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

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

CHILE - LOW INCOME COOPERATIVE HOUSING PROGRAM

AID-DLC/P-2112

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FD-AAH-990

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

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AID-DLC/P-2112

June 18, 1975

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Chile - Low Income Cooperative Housing Program

Attached for your review are the recommendations for authorization of a Housing Investment Guaranty to the Central Bank of Chile in an amount not to exceed fifty-five million dollars (\$55,000,000) in face amount, assuring against losses (of not to exceed one hundred per centum (100%) of loan investment and interest) with respect to loans by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing in Chile.

This Housing Investment Guaranty is scheduled for consideration by the Development Loan Staff Committee on Tuesday, June 24, 1975; please note your concurrence or objection is requested at the meeting or by close of business on that date. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program
Review

Attachments:

Summary and Recommendations
Project Analysis
Annexes A - G

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I. Summary and Recommendations

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A. Face Sheet

Agency for International Development
Project Paper
Part I To Be Completed By Originating Office

Transaction Code
Add Delete Change

1. Country/Regional Entity/Recipient
Chile/LA Banco Central

2. Document #3 PP
Status New Revision #

3. Project Number 4. Bureau Code
513-HG-006 LA 3

6. Estimated Initial/Final Obl.
FY 75-77 FY (Non-Obligated Funds)

5. Short Project Title
Chile Low Income Cooperative Housing Program

7. Est. Date of Initial Obl. (YMM) _____
8. Est. FY of project completion: 77

9. Estimated Total Cost (\$000 or equivalent \$1 =)

	First Year FY 76			All Years		
	EX	L/C	Total	EX	L/C	Total
AID Approp. Total						
Grant	()	()	()	()	()	()
Loan	()	()	()	()	()	()
Other US	21.0		21.0			55.0
Total US						
Host Govt.						
Other Donors						
Total						

10. AID Appropriated Funds (\$000) None

Funding Source	Tech Code	FY _____		FY _____		FY _____		Fut. Yrs.	
		Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan
Total									

11. Estimated Expenditures

12. Project Purpose(s)

The purpose of the Housing Guaranty is to make available to both the private and public sectors of Chile capital for the long-term financing of housing for families earning below the urban-median family income, and by this infusion guaranty over a three year period, a basic level of housing finance for cooperative housing.

13. Were changes made in PID Facesheet data not included above: Yes No

14. Originating Office Clearance

Signature Peter M. Kimm
Title & Date Director, SER/H

15. Date received in AID/W, or for AID/W documents, date of distribution: _____

B. Introduction

In identifying and dimensioning the role of housing in Chile, it must be noted that traditionally housing has been dominated by the public sector and has had considerable impact on the overall economic performance of the country. Chilean policies over the years have reflected the use of housing as one tool to achieve income redistribution by consistently investing high levels of budget support to the sector to subsidize the development of low and moderate income housing.

Chile has for some time deservedly enjoyed the reputation of having a well-elaborated, articulated national housing policy as well as the technical and institutional capacity for the development of national housing plans and investment programs. Recent GOC studies indicate, however, that Chile is falling behind in its abilities to meet the demand for housing. With a population of over eight million, Chile's present housing needs are: (1) deficient stock of 600,000 units; (2) new requirement due to population growth of 32,500 units; and (3) annual additions to offset units lost through obsolescence of 11,750 units. Since construction capacity is estimated to allow for completion of approximately 65,000 units per year, an annual reduction of existing deficient stock by some 21,000 units would be possible.

AID has had a continuing relationship with the housing sector of Chile for more than 15 years, and it was only natural for the GOC to approach AID on several occasions in early 1974 to determine if AID would be willing to guaranty a new housing loan to Chile. Initial requests for assistance had been based on the continuing heavy demand for middle income housing through the Savings and Loan System which had previously received similar support from AID. In August of 1974, based on the Mission initiative and Bureau concurrence, the Office of Housing (SER/H) sent a team to Chile to conduct a shelter sector assessment. ^{1/} This study revealed a need for substantial financial inputs and some procedural modifications to assure an effective delivery system for housing low income people. The ongoing dialogue between AID and GOC officials during this formative period has led to a proposal clearly within AID mandates. On March 8, 1975 the DAEC gave its "approval in principle" for SER/H to carry out a feasibility study of Chile's proposed housing guaranty program. ^{2/}

^{1/} See Chile Shelter Sector Study, September 1974, on file in SER/H.

^{2/} See Annex D.1 and D.2 for descriptions of the Chilean proposal. Also, see Annex B for DAEC IRR instructions to USAID/C.

C. Description of HG Program

The basic objectives of the proposed program are:

1. To infuse needed capital to assist the GOC maintain and implement a national housing plan capable of addressing the pressing shelter needs of large numbers of urban lower income families.
2. To assist the housing cooperative movement, which has been identified by the GOC as a preferred vehicle for the solution of the housing needs of lower income families, carry to completion numerous housing projects stalled for lack of long-term financing.
3. To encourage and permit the savings and loan industry, currently experiencing a curtailment of the total volume of funds available for mortgage lending, to widen their focus, and participate in the financing of cooperatively organized housing projects for lower income families.
4. To support the GOC's efforts to reduce the high levels of unemployment through the labor absorptive capacity of the home building industry.
5. To support a cooperative movement effort to develop a housing credit and technical delivery system for families residing in rural market towns and adjacent areas.

The proposed HG program will provide \$55 million to the Central Bank of Chile for relending to three institutional sub-borrowers for long term financing of mortgages, and home expansion and improvement loans for the target group (i.e., families earning below the urban median income levels, organized in cooperatives):

1. Thirty-five million dollars will be made available to the Corporation for Housing Services (CORHABIT), a dependency of of the Ministry of Housing (MINVU), to enable it to satisfy a backlog of demand for the target group cooperatives registered with CORHABIT. A large number of these families have already purchased land and have built the basic infrastructure with their savings. Due to insufficiency of funds, CORHABIT has been unable to satisfy these cooperatives requests for long term financing.

2. Fifteen million dollars will be destined for utilization by the Savings and Loan System (SINAP) to meet the shelter needs of the target group. The housing guaranty program will permit the system to revive its activities with these cooperative groups that have been forced out of the market at a time when a growing scarcity of private funds for mortgage lending has eroded their ability to obtain long-term financing.*
3. Five million dollars will be earmarked for the Cooperative Finance Institute (IFICOOP), a private development bank owned by and serving its member cooperatives. IFICOOP, contracting with SODIMAC, a building materials cooperative, will implement a pilot program to develop a viable delivery system for providing housing and home improvement financing to families within the target group who live in or adjacent to rural market towns. IFICOOP will be responsible for all financial and credit functions while SODIMAC will deal with organizational, marketing, and technical assistance aspects of the self-help program. Whenever possible and feasible, the program will be offered to existing cooperatives already being served by IFICOOP.

Having examined and analyzed family income data patterns and construction costs in an economy undergoing rapid inflation, it has been estimated that monthly urban median family income as of December 1974 was E^o194.000 escudos or U.S. \$134.^{1/} Taking into account construction costs and terms of sale, this would fix the maximum loan financiable under the program at \$4,600. An examination of the socio-economic profile of actual cooperative groups registered with CORHABIT, SINAP and IFICOOP demonstrate the feasibility of financing solutions up to a \$4,600 mortgage ceiling. Based on the income data gathered by the Team, this should permit the program to service client groups in the 10th to 50th family income percentiles.

To compensate somewhat for the currently depressed real incomes of many families and to lower the threshold of entry into the program, a progressive payment plan will be in effect. Thus, while the effective interest rate of the loans made by CORHABIT and SINAP over the life of the mortgage will be 6%, the initial payments will be based on a 3% interest rate. Corresponding figures for the IFICOOP program will be an effective rate of 3% and a 1% entry rate. In addition to the monetary correction adjustment on the outstanding principal, an annual 3% adjustment on mortgage payments will yield the projected rate of return to the three sub-borrowers. The GOC has established this annual adjustment based on its estimate of an annual improvement in real incomes.

1/ See Richard Webb's May 2, 1975, "Analysis of income distribution," on file in SER/H.

*Reallocation of funds between CORHABIT and SINAP may be authorized but only with the approval of AID/W.

The cost of homes in Chile has traditionally been high relative to family incomes. Years of high rates of inflation during which the cost of construction moved ahead faster than incomes further distorted the relationship. Among lower income groups, this phenomenon produced a widespread adoption of "stepped" or progressive solutions. At the lowest levels this took the form of controlled or uncontrolled minimum shelter solutions. Further up the income scale but still largely below the median, many families organized as cooperatives and started the process of homeownership by systematic saving. The first stage of savings would be for the purchase of a site; the second stage would be for urbanization. Usually at that point the cooperative then registered with CORHABIT and sought long-term housing finance. In effect, this process of dividing the solution of the shelter needs into several stages, spread over time, was the only way to reduce the cost and bring it within the reach of the families involved.

In recognition of the operation of this process and the reasons for it, the HG program proposes and anticipates the financing by CORHABIT, SINAP and IFICOOP of those stages remaining to produce units with a mortgage ceiling of \$4,600 equivalent in local currencies.

D. Recommendation

Based upon the review of the proposal set forth in this paper, it is recommended that the subject guaranty be approved:

Amount of guaranty: \$55 million

Term: The consolidated loan will be for a term of up to 30 years with a ten year grace period on the repayment of principal.

Interest Rate: The interest rate payable to the U.S. investor (\$), shall not exceed the allowable rate of interest prescribed by the AID administrator pursuant to Section 223 (f) of the FAA, and shall be consistent with rates of interest generally available for similar type loans.

1/ Approximately 15,500 units will be financed through HG loan. See Annex C, the Logical Framework, for a more detailed treatment of EPS, inputs, and outputs.

II. Project Soundness

The following discussion describes the milieu in which the proposed HC program intends to operate.

A. Policy

Against the backdrop of a national economy devastated by several successive years of triple digit inflation, the GOC has given high priority (proposed 3% GNP), to the implementation housing program for lower income urban families.

Current shelter strategy calls for:

1. Decentralization of the activities of MINVU, with the establishment of 13 autonomous regional operations for housing and urban development so as to promote more even development and guaranteeing more relevant local shelter solutions.
2. A gradual shifting of the public sector role in housing away from actual production activities into a more exclusively financing, planning and orchestrating role with the eventual goal of creating a National Housing Bank along the lines of Brazil's Housing Bank.
3. Recognizing that the high cost of construction in combination with depressed real incomes have made home ownership still more difficult for those who have not resolved their shelter needs, the GOC is programming the construction of 142,000 "transitional" rental housing units over a six year period to act as a stop-gap measure.
Furthermore, tax incentives and a revision of the rental laws are being considered towards attracting private investment in rental housing in general.
4. In an attempt to develop a more viable system of public sector housing finance, the GOC has determined to limit the actual subsidy by tying all public sector housing mortgages to the readjustment system, and instituting payroll deduction at the source of employment. To inject some additional predictability and stability into the lives of lower income families, CORHABIT has recently instituted a system of monthly payments as a percentage of the monthly income of the client. A closer proximation of CORHABIT mortgage interest rates with local market interest rates is to be implemented.

5. In recognition of the importance of private sector participation in the public sector social interest housing program, the GOC has encouraged the development of intermediate institutions to assist in organizing housing demand. In addition to strongly supporting the larger role of housing cooperatives, the GOC has also sought to facilitate the creation of Regional Associations for Social Housing, which would be non-profit private institutions that bring together employers and employees in housing projects, in still another attempt at private resource cooperation in solving the mass housing problem.

Housing for moderate and lower income families has been considered the responsibility of the state, and ample use of the subsidy route has sometimes amounted to more than 90% of the cost of a dwelling unit has been employed as a means of income redistribution. The GOC, over the past 15 years, has accounted for approximately 70% of all housing construction. The priority assigned to housing is shown in the table below noting the percentage of total public capital invested in housing annually, and the percentage of total budget expenditures this represented.

