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BOLIVIAN SAVINGS AND LOAN SYSTEM

**FINANCIAL AND ADMINISTRATIVE
EVALUATION REPORT**

NOVEMBER 17, 1971

TO: Peter M. Kimm, Deputy Director
Office of Housing
Agency for International Development
Washington, D. C.

THROUGH: James D. Klink, Project Director
National League of Insured Savings Associations
Washington, D. C.

FROM: Charles A. Bacon, Fiscal Inspector
National League of Insured Savings Associations
Washington, D. C.

HOUSING GUARANTY PROGRAM

Contract No. AID/csd-3317

EXPLANATION

The following terminology and symbols will be used in the present report:

Caja	Caja Central de Ahorros y Prestamos para la Vivienda, a legal entity organized and existing under the laws of Bolivia.
Associations	Collectively, the eight savings and loan associations legally established in Bolivia under the supervision of the Caja.
La Primera	
La Promotora	
La Paz	
El Progreso	
Guapay	
Tarija	
Sucre	
La Plata	
Project	Project No. 511-HG-003 for \$3.6 million
Investor	Federal Home Loan Bank of New York, a corporation organized and existing under the laws of the State of New York.
AID Fiscal Agent	American Security and Trust Company
Loan Agreement	Loan Agreement dated as of September 5, 1969, related to the Project
Implementation Agreement	Implementation Agreement dated as of September 5, 1969, related to the Project
Decree-Law	Decree-Law No. 07585 issued by the Military Junta of Government on April 20, 1966, establishing the Caja and the S&L associations.

EXPLANATION (continued)

By-Law Minister of Finance's Resolution
No. 333/66 dated June 1, 1966.

\$B Bolivian peso, official currency.
Exchange rate as of September 30,
1971: \$B 12 to \$1.

State Bank New name for the Central Bank
of Bolivia.

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- Exhibit 8. Savings accounts.
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PART I

A. SUMMARY OF MAJOR FINDINGS

1. A new association is scheduled to be opened in 1971. (See C. 3)
2. In addition to Project No. 511-HG-003, AID has granted 4 direct loans to the Bolivian savings and loan system in the total amount of \$2.2 million. (See D. I. 9)
3. The availability of funds of the Caja and the participating associations in the "Los Pinos" project proposed by the Caja ("La Primera" and "La Paz") amounted to \$B7,723,000 as of September 3, 1971. (See D.II.9)
4. The ratio of the operating cost to the loan portfolio of the system was 6.06% in 1970. (See E. 2)
5. The system's total financial cost amounted to 47.04% of the total cost (operating and financial costs) in 1970. (See F. 1)
6. Project 511-HG-003 yields only a gross income of 2.125% to the Caja, and 1% to the associations. (See G. 8. and G. 9.)
7. The Caja has already requested the full amount under the Loan Agreement on Project 511-HG-003. (See G. 12)
8. The Caja prefers to pay the AID special fee itself rather than to have the guarantee of the Bolivian Government. (See H. 2)
9. The Caja has been very prompt in making its payments to the AID Fiscal Agent. (See L. 2)
10. There has not been a currency devaluation in Bolivia since 1966. (See P. 4)
11. The Caja is already prepared to start operating the secondary mortgage market. (See Q. 3)

12. The Caja underwrites FHA, Life, and Disability Insurance. (See R and S)

13. The Caja is ready to provide savings insurance as soon as the legislation is approved by the appropriate government agencies and the political timing is right. (See T. 5)

14. The Caja and the associations are exempted from paying taxes. (See U. 1)

15. A significant amount of money has already been spent in promoting the system. Also, the Caja contemplates launching a special publicity campaign for its "Los Pinos" project. (See W. 1 and BB. 7)

B. CONCLUSIONS

1. The Caja's and the associations' operating procedures conform in a generally acceptable manner, to their governing law and by-law. (See Part III, B)

2. The administrative structure and staff organization of the Caja and the associations are adequate to handle their current volume of operations. (See Part III, C.)

3. With the new association scheduled to be inaugurated on November 18, 1971, the savings and loan system will be spread out to cover the most important locations in the country. (See Part III, C. 3)

4. Generally speaking, the officers and employees from the Caja and the four associations visited were found to be well trained, conscientious and disciplined. In particular, it can be stated that their key men, including the members of their respective boards of directors, are capable, dedicated and conservative thinking businessmen. (See Part III, C. 6, 7 and 8)

5. Exhibit 3 discloses that the Caja and the association "La Primera" seem to keep excessive idle cash in banks. (See Part III, D. II. 7)

6. According to the cash flow of Project No. 511-HG-003 prepared by the Caja, the Caja would have no difficulty in making its payments to AID Fiscal Agent during the period October, 1971, through 1976. (See Part III, D. II. 8)

7. Neither the operating cost of the system nor that of the Caja or the associations seem to be exaggerated. (See Part III, E)

8. The ratio of the operating cost to loan portfolio appears to be reasonable and fairly consistent among the four associations visited. (See Part III, E. 2)

9. From the analysis of the financial cost it seems that the external financing represents a high cost for both the Caja and the associations. This, of course, contributes to the financial weakness of the system. (See Part III, F)

10. The Caja's interest differential (2.125%) provided by Project No. 511-HG-003 is not significantly contributing to the Caja's capitalization. The associations' interest differential being still lower (only 1%) is an even less significant contribution to the associations' capitalization. (See Part III, G. 8 and 9)

11. The Caja having requested the maximum amount of \$1,450,000 established by the Loan Agreement, during the lending period of November 1, 1970, to October 1971, and also having presented eligible first mortgages as collateral for this draw-down are evidences of the Caja's capability to properly handle Project No. 511-HG-003. This should also be regarded as an indication of the strong potentiality of the housing market in Bolivia. (See Part III, G. 12)

12. The Caja's fear that the Bolivian Government might try to establish some control on the system's operation, should the Government be requested to guarantee the Caja's borrowings, is probably well founded. (See Part III, H. 2)

13. The provision of the Decree-Law, Article 3, that states that the Caja's operations shall enjoy the guaranty of the State of Bolivia, apparently is too broad a statement. It is therefore questionable whether the Caja's borrowings should be covered (guaranteed) in light of this article. (See Part III, H. 3)

14. The experience of the associations with regard to prepayments and satisfactions from mortgagors under Project No. 511-HG-003 has been very encouraging. (See Part III, I. 3)

15. Penalty interest rates being different from one association to another is an inconsistent practice that should be discouraged. (See Part III, J. 1 b and N. 2)

16. The delinquency ratio of the system is satisfactory. Judging by the final results, it can be fairly stated that the collection procedures and the effectiveness of its implementation are also satisfactory. (See Part III, K. 1)

17. The State Bank's practice of applying both a purchase and a sales exchange rate on the Caja does not seem justified nor fair in this particular case. The State Bank has been making a good profit from their rate of exchange conversions from these transactions, and will continue making a profit at the Caja's expense. (See Part III, L. 8/ 11)

18. The sections of the new manual of procedures already completed by the Caja have a professional look. Also they have been well prepared and are quite descriptive. (See Part III, N. 1)

19. The dividends that the associations are financially able to pay on savings accounts prevent them from competing with the State Bank and commercial banks. It seems rather difficult to expect a savings and loan system to thrive when it is unable to even equal the interest rate prevailing in the local financial market. (See Part III, O. 3)

20. It is questionable whether the computation basis (the original amount of the mortgage rather than the unpaid mortgage balance) to determine the life and disability insurance premium is fair from the mortgagor's point of view. In light of the actuarial studies conducted, however, it seems apparent that this is the only way for the Caja to financially be able to undertake the risk involved, especially considering its impossibility of having any co-insurance. (See Part III, S. 3)

21. Failure of the associations to conform to generally accepted accounting procedures makes it difficult to group accounts for consolidating purposes, financial analysis, and to gather statistics on the system. (See Part III, X. 4)

22. Biographical data of the Coordination Committee's members of the "Los Pinos" proposed project, as well as those of the key personnel of the designed new administrative structure of the Caja, are highly satisfactory. (See Part III, BB. 2/4)

23. The Caja and "La Primera" and "La Paz" associations can be regarded as capable of administering the "Los Pinos" housing guaranty project proposed by the Caja. This conclusion, however, is subject to the implementation of recommendations under Part I, E. 1 (a) and (b).

24. Based on an overall appraisal of the Bolivian savings and loan system, it can be concluded that its basic structure is administratively and organizationally sound. However, the lack of adequate capital seems to be the weak link in the system. Obviously, the system has never been able to attract either sufficient external financing or savings for it to

capitalize and function properly.

25. The lack of adequate capitalization and a more aggressive lending policy has evidently prevented the Caja from enlarging its loan portfolio. A more substantial portfolio would have generated more income, enabling the Caja to wipe out its deficit and to be able to create the reserve fund required by the Decree-Law.

