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FOUNDATION FOR COOPERATIVE HOUSING

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PROGRESS REPORT
FOR THE PERIOD OF
AUGUST 1978 THROUGH APRIL 1979

AID/otr-G-1583

PERU

OPERATIONAL PROGRAM GRANT-PERU
FCH TECHNICAL ASSISTANCE TO
HOME IMPROVEMENT LOAN PROGRAM OF THE
NATIONAL HOUSING BANK OF PERU

I. Project Purpose

The purpose of this project* is to provide technical assistance from the Foundation for Cooperative Housing (FCH) to the National Housing Bank of Peru (BVP) and the savings and loan associations (mutuales) to design, implement and evaluate home improvement loan programs for low income urban families.

The target group of beneficiaries of the program is urban families with incomes below the median for a specific region and which live in marginal settlements ("pueblos jovenes") and similar areas. These families generally live in small shelters ranging in material from provisional to permanent and in various stages of completion. Due to their income level, they do not usually have access to formal credit for construction loans.

II. Funding

A. Program

The BVP has been authorized by AID to borrow \$25 million under the Housing Guaranty Program to finance programs for installation of urban infrastructure, construction of minimal shelters and home

* A distinction is made in this report between "project", which is the technical assistance of FCH and the "program", which is the home improvement loan program of the BVP and mutuals which are the recipients of the technical assistance.

improvement loans. The beneficiaries of all these programs are the same target group - urban low income families. Of the \$25 million, \$15 million was contracted in April 1977. Of the latter amount, 5% or \$750,000 has been designated for home improvement loans. At present approximately 50% (\$375,000) is programmed for lending in Lima with the other 50% to be lent outside of metropolitan Lima.

B. Project

The technical assistance project is funded by an Operational Program Grant (OPG) which is one of the demonstration projects identified by FCH as a result of its work under the Development Program Grant (DPG) that it has received from the Agency for International Development (AID).

III. Description

A. Program Description and Present Status

The BVP with its own funds and with those of the savings and loan associations (mutuales) is interested in developing a home improvement loan program for low income families using the S & L system as the delivery mechanism. The mutuales have been able to make such loans within existing BVP regulations* and have made them with their own funds to medium income families. However, the BVP has determined the necessity and potential of an expanded program of such loans, directed specifically towards low income urban families. To initiate its efforts with this type of program,

* The BVP is the regulatory agency for the Peruvian S & L system. Its other two main functions are the promotion of the technical assistance to the S & L system.

the BVP intends to use the AID-HG funds mentioned above. The BVP will be lending the AID-HG funds to participating mutuales which will in turn make sub-loans to individual borrowers (low income families) for the purpose of improving (upgrading) their existing structures. The BVP will be lending to the mutuales at 17% interest and the mutuales are permitted to relend at a maximum rate of 25% which is 10 points below the current maximum rate (35.5%) for lending with their own funds.

The BVP has drafted a model loan contract for lending to the participating mutuales. The parameters for the sub-loans ("Bases") include the following aspects:

- 1) Purpose of loans
- 2) Nature and amount of loans
- 3) Eligible borrowers
- 4) Documentation requirements
- 5) Terms and conditions of loans
- 6) Loan mechanics

These documents were presented to the mutuales for their information and comments during a home improvement seminar in November 1978. This seminar was attended by 16 of the 17 mutuales. The main objective of the seminar was the exchange of ideas on home improvement which was stimulated by the presentations of two guest speakers. The seminar served as the formal initiation of the BVP's home improvement loan program.

Subsequently, the USAID Mission approved these documents. The next step is for the BVP to send the documents (which include procedures for requesting HG-funded loans) in final form to the mutuales.

In practice, it appears that the AG-funds will be lent to three mutuales - one in Lima and two outside the department of Lima.

B. Project Description and Present Status

The FCH technical assistance is being provided at two levels - BVP and mutual. The assistance at the BVP level to date has consisted in the following:

- 1) Survey of Lima mutuales to determine receptivity for program
- 2) Assistance in drafting BVP - Mutual loan contract and parameters for sub-loans.
- 3) Assistance in planning, programming and implementation of a home improvement seminar sponsored by the BVP for the mutuales. The visits of the two guest speakers were financed with OPG funds.