Public Sector Housing Investment

	<u>% Capital Investment</u>	<u>% Total Budget</u>
1970	16.4	4.6
1971	23.6	7.5
1972	26.0	7.0
1973	21.0	5.8
1974	20.6	7.4
1975	17.2	5.9

Source: ODEPLAN Budget 1975

The National Development Plan calls for the following outlays to be made in housing in both the public and private sectors over a six year period:

	<u>Number of Houses</u>	<u>Total Cost (\$ millions)</u>	<u>Cost per Unit</u>
Public Sector:	270,800	1,395	5,151
Private Sector:	48,400	742	15,331
TOTAL:	319,200	2,137	6,695

What is important to keep in mind is the GOC's stated objective to recoup these investments and to reduce if not eliminate the direct subsidy to the housing sector.

The plan further details the average costs of public housing per year. The costs stay in the neighborhood of about \$4,000 per unit until 1979 when it is expected that the construction of semi-permanent housing will drop off rather sharply as the basic low-income housing needs are met and public housing is to be concentrated in permanent housing. At this time the average cost of public housing is expected to rise to the \$8,000 to \$9,000 range per unit.

On examination, the several components of the housing guaranty program are seen to be strongly supportive of the basic thrust of GOC housing policy as currently defined and illustrated in that nation's housing plans and ongoing programs.

1. The GOC thrust reflects the official support for, and identification of the cooperative system as a preferred development vehicle. In housing, cooperatives are seen as an effective tool for organizing demand among the less articulate groups in urban society, and providing a mechanism for stimulating savings for housing on the part of lower income groups. Of particular importance to the Coop movement is the GOC interest in strengthening the "open" cooperative approach. Under a centralized administrative and technical unit, the open coop will have the scale (i.e., two-three thousand members) required to confront the high costs of home construction.
2. The GOC is undergoing great strain and pressure for budget cutting below programmed levels, due principally to continued poor copper earnings. The 15,500 units to be financed by the guaranty program over the three year period will insure a minimum level of housing production for lower income families.
3. The GOC has stated its desire to finance 6,500 units per annum for lower income families in the rural area, but currently lacks the delivery system for effectively reaching this target area.

In supporting the pilot program of the IFICOOP-SODIMAC institutional team, the HG program will be giving major support to the program aimed at developing and field testing a housing delivery system for rural market towns and adjacent areas.

4. Considering the present situation of lower and uncertain yields from its traditional secondary market operation and of relative scarcity of uncommitted mortgage financing available through the

S&L system, the HG program will permit the system to shift its posture and focus on lower income clients in conformity with stated GOC policy goals.

B. Social

1. Population

The 1970 census showed that the population at that time was 8,885,000 persons, and had grown over the previous decade at a rate of 1.9% per annum. Chile's urban population by 1970 was 60% reflecting the continuous rural to urban migration. Moreover, census data show a downward trend in the proportion of residents found in small and medium-sized cities and, correspondingly, a greater concentration of population in the larger urban centers. Greater Santiago contained 54% of Chile's total urban population in 1970, having increased by 49% during the past decade.

While the strong pattern of urban growth unleashed in the 1950s has placed strong pressure on Chilean cities in terms of housing, infrastructure, schools, transportation, etc., the pressure on Greater Santiago has been extreme and continuous; in the decade

1960-1970, this city alone absorbed 64% of the total national population increase.

2. Demand as a Function of Family Income

Given the very fluid and rapidly changing situation created by hyper-inflation and government measures to return the country to a market economy, income distribution data have been difficult to secure. A specialist in the area of income analysis accompanied the feasibility team to Chile and has developed family income data using December of 1974 as the base point of reference. His final estimates reported here are understandably a mix of statistics, assumptions, and judgement. ^{1/}

The median urban family income was found to be 194,000 escudos monthly, which at the prevailing exchange rate of November of 1974 equals \$133.80. ^{2/} The median income for families residing in rural market towns is estimated to be 178,150 escudos or \$122.

A distribution of urban family income by percentiles is suggested below:

<u>Urban Chile</u>			
<u>Escudos</u>	<u>Monthly Family Income Range (U.S. \$)</u>	<u>% Urban Families</u>	<u>Number of Urban Families</u>
Below 90,000	Below \$62.00	10%	210,000
90,000 to 133,968	62.01 to 92.00	20%	420,000
133,968 to 194,000	92.01 to 134.00	20%	420,000

^{1/} For more complete discussion on family distribution see Princeton University Professor Richard Webb's memo on file SER/H, "Income Distribution Analysis of Chile," May 2, 1975.

^{2/} The exchange rate: \$1 US = E° 1,450

CHILE

ANNUAL HOUSEHOLD DISTRIBUTION OF INCOME
IN THE URBAN SECTOR - DECEMBER, 1974
FOR SANTIAGO AND OTHER URBAN CENTERS

NOTE: EMPHASIS HAS BEEN ADDED TO THE
MINIMUM REQUIRED INCOME RANGE FOR THE
VARIOUS HOUSING PROGRAMS.

ANNUAL HOUSEHOLD INCOME IN ESCUDOS AND UNITED STATES DOLLARS

12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
1,000,000
500,000
250,000
125,000
62,500
31,250
15,625
7,812
3,906
1,953
976
488
244
122
61
30
15
7
3
1

100%

SANTIAGO

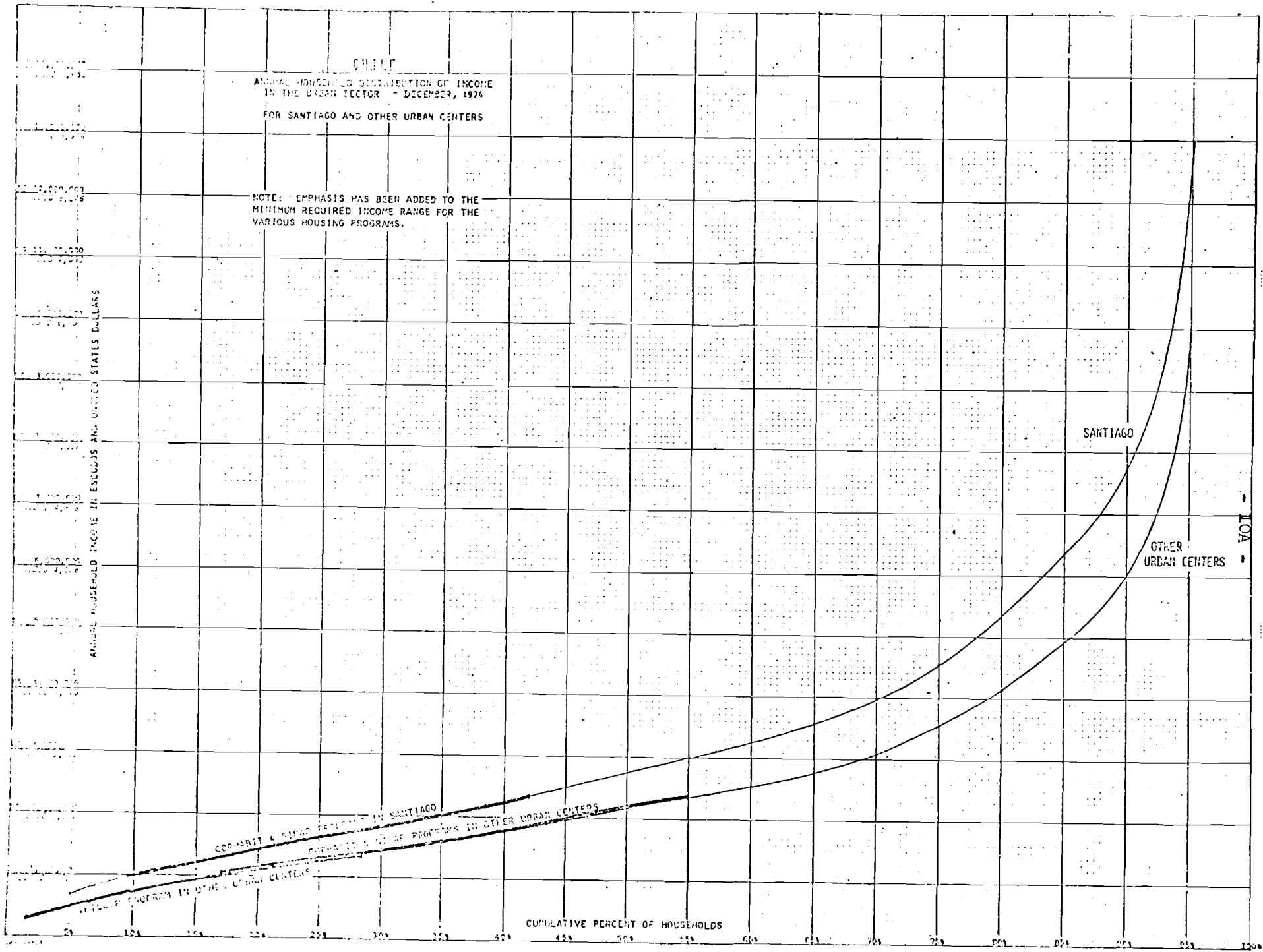
OTHER
URBAN CENTERS

COHABIT & CUMAO PROGRAMS IN SANTIAGO
PROGRAMS IN OTHER URBAN CENTERS

CUMULATIVE PERCENT OF HOUSEHOLDS

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3. Target Income Group

For illustrative purposes, the tables below are presented to demonstrate the estimated loans to be provided under this program, and the eligibility of families to receive these loans relative to their monthly amortization and interest payment capacity.

Initial Payment Requirements for CORHABIT and SINAP Program*

<u>Mortgage Loans</u>	<u>% Income</u>	<u>Monthly Payment</u>	<u>Monthly Income</u>	<u>Annual Income</u>	<u>Approximate Percentile Range</u>	
					<u>Santiago/Other</u>	
2,000	20%	11.70	58.50	702.00	12	17
2,500	20%	14.62	73.10	877.20	17	25
3,000	20%	17.54	87.70	1,052.40	22	33
3,500	20%	20.47	102.35	1,228.20	29	41
4,000	20%	23.39	116.95	1,403.40	36	47
4,600	20%	26.90	134.50	1,614.00	43	55

*Assumes 25 year term @ 5% annual interest (3% interest, plus 2% administrative fee).

Initial Payment Requirements for IFICOOP Program**

<u>Mortgage Loans</u>	<u>% Income</u>	<u>Monthly Payment</u>	<u>Monthly Income</u>	<u>Annual Income</u>	<u>Approximate Percentile Range</u>
500	15%	2.38	15.87	190.44	Under 5
1,000	15%	4.75	31.67	380.04	7
1,500	15%	7.12	47.47	569.64	12
2,000	15%	9.49	63.27	759.24	19
2,500	15%	11.86	79.07	948.84	29

**Assumes 25 year term @ 3% annual interest (1% interest, plus 2% administration fee).

C. Economic

1. Background ^{1/}

Because of the GOC's efforts to invite foreign investment back to Chile and to undertake institutional reforms that foster the growth of a more vigorous private sector, output in Chile's major economic sectors has increased substantially when compared with the 1972-73 period. The latest estimates for 1974 indicate that real GDP increased by 5-6 percent during the calendar year. However, external economic developments, i.e., high prices for imports and low prices for Chilean exports, have made it difficult for the nation to regain the standard of living that prevailed in earlier years.

The price of oil and petroleum products has quadrupled, and the prices of agricultural imports have gone up significantly, but the price of Chile's major export--copper--has declined by more than 50 percent from the mid-1974 level. Consequently, the nation's ability to pay for essential imports has been seriously reduced. Although many of the medium and long-term loans were rolled over or refinanced in 1972, 1973 and again in 1974, the country is still unable to import with its own resources, the sum total of consumer and capital goods that it needs to resume upward economic growth.

Fluctuations in the international price of copper, the main export of Chile, also effect internal price levels in several ways. Government revenues have declined with the price of copper, and the public deficit has increased. These deficits have been financed through Central Bank sources which have lead to further inflationary pressures. Similarly, large receipts of revenue from copper sales have tended to push public expenditures upward, with similar upward pressure on prices.

