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REPORT TO THE CHAIRMAN 73-0388
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE 6

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Interim Report On The Agency For International Development's Housing Investment Guaranty Program B-171526

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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MAY 22, 1973

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-171526

The Honorable J. W. Fulbright
Chairman, Committee on Foreign
Relations
United States Senate

Dear Mr. Chairman:

This is our interim report on the Agency for International Development's Housing Investment Guaranty program. Our review was made pursuant to your request of February 10, 1972, that we examine the program's management and effectiveness in such areas as administrative costs, payments to investors by the Agency, payment delinquencies by home buyers, status of the reserve funds, and the need for this type of U.S. financing. This report summarizes the results of our review of the program's effectiveness in Central America and of certain financial aspects managed in Washington. On the basis of the results of our review in Central America, we are undertaking a worldwide review of the program.

In accordance with your request, we have not obtained comments from the Administrator of the Agency for International Development. We have, however, obtained observations on the factual contents of the report from the Agency's Office of Housing. Their views are included where appropriate.

We will release the report only after you agree or publicly announce its contents. Your release of this report will enable us to send it to the Administrator, Agency for International Development, for action on our recommendations which are set forth in chapters 3, 4, 5, and 6.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions he has taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate

CU-52 Committees on Appropriations with the agency's first request for 300 appropriations made more than 60 days after the date of the report. Your release of this report will enable us to send the report to the four committees.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

Contents

ABBREVIATIONS

AID	Agency for International Development
FAA	Foreign Assistance Act
FHA	Federal Housing Administration
GAO	General Accounting Office
HIG	Housing Investment Guaranty
IDB	Inter-American Development Bank
NLISA	National League of Insured Savings Associations
ROCAP	Regional Office Central America and Panama

GLOSSARY OF HOUSING INVESTMENT GUARANTY PROGRAM TERMS

Administrator--a host country organization (normally a bank or a savings and loan association) which represents the U.S. investor and AID in a specific HIG project. The administrator locally supervises and administers the project from inception to the retirement of all home mortgages.

Guaranty fee--the fee charged by AID for the guaranty of a loan. This fee is charged to the investor; however, the home buyer ultimately pays it in his monthly payments. This fee is accumulated in a reserve account and is used to cover operating expenses and the payment of claims under the program.

Investor--the entity that provides the mortgage financing for an HIG project. Eligible investors include (1) U.S. citizens, (2) corporations, partnerships, or other associations organized under U.S. or State law and substantially owned by U.S. citizens, and (3) foreign corporations, partnerships, or other associations wholly owned by any of the above U.S. citizens or entities.

Reserve fund--a fund created to serve as a quick source of money for mortgage payment delinquencies and as the first line of defense against loss of investment due to devaluation and short-term commercial default situations. Each homeowner is assessed for this fund in his monthly payment.

COMPTROLLER GENERAL'S REPORT TO THE CHAIRMAN, COMMITTEE ON FOREIGN RELATIONS, UNITED STATES SENATE

INTERIM REPORT ON THE AGENCY FOR INTERNATIONAL DEVELOPMENT'S HOUSING INVESTMENT GUARANTY PROGRAM B-171526

D I G E S T

WHY THE REVIEW WAS MADE

The Chairman, Senate Committee on Foreign Relations, asked GAO to review the Housing Investment Guaranty (HIG) program which is authorized under the Foreign Assistance Act and managed by the Agency for International Development (AID). (See p. 45.)

GAO was asked to review

--the need for the program,

--the program's administrative costs,

--the status of reserve funds,

--payments to U.S. investors by AID, and

--homeowners' payment delinquencies.

GAO's interim work included a review of the program's effectiveness in Central America, specifically in Guatemala and Nicaragua, and the financial aspects of the program managed in Washington, D.C.

FINDINGS AND CONCLUSIONS

Need for the program. In attempting to fulfill its legislative objectives, the HIG program in Central America:

--Financed functional, attractive, and generally self-liquidating housing.

--Contributed, to an unmeasurable degree, to the development of housing institutions and the mobilization of savings.

--Had no appreciable impact on improving housing conditions for lower income families because only the upper 25 percent of the economic stratum could afford housing under the program.

--Had no appreciable impact on improving housing conditions when measured against relative need. (See ch. 3.)

Program administrative costs. Certain program costs are being charged to appropriated funds instead of to the HIG revolving fund, contrary to congressional intent. These costs are not being disclosed in HIG financial reports. (See ch. 4.)

Status of reserve funds. Reserve funds are used to make payments to investors when monthly payments from home buyers are delinquent. Certain reserve funds are returnable to homeowners and therefore are not available for paying delinquencies on other projects. AID does not maintain a record of these returnable reserves, although it believes the amount is substantial. (See ch. 5.)

Payments to U.S. investors by AID. GAO found that the HIG program was a profitable area for U.S. private investment. GAO noted, however, the increasing number and amounts of AID payments to U.S. investors which are caused by the failure of the borrower to make timely payments and the lack of project reserve funds.

At the beginning of 1973, these payments to investors represented only $1.2 million, or one-half of 1 percent of the HIG program's contingent liability. However, payments--many of which are short term--were made to investors for 19 of 68 projects. (See ch. 6.)

Payment delinquencies by homeowners. GAO found that 43 percent of all HIG homeowners in Central Amercia were behind in their payments by 1 or more months. This delinquency rate drops to 6 percent when extended delinquencies--those 4 months or over--are considered. (See ch. 7.)

Impact of recent earthquake on HIG project in Managua, Nicaragua. Shortly after a team of GAO auditors left Managua, the city suffered a devastating earthquake.

AID reports show that HIG-financed housing suffered only minor structual damage, while adjacent houses suffered up to 100-percent damage. Many homeowners are unable to make their monthly mortgage payments because of loss of employment. Project reserve funds are depleted, and AID is honoring its guaranty. (See ch. 8.)

RECOMMENDATIONS OR SUGGESTIONS

GAO recommends that the administrator, AID, have the agency review the HIG program's role in meeting the statutory objectives of constructing homes for lower income families and improving housing conditions in Central America.

This review should determine whether alternatives, such as building homes at lower prices, exist which could make the HIG program effective in constructing housing for lower income families.

GAO made several other recommendations to AID which are directed at improving financial reporting and management of the HIG program.

These are outlined in chapters 4, 5, and 6.

AGENCY ACTIONS

In accordance with the Committee's request, GAO did not submit a draft report to the Administrator, AID, for comment. When it completed the review, GAO met with AID's Office of Housing officials and obtained their observations on the factual contents of this report.

AID officials agreed with the facts presented. However, they said that, contrary to the impression given in the GAO report, the HIG program was not financing luxury houses but, rather, was financing modest standard homes and that it is on solid financial grounds. The officials' comments and GAO evaluations on these issues are summarized in chapters 3 and 7.

CHAPTER 1

INTRODUCTION

At the request of the Chairman of the Senate Committee on Foreign Relations, GAO reviewed the Housing Investment Guaranty (HIG) program of the Agency for International Development (AID) to evaluate the management and effectiveness of the program in Central America and Washington, D.C. We looked into

--the need for the program,
--the program's administrative costs,
--the status of reserve funds,
--payments to U.S. investors by AID, and
--homeowners' payment delinquencies.

Our review in Washington, D.C., was conducted at AID, the Department of State, and the Department of Housing and Urban Development. Late in 1972 we visited the U.S. Embassy, the AID Mission, the project administrators, and the local government housing agencies in both Guatemala and Nicaragua and AID's Regional Office Central America and Panama (ROCAP).

We reviewed pertinent AID, administrator, and subborrower records--including mortgages, credit applications, and applicable life and casualty insurance policies. We interviewed various AID officials and technical personnel. Additionally in Guatemala and Nicaragua, we reviewed each HIG project with local banking and savings and loan institution personnel and met with host country officials.

During the initial stages of our review, a number of complaints were made involving the program and certain personnel associated with it. We included the program deficiency complaints in our review. AID investigated the personnel complaints and we monitored its work. The final disposition is pending.

On December 23, 1972, Managua, the capital of Nicaragua, was hit by a devastating earthquake. The GAO review team was in Managua 3 weeks before the earthquake. The effect of the earthquake on the HIG program in Nicaragua is discussed in chapter 8.

CHAPTER 2

SUMMARY DESCRIPTION OF THE HIG PROGRAM

The Economic Cooperation Act of 1948 created the investment guaranty program to help European countries recover from World War II damage. When these countries reached a self-sustaining level, the Congress restricted the program to underdeveloped countries.

In 1961 the Foreign Assistance Act (FAA) established the HIG program for Latin America. Section 224 of Public Law 87-195 (75 Stat. 432) states that:

> "It is the sense of the Congress that in order to stimulate private home ownership and assist in the development of stable economies, the authority conferred by this title should be utilized for the purpose of assisting in the development in the American Republics of self-liquidating pilot housing projects designed to provide experience in rapidly developing countries by participating with such countries in guaranteeing private United States capital available for investment in Latin American countries."

The original projects were to be "pilot demonstrations"--i.e., they would involve a U.S. builder and would eventually transfer technological skills to host country participants and thus have a multiplier effect on the host country housing industry.

Since 1961 the Congress has amended the FAA several times to refine the objectives and scope of the HIG program. The principal changes were made in 1965 and 1969.

A 1965 amendment to the act broadened the objectives of the program to assist in developing (1) self-liquidating housing projects, (2) institutions engaged in Alliance for Progress programs including cooperatives, free labor unions, savings and loan institutions, and other private enterprise programs engaged in financing home mortgages, (3) homes for lower income persons and families, (4) mobilization of savings, and (5) improved housing conditions.

In 1969 the FAA was amended to consolidate worldwide and Latin American guaranty authority. In 1970 AID created the Office of Housing to administer the expanding HIG program. Appendix IV discusses the organization and administration of the program.

In the HIG program, U.S. investors can provide long-term financing to housing projects and programs in developing countries. AID considers specific housing projects proposed by private builders competitively; it gives all interested parties the opportunity to apply for the guaranty authority available for a given country. Proposals from sponsors--primarily host country finance institutions--are negotiated noncompetitively whenever resources are available.

If agreement is reached on project financing, AID issues a commitment to guaranty and the borrower can then find a U.S. lender. The AID guaranty will fully compensate U.S. lenders for all losses they may experience (see ch. 6) other than those resulting from their own fraud or misrepresentation. AID charges a fee for its guaranty, which covers some of the operating expenses (see ch. 4) and provides reserves against claims (see ch. 5).

To date, the Congress has authorized $550 million for Latin America; $55 million of which has been contracted for in Central America. Of the $55 million, $41 million was disbursed by January 1, 1973.