To provide technical assistance at the mutual level, the BVP selected a single mutual to receive this assistance initially. The mutual selected, Mutual Metropolitana, has extensive experience in community infrastructure and housing projects in low income areas. The purpose of the technical assistance is to improve existing procedures and/or establish new procedures, if necessary, for home improvement loans to low income families. It is expected that the forms, procedures, etc., developed can serve as prototypes for the other mutuales. To date, assistance has been provided in the development of the following:

- 1) Work Plan
- 2) Goal, Purposes, Objectives of program
- 3) Indicators for fulfillment of objectives

- 4) Feasibility/market study of 11 communities in the province of Lima as a basis for selection of communities for program implementation.
- 5) Program description for potential borrowers.
Including:
 - a) Minimum requirements for borrowers
 - b) Application requirements for borrowers
 - c) Guarantees
 - d) Loan mechanics
- 6) Application form
- 7) Application processing procedures
- 8) Program implementation unit
- 9) Technical control forms
- 10) Estimate of construction costs
- 11) Projection of program costs

Assistance in the latter three areas was provided by a short-term consultant (architect) who reviewed existing forms and procedures and made suggestions for improvements and/or additions, if necessary.

Still to be developed or revised before implementation can commence are:

- 1) Loan analysis form
- 2) Loan contract
- 3) Construction contract
- 4) Detailed projection of program costs
- 5) Loan control system
- 6) Inspection system and criteria
- 7) Promotional program
- 8) Evaluation system
- 9) Hiring of personnel for program implementation unit

V. Background

In Peru, as in many other developing countries, the rural to urban migration patterns have created large marginal settlement areas surrounding the major urban centers. In Peru, these settlements are known as "pueblos juvenes" or "urbanizaciones populares". They normally begin as land invasions. The invaders construct provisional shelters which are gradually upgraded through the incorporation of permanent materials and the construction of additional rooms. These improvements are made as the resources of the families permit (i.e., when they accumulate some savings). Due to the low income level and the lack of access to construction, this process occurs very slowly. The disadvantages are numerous. Few materials can be purchased in a single opportunity. Meanwhile, material costs continue to increase, the purchased materials deteriorate, and the family cannot benefit from the uncompleted project. For these families a mortgage loan to construct a new home or even to purchase an existing one is impossible due to the high (and constantly increasing) cost of a house, the high cost of borrowing (currently 38.25% including commissions and insurance), and the fact that few, if any, have title to the property on which they live.

Given this situation, home improvement loans in small amounts within their capacity to pay represents a potential, if as yet unproved alternative to provide low income families with relatively decent housing. These should be projects which can be completed in a short time in order to avoid (or at least reduce the effects of) the constant cost spiral due to an 80% inflation rate and in order to provide the family an immediate benefit.

With such high interest rates, one of the most serious problems for the S & L system now is the low level of new loans due to the lack of demand. Without a sufficient market for loans, the mutuales cannot cover their cost of capital (i.e., interest paid for savings) and their administrative costs. The resulting deficit situation could mean the decapitalization of the mutuales. To prevent decapitalization most mutuales have been making short term loans (90 to 180 days) for purposes "related to the construction industry". Thus, during the current economic crisis in Peru, the mutuales have gotten away from their prime reason for existence - the financing of housing.

Home improvement loans could represent a large new market for the mutuales if the resulting monthly payments are within the capacity to pay of loan applicants. In this sense, the program is strictly an experiment in which the delinquency rate will be a significant factor.

ATTACHMENTS

Attachment 1 is the Work Plan that was prepared by the Work Committee established by the General Manager of the Mutual Metropolitana. The Work Committee is composed of the heads of the Loans, Savings, Technical, Legal and Public Relations Departments of the Mutual, and the FCH Resident Technician is the coordinator.

Attachment 2 is a statement of the goals, purposes and objectives of the Mutual Metropolitana for the home improvement loan program.

Attachment 3 is a statement of indicators for fulfillment of the objectives prepared by the Work Committee.

Attachment 4 is the "Design Aspects of the Program of Home Improvement for Low Income Families," prepared by the Work Committee.

Attachment 5 is the "Criteria for Selection of Communities for Implementation of the Program - MEVI Mutual Metropolitana," prepared by the Work Committee and the administrators of three branch offices of the Mutual.

Attachment 6 is the questionnaire developed by the Work Committee for surveying community residents for the home improvement loan program.

Attachment 7 is a questionnaire prepared by the Work Committee for surveying community leaders for the home improvement loan program.