Partly because of the above and because of the economic policies of the Popular Unity government, the Consumer Price Index shot up by 163.4 percent in 1972 and 508 percent in 1973. The GOC's new economic policies, coupled with higher income from copper exports, have succeeded in restraining somewhat upward movements in price rises during 1974, when the CPI increase was reported to be 376 percent.

^{1/} For discussion on the economic situation as it relates to the housing sector, see Indiana University Professor Eugene Brady's memo on file SER/H, "Project Report on Chile Intensive Review", April 10, 1975.

2. Balance of Payments

The new government's free market price policies as well as its efforts in mining and its open attitude toward foreign investment, point to an export-oriented strategy, in contrast to the import substitution policies followed in the past.

The government is trying to hold down imports of consumer goods and agricultural commodities by encouraging domestic production. Intermediate and capital goods imports, however, are permitted to rise in accordance with the growth requirements of the economy, and Chile's ability to borrow from external sources.

Chile should be able, at least partially, to correct its adverse balance of trade by increasing exports and stabilizing imports. However, as a result of increasing prices for imports, especially oil, and heavy interest payments on external debt, the current account position is likely to remain negative for the immediate future. The IBRD^{1/} estimates that Chile's current account will be critical throughout the remainder of this decade. The overall balance of payments deficit, based on current projections, is expected to reach \$586 million during 1975.

3. External Debt Situation

Chile's public and private external debt with government guaranty is estimated to have been around \$3 billion on December 31, 1973. Around \$2.8 billion of this total is repayable in foreign currency. The most important creditor countries are the United States, the Federal Republic of Germany, the United Kingdom and France. Among the international financial institutions, the IBRD leads others with outstanding loans of \$129 million.

Unable to meet these large obligations, the GOC concluded rescheduling agreements with its major creditors. Thus, in 1973, \$356 million of amortization and interest payments were deferred until later years, and on March 25, 1974, the representatives of some nine creditor countries agreed to rechedule amortization and interest payments due in 1973 and 1974 for the same category of loans covered in the 1972 agreements.

^{1/} IBRD, "Special Report on the Chilean Economic Outlook, October 1974. Table 3.1

Chile faces very heavy external debt obligations during the next few years, particularly during 1976. The debt service on existing foreign debt would peak, assuming normal copper earnings, at about 25 percent of export receipts over the next five years, and decline gradually thereafter to below 20 percent by 1985. The magnitude of these ratios may, however, change due to new borrowings and the rescheduling of some of the existing loans or price of copper.

Depending upon the price of copper, Chile's external financial requirements for 1975 will be between U.S. \$502 million and U.S. \$725 million. Of this amount, U.S. \$282 million will represent debt relief with the remaining U.S. \$220 million to U.S. \$443 million to be financed from external sources. In addition to a proposed U.S. \$55 million HG loan, other U.S. Government bilateral development loan assistance is likely to be U.S. \$25 million. For 1975, the IBRD program in Chile could possibly reach U.S. \$80 million, and the IDB program could be between U.S. \$60 and U.S. \$70 million.

If Chile's 1975 external financial requirements are not met, the country will inevitably experience a further reduction in economic activity and increased unemployment.

4. Possible Economic Effects of the HG Program

After detailed discussion with many housing and financial people in Santiago, it was concluded that the prospective \$55 million loan will not be inflationary. That is, it will not contribute to the current run-up in prices and, in fact, may well prove to be deflationary. The rationale for this view follows:

- a. The labor intensive character of the building industry in Chile will increase the level of employment in Chile. At the end of 1974, the rate of aggregating unemployment was about 10 percent,^{1/} and had not changed substantially during the first three months of 1975. The employment multiplier for the housing sector is higher than that for other sectors of the economy, and increasing employment in housing should be deflationary. Unemployment compensation covering workers over the first year they are unemployed must be financed out of Government deficits (under Decree Law 603 of August 5, 1974), and the magnitude of the deficit itself is a major cause of inflation.

^{1/} A study made by the National Institute of Statistics notes that the total level of unemployment was 9.4 percent in December of 1974, and that the unemployment rate in the construction sector rose sharply in the fourth quarter of the year as follows: October 1974: 8.0%; November 1974: 11.8%; and December 1974: 19.0%.

The nature of the labor requirements for the housing industry is such that unskilled labor can be utilized in practically all facets of construction. There are low entry barriers to the building industry, both in terms of labor and materials production and substantial increases in the real volume of housing activity could be affected without upward pressures on price, either for labor or for materials. The housing industry is currently in a cyclic slump in Chile, just as it is in the United States and considerable increases in real output could be made in a very short period of time without straining capacity.

- b. The proposed HG program further appears to be consistent with the overall program of tax incentives currently being followed by the Chilean Government. Generally speaking, they have switched subsidation from capital to labor and subsidies have generally been transferred from capital incentives to labor incentives.

A stimulation of housing activity with its labor intensive production techniques, is consistent with the overall policies currently pursued by the Government.

- c. The foreign exchange gains of a HG credit will not be offset by exchange losses through expansion of the housing industry. Estimates by different people vary, but the general consensus seems to be that less than two percent of the requirements of the housing industry will require imports. To the extent that domestic inflation results from increasing balance of payments deficits forcing continued exchange rate adjustments, the loan would be non-inflationary (and possibly actually deflationary).

D. Technical

1. Constraints

No constraints are anticipated due either to shortages in manpower nor in building materials.

On the manpower side of the equation, from experienced housing finance administrators and homebuilding contractors, to architects and civil engineers, to skilled and unskilled workers, no shortages within foreseeable production levels attainable are anticipated. Quite the contrary, one desirable by-product of the housing program will be the generation of employment in an economy suffering from 10% - 12% unemployment.

On the building materials side, given the fact that the import component is only approximately 2%, and that the homebuilding industry is currently in a depressed state, it is safe to assume that significant increases in the volume of housing starts would be required to even challenge the productive capacity of the building materials industry. The additional volume and type of construction represented by the HG program would not be sufficient to generate materials shortages.

2. Technological Innovations

Although a major portion of the HG resources will be directed at supporting existing housing programs with well established technical underwriting procedures, the rural marketing town subprogram will help establish a new housing delivery system. In order to assist the GOC build 6,500 dwelling units annually in the rural sector, IFICOOP and SODIMAC have developed, on a pilot basis, an apparatus capable of channelling supervised housing finance to the rural sector. An IFICOOP analysis indicates that a market exists for a self-help program, producing new or expanding existing housing in the \$1,000 - \$2,500 range, and would serve a client group approximately the 5th to 29th family income percentile. It is anticipated that approximately 3,000 units will be developed under this pilot program.

The initial pilot program will be undertaken by IFICOOP - SODIMAC through multi-purpose agricultural cooperatives already organized and functioning in designated areas. SODIMAC will deploy the necessary technical field workers to

implement the organizational and self-help aspects of the program. SODIMAC will make available to the program without cost the office space and administrative support required. The value of this contribution is estimated at \$50,000 per year for the anticipated 3 year implementation period.

Servicing of the collections of the completed units, improvements and expansions of existing units will be the responsibility of the local cooperatives, with the assistance and monitoring of IFICOOP.

E. Financial

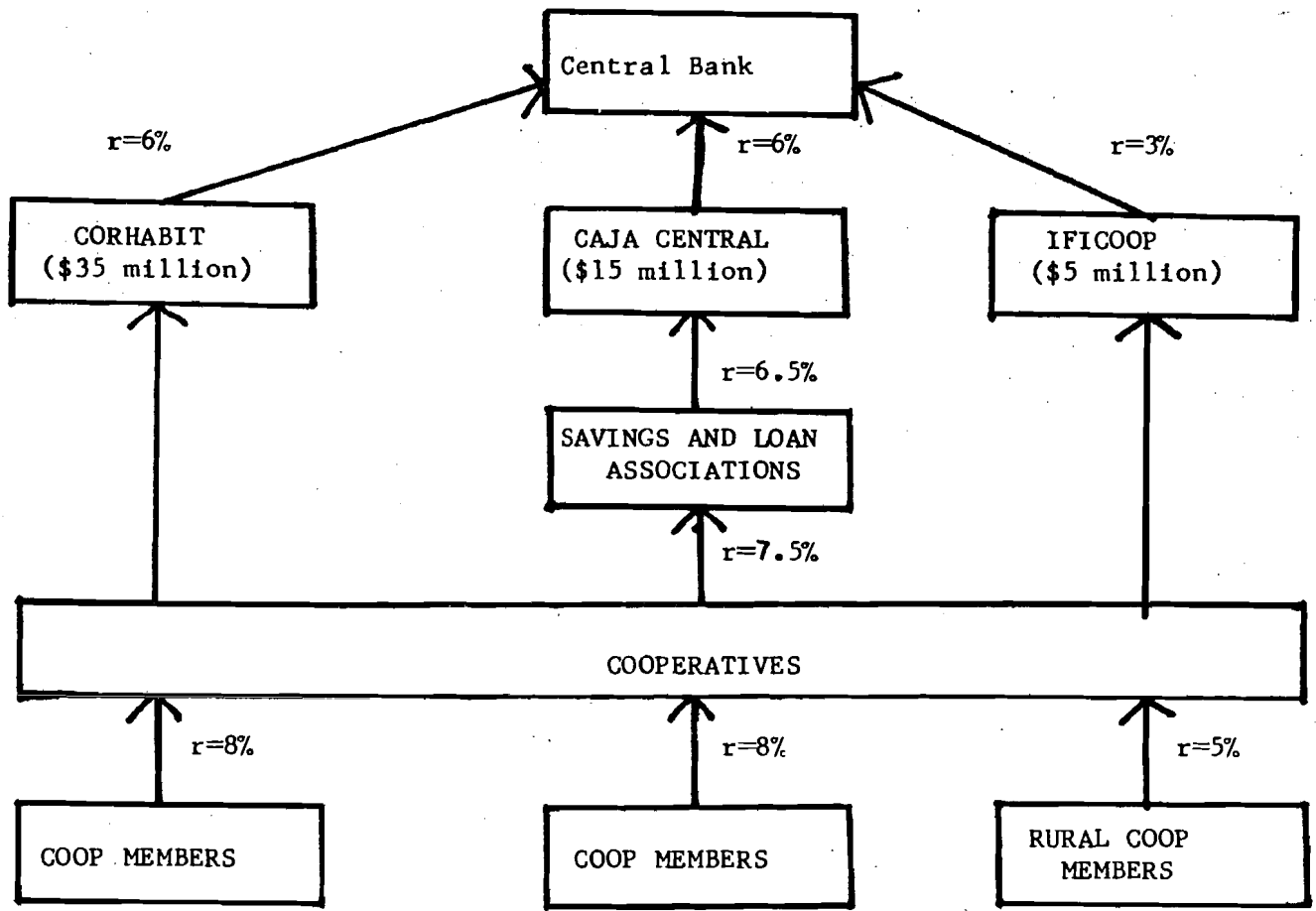
The tentative and illustrative finance plan is as follows:

(In U.S. \$ Thousands)

	<u>FY 76</u>	<u>FY 77</u>	<u>FY 78</u>	<u>TOTAL</u>
H.G. Funds	21,000	32,000	2,000	55,000
Cooperative Downpayments	2,333	3,555	222	6,110
SODIMAC in-kind support	50	50	50	150
Value of self help labor	<u>200</u>	<u>400</u>	<u>400</u>	<u>1,000</u>
	23,583	36,005	2,672	62,260

The following chart summarizes the flow of resources to the sub-borrowers and the projected rate of return on loans to the homebuyer. All three sub-borrowers anticipate applying a 2% administrative or service fee on the unpaid balance to cover the costs of mortgage servicing. It is anticipated that a portion of this fee will be paid to the Cooperatives who will act as the collection agents for the sub-borrowers.

1/ The HG resources will comprise approximately one-third of CORHARIT's loan activities during the disbursement period, and approximately ten percent of those of SINAP and IFICOOP.



