REPORT TO THE CONGRESS

Low-Income Groups Not Helped By Agency For International Development's Housing Investment Guaranty Program

B-171526

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

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Speaker of the House of Representatives
and the President pro tempore of the Senate

This is our report entitled "Low Income Groups Not Helped by AID's Housing Investment Guaranty Program." This review was a followup to our "Interim Report on AID's Housing Investment Guaranty Program" (B-171526, May 22, 1973) made at the request of the Chairman, Committee on Senate Foreign Relations.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget, the Secretary of State, and the Administrator, Agency for International Development.

Elmer B. Staats

Comptroller General
of the United States

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

LOW-INCOME GROUPS NOT HELPED BY AID's HOUSING INVESTMENT GUARANTY PROGRAM
Agency for International Development B-171526 97

D I G E S T

WHY THE REVIEW WAS MADE

In this worldwide review, GAO examined issues identified by a 1973 review of the Agency for International Development's (AID's) Housing Investment Guaranty (HG) program in Central America.

This report summarizes GAO's findings at AID in Washington, D.C., and in Argentina, Guatemala, Nicaragua, Venezuela, Israel, Thailand, and Tunisia. (See p. 51.)

FINDINGS AND CONCLUSIONS

As of the beginning of fiscal year 1975, the Congress had made available a total of $880.1 million in guaranty authority for HG housing projects--$550 million for Latin America and $330.1 million in worldwide guaranties. AID had authorized $658.9 million in HG projects, leaving $134.9 million available in Latin America and $86.3 million available in worldwide authority.

Housing requirements for developing countries are tremendous and growing rapidly. Shelter needs vary from country to country, depending on climate, culture, income level, and other factors.

Providing adequate housing to meet needs is one of the most difficult problems facing developing countries. In this context GAO found that, to fill its legislative objectives, the AID program had the following results.

In Latin America the program:

--Financed functional and attractive houses which are self-liquidating to the U.S. Government. (See pp. 4 to 6.)

--To an unmeasurable degree, helped to develop institutions engaged in Alliance for Progress programs, including housing and related financial organizations, cooperatives, and labor unions. (See pp. 6 to 8.)

--Had no appreciable impact on the difficult objective of improving housing for lower income families because lower income persons and families could not afford to buy the houses. Only families in the upper 29 percent of the economic stratum could afford the houses, and only families in the top 21 percent were purchasing them. (See pp. 8 to 15.)

--Had mixed results, influenced by political and economic conditions, in mobilizing savings (See pp. 15 and 16.)

<u>In Africa and Asia the program:</u>

--Financed functional, attractive houses, self-liquidating to the U.S. Government (See p. 32.)

--Helped to increase participation of private enterprise in the development of Thailand and Tunisia. (See p. 32.)

--Met its original intent in Thailand with the supported project demonstrating how long-term financing and small downpayments can help meet housing needs of a previously inadequately served income group, the upper 5 to 7 percent income level (See pp 24 and 25.)

--Met its original intent in Tunisia only partially because the supported project did not demonstrate how long-term financing and small downpayments could help to meet housing needs of a previously inadequately served income group, the middle income level. Project housing was affordable by only the upper 7 percent of workers in Tunis. (See pp. 25 to 28.)

--Assisted development of a thrift and credit institution in Tunisia. (See p. 26.)

Dimensions of the financing needed by developing countries to solve their housing problems are so huge that AID could make only a relatively small contribution. Successful housing projects for any income level in a developing country are exceedingly difficult to plan and implement.

Problems associated with housing for lower income persons and families--often comprising 50 percent of a developing country's population--are such that it may be difficult to use the HG program with its commercial terms to serve this income group. (See pp. 31 and 32.)

In certain countries the AID program objective of promoting development of thrift and credit institutions is not attainable because such institutions are already highly developed. Israel appears to be the only country in this category currently receiving assistance.

GAO questions using AID authority to guarantee loans to countries having an advanced level of development in their thrift and credit institutions. (See pp. 30, 32, and 33.)

In August 1973 AID issued a shelter policy statement that provides a philosophical framework for all forms of assistance to the shelter sector--housing guaranties as well as concessional loans and grants from appropriated funds. This policy expresses concern over the need for housing for lower income groups. (See pp. 35 and 36.)

Financial aspects of the HG program

As a result of suggestions by GAO, AID has initiated improvements in the accounting and reporting procedures for the HG program. GAO is concerned, however, over the steadily increasing number and amount of AID's short-term payments to U.S investors, which are caused by the failure of the borrower to make timely payments. (See p. 44.)

RECOMMENDATIONS AND SUGGESTIONS

AID should further define its policies as they relate to the program's legislative objectives, emphasizing particularly whether and how the program can be effective in serving lower income persons and families. Definition of program policies should consider the need to serve income groups lower than those currently included in the program. (See p. 33.)

AID should compare the specific needs of each country being considered for an HG loan with the needs of other eligible countries.

Such determinations should be used to establish priorities for assistance and fund allocations. (See p. 33.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

AID agrees that more guidance is needed on mechanics of implementing the program. However, it believes the substance of the recommendations is being met. (See pp. 33 and 34.)

AID generally did not take exception to the facts presented in the report, but it expressed concern over the report's overall impact. AID believes the report:

--Does not reflect the magnitude of AID's undertaking and accomplishments in developing thrift institutions.

--Does not recognize the relationship between institution building and low-cost housing, which cannot be undertaken concurrently in many countries but only sequentially.

--Does not clearly show additional housing for lower income groups was not a major thrust of the program until 1973 nor give AID enough credit for its recent commitment to this complex area (See pp. 33 and 34.)

GAO believes its report presents fairly the emphasis given by AID to all the legislative objectives. AID's belief that the substance of GAO's recommendations is being met is not evident from the performance of the HG program.

While a few projects have included housing units built at a relatively low cost (although generally purchased by higher income groups), AID has authorized only three projects for purchase by lower income groups pursuant to section 222(b)(3) of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2182 (1970)) These projects have not yet started. (See pp. 35 and 36.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

Housing for lower income persons and families under section 222(b)(3) has been a legislative objective since 1965 in Latin America and since 1969 on a worldwide basis.

As of October 1974, however, no projects were being constructed in line with this section and only three were authorized, those being in Africa.

Congress may wish to consider encouraging AID to implement projects called for by this section or to amend the legislation deleting the section from the law. (See p. 36.)

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GLOSSARY

Administrator — A host country organization (normally a bank or a savings and loan association) which represents the U S. investor and the Agency for International Development (AID) in a Housing Investment Guaranty (HG) project. The administrator locally supervises and administers the project from inception to the retirement of all home mortgages. Unless it is also the borrower (see below), the asminstrator runs no risk and is paid a fee for its services.

Central fiscal agent — A Washington, D.C., banking institution acts as the central fiscal agent (1) to receive payments from some project administrators and borrowers, (2) to disburse payments of interest and principal to U.S. investors and guaranty fees to AID, and (3) to serve as depository for reserve funds.

Coguaranty — Safeguards available to AID to protect the guaranty given to the U.S. investor, including host country government guaranty, mortgage insurance, and the property itself.

Contractual saving system — A contract is made between the saver/borrower and the association. The contract would specifically require (1) the saver/borrower to deposit within a certain period of time a specified amount and (2) the association to make a mortgage loan in a specified period of time.

Free savings system — Savings are made based on the incentive provided by the interest paid and on the security offered by the system (insurance deposit). A mortgage loan does not result necessarily from the savings.

Guaranty fee — The fee AID charges the investor for guaranteeing a loan. This fee is paid by the borrower who in turn passes the charge on to home buyers as part of their 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	Provides the financing for an HG project. Eligible investors include (1) U S. citizens, (2) corporations, partnerships, or other associations organized under U.S. or State laws and owned largely by U.S. citizens, and (3) foreign corporations, partnerships, or other associations at least 95 percent owned by any or the above U.S. citizens or entities.
Reserve fund	A fund created to serve as a quick source of money for mortgage delinquencies and as the first line of defense against investment loss due to devaluations and short-term commercial defaults. Each homeowner is assessed for this fund in his payment.
Seed Capital loan	Granted by AID to the National Housing Bank of Nicaragua to help establish the savings and loan system.
Sponsor/ borrower	The sponsor is the institution that applies for the HG project. It usually is the same institution that acts as borrower under the loan agreement with the investor.

ABBREVIATIONS

AID	Agency for International Development
FAA	Foreign Assistance Act
FHA	Federal Housing Administration
GAO	General Accounting Office
HG	Housing Investment Guaranty
NLISA	National League of Insured Savings Associations
CABEI	Central American Bank for Economic Integration

CHAPTER 1

INTRODUCTION

This is our report on the management and accomplishments of the Housing Investment Guaranty (HG) program of the Agency for International Development (AID). GAO reviewed the HG program in Central America and on May 22, 1973, issued an interim report to the Chairman, Senate Committee on Foreign Relations. That review identified issues which formed the basis for this in-depth worldwide review.

Comments of AID and the Department of State are incorporated into the report where appropriate. AID comments are also included in appendix V.

PROGRAM HISTORY

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

The Foreign Assistance Act of 1961 established the HG 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 demonstrations, 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 Foreign Assistance Act (FAA) several times to refine the objectives and scope of the program. (Ch 2 includes details of the objectives and scope, and app. II provides a description of the program's organization and management.) The principal changes were made in 1965 and 1969.

A 1965 FAA amendment broadened the objectives of the Latin American program to assist in (1) developing self-liquidating housing projects, (2) developing institutions engaged in Alliance for Progress programs, including co-operatives, free labor unions, savings and loan institutions, and other private programs which finance home mortgages, (3) providing homes for lower income persons and families, (4) mobilizing savings, and (5) improving housing.

In 1969 housing guaranty authorities were consolidated in a new title III of part 1, chapter 2, of FAA. Title III consists of three sections--221, Worldwide Housing Guaranties; 222 Housing Projects in Latin American Countries; and 223, General Provisions.

SUMMARY DESSCRIPTION OF HG PROGRAM

Under the HG program, U.S. investors provide long-term financing to housing projects and programs in developing countries. The basic objectives are to help develop host country institutions seeking permanent solutions to housing problems and, through these institutions, to finance the construction of additional housing units. The ultimate aim is an increased supply of housing in the developing country. In the past AID carried out competitive programs under which private companies would compete in bidding on specific housing projects in a given locality of the country. According to AID, however, in an attempt to attack the more basic housing problems, the HG resources are being devoted entirely to institutional development of programs, and guaranties are not provided for projects of the old competitive type.

If agreement is reached on project financing, AID issues a commitment to guarantee 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 other than those resulting from their own fraud or misrepresentation. AID charges a fee for its guaranty to cover operating expenses and provides reserves against claims. In 1970 the Office of Housing was established within AID to Administer the program. It operates as a centralized unit to serve each geographic region

As of the beginning of fiscal year 1975, the Congress had made available a total of $880.1 million in guaranty authority for HG housing projects--$550 million for Latin

America and $330.1 million in worldwide guaranties. AID had authorized $658.9 million in HG projects, leaving $134.9 million available in Latin America and $86.3 million available in worldwide authority. Chapter 3 discusses these and other financial aspects of the program.

CHAPTER 2

HG PROGRAM ACCOMPLISHMENTS

Housing requirements for developing countries are tremendous and growing rapidly. Shelter needs vary greatly from country to country, depending on climate, culture, income level, and other factors. Providing adequate housing is one of the most difficult problems facing developing countries. In this context we found that the AID program had diverse results in filling its legislative objectives.