26. A summary of major reasons supporting the conclusion that the Bolivian savings and loan system is financially weak follows:

a) The system's inability to attract adequate external financing or savings for its capitalization. (See Part I, E. 7)

b) The high cost of some of the loans and sub-loans made available to the system. (See Part I, B. 9)

c) The losses in currency conversion due to the State Bank applying both a purchase and a sales exchange rate charge on the Caja. (See Part I, E. 1 (c))

d) The system's financial inability to compete with the State Bank and commercial banks in the attraction of savings accounts. (See Part I, B. 19)

27. The foregoing statement, however, should not be interpreted as an indication of a foreseeable economic collapse of the system. Rather, general conditions seem to be propitious for introducing additional monies into the system. The management, directors, and other key men of the Caja and the associations feel that there is a strong potential housing market and that the public has confidence in the Government and the economy as a result of the political situation having changed favorably last August. Judging by the personal impression of businessmen, professionals, and other qualified individuals contacted in Bolivia, the optimism expressed by representatives of the system seems to be well founded. It is very significant that none of the opinions

expressed by such persons are contrary to the general optimistic attitude which seems to be prevalent throughout the country. Therefore, it should be stressed that the system needs to receive appropriate additional economic support in order to grow and be able to properly fulfill the objectives of its creation.

C. ACTION TAKEN

1. The Caja officials were instructed on the report forms the associations must use (Form AID-5, 6/68) in order to properly convey to the Caja the information required by A/H. (See Part III, Z. 2)

2. The president and other officers of the Caja were to make sure that its internal regulations and accounting procedures are consistently complied with by all associations. (See Part III, N. 2 and X. 4)

3. The same officers were urged to complete as soon as possible procedures manual now being prepared by the Caja. (See Part III, N.1)

D. FUTURE ACTION

1. The National League will follow up on the implementation of its recommendations to the Caja mentioned above.

E. RECOMMENDATIONS TO A/H

In light of the findings and conclusions resulting from the evaluation of the Bolivian savings and loan system, the suggestions shown below are presented to A/H for their consideration:

1. Look upon the advisability of including the following as conditions precedent in the event that the "Los Pinos" new housing guaranty project proposed by the Caja is finally approved:

(a) The Coordination Committee shall continue functioning, with its present staff structure, throughout the lifetime of the proposed

project to coordinate, control, and supervise all operations affecting the project which the Caja and the participating associations may perform. (See Part III, BB. 2)

(b) The Caja's new administrative structure shall be put into effect the way it has been designed by the Caja. (See Part III, BB. 4)

(c) A special agreement satisfactory to AID shall be entered into by the Caja and the State Bank providing for the Caja to receive the same exchange rate for all its dollar transactions (selling and purchasing) through the State Bank or any other authorized institution. (See Part III, L. 8)

(d) The Caja shall make the necessary arrangements in order to submit to A/H quarterly financial statements of the Caja and "La Primera" and "La Paz" associations, and annual audit reports by independent auditors satisfactory to A/H, beginning with those of December 31, 1971.

2. Request both an A/H legal advisor and a local attorney form the USAID Mission to Bolivia for their interpretation of the Decree-Law, Article 3, reading as follows:

"Crease la Caja Central de Ahorros y Prestamos para la Vivienda de duracion indefinida y cuyas operaciones gozaran de la garantia del Estado (de Bolivia)."

English translation:

"The Caja Central de Ahorros y Prestamos para la Vivienda is hereby created. The Caja shall have an indefinite duration and its operations shall enjoy the guaranty of the State (of Bolivia)." (See Part III, H. 3)

3. Consider the feasibility of requesting the Bolivian savings and loan system to partially finance the purchase of the land for the "Los Pinos" proposed project out of the availability of funds of the

Caja and the participating associations "La Primera" and "La Paz".
(See Part III, D. II. 9)

4. Consider also the feasibility of A/H authorizing the Caja to rediscount with the State Bank a designated amount of the first mortgages presented by the Caja as collateral for its borrowings under Project 511-HG-003, in order to generate funds for the Caja to finance part of the cost of the land of the "Los Pinos" proposed project. If A/H goes along with this proposal, such an authorization from A/H should be with the understanding that the mortgages so rediscounted would gradually be redeemed by the Caja as the "Los Pinos" project houses are sold. This would prevent disbursements to the Caja under Project 003 from being without collateral for an unnecessary length of time.
(See Part III, BB. 5)

5. Request USAID and "La Primera" to reconcile their accounts in connection with the "San Miguel" Project. Since the amounts involved apparently are significant, it is desirable to straighten out these accounts as soon as possible in order for "La Primera" to be able to fairly present its financial position. (See Part III, AA. 1)

6. Request the USAID Mission to cause to be performed an evaluation of the accuracy and sufficiency of the insurance and other reserves established by the Caja. (See Part III, R. 4 and S. 4)

7. Consider the feasibility of granting a direct loan to the Caja in the amount of \$1 or \$2 million as seed capital, the actual amount of the loan to be determined according to: a) the effective demand as may be determined from a market analysis recommended to be performed in Bolivia, and b) the updating of previous studies of the Bolivian savings and loan system performed or caused to be performed by the Mission. (See Part I, B. 27)

8. It is suggested that the seed capital loan provide adequate funding, tentatively in an amount of up to \$25,000, for technical assistance to help the Caja to review and reorganize the system's accounting, auditing, and operating procedures, with particular emphasis on establishing adequate provisions for more aggressive lending policy. (See Part III, N. 2 and X. 4)

9. It is also suggested that, should the "Los Pinos" Project be finally approved, the technical assistance recommended above be extended to the supervision of the implementation of the loan and administration agreements.

PART II

INTRODUCTION

A. SCOPE OF WORK

On September 15, 1971, Mr. Daniel Driver, Housing Officer, AID Office of Housing, requested the National League of Insured Savings Associations to perform the following services:

1. Analyze the administrative and financial structure of the Caja and "La Primera" and "La Paz" associations.
2. Evaluate the performance of these organizations under Project No. 511-HG-003.
3. Recommend administrative changes necessary for these organizations to undertake the "Los Pinos" project proposed by the Caja.

B. WORK DONE

In order to comply with the above mentioned request, a field visit was made during the period September 15 through 29, 1971.

Information contained in this report was gathered from official records of the Caja and the four associations visited and in-depth discussions with key officers of these organizations.

Care has been taken in presenting a report that (a) describes existing conditions, (b) draws rational conclusions, and (c) makes detailed recommendations.

The distribution of the final printing of this report was delayed because the author was requested to perform another important assignment in the Dominican Republic. Therefore, the final draft of this report was issued before traveling, with the understanding that the final printing would be issued upon the return of the author.

C. OFFICERS CONTACTED

In carrying out this assignment the following officers were contacted:

USAID Mission to Bolivia

Mr. Ronald G. Russell, Acting Chief,
Capital Development Office
Mr. Ernesto Garcia, Housing Officer,
Capital Development Office

Caja

Mr. Ernesto Wende, President
Mr. Jaime L. Cajias, Director
Financial and Administrative Division
Mr. Luis F. Moreno, Director
Insurance and Audit Division
Arq. Eduardo Frias, Director, Technical Division

"La Primera" Association

Mr. Jorge Fernandez, General Manager
Mr. Federico Mercado, Deputy Manager

"La Paz" Association

Mr. Raul Vivado, Manager
Mr. Luis Ibarguen, Technical Advisor
Miss Mary Carmen Garcia, Accountant

"Guapay" Association

Mr. Ernesto Wende, President
Mr. Juan M. Parada, Manager
Mr. Oscar Coronado, Legal Advisor

"La Promotora" Association

Mr. Antonio Villegas, Manager
Mr. Augusto Zelaya, Accountant

PART III

FINDINGS

A. BACKGROUND INFORMATION

1. In 1961 the promoters of the savings and loan movement in Bolivia headed by Mr. Ernesto Wende, President of the Caja, made their first attempt to promote and create a savings and loan association in La Paz. As there was no appropriate legislation in existence, the initial effort of the founders was concentrated in securing legislations for the savings and loan operation.

2. In 1963 a Supreme Decree was enacted by the Government of Bolivia and the first institution of this kind (Asociacion Mutual de Ahorros y Prestamos para la Vivienda "La Primera") was legally established in the country in June 1964 under the supervision of the Central Bank of Bolivia.

3. "Guapay," "La Promotora" and "El Progreso," currently having legal status as associations, were then established as branches of "La Primera" in Santa Cruz, Cochabamba and Oruro respectively. Santa Cruz and Cochabamba are the most important cities in Bolivia, next to the capital city of La Paz. Oruro is an important mining center.

4. USAID has assisted the Bolivian savings and loan system by means of extending invitations to the officers of the Caja and some associations to participate in housing, and savings and loan conferences in Chile, Peru, and Brazil.