Note:

r= The real rate of return on the loan. The initial lower rate of interest of 3% will be adjusted annually at a rate of 3% on the monthly payments.

To compensate for the currently acknowledged depression of real wages, and so enable the program to reach further down on the income scale, a variable payment will be charged to the individual cooperative homeowner. The loans under the terms of the proposed program would be repaid over an amortization period of 25 years with an initial payment based on a rate of return to the lender of 3 percent, and an annual increase in payments sufficient to yield a real rate of return over the entire loan period of 6 percent. In the case of the IFICOOP, the real rate of return will be 3% with initial payments based on a 1 percent rate of interest. The annual increase in payments necessary to achieve this end is approximately 3 percent per year. This annual adjustment is based on the GOE's estimate that real wage changes will permit the families participating in this program to slowly increase their payments. This variable payment scheme has been tested on a computer program prepared by Indiana University.

In addition to the variable payment mechanism, all mortgages are tied to the annual readjustment, based on changes in the CIP, thus protecting the invested capital against erosion by inflation. The home buyers also benefit and receive financial protection with the readjustment system since fluctuations in the CPI index serve as the basis for periodic increases in wages and salaries. It should be pointed out that the readjustability makes the stated interest rates, real interest rates. The six point real rate of interest is in effect a very high rate of interest and in a more stable economy should prove to be an attractive financial paper. ^{1/} The GOC has decided to make the loan to IFICOOP at a lower interest rate in order to further stimulate lines of supervised credit for home construction and/or improvement in the rural sector.

^{1/} For discussion on the current structure of money and capital markets in Chile, see Eugene Brady's memo on file in SER/H

III. Implementation

A. Administration

1. Recipient

The three sub-borrowers responsible for the various facets of the program are:

a. CORHABIT

CORHABIT is to receive a major portion of the proposed HG resources. This institution was established in 1965 as an autonomous corporation following a major consolidation and rationalization of the housing sector under the aegis of MINVU. As originally conceived, CORHABIT was to be one of four such corporations operating under the control of MINVU. It was charged with marketing, property management, and mortgage servicing. The Housing Corporation (CORVI) would construct homes on land acquired by the Urban Renewal Corporation (CORMU) and then CORHABIT would assign the units. The intended division of labor quickly broke down, with each corporation undertaking functions originally assigned to another. CORHABIT administered the GOC's site and services program, then the popular savings plan which tried to organize marginal groups and start them saving for housing. Finally, CORHABIT provided financing for low income housing cooperatives. These low cost units were not part of the readjustment mortgage system; the continuation of inflationary erosion of the value of these mortgages and the lax collection procedures quickly decapitalized the institution and due to the scarcity of long-term financing, left many cooperatives stalled in their desire for housing.

Under the new administration, CORHABIT operations have been tightened, its mortgages readjusted based on changes in the CPI, the staff reduced by 60 percent, and its collections vastly improved by recourse to a system of payroll deductions.

Significant management/organizational features of CORHABIT include:

- (1) A lion's share of GOC funds received by CORHABIT have been used to complete the large number of housing starts made under the previous government, but never completed.
- (2) CORHABIT currently has four offices servicing the Greater Santiago area, and 24 additional offices spread throughout the nation. The chief officer of the corporation is the executive vice president, and each regional and zonal office is headed by a manager.
- (3) Principal functions of the institution are the general servicing of all mortgages guaranteed by the public sector housing institutions, the registration and monitoring of cooperatives participating or seeking to participate in the program, the control and accounting of projects under construction, inspection of site progress and collections.
- (4) The institution is currently managing a portfolio of approximately 250,000 accounts. The newly commenced drive to effect collections by payroll deduction has been quite successful and effective; there are currently 120,000 accounts being collected in that manner monthly.
- (5) Of the total number of cooperatives registered with CORHABIT (more than 300) currently 96, representing somewhat in excess of 6,200 members, have completed all the requirements for financing, i.e., they have saved and purchased land and installed infrastructure as per local requirements but are unable to obtain long-term financing. Most of these members fall within the HG target group identified.^{1/} The advanced state of CORHABIT facet of the proposed HG program should permit fast startup and relatively quick disbursement.
- (6) CORHABIT's management team appears to be capable and dedicated and the organizational problems identified earlier have been turned around. The additional volume of work for CORHABIT represented by the \$35 million component

^{1/} See Annex E: A sample profile of monthly incomes of families who may participate in the HG program.

of the proposed HC will require the assignment of additional staff. This will be discussed during the negotiation phase of the HC loan.

The HC resources to be invested by CORHABIT will permit the housing cooperative movement carry to completion numerous housing projects that have not been built for lack of capital. (See Table One)

b. SINAP

Funds for the S&L system will be lent to the Caja Central, an autonomous financial entity, created in 1960. The Caja is administered and directed by a three-man Board of Directors appointed by the GOC for three-year renewal terms. The Minister of Housing may participate in Board meeting and can veto resolutions of the Board.

The powers of the Caja have proven broad enough to provide necessary control over and support of the system. They may be summarized as follows:

- (1) To authorize the establishment of individual private savings and loan associations, to establish standards for their incorporation and operation, to establish limitations on association's financing terms, and to review associations' performance by means of periodic audit.
- (2) To determine the annual readjustment of the principal amount of deposits in mortgage loans of, and Caja loans to the associations.
- (3) To insure savings deposits made in associations and to verify that mortgage loans granted by the associations are readjusted.
- (4) To act as a central credit agency for the associations. As such the Caja can make secured loans to the associations, may purchase the associations' mortgage paper, and maintain a secondary market among private investment sources for such mortgage paper.

TABLE ONE
Financial Plans and Estimated Breakdown of Units to be constructed.*

	CORHABIT	SINAP	IFICOOP
1. - Maximum Value	\$5,150	\$5,150	\$2,500
2. - Downpayment or equity required	10%	10%	10%
3. - Mortgages			
a. Range	\$2,000-4,600	\$2,000-4,600	\$500-2,500
b. Average			
(1) New units	\$4,000	\$4,000	\$2,000
(2) Improvements	-	-	\$1,000
4. - Terms			
a. Interest (initial)	3%	3%	1%
b. Administrative Fee	2%	2%	2%
c. Total	5%	5%	3%
5. - Length of Mortgage			
a. Mortgages	Up to 25 yrs.	Up to 25 yrs.	Up to 25 yrs.
b. Home Improvements	-	-	Up to 15 yrs.
6. - Initial Monthly Payment Range	\$11.70 to 26.90	\$11.70 to 26.90	\$2.38 to 11.86
7. - Percent of Income Required to Amortize Loan	20%	20%	15%
8. - Total Number Loans			
a. New Units	8,750	3,750	2,000
b. Improvements			1,000
9. - HC Financing	\$35 million	\$15 million	\$5 million
10. - Downpayments or equity	\$3.9 million	\$1.7 million	\$.5 million
11. - Self-help	-	-	\$1 million
12. - SODIMAC Contribution			\$150,000
13. Total Financing	\$38.9 million	\$16.7 million	\$6.65 million

* Reallocation of funds between CORHABIT and SINAP may be authorized but only with the approval of AID/W.

The savings and loan associations in Chile are private, non-profit mutual associations governed by a Board of Directors. Associations acquire legal status through the issuance of a charter by the Caja. Lending operations of the associations are restricted to the geographical region authorized by the Caja.

There are presently 21 associations functioning in Chile. Seven associations, with their 15 branch offices, are located in Santiago.

In slightly over 14 years of operations, the system has built 143,636 homes and attracted 690,000 savers. The system, in recent years, has accounted for the financing of approximately 90-95% of all housing construction in the private sector (approximately 18,000 homes in 1974). As of July 31, 1974, the system's mortgage portfolio totaled U.S. \$800 million.

In the course of its operations, SINAP has financed housing cooperatives, and is thus familiar with that type of organization, and its special needs and characteristics. Approximately 17% of all homes financed by the system, 24,000 in number with an estimated value of \$110 million, were cooperatives.

With three digit inflation and the use of an annual readjustment of the mortgage principal to maintain the value of the capital invested, selling prices as a basis for comparison in the Chilean housing market have no meaning. A more meaningful measure of the type of housing financed, and thus to a large degree the target group served, is the size of the dwelling units (square meters) financed.

Over the decade 1965 to 1974, the average size home financed by Chilean savings and loans ran to about 65 square meters. There was a downward trend over the entire decade with the size of houses financed by savings and loans averaging about 73 square meters in the middle 1960s and falling to slightly over 50 square meters in 1973 and 1974. This downward tendency increased rather sharply after 1971. Looking in more detail at the monthly figures for the years 1972 through 1974, there is no clear trend distinguishable. However, it is clear

that the average size house financed by the savings and loan system has been on the average larger than those houses which will be prospectively financed with the HG resources.

The S&L system is capable of providing lower interest rates and closing fees for lower income families. ^{1/} However, over the course of the last 12 months as the levels of mortgage monies available for lending contracted, few if any loans have been authorized at any but the top level of fee earnings.

Based on the Team's analysis of the proposed HG program's feasibility, and conversations with the leadership of the system, it was concluded that a combination of factors make the proposed program attractive to the system:

- (1) The GOC has asked the savings and loan system to support its stated housing policy by making long-term mortgage financing available to lower income families.
- (2) For many years the system's mortgage participations, with inflationary readjustment and tax advantages, brought substantial capital to the system. Recently, "financieras" have been permitted to introduce competitive financial instruments that attracted some of the investments that have traditionally been made in the secondary market. This has led the system to seek, at least temporarily, another source of capital for lending.
- (3) Given the GOC's support of the cooperative system as a preferred mechanism to organize demand and stimulate savings for housing, the S&Ls see the proposed HG program as a means of reaching out and establishing linkages with the proposed target groups. The move towards open, regional housing

^{1/} The interest rate charged the home buyer varies from 4 to 10 percent depending on the amount of the loan.

cooperatives in Chile also offers an interesting opportunity to the S&Ls to attract large-scale deposits from a sector of the population that has traditionally not invested its resources with the system.

c. IFICOOP/SODIMAC

IFICOOP, a private development bank owned by and servicing its member cooperatives, will be a sub-borrower of \$5 million of the HG program funds. IFICOOP was founded in 1965 and began operations in 1966, largely with the support of AID Loan 513-L-026. It has since become an increasingly important support mechanism for the cooperative movement. At one and the same time, the cooperative movement has become increasingly important in Chile, particularly among the small farmer beneficiaries of Chile's extensive agrarian reform. With the cooperative movement and the small farmer being essential participants in Chile's agricultural recovery program, IFICOOP--requiring additional funding to adequately respond to the implicit situation--approached AID and successfully negotiated a \$15 million development loan. The loan will provide funds to finance projects for agricultural and fishing cooperatives.

As Chile's only cooperative bank, IFICOOP's membership has grown from 98 to 632 cooperatives, including all of the cooperative federations. As of June 30, 1974, its loans to 171 member cooperatives totaled some \$5.5 million of which 40 percent were in the housing sector. Twenty-six percent of all loan were in the agricultural sector, virtually all in medium- and long-term lending. Of these agricultural loans, only 0.23 percent were behind in payments. Capital and reserve totaled approximately \$1.2 million.

In the implementation of the proposed program, IFICOOP's role will be limited to that of a financing agency. Since its inception, it has placed approximately 40 percent of its portfolio in housing loans with credit outstanding to 172 cooperatives. It is currently well staffed to handle the increased load and preliminary analysis suggests that an increase in staff of only two persons will suffice to handle the proposed project. To the maximum extent possible, every feasible opportunity will be taken to coordinate the project with the current IFICOOP loan; and in a supportive fashion, maximize the impact of separate AID programs.

SODIMAC by contract with IFICOOP, will be responsible for the technical and social development of the housing sub-projects contemplated under the \$5 million section of the HG program which aims to provide housing for below median income families in rural market towns located in the four separate regions.

