant	2
Management/Consultant	3
Training Specialist	1

Second Year: $100,000 — 19 man months

	Man Months
Programmer	2
Architect	4
Site Planner	2
Construction Engineer	6
Marketing Consultant	2
Management/Administration Consultant	2
Training Specialist	1

Third Year: $45,000 — 7 man months

	Man Months
Architect	1
Construction Engineer	2
Marketing Consultant	1
Management/Administration Consultant	2
Training Specialist	1

If done through FCH, the above costs would also include overhead and backstopping.

B. Secondary Mortgage Market

First Year	$50,000	13 man months
		Man Months
Accountant		3
Loan Administrator		5
Statistician		1
Auditor		1
Financial Manager		2
Generalist		1

Second Year	$25,000	6 1/2 man months
		Man Months
Accountant		1.5
Loan Administrator		2.5
Statistician		.5
Auditor		.5
Financial Manager		1
Generalist		.5