LATIN AMERICA

The five objectives for this part of the program as outlined in title III, section 222, of FAA are being only partially accomplished. The HG program in Latin America:

--Financed functional and attractive houses which are self-liquidating to the U.S. Government.

--To an unmeasurable degree, helped to develop institutions engaged in Alliance for Progress programs, including housing and related financial organizations, cooperatives, and labor unions.

--Had no appreciable impact on improving housing for lower income families because lower income persons and families cannot afford to buy HG houses. The program was affordable only by families in the upper 29 percent of the economic stratum and were being purchased only by families in the top 21 percent.

--Had mixed results, influenced by political and economic conditions, in mobilizing savings.

--Had contributed little, when measured against the actual need, to improving housing conditions.

Self-liquidating housing

On projects where the administrator is not the borrower, the extent to which HG housing may require activation of the U S Government guaranty depends on the competence of the administrator--which can be measured, in part, by the rate of homeowner delinquency, the timeliness of the administrator's payments to the U.S. investor, and the status of project reserve funds If a homeowner becomes excessively delinquent, foreclosure procedures are followed and the house is resold.

On projects where the administrator is the borrower--under most institutional projects--it must pay the U.S. investor regardless of collections from homeowners

FAA requires that HG projects be self-liquidating but does not provide a definition of the phrase "self-liquidating housing projects " AID's interpretation of the phrase is "a housing project able to generate sufficient revenue, from whatever source, to repay the AID-guarantied loan and the interest thereon." Thus, a housing project would not cease to be self-liquidating merely because mortgage payments from individual homeowners were supplemented by other sources of revenue, such as host government subsidies for low-income housing In addition to examining the program for evidence of self-liquidity under AID's interpretation, we examined it from the point of view of whether the HG guaranty was fully protecting the U.S investor's principal and interest and whether the program was operating without cost to project administrators.

U.S. Government level

Generally HG housing projects have been self-liquidating. At the beginning of 1974, reserve funds totaling $3.4 million had accumulated. Since July 1969 AID or the central fiscal agent has paid U.S. investors $1.8 million for 28 projects.

The reserve fund balance amounts to only 1.2 percent of the $291.2 million contingent liability. Chapter 3 describes the status of these reserve funds. Additionally, as of January 1, 1974, AID had accumulated earnings of $392,000.

Administrator level

According to the records and growth pattern of 12 administrators, the program has been generally profitable and has operated without cost to administrators in Latin America Two administrators--one in Argentina and one in Venezuela--expected to suffer some losses because of subsidies they provide as a result of their involvement with the program. They suffer these losses because of their involvement as borrowers, not as administrators.

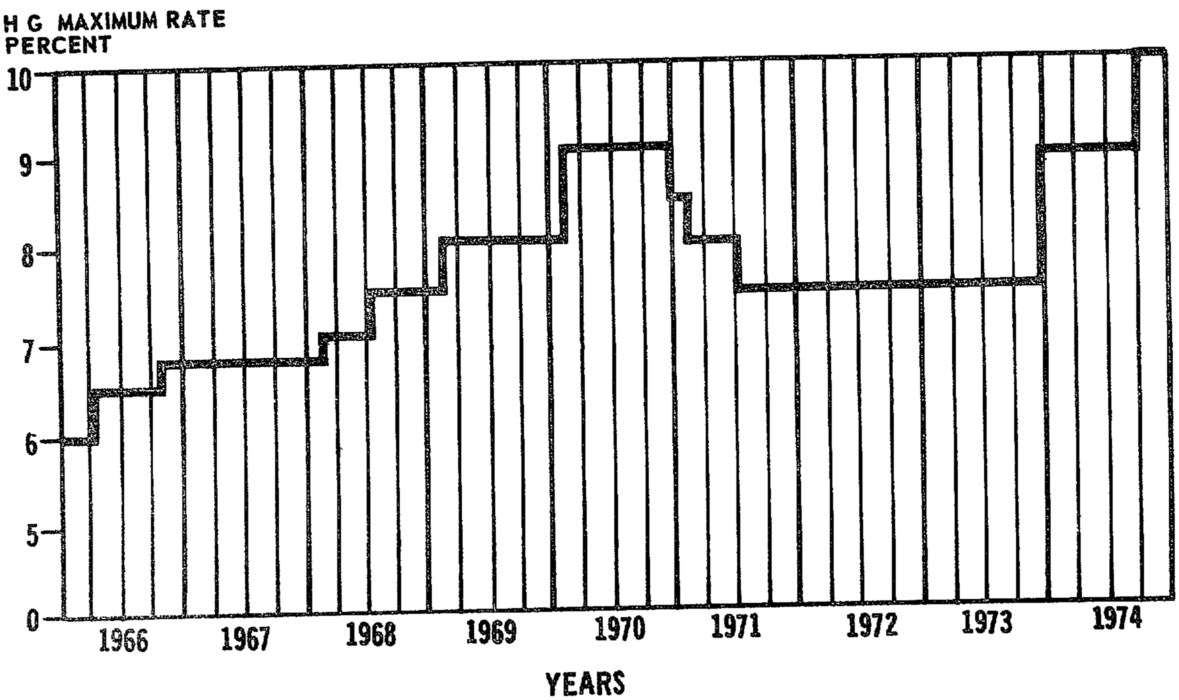
U.S. investor level

The HG program has been profitable and has operated without loss of principal or interest to U.S investors. The AID guaranty has compensated and will fully compensate investors for losses other than those resulting from their own fraud and/or misrepresentation

Investors are provided with an incentive for participating in the program. They earn interest which is comparable to that on other U.S.-guarantied obligations having comparable terms and maturities.

HG interest rates have fluctuated since 1965. The maximum rate increased from 6 percent in 1965 to 9 percent in 1970 as the following chart shows. As of October 1974, the maximum allowable rate was 10 percent.

INTEREST RATE TO U.S. INVESTORS



Development of institutions

In 1965 FAA was amended to include as an HG objective the development of institutions engaged in Alliance for Progress programs--institutions which accelerate the economic and social development of participating Latin American countries.

Central America

In Guatemala and Nicaragua the local housing insurance and regulatory organizations developed concurrently with HG program growth. The program's impact on these organizations cannot be stated precisely, but from 1962 to 1972, as the program developed, the number of insured mortgages on local housing insurance and regulatory organizations also grew substantially.

Venezuela

In Venezuela the growth and development of the institutions related to the HG program reflect the overall optimistic monetary situation.

The HG program plans to help develop Venezuelan cooperatives A $6 million loan to a housing cooperative, established in 1965 to promote, organize, and develop cooperative housing programs, has been contracted for. As of January 1, 1974, $200,000 had been disbursed. With the assistance of an HG advisor, the cooperative has three projects in separate localities which are being planned or constructed.

To help develop labor unions, AID has guaranteed a $5.9 million HG loan to a savings and loan association affiliated with a confederation of 28 trade unions. Under this loan, 815 housing units were built, virtually all units were purchased by trade union members.

In 1970 a $20 million HG loan was made to the Venezuelan savings and loan association control agency. On September 24, 1973, the final drawdown of $8 million took place. Even though the total mortgage portfolio value of the savings and loan association control agency has been steadily increasing, having grown by approximately 400 percent since 1967, officials of this organization say it is questionable whether these HG funds have had the desired positive impact on this growth trend. Rather than using HG funds under this loan, the agency has been using less expensive sources--in both interest rate and paperwork--of long-term financing.

As of January 1, 1974, the $20 million had been invested as follows (1) $11.2 million was disbursed for long-term financing of mortgages, (2) $7.5 million was disbursed for short-term loans, primarily for construction, and (3) $1.3 million became part of the organization's liquid assets, primarily time deposits and short-term securities We estimate a small loss each year as a result of the difference between the income from the above investments and the loan costs to the borrower. The loss from this loan has a nominal negative effect on the growth and development of the association control agency in Venezuela. This loss, although mitigated by recent U.S. dollar devaluations, will continue until the HG money is invested at a rate equal to or higher than its costs to the administrator.

Argentina

The program has to an unmeasurable degree helped develop labor unions and cooperatives in Argentina. Labor unions participated in 9 of 10 HG projects in Argentina, and cooperatives are involved in a $10 million HG loan which is part of a countrywide effort to provide more lower cost housing.

The national mortgage bank, the Government's housing agency, as the borrower manages most HG projects in Argentina. Since this agency has been in operation for 86 years, it is doubtful that the HG program has contributed significantly to its development. According to AID officials in Argentina, the program has, however, provided technical assistance and funds enabling this administrator to operate more effectively and economically.

Lower income housing

One purpose of the HG program is to provide housing for lower income persons and families (section 222 (b)(3)). Such projects should attempt to reach persons of the lowest income level of the regularly employed.

Although 68 percent of the projects in Latin America has been authorized and contracted for since the 1965 FAA amendment authorizing HG for this purpose, it appears to have been accomplished only in Argentina

Lower income persons and families cannot afford HG housing

Overall the program has financed housing affordable only by families in the top 29 percent of the economic stratum, it has had no appreciable impact on solving the housing problem for the remaining families. AID believes that, for 50 percent or more of the urban population in many developing countries, the only alternative to a room in a dilapidated high-density slum area or a shack in an illegal substandard squatter area will be minimum shelter. Minimum shelters have access to water and electricity and provide minimum space and waste disposal facilities.

AID encourages HG administrators to establish minimum income levels for prospective home buyers. The minimum annual incomes necessary for a Latin American family to become eligible in each country follow.

	Cost of HG house		Minimum income required for purchase	
	Lowest	Highest	Lowest	Highest
Argentina	$3,000	$11,120	$1,440	$5,338
Bolivia	4,000	7,500	1,920	3,600
Chile	6,000	7,099	2,880	3,408
Colombia	5,135	9,399	2,465	4,512
Costa Rica	3,928	7,500	1,885	3,600
Dominican Republic	6,000	15,851	2,880	7,608
Ecuador	1,000	8,814	480	4,231
El Salvador	7,000	11,477	3,360	5,509
Guatemala	5,500	8,289	2,640	3,979
Guyana	3,705	7,812	1,778	3,750
Honduras	3,350	8,719	1,608	4,185
Jamaica	6,240	10,466	2,995	5,024
Mexico	3,440	7,000	1,651	3,360
Nicaragua	6,000	10,322	2,880	4,955
Panama	8,290	12,732	3,979	6,111
Peru	1,600	11,498	768	5,519
Venezuela	5,700	19,128	2,736	9,181
Average	$4,699	$10,278	$2,256	$4,934

By comparing minimum income required to purchase the lowest priced house with family income distribution data for urban areas, the percentage of urban families that cannot purchase an HG house can be estimated for each country. Since our calculations were made using urban rather than countrywide income data and did not consider inflation, these figures are conservative.

	Percent
Argentina	48
Costa Rica	68
El Salvador	87
Guatemala	76
Honduras	70
Nicaragua	87
Panama	62
Venezuela	72
Unweighted average	71

HG home buyers in the top 21 percent of income levels

HG program files for four Latin American countries revealed that families which purchased HG-financed housing were, except in Argentina, from a significantly higher income level than those discussed above. The income of the average family buying an HG home is in the upper 21 percent, of the economic strata, as follows:

	Percent
Guatemala	25
Nicaragua	24
Venezuela	15
Average	21

Approaches to lower income groups

Except for low-income projects in Argentina, the HG program has not provided housing for lower income persons or families. Nor has AID developed an overall systematic approach for constructing such housing. Successful housing projects for any income level in a developing country are difficult to plan and implement. Moreover, the problems associated with housing for lower income persons and families--often comprising 50 percent of the developing countries' population--are such that the HG program, with its commercial terms, is difficult to use. AID has stated that according to host country governments and their housing institutions, the principal constraint in using HG resources for the lowest income groups is that the poor people cannot afford to pay the market interest rates of the HG program.