(SUMMARY OF) WORK PLAN FOR DESIGN OF A HOME IMPROVEMENT LOAN PROGRAM FOR
LOW INCOME FAMILIES
MUTUAL METROPOLITANA

	Responsible*	1978					1979		← Weeks
		Oct.	November	December	Janu.				
		4	1 2 3 4 5	1 2 3 4	1 2				
1. Development of program objectives	LSPTL	-							
2. Pre-selection of communities for the program	LSP	-							
3. Study of home improvement needs in pre-selected communities and first selection of communities.	LSPT	—							
4. Borrower requirements	LPTL		—						
5. Required documentation - loan application	L(SPT)L		—						
6. Application processing procedures	LSPTL			—					
7. Loan characteristics (terms & conditions, amount, etc)	LSPTL				—				
8. Loan priorities	LSPTL					—			
9. Loan control system	L						—		
10. Technical aspects	T						—		
11. Projections	LSP							—	
12. Promotion	L, PRO							—	
13. Evaluation system	LSPTL							—	
14. Organizational form of the program implementation unit	LSPTL							—	

* Legend:

L = Loan Dept.

S = Saving Dept.

P = Public Relations Dpt.

T = Technical Dept.

L = Legal Dept.

PRO = Promotion Dept.

HOME IMPROVEMENT LOAN PROGRAM

MUTUAL METROPOLITANA

Goal, Purposes, and Objectives

GOAL: Mutual Metropolitana aspires to improve the housing conditions and general living environment of low income families in " pueblos jóvenes " and other economically marginal communities within the province of Lima by making loans for home improvement.

PURPOSE 1 :

The Mutual will make special non-subsidized loans for home improvement and related services for low income families.

OBJECTIVES:

1. The Mutual's own funds will be invested in loans of this type within the first five years of the program (*).
2. These loans will be made at a special interest rate determined by the financial policy of the Mutual.
3. The costs of the program will be covered by the program generated income.

PURPOSE 2 :

The Mutual will expand its institutional capacity to carry out programs of home improvement and related services sensitive to the needs of low income families.

OBJECTIVES:

1. The loans made will fulfill the needs of the recipient families.
2. The loans made will be within the capacity to pay of the recipient families.

(#) The program will be initiated with funds from an AID-HG loan.

3. The loan terms and requirements will be sufficiently flexible in order to make loans to low income families.
4. The procedures will be simplified to assure the prompt processing of the application and disbursement of loan funds.
5. The Mutual will promote small producers of construction materials in areas where these loans will be made.

INDICATORS FOR FULFILLMENT OF OBJECTIVES

- I.
 1. Mutual's own funds invested in home improvement loans to low income families before the end of 1983.
 2. Loans made at an interest rate which covers the financial (cost of capital) and operating costs.
 3. The program in general ^{is} self-financing (i. e. , without deficit).

- II.
 1. Evaluation of loans made by means of a survey of loan recipients.
 2. Low delinquency rate.
 3. Correlation between number/amount of loans made and family income.
 4. Average loan application processing time (from presentation of application to disbursement).
 5. Number and type of these small industries and number of workers employed.

DESIGN ASPECTS OF THE PROGRAM OF HOME IMPROVEMENT
FOR LOW INCOME FAMILIES

1. Development of program objectives.
 - a. List of goal (s), purposes, objectives.
 - b. Indicators for fulfillment of objectives.
2. Pre-selection of communities in which to implement the program - on basis of:
 - a. Experience of the mutual.
 - b. Experience of private groups.
 - c. Criteria.
3. Study of home improvement in pre-selected communities.
 - a. Interviews with leaders and inhabitants to discuss/determine:
 - Program elements
 - Needs for home improvement
 - Demand for home improvement
 - Sources and practices of local credit
 - Existing practices for home improvement
 - Socio-economic situation of community inhabitants (including capacity to pay)
 - b. Determination of home improvement needs and modification of objectives and elements if necessary.
 - c. Final selection of communities in which to implement program.
4. Borrower requirements.
 - a. Range of family income-minimum & maximum.
 - b. Relation of monthly payments to family income and capacity to pay.
 - c. Type of occupation
 - d. Guarantees
 - e. Status of land
 - f. Status of existing shelter
 - g. Savings in the mutual