CHAPTER 3

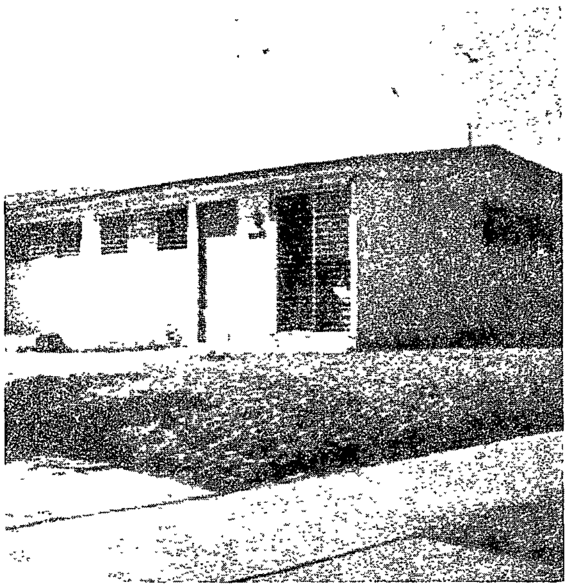
NEED FOR THE HIG PROGRAM IN CENTRAL AMERICA

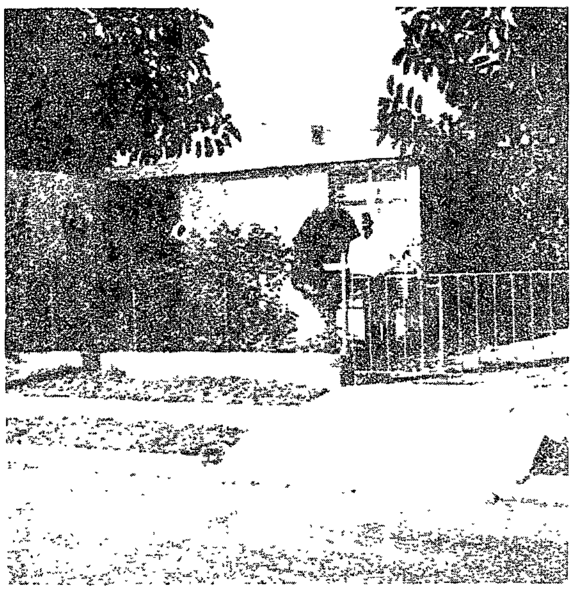
Our review of the need for the HIG program in Central America focused on whether the program's activities achieved the stated legislative objectives.

FINANCED FUNCTIONAL, ATTRACTIVE, AND GENERALLY SELF-LIQUIDATING HOUSING

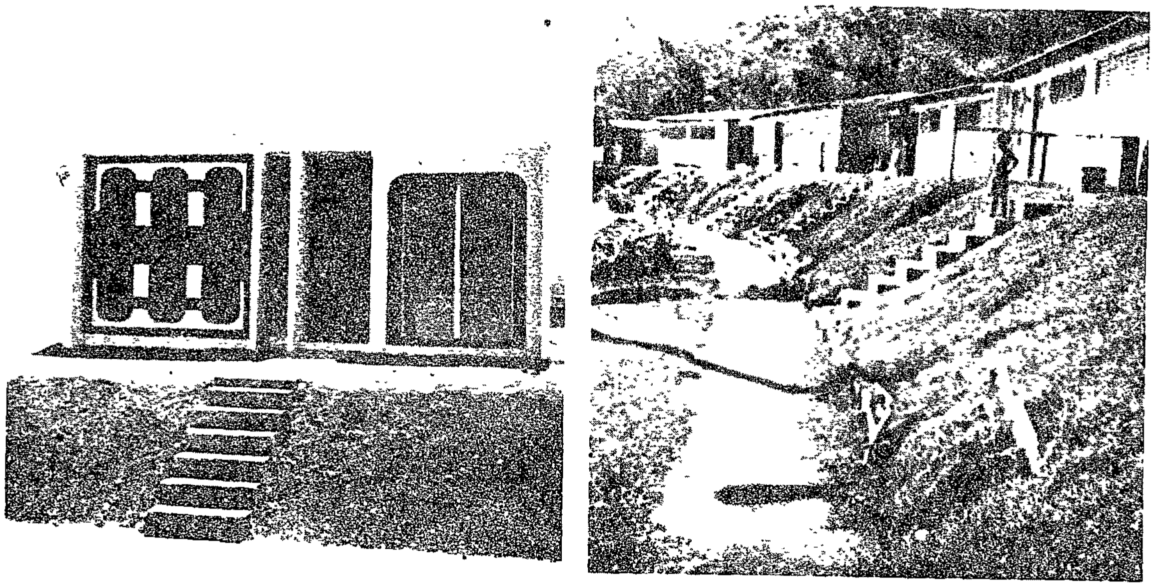
The HIG program has financed many different types of 2-, 3-, and 4-bedroom housing units in Central America. Most projects consist of single-family, row, duplex, semi-detached, and detached houses costing from $3,350 to $11,477. Some projects consisting of condominiums in 4-story walkup buildings are underway. Typical HIG houses constructed in Central America are shown below.

Examples of HIG houses in the La Brizas project in Guatemala





Examples of HIG houses in the Bello Horizonte project in Nicaragua



According to AID, 6,277 houses have been financed with HIG funds in Central America as of January 1, 1973.

Country	Planned	Completed	Under construction
Costa Rica	479	479	-
El Salvador	1,408	1,037	84
Guatemala	1,399	1,399	-
Honduras	2,029	1,150	92
Nicaragua	1,239	1,166	73
Panama	1,921	1,046	421
Total	8,475	6,277	670

When completed, these units are provided with water, electricity, and sewage disposal. In most cases, the streets in the project are paved during the construction phase and are maintained by either the construction company or the local government.

The Congress has directed that the HIG program assist in developing self-liquidating housing projects (projects which eventually pay for themselves). Our review showed that, with minor exceptions, the projects in Central America have been self-liquidating. AID has made only minor payments to the U.S. investor on six projects in Central America. On another project the AID payment was necessitated by the earthquake.

HIG PROGRAM CONTRIBUTION TO THE DEVELOPMENT OF INSTITUTIONS

The HIG program is intended to assist in developing institutions engaged in Alliance for Progress programs and mobilizing savings. The HIG program, as originally legislated in 1961, did not stress institutional development aspects. These were added in 1965.

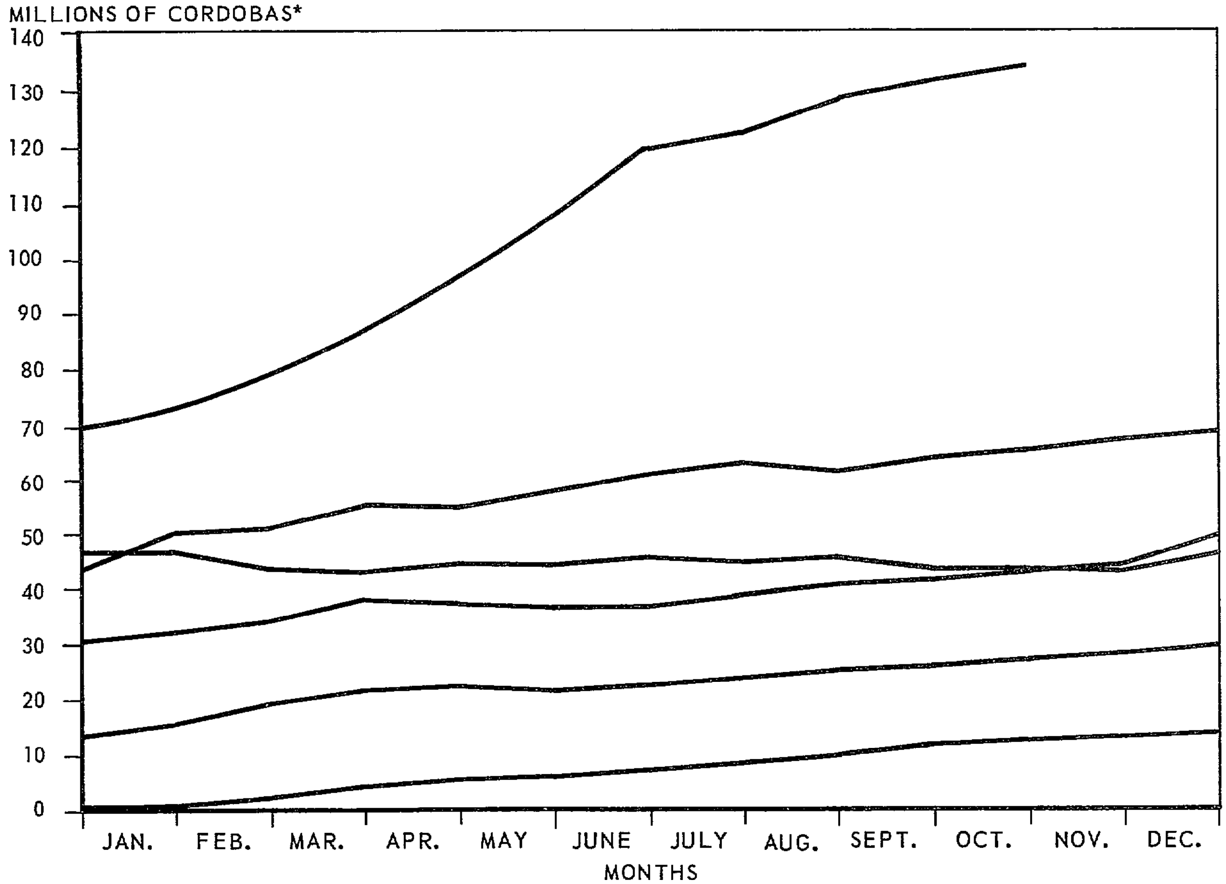
We noted that, in Guatemala and Nicaragua, significant developments had occurred in the local housing insurance and regulatory organizations. For example, the local housing insurance and regulatory organization in Guatemala is a Government agency and the one in Nicaragua is an autonomous entity financed primarily with Government funds. These federal housing administration (FHA) type of institutions were created in 1961 and 1966, respectively, to, among other things, establish a national mortgage insurance system.

The HIG program's impact on these organizations cannot be stated precisely, but the number of insured mortgages grew from 1962 to 1972. Although the number of insured HIG mortgages increased, an even larger number of non-HIG mortgages were insured.

The impact of the HIG program on the mobilization of savings available for housing investment also cannot be precisely measured. We noted that, in the past few years, internal funds of Guatemala and Nicaragua available for investment in the housing sector have been steadily increasing.

For example, three savings and loan associations in Nicaragua administer three separate HIG housing projects. A government official with the National Housing Bank of Nicaragua, the organization that oversees the savings and loan system nationally, provided the chart on the following page to illustrate the growth of retained savings by savings and loan institutions in Nicaragua from January 1967 through October 1972.

RETAINED SAVINGS BY SAVINGS AND LOAN INSTITUTIONS
JAN. 1967 TO NOV. 1972



* 1972 exchange rate was 7 cordobas to 1 U.S. dollar.

As shown above, the retained savings by the savings and loan associations in Nicaragua more than doubled during the first 10 months of 1972. The Nicaraguan Government official who provided this data stated that this rapid increase was primarily due to (1) the $3.7 million seed capital loan granted in 1967 by AID to the National Housing Bank of Nicaragua to help establish the savings and loan system and (2) AID's 1969, $4 million HIG program loan to the same bank.