SODIMAC is primarily a cooperative building materials supplier which was organized and commenced operation in 1958. At present it has 39,217 user-members and 1,352 employee members. User-members include builders, construction materials consumers, among which are cooperative housing associations and other community organizations.

The basic features of this organization are:

- (1) Member paid in capital and reserve funds equals U.S. \$17 million.
- (2) SODIMAC operates nationwide and has 48 sales outlets spread throughout the country. Support facilities include two warehouses, two lumber yards and two service yards, one for iron and one for special steel.
- (3) SODIMAC is currently operating at a level of over U.S. \$60 million p.a.
- (4) The organizational structure of SODIMAC is that of the classical cooperative. Its membership elect the board of directors which establish the policies of the cooperative.
- (5) The nationwide operations of SODIMAC have to some extent had a regulating effect on building material prices in the country. Moreover, it carries out technical research and cooperative promotion work.

- (6) SODIMAC has been active in promoting the organization of housing cooperatives and other non-profit systems for the financing of housing. Included among the different housing cooperatives that it has promoted are eight for employees of SODIMAC itself. SODIMAC has also been active in the promotion of consumer cooperatives.
- (7) Recently, SODIMAC has had its Technical Department investigate different prefabricated housing systems and evaluate them, especially their use in low-cost housing programs. As a result of this effort, SODIMAC has prepared a series of five publications on industrialized housing; is preparing a packaged house system; and has constructed five model low-cost houses using different types of materials.

In sum, SODIMAC management performs in a sophisticated manner, employing the latest management techniques and business technology in their operations. While SODIMAC has had limited experience with the rural type of housing cooperative program, they do have a proven track record of organizing and providing technical assistance to housing and consumer cooperatives.

The HG resources are to be utilized by IFICOOP to support the development of an efficient delivery system for providing long-term housing finance for lower-income families residing in secondary and tertiary rural market or "crossroad" towns and adjacent areas. (See Table One)

2. Implementation

The Central Bank of Chile argues, correctly we believe, that a substantial initial outlay will help avoid distortion of planned project costs. Accordingly they have recommended disbursement of at least 50% of the H.G. loan when contracts are signed. While the idea of an advance is not contrary to usual HG. procedures, experience would suggest that the proposed amount may be somewhat high. Therefore, an initial disbursement estimated to total about \$11 million or 20% of the loan will be made to the borrower in order to facilitate the flow of funds to the sub-borrowers and thereby accelerate the implementation of the program.

On an individual project basis, the sums will be initially advanced by the CORHABIT and the participating savings and loan associations to the builders as construction loans. In the case of IFICOOP, the advance will go to the cooperatives for construction disbursements by joint cooperative-SODIMAC action. As construction loans are later converted to long-term mortgages for the purchasers of the completed units, the sub-borrowers will use these new eligible mortgages for drawdowns, through the Central Bank, from the U.S. Investor in accordance with established AID Housing Guaranty procedures.

Subsequent disbursements will be made according to a formula based on evidence that mortgages have been granted to cover loans generated by the sub-borrowers for units within the established selling price limitations and other "eligible mortgage requirements". In the case of home improvement loans contemplated under the IFICOOP agricultural market town program, loans will be made without mortgages. However, the sum expended in this manner is not expected to exceed \$1 million, and IFICOOP will present acceptable certification for such transactions at closings.

CORHABIT and the CAJA are anticipated to complete drawdowns 24 months following the start of program implementation. The IFICOOP program, because of the scattered sites and self-help components of the program, is expected to require 36 months to complete drawdowns.

The Office of Housing (SER/H) will soon be reestablishing a Regional Housing and Urban Development Office in South America. RHUDO will monitor the progress of project implementation. It may, at GOC request, also advise GOC on matters related to housing and urban development such as the technical considerations of creating a new housing bank. All staff support to this program, including outside short-term consultant assignments, will be paid from HG fee resources.

B. Evaluation

The Logical Framework (Annex C) outlines the basic elements of the proposed HG evaluation system to be used in Chile. Subject to further discussion on the adequacy of this Framework with the GOC, each of the three sub-borrower implementation agreements will contain an evaluation plan that specifies the elements and frequency of periodic evaluations to be conducted, as well as assigns responsibilities to the institutions that will participate in the joint evaluation.

C. Negotiations

The major thrust of this program has been designed by Chileans working within a rapidly changing situation. Each of the sub-programs has been given strong GOC support including a sizeable financial commitment (see Minister of Housing and Central Bank letters, Annexes D.1 and D.2). All major issues, such as the target group to be benefited by HG resources and the maximum limit on mortgage financing, have been discussed thoroughly with the GOC.

After Agency approval, the COC is prepared to move quickly in seeking a U.S. investor and entering into contracts with AID and the approved investor. Contract negotiations should be completed during the 1st quarter of FY 76.

ATL-10/1-2112
ANNEX A
May 28, 1975
W/Chile

A. STATUTORY CHECKLIST

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

The proposed guarantied loan will be for: (a) credit institution projects as described in subparagraph (2) of this section; (b) housing projects for lower income families and persons as described in subparagraph 3 of this section and; (c) projects that support cooperatives as described in subparagraph (4) of this section.

Section 222 (c)

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

Section 223 (a):

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

Section 223 (f):

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

Section 223 (h):

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

Section 238 (c):

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

Section 620:

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



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Department of State

ATTENTION
ANNEX B

TELEGRAM

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ORIGIN AID-20

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E.O. 11652: N/A

TAGS:

SUBJECT: FY 75 CHILE HOUSING GUARANTY PROGRAM

1. ON MARCH 3, 1975 THE DAEC CONSIDERED A REQUEST FROM CHILE FOR A 50 MILLION DOLLAR HG TO BOTH THE PUBLIC AND PRIVATE SECTORS TO REVITALIZE PRODUCTION OF HOUSING FOR LOWER-INCOME FAMILIES. APPROVAL IN PRINCIPLE IS GRANTED TO PROCEED WITH THE INTENSIVE REVIEW SUBJECT TO THE FOLLOWING:

(A) TARGET GROUP

✓ PRIOR TO PROJECT PAPER PRESENTATION IN AID/W INCOME DISTRIBUTION SURVEY SHOULD BE COMPLETED. THE PP SHOULD

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Department of State

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SPECIFY THE INCOME RANGE OF THE TARGET GROUP (URBAN FAMILIES BELOW MEDIAN-FAMILY INCOME) AND ASSURE THAT THE PROPOSED HOUSE PRICE LEVELS ARE AFFORDABLE BY THIS GROUP.

(B) INTEREST RATES

THERE WAS CONSIDERABLE DISCUSSION REGARDING ABILITY OF THE TARGET GROUP HOMEOWNERS IN INFLATIONARY ECONOMY TO REPAY LOANS IN ESCUDOS TO PROPOSED SUB-BORROWERS AND CENTRAL BANK'S ABILITY TO REPAY DOLLAR HG. PP SHOULD

DETAIL MEASURES PROPOSED TO MAINTAIN CAPITALIZATION OF SUB-BORROWERS, RELATIONSHIP BETWEEN SUB-BORROWERS, CENTRALBANK AND SUBSEQUENT EFFECT (IF ANY) ON HG.

-- (C) REPLICABILITY

-- THE PPSHOULD ELABORATE ON THOSE ELEMENTS OF THE PROGRAM THAT ARE REPLICABLE IN THE CHILEAN CONTEXT AND THE MANNER AND EXTENT TO WHICH THIS PROGRAM IS DESIGNED TO CONFER MORE THAN ONE-TIME BENEFITS UPON IMMEDIATE SUB-LOAN RECIPIENTS (E.G., POLICY CHANGES, MOBILIZATION OF INCREASED PUBLIC OR PRIVATE FUNDS FOR LOW-COST HOUSING, ETC.)

-- PP SHOULD STATE PRECISE OBJECTIVES VIS A VIS THE VARIOUS SUB-BORROWERS AND IMPACT OF THE HG ON LONG-TERM SYSTEM VIABILITY. PARTICULAR ATTENTION SHOULD BE GIVEN THE 15 MILLION DOLLAR COMPONENT TO THE SAVINGS AND LOAN SYSTEM, INCLUDING SAVINGS ACCUMULATION CAPABILITIES, THE PRESENT LIQUIDITY SITUATION AND EFFECTS OF THE HG OVER THE LONG-TERM ON THE S AND L SYSTEM.

-- (D) RURAL HOUSING

-- AS PART OF THE INTENSIVE REVIEW, SER/H AND MISSION SHOULD STUDY THE FEASIBILITY OF INCLUDING THE RURAL HOUSING ELEMENT IN THE PROPOSED HG PROGRAM.

-- (E) HG FUNDING LEVEL

-- RECOMMENDATIONS FOR THE FINAL HG FUNDING LEVEL SHOULD BE MADE BY SER/H AND MISSION UPON COMPLETION OF INTENSIVE REVIEW.

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Department of State

TELEGRAM

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- - (P) INSTITUTIONS
 - ✓ - - DETERMINATION ON SUB-BORROWERS AND RESPECTIVE FUNDING LEVELS SHOULD BE MADE DURING INTENSIVE REVIEW. PP SHOULD
 - ✓ CONTAIN COMPLETE INSTITUTIONAL, ORGANIZATIONAL, FINANCIAL ANALYSIS OF ALL PROPOSED SUB-BORROWERS AND IMPLEMENTATION AGENCIES.
- ✓ 2. PP WILL BE PREPARED BY AID/W, AND SUBMITTED TO MISSION FOR REVIEW AND APPROVAL PRIOR TO SUBMISSION TO THE DAEC.
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ANNEX B

Department of State

TELEGRAM

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SER/H:RZENER
SER/H:DGARDNER
LA/OR:SEIFMAN
LA/OR:RHECHTMAN
LA/OR:HMANN

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AIDAC

F.O. 11652: N/A

TAGS:

SUBJECT: FY 75 HOUSING GUARANTY PROGRAM

REF: SANTIAGO 1853

1. DAEC APPROVAL IN PRINCIPLE MARCH 8, 1975 WAS FOR 50 MILLION DOLLAR URBAN LOW-INCOME HOUSING PROGRAM, PLUS 5 MILLION DOLLAR SELF-HELP RURAL HOUSING PROJECT. FINAL HG FUNDING LEVEL WILL BE ESTABLISHED BY AID/W AFTER REVIEW OF PROJECT PAPER PRESENTLY BEING PREPARED BY SER/H.

2. WITH REGARD TO PAR. 2 REFTEL, AID/W AGREES WITH MISSION OBSERVATION THAT BORROWER AND SUBBORROWER AGREEMENTS CLEARLY REFLECT THE CONCEPTUAL AND TIMING DISTINCTIONS OF THE RURAL AND URBAN COMPONENTS. KISSINGER

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BEST AVAILABLE COPY

LOGICAL FRAMEWORK MATRIX

PROPOSED CHILE HOUSING GUARANTY PROGRAM

NARRATIVE SUMMARY

OBJECTIVELY VERIFIABLE INDICATORS

MEANS OF VERIFICATION

IMPORTANT ASSUMPTIONS

Sector (country) Shelter Goal

Measure of Goal Achievement

- To increase the availability of housing stock for low income families.

- Increase in the number of low-cost units built for low income families.

- Census data
- MINVU data
- Chamber of Construction data

- Continued GOC commitment to Nat'l Housing Policy that stresses lower-income shelter objectives.

- Economic situation improved during next three years so that more resources are available for investment into the housing sector in the form of institutional investments and increased purchasing power by target group.

- A Nat'l Housing Bank will be established and able to attract needed public and private capital.

Project Purpose

End of Project Status

- To stimulate new low cost housing programs in Chile through the facilities of urban housing cooperatives and rural production credit coops.

- GOC has achieved objective of building 6,500 dwelling units p.a. for low income rural families.

- Chilean public and private sectors have been able to generate financing for housing coops at a level that equals or exceeds the proposed annual combined funding of HG and local resources.

- This proposed funding level seeks to address the needs of a similar number of target group cooperative members assisted by the HG program.