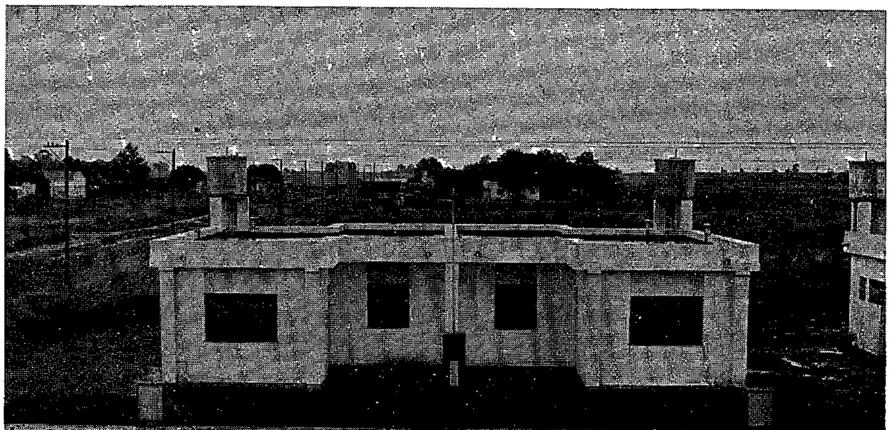
We noted four approaches that may help provide lower income housing--subsidies, education, variable payment mortgages, and maximum income limits. Because of the varying situations from country to country, not all are applicable to the HG program As noted below AID has been able to effectively use some of the methods.

Subsidies

The Argentine Government has been implementing a country-wide plan to provide more adequate low-cost housing. It is administered by the national mortgage bank, involves interest rates between zero and 10 percent a year and mortgages of up to 30 years, and is funded by the Argentine Government and a $10 million HG loan

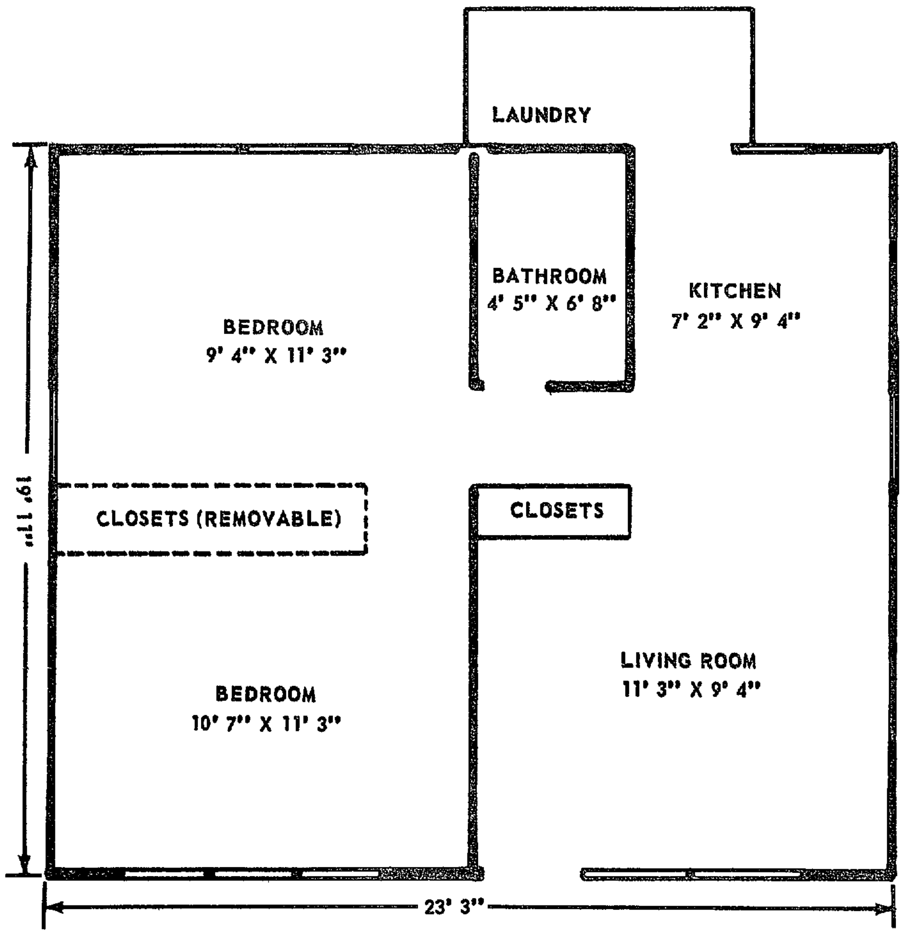
To use HG funds, which will cost the Argentine Government 9-3/8 percent a year for 25 years, the Argentine Government has been subsidizing, by as much as 7-3/8 percent, the payments received from the homeowners to make appropriate payments to the U.S. investor In addition, as a result of inflation, the Argentine Government has been subsidizing homeowners' principal payments and the selling prices on housing units under this and other HG projects in Argentina.

Thus, AID and the Argentine Government have been able to construct low-cost housing with less initial cash outlay by the Argentine Government. Apparently the subsidy method is a viable approach if the country's national income permits. This approach is limited, however, because sufficient funds are not available to satisfy all such needs. According to a policy paper issued by AID, entitled "Shelter Strategy Paper" the concept of interest subsidies for lower income groups is widely accepted; therefore AID must develop a realistic attitude toward the practice



Educational process

The second approach involves all parties to the HG project in the host country. The administrator must be convinced that low-income housing can be successful and profitable when proper credit investigation, collection procedures, etc., are established. The national housing bank in Nicaragua, for example, developed a method of collecting monthly payments from its homeowners in non-HG low-cost housing projects. Each payment was withheld by the homeowner's employer and was subsequently remitted to the mortgagor monthly. Bank officials said the rate of delinquency and default on these projects was extremely low. Architects and builders must explore and use new construction techniques and must develop designs which will result in the least expensive marketable house, as illustrated here.



The architect considered not only a less expensive design but also the needs of homeowners, many from slums and not accustomed to such conveniences as stoves, refrigerators, and bathtubs.

In Latin America, AID efforts to establish minimum income guidelines for HG projects have been successful. In general, HG administrators use a ratio of the monthly mortgage payment to the total monthly family income to set the minimum. They said that, to be eligible to purchase an HG house, the prospective buyer's monthly payment could not be more than 25 percent of his monthly income HG homeowner files, which we examined to determine if these guidelines were being followed, did not reveal a significant variance from this guideline.

On the other hand, we found no evidence that AID encouraged HG administrators to establish maximum income limits. We noted many homes were sold to people who not only had high incomes but also had accumulated assets. For example, our sample of homeowners on projects Cuidad Alianza and Flor Amarillo in Venezuela showed the average purchaser had accumulated assets equal to twice the total cost of the home On another project, Puerto Ordaz, a purchaser had listed assets of over $150,000. According to officials, AID had no policy governing maximum income for HG program mortgagors and, from a practical viewpoint, such a policy would be difficult to assert. We believe maximum income limits, as contemplated by FAA, may encourage construction of low-cost housing which lower income persons and families could purchase.

Mobilization of savings

The results of HG efforts in this area are not quantifiable in terms of resource input and directly attributable accomplishments Since the program's success in mobilizing savings has largely been influenced by political and economic conditions, it varies from country to country.

For example, a Nicaraguan Government official informed us that in Nicaragua, where the economic and political conditions have been conducive to growth, an AID $3.7 million seed capital loan in 1967, a $4 million HG loan in 1969, and concurrent technical assistance were primarily responsible for the growth in retained savings.

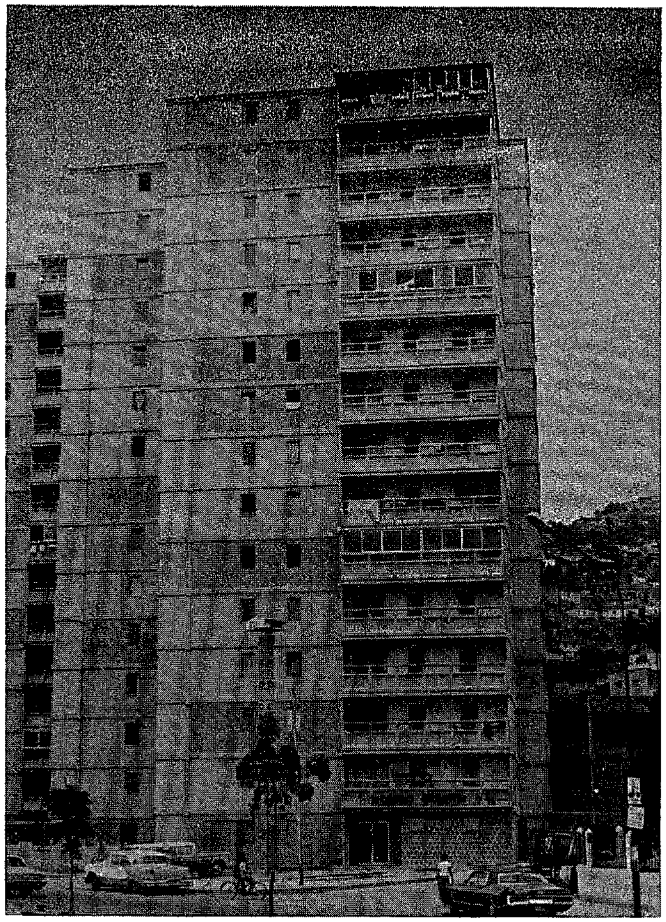
In Argentina, on the other hand, AID has been unable through either the HG program or any other means to help mobilize savings. The present saving system is contractual, and the number of savings and loan institutions is declining AID has tried to provide $10 million in concessional loan funds to help finance a free savings and loan system. Essential Argentine legislation to establish a free system has not been enacted, and prospects for changes in the law are not optimistic. Also inflation (Buenos Aires' cost of living has risen 1,466 percent since 1960) has negatively affected mobilization of savings because money deposited loses its buying power under inflation.

The economic situation in Venezuela is the opposite. Continuing the 1971 trend, cash and demand deposits increased 16 percent while time deposits increased 24 percent. Savings and loan associations increased their deposits by an average of $3.4 million a month.