Banking officials in Guatemala said that, unless financial conditions changed drastically in the near future, HIG funds will not be needed to finance housing projects in the current $5,500 to $8,289 price range. Due to increasing public confidence in the Government of Guatemala, fewer nationals are sending their savings to foreign financial institutions. This recent change in savings habits has increased the accumulation of savings in local savings and loan institutions, which, in turn, provides sufficient internal funds to meet the demand.

LOWER INCOME PERSONS AND FAMILIES CANNOT AFFORD HIG HOUSES

Since September 1965, the FAA has stipulated that one of the objectives of the HIG program is the construction of homes for lower income persons and families. Although 62 percent of the total HIG projects in Central America have been authorized and contracted since this lower income provision became part of the FAA, the program has financed housing that only families in the top 25 percent of the economic stratum can afford. The program has had no appreciable impact on improving the housing conditions for the families in the remaining 75 percent of the economic stratum.

We estimate that families in Central America must have the minimum annual income shown in the following chart to afford the least expensive HIG house in each country.

Central America House Price and

Minimum Annual Income Required for Purchase

Country	HIG house price		Minimum required income for purchase	
	Lowest	Highest	Lowest	Highest
Costa Rica	$3,928	$ 4,662	$1,872	$2,256
El Salvador	6,800	11,477	3,264	5,520
Guatemala	5,500	8,289	2,640	3,984
Honduras	3,350	8,000	1,632	3,840
Nicaragua	6,000	10,322	2,880	4,944
Panama	6,880	11,100	3,312	5,328

On the basis of the minimum annual family income necessary to purchase the lowest priced HIG house, as listed above, and family income distribution information for urban areas in each country, we have estimated the percentage of the urban families that are not able to purchase the lowest priced HIG house in each country.

Country	Percent
Costa Rica	68
El Salvador	87
Guatemala	76
Honduras	70
Nicaragua	87
Panama	62

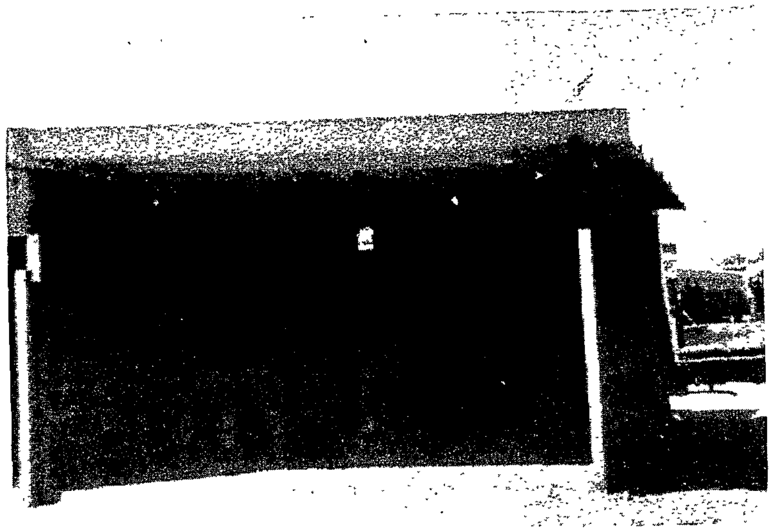
These estimates were based on urban family income because HIG houses are located in urban areas. They are conservative because we used the lowest priced house; however, prices increased as much as 35 percent due to inflation and increased construction costs after initiation of the project.

All the project administrators we met with in Central America indicated that they have not made a significant attempt to finance mortgages for lower income families. During our review of mortgage records we found (1) homeowners with incomes at the time of purchase as high as $34,000 a year, (2) HIG homeowners who had purchased more than one HIG house, and (3) many short-term mortgages, some terms being as low as 5 years.

Several of the Central American countries have undertaken low-cost housing efforts of their own which in some cases are partially financed by international organizations. Some low-income housing units, which vary from single three-sided units, as shown in the photo on the following page, to high rise apartments, sell for less than $1,000.

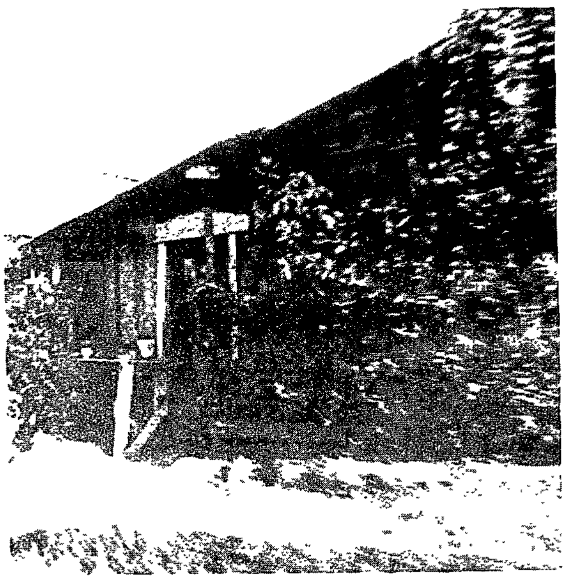
HOUSING SHORTAGES REMAIN

Providing an adequate quantity of houses to meet the increasing shortage in both the urban and rural areas of Central America becomes more apparent every year. The increasing population greatly raised the demand for additional housing units, and the migration of the population to the cities has significantly reshaped most of Central America's major cities and has created a demand for additional housing there. Almost 50 percent of the population now live in these urban areas; between 20 and 40 percent of them dwell in

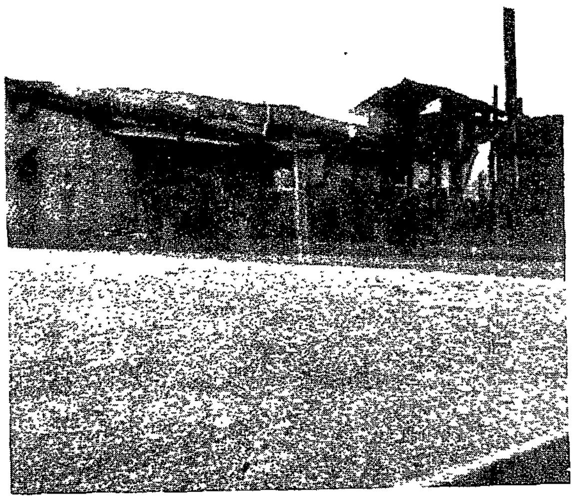


Low-income housing unit in Guatemala

squatter areas or shanty towns on the periphery of the urban centers. Examples of these dwellings are shown in the following pictures.



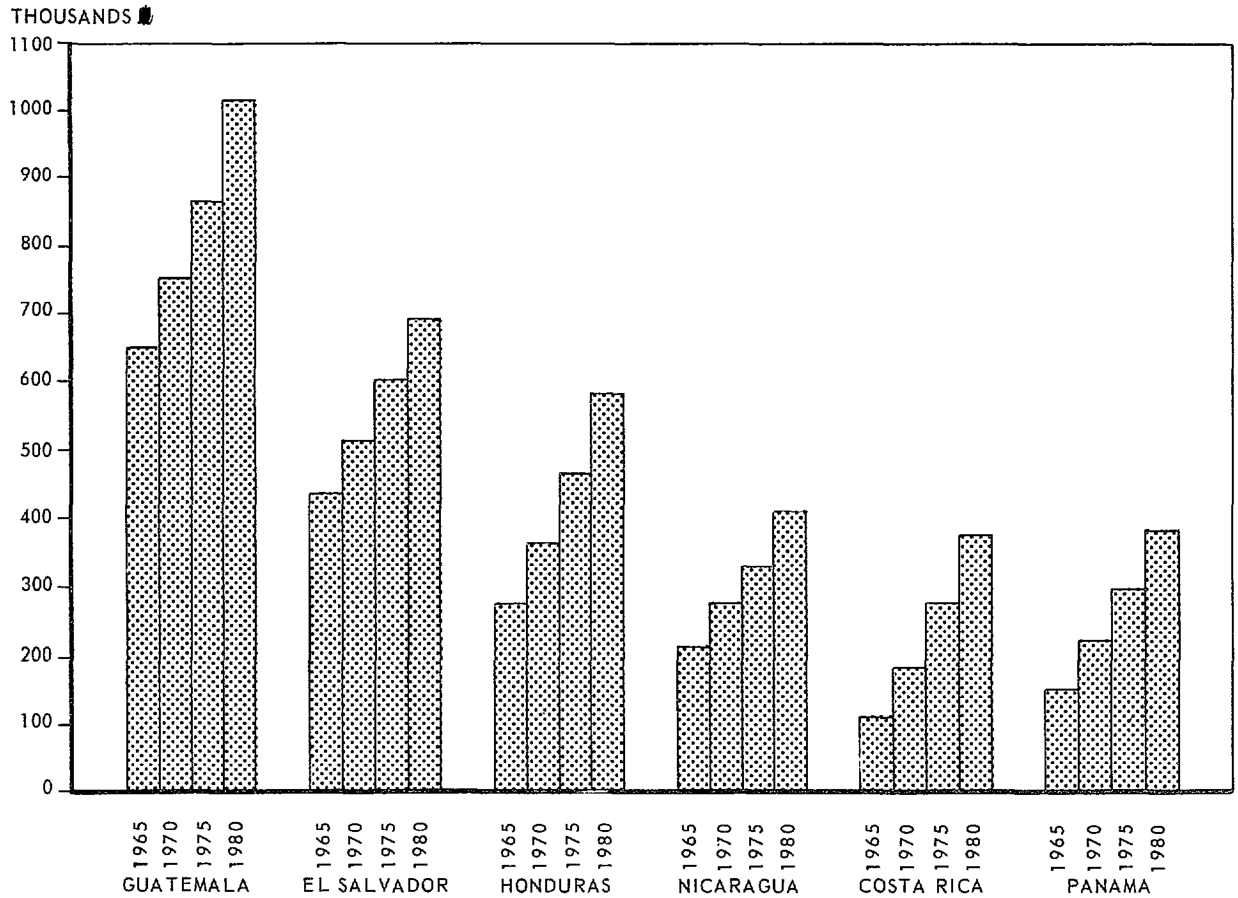
Courtesy of GAO



Courtesy of GAO

The seriousness of the housing shortage in Central America is illustrated in the following chart.

TOTAL ESTIMATED HOUSING DEFICIT IN CENTRAL AMERICA
1965 - 1980



Source: Organization of Central American States

The above estimate considers the rapidly increasing population but does not include estimates of future housing-related expenditures by each of the six governments and external organizations. As shown on the above chart, 3 million additional housing units will be needed by 1975.

Two other primary sources of external housing assistance for Central America are AID concessional loans and loans through the Inter-American Development Bank (IDB). AID has made a total of $41.3 million in concessional loans to date, and IDB had invested a total of $51 million in housing and credit-related functions as of 1970. The HIG program has channeled a total of $54.8 million into Central America to date.

OFFICE OF HOUSING COMMENTS

AID's Office of Housing said that our report implied that the HIG program was limited to financing luxury houses for the oligarchy in less-developed countries. AID added that the HIG program is financing modest houses for what would be described in the United States as the lower middle-income bracket.