B. OPERATION

1. The Decree-Law, Article 12, empowers the Caja to do the following:
 - a) Grant and revoke charters and supervise the savings and loan associations.
 - b) Dictate rules and regulations governing the system, including interest rates.
 - c) Insure savings accounts and mortgage loans made by associations.
 - d) Approve readjustments of savings accounts and mortgages according to fluctuations of established economic indexes.
 - e) Establish a reserve fund and invest it in housing loans or real estate for the Caja's own offices.
 - f) Contract debts.
 - g) Issue bonds and notes.
 - h) Approve loans to associations and review deposits from same.
 - i) Guaranty loans secured by associations from external sources.
 - j) Promote and encourage savings.
2. The Caja is only empowered to grant loans to the associations.
3. There are no savings and loan institutions in Bolivia other than those chartered by the Caja.
4. Article 20 of the Decree-Law also provides that the associations shall be authorized to receive savings deposits and to grant housing loans.
5. Article 31 of this legislation establishes that the associations shall be governed by their general assembly and by their board of directors, "according to their statutes, to this Decree-Law and to the pertaining regulations".

C. ADMINISTRATIVE STRUCTURE

1. The Decree-Law, Article 1, establishes that the Caja and the savings and loan associations are juridical and non-profit entities, created for the purpose of promoting savings and to provide for construction, purchase, and improvement of houses.

2. The following is the composition of the Bolivian savings and loan system:

<u>Entity name</u>	<u>Location</u>
Caja Central de Ahorro y Prestamo para la Vivienda	La Paz
Asociacion Mutual de Ahorro y Prestamo para la Vivienda "La Primera"	La Paz
Asoc. Mutual de Ahorro y Prestamo "El Progreso"	Oruro
Asoc. Mutual de Ahorro y Prestamo "La Promotora"	Cochabamba
Asoc. Mutual de Ahorro y Prestamo "Guapay"	Santa Cruz
Asoc. Mutual de Ahorro y Prestamo "Tarija"	Tarija
Asoc. Mutual de Ahorro y Prestamo "Potosi"	Potosi
Asoc. Mutual de Ahorro y Prestamo "La Plata"	Sucre
Asoc. Mutual de Ahorro y Prestamo "La Paz"	La Paz

3. A new savings and loan association is scheduled to be opened in Trinidad, the capital city of the Beni, the geographical location of the richest cattle raising industry in the country, on November 18, 1971.

4. The present staff structure of the Caja is as follows:

<u>Administrative Division</u>	<u>Number of Employees</u>
Board of Directors	
Executive President	1
Legal Department	2
Insurance, Audit, and Promotion Dept.	4
Accounting Department	3
Technical Department	1
Secretarial pool	2
Total	<u>13</u>

5. According to the Decree-Law, Article 5, the Caja's members of the Board of Directors may be re-elected for an indefinite period of time. The present Board of Directors was re-elected in March, 1971.

6. The following is a background of the members of the Caja's Board of Directors:

Ernesto Wende, President

Founder and leader of the Bolivian savings and loan system, he works full time for the Caja. Besides being a capable and concerned executive, he is a highly respected and civic-minded person.

Oscar Parada, Vice-President

Manager of the Bank of Santa Cruz, La Paz branch, and former manager of the Central Bank of Bolivia.

Col. Oscar Angulo, Director

Government representative re-appointed by the new government. Former director of CONAVI, the Bolivian Government housing authority for low-cost housing projects and former manager of several construction companies.

Gaston Guillen, Director

Financial director of the Bolivian Development Corporation (a government institution), former bank director of the Ministry of Finance and former manager of the Central Bank of Bolivia.

Dr. Hugo Alfonso Salmon, Director

Legal Advisor of the Project Coordination and Control Office of the Ministry of Finance, and the France Press representative in Bolivia.

7. All heads of departments of the Caja are professionals. Their background shows good training and experience in the financing field and in savings and loan operations.

8. The organization of the typical association is shown below:

Board of directors

Manager

Legal Counsel

Technical advisor

Savings officer

Loan officer

Accountant

Cashier

Secretary

Office Clerk

D. FINANCIAL STRUCTURE

I. CAPITALIZATION

1. In the first stages of the Bolivian savings and loan system, its promoters requested financial assistance from the government, but no help of this nature could be secured as the National Treasury had no funds

available for this purpose. The same request was then made to USAID, and a study of the potentials of the system was ordered by USAID. According to the President of the Caja, all three reports submitted on the Bolivian savings and loan movement were favorable and the three of them agreed on the recommendations that USAID should provide financial assistance.

2. Based on the conclusions and recommendations of these reports, the USAID approved the following loans to "La Primera" at the annual interest rate of 4%, for 20 years, and a grace period of 3 years:

1964	\$200,000
1966	<u>500,000</u>
	<u>\$700,000</u>

3. Furthermore, the USAID approved in 1967 a \$1 million loan as seed capital for 40 years with a grace period of 10 years. The interest rate of this loan was 1% during the first 10 years and 4% during the remaining 30 years.

4. According to the President of the Caja, it was authorized by the Loan Agreement to take \$100,000 to set up the Caja and to finance its operating costs for the first year of operation.

5. Out of this special fund the Caja bought the third floor of 1366 Villazon Avenue Building for its office, and paid for its furniture and office equipment. The balance was disbursed among the then existent associations, in Bolivian currency, as follows:

La Primera	\$B 5,400,000
El Progreso	1,800,000
La Promotora	1,800,000
Guapay	<u>1,800,000</u>
	<u>\$B 10,800,000</u>

6. The Caja loaned these monies to the associations at 7% interest. This allowed the Caja to capitalize itself to a certain extent.

7. La Primera loaned \$15,000 in 1966 to the Caja for operating expenses.

8. In 1968 the USAID made another loan to the Caja in the amount of \$500,000 at an interest rate of 6% during 20 years and a grace period of 2 years for the following purposes.

a)	Initial reserve fund for FHA life insurance	\$ 40,000
b)	Initial amount to start purchasing mortgages from savings and loans associations as collateral under Project No. 511-HG-003	<u>460,000</u>
		<u>\$ 500,000</u>

9. A summary of the USAID loans to the Bolivian savings and loan system is shown below:

<u>YEAR</u>	<u>RECIPIENT</u>	<u>AMOUNT</u>
1964	La Primera	\$ 200,000
1966	La Primera	500,000
1967	Caja	1,000,000
1968	Caja	<u>500,000</u>
		<u>\$ 2,200,000</u>

10. In recent years, the Caja has loaned an aggregate amount of \$B 1.6 million to set up and provide funds for initial expenses of new associations in Tarija, Sucre, and Potosi, and has also provided initial lending capital to same.

11. According to the Decree-Law, Article 19, the capital stock of the Caja shall be constituted by the associations' contributions and/or by funds generated by the financial activities of the Caja.

12. The Caja's Administrative Regulation No. 3-67 set forth the following basis for the contributions by the associations to the Caja's capitalization:

- a) The first year, one half of the associations' total mortgage portfolio.
- b) During each of the following four years, one half percent of the annual increase of the mortgage portfolio.
- c) During each of the following five years, one percent of the annual increase of the mortgage portfolio.
- d) After the tenth year of the association's life, 2% of the annual increase of its mortgage portfolio.

13. In compliance with this requirement, La Primera, La Promotora, and Guapay associations have made capital contributions to the Caja in an approximate aggregate amount of \$11,000. The Caja has not required any new contributions from these associations, taking into account the financial incapability of these associations to make such contributions.

II. FINANCIAL LIQUIDITY

1. The Decree-Law, Article 12 (16th), requires the Caja to form a reserve fund and to invest it in housing loans. So far, the Caja has been unable to initiate this reserve fund since no profit has been generated by the Caja.

2. According to the By-Laws, Article 105, the associations are required to create a legal reserve of 10% out of their net income.

3. The associations are also required to maintain an 8% liquidity fund on the amount of their savings, with the purpose of creating a cash reserve ("Encaje") to meet unusual savings withdrawals. This fund is deposited by each association with the State Bank under the name of Caja.

4. Exhibit 1 shows the ratio of the associations' legal reserve to total savings as of December 31, 1969, and 1970.

5. For the purpose of comparison only, it can be stated that the U.S. Federal Savings and Loan Insurance Corporation requires that by the end of the 20th year and for each year thereafter, accumulated reserves of savings and loan associations must be equal to a minimum of 5% of their total savings.

6. Exhibit 2 reflects the ratio of net worth to total assets. The highest ratio shown by this exhibit -- that of "La Primera" -- was only 2.69% as of December 31, 1970. Again, it can be mentioned, for comparison purposes only, that the minimum ratio of this nature required for U. S. savings and loan associations amounts to 7%.

7. Exhibit 3 shows a consolidated condensed balance sheet of the Caja and the "La Primera" and "La Paz" associations as of September 30, 1971. (See Part I, B-24).

8. Exhibit 4 shows the cash flow position of the Caja for Project No. 511-HG-003 from October 1971 through 1976. (See Part I, B-6).

9. As of September 30, 1971 the availability of funds of the Caja and the "La Primera" and "La Paz" associations was as follows (See Part I, B- 5):

Caja	\$B 2,214,000
"La Primera"	4,965,000
"La Paz"	<u>544,000</u>
	<u>\$B 7,723,000</u>

10. The Decree-Law, Article 101, empowers the social security institutions and the insurance companies to invest their funds in the associations or in notes issued by the Caja.

11. Article 102 of this legislation establishes that the State Bank "may grant loans to the Central Caja and rediscount the credits that it may have in its portfolio".