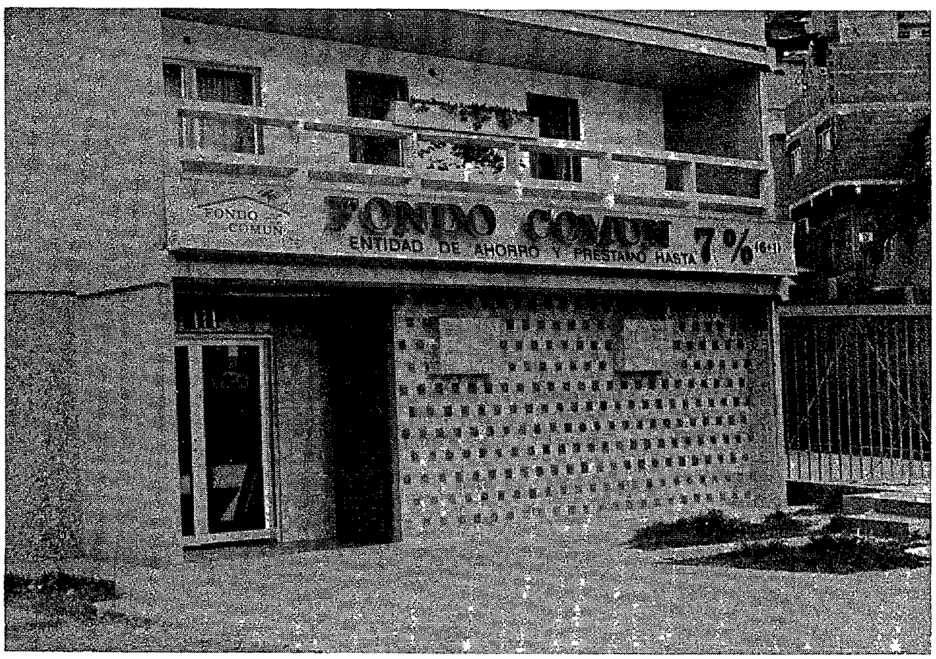
Between 1970 and 1972, the number of depositors in the savings and loan system increased by an average of 35 percent a year, partially because during this period the number of savings and loan branch offices increased by 50 percent. Some of these new branch offices were built in or near HG projects to provide a convenient means for homeowners to make their monthly mortgage payments and become active savers. The Fundo Comun Savings and Loan, which manages the Savoy HG project in Caracas, has (as shown in following photographs) included one of its branch offices in the project

Improvement of housing conditions

The HG program has financed needed functional and attractive housing in Latin America However, it has not contributed, nor could it be expected to contribute, significantly to improving the housing conditions when measured against the actual need

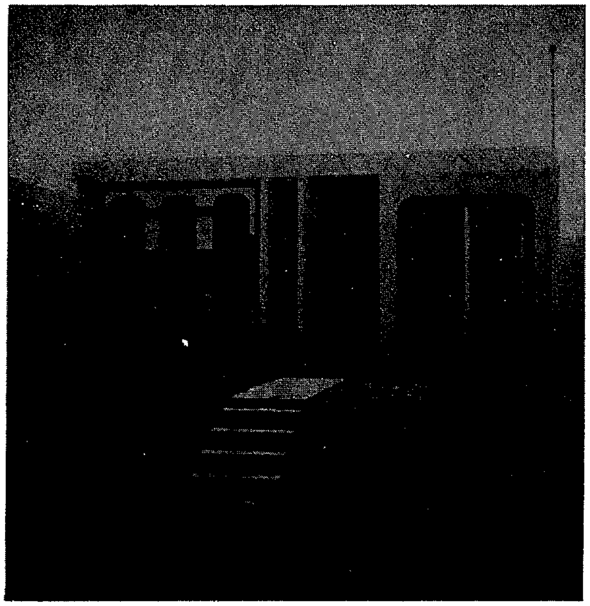


Savoy Project Caracas

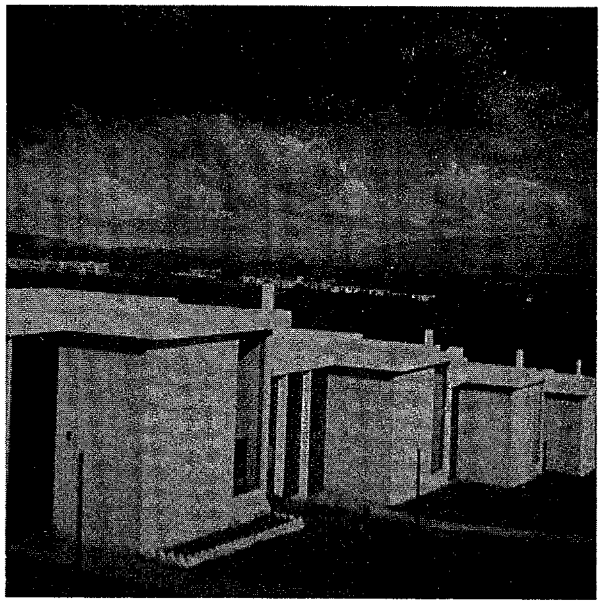


Savings and Loan Association in Savoy Project

Many different types of 1-, 2-, 3-, and 4-bedroom units were built with HG assistance, including many single-family, row, duplex, semidetached, and detached units; townhouses; and 3- and 4-story walkup and high-rise condominiums. Some typical HG units constructed are shown here.



Prestressed concrete HG unit, Managua, Nicaragua



Single family detached units,
Guatemala City, Guatemala

3 story walkup Buenos Aires, Argentina

High rise condominiums Caracas, Venezuela

Completed units normally have sewage disposal, utilities, and paved streets. In some instances, HG projects have developed or caused the development of water and sewage treatment plants where they were never known before. When the facilities have to be built in conjunction with HG units instead of simply hooking up to existing facilities, the buyers must ultimately share added cost.

The program had, according to AID statistical reports, financed 35,319 completed units as of January 1, 1974. An additional 18,797 units are contemplated under current contracts and AID authorizations.

	Planned	Completed	Under construction
Argentina	8,254	7,376	797
Bolivia	1,593	533	-
Central America (CABEIa/)	4,062	-	37
Costa Rica	1,333	479	-
El Salvador	1,408	1,145	105
Guatemala	1,109	1,109	-
Nicaragua	1,239	1,166	73
Panama	1,921	1,357	91
Chile	1,235	1,235	-
Colombia	4,102	4,102	-
Dominican Republic	3,151	1,478	75
Ecuador	1,237	1,058	-
Guyana	463	463	-
Honduras	2,029	1,280	55
Jamaica	2,237	1,737	-
Mexico	3,805	3,057	-
Peru	7,972	3,395	707
Venezuela	6,966	4,349	1,519
Total	54,116	35,319	3,459

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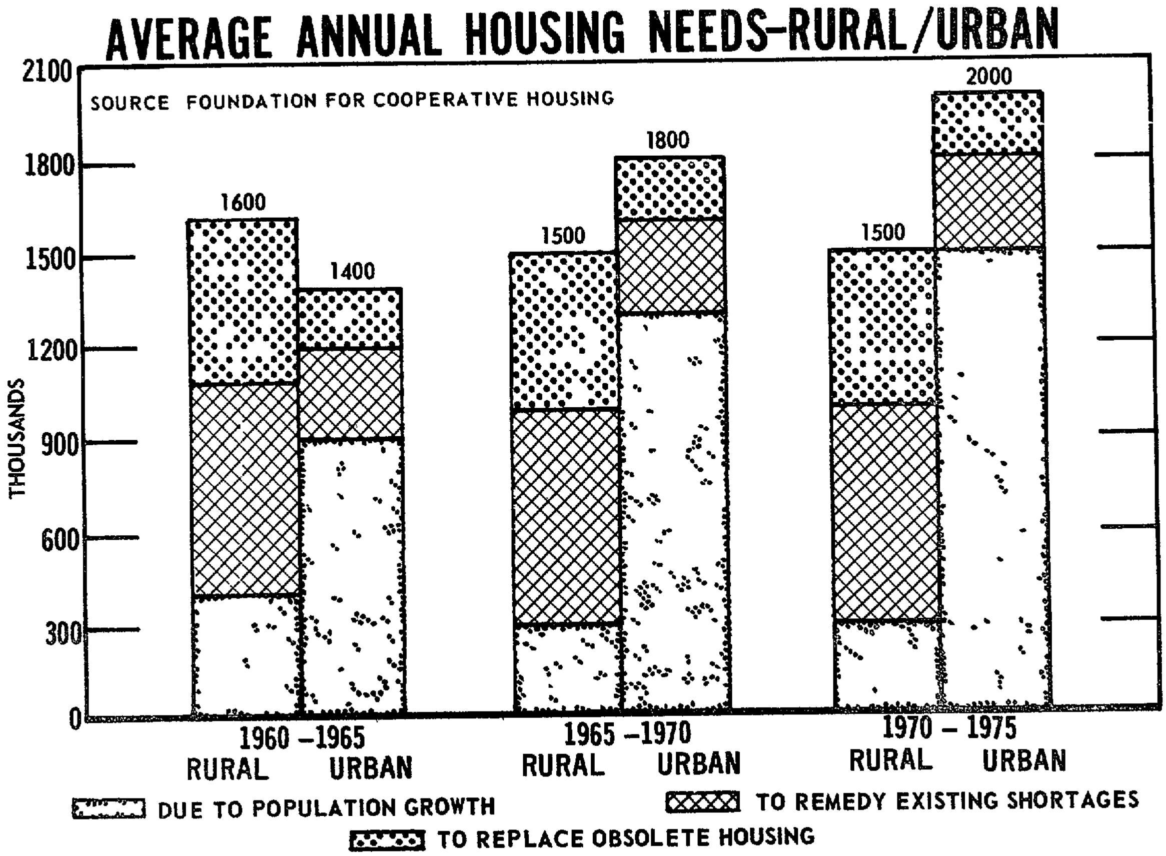
a/Central America receives some HG funds through the Central American Bank for Economic Integration (CABEI).

The housing problem in Latin America has been increasing every year. It has been estimated that by 1975, as shown here, the housing requirements for both the urban and rural population will total 65.7 million units.

	Units required			
	1960	1965	1970	1975
	(millions)			
Urban areas	14.7	19.4	25.7	33.4
Rural areas	27.2	29.6	31.0	32.3
Total	41.9	49.0	56.7	65.7

The number required has increased and is forecast to continue to increase at 3 5 million annually between 1970 and

1975. Causes are existing shortages, the steadily increasing population, and obsolesence of present units. As the following graph shows, the rapid growth in urban population is the primary cause for this increased need.



AID has tried to help Latin American countries solve this problem not only through the HG program, which is the principal funding source, but also through development loans and technical assistance. AID in August 1973 issued a policy statement designed to provide a framework for all forms (housing guaranties, concessional loans, and grants) of its assistance to the shelter sector in less developed countries. Among other things, this statement encourages use of HG for lower income projects.

Because AID noted that most less developed countries did not have comprehensive shelter plans that realistically assessed their housing investment needs, the statement encouraged these countries to develop realistic and workable housing policies to deal with their problems as an objective of its shelter policy. As of October 1974 AID had authorized an HG project in one country--Korea--where a national housing policy existed.

AID believes this approach will eventually contribute to financing lower income projects.

OUTSIDE LATIN AMERICA

Section 221 of FAA (22 U.S.C. 2181(Supp. II, 1972)), as amended, established two general objectives for the HG program in non-Latin American countries. These general objectives are to:

1. Help increase the participation of private enterprise in furthering the development of less developed friendly countries and areas.

2 Promote the development of thrift and credit institutions which mobilize local savings for the construction of self-liquidating housing and related community facilities.

This section enumerates the specific kinds of investments for which AID guaranties can be issued. A guaranty must relate to "loan investments for self-liquidating housing projects * * * issued under the conditions set forth in section 222(b) * * *." Section 222(b) covers five specific types of loan investments.

1. Private housing projects similar to those insured by the Department of Housing and Urban Development.

2. Credit institutions, which directly or indirectly finance home mortgages, such as savings and loan institutions and other qualified investment enterprises.

3 Lower income housing projects in accordance with prescribed maximum unit costs and income limitations.

4. Housing projects which will promote the development of institutions, such as free labor unions, cooperatives, and other private enterprise programs.

5. Housing projects with a maximum unit cost of $8,500, in which at least 25 percent of the mortgage financing comes from sources in the same less developed geographic area.

Thus, a guaranty authorized under section 221 should serve one of the purposes stated in section 222(b) and also be used to finance a self-liquidating housing project.