The Office of Housing stated that the failure to use HIG loans for lower priced homes is due to private sponsors who naturally see a higher profit in the higher priced homes and to the host country governments and their housing institutions which maintain that poor people cannot afford to pay the market interest rates of the HIG program. No applications have been received for "minimum shelter" projects that will reach the very lowest income groups. Further, such projects are not considered feasible at this time using housing guaranty resources.

AID's Office of Housing also stated that the program was directed not only to lower income families but also to the housing needs of lower middle- and middle-income families. Much of the effort made with housing guaranty resources has been devoted to developing self-perpetuating housing finance institutions for the middle- and lower middle-income market. The Office of Housing said it has constantly insisted on price ceilings lower than those recommended by the local institutions.

GAO EVALUATION

Our report does not imply that the HIG program is building luxury houses. We merely point out that it is only people in the top 25 percent of the economic stratum that can afford even the lowest priced HIG houses. The Office of Housing has not taken exception to this fact.

The Office of Housing may prefer to describe families that can afford HIG houses, as well as those people receiving the benefits, i.e., mortgage financing, as being in the middle- or lower middle-income bracket. However, this does not change the fact that they are in the upper 25 percent of the economic stratum in the Central American countries.

CONCLUSION

Our review of the management and accomplishments of the program showed that three of the primary objectives of the HIG program are being achieved. The program has assisted in developing self-liquidating housing projects and, to an unmeasurable degree, has contributed to developing institutions engaged in Alliance for Progress programs and mobilization of savings. However, when measured against the relative need, the program has not assisted in developing houses for lower income families and has not contributed significantly to improving housing conditions.

The Office of Housing's explanation that lower cost homes cannot be financed under the program because poor people cannot afford this type of financing raises the question as to whether AID can meet one of the basic FAA objectives of using the HIG program for construction of housing for lower income families.

RECOMMENDATION

We recommend to the Administrator, AID, that AID review the HIG program's role in Central America in meeting the statutory objectives of constructing houses for lower income families and of improving housing conditions. The review should determine whether alternatives, such as building homes at lower prices, exist which could make the HIG program an effective instrument for promoting housing for lower income families.

CHAPTER 4

ADMINISTRATIVE COSTS

AID charges a guaranty fee to cover the HIG program's operating expenses and to provide reserves against guaranty loss claims. The home purchaser ultimately pays this fee as a part of his monthly mortgage payments. The fee[1] is accumulated in an account from which expenses and claims are paid. In addition to the fees accumulated since January 1, 1970, $50 million was made available by the Congress from previous AID guaranty operations for meeting claims and administrative and operating expenses of the program.

The guaranty fee is based on the unpaid principal of the guaranteed loan investment. Since the Congress has pledged that the U.S. Government will cover any U.S. investor losses (except those resulting from fraud and misrepresentation), the fee is a buffer against a loss of funds by the U.S. Government.

The guaranty fee rate varies according to the following situations: (1) one-half of 1 percent a year when repayment of the loan in U.S. dollars is guaranteed by the host country government, (2) 1 percent a year when mortgages are insured in local currency by a government mortgage insurance institution, a housing agency, or other public or private institution acceptable to AID, and (3) 2 percent a year when AID has no form of coguaranty.

From January 1, 1970, to January 1, 1973, about $6 million in administrative and operating expenses were paid from the fee account. This left the fund with $612,600 for payment of any claim for which project reserve funds were not available. (See ch. 5.) The following schedule shows the expenses charged to fee income for this period.

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[1]In addition to the guaranty fee, relatively small submission, acceptance, and other fees are collected and deposited in the account.

Description	Amount	Percent
Contractual services	$4,321,000	71.3
Personnel compensation	1,495,200	24.7
Travel and related costs	225,500	3.7
Miscellaneous	15,200	0.3
Total administrative and operating expenses	$6,057,300	100.0

CONTRACTUAL SERVICES

As shown above, the largest HIG administrative and operating expense was for contractual services. Three contractors currently serve the program--the National League of Insured Savings Associations (NLISA), the Foundation for Cooperative Housing, and the American Savings and Loan Institute. The program also obtains the services of the Federal Home Loan Bank Board through a participating agency service agreement and has a trust agreement with the American Security and Trust Company.

--NLISA--a national trade association representing the savings and loan industry and the largest single contractor with HIG contracts totaling over $1 million a year--has provided increasing technical assistance and contractual services to AID since 1956. There are two contracts at the present time, one for fiscal and management surveillance and the other for project development, institutional development, and technical evaluation.

--The Foundation for Cooperative Housing advises, guides, and evaluates cooperative aspects of projects and advises and assists in forming neighborhood associations for planning and using community facilities.

--The American Savings and Loan Institute--the training arm of the U.S. Savings and Loan League--is responsible for training savings and loan management personnel to fulfill fiduciary functions in the HIG program.

--The Federal Home Loan Bank Board researches and analyzes the impact of the HIG program on developing-country economics.

--American Security and Trust Company--as central fiscal agent for 31 HIG projects--receives payments from the borrowers, maintains records of reserve funds, and disburses to the U.S. investor.

PERSONNEL COMPENSATION

Personnel compensation includes salaries and related costs. The Office of Housing has a ceiling of 23 professional and clerical employees. The HIG program funds three regional housing officers in Latin America and Africa, five direct-hire employees from the General Counsel's Office, and two from the Comptroller's Office.

TRAVEL AND MISCELLANEOUS COSTS

Travel costs are those incurred by the HIG Washington and field staff (with the exception of ROCAP) and do not include travel costs of contractor employees which are part of the contractual services. Miscellaneous costs include printing and other operating and administrative costs incurred by U.S. missions.

NEED FOR IMPROVEMENT IN HIG ACCOUNTING TECHNIQUE

AID has stated that the HIG program operates without cost to the U.S. taxpayers. The FAA, as amended, provides that fees accumulated shall be available for meeting administrative and operating expenses of the HIG program. AID's budget presentations to the Congress for the past 4 years state that, consistent with the intent of Congress that the program be totally self-supporting, the fees pay for the cost of administration, program evaluation and development, and claim investigation.

We noted that the following costs directly attributable to the HIG program were being charged to appropriated funds[1] and are not disclosed as HIG costs in financial reports. Although we have not identified the total amount of these costs, they include:

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[1]The converse is also true--the HIG program provides AID with services applicable to other AID housing activities and charges the HIG fund.

--Space, heat, light, telephone, supplies, and equipment of the Washington HIG operation.

--Salaries, travel, and related costs of ROCAP employees, estimated at over $50,000 for fiscal year 1972, and other relevant ROCAP HIG in-country expenses.

--Costs for such services as auditing, congressional liaison, and program direction and review that AID provides to the HIG program.

We also noted that, although the HIG program has contingent liabilities of $248 million at the beginning of 1973, the financial statements contain no estimate of losses which are known or may be expected to occur.

OFFICE OF HOUSING COMMENTS

The Office of Housing agreed that the expenses of the ROCAP employees should be included in HIG's budget. Similar estimates theoretically can be developed for various administrative costs (such as heat, light, telephone, and supplies of AID's Washington HIG operations) with AID management staff's assistance and with funds provided in the budget for payment to AID financing accounts or to GSA. The Office of Housing believes that the payoff of benefits versus the costs involved to obtain this data should be considered.

AID's Controller's Office asserted that it would be unrealistic for AID to make recurring estimates of potential losses because of the vagaries of political, economic, cultural, social, and other conditions. It further stated that earmarking losses would be of dubious benefit since legislation provides that all earnings are available for loss payments after expenses.

The Office of Housing made general comments on the relationship of the amount of fee income available to that needed to meet operating expenses and claims. These comments are related to the matters discussed in chapters 5, 6, and 7 and are covered at the conclusion of chapter 7.

GAO EVALUATION

Our report does not state that the agency should make evaluations on a multitude of future political, economic, and social factors, nor does it infer that the agency should use actuarial projections. It does not suggest imposing any new financial reporting requirement on the agency, since Accounting Principles and Standards for Federal Agencies already requires U.S. Government agencies to reflect financial information along the lines discussed in the report.

In recent discussions with the Office of Housing, we were told that assessments on a project-by-project basis show known or reasonably expected losses to be $3.5 million. It is these losses which we believe should be reflected in the financial statements.

We agree with the AID's statement that the legislation provides that all earnings are available for loss payments after expenses. However, we questioned how AID will be able to determine how much earnings are really available without appropriate accounting techniques.

CONCLUSION AND RECOMMENDATION

Production and reporting of significant cost information are essential ingredients of effective financial management. An accounting system should produce information needed to determine compliance with congressional intent.

Therefore, we recommend that the Administrator, AID, incorporate appropriate techniques for accounting and reporting all program costs--as prescribed in Accounting Principles and Standards for Federal Agencies--so that accurate information about costs will be recorded and reported for management and for determining whether costs are fully recovered in compliance with congressional intent.

CHAPTER 5

STATUS OF PROJECT RESERVE FUNDS

Project reserve funds provide a cushion for making payments to investors when monthly payments from home buyers are delinquent. These funds protect against activating the AID guaranty. AID contracts establishing these reserve funds require a payment from the home buyer at the time the mortgage is closed and may also provide for a fixed charge as part of his monthly payment. Reserve funds from some projects are available for paying delinquencies on other projects.

METHODS OF CONTROLLING RESERVE FUNDS

In December 1968 AID negotiated a contract with American Security and Trust Company, Washington, D.C., to act as central fiscal agent for guaranty contracts. Because of existing agreements on projects, however, only a limited number of older projects are served by the central fiscal agent.

Project reserve funds may be controlled by the central fiscal agent, by the U.S. investor and/or his fiscal agent, or by the host country project administrator. The following table shows the methods of controlling HIG reserve funds at the beginning of 1973.

Controlled by	Number of projects	Amount of reserves
AID's central fiscal agent	31	$ 494,000
U.S. investors and/or their fiscal agents	23	2,310,000
Project administrators	9	764,000
Total	63	[a]$3,568,000

[a]In addition, AID holds a devaluation reserve of about $41,000 on two projects.

PROJECT RESERVE FUND BALANCES

A basic management concern is whether project reserves are adequate to cover future program demands. AID decides whether a project reserve fund should be established. The decision to establish a reserve fund is based on such factors as the amount and type of host country or local guaranty and the risk of devaluation and default. The need for and amount of reserve funds vary from country to country.

As of January 1, 1973, AID had project reserve fund balances of $3.6 million. These balances are about 1.4 percent of AID's $248 million contingent liability. The following chart shows the relationship between contingent liabilities and reserve funds at 6-month intervals since January 1970.

	Contingent liability (millions)	Reserve fund balance (millions)	Reserve funds as a percent of contingent liability
1-1-70[a]	$122.6	$1.8	1.5
7-1-70[a]	135.5	2.1	1.6
1-1-71[a]	147.5	2.5	1.7
7-1-71	177.6	2.8	1.6
1-1-72	193.5	3.0	1.6
7-1-72	236.8	3.6	1.5
1-1-73	247.7	3.6	1.4

[a]Excludes Africa.