E. OPERATING COSTS

1. Exhibit 5 reflects the operating cost of the Caja and the associations for the year ended December 31, 1970, and 1969.

2. The following is the ratio of the operating cost to the loan portfolio of each association for the year ended December 31, 1970:

<u>Name of Entity</u>	<u>Loan Portfolio</u>	<u>Operating Cos</u>	<u>Ratio of the Operating Cost to Loan Portfolio</u>
"La Primera"	26,035,000	1,812,000	6.96%
"El Progreso"	6,363,000	249,000	3.91%
"La Promotora"	6,348,000	429,000	6.76%
"Guapay"	5,638,000	305,000	5.41%
"Tarija"	1,839,000	70,000	3.81%
"Potosi"	1,688,000	76,000	4.50%
"La Plata"	1,443,000	120,000	8.32%
	<u>49,354,000</u>	<u>3,061,000</u>	6.20%
Caja	<u>20,679,000</u>	<u>1,184,000</u>	5.73%
	<u>70,033,000</u>	<u>4,245,000</u>	6.06%

F. FINANCIAL COSTS

1. Exhibit 5 also shows the financial costs of the Caja and the associations for the years ended December 31, 1970, and 1969. According to this exhibit, the individual association's financial cost varied from 32.96% to 54.84% of the total individual cost during the year ended December 31, 1970. The total cost of the savings and loan system was 47.04% for the same period.

G. PROJECT 511-HG-003

1. The Loan Agreement, Section 1.01, provides that the Investor agrees to lend to the Caja an aggregate amount not to exceed \$3.6 million, evidenced by 7-7-8% promissory notes from the Caja. The purpose of this loan is to provide the Caja with the long-term mortgage financing to finance home mortgages in Bolivia.

2. Section 1.02 of this Agreement requires that the amount of each draw-down shall be for not less than \$100,000, with the last draw-down being consummated on or before September 30, 1972.

3. Section 2.02 thereof sets forth that the first borrowing by the Caja may be made upon the presentation by the Caja, as collateral, of an equivalent value of unpaid principal in first mortgages then in its investments portfolio. All other disbursements shall be made only upon Caja's presentation, as collateral, of an equivalent value in the unpaid principal in eligible first mortgages.

4. The Caja further agrees to borrow at least \$700,000 and not more than \$1,450,000 during each of the following three lending periods:

October 1, 1969, to October 31, 1970

November 1, 1970, to October 31, 1971

November 1, 1971, to September 30, 1972

5. Disbursements made by the Investor to the Caja through September 29, 1971, are shown below:

<u>CLOSING DATE</u>	<u>Date</u>	<u>DISBURSEMENTS</u>		<u>NUMBER OF MORTGAGES</u>
		<u>Number</u>	<u>Amount</u>	
11-25-69		1	\$125,000	25
4-7-70	4-20-70	2	275,000	60
10-29-70	10-30-70	3	300,000	91
5-5-71	5-5-71	4	225,000	69
8-3-71	8-3-71	5	200,000	60
9-8-71	9-8-71	6	400,000	103
			<u>\$1,525,000</u>	<u>408</u>

6. The cost of the money to the Caja breaks down as follows:

	<u>% PER ANNUM</u>
Interest on promissory notes	7.875
AID Guaranty Fee (Implementation Agreement, Section 4.05)	0.50
AID Special Fee (Implementation Agreement, Section 7.02)	<u>0.50</u>
	<u>8.875%</u>

7. The interest rate on mortgages is 12% per annum, which is the maximum rate allowed by the Bolivian law. The 12% interest rate is divided between the Caja (11%) and the associations (1%).

8. The 2.125% difference between the 11% yield of the lending and the cost of the money to the Caja (8.875%) is used by the Caja to cover operating and financing costs. The financing costs include the \$36,000 paid to the Investor (see Loan Agreement, Section 3.02 (C)) and the processing fee of 2/10 of 1% paid to AID on each draw-down (see Implementation Agreement, Section 3.01).

9. The borrowings by the associations from the Caja out of the Project monies only yield 1% to the associations. This 1% is used to cover operating and financing costs.

10. According to the Implementation Agreement, Section 2.02 (a), the Caja used noneligible first mortgages in its portfolio, generated with its own resources, for closing No. 1. The Caja is entitled to convert this into eligible mortgages up to March, 1973. In all other closings, except closing No. 6, the Caja has presented eligible mortgages.

11. The Caja also used non-eligible first mortgages for closing No. 6 in the amount of \$400,000 for construction loans. This exception was duly authorized by A/H as per letter to the Caja dated July 2, 1971. According to this authorization, the corresponding draw-down was made under the conditions set forth in the Implementation Agreement, Section 2.02 (a).

12. On September 10, 1971, the Caja requested draw-down No. 7 in the amount of \$325,000. As the Caja has requested and Investor has already disbursed \$825,000 during the lending period of November 1, 1970, to October 31, 1971, the Caja increased to \$625,000 the above mentioned request, in order to make the total amount requested \$1,450,000. This is the maximum established by the Loan Agreement, Section 1.02, for the Caja to borrow in any of the three lending periods mentioned above. Eligible first mortgages have been presented as collateral for this draw-down.

13. This will leave a balance of \$1,450,000 to be borrowed by the Caja during the last lending period of November 1, 1971, to September 30, 1972, the maximum borrowing permitted during the lending period.

H. AID SPECIAL FEE

1. The Implementation Agreement, Section 7.02, provides that the Caja shall pay to AID, as a special fee, an amount of U. S. dollars equal to 1/2 of 1% of the aggregate unpaid principal amount of all notes issued and outstanding. In the event that prior to the final disbursement under the Loan Agreement the Caja presents, to the satisfaction of AID, proof that the Government of Bolivia guaranties the obligations of the Caja under the Loan Agreement, then the aforesaid special fee shall not be required. Furthermore, all prior quarterly payments by the Caja of said special fee shall be returned by AID to the Caja, without interest, in the event that AID is satisfied prior to the final disbursement that the Caja's obligations under the loan agreement are guaranteed by the Government of Bolivia.

2. The Caja prefers to pay this special fee rather than to have the guaranty of the government. The Caja's officers fear that as a condition to extend such a guaranty, the government might demand some administrative control of the system of operations. In the words of the President of the Caja, "this special fee is the price it has to pay -- and it is willing to pay -- for its administrative independence from the Government".

3. According to the Decree-Law, Article 3, all operations of the Caja seem to be guaranteed by the State of Bolivia. This article reads as follows: "The Caja Central de Ahorros y Prestamos para la Vivienda is hereby created. The Caja shall have an indefinite duration and its operations shall enjoy the guaranty of the State (of Bolivia)."

I. PREPAYMENTS AND SATISFACTIONS

1. The Decree-Law, Article 74, empowers the mortgagor to either totally or partially prepay his debt.

2. The associations normally accept any prepayments and satisfactions made by homeowners, in any amount and at any time, without any prepayment penalty.

3. According to the Caja's Finance Director, the normal collection ratio is 7% per year. However, during 1971 this ratio increased to 12% due to prepayments and satisfactions, in spite of the uncertain political situation prevailing in Bolivia through August. The Finance Director also mentioned that out of 40 loans outstanding in the "Guapay" Association in December, 1970, 3% of the mortgagors satisfied their loans. In other associations there have been also several prepayments and satisfactions.

J. COLLECTION PROCEDURES

1. The following provisions of the Decree-Law deal with the collection of the mortgage loan granted by the associations:

- a) As stated under I.1 above, the mortgagor may totally or partially prepay his debt. (Article 74)
- b) Monthly installments in arrears for more than 10 days may be subjected to a penalty interest rate not to exceed 50% of the interest. The penalty interest rate may be also charged on the outstanding mortgage balance. (Article 75)
- c) The association may request the mortgagor's employer to deduct monthly payments, municipal taxes, insurance premiums and other levies from salary payments. Failure of the employer to comply with this regulation shall result in his being fined from 5% to 10% of the amount he was requested to deduct.

- d) Failure of payment of three consecutive monthly installments makes due and payable the balance of the unpaid loan. (Article 76)
- e) Under the limitation of Article 75 mentioned above, the associations charge different penalty interest rates to mortgagors in arrears more than 10 days.

2. According to the Bolivian Law, foreclosure action can only be initiated after the mortgagor has failed to pay three consecutive monthly installments.

3. The common practice is to make a telephone call to remind all mortgagors who are 30 days in arrears, and the same reminder is made in written form to those who are 60 days in arrears. Mortgagors 90 days in arrears are put in the hands of the association's attorney. The mortgagor is then notified that the association has already requested their attorney to initiate foreclosure action. The attorney usually tries to have the mortgagor enter into a special agreement with the association. If a satisfactory agreement cannot be reached, foreclosure proceedings are then initiated.

4. Social inspectors from the associations also make personal calls on delinquent mortgagors to try to help these people cure their delinquencies.

5. So far, the "La Primera" Association has foreclosed only 2 mortgages. No other association has taken any foreclosure action.