We tried to determine whether these objectives were being achieved

AID had contracted for $144 million in HG projects and the lenders had disbursed $91 million as of January 1, 1974, for the program in Africa and Asia. A total of 12,541 units were completed as the following schedule shows. Prices ranged between $4,500 and $16,000.

	Planned	Completed	Under construction
Africa:			
Ethiopia	600	125	18
Ivory Coast	2,591	391	422
Kenya	345	345	-
Senegal	671	671	-
Tunisia	5,665	565	1,463
Zaire	2,000	-	-
Asia:			
Republic of China	1,064	1,064	-
Iran	5,500	107	36
Israel	8,596	8,596	-
Korea	1,490	-	1,490
Thailand	677	677	-
Total	29,199	12,541	3,429

Thailand

In July 1966 an HG contract for a project in Bangkok was signed. When this project began, FAA allowed for assisting the development of self-liquidating demonstration housing projects designed to provide experience in developing countries. These objectives, because of the 1969 amendment to FAA, are not the same as the objectives outlined in the beginning of this chapter. This project was intended to demonstrate that long-term 20-year financing and small downpayments can help meet the housing requirements of a previously inadequately served income group. Also, it was intended to demonstrate volume marketing, volume mortgage servicing, and volume production. AID directed this project to the upper 5 to 7 percent income level in Bangkok, that is, those families which had incomes that qualify for units in the project

Objective met

This project met its objective as a demonstration project A total of 677 units were built and sold at prices ranging from $7,293 to $9,552 with 20-year mortgages, 9-7/8 percent interest, and 10 percent downpayments. It was the first large-scale development in Thailand. Since its completion favorable changes have taken place in the housing industry (1) common financing terms have gone from 50 percent downpayments with 1 year for repayment to 25 percent down and 10 years for repayments, (2) 36 additional projects have been completed or are being constructed, (3) the number of housing contractors has tripled, and (4) a prefabricated assembly-line construction technique used for the HG project, as the picture on page 27 shows, is being used by several firms.

The concept of large-scale development and standardized construction appears directly attributable to the HG project. According to the project administrator and the builder, the increasingly liquid position of the banks around 1970 was the major reason for the banks' willingness to invest in housing developments and institute more favorable terms.

The principal objective of this demonstration project--showing how long-term financing and small downpayments can help meet the housing needs of a previously inadequately served income group, the upper 5 to 7 percent income level--was attained. Families in the top 10 percent income group in urban Bangkok, and earning over $250 a month, could afford houses in this project. In addition, the families who purchased an HG house were, in many cases, in a much higher income level. Homeowner mortgage records showed that the average income of buyers was $521 a month.

Tunisia

The program here consists of two projects. In November 1966 an HG contract for a project in Tunis was signed. This project, like the Thailand project, was intended to demonstrate that long-term 20-year financing and small downpayments can help meet the housing requirements of a previously inadequately served income group On this project this is the middle income level A total of 565 single-family housing units, such as the one pictured on page 27 have been built and sold at prices between $8,810 and $10,060.

The second project in Tunisia was contracted for in December 1972 and was required to meet the legislative objectives outlined at the beginning of this chapter. This project calls for the construction of 5,100 units, of which 1,424 had been completed as of October 1974 These houses sell for $2,000 to $5,800

Objectives only partially met

The first project met its objective as a demonstration project. However, it did not reach the middle-income level. According to income distribution figures provided, 93 percent of the workers in Tunis cannot afford any house completed under this project.

The largest bank in Tunisia administers this completed project and is the only Tunisian bank engaged in long-term financing of housing. The Tunisian Government owns 50 percent of the bank through a Government monopoly. The HG program has probably had some impact on this bank's growth.

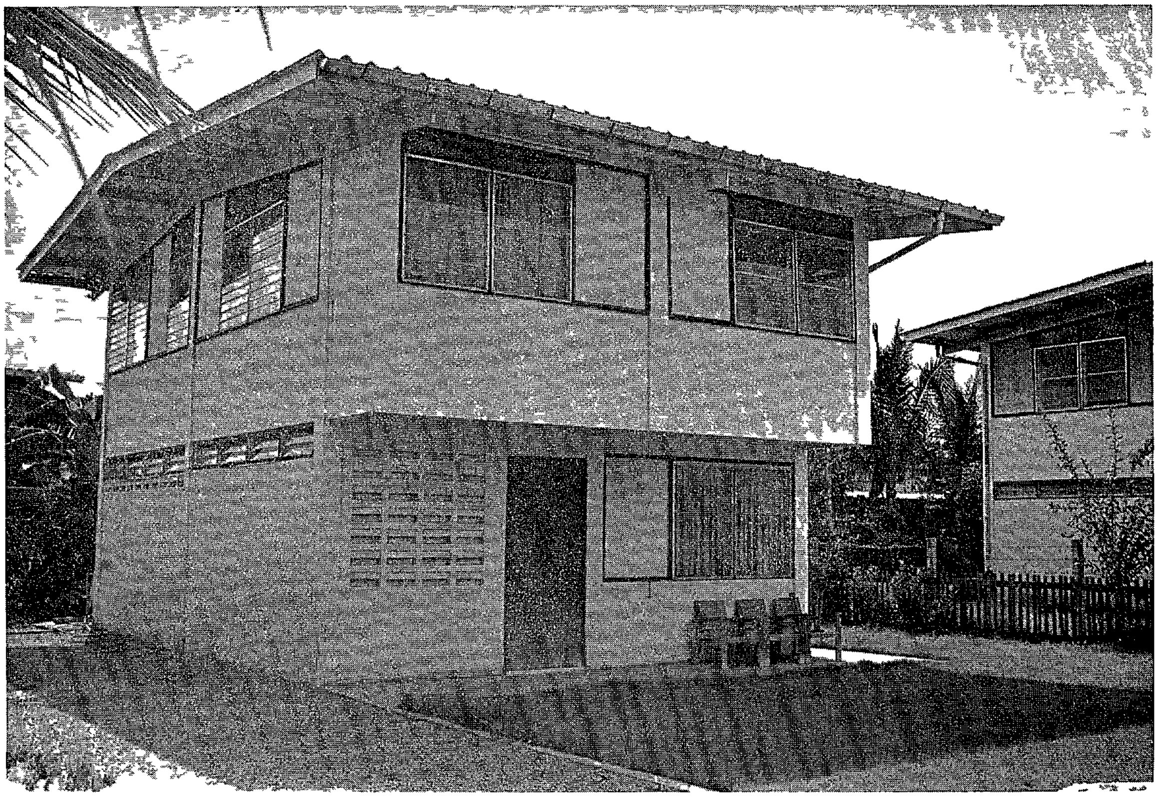
The HG program helped increase participation of private enterprise in the development of Tunisia, by involving U.S. private investors in funding housing and host country private building firms in constructing units.

The second project in Tunisia will probably allow at least 65 percent of the workers in Tunis to afford the lowest priced HG units. This will be possible because of Government of Tunisia subsidies.

Persons purchasing the least expensive houses--comprising 41 percent of the project--will receive more than 50 percent of their downpayment and will pay no interest. The Government will subsidize any mortgage interest over 5 percent for the remainder of the homeowners in the project Even though this type of subsidy may not solve the housing needs of Tunisia, estimated by the Government, at 1.6 million units over the next 40 years, it is one method of providing low-income housing as discussed earlier in this chapter.

The national housing authority, which is now responsible for public housing in Tunisia, will administer the second project Although this organization has existed since 1957, the second HG project will be the first community project attempted, and experience gained should enhance its managerial and technical capability.

On May 7, 1973, the Tunisian National Assembly passed legislation to create the Caisse Nationale d'Epargne-Logement, a savings and loan institution of the contract-savings type. Although the institute has not yet begun operations, its organization by the Government of Tunisia represents a step toward achieving one of the legislative objectives of the HG program.



Prefabricated HG house in Bangkok, Thailand

Functional, attractive, and self-liquidating housing

HG units financed to date in Tunisia are functional, attractive, and needed. They have utilities and sewage disposal. The homeowner also may obtain such items as central or portable heating units, light fixtures, and major appliances.

The program has financed self-liquidating housing. Evidence of this is that AID has not had to make any payments to U.S. investors under the guaranty. This success can be attributed primarily to the extremely low mortgage delinquency rate, which allows the administrator to make prompt payments to the U.S. investor. It is too early in the second project to determine if AID will need to make payments under its guaranty. This second project will not be cost-free to the Government of Tunisia because of Government subsidies provided to buyers.

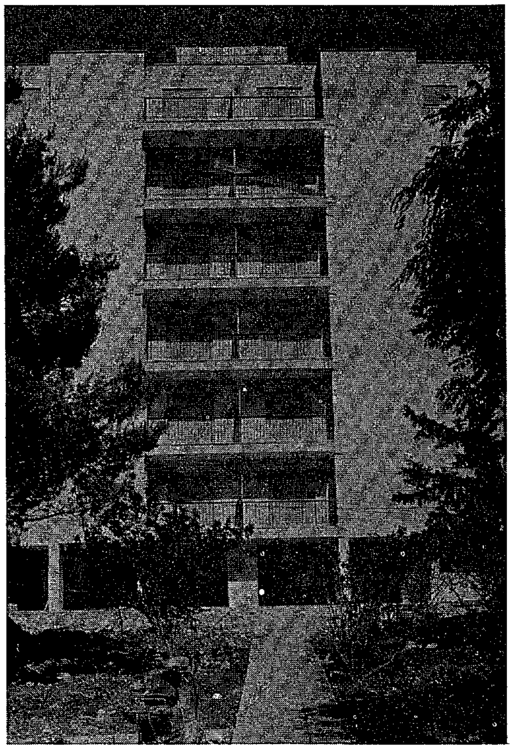
Israel

AID's HG program in Israel consists of guaranteeing a $50 million loan contracted for in January 1972 and administered by the largest mortgage credit institution in Israel and another $25 million contracted for in May 1974 and administered by the Government of Israel. Both of these loans are fully disbursed. In addition, a guaranty for another $25 million loan was authorized in June 1974, but as of the beginning of fiscal year 1975 no funds were disbursed. The $50 million from the first guaranty had been expended for construction financing and 8,596 housing "solutions,"1/ such as the units shown below.

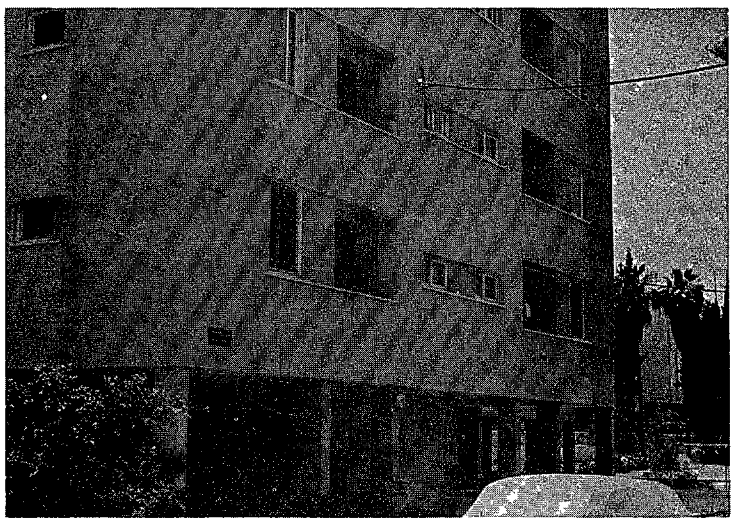
Accomplishment of legislative objectives

AID authorized Israel's $50 million loan to "assist the Government in meeting the critical housing needs of five categories of Israel's population by introducing, through an AID guaranty, private U.S. investors to provide a $50 million loan." The Government identified these categories as new emigrants, young couples, slum clearance, agricultural settlements, and minorities.