As shown above, the reserve fund balance has increased during the last 3 years. The recent downward change in the percentage relationship between reserve funds and contingent liability resulted, in part, from AID's policy of obtaining host country guaranties for HIG projects. When AID obtains such a guaranty, a project reserve fund is usually not required because the risk of activating the U.S. Government's guaranty decreases.

At the beginning of 1973, $155 million, or 63 percent of the total contingent liability, had a host country guaranty for repayment in U.S. dollars. An additional $36 million, or

15 percent, had the guaranty of a host country insurance organization in local currency. The remaining 22 percent had no repayment guaranties.

Reserve funds accumulated on some of the older projects are useable only for those specific projects, and unused portions of the funds are returnable to project homeowners upon mortgage retirement. These returnable reserves are not available for paying delinquencies on other projects. AID does not have financial records to account for returnable reserve funds, but the Office of Housing has informed us that returnable reserves are substantial.

OFFICE OF HOUSING COMMENTS

The Office of Housing agreed with the facts we presented but expressed concern that the presentation gives an adverse picture of the financial soundness of the program. Their comments are discussed in more detail in chapter 7.

CONCLUSION AND RECOMMENDATION

Because returnable project reserves are not available for paying delinquencies on other projects, they should not be considered reserves for the total program.

Therefore, we recommend that the Administrator, AID, direct the Office of Housing to maintain a record of returnable project reserves to objectively assess the adequacy of its reserve funds and guaranty rates.

CHAPTER 6

AID PAYMENTS TO U.S. INVESTORS

NEED FOR FULL DISCLOSURE OF CLAIMS

The AID guaranty will fully compensate U.S. investors for losses other than those resulting from their own fraud or misrepresentation. Through the beginning of 1973, HIG records list claims totaling $796,000 paid to U.S. investors on four projects.

When AID disburses money to U.S. investors, it is entitled to the securities and rights of the investors. AID payments are made from the project reserve funds (see ch. 5) until they are depleted and then from the guaranty fee reserve (see ch. 4).

AID's central fiscal agent, American Security and Trust Company, also has made remittances to U.S. investors. At the beginning of 1973, reports showed that 15 of the 31 projects served by the agent had reserve balance deficits ranging from $150 to $218,000 and totaling $368,000. The deficit balance means the borrower has failed to make a payment and the agent has had to use reserve funds from the other projects to pay U.S. investors. The agreement between AID and the agent provides for this pooling of reserve fund payments from all the projects.

STATUS OF AID PAYMENTS TO U.S. INVESTORS

Considering payments made directly by AID and indirectly by the central fiscal agent, the HIG program had paid $1.2 million to U.S. investors on 19 projects as of January 1, 1973. These payments are listed in appendix VI.

Two of these claims exceed $100,000. One claim for $650,000 resulted from a 1965 construction loan in the Dominican Republic. The HIG program no longer guarantees construction loans of this type for home building because of the relative lack of collateral for this type of guaranty.

The other large claim was caused by a currency devaluation. On the first project in Argentina--initiated in 1964--AID did not have a host country or local insurance organization guaranty and the currency adjustment clause has not provided for sufficient pesos to meet dollar payments. Additionally, the home buyers are protesting the currency readjustment clause because it is more drastic than any other in force in Argentina. Many home buyers have been making monthly payments to the court rather than to the project administrator. As a result, AID has paid out $218,000 as of January 1, 1973, and it expects to pay more. All seven other projects in Argentina have host country guaranties.

AID considered all other claims, except for Peru which also has a devaluation problem, to be short term. On these claims, AID expects to quickly recover the amounts it has disbursed on these claims either from the borrower or from a host country or local organization guaranty.

Although many AID payments from the central reserve account to U.S. investors are short term and indicate little more than an advance to the borrower, we note the steadily increasing number and amount of these payments. The following chart shows this increase at 6-month intervals since July 1969.

	Number of projects	Cumulative payments
7-1-69	1	$ 650,000
1-1-70	3	654,300
7-1-70	5	656,800
1-1-71	6	696,200
7-1-71	8	743,800
1-1-72	13	772,200
7-1-72	9	759,300
1-1-73	19	1,164,200

The failure of the borrowers to make timely payments and the lack of individual project reserve funds caused the increase in these short-term payments. Host government guaranties existed for 8 of 19 projects where AID made short-term payments.

PROFITABLE AREA FOR U.S. INVESTORS

In an effort to provide an additional incentive for investors to participate in the HIG program, FAA stipulates interest rates slightly higher than for similar loans incurred by the U.S. FHA. Section 223(f) of title III of the FAA states that AID:

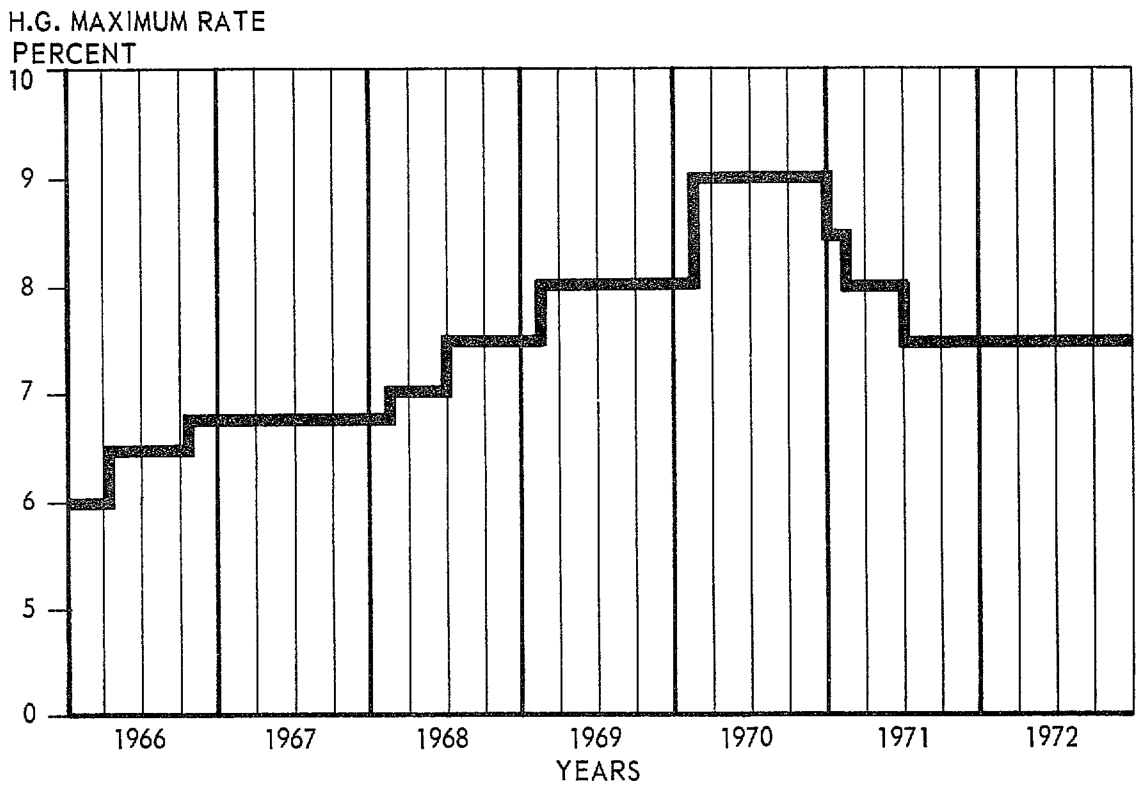
> "* * * shall prescribe the maximum rate of interest allowable to the eligible investor, which * * * shall not be less than one-half of 1 per centum above the then current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development."
>
> *   *   *   *   *
>
> "In no event shall the agency prescribe a maximum allowable rate of interest which exceeds by more than 1 per centum the then current rate of interest applicable to housing mortgages insured by such Department."

HIG loan interest rates increased during the period 1965-70. Program interest rates reached a high of 9 percent in 1970. The rate of interest as of February 1973 was 7-1/2 percent, as shown in the chart on the following page.

OFFICE OF HOUSING COMMENTS

The Office of Housing agreed with the facts presented but said that our report gives the impression that defaults are increasing dangerously. Their comments and our evaluation are discussed in chapter 7.

INTEREST RATE TO U.S. INVESTORS



CONCLUSION AND RECOMMENDATIONS

The HIG program served as a profitable area for U.S. investors.

The 15 projects where the central fiscal agent has disbursed payments in excess of receipts are similar to the four claims paid by AID. The difference is that the guaranteed payments under the former were made by AID directly; under the latter, payments were made by AID's central fiscal agent. Since acts of an agent are considered acts of a principal and since program payments are a management information tool indicative of program risk, all 19 claims should be disclosed in a footnote to the financial statement.

Therefore, we recommend that the Administrator, AID, insure the full disclosure and reporting of all projects where AID guaranty has been activated.

We recognize that the AID guaranty payments as of the beginning of 1973 represent only about $1.2 million, or one-half of 1 percent of the program's $248 million contingent liability. However, advance payments to U.S. investors were made for 19 of 68 projects (28 percent), including payments to 11 without host country guaranties. Although generally short term, the repayments have been increasing in number and amount.

Therefore, we recommend that the Administrator, AID, have the Office of Housing review the extent and nature of the short-term payments and encourage the borrowers to make their payments promptly.

CHAPTER 7

PAYMENT DELINQUENCIES BY HOMEOWNERS

HIG homeowners are required to pay their mortgage payments monthly. The HIG project administrators use the homeowners' payments to periodically remit the required amounts to U.S. investors who are financing the home mortgages.

AID has selected or approved each financial institution in the host country serving as a project administrator. The administrator has primary responsibility to inspect and supervise the project from its inception until the mortgages are completely repaid.

The competence of the administrator is vital to the success of each project, which in turn can be measured by the level of timely payments by HIG homeowners in its project. The administrator accepts or rejects applications for HIG home mortgages on the basis of credit and background investigations, and it determines what action is to be taken when a HIG homeowner fails to make monthly payments. The administrator is paid for these services by a fee included in the HIG homeowners' monthly payments.

OVERALL DELINQUENCY RATE IN CENTRAL AMERICA

Compared to U.S. house payment delinquency rates, the rate of HIG homeowner payment delinquency in Central America is high. Although many of these projects have host country or host country insurance organization guaranties (see ch. 5), the possibility of defaults to the U.S. investors and the triggering of U.S. Government guaranties to cover defaults must be considered.

1972 AID figures showed that 2,403, or 43 percent, of the 5,583 HIG home buyers in Central America were one or more payments behind. The problem of nonpayment on home buyer mortgages exists not only on HIG projects but on similar projects in Central America. The problem becomes less significant, however, when extended delinquencies--those of 4 months or more--are considered.