6. As a regular practice, all delinquent mortgages, 3 months and more past due, are put in the hands of the attorney.

K. DELINQUENCIES

1. Exhibit 6 shows the comparative delinquencies in each association and the total delinquencies as of June 30, 1971, and

December 31, 1970. These delinquencies are shown in number and amount by both loans and monthly installments. (See Part I, B-15)

2. As shown by this exhibit, there has been the following total increase in delinquencies during the six-month period ended June 30, 1971:

In number of loans	89
In amount of loans	\$B 4,129,000
In amount of monthly installments	\$B 86,000

3. There are no delinquencies in the loans made by the Caja to the associations.

L. PAYMENTS TO AID FISCAL AGENT

1. The Loan Agreement, Section 4.01, establishes that interest shall accrue from the date of the promissory notes and shall be payable on each March 31, June 30, September 30, and December 31 of each year until all notes are fully repaid. Also, that the principal of such notes shall be payable in one hundred consecutive quarterly installments commencing on September 30, 1972, and on each subsequent December 31, March 31, June 30, and September 30, on which any note is outstanding.

2. The Caja has made the following payments to the AID Fiscal Agent:

(See page 30)

<u>DATE</u>	<u>TOTAL AMOUNT</u>	<u>BREAKDOWN</u>		
		<u>Interest</u> <u>(7-7/8%)</u>	<u>AID Fee</u> <u>(1/2%)</u>	<u>AID Special Fee</u> <u>(1/2%)</u>
12-31-69	\$ 1,109.38	\$ 984.38	\$ 62.50	\$ 62.50
3-31-70	2,773.43	2,460.93	156.25	156.25
6-30-70	7,586.88	6,732.02	427.43	427.43
9-30-70	8,874.99	7,874.99	500.00	500.00
12-31-70	13,312.48	11,812.48	750.00	750.00
3-31-71	15,531.24	13,781.24	875.00	875.00
6-30-71	18,637.49	16,537.49	1,000.00	1,000.50
9-30-71	<u>25,651.20</u>	<u>22,760.92</u>	<u>1,445.14</u>	<u>1,445.14</u>
	<u>\$ 93,477.09</u>	<u>\$82,944.45</u>	<u>\$ 5,266.32</u>	<u>\$5,266.32</u>

3. Exhibit 7 is a reconciliation of the amounts due versus the amounts paid by the Caja to the AID Fiscal Agent, as determined in reviewing the Caja's operations. An underpayment of \$147.95 is shown as a result of this reconciliation, due to a miscalculation by the Caja of the short period interest.

4. The Caja has also paid the \$36,000 due to the Investor according to the Loan Agreement, Section 3.02 (G).

5. No prepayments may be made by the Caja on the promissory notes prior to September 30, 1972, per the Loan Agreement, Section 4.02.

6. In order to make quarterly payments to the AID Fiscal Agent, the Caja requests a cashier's check from the State Bank for the total amount of each remittance, under the name of the American Security and Trust Company (AID Fiscal Agent). So far, all payments by the Caja have been made on schedule.

7. No tax or any other deduction whatsoever is made by the Caja on quarterly payments made to the AID Fiscal Agent.

8. The State Bank applies its regular exchange rate to the Caja for its dollar purchases and sale transactions as follows:

Purchase rate	\$B 12.172 to \$1.00
Sales rate	<u>11.875 to \$1.00</u>
	<u>\$B 0.297</u>

9. The difference of \$B 0.297 to \$1.00 represents a loss that the Caja has to pay at the time it requests a cashier's check from the State Bank to pay the AID Fiscal Agent.

10. The Caja has requested from the Ministry of Finance a preferential exchange rate, without any success, due to the many changes that have taken place in the Government.

11. Should the loss in the exchange rate be maintained throughout the lifetime of the \$3.6 million loan, the total loss for the Caja would be as follows:

Purchase of cashier's checks by the Caja at the exchange rate of \$B 11.875 to \$1	\$B 43,819,200
Sale by the Caja at the exchange rate of \$B 12.172 to \$1	<u>42,750,000</u>
	<u>\$B 1,069,200</u>

M. LENDING PRACTICES BY ASSOCIATIONS

1. The Decree-Law regulates the mortgage loans granted by the savings and loan associations as follows:

a) The associations shall invest their funds in mortgage loans for the purchase, construction, completion, enlarging, or improving of housing. Construction loans may include land and urbanization costs.

(Article 58)

b) The associations may invest up to 25% of the amount of the savings accounts from their depositors in mortgage loans to construction companies for the execution of specific projects, with prior authorization from the Caja. The Caja shall not authorize these loans in an amount in excess of 25% of its financial resources. (Article 59)

c) Shopping centers in condominium buildings may not occupy more than 30% of the constructed area. In the case of individual dwelling houses the shopping center area may not exceed 25% of the dwelling area. (Article 60)

d) In order to be entitled to a mortgage loan, an individual must:

- i) have a savings account in any association for at least one year.
- ii) have a savings balance not less than 3% of the amount of the loan.
- iii) have a family monthly income, 25% of which is sufficient to pay the loan in monthly installments in no more than 30 years.
- iv) fill out a sworn declaration stating that he has no other housing loan. (Article 62)
- v) housing cooperative shall also be entitled to mortgaged loans. (Article 63)
- vi) in no event may the loan exceed 90% of the appraised value. (Article 64)
- vii) the annual interest rate shall be established by the board of directors of each association, not to exceed the maximum authorized by the Caja.
- viii) the associations shall charge a commission on each loan as authorized by the Caja. Closing costs shall be paid by the purchaser. (Article 66)

- ix) loans granted by the associations shall be guaranteed by first mortgage deeds. Under certain circumstances however, and with the Caja's authorization, a second mortgage may be acceptable. (Article 67)
- x) the associations may grant loans to its members for any purpose whatsoever up to 75% of their individual savings accounts. (Article 78)

2. The following is a breakdown of the installments paid by mortgagors:

	<u>% Per Annum</u>
Interest rate	12
FHA insurance	1/2
Life and disability insurance	<u>1</u>
	<u>13 1/2</u>

3. The 12% interest rate is the maximum annual percentage associations are authorized to charge on their mortgage loans under the Bolivian law.

4. The associations can make loans up to a maximum of 20 years. The average length of loans for the system is, however, only 15 years.

5. The associations follow the general guideline of requiring 25% of the family's gross income be at least equal to the monthly mortgage payment.

6. Exhibit 9 reflects the increases in the mortgage portfolio from 1969 through 1971.

N. INTERNAL REGULATIONS

1. The Caja is in the process of preparing a manual on internal regulations for the Caja itself as well as for the other associations.

2. The Caja has put out a number of policy circular letters. Some of the policies on operating procedures (i.e., the computation of interest on savings accounts, and penalty interest charge to mortgagors in arrears), however, are not consistently complied with by the associations.

O. SAVINGS ACCOUNTS

1. The Decree-Law comprises the following provisions regarding savings accounts:

- a) Associations shall receive savings deposits from any individuals, including literate minors, married women and juridical entities. (Article 47)
- b) With the authorization of the Caja the associations may establish savings accounts. (Article 48)
- c) Commercial and mortgage banks acting trustees may invest monies in the associations. (Article 49)
- d) Savings accounts will enjoy the following benefits (Article 50):
 - i) payment of annual dividend
 - ii) readjustment based on established economic indexes
 - iii) insurance
 - iv) free of embargo
 - v) tax free benefits
- e) Savings accounts up to the amount of \$B 30,000 are not seizable except for alimony. (Article 54)
- f) Savings deposits may be totally or partially withdrawn only with at least sixty days advance notice, unless otherwise authorized by the Caja. (Article 56)

2. The Decree-Law, Article 95, requires that the net profit for each year has to provide for the 10% legal reserve, and then shall be distributed among savings depositors in proportion to the amount of their individual accounts.

3. As a regular practice, the General Assembly meets every year and approves a dividend which has always been 8% for all associations except "La Primera" which has been authorized by the Caja to pay 9%. The Caja approved this authorization with the understanding that a higher dividend would help "La Primera" to attract more savings, but this enticement has not proved to be of significant help.

4. The difference of 1% in the payments of dividends is not regarded by the Caja officials as creating unfair competition among the associations, as they feel that depositors are more concerned with the quality of service that their particular association provides.

5. The Caja is empowered to raise the dividend rate paid by the associations up to 10%, which is the ceiling paid by the State Bank on savings accounts.

6. The Caja is convinced that the existent financial incapability to augment its dividends on savings to equal the interest available in the local financial market, is a strong handicap of the system.

7. Per Decree-Law, Article 77, the employers, at the Caja's request, shall deduct from their employees remunerations an authorized amount. The deductions authorized by this law are to be deposited in savings accounts.

8. Exhibit 8 shows the increases in savings accounts from 1969 through 1971.

P. SAVINGS AND MORTGAGE READJUSTMENTS

1. The Decree-Law, Article 79, establishes that "the savings

accounts and the mortgage balance shall be readjusted in accordance with an index to be fixed by the Caja every year." In establishing this index the Caja shall average the salary index, the cost of living index, and the percentage of currency devaluation.