- IFICOOP's annual review of production/participation data:

- a) No. of units built or improved through the rural coop system;
- b) No. of low income cooperative members participating in housing finance program;
- c) Assessment

- CORHABIT's and SINAP's annual review of production participation data:

- a) Amount of financing available to housing cooperatives members
- b) No. of housing coops
- c) Assessment

- Access to tenure and to upgraded services will motivate families to amortize investments in shelter.

- SINAP and CORHABIT will invest HG resources for the housing programs of the "open coops".

- Sub-borrowers have sufficient capacity to utilize HG and SODIMAC inputs.

- HG and related local resources will increase number of workers employed by the sector,

NARRATIVE SUMMARYInputs

- Individual downpayments made by the homeowners who are participating in the HG program
- SODIMAC in-kind support of rural program
- HG resources

Outputs

- Cooperative movement has implemented housing projects stalled by lack of capital

OBJECTIVELY VERIFIABLE INDICATORSImplementation Target

- \$7.1 million dollars over 36 mos. period
- \$150,000 over 36 mos. period
- Over 36 mos. period:
 - a) \$35 million to CORHABIT
 - b) \$15 million to SINAP
 - c) \$5 million to IFICOOP
 - d) short term TA to be provided in conjunction with RHUDO assessment of status of the implementation of HG program.

Magnitude

- CORHABIT and SINAP to finance 12,500 mortgages @ \$4,600 or less
- IFICOOP to finance
 - a) 2,000 mortgages @ \$2,500 or less
 - b) 1,000 home improvement loans \$500 - \$2,500

MEANS OF VERIFICATION

- Review of mortgages and personal loans generated by the sub-borrowers
- Annual report to be submitted by SODIMAC to IFICOOP
- SER/H disbursement records

- Joint AID and sub-borrowers review of sub project implementation

IMPORTANT ASSUMPTIONS

- All inputs available on time
- Initial mortgage ceiling estimate accurately targeted to reach lower income groups
- Participating Chilean institutions to implement sub-programs with minimal external TA
- It has been assumed that the average mortgage to be financed by CORHABIT and SINAP is \$4,000
- It is further assumed that the average loan for new housing in the rural program will be \$2,000 and a \$1,000 limit for income improvement loans.

DEPARTMENT OF STATE
DIVISION OF LANGUAGE SERVICES

(TRANSLATION)

LSNO. 48585 - B

R 071944Z APR 75
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 2773

UNCLAS SANTIAGO 2074

SUBJ. FY 75 HOUSING GUARANTY PROGRAM

Following letter received from Minister of Housing pursuant our meeting with him on 26 March.

Quote

I am pleased to assure you that it is of special interest to this Ministry that the Central Bank of Chile be granted a guaranty for a housing loan totaling US\$55 million, for the following objectives:

US\$50 million for housing cooperatives:

The objective of this part of the loan is to construct homes for modest-income urban groups which are organized into housing cooperatives. It is proposed to develop with this loan the new structure of low-cost housing cooperatives in accordance with the plan prepared by this Ministry in order to produce good regional integration of this branch of the cooperative movement and ensure the efficient use of resources in the planning and execution of the projects as well as in the administration of the occupied units.

The loan will be used for housing cooperatives formed principally by groups which have a modest income but have demonstrated a certain savings ability and which have been trying for years to save in order to obtain a minimum standard home through the cooperative system. According to our

information, they are groups with a family income of from US\$125 to US\$225 per month; however, it should be kept in mind that most of the groups were formed years ago and owing to the isolated individual progress of some of the members a small number have been able to go beyond those figures.

According to studies made, for a minimum standard home built at current costs, the value of the home itself, including water, sewer, and electrical service connections, is US\$4,300 to US\$6,000 in the Santiago area. Those figures do not include the cost of the land and its urbanization, which the cooperatives have paid in part or in full with their own savings. It should also be kept in mind that the above cost is greater in some parts of the country, and we think it would be fair to apply the markups by zone which the SINAP system has established in order to estimate investment maximums.

The loan will be administered by CORHABIT and SINAP in a proportion of approximately US\$35 and US\$15 million, respectively, and, ultimately, in accordance with their ability to carry out the credit operations which the housing cooperatives are negotiating with one or the other of those credit systems. In SINAP's case the loans will be administered by the savings and loan associations.

Therefore, the Central Bank of Chile will subcontract the aforesaid loan with the indicated agencies on terms that will permit the borrowers to make their monthly payment with 20 percent of their family income, which payment will include principal, interest, fire and mortgage insurance, and administration by the cooperative. The bank loan will be in escudos, subject to readjustment according to the IPC variation, and will earn an

average interest of 5.8 percent per year. This average interest is figured by establishing a first-year payment calculated with 3 percent annual interest with a 25-year term. This payment will be increased by 3 percent per year inasmuch as an annual increase in real income greater than that percentage is anticipated. The difference between the actual cost in the United States and the terms of the loan indicated will be absorbed by the Government. Considering the cost of administration by CORHABIT and SINAP and the fire and mortgage insurance, the interest rates cited for the cooperative are increased by about 2 percent.

Since the cooperatives have already acquired their land and the construction projects are advanced, we estimate that the mortgage loans can be negotiated with them and that practically all of them can be restructured into low-cost housing cooperatives within six months from the date the loan is granted to the Central Bank. For total drawing of the funds, a period of 8 to 12 months should be added to that for construction of the homes.

US\$5 million for rural housing:

The objective of this part of the loan is to improve housing conditions of rural families in socially and economically deprived sections of the country by instituting pilot programs of self-construction aimed at the construction or improvement of dwellings in the rural area, the demonstration of new techniques in this field and encouragement of individual effort, and regional participation through the creation of auxiliary and cooperative structures to expand and perpetuate this operation.

Administration of this program will be the responsibility of the Instituto de Financiamiento Cooperativo [Institute for Cooperative

Financing] (IFICOOP), which has wide experience in credit operations for the rural sector for productive purposes. Therefore, the Central Bank will lend IFICOOP the equivalent of US\$5 million in escudos, on terms that will permit participants to pay, with 15 percent of their family income, the costs of principal, interest, insurance, and administration by their rural cooperative. A first-year payment will be set, calculated on 1 percent annual interest on a 25-year term. The payment will be increased by 3 percent per year, giving an average annual rate of 3.8 percent. The difference between the actual cost of the loan in the United States and the credit terms indicated will be absorbed by the Government of Chile.

For its administration, IFICOOP will have the technical collaboration of the Sodimac Cooperative. That cooperative will be in charge of organizing the technical team needed to make feasible the program which will operate through a national directorate and regional technical teams composed of professionals and construction site supervisors. Sodimac Cooperative will also be responsible for providing the necessary construction materials through its national distribution network.

The program will seek to benefit rural families which are in the low average income bracket but whose resources nevertheless will permit them to repay the loan without serious strain on their family budget; it is estimated that their income is between US\$75 and US\$175 monthly. Preference will be given to families of small farmers which belong to production cooperatives, agrarian reform systems, or services concerned with the rural environment. By mutual agreement with ODEPLAN, three to five regions will be chosen in accordance with the poverty map prepared by that agency

and the specific conditions of the region from the standpoint of rural development and cooperative structures.

The program will provide credit to pay for construction materials, technical assistance, and supervision of the work, at a maximum cost of US\$2,500 per unit, 10 percent of which may be used for assistance and supervision. The credit may be used for a number of purposes according to the requirements of the groups selected. These will include supplying materials and technical assistance for:

Construction of new homes;

Improvement or enlargement of existing homes, with special emphasis on sanitation;

Provision of "floor and roof" or "habitable shell" for subsequent completion by the persons concerned.

Under this program Sodimac Cooperative will provide without cost the required offices and the necessary administrative support for technical advice; the land for the project site and the work of sewer installation will be local contributions.

Those interested in the homes must supply the labor for the actual construction, and the projects will be planned in such a way as to encourage maximum owner-construction and use of locally available materials.

We estimate that development of this program will be somewhat longer than that of urban housing inasmuch as a preliminary period is required for drafting projects, training groups, and preparing sites. We expect to be able to develop the complete program over a period of two years.

I hope that the terms indicated for the two programs, which were fully discussed with the group of technicians that you charged with making the feasibility study, will be acceptable to you.

Additional US\$50 million for continuing the cooperative urban housing programs:

Before concluding this letter, I should like to remind the Director of the United States Economic Mission of our conversation with other AID officials regarding our special interest in obtaining an increase in the loan in the amount of another US\$50 million in order to continue the cooperative urban housing program without, if possible, having to sign a new agreement with all the customary negotiations and project analysis. As you know, our cooperative housing program is a rather broad one and we have the experience to continue it under the same terms of the agreement which I hope we shall soon have the opportunity to sign.

I thank you once again for the willingness demonstrated by you and AID in making possible the financial aid which will be granted to us to carry out the low-cost housing projects that are an objective of special interest for the Government and to which it has assigned the highest priority.

Sincerely,

Unquote

Popper

DEPARTMENT OF STATE
DIVISION OF LANGUAGE SERVICES

(TRANSLATION)

LSNO. 48585 - A
BP/DT
Spanish

R 081625Z APR 75
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 2787

UNCLAS SANTIAGO 2092

SUBJ: FY 75 HOUSING GUARANTY PROGRAM

Following is text of letter received from Central Bank pursuant meeting 26 March.

Quote

We have studied with much interest the terms of the letter which the Minister of Housing sent you on April 3, 1975, containing the conditions and objectives of a program for the construction of urban and rural housing for modest-income groups through the cooperative system. The program would be financed basically through a loan with AID guaranty that would be granted to this Central Bank for a total of US\$55 million.

In accordance with conversations that we have had regarding this matter, I can report as follows to you:

1. The Central Bank considers that this loan contributes to the solution of a priority problem in our country, housing for low-income groups. Consequently, we inform you of our agreement with the program detailed by the Minister of Housing in his aforementioned letter and express the special interest that the Central Bank of Chile has in realizing this operation.

2. The program planned is aimed at family groups whose income is below the national average. In order to enable these groups to have access to housing loans, the Government of Chile will contribute an amount which, over the 25-year period contemplated for the loan, represents a total subsidy of more than 25 percent of the entire operation.

3. The Central Bank of Chile will conclude the loan contract with the foreign lenders and will therefore be the principal debtor. Consequently, the Central Bank of Chile gives full backing to this operation and guarantees the lenders full and timely reimbursement, in the corresponding foreign currency, for the capital borrowed and for the interest accruing thereon under the terms of the pertinent contract.

4. The Central Bank considers that the program of disbursements contemplated for the foreign funds should take into consideration the inflationary process that exists in the Chilean economy. The experience of previous similar operations shows the desirability of a substantial initial outlay that will avoid distortions in the planned costs. Also, within the context of the present economic policy of strict control of currency issues, it is essential to avoid any delay between the date of availability of the foreign funds to the Central Bank and their domestic utilization. For these reasons, we think that the initial disbursement of the foreign loan should be in the highest amount possible, and in no case less than 50 percent.

Regarding this, it is important to point out that the guarantee of payment granted by the Central Bank in the terms of the preceding point will afford the foreign lenders assurance of timely repayment of their funds.

[Unquote]

Sample Family Income Profile of Cooperative Families

In order to establish an understanding of the income characteristics of families organized in cooperatives awaiting long-term housing finance, a random sample was taken of the potential HG applicants of the three sub-borrowers.

From CORHABIT, 2,623 families, from 40 housing cooperatives currently awaiting financing were checked. The corresponding figures for IFICOOP cooperatives were 1,000 members from 30 separate cooperatives.

Given the nature of the SINAP operation, similar data were collected from those cooperative housing development institutions which have previously utilized the savings and loan system as a source of housing finance. A sampling of 1,307 socio-economic data sheets were checked at INVICA and 1,288 at HABITCOOP-TECHNICOOP.

The results of the samples are found in the table below.