Monthly Delinquency Breakdown
October 1, 1972 (note a)

Country	Total outstanding mortgages	Delinquent 1 or more months Number	Delinquent 1 or more months Percent	Delinquent 4 or more months Number	Delinquent 4 or more months Percent
Costa Rica	468	159	34.0	11	2.4
El Salvador	966	232	24.0	26	2.7
Guatemala	1,445	949	65.7	171	11.8
Honduras	991	505	51.0	97	9.1
Nicaragua (note b)	731	324	44.3	34	4.7
Panama	982	234	23.8	16	1.6
Total	5,583	2,403	43.0	355	6.4

[a]AID records showed that these rates have not increased significantly in the last 2 years.

[b]The delinquency figures for Nicaragua are not complete because only one of the four projects was being reported.

The overall delinquency rate for defaults of 4 months or more is 6.4 percent, compared with 43 percent for those delinquent 1 month or more. These statistics are similar to the HIG delinquency rates for all Latin America--11.3 percent for delinquencies of 4 months or more and 38.2 percent for delinquencies of 1 month or more. The difference between the rates for 1 month and those for 4 months or more in Central America can probably be attributed to the fact that the longer the payments are in default the greater the effort by the administrator to collect and the higher the probability of foreclosures.[1]

In evaluating the impact of delinquencies on the U.S. guaranties, the buffer effect created by any host country guarantee between the home buyer's default and the U.S. Government's money guarantying it must be considered. Of the six countries listed above, two--Guatemala and Nicaragua--have this built-in protection.

HIG mortgages in Guatemala are guaranteed by the local FHA whose mortgage bonds, in turn, are guaranteed by the

[1]The problem is compounded because Central American countries allow a 3-month delinquency period before foreclosure procedures begin.

Guatemalan Government. HIG mortgages in Nicaragua and mortgages for one project in Panama are backed up by a host country guaranty.[1] Thus, before the U.S. Government would suffer a permanent loss, the host government involved would have to default on its agreement.

CAUSES FOR DELINQUENCY

We found a number of factors which could have contributed to the delinquency rate.

Established credit criteria not applied

AID has established guidelines for HIG administrators to follow in determining whether a prospective home buyer is eligible for an HIG mortgage. One guideline states that the home buyer's monthly payment should not exceed 25 percent of the family income.

In the countries visited, we did a test check of HIG mortgage documents and related credit information. Our review indicated that 8 percent of the home buyers in Nicaragua and 26 percent in Guatemala did not meet these criteria. The chart on page 30 shows that Guatemala has the highest delinquency rates in Central America.

Agency officials said the 25 percent was merely a "rule of thumb" to be used with other information to determine credit worthiness. We agree that this is not an absolute standard. However, exceeding the guideline increases the possibility that homeowners may not have sufficient income to cover monthly payments and that delinquency rates will be higher.

Sociological background of home buyers

The savings and loan system in Central America has been developing over the past 10 years. To accommodate

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[1] Sixty HIG loans in Nicaragua are not included in this guaranty because, at the time the local insurance organization guaranty agreement was made, the loans did not meet the delinquency standards established by the National Housing Bank.

this expansion, the institutions have had to change and the people have had to be educated about the benefits and responsibilities of borrowing and saving money.

According to AID and the administrators, the educational process is still taking place. An important cause of delinquencies is considered to be the relatively low level of sophistication among the people concerning the benefits of long-term purchase agreements. Easy short-term consumer credit with extremely high interest charges and no down-payments compounds the problem.

RELIABILITY OF THE DELINQUENCY DATA PROVIDED BY AID

AID quarterly reports homeowner delinquency statistics on the worldwide HIG program by country and project. The figures issued are used to measure the effectiveness and efficiency of the program at the homeowner and administrator level. We noted two circumstances which directly affect the reliability of this management tool--incomplete delinquency reporting and mortgage substitution.

Four institutions administer the four HIG projects in Nicaragua, but only one of the administrators has been reporting delinquencies. Because overdue payments on the other projects have not been reported, AID has inadequate information for evaluating effectiveness of the Nicaraguan HIG program.

Some of the HIG administrators substitute--pursuant to the administrators' agreements--eligible nondelinquent mortgages for HIG mortgages that have become delinquent. That is, when an HIG homeowner stops making his payments, the administrator simply replaces the delinquent mortgage with another eligible mortgage from his portfolio. Although this practice protects the U.S. investment, it distorts AID's delinquency statistics.

OFFICE OF HOUSING COMMENTS

Financial position of the HIG program

AID's Office of Housing commented that our report discussion in chapters 4, 5, 6, and 7 may give the impression that the program's reserves are inadequate, that delinquencies and defaults are increasing dangerously, and that income from AID fees combined with reserves are inadequate to cover future operating expenses and losses.

The Office of Housing believes that the delinquency problem is manageable and that existing guaranties, income, and reserves and the value of the housing provide ample security for the program. According to the Office of Housing, the HIG program is on solid financial grounds.

The Office of Housing, in support of its position, offered the following information:

1. <u>Fee income versus operating expenses</u>

   During the past 2 years, pursuant to congressional mandate, AID has been extending the HIG program to Africa and Asia. This has involved heavy "front end" costs for preinvestment surveys, feasibility studies, report preparation, and contract negotiations. The Office of Housing believes that enough fee income will eventually be generated to cover administrative expenses and claims. In the short run, however, the fee income from the HIG Latin American operation is actually carrying the costs of the new program while small surpluses are being added to HIG reserves. The Office of Housing expects this trend to continue for another year or two, until the size of the portfolio in Africa and Asia has increased.

   The Office of Housing added that if it had raised the AID fee to 3/4 percent of 1 percent (with host country guaranty) the program would be in better financial position. However, the higher fee would have imposed a greater burden on the host countries. The Office of Housing believes that, in the long run, the ½-percent fee will cover all expenses.

2. <u>Safeguards available to protect the program against losses</u>

   The Office of Housing listed several items which protect the program from losses. These are

(1) the value of the real estate, (2) fire and disaster insurance, (3) project reserves, (4) central reserve funds held by American Security and Trust Company, (5) host country guaranties, and (6) AID reserves held in the U.S. Treasury (basically, the $50 million capitalization fund provided by the Congress).

The Office of Housing concluded that a review of pertinent financial information should permit some conclusions as to the nature of the risks and the security available to protect against these risks. It believes that the absence of GAO conclusions regarding financial soundness tends to create the impression that the particular problems discussed are more serious then they really are.

GAO EVALUATION

Our report does not express an opinion on the financial soundness of the program. We believe that financial soundness depends, to a great extent, on such defense mechanisms as host country guaranties, which we are not in a position to evaluate. Our report does point out areas where the HIG financial reporting and management could be improved.

--The HIG revolving fund should be charged for all costs incurred in the program.

--A record of returnable reserve funds should be maintained, and their effect on the adequacy of the program's overall reserve funds should be assessed.

--All claims being paid should be disclosed.

CONCLUSION

Delinquency rates are used by management to measure the effectiveness and efficiency of the HIG program. Many variables--such as home buyer selection, project administration, and sociological conditions--influence these rates. When delinquency rates are used as an indicator of future risk, consideration must be given to protective mechanisms in the system, such as reserve funds and host country and local insurance organizations guaranties.

Although these rates may not be a true indication of risks leading to activation of the U.S. Government's guaranty, AID's Office of Housing should continue to have the local administrators reduce mortgage delinquencies in Central America.

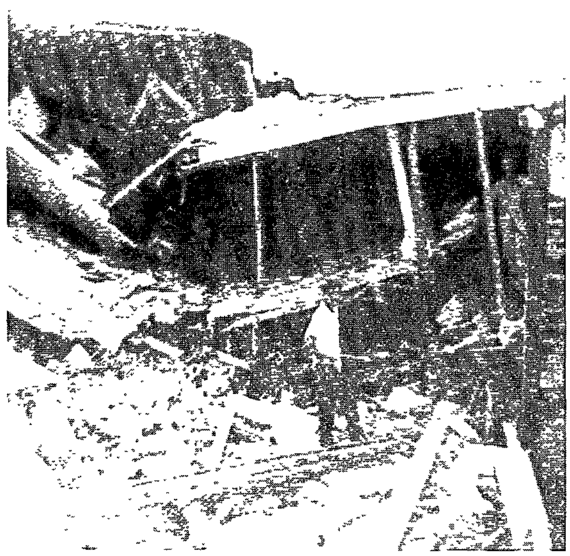
CHAPTER 8

IMPACT OF THE DECEMBER 23, 1972, EARTHQUAKE IN NICARAGUA

A team of GAO auditors spent 3 weeks in Managua, the capital of Nicaragua, during November 1972 to inspect HIG housing projects and to obtain information from U.S. and local program administrative personnel. On December 23, 1972, the city was hit by a devastating earthquake which killed from 8,000 to 10,000 inhabitants, injured approximately 20,000 persons, and left from 220,000 to 250,000 homeless. One half of the 10 square miles of the capital affected was totally destroyed.

Structural damage to office buildings and commercial establishments is shown below. The office building on the left was located across the street from the U.S. Embassy which was damaged beyond repair.


Courtesy of a Nicaraguan citizen


Courtesy of a Nicaraguan citizen

Office buildings damaged by the earthquake

HOUSING SECTOR DAMAGE

Of an estimated 70,000 Managua housing units, about 47,000 (67 percent) were totally destroyed, 6,100 were damaged by at least 25 percent, and the rest were either undamaged or easily repaired. The following two pictures illustrate the extent of damage to housing structures in Managua.

Courtesy of a Nicaraguan citizen

Courtesy of a Nicaraguan citizen

DAMAGE TO FINANCIAL INSTITUTIONS

One bank and three savings and loan associations in Managua are the administrators of the four HIG housing projects in Nicaragua. These institutions were in the center of the city where the heaviest damage occurred. The earthquake almost completely leveled nearly 600 city blocks in this area.

From incomplete information available, it appears that the banking and savings and loan system survived largely intact. Their physical facilities were heavily damaged so these institutions moved their operations to branch and temporary locations. Currency and records, including mortgage documents and related records of the HIG housing projects, were salvaged from destroyed or damaged buildings.

IMPACT ON HIG PROGRAM

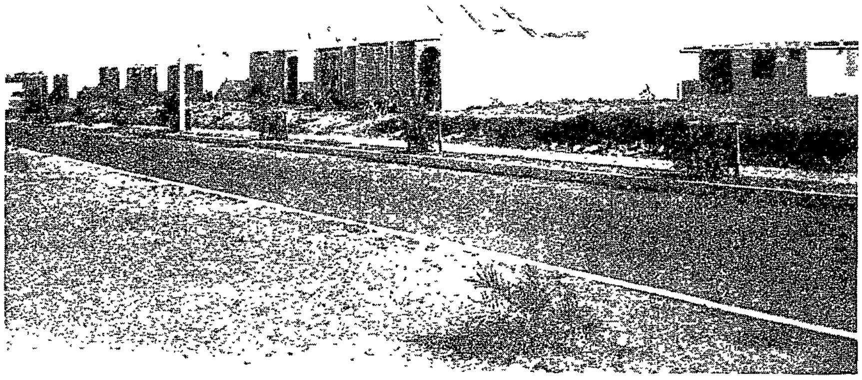
Damage to HIG houses

Shortly after the earthquake a team of AID housing officials visited Managua, where all the HIG housing projects are located in Nicaragua. The information they obtained on the damage to the HIG-financed houses was encouraging.