1/"Solutions" provided under the HG program to Israel include financing new houses and enlarging or improving existing housing.



HG 'young couples' housing in Jerusalem



HG 'immigrant' housing in Tel Aviv

This loan has helped increase the participation of private enterprise in Israel's housing program, the first objective of FAA. On the other hand, the second objective, developing thrift and credit institutions, may not be an appropriate objective in Israel because the administrator for the $50 million loan is highly developed. Therefore, the program could not contribute significantly to its development.

1. The development level of home finance operations in Israel in terms of procedures, technical capabilities, and physical facilities compares favorably with those in the United States In fact, AID's Office of Housing described the administrator of this loan as the most sophisticated and best technically qualified institution to have applied for an HG loan.

2. In February 1971 AID stated that "the system of savings and loan mortgage institutions is well-established in Israel and has, indeed, been studied and copied in less developed countries "

3 The Government's Ministry of Housing maintains a Bureau of Planning and Engineering, employing 400 to 500 engineers and technicians. The bureau's functions include planning public housing units, approving private housing units, and systematically supervising construction.

Did HG loan actually provide additional new housing?

Most of the HG loan funds are financing 1- to 4-bedroom apartments in the Government of Israel's public housing program. These apartments are for young couples, emigrants, and persons moving from slums; and, while they are located throughout Israel, most are in Jerusalem and Tel Aviv.

According to administrator officials, all apartments include plumbing and electricity but not major appliances, such as stoves and refrigerators. Also, all new apartments in Jerusalem include central heating and stone exteriors. We visited several apartment complexes and found them attractive

Most of the $50 million loan to Israel was used not to develop projects but to finance mortgages for individual apartments within already constructed apartment complexes. Also, about $4 million of the HG program funds financed additions to existing housing units. Most of these latter funds were loaned to persons in agricultural settlements or minority groups.

Builders have used only about $4 million of the HG funds as interim construction financing for housing projects. These funds will be converted into mortgage loans upon completion of the projects.

At least $20 million of the HG loan was used to finance mortgages which were extended between April 1971 and March 1972. An implementation agreement was not signed, however, until February 15, 1972. Although this action was authorized under the agreement, retroactive financing is not generally permitted. Usual AID practice is to require that housing units financed under the HG program be constructed after the loan guaranty and implementation agreements have been executed. AID stated that delays encountered in implementing the first HG project for Israel necessitated an exception to AID's usual policy, and retroactive financing was authorized.

AID records about Israel's pending request for an additional HG loan guaranty indicate that the funds obtained by Israel under the program are available for general budget support. The Government determines the housing program and budget. In carrying out its housing program, if HG assistance is not available, the Government obtains funds elsewhere. In obtaining HG funds, the Israeli Government attributes an appropriate segment of its housing program to the HG program. This, therefore, permits Israeli funds to be used for other operations.

The HG program helps the Government of Israel because it generates foreign exchange at favorable terms. Less than 20 percent of the amount borrowed will be used to purchase construction materials with U.S. dollars. Since the Government substitutes Israeli pounds for U.S. dollars when local purchases are made, the retained U.S. dollars become "free" foreign exchange to the Government.

CONCLUSIONS

Latin America

The program in Latin America has fulfilled its legislative objectives in helping to develop self-liquidating housing projects and institutions engaged in Alliance for Progress programs--though to an unmeasurable degree--and in mobilizing savings, except in Argentina We believe that the program can make only a small contribution (nor could it be expected to do more) to the overall housing needs in less developed countries. The problems associated with housing for lower income persons and families, which often comprise 50 percent of the developing countries' population, are such that it may be difficult to use the HG program with its commercial terms to serve this income group.

While the shelter policy statement reflects AID's concern for assisting housing development in less developed countries, we believe that formal, systematic, and definitive consideration needs to be given to developing ways to make the HG program more effective.

Outside Latin America

The HG program's management and accomplishments in Africa and Asia, in terms of legislative objective, have had diverse results

In Thailand and Tunisia the program has helped to increase participation by private enterprise Several favorable changes to the housing industry can be partially attributed to the program, as can the construction of functional, attractive, and self-liquidating housing The program has also helped increase the participation of private enterprise in Israel's housing program. Further, in Tunisia the program is helping to develop thrift and credit institutions. In Thailand the program showed how long-term financing and small downpayments can help meet the housing requirements of a group which previously did not have this type of financing available. The group was the upper 5 to 7 percent income level.

Conversely, the program only partially met its objectives in the demonstration project in Tunisia, since it did not reach the previously inadequately served group, the middle income level, In certain countries the objective of promoting the development of thrift and credit institutions, which mobilize local savings for financing construction of housing, is not attainable because such institutions are already highly developed Israel appears to be the only country in this category currently receiving assistance.

Additionally, although the program is of value to the Israeli Government, we believe that the loan did not provide a substantial number of additional housing units but permitted Israeli funds to be used for financing other operations.

The use of the HG guaranty authority and private investor funds in countries having advanced development in their thrift and credit institutions deprives less developed and less technically advanced countries of the benefits of these funds.

We found little evidence that the program helped to provide housing for lower income persons and families in the countries visited. We recognize that it was not until the 1969 amendments of FAA that a specific direction was included in the legislation to assist the lower income levels with housing on a worldwide basis. As previously discussed we believe it may be difficult for the HG program, with its commercial terms, to serve persons and families in the lower income groups.

RECOMMENDATIONS

We recommend that the AID Administrator further define AID's policies as they relate to the HG program and legislative objectives, emphasizing particularly whether and how the program can be effectively used to serve lower income persons and families. We also recommend that the redefinition of policies consider the need for the program to serve income groups lower than those currently included in the program.

We further recommend that the Administrator insure that, in planning and implementing the program, AID compare the specific needs of each country being considered for an HG loan to the needs of other eligible countries. Such comparison should be used to establish priorities of assistance and fund allocation.

AGENCY COMMENTS

Latin America

Although AID generally did not take exception to the facts presented in the report, it expressed concern over the report's overall impact. AID believes the report:

--Does not reflect the magnitude of AID's undertaking and accomplishments in the development of thrift institutions.

--Does not recognize the relationship between institution building and low-cost housing, which cannot be undertaken concurrently in many countries but only sequentially. Additionally, AID asserts that, in many countries, institution building has satisfied the preconditions for carrying out effective low-cost housing programs.

--Does not clearly show that providing additional housing for lower income groups was not a major thrust of the program until 1973 nor give AID enough credit for their recent commitment to this complex area. Additionally, AID stated that they have never turned down an application for lower income housing.

--Uses generally unreliable statistics that could create the impression that AID is financing housing for the oligarchy.

--Does not give sufficient attention to AID's shelter policy paper.

AID agrees with our recommendation that more guidance is needed on the mechanics of carrying out the program. However, they believe the substance of the recommendations is being met.

GAO Evaluation

We believe that our report presents fairly the emphasis given by AID to all the legislative objectives.

We reported the accomplishments in the development of thrift and credit institutions as we found them, both successes and failures Our analysis of AID's efforts in the development of thrift and credit institutions was hindered by a lack of criteria. We could not separate the effects of AID's HG efforts on institutions from that of such other factors as world prosperity, host country self-help, other international programs, and even other AID programs We therefore could only conclude that AID assisted but to a degree we could not measure.

AID informed us that Costa Rica, Panama, Nicaragua, Venezuela, and Peru are examples of countries where institution building has satisfied the preconditions for carrying out effective low-cost housing programs. During our review we were in two of these countries and reviewed records and discussed low-income housing with representatives of the thrift and credit institutions. We did not find lower income housing to be an area of emphasis of these institutions.

We agree with AID that a major thrust of their HG program did not include housing for lower income groups until 1973 and that it is a complex area. However, it should be noted that the Congress passed the FAA amendment in 1965 and included both institutional development (section 222 (b)(2) and (4) and lower income housing projects (section 222 (b) (3)). While AID has a few projects which may be considered low cost, it should be noted that as of October 1974 AID had still not authorized or contracted for lower income housing projects in Latin America. This leads us to conclude that AID is not as yet meeting the substance of our recommendations.

Concerning AID's comment on the statistics used in the report, we obtained our data from AID sources and were told by AID housing officials that it was the best available. We do not wish to imply that the HG program is financing houses for the oligarchy but merely point out that our analysis showed that, in many countries the HG program is capable of serving only people in the upper 29 percent of the target area--the target area being the urban population, or the more developed areas of the country.

AID issued its shelter policy paper in August 1973. AID says that this paper attempts to provide a philosophical framework within which the HG program can operate. Our report is directed toward the need to improve the effectiveness of the HG program in operation. We believe we have given sufficient attention to this policy paper, where warranted.

Outside Latin America

AID contends that additional housing was built in Israel as a result of HG projects and agrees that the HG program may assist the Government of Israel by freeing internal resources. The Department of State and AID further commented that all foreign aid provided to a country in a given sector may free internal resources for other purposes. AID believed our position that Israel would have built the houses anyway was conjectural.

AID did not disagree with our recommendations. However, it asserted that the substance of the recommendations was being accomplished through HG's programing exercise and pre-investment and feasibility studies. Additionally, AID mentioned the overriding concern was for the problem of low-income people.

GAO Evaluation

Our question concerning whether the HG program built additional houses was based upon our analysis of HG records and discussions with U.S. and Israeli officials. Both U.S. and Israeli sources stated that, if HG funds were not made available, other sources of funds would probably be used

That AID is already complying with the substance of our recommendations is questionable Although AID expressed concern for the housing problem of low-income people, the fact remains that as of October 1974 no projects had been contracted for and only three had been authorized under the low-income objective of FAA, section 222(b)(3). Moreover our recommendation points to a need for AID to address the housing problem on a systematic and definitive overall basis instead of on an ad hoc case-by-case basis, as is now being done in the preinvestment and feasibility studies

MATTERS FOR CONSIDERATION BY THE CONGRESS

Housing for lower income persons and families under section 222 (b)(3) has been a legislative objective since 1965 in Latin America and since 1969 on a worldwide basis. However, as of October 1974 no projects were being constructed pursuant to this section and only three had been authorized, those being in Africa. Thus, the Congress may wish to consider encouraging AID to implement projects pursuant to this section or amend the legislation deleting the section from the law.

CHAPTER 3

FINANCIAL ASPECTS OF THE HG PROGRAM

The HG program operates through the underwriting of U.S. long-term investment in housing in less developed countries. The investment criteria include the objectives set forth in FAA. Loans are made to develop institutions and/or projects with a minimum risk and cost to the U.S. Government. Following is an analysis of the operational costs, the coguaranties required as safeguards against a potential loss to the U.S. Government, and the risks involved in operating the program. (App. I provides a listing of HG projects on Jan. 1, 1974.)

FEES AND ADMINISTRATIVE COSTS

AID charges several fees to cover the program's operating expenses and to provide reserves against guaranty losses. The program's main source of revenue is the fee based on the unpaid principal of the guaranteed loan. AID may also charge a technical service and supervision fee to cover the cost of planning and supervising projects. Other small fees may also be collected.

Fees depend upon the particular circumstances of a guaranty and may vary between countries and even between projects in the same country. The home purchaser ultimately pays these fees in his monthly payment.