Sample Family Income Profile

<u>Monthly Family Income</u>	<u>CORHABIT</u>	<u>SINAP</u>	<u>IFICOOP</u>
Below \$75	55%	0	38%
\$76 to 90	24%	40%	57%
\$91 to 125	16%	45%	57%
Over \$125	<u>5%</u>	<u>15%</u>	<u>5%</u>
	100%	100%	100%

10

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

DRAFT GUARANTY AUTHORIZATION

Provided From: Housing Investment Guaranty

Chile: Central Bank of Chile

Pursuant to the authority vested in the Assistant Administrator, Bureau for Latin America, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed fifty-five million dollars (\$55,000,000) in face amount, assuring against losses (of not to exceed one hundred per centum (100%) of loan investment and interest) with respect to loans by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing in Chile as set forth below:

- (1) Cooperative housing through the Corporation for Housing Services (CORHABIT) - approximately thirty-five million dollars (\$35,000,000), and/or
- (2) Housing through the Savings and Loan System (SINAP) - approximately fifteen million dollars (\$15,000,000), and/or
- (3) A pilot rural cooperative housing program through the Cooperative Finance Institute (IFICOOP) - approximately five million dollars (\$5,000,000).

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

1. Term of Guaranty: The loans shall extend for a period of up to thirty years (30) from the date of disbursement of the first installment of the loans including a grace period on the repayment of principal not to exceed ten (10) years. The guaranty of the loans shall extend for a period beginning with the first disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.
2. Interest Rate: The rate of interest payable to the Investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223 (f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans.
3. Government of Chile Guaranty: The Government of Chile shall provide for a full faith and credit guaranty to A.I.D. in United States dollars assuring against any and all losses to A.I.D. by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.
4. Fee: The fee of the United States shall be payable in dollars and shall be one-half of one per centum ($\frac{1}{2}\%$) per annum of the outstanding guaranteed amount of the loans plus the fixed amount of \$100,000 to be paid as A.I.D. may determine upon disbursement of the loans.

- 3 - 12

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

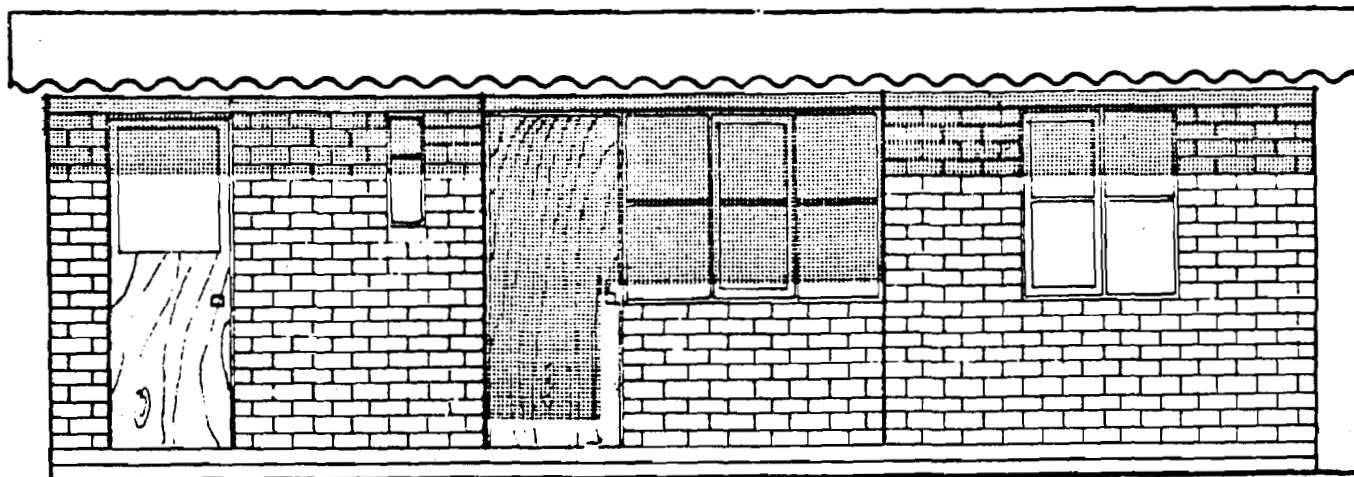
Assistant Administrator
Bureau for Latin America

Date

CORHABIT / SINAP PROGRAM

AID-PLC/P-2112

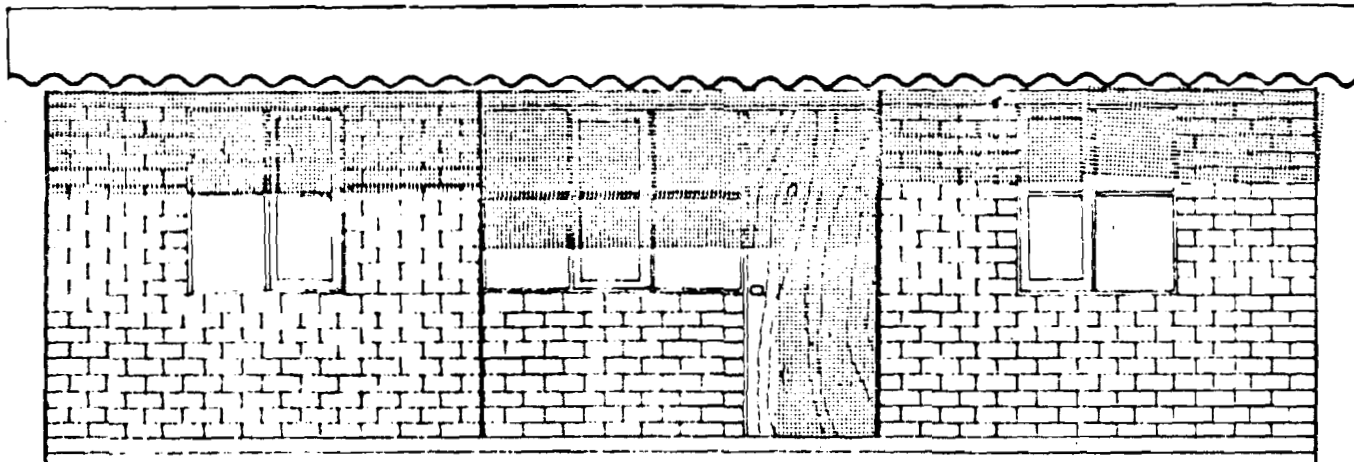
TYPICAL HOUSE THAT COULD BE FINANCED



ELEVACION PRINCIPAL

"Casa Keramos". This is a three bedroom house of 57.4 m² or about 620 square feet. The house is constructed of clay tile units including the floor surface. The roof is corrugated asbestos cement over a wood frame. The ceiling is also A.C. flat sheets. The unit is durable enough so that it is possible to build it three floors high although the bearing walls of the bottom floor would probably need to be thicker. This is under study. The building cost of this unit including builders profit but not including land or infrastructure was calculated as of December 1974 to be U.S. \$61.16 per m² or approximately U.S. \$3,600.00. This is a very good house with good liveability and design and could be used in any of the proposed programs except the rural program.