2. The Implementation Agreement, Section 1.03, requires that "all mortgages offered as collateral for any disbursements of loan funds to the Caja shall be readjustable in accordance with current Bolivian law and rules and regulations of the Caja."

3. As stated by the Caja's officials, the Bolivian government authorized the Caja to establish savings and mortgages balances readjustments only based on currency devaluation, due to the difficulties of having other indices fixed by the corresponding government agency, particularly the necessity of having such indices determined by geographical area, as salaries and cost of living vary from one area to another.

4. Since 1966 there has been no currency devaluation and the actual exchange rate of \$B12 to \$1 has prevailed.

Q. SECONDARY MORTGAGE MARKET

1. The Decree-Law, Article 12, empowers the Caja to:
"1) Issue obligations, notes or bonds, whether readjustable or not, for the purposes established in this Decree-Law."

2. Article 98 of this legislation reads as follows:
"The Caja may purchase mortgage loans from the associations and pay for these either in cash or in notes issued on behalf of the associations at the same interest rate and terms as the mortgaged loan purchased. The reception of notes for the sale of mortgaged loans shall be made for the purpose of selling the notes to the public in order

to increase the associations' resources for the achievement of their objectives. The principal and monthly payments of the notes shall be readjustable."

3. As reported by its President, the Caja has already carried out the necessary studies in order to start operating a secondary mortgage market, preferably in the form of bonds and mortgage certificates (Cedulas Hipotecarias). Bonds would be issued with a mortgage pool guaranty, inasmuch as the mortgage certificates would bear the guaranty of specific mortgages. The Caja expects to start operating the secondary market in the near future.

4. In the judgment of the Caja's officials, the implementation of the secondary mortgage market would provide a significant amount of financial resources to the associations.

R. FHA INSURANCE

1. The Decree-Law, Article 87, requires that all mortgage loans granted by the associations shall be insured by the Caja in an amount not to exceed the amount of the loan. The premium, one half of one percent of the unpaid principal amounts of the mortgages, shall be paid by the associations to the Caja before each December 31, on a quarterly basis. This insurance is intended to protect the associations, who are the beneficiaries of this insurance.

2. The associations pay their FHA insurance premium to the Caja with no significant delay.

3. The amount insured, which includes accrued interest, transfer tax, legal and other expenses, shall only be payable after the association has foreclosed the mortgaged property. Any deficiency between the amount insured and the amount recovered through the foreclosure shall be paid by the Caja. Payments by the Caja shall be

in the form of notes issued to the bearer guaranteed by the State of Bolivia and payable through the lifetime of the corresponding mortgage, at an interest rate of 1% less than that earned by such a mortgage.

4. According to Article 92. of the Decree-Law, the Caja may request that the associations collect, in its behalf, from the mortgagors, a certain annual percentage of the unpaid principal amount of the mortgages. This percentage is intended to form a special fund to guaranty, at the mortgagors expense the total or partial payment of the monthly payments in the case of unemployment, sickness, death or any other reasonable cause.

S. LIFE AND DISABILITY INSURANCE

1. The By-Laws, Article 98, empowers the Caja to add to the mortgagors monthly installments the premium that it may establish to cover "desgravamen hipotecario" insurance. Under the terms of this authorization the Caja issues individual life and disability policies on behalf of the mortgagor's heirs, who are the beneficiaries of this insurance.

2. No insurance company in Bolivia is authorized to underwrite the "desgravamen hipotecario" insurance. Based on an actuarial study performed by Mr. Edgar Von Borris, a Bolivian expert contracted by the Caja for this purpose, the superintendency of banks authorized the Caja to underwrite this type of insurance on behalf of the associations' mortgagors.

3. The actuarial study concluded that the Caja can assume the financial risk resulting from such insurance only if the premium is computed on the original amount of the mortgage, rather than on the

unpaid mortgage balance (declining balance). To support this statement, the actuary expressed the Caja's inability to have any co-insurance.

4. The 1% premium charged by the Caja for this insurance is credited by the Caja to the "Technical Reserve for Desgravamen Insurance".

T. SAVINGS INSURANCE

1. The Decree-Law, Article 83, reads as follows:

"The balances on savings accounts and the corresponding readjustments shall be insured by the Caja against losses or risk of any kind."

2. The premium to be collected by the Caja, according to a rate to be established by the By-Laws, shall be applied upon the average of the deposits of each year, computed in conformity with Article 51, and shall be paid by the associations to the Caja before December 31 of each year.

3. The By-Laws, Article 96, sets forth that savings deposits shall be insured up to the amount \$B 50,000. Article 97 thereof fixed the premium at one quarter percent per annum.

4. The Decree-Law, Article 85, provides that the Caja lend to the associations the necessary money to make up any temporary financial deficiency to meet withdrawals from depositors. If the financial inability were of a permanent nature, Article 86 thereof provides that the Caja shall proceed to the immediate closing of the association and to either:

- a) pay in cash all savings to its depositors, or
- b) transfer all savings and other transactions to another association, subject to the payment by the Caja to the transferee of any deficit resulting from such a transaction.

5. According to the President of the Caja, the corresponding study for setting up the savings insurance has already been completed and can be put in operation any time. Two reasons, however, have so far prevented the Caja from putting into effect such insurance:

- a) The operating procedures have not been approved by the Superintendency of Banks. Due to the superintendency having recently been incorporated to the Central Bank, there no longer exists the insurance division in the new structure. This situation has created administrative confusion as to which branch office has the necessary authority to approve the savings deposits insurance operation.
- b) The Caja's conservative thinking is that its announcement that the savings insurance would protect depositors against currency devaluation might cause to produce an unfavorable impact in the public opinion against the government. The Caja's officials fear that the public will be suspicious that such a protection might be regarded as a symptom of a foreseeable devaluation of the Bolivian Peso, thus creating an adverse influence on the country's economy.

U. TAX EXEMPTION

1. As established by the Decree-Law, Article 97, the Caja and the associations shall be exempted from all direct or indirect taxes and contributions.

2. Article 110 of this legislation also provides that "those dwellings built since January 1, 1966, and purchased through loans from the associations on financing terms for not less than 70% of their total cost, shall be exempted from real estate taxes levied on such dwellings for 10 years,

with the exception of payments due for municipal services".

3. Real estate taxes and public registry fees are paid by mortgagors. Income taxes are deducted from employees' remunerations.

V. EMPLOYEES FUND

1. The Caja and each association except "La Promotora", have their own employees fund to take care of medical expenses and pension plans. Each employee contributes 7 and 1/2% of his salary. This contribution is to be raised to 15% in the future. The Caja and the associations' contributions amount to 30% of the aggregate payroll. "La Promotora" affiliated by mistake with the government social security program.

W. PROMOTION

1. The Caja's President claims that a significant amount of money has already been spent in promoting the Bolivian savings and loan system; mostly by advertising specific projects rather than on an institutional basis. The Caja has also organized at its expense meetings, training courses and seminars for managers, accountants, and lawyers, at a national level in "La Paz".

2. As it is stated under BB 7, the Caja contemplates launching a special publicity campaign for its "Los Pinos" project.

X. ACCOUNTING

1. The head of the accounting department is an experienced professional accountant.

2. Both "La Primera" and "La Paz" associations have benefited from a donation by the National League of Insured Savings Associations to the Caja of some used NCR posting machines. All savings transactions

of these associations are satisfactorily processed on these machines.

3. "La Primera" also has a new Olivetti accounting machine for the posting of all its loan transactions.

4. Accounting procedures set forth by the Caja are not satisfactorily complied with by the associations. The following remarks are a result of the examination of some of the associations' financial statements:

- a) Name of accounts are not consistently used.
- b) Group presentation of accounts is not appropriate
- c) Reserve accounts are not distinctly reflected
- d) Net worth is not properly presented.
- e) In some cases, balance sheets include profit and loss accounts.
- f) Also, memorandum accounts are added to the total assets and to the total liabilities and net worth.

5. The Caja and the associations prepare adjusted balance sheets as of December 31, of each year. As of this date a consolidated and adjusted balance sheet is also produced.

6. Also, the Caja and the associations prepare semi-annual and monthly balance sheets. While some adjustments are commonly entered into the semi-annual balance sheets, the monthly balance sheets are prepared only to reflect the balances shown by the accounting books.

Y. AUDITING

1. A local independent auditing firm is hired by the Caja to review its operations as well as those of the associations on an annual basis. The cost of this service is paid for by the Caja and the "La Primera", "Guapay" "Promotora", and "Progreso" associations. As the remaining associations cannot afford the payments of this service, the Caja makes provisions in its budget to take care of this expense.

2. The audit firm mentioned above is that of Mr. Hugo Berthin Amemgual, a former representative of Price Waterhouse Company in Bolivia, and also a former top official in this firm at the time it was operating in the country. The audit reports examined seem to be quite comprehensive and satisfactory.

3. The Caja has also an internal auditor who makes special audits of the Caja and the associations, as needed.

Z. REPORTS

1. The Implementation Agreement, Section 5.02, requires the Caja to submit to AID or its designees quarterly reports covering three month periods ending March 31, June 30, September 30, and December 31.