Approximately 1,200 houses in Managua with a mortgage value of $9,400,000 have been financed with HIG funds, as follows:

Project	Name	Units	Mortgage value
524-HG-001	El Porvenir	757	$6,925,000
524-HG-002A	Las Brizas	155	1,800,000
524-HG-002B	Bosques de Altimira	190	475,000
524-HG-002C	Bello Horizonte	64	200,000

Only the houses in the Bello Horizonte project suffered major damage. The houses in this project are the only HIG-financed houses built entirely of concrete; their concrete roof slabs rest on concrete walls. An example of the damage incurred by the houses is shown in the photo on the following page.



Courtesy of Foundation for Cooperative Housing

The earthquake caused connections between the roof slabs and the walls to fail, allowing the roofs to fall in. The AID officials inspecting the sites stated, however, that the concrete slab roofs can be lifted by cranes and can be repaired or replaced with new connection designs. Reconstruction costs per house are estimated at $1,000.

According to AID officials project houses in El Porvenir, located directly on the major fault line, and Bosques de Altimira suffered only minor damage estimated at less than $50 per house. Damage to the houses in the latter project was due primarily to the freestanding walls between the houses.

The quality of the construction of the HIG-financed houses was evident because neighboring, non-HIG houses suffered up to 100-percent damage.

AID stated that, in most cases, earthquake insurance will cover all damages in excess of the approximately $284 maximum deductible.

Effects of earthquake on mortgage payment process

As a result of the earthquake, many HIG home buyers have been unable to make their monthly mortgage payments. AID has transferred central reserve fund money to make the necessary payments to the U.S. investors. Most of the mortgages in Nicaragua have a local currency repayment guaranty by the local FHA which is to be automatically triggered when the mortgage becomes 60 days behind. AID is working with the FHA to make certain that the agreed-upon action will take place when the 60-day period expires. At that time, the FHA will either buy the overdue mortgages from the financing institution or make the payments for the homeowner until he can regain his financial equilibrium.

Changes in HIG loan provisions

Of the total amount authorized for project 524-HG-002, $1.5 million has not been disbursed. Negotiations are taking place to modify the terms to allow for:

1. The disbursement to be made without eligible mortgages being available until 12 months after all the funds have been disbursed.

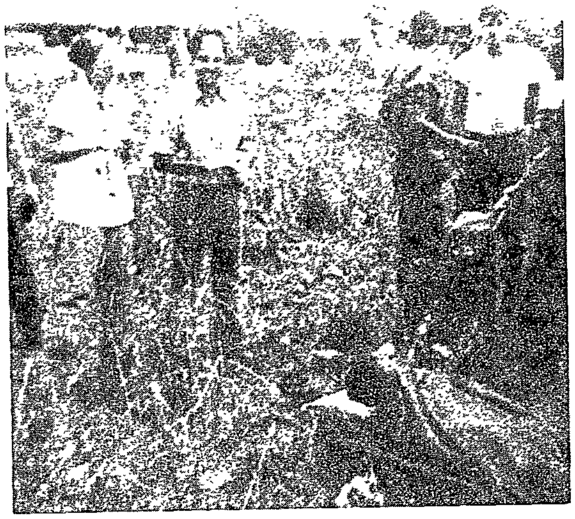
2. A sales price increase to cover inflation and improved structural construction of the houses.

3. A change in the terms of the transaction to reduce the interest rate paid by the homeowner on his mortgage from the current 13-1/2 percent to possibly as low as 12 percent.

These modifications should make it possible for the money to be disbursed more rapidly, to allow for future HIG houses to be better built, and to make it easier for each future HIG homeowner to recover from the earthquake by reducing the interest he pays.

EMERGENCY RELIEF AND RECONSTRUCTION ASSISTANCE

Since the earthquake many millions of dollars worth of supplies, services, and financial assistance have flowed into Managua. A cooperative effort was launched by countries and organizations involved in the emergency relief effort, such as the temporary tent hospital and communications center shown below.



Courtesy of a Nicaraguan citizen

Emergency field hospital

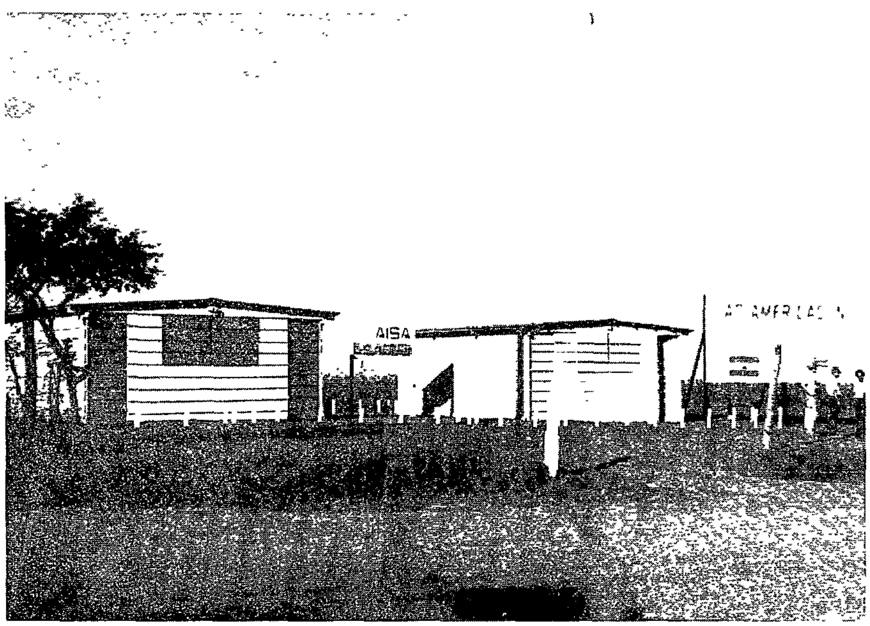
Courtesy of a Nicaraguan citizen

Emergency communication center

AID records show that, as of April 1973, the U.S. Government had provided $27 million in earthquake assistance to Nicaragua.

Emergency shelter program

In January 1973 construction began on emergency shelter units funded by a $3 million AID grant. Under this grant 11,000 shelters will be built with local labor using locally available materials to the extent possible. Each of these duplex shelter units will be constructed with about 200 square feet of floor space, will cost about $270, and may later be converted into permanent housing. This type of housing is shown below.



Courtesy of Foundation of Cooperative Housing

Program assistance loan

An AID program loan of $15 million is planned for the Government of Nicaragua to help cover the large budget deficit expected to result from substantial reductions in revenues and major new spending requirements, both attributable to the earthquake.

The funds from this program assistance loan package are not expected to be disbursed until at least May 1973.

Other assistance

Besides the emergency shelter program and the proposed loan assistance, the U.S. Government has provided other assistance to the Government of Nicaragua, as follows:

	Amount (millions)
Food for Peace--title II commodities	$4.7
Emergency procurements for foodstuff and tents	1.5
Department of Defense--two field hospitals, petroleum, and transportation costs (reimbursed by AID)	3.1
Total	$9.3

United States Senate

COMMITTEE ON FOREIGN RELATIONS
WASHINGTON, D.C. 20510

February 10, 1972

Mr. Elmer B. Staats
Comptroller General
of the United States
Washington, D. C.

Dear Mr. Staats:

There has recently come to my attention several reports by the Inspector General of Foreign Assistance concerning the AID housing investment guaranty program.

These reports raise a number of questions concerning the management and effectiveness of this program. The Inspector General's reports indicate that a study by the General Accounting Office would be desirable of such matters as administrative costs, payments to investors by AID, payment delinquencies by home buyers, the status of reserve funds, and the need for this type of U.S. financing in the light of the availability of local financing resources. I would appreciate your cooperation in initiating this study. Norvill Jones of the Committee staff will be the person immediately responsible for the project and I hope that you will have the appropriate members of your office get in touch with him to discuss this matter further.

Sincerely yours,

J. W. Fulbright
Chairman

LIST OF HIG PROJECTS

AUTHORIZED AND UNDER CONTRACT IN CENTRAL AMERICA

January 1, 1973

Country, contract number, and name of project		Date authorized	Date of contract	Contract	Disbursements	Houses: Total	Houses: Number completed	Houses: Under construction	Dollar price range (note a)
Costa Rica:									
515-HG-003	Desarrollo Urbano	10-16-67	5-15-69	$ 2,000,000	$ 1,999,992	479	479	-	3,928 4,662
				2,000,000	1,999,992	479	479	-	
El Salvador:									
519-HG-001	Financiera Roble	2- 3-64	5-15-64	4,493,000	4,492,935	462	462	-	9,812 10,766
519-HG-002	Jardines de Guadalupe	6-17-65	12-15-66	4,556,250	4,478,443	508	508	-	7,840 11,477
519-HG-005	Vivendas Coopertivas	4-17-68	1-20-71	2,000,000	470,094	438	67	94	6,800 7,332
Subtotal				11,049,250	9,441,472	1,408	1,037	94	
Guatemala:									
520-HG-001	I Capital	9-15-64	9-30-64	1,817,000	1,816,213	262	262	-	6,297 8,289
520-HG-001	II Capital	9-15-64	3-16-67	3,000,000	2,937,462	452	452	-	6,660 7,070
520-HG-002	Banco Granai & Townson	12-29-67	7-15-69	1,500,000	1,500,000	290	290	-	5,500
520-HG-003	Banco Inmobiliario	12-29-67	7-15-69	1,500,000	1,500,000	395	395	-	5,500
Subtotal				7,817,000	7,753,675	1,399	1,399	-	
Honduras:									
522-HG-001	Miraflores	3-29-63	12- 1-64	2,878,732	2,868,315	762	762	-	3,350 6,272
522-HG-002	Jardines Loarque	2-27-64	10-26-64	1,502,600	1,502,600	332	332	-	3,523 6,248
522-HG-002B	Composa Colonia Rio Grande	6-30-69	6-10-70	4,000,000	510,555	535	74	41	7,000 8,000
522-HG-004	FEHCOVIL	3-24-71	12-28-71	2,200,000	-	400	-	90	5,500
Subtotal				10,581,332	4,881,470	2,029	1,168	131	
Nicaragua:									
524-HG-001	El Porvenir	5-21-65	3- 1-66	6,926,000	6,924,914	757	757	-	8,110 10,322
524-HG-002A	Las Brizas	11-17-69	3-15-70	2,000,000	1,800,000	228	155	73	6,000
524-HG-002B	Bosques de Altimira	11-17-69	3-15-70	1,000,000	475,000	190	190	-	6,37
524-HG-002C	Bello Horizonte	11-17-69	3-15-70	1,000,000	200,000	64	64	-	6,30
Subtotal				10,926,000	9,399,914	1,239	1,166	73	
Panama:									
525-HG-002	La Gloria	12-30-65	6- 1-66	2,953,000	2,952,900	386	386	-	8,500 8,600
525-HG-003	Corindag I	5-11-67	12- 1-67	1,484,000	1,483,513	285	285	-	8,432 8,507
525-HG-003	Corindag II	2-12-71	2-26-71	2,016,000	1,157,997	380	138	119	7,600 11,100
525-HG-004	Continental Homes	2-26-69	3-25-70	3,000,000	776,438	382	97	41	9,057 9,473
525-HG-005	Vivendas Nacionales	2-26-69	11-15-69	3,000,000	1,115,731	488	123	290	8,190 10,892
Subtotal				12,453,000	7,486,579	1,921	1,029	450	
Total				$54,826,582	$40,963,102	8,475	6,278	748	

[a] From the time of project initiation to time of sale, selling price increases varied from 0 to 35 percent and averaged 7 percent. Price increases are primarily due to inflation. Some sales, when expressed in U.S. dollars, decreased due to currency devaluation.