The guaranty fee may be (1) one-half of 1 percent a year when repayment of the loan in 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, housing agency, or other public or private institution acceptable to AID, and (3) 2 percent a year when AID has no form of coguaranty. AID does not contemplate further guaranties without coguaranties.

The guaranty and other fees are accumulated in an account from which expenses and claims are paid. In addition, the Congress made available $50 million from previous guaranty operations. The HG program has operated without resorting to the $50 million and had a surplus of $392,000 on January 1, 1974. Since the Congress has pledged that the U.S. Government will cover any U S. investor losses (except those resulting from fraud and misrepresentation), it is important to note how such losses could occur and the safeguards against them. Details concerning the types of losses which the program has experienced or could experience, as well as the safeguards, are discussed later in this chapter.

From January 1, 1970, to January 1, 1974, about $8.8 million in administrative and operating expenses was paid from the fee account. This left the fund with $392,000 (excluding money made available by the Congress) for paying any claim for which project reserve funds were not available. Expenses for this period were:

	Amount	Percent
Contractual services	$6,233,600	70.5
Personnel compensation	2,248,300	25.4
Travel and related costs	320,900	3.6
Miscellaneous	41,300	0.5
Total	$8,844,100	100.0

Contractual services

As shown above, the largest HG administrative and operating expense was for contractual services. Three contractors 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 particpating agency service agreement and has a trust agreement with the American Security and Trust Company

NLSIA--one of two national trade associations representing the savings and loan industry and the largest single HG contractor, with contracts totaling over $1 million a year--has provided increasing technical assistance and contractual services to AID since 1956. There are two contracts at present, 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, the second and larger of the two national trade associations representing the savings and loan industry--is responsible for training savings and loan management personnel to fulfill HG fiduciary functions

The Federal Home Loan Bank Board researches and analyzes the impact of the HG program on developing country economies

It provides information and assistance to the HG program concerning U.S. mortgage finance trends and techniques, undertaking special research projects in such areas as mortgage readjustment and program impact on developing countries' economies. The Board provides qualified personnel to participate in housing preinvestment analyses in different countries.

The American Security and Trust Company--as central fiscal agent for 38 HG 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 HG program funds three regional housing officers in Latin America and Africa, five AID direct-hire employees from the General Counsel's Office, and two from the Comptroller's Office.

Travel and miscellaneous costs

Travel costs are incurred by the HG Washington, D.C., and field staff 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.

HG accounting techniques need improvement

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

Our interim HG report noted that the costs directly attributable to the HG program were being charged to appropriated funds1/ and were not disclosed as HG costs in financial

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1/The converse is also true--the HG program provides AID with services applicable to other AID housing activities and charges the HG fund. AID maintains that these two trends effectively balance one another.

reports. Although we did not identify the total of these costs, they included

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

--Salaries, travel, and related regional office costs for Central America and Panama employees, estimated at over $50,000 for fiscal year 1972. and other relevant HG in-country expenses.

--Such services as auditing, congressional liaison, and program direction and review that AID provides to the program.

In addition, the African and Asian administrative costs attributable to the program and incurred by the respective U.S. Embassies were being charged to appropriated funds. Many of these costs were similar to those listed above.

At the beginning of 1973, the financial statements contained no estimate of known or expected losses.

Our interim report pointed out that an accounting system should produce information needed to determine compliance with congressional intent We recommended that the AID Administrator incorporate appropriate techniques for accounting and reporting all program costs. The Office of Housing concurred in the need for effective financial management and reiterated the accounting problems involved. It was reviewing several plans for developing and reporting the needed data. As of early 1974, the Office of Housing had initiated efforts to make certain improvements in accounting and reporting program costs.

STATUS OF PROJECT RESERVE FUNDS

Project reserve funds provide a cushion for paying investors when monthly payments from home buyers are delinquent and protect against activating the AID guaranty. To establish reserves AID contracts require a payment from the buyer when the mortgage is closed and may also require a fixed charge on the monthly payment. Reserves from some projects are available for paying delinquencies on others.

In December 1968 AID negotiated a contract with the American Security and Trust Company to act as central fiscal agent for guaranteed contracts. Because of existing agreements on projects, however, the central fiscal agent serves only a limited number of older projects.

Reserves may be controlled by the central fiscal agent, the U.S. investor and/or his fiscal agent, or the host country administrator. The following table shows the methods of controlling reserves as of January 1, 1974.

Controlled by	Projects	Reserves
AID's central fiscal agent	38	$ 37,900
U.S. investors and/or their fiscal agents	21	2,508,300
Administrators	9	857,300
Total	68	a/$3,403,500

a/In addition, AID holds a devaluation reserve of about $48,000.

A basic management concern in mortgage underwriting is the type of guaranty given to the mortgage investment. This guaranty is the ultimate source of protection for the insurer in case of default. The reserve funds have been established in projects with no host country guaranty as a first line of defense before resorting to FHA coguaranties, such as the local Federal Housing Administration (FHA) (all the projects with the local FHA carry a reserve fund) or the property mortgaged to the administrators acting for the benefit of the U.S. investors and AID.

As of January 1, 1974, AID had project reserve funds totaling $3.4 million, or 1.2 percent of AID's total contingent liability of $291.2 million. However, the reserve fund is 3.8 percent of the contingent liability of those projects without host country guaranties. The following chart shows the relationship between contingent liability and reserve funds at 6-month intervals since Janaury 1970.

	Contingent liability	Reserve balance	Percent of contingent liability
		(millions)	
1-1-70 (note a)	$122.6	$1.8	1.5
7-1-70 (note a)	135.5	2.1	1.6
1-1-71 (note 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
7-1-73	276.8	3.6	1.3
1-1-74	291.2	3.4	1.2

a/Excludes Africa.

The recent downward change in the percentage relationship between reserves and contingent liability resulted, in part, from AID's policy of obtaining host country guaranties for HG projects. When AID obtains such a guaranty, a reserve fund is usually not required because the risk of activating the U.S. Government's guaranty decreases.

At January 1, 1974, $202 million, or 69 percent of the total contingent liability, had a host country guaranty for repayment in dollars. An additional $31 million, or 11 percent, had the guaranty of a host country insurance organization in local currency. The remaining $58 million, or 20 percent, had no repayment guaranties.

Improvement in HG management data

Reserves accumulated on some of the older projects are usable only for those specific projects, and unused portions of the funds are returnable to homeowners upon mortgage retirement. These returnable reserves are not available for paying delinquencies on other projects. AID did not maintain consolidated financial records to account for returnable reserves, but the Office of Housing informed us that returnable reserves were substantial.

As a result of a recommendation in our interim report, the Office of Housing has established a consolidated record of returnable project reserves so as to objectively assess the adequacy of reserve funds and guaranty rates. This newly established record showed that, of the $3,403,500 reserve total on January 1, 1974, $3,353,700 was returnable

SAFEGUARDS IN THE HG PROGRAM

A number of safeguards are included in the HG program to reduce the possibility of a U.S. Government loss. One such safeguard is AID's right to make partial payments (regular payments) to the U.S. investor. This device allows AID to avoid an acceleration of the loan guaranty whereby AID is required to pay the investor. Partial payments can be made long enough for AID to take neecessary steps to correct the default by resorting to coguaranties, such as a host government or local FHA guaranty, and foreclosure.

In projects with a host country guaranty, AID could suffer a loss only if the government refuses to honor the guaranty. For example, in a Senegal project AID made substantial partial payments to the investor. However, in November 1973 the Government of Senegal paid $303,000, which left a balance of $70,000. This balance owed as of January 1, 1974, has increased to $149,900.

In projects with local FHA guaranties, partial payments to investors should only be short term. The mortgage insurance covers the outstanding balance of the mortgages plus legal expenses involved in foreclosure. Local FHA guaranties have provided protection to AID since inception of the program. In addition, all projects with local FHAs carry a reserve fund.

In projects for which the only guaranty available is the house and land mortgaged to the local administrators, the investment could be lost (1) if the unit for some reason cannot be foreclosed and (2) if, when foreclosure is allowed, the foreclosed unit cannot be resold at a price that will cover the outstanding balance of the mortgages plus foreclosure expenses. For all projects without local guaranties, a reserve fund has been established to cover losses from delinquent mortgagors. The increase in property values (sometimes twice the initial sales price) provides protection in case of foreclosure.

Another case of investment loss that could result in nonrecoverable payments to the U.S. investor relates to projects in which devaluation of the local currency takes place. In projects in which a host country guaranty does not exist, devaluation could result in a loss to the HG program. A project in Peru, 527-HG-001 (second phase), has been affected by a monetary devaluation. AID is advancing approximately $5,000 a year to the project reserve fund to prevent the U.S. investor's triggering the guaranty.

Additional information on the Senegal and the Peru projects is included in the following section.

AID PAYMENTS TO U.S. INVESTORS

Although procedures have been set up to protect U.S. interests the payments by AID to U.S. investors under the program have been steadily increasing in recent years. As of January 1, 1974, HG records list claims totaling $1.2 million AID paid for five projects. When AID disburses money to U.S. investors, it is entitled to their securities and rights. AID payments are made from project reserves until they are depleted and then from the guaranty fee account.

AID's central fiscal agent, the American Security and Trust Company, also has paid U.S. investors. At January 1, 1974, 23 of the 38 projects served by the agent had reserve balance deficits ranging from $6 to $87,000. Additionally, the agent had paid out $252,000 on another project for AID. Payments by the agent totaled $528,100. The deficit means the borrower has failed to make a payment and the agent has had to use reserve funds from other projects to pay U.S. investors. The agreement between AID and the agent provides for this pooling of reserve funds from all the projects.

Details of payments

Considering payments made directly by AID and indirectly by the central fiscal agent, the HG program had paid $1.8 million to U.S. investors on 28 projects as of January 1, 1974. (See app. IV.)

Three claims presently exceed $100,000. One claim of $650,000 resulted from an AID guaranty for a construction loan in the Dominican Republic during the 1965 political upheaval in that country. AID believes this claim uncollectible because of the borrower's insolvency and lack of assets. The program normally does not guarantee such home construction loans due to the high risk involved. AID said the political situation prevailing in the Dominican Republic in 1965 was the main reason for deviating from such policy.

A currency devaluation caused the second large claim. 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 did not provide enough pesos to meet dollar repayments. Additionally, buyers protested the currency readjustment clause because it was more drastic than any other in Argentina. Many buyers were making monthly payments to the court rather than to the project administrator

Attempts have been made to resolve this problem with the Argentine Government but, as yet, have proved unsuccessful. As a result, AID had paid out $610,500 as of January 1, 1974. As of the beginning of fiscal year 1975 this amount had increased to $832,500. AID in 1972 started negotiations with the Government of Argentina to secure a dollar repayment guaranty, and the Government of Argentina issued a decree late in 1972 authorizing the National Housing Bank to assume 65 percent of the outstanding loan as of October 16, 1972. AID interprets this decree to mean that Argentina would reimburse AID at least 65 percent of the partial payments made since October 1972.

Negotiations of the final agreement on assuming a portion of the dollar debt have been delayed due to changes in the administration of the National Housing Bank after the present government was elected. AID believes the arrival of the new U.S. Ambassador may see a new initiative with high-level Argentine officials to implement those actions agreed to previously by the Government of Argentina. All other projects in Argentina have host country guaranties.

The third claim exceeding $100,000 is on the project in Senegal, which was contracted for in 1968 and administered by a Senegalese Government agency. Even though this agency has an extensive housing program and its fee for collection and certain maintenance responsibilities for the HG project is 16 percent, its success in collecting payments from buyers, according to AID, has been unusually poor. Approximately one-third of all the HG houses are vacant, but the administrator apparently is doing nothing about it.