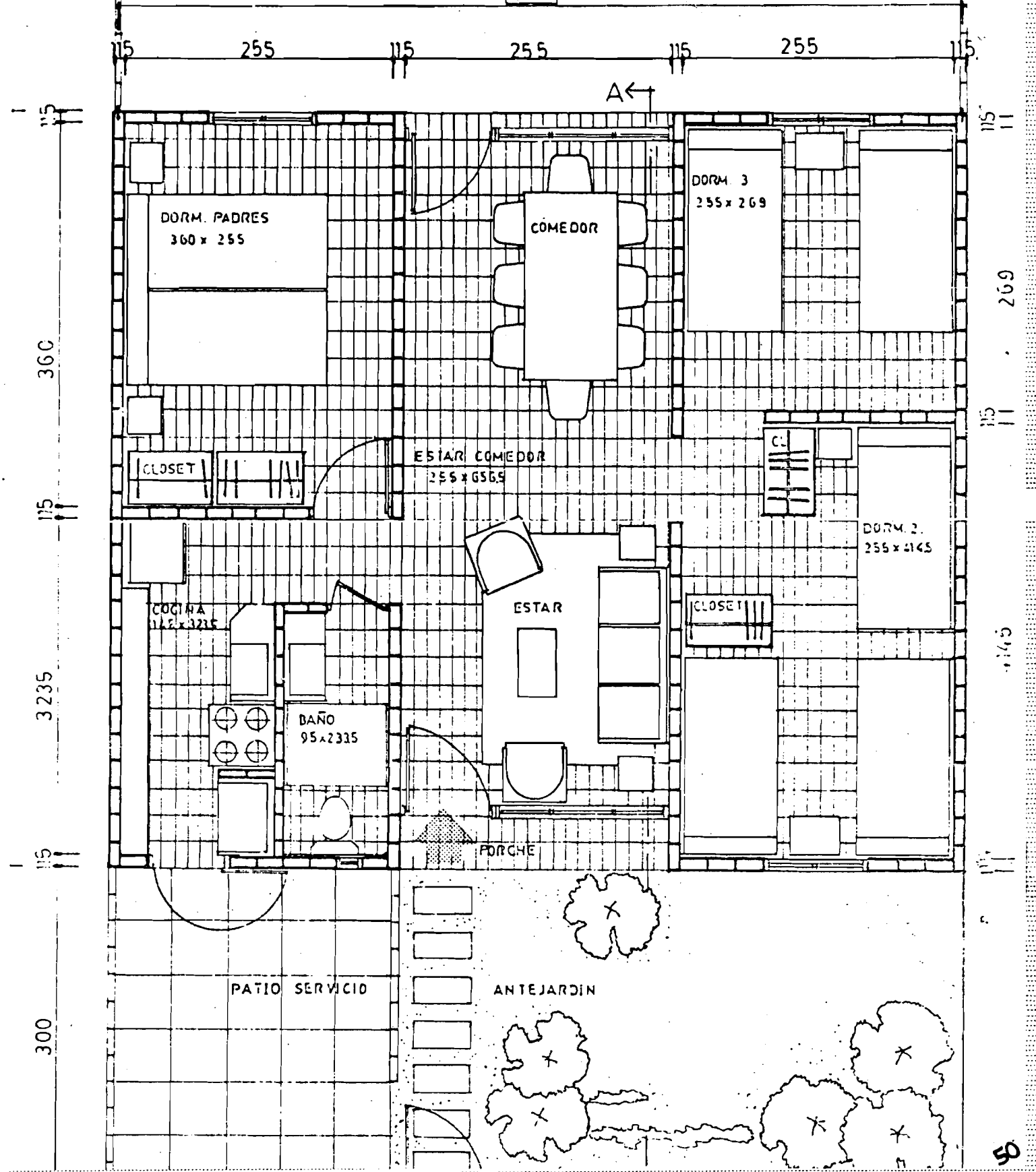
ELEVACION POSTERIOR

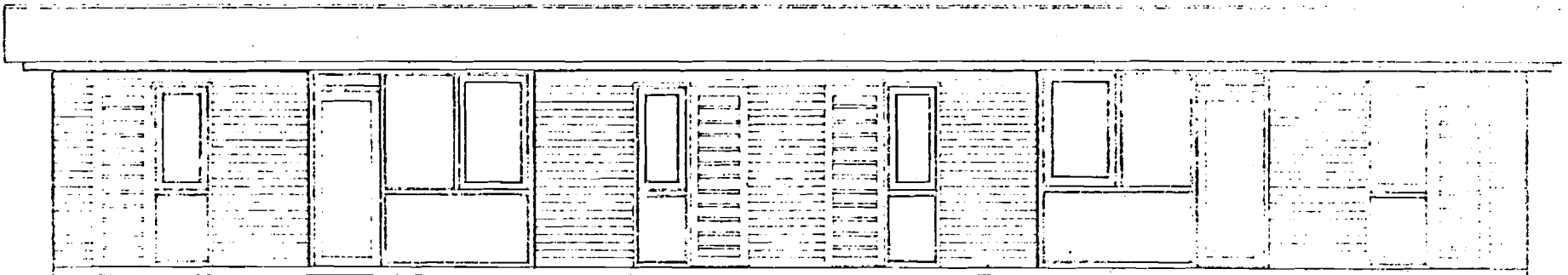
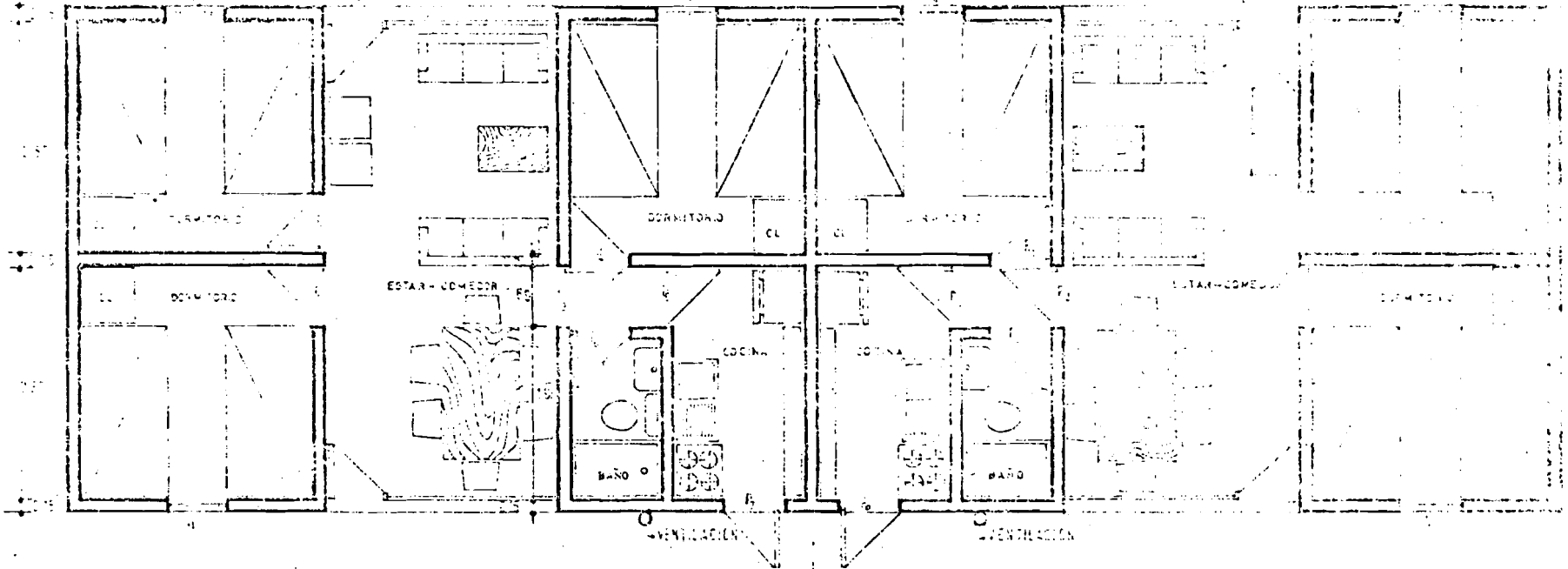


ANNEX G 14
 CASA KERAMOS
 CORHABIT/SINAP PROGRAM

TYPICAL HOUSE THAT COULD BE FINANCED

800

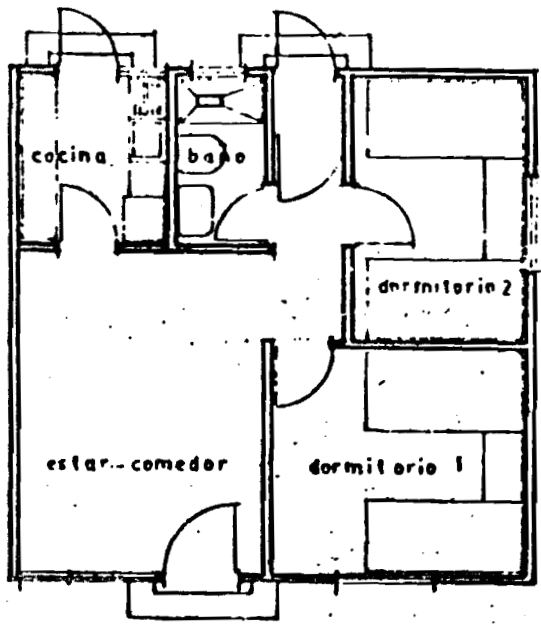




FACHADA CALLE
CORHABIT / SINAP PROGRAM - TYPICAL HOUSE THAT COULD BE FINANCED

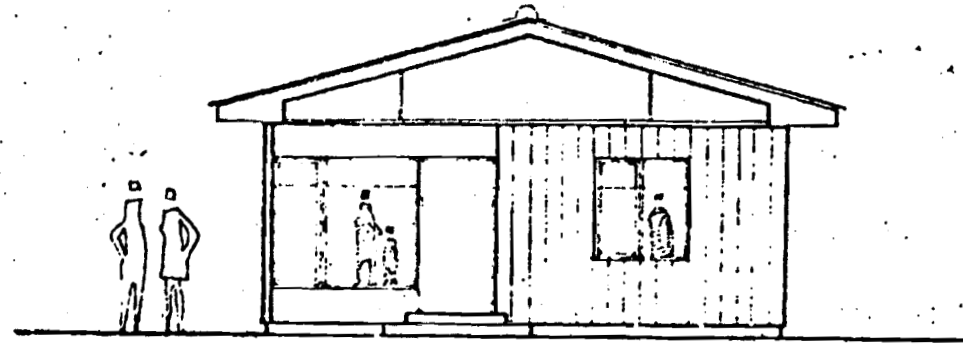
This is a three bedroom house of 49 m² or about 525 sq. ft. which can be built as row, duplex or detached house. The house is built of traditional handmade brick which will be left exposed for future stucco. One sample house has been built to test the design, construction and cost. The cost including builder's profit, but without land and infrastructure, was calculated as of December 1974 at E^o 4,500,000 or about U.S.\$3,100.00. This is about U.S.\$63 per M².

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PLANO DE PLANTA



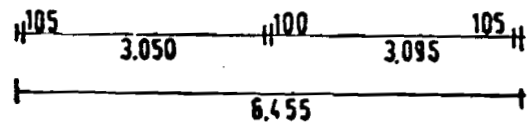
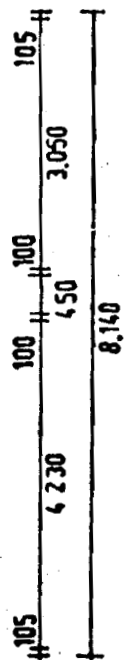
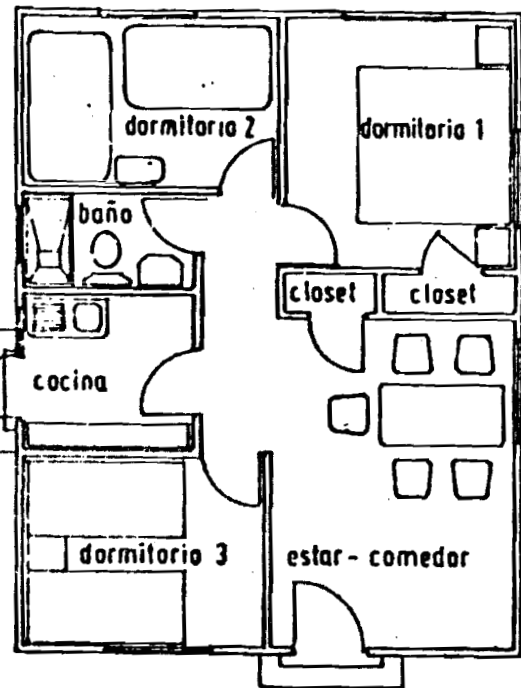
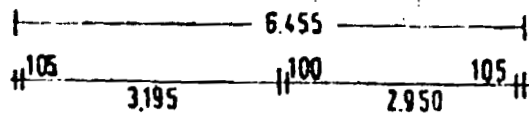
FACHADA PRINCIPAL

CASA PREFABRICADA MODULADA
 TIPO 101 SUPERFICIE 43.75 M2

IFICOOP/SODIMAC PROGRAM
 TYPICAL HOUSE THAT COULD BE FINANCED

Typical house of wood construction that can be built in rural Chile is approximately 470 square feet and has two bedrooms. The floor can be made either of wood or a concrete slab on grade. The interior would also be wood or "dry-wall" and the roof would be corrugated asbestos cement panels. The price of the erected house without land or infrastructure quoted in December 1974 escudos is E° 2,350,000 or approximately U.S. \$1,600.00.

16

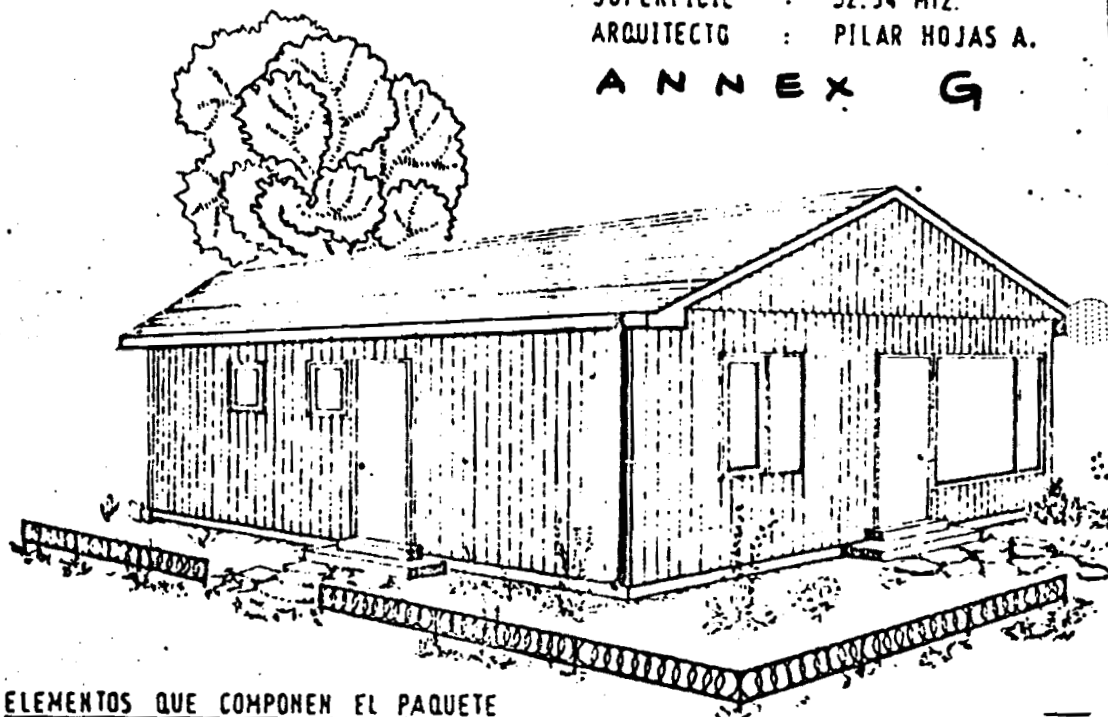


PLANTA

CASA TIPO ALERCE

SUPERFICIE : 52.54 MT2.
 ARQUITECTO : PILAR HOJAS A.

ANNEX G



ELEMENTOS QUE COMPONEN EL PAQUETE

IFICOOP / SODIMAC PROGRAM TYPICAL HOUSE THAT COULD BE FINANCED

Typical house of wood construction that can be built in rural Chile is approximately 550 sq.ft. and has three bedrooms. The floor can be made of either wood or concrete slab on grade. The interior would also be wood or "dry-wall" and the roof would normally be corrugated asbestos cement panels. The price of the erected house without land or infrastructure quoted in December 1974 is E° 2,600,000 or approximately U.S. \$1,800.00.