2. Although the Caja is complying with this requisite, the associations are not using "Administrators Monthly Financial Report" (Form AID-5, 6/68) to prepare their monthly reports to the Caja.

AA. "SAN MIGUEL" PROJECT

1. The independent auditor's report on the financial statements as of December 31, 1970, comprised the following comments:

"A distinction has not been made between the total current loans and the total monthly installments in the 'San Miguel debtor's' memorandum account. The balance in this account is \$B 1,571,482 and is incorporated in the association's balance sheet. The direct obligations of "La Primera" to USAID amounted to \$B 20,314,879.67. Within this same account, we have verified the existence of several memoranda or notes (minutas) that have not been recorded in any books (ledgers). Also, the balances of USAID and "La Primera" do not agree and a reconciliation is needed. These differences have existed since the former administration of Hogares Bolivianos". (See Part I.F. 5)

BB. "LOS PINOS" PROPOSED PROJECT

1. The Caja has proposed that the "Los Pinos" proposed housing project be financed under A/H guarantee. The following are some of the highlights of the proposed project:

- a) Total estimated cost of the project: \$19,049,023.
- b) The "Los Pinos" site is located in the most picturesque residential section of Calacoto, in the capital city of La Paz, comprising an area of 316,000 square meters.
- c) A total of 449 apartment blocks would be constructed on a horizontal system of property, divided into five types of apartments, to accommodate 3,750 families of approximately 20,000 people. The following is a breakdown of the blocks proposed to be constructed.

<u>Type</u>	<u>Number of Blocks</u>	<u>Number of Apartments</u>
A	5	200
B	117	936
C	117	934
D	135	1,080
E	<u>75</u>	<u>600</u>
	<u>449</u>	<u>3,750</u>

- d) The project includes provisions for a shopping center, health unit, school, post office, administration, police, church, public library, and green area.
- e) The prices of the dwelling units would range from \$3,200 to \$5,200.

- f) The interest rate on mortgages would be 12% per annum, plus 1% FHA insurance premium, and 1/2% life and fire insurance premium.
- g) The potential home buyers are contemplated to be mostly medium and limited resources government private industry employees, professionals, technicians, teachers, and qualified workers, with a family gross monthly income from \$B 2,200 to \$B 5,200.
- h) The two associations based in La Paz, "La Primera" and "La Paz", would be responsible for credit review and selection of borrowers.
- i) The estimated period of time for the planning and construction of the project runs from June, 1971, to April, 1977.
- j) Approximately 6,000 workers would be occupied for a period of four years. This is expected to create a favorable impact on other sectors of the national economy such as the construction and transportation industries.
- k) The cost of the first organization stage and the construction of the proposed project has been estimated in the amount of \$5,999,958.64. This amount would be for expenses of studies and initial promotion; purchase of land; first urbanization stage; first stage of living quarters and building of the shopping center and civic center.

2. The following Coordination Committee has already been set up and is currently functioning to coordinate the "Los Pinos" project proposed by the Caja:

Governing Board

President of the Caja
Manager of "La Primera"
Manager of "La Paz"

Technical Committee

Architect from the Caja
Architect from "La Primera"
Architect from "La Paz"

Legal Committee

Lawyer from the Caja
Lawyer from "La Primera"
Lawyer from "La Paz"

Financial and Administrative Committee

Representative from the Caja
Representative from "La Primera"
Representative from "La Paz"

3. The Coordination Committee shall be in charge of establishing the governing policies and procedures, and negotiating the purchase of the land. This committee shall continue functioning through the completion of the "Los Pinos" project, coordinating and controlling activities of the Caja and the participating associations "La Primera" and "La Paz".

4. The following administrative structure of the Caja should be put into effect should the proposed project finally meet with AID approval:

<u>Administrative Division</u>	<u>Number of Employees</u>
General Assembly	
Board of Directors	
Executive President	1
Administrative Manager	3
FHA Insurance Department	3
Internal Auditing Department	1
Technical Department	2
Accounting Department	3
Legal Department	2
Promotion Department	<u>1</u>
	<u>16</u>

5. On October 15, 1971, the President of the Caja reported over the telephone that the corresponding city real estate office (Catastro) approved the price of \$B 25 per square meter for the Caja to pay to the owners of the "Los Pinos" site, already expropriated by the Bolivian Government. Afterwards, however, at a meeting with the Minister of Housing, it was agreed that the Caja would pay \$B 30 per square meter. Furthermore, according to the President of the Caja, the Prefect or chief executive of the Department of La Paz, ordered the attorneys for the "La Primera" and "La Paz" associations to present themselves at the "Los Pinos" site in order to take possession of the land in conformity with the terms of the expropriating order dictated by the Bolivian Government.

6. The President of the Caja also reported that negotiations regarding the proposed project were progressing in a very satisfactory manner.

7. The Caja is contemplating the launching of a dynamic promotion campaign on behalf of the new project, mainly through radio, television, and newspaper media. Besides this, they intend to make personal contacts with housing cooperatives and private industry workers by organizing conferences and meetings with smaller groups, in order to intensely promote the project.

* * * * *

Any additional information or clarification of the present report will gladly be submitted upon request.

BOLIVIAN SAVINGS AND LOAN SYSTEM
RATIO OF LEGAL RESERVE TO TOTAL SAVINGS
AS OF DECEMBER 31, 1970 and 1969
(In Thousands of Bolivian Pesos)

	<u>RESERVE RATIO</u>		<u>LEGAL RESERVE</u>		<u>TOTAL SAVINGS⁽¹⁾</u>	
	<u>1970</u>	<u>1969</u>	<u>1970</u>	<u>1969</u>	<u>1970</u>	<u>1969</u>
La Primera	9.79%	7.07%	620	481	6,331	6,802
El Progreso	8.49	10.67	129	114	1,520	1,068
La Promotora	9.46	9.44	89	67	941	710
Guapay	10.74	8.55	102	64	950	749
Tarija	7.07	6.99	47	20	665	286
Potosi	9.50	8.51	44	24	463	282
La Plata	7.97	8.05	50	36	627	447
	9.40	7.79%	1,081	806	11,497	10,344

⁽¹⁾ Contractual savings (20% of amount of loans) not included

BOLIVIAN SAVINGS AND LOAN SYSTEMRATIO OF NET WORTH TO TOTAL ASSETSAS OF DECEMBER 31, 1969 AND 1970

(In Thousands of Bolivian Pesos)

ASSOCIATION	<u>NET WORTH RATIO</u>		<u>NET WORTH</u>		<u>TOTAL ASSETS</u>	
	1970	1969	1970	1969	1970	1969
La Primera	2.69 %	2.21 %	847	650	31,551	29,386
El Progreso	1.89	3.19	161	148	8,535	4,641
La Promotora	2.03	2.57	142	128	6,995	4,973
Guapay	0.13	0.14	10	8	7,836	5,790
Tarija	0.08	0.13	2	1	2,407	784
Potosi	0.31	0.41	7	2	2,292	486
La Plata	-	-	-	-	1,767	780
	1.90	2.00	1,169	937	61,383	46,840

CAJA, "LA PRIMERA" AND "LA PAZ" ASSOCIATIONS

CONSOLIDATED CONDENSED BALANCE SHEET

SEPTEMBER 30, 1971

(In thousands of Bolivian pesos)

<u>ASSETS</u>	<u>CAJA</u>	<u>"LA PRIMERA"</u>	<u>"LA PAZ"</u>	<u>CONSOLIDATED</u>
Cash in hand and in banks	2,214	4,965	544	7,723
State Bank (cash reserve)	-	610	142	752
Insurance deposit fund	580	-	-	580
Loan portfolio	33,687	27,217 *	2,898	63,802
Accounts receivable	64	-	74	138
Investments	-	901	1,986	2,887
Fixed assets	465	323	14	802
Other	783	502	222	1,507
	<u>37,793</u>	<u>34,518</u>	<u>5,880</u>	<u>78,191</u>
<u>LIABILITIES AND NET WORTH</u>				
<u>Liabilities</u>				
Current liabilities	173	13,884	2,567	16,624
Loans payable	36,092	14,692	2,762	53,546
Other	1,733	4,295	568	6,596
	<u>37,998</u>	<u>32,871</u>	<u>5,897</u>	<u>76,766</u>
<u>Net Worth</u>				
Reserves	891	1,652	-	2,543
Donation for reconstruction of houses	145	-	-	145
	<u>1,036</u>	<u>1,652</u>	<u>-</u>	<u>2,688</u>
Accumulated losses	(1,241)	(5)	(17)	(1,263)
	<u>(205)</u>	<u>1,647</u>	<u>(17)</u>	<u>1,425</u>
	<u>37,793</u>	<u>34,518</u>	<u>5,880</u>	<u>78,191</u>