BEST DOCUMENT AVAILABLE

FOREIGN ASSISTANCE ACT OF 1969

"TITLE III—HOUSING GUARANTIES

"SEC 221 WORLDWIDE HOUSING GUARANTIES.—In order to facilitate and increase the participation of private enterprise in furthering the development of the economic resources and productive capacities of less developed friendly countries and areas, and promote the development of thrift and credit institutions engaged in programs of mobilizing local savings for financing the construction of self-liquidating housing projects and related community facilities, the President is authorized to issue guaranties, on such terms and conditions as he shall determine, to eligible investors as defined in section 238(c), assuring against loss of loan investments for self-liquidating housing projects. The total face amount of guaranties issued hereunder, outstanding at any one time, shall not exceed $130,000,000. Such guaranties shall be issued under the conditions set forth in section 222(b) and section 223.

"SEC 222 HOUSING PROJECTS IN LATIN AMERICAN COUNTRIES.—(a) The President shall assist in the development of the American Republics of self-liquidating housing projects, the development of institutions engaged in Alliance for Progress programs, including cooperatives, free labor unions, savings and loan type institutions, and other private enterprise programs in Latin America engaged directly or indirectly in the financing of home mortgages, the construction of homes for lower income persons and families, the increased mobilization of savings and improvement of housing conditions in Latin America.

"(b) To carry out the purposes of subsection (a), the President is authorized to issue guaranties, on such terms and conditions as he shall determine, to eligible investors, as defined in section 238(c), assuring against loss of loan investment made by such investors in—

"(1) private housing projects in Latin America of types similar to those insured by the Department of Housing and Urban Development and suitable for conditions in Latin America,

"(2) credit institutions in Latin America engaged directly or indirectly in the financing of home mortgages, such as savings and loan institutions and other qualified investment enterprises,

"(3) housing projects in Latin America for lower income families and persons, which projects shall be constructed in accordance with maximum unit costs established by the President for families and persons whose incomes meet the limitations prescribed by the President

"(4) housing projects in Latin America which will promote the development of institutions important to the success of the Alliance for Progress, such as free labor unions, cooperatives, and other private enterprise programs, or

"(5) housing projects in Latin America, 25 per centum or more of the aggregate of the mortgage financing for which is made available from sources within Latin America and is not derived from sources outside Latin America, which projects shall, to the maximum extent practicable, have a unit cost of not more than $8,500.

"(c) The total face amount of guaranties issued hereunder or heretofore under Latin American housing guaranty authority repealed by the Foreign Assistance Act of 1969, outstanding at any one time shall not exceed $550,000,000. Provided, That $325,000,000 of such guaranties may be used only for the purposes of subsection (b)(1).

"SEC 223 GENERAL PROVISIONS.—(a) A fee shall be charged for each guaranty issued under section 221 or section 222 in an amount to be determined by the President. In the event the fee to be charged for such type of guaranty is reduced, fees to be paid under existing contracts for the same type of guaranty may be similarly reduced

"(b) The amount of $50,000,000 of fees accumulated under prior investment guaranty provisions repealed by the Foreign Assistance Act of 1969, together with all fees collected in connection with guaranties issued hereunder, shall be available for meeting necessary administrative and operating expenses of carrying out the provisions of this title and of prior housing guaranty provisions repealed by the Foreign Assistance Act of 1969 (including, but not limited to expenses pertaining to personnel, supplies, and printing) subject to such limitations as may be imposed in annual appropriation Acts, for meeting management and custodial costs incurred with respect to currencies or other assets acquired under guaranties made pursuant to section 221 or section 222 or heretofore pursuant to prior Latin American and other housing guaranty authorities repealed by the Foreign Assistance Act of 1969, and to pay the cost of investigating and adjusting (including costs of arbitration) claims under such guaranties and shall be available for expenditure in discharge of liabilities under such guaranties until such time as all such property has been disposed of and all such liabilities have been discharged or have expired, or until all such fees have been expended in accordance wtih the provisions of this subsection

"(c) Any payments made to discharge liabilities under guaranties issued under section 221 or section 222 or heretofore under prior Latin American or other housing guaranty authorities repealed by the Foreign Assistance Act of 1969, shall be paid first out of fees referred to in subsection (b) (excluding amounts required for purposes other than the discharge of liabilities under guaranties) as long as such fees are available, and thereafter shall be paid out of funds, if any, realized from the sale of currencies or other assets acquired in connection with any payment made to discharge liabilities under such guaranties as long as funds are available and finally out of funds hereafter made available pursuant to subsection (e)

"(d) All guaranties issued under section 221 or section 222 or heretofore under prior Latin American or other housing guaranty authority repealed by the Foreign Assistance Act of 1969 shall constitute obligations, in accordance with the terms of such guaranties, of the United States of America and the full faith and credit of the United States of America is hereby pledged for the full payment and performance of such obligations.

"(e) There is hereby authorized to be appropriated to the President such amounts, to remain available until expended, as may be necessary from time to time to carry out the purposes of this title.

"(f) In the case of any loan investment guaranteed under section 221 or section 222, the agency primarily responsible for administering part I shall prescribe the maximum rate of interest allowable to the eligible investor, which maximum rate shall not be less than one-half of 1 per centum above the then current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development. In no event shall the agency prescribe a maximum allowable rate of interest which exceeds by more than 1 per centum the then current rate of interest applicable to housing mortgages insured by such Department. The maximum allowable rate of interest under this subsection shall be prescribed by the agency as of the date the project covered by the investment is officially authorized and, prior to the execution of the contract, the agency may amend such rate at its discretion, consistent with the provisions of subsection (f).

"(g) Housing guaranties committed, authorized, or outstanding under prior housing guaranty authorities repealed by the Foreign Assistance Act of 1969 shall continue subject to provisions of law originally applicable thereto and fees collected hereafter with respect to such guaranties shall be available for the purposes specified in subsection (b)

"(h) No payment may be made under any guaranty issued pursuant to this title for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible

"(i) The authority of section 221 and section 222 shall continue until June 30 1972."

ADMINISTRATION AND ORGANIZATION

OF THE HIG PROGRAM

The 1969 amendment to the FAA expanded the housing program to include the entire world. In 1970 the Office of Housing was established within AID to cope with this expansion. It operates as a centralized unit to serve each geographic region with a network of regional field offices. In Latin America there are field offices in Buenos Aires, Argentina; Caracas, Venezuela; and Guatemala City, Guatemala.

The Office of Housing serves all elements of the HIG program through the Office of the Director and the Operations and Technical Divisions.

OFFICE OF THE DIRECTOR

The Office of the Director plans and directs the activities of the Office of Housing. It provides overall guidance, through coordination with AID's Bureau for Program and Policy Coordination, for the allocation of housing investment guaranty authority among regional bureaus. It also provides advice and guidance to AID officials concerning the effective use of the HIG program.

OPERATIONS DIVISION

The Operations Division is responsible for housing guaranty projects located throughout the agency's five regions for the life of the project, through the following phases:

--Prefeasibility.

--Feasibility study.

--Contract negotiations.

--Construction.

--Postconstruction.

The Operations Division is also responsible for:

--Developing and maintaining special expertise and operating knowledge on existing legislation, regulations, policies, and procedures which relate to the HIG program.

--Developing and recommending changes in worldwide or regional policy and procedural guidelines for the HIG program.

--Establishing and maintaining a central point of contact within AID for sponsors, investors, and builders and assisting AID Missions in working with host government officials.

--Maintaining liaison with international and domestic institutions and government agencies which work in housing and urban development and related fields to more effectively execute HIG program responsibilities.

--Assisting AID regional staffs with housing sector matters, such as country programing, loan review, and grant-funded projects in housing and urban development.

--Staying abreast of new techniques and technologies related to housing and urban development.

TECHNICAL DIVISION

The Technical Division deals primarily with the practical or scientific aspects of the HIG program in that it:

--Formulates technical standards and guidelines and insures compliance through monitoring of projects.

--Analyzes project proposals and recommends those which are worthy of full feasibility studies.

--Conducts feasibility studies for the final selection of projects.

--Assists in negotiation, implementation, and evaluation of approved projects.

--Selects and supervises contractors engaged by AID to assist in the technical elements of the program.

--Maintains liaison with international and domestic institutions and government agencies which work in the housing area to keep abreast of new technologies with potential application to the HIG program.

--Participates in reviews of regionally funded projects.

HIG PROGRAM AID PAYMENTS

TO U.S. INVESTORS THROUGH JANUARY 1, 1973

Project number	Country	Amount
517-HG-003	Dominican Republic (note a)	$ 650,000
510-HG-001	Argentina	218,000
685-HG-001	Senegal (note a)	83,722
524-HG-002	Nicaragua	73,806
529-HG-003	Venezuela (note a)	57,718
513-HG-005	Chile	15,973
513-HG-004	Chile	12,340
525-HG-003	Panama	9,777
518-HG-003	Ecuador	8,829
513-HG-003	Chile	7,980
523-HG-006	Mexico	6,067
527-HG-001	Peru (note a)	5,000
518-HG-004	Ecuador	4,429
515-HG-003	Costa Rica	2,763
525-HG-005	Panama	2,757
663-HG-001	Ethiopia	2,412
522-HG-002B	Honduras	1,780
596-HG-001	Honduras	739
525-HG-004	Panama	149
Total		$1,164,241

[a]AID's Controller makes payments on these projects, and AID's central fiscal agent makes payments on other projects.

PRINCIPAL OFFICIALS

RESPONSIBLE FOR MANAGEMENT OF ACTIVITIES

DISCUSSED IN THIS REPORT

	Tenure of office From	To
AGENCY FOR INTERNATIONAL DEVELOPMENT		
ADMINISTRATOR:		
David E. Bell	Dec. 1962	July 1966
William S. Gaud	Aug. 1966	Jan. 1969
John A. Hannah	Mar. 1969	Present
DIRECTOR, OFFICE OF HOUSING:		
Stanley Baruch (note a)	July 1965	Jan. 1973
Peter M. Kimm (acting)	Jan. 1973	Present

[a] Mr. Baruch's title from July 1965 to August 1970 was Chief, Housing and Urban Development Division, Office of Capital Development, Latin America Bureau.