5. Required documentation - application
 - a. Application
 - b. Verification of income
 - c. References - credit and personal
 - d. Guarantee
 - e. Title or " constancia de posesión " - something which assures non-relocation.
 - f. Site plan
 - g. Project budget
 - h. Construction license
 - i. Plan of the improvement
 - j. Construction contract or self-help plan
6. Application processing procedures
 - a. Analysis (socio-economic, including capacity to pay)
 - b. Approval
 - c. Preparation of flow diagram
7. Characteristics or parameters of loans
 - a. Interest rate
 - b. Term - minimum/maximum
 - c. Grace period
 - d. Amount - minimum/maximum
 - e. Model loan contract
 - f. Disbursement system
 - Several or single disbursement
 - Individual or global
 - Form - cash, materials, to contractor or storehouse, or combination.
 - Entity responsible
 - g. Repayment systems
 - Payment - fixed or graduated; relations with other debt payments.
8. Loan priorities
9. Loan control system
 - a. Document design
 - b. Program accounting

10. Technical aspects:

- a. Appropriate construction methods
- b. Auto-construction systems:
 - Self help - (individual)
 - Mutual help - (groups) - criteria for organization of groups.
- c. Technical assistance - Direct
 - Training of foremen
- d. Inspection criteria
- e. Inspection systems
- f. Model plans
- g. Calculation of unit costs
- h. Feasibility of local production of certain construction materials
- i. System for selection of material suppliers.
- j. Design parameters:
 - Manimum standards for design of improvements
 - Minimum standards for construction components

10. Projections

- a. Income
 - b. Costs
 - c. Loans - number and amount
 - d. Costs of individual loans
- } general program budget

11. Promotion

- a. Selection of media
- b. Preparation of materials
- c. Criteria for organization of promotion groups in communities.
- d. Establishment of entity to implement promotion, fillout and/or receive loan applications.

12. Evaluation

- a. Periodic reporting from control documents
- b. Analysis of periodic reports.
- c. Adjustments if necessary.

13. Organizational form of program implementation unit.

CRITERIA FOR SELECTION OF COMMUNITIES FOR IMPLEMENTATION OF THE PROGRAM - MEVI
MUTUAL METROPOLITANA

1. Low income community
2. Demand for home improvements
3. Need for home improvements
4. Capacity to pay of community inhabitants
5. Community located in the province of Lima
6. Organized community (cooperative, housing association, or neighborhood organization)
7. Pueblo Jóven
8. Legally recognized community
9. Community with basic infraestructure (water, sewerage and/or electricity)
10. Community relatively free of political conflict
11. Group of leaders democratically elected with majority support.
12. Community with credit experience (mutuales and/or other financial institutions.
13. Community near a branch office of the mutual.

Note: These criteria are in order of priority

Lima, October 30, 1978

Community _____

Date _____

QUESTIONNAIRE FOR COMMUNITY RESIDENTSHOME IMPROVEMENT LOAN PROGRAMMUTUAL METROPOLITANAExplanation

The objective of this survey is to know the present housing situation in various communities of the province of Lima. This knowledge will serve as the basis for the design of a home improvement loan program that Mutual Metropolitana will implement in certain communities. Since we are interested in general information, we do not need personal identification data.

General

1. Family position of interviewee

Head of family _____ Other _____

2. Number of persons that live in the house: _____

3. Information on those who contribute to family income:

Person (father, mother, etc.)	Occupation	Job Stability		Relation of place of work to home		Monthly income/ salary
		Stable	Unstable	Near	Far	
TOTAL						

//..

4. Other non-personal family income

Source	Monthly income
TOTAL	

TOTAL MONTHLY
 INCOME : _____
 (3 + 4)

5. Expenses

a) Outstanding Debts	Monthly Payments

b) Living Expenses

- Public Utilities _____
- Education _____
- Food _____
- Others (specify) _____

TOTAL MONTHLY EXPENSES _____

AVAILABLE NET MONTHLY INCOME, _____
 (for housing)

6. Do you save ? YES _____ NO _____

7. Where do you save ?

Bank _____	At home ("mattress") _____
Credit Union _____	Other (specify) _____
Mutual (S & L) _____	

8. Amount saved monthly : _____
9. Purpose of saving : _____
10. In your opinion, what is (are) the greatest need(s) of the community in order of priority ?