* "San Miguel" loans not included

CAJA CENTRAL DE AHORROS Y PRESTAMOS PARA LA VIVIENDA

PROJECT NO. 511-HG-003 CASH FLOW

OCTOBER, 1971, THROUGH 1976

	October to December	1971	1972	1973	1974	1975	1976
(A) BEGINNING BALANCE		\$ -	\$ 26,342	\$ 40,045	\$ 139,558	\$ 240,557	\$ 343,179
<u>INCOME</u>							
1) Recovery of capital from purchase of associations' mortgages		20,998	46,435	89,845	101,238	114,078	128,545
2) Interest earned on mortgages		59,128	308,299	415,644	404,364	391,652	377,330
3) Prepayment and satisfaction of mortgages		<u>420</u>	<u>929</u>	<u>1,797</u>	<u>2,025</u>	<u>2,282</u>	<u>2,571</u>
4) Total(1+2+3)		\$ 80,546	355,663	507,286	507,627	508,012	508,446
5) Total Inflow (A + 4)		<u>80,546</u>	<u>382,005</u>	<u>547,331</u>	<u>647,185</u>	<u>748,569</u>	<u>851,625</u>
<u>EXPENSES</u>							
6) Principal Payments on Loan 511-HG-003		\$ -	23,976	50,848	54,972	59,431	64,251
7) Interest Payments on Loan 511-HG-003		44,125	242,780	282,781	278,657	274,198	269,378
8) Caja's administrative expenses on Project 511-HG-003		<u>10,079</u>	<u>75,204</u>	<u>74,144</u>	<u>72,999</u>	<u>71,761</u>	<u>70,422</u>
9) Total Outflow (6+7+8)		\$ <u>54,204</u>	<u>341,960</u>	<u>407,773</u>	<u>406,628</u>	<u>405,390</u>	<u>404,051</u>
10) Net Cash Flow (5 -9)		\$ <u><u>26,342</u></u>	<u><u>40,045</u></u>	<u><u>139,558</u></u>	<u><u>240,557</u></u>	<u><u>343,179</u></u>	<u><u>447,574</u></u>

BOLIVIAN SAVINGS AND LOAN SYSTEM

BREAKDOWN OF TOTAL COSTS

Years ended December 31, 1970 and 1969

(In thousands of Bolivian pesos)

ASSOCIATION	TOTAL COST				OPERATING COST				FINANCIAL COST			
	1970		1969		1970		1969		1970		1969	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
La Primera	3529	100	2867	100	1812	51.35	1732	60.41	1717	48.65	1135	39.59
El Progreso	540	100	415	100	249	46.11	298	71.81	291	53.89	117	28.19
La Promotora	642	100	422	100	429	66.82	165	39.10	213	33.18	257	60.90
Guapay	605	100	471	100	305	50.41	240	50.96	300	49.59	231	49.04
Tarija	155	100	70	100	70	45.16	34	48.57	85	54.84	36	51.43
Potosi	130	100	20	100	76	58.46	-	-	54	41.54	20	100.00
La Plata	<u>179</u>	100	<u>2</u>	100	<u>120</u>	67.04	<u>2</u>	100.00	<u>59</u>	32.96	<u>-</u>	<u>-</u>
	<u>5780</u>	100	<u>4267</u>	100	<u>3061</u>	52.96	<u>2471</u>	57.91	<u>2719</u>	47.04	<u>1796</u>	42.09

Percentage of each association's operating and financial costs related to the total cost of each association.

BOLIVIAN SAVINGS AND LOAN SYSTEM

EXHIBIT 6

DELINQUENCIES

JUNE 30, 1971 AND DECEMBER 31, 1970

(IN THOUSANDS OF BOLIVIAN PESOS)

	L O A N S						M O N T H L Y I N S T A L L M E N T S					
	N u m b e r			A m o u n t			N u m b e r			A m o u n t		
	[Change 1971	1971	1970	[Change 1971	1971	1970	[Change 1971	1971	1970	[Change 1971	1971	1970
<u>La Primera</u>												
2 months	10	31	21	726	1609	883	10	31	21	9	18	9
3 months	17	28	11	547	1076	529	17	28	11	5	15	10
Over 3 months	45	86	41	2204	4353	2149	45	86	41	58	124	66
Total	72	145	73	3477	7038	3561	72	145	73	72	157	85
<u>La Promotora</u>												
2 months	2	10	8	157	516	359	2	10	8	-	3	3
3 months	5	11	6	240	505	265	5	11	6	3	5	2
Over 3 months	8	13	5	231	432	201	8	13	5	7	11	4
Total	15	34	19	628	1453	825	15	34	19	10	19	9
<u>Guapay</u>												
2 months	(1)	4	5	(120)	238	358	(1)	4	5	-	1	1
3 months	(4)	-	4	(283)	-	283	(4)	-	4	(4)	-	4
Over 3 months	1	1	-	77	77	-	1	1	-	2	2	-
Total	(4)	5	9	(326)	315	641	(4)	5	9	(2)	3	5
<u>El Progreso</u>												
2 months	-	-	-	-	-	-	-	-	-	-	-	-
3 months	1	3	2	164	232	68	1	3	2	2	2	-
Over 3 months	4	9	5	161	461	300	4	9	5	1	7	6
Total	5	12	7	325	693	368	5	12	7	3	9	6
<u>Tarija</u>												
2 months	-	-	-	-	-	-	-	-	-	-	-	-
3 months	-	-	-	-	-	-	-	-	-	-	-	-
Over 3 months	1	1	-	25	25	-	1	1	-	3	3	-
Total	1	1	-	25	25	-	1	1	-	3	3	-
<u>GRAND TOTAL</u>	89	197	108	4129	9524	5395	89	197	108	86	191	105

NOTE: Potosi, La Plata and La Paz Associations did not have any delinquencies for this time period.

CAJA CENTRAL DE AHORROS Y PRESTAMOS PARA LA VIVIENDA

PROJECT # 511-HG-033 - BOLIVIA

AMOUNT UNDERPAID BY THE CAJA TO AID FISCAL AGENT

FROM 12/31/69 - 6/30/71

Interest 7-7/8% = 7.875%	\$ 48,234.32	
Interest - short period	12,080.48	
	<u>\$ 60,314.80</u>	
Amount paid by the Caja	<u>60,183.53</u>	
		\$ 131.27
AID fee - 1/8 of 1%	\$ 3,062.50	
AID fee - short period	767.01	
	<u>\$ 3,829.51</u>	
Amount paid by the Caja	<u>3,821.17</u>	
		8.34
Reserve fee - 1/8 of 1%	\$ 3,062.50	
Reserve fee - short period	767.01	
	<u>\$ 3,829.51</u>	
Amount paid by the Caja	<u>3,821.17</u>	
		<u>8.34</u>
		<u>\$ 147.95</u>

BOLIVIAN SAVINGS AND LOAN SYSTEMSAVINGS ACCOUNTSAS OF JUNE 30, 1968, 1969, 1970 and 1971

(IN THOUSANDS OF BOLIVIAN PESOS)

ASSOCIATION	<u>AMOUNT OF SAVINGS (1)</u>				<u>AMOUNT OF INCREASE OVER PREVIOUS YEAR</u>			<u>PERCENTAGE OF INCREASE OVER PREVIOUS YEAR</u>		
	1971	1970	1969	1968	1971	1970	1969	1971	1970	1969
La Primera	6877	6298	4782	3531	579	1516	1251	9.19%	31.70%	35.43%
El Progreso	1907	1351	902	520	556	449	382	41.15	49.78	73.46
La Promotora	1124	927	528	288	197	399	240	21.25	75.57	83.33
Guapay	772	1102	625	454	330	477	171	29.95	76.32	37.67
Tarija	756	400	169	-	356	231	169	89.00	136.69	-
Potosi	457	464	102	-	7	362	102	1.51	354.90	-
La Plata	703	540	114	-	163	426	114	30.19	373.68	-
La Paz	2154	-	-	-	2154	-	-	-	-	-
	14750	11082	7222	4793	3668	3660	2429	33.10	53.45	5068

(1) CONTRACTUAL SAVINGS (20% OF AMOUNT) OF LOANS) NOT INCLUDED

BOLIVIAN SAVINGS AND LOAN SYSTEM
MORTGAGE PORTFOLIO
AS OF JUNE 30, 1971, 1970, 1969 and 1968
(In Thousands of Bolivian Pesos)

ASSOCIATION	MORTGAGE PORTFOLIO				AMOUNT OF INCREASE OVER PREVIOUS YEAR			PERCENTAGE OF INCREASE OVER PREVIOUS YEAR		
	1971	1970	1969	1968	1971	1970	1969	1971	1970	1969
La Primera	24,964	23,038	19,185	16,220	1,926	3,853	2,965	8.36%	20.08%	18.28%
El Progreso	7,418	5,350	3,179	2,160	2,068	2,171	1,019	38.65	68.29	47.18
La Promotora	7,054	5,166	3,494	3,150	1,888	1,672	344	36.55	47.85	10.92
Guapay	6,252	4,291	3,068	2,417	1,961	1,223	651	45.70	39.86	26.93
Tarija	2,861	739	207	-	2,122	532	207	287.15	257.01	-
Potosi	1,720	819	-	-	901	819	-	110.01	-	-
La Plata	1,743	834	-	-	914	834	-	109.59	-	-
	52,017	40,237	29,133	23,947	11,780	11,104	5,186	29.28	38.12	21.66