Water system _____
Sewerage _____
Electrical system _____
Streets _____
School (s) _____
Community center _____
Other _____
(specify)

CURRENT SHELTER STATUS

11. Status of construction
Completed _____ Incompleted _____

12. Construction material

Brick _____ Adobe _____
Quincha _____ Wood _____
Estera _____ Other _____
(specify)

13. What utilities does the house have?

None _____ Electricity _____
Water _____ Others _____
Sewerage _____ (specify)

14. What was the total cost of the house ? _____

15. For the construction the source(s) of funding was (were) :

	<u>Amount</u>
- Own savings	_____
- Loan from credit union	_____
- Loan from S & L	_____
- Loan from bank	_____
- Other (specify)	_____

16. Year construction begun : _____

17. What form of labor was used ?

Auto-Construction. Self help (family members only) _____
 Mutual help (with assistance of neighbors) _____
 Contract _____
 Other (specify) _____

18. If the labor was performed by auto-construction, what were the work days ?

Week days _____
Weekends _____
Both _____

19. Was a construction permit obtained ?

Yes _____ No _____

20. How were the materials purchased ?

Wholesale (jointly with neighbors) _____
Retail _____

21. Land and Shelter tenure:

Own:

Title _____
Certificate of possession _____
In Process _____

Rent: _____

IMPROVEMENTS MADE

22. Have you made improvements to your house ? Yes _____ NO _____
(If NO, go to # 31)

23. What improvements have you made ?

1) _____ 2) _____ 3) _____

24. In each case, total cost of the improvement:

1) _____ 2) _____ 3) _____

25. In each case source of funding (amount or %) :

Own savings	1) _____	2) _____	3) _____
Loan from credit union	_____	_____	_____
Loan from S & L	_____	_____	_____
Loan from Bank	_____	_____	_____
Other (specify)	_____	_____	_____

26. Year of construction 1) _____ 2) _____ 3) _____

27. What form of labor was used ?

Auto- Construction	{	Self help (family members only)	1) _____	2) _____	3) _____
		Mutual help (with assistance of neighbors)	_____	_____	_____
		Contract	_____	_____	_____
		Other (specify)	_____	_____	_____

28. If the labor was performed by auto-construction, what were the work days ?

Week days	1) _____	2) _____	3) _____
Weekends	_____	_____	_____
Both	_____	_____	_____

29. Was a construction permit obtained ?

1) _____ 2) _____ 3) _____

30. How were the materials purchased ?

Wholesale	1) _____	2) _____	3) _____
Retail	_____	_____	_____

FUTURE IMPROVEMENTS

31. Do you have construction experience ? Yes _____ No _____
What speciality ? _____

32. Do other members of the family have construction experience ?

Yes _____ NO _____ How many ? _____
Which ? _____

33. What improvement(s) do (does) your house need currently ?

- Service connection(s) _____

- Installation of internal service system (s) _____
- Sanitary facilities _____
- Completion of basic structure - which ? _____
- Replacements - which ? _____
- " Cosmetic " improvements - which ? _____
- Expansion - which ? _____

34. How much could you (would you) pay monthly to amortize a home improvement loan ? _____

35. What guarantee (s) could you offer for a home improvement loan ?

- Mortgage _____
- Employers guarantee _____
- Commercial guarantee _____
- Indemnification fund _____
- Personal fixed assets _____
- Existing structure of permanent material _____
- Shares in local firm _____
- Guarantee of third person who is solvent _____
- Other (specify) _____

36. Would you accept a salary deduction as a means of making loan payments ? Yes _____ No _____

37. Would you be willing to make your home improvement loan payment together with your payment for consumption of utility service and your allotment for the provision of community services ?

Yes _____ NO _____

38. Are you and your family willing to assist with your labor in the improvement of your neighbors homes if they assist with yours ?

Yes _____ No _____

39. How do you prefer to acquire the materials for home improvement ?

- Community purchase (wholesale) _____
- Individual purchase (retail) _____

INTERVIEWER: _____

- Neighborhood association _____
- Other (specify) _____

13. Organization characteristics:

- Length of time in existence _____
- Is the community support? _____
- Time in office of current leaders _____
- Is there a community work plan? _____

14. Legal status of community :

- Legal recognition _____
- In process _____
- No legal recognition _____

15. Does community have basic infrastructure ? Yes _____ No _____

Water system _____ Sewerage _____
Electric system _____ Sidewalks _____
Streets (paved) _____

16. What is (are) the most urgent needs of the community in order of priority ?

Water _____
Sewerage _____
Electricity _____
Streets _____
Sidewalks _____
Schools _____
Community center _____
Other (specify) _____

17. What has been the credit experience of the community ?

	<u>Amount</u>	<u>Year</u>
S & L	_____	_____
Other Entities (which) _____	_____	_____
Own resources	_____	_____

18. Where are the community savings kept - What is the current total ?

Institution

Amount

INTERVIEWER: _____