The reserve fund for this project had been exhausted and as of January 1, 1974, AID had to pay a net of $149,900 to the U.S. investor to cover this administrator that was remiss in carrying out its obligations. U.S. investors had requested and obtained the appropriate payments under the AID guaranty. After each payment a claim for the arrearage was made to the Senegalese Government, which guarantees this project. This procedure has been only partially successful. The American Ambassador to Senegal is attempting to resolve this issue through discussions with the highest Senegalese Government officials.

During discussions with the Minister of Finance, the Government of Senegal made clear the intention to honor its guaranty. As indicated above AID received $303,000 in November 1973 for payments made to the U.S. investor, leaving a balance of $149,900 as of January 1, 1974. As of the beginning of fiscal year 1975 this amount had increased to $307,800.

As of January 1, 1974, AID considered all claims to be short-term except for the (1) $650,000 payment in the Dominican Republic, (2) $15,000 advanced to the reserve fund held by the investor in the Peru project 527-HG-001 (second phase), and (3) $213,700 payment made in the Argentina project 510-HG-001. AID expects to quickly recover the amounts it has disbursed on all claims (except for the 3 noted above), from borrowers or from host countries or local organization guaranties.

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, the number and amount of AID payments to U.S. investors are increasing steadily, as shown below.

	Projects	Cumulative payments
7-1-69	1	$ 650,000
1-1-70	3	645,300
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
7-1-73	23	1,553,000
1-1-74	28	1,759,200

The growth in payment amounts can be attributed partially to the program's growth. The payments represented less than 1 percent of the HG program's contingent liability; however, payments were made on 28 of 72 projects on which there had been a disbursement as of January 1, 1974. 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 governments had not guaranteed 15 of the 28 projects for which AID made payments.

Planned improvement in HG accounting technique

As a result of a recommendation in our interim report, the Office of Housing is disclosing payments made by the central fiscal agent in excess of receipts from borrowers on a separate schedule in financial statements.

PRIOR RECOMMENDATIONS AND AGENCY ACTIONS

In our "Interim Report on the Agency for International Development's Housing Investment Guaranty Program" (B-171526, May 22, 1973) to the Chairman, Senate Committee on Foreign Relations, we recommended, and the AID Administrator is reviewing, several plans to incorporate 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.

In some HG projects, reserve funds are returnable to buyers after the loan is fully repaid. These funds are available for paying delinquencies within that particular project throughout the life of the loan. But they cannot be used for paying delinquencies in other projects. Therefore, they should only be considered reserves for the particular project to which they relate.

We recommended that AID establish a record of returnable project reserves and disclose this information in the HG financial statements, and the AID Administrator has done so. This information will be considered, along with other pertinent data, when AID is assessing the adequacy of its reserve funds and guaranty fees.

Projects in which the central fiscal agent has disbursed payments in excess of receipts are similar to those claims paid by AID, except that, under the latter, AID directly made the guaranteed payments and, under the former, AID's central fiscal agent made them. 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 claims should be disclosed in footnotes to the financial statements.

We have recommended that AID insure full disclosure and reporting of all projects for which the AID guaranty has been activated. AID believes that payments made by the fiscal agent in excess of receipts are being fully disclosed. However, in response to our recommendation, AID is showing these payments on a separate schedule in financial statements.

Even though many of these payments are short term, the borrower's failure to pay on time has steadily increased the number and amount of payments AID has made to U.S. investors from project reserves.

We recommended, and the AID Administrator has agreed, that the Office of Housing should review the extent and nature of the short-term delinquencies and encourage borrowers to make payments promptly.

RECOMMENDATION

AID management used delinquency rates to measure the program's effectiveness and efficiency. Incomplete delinquency reporting and mortgage substitution directly affect the reliability of this management tool.

Therefore, we recommend that, if delinquency statistics are to be used, all project administrators be required to submit current, periodic delinquent account data. This data would enable management to provide more adequate information for evaluating HG effectiveness and efficiency. AID has requested delinquency reports in African projects and will request delinquency reports where such reports are not now requested in Latin America. However, AID does not feel that the delinquency data on institutional projects has much bearing in evaluating the effectiveness of the HG program but rather is a tool for the in-country institution to determine the soundness of its portfolio. In most institutional projects the borrower is a foreign government financial organization that acts as administrator and comingles HG mortgage data with the data from other mortgages.

CHAPTER 4

SCOPE OF REVIEW

We reviewed the management and accomplishments of the HG program on a worldwide basis. We analyzed the extent to which the HG program has achieved legislative objectives. In Washington, D.C., our review was conducted at AID and the Department of State. To obtain detailed host country project information, we visited the U.S. Embassies, the AID Missions, the credit institutions serving as administrators, and the local government housing and saving and loan agencies in Argentina, Venezuela, Israel, Thailand, Tunisia, Nicaragua, and Guatemala.

Appropriate AID, administrator, and subborrower records were analyzed, including mortgages and credit application and verification forms. We interviewed AID officials and administrator, subborrower, technical, and contractor personnel. In each country visited we reviewed each HG project with personnel of the administrator, visually inspected most of the housing projects, and met with local government housing and banking officials.

HG PROJECTS ON JANUARY 1, 1974

	Number of projects	Total contracted	Total disbursed	Unpaid balance
		(millions)		
Latin America				
Argentina	5	$ 39 7	$ 38 5	$ 36.2
Bolivia	2	9 6	4.1	4.0
Central America (CABEI)	3	21 0	7 9	7.8
Costa Rica	3	6.6	2.2	2.1
El Salvador	3	11 0	9.9	8.0
Guatemala	b/3	6 3	6 3	1.5
Honduras	4	10 6	6 5	5 2
Nicaragua	2	10 9	9.7	8 6
Panama	5	12.5	10 3	9.4
Chile	3	4 7	4.7	4.2
Colombia	3	26 9	26 9	20.3
Dominican Republic	5	19.0	11.4	10.0
Ecuador	2	7.4	4.4	4.3
Guyana	2	6.0	1.6	1.4
Jamaica	4	15.6	12.4	11.6
Mexico	2	14.5	10.8	7.7
Peru	7	46 0	24 5	20.9
Venezuela	9	51 5	45 6	39 9
Total	a/67	319 8	237 7	203 1
Africa				
Ethiopia	1	5 0	1.3	1 3
Ivory Coast	2	12 0	3 5	3 2
Kenya	1	2.0	2 0	1.9
Senegal	1	5.0	5.0	4.6
Tunisia	2	15.0	8.0	7 2
Zaire Republic	1	10 0	1.0	1 0
Total	8	49.0	20.8	19 2
Asia				
China	1	4.8	4.8	4.0
Iran	1	25.0	2.0	2.0
Israel	1	50.0	50.0	50.0
Korea	1	10 0	8.9	8.9
Thailand	1	5 0	5 0	4.1
Total	5	94.8	70.7	69.0
Total	80	463 6	329 2	291 3

a/No disbursements made on 6 projects.

b/Includes two Guatemala projects repaid in December 1973.

AID'S OFFICE OF HOUSING

In 1970 the Office of Housing was established to administer the HG program. As a central unit, it serves each geographic region with a network of regional offices.

The Office serves all elements of the HG 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 allocating HG authority among regional bureaus. It also advises and guides AID officials concerning the effective use of the HG program.

OPERATIONS DIVISION

The Division is responsible for housing guaranty projects in AID's five regions for the life of the projects, through the following phases

--Prefeasibility.

--Feasibility study.

--Contract negotiations.

--Construction.

--Postconstruction

It is also responsible for·

--Developing and maintaining expertise in HG legislation, regulations, policies, and procedures.

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

--Establishing and maintaining a central contact point 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 HG responsibilities.

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

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

TECHNICAL DIVISION

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

--Formulates technical standards and guidelines and insures compliance by monitoring projects.

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

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

--Helps to negotiate, implement, and evaluate 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 HG program.

--Reviews regionally funded projects.

HG PROGRAM PAYMENTS TO U.S. INVESTORS

AS OF JANUARY 1, 1974

Project number	Country	Amount
517-HG-003	Domincan Republic	$ 650,000
510-HG-001	Argentina	610,500
685-HG-001	Senegal	149,905
265-HG-001	Iran	87,111
529-HG-003	Venezuela	57,718
525-HG-004	Panama	53,841
525-HG-005	Panama	32,525
660-HG-001	Zaire	18,280
525-HG-003/II	Panama	16,720
527-HG-001/II	Peru	15,000
529-HG-012	Venezuela	12,944
522-HG-002B	Honduras	12,848
504-HG-002	Guyana	11,494
663-HG-001	Ethiopia	7,613
519-HG-005	El Salvador	6,237
523-HG-006	Mexico	5,928
532-HG-001	Jamaica	5,016
524-HG-003/I	Panama	1,607
524-HG-002	Nicaragua	887
511-HG-004	Bolivia	743
522-HG-001	Honduras	739
515-HG-003	Costa Rica	699
532-HG-002	Jamaica	337
510-HG-006/7	Argentina	186
522-HG-004	Honduras	162
644-HG-002	Tunisia	142
513-HG-004	Chile	13
513-HG-003	Chile	6
Total		$1,759,201

VARIABLE PAYMENT AMORTIZATION TABLE

AND CONVENTIONAL AMORTIZATION TABLE

VARIABLE TABLE (note a)

Payment number	Amount of monthly payment	Amount paid	Amount amortized (note b)	Outstanding loan balance
1-12	$37.50	$ 450.00	$ (52.36)	$5,052.36
13-24	39.38	922.60	(86.64)	5,086.64
25-36	41.35	1,418.60	(99.75)	5,099.75
37-48	43.42	1,939.00	(88.23)	5,088.23
49-60	45.59	2,486.80	(48.23)	5,048.23
61-72	47.87	3,061.20	24.61	4,975.39
73-84	50.26	3,664.40	135.10	4,864.90
85-96	52.77	4,297.80	288.77	4,711.23
97-108	55.41	4,962.00	491.64	4,508.36
109-120	58.18	5,660.60	750.55	4,249.45
121-132	61.09	6,393.40	1,073.15	3,926.85
133-144	64.14	7,163.20	1,467.91	3,532.09
145-156	67.32	7,971.60	1,944.29	3,055.71
157-168	70.72	8,820.00	2,512.89	2,487.11
169-180	74.25	9,711.00	3,185.45	1,814.55
181-192	77.96	10,646.20	3,975.05	1,024.95
193-204	81.86	11,628.40	4,896.34	103.66
205	85.96	11,714.36	4,981.43	18.57
206	18.73	11,733.09	5,000.00	-

CONVENTIONAL TABLE

Payment number	Amount of monthly payment	Amount paid	Amount amortized (note b)	Outstanding loan balance
1-12	45.44	545.28	47.10	4,952.90
13-24	45.44	1,090.56	99.79	4,900.21
25-36	45.44	1,635.84	157.65	4,842.35
37-48	45.44	2,181.12	221.57	4,778.43
49-60	45.44	2,726.40	292.19	4,707.81
61-72	45.44	3,271.68	370.20	4,629.80
73-84	45.44	3,816.96	456.38	4,543.62
85-96	45.44	4,362.24	551.59	4,448.41
97-108	45.44	4,907.52	656.76	4,343.24
109-120	45.44	5,452.80	772.94	4,227.06
121-132	45.44	5,998.08	901.30	4,098.70
133-144	45.44	6,543.36	1,043.09	3,956.91
145-156	45.44	7,088.64	1,199.73	3,800.27
157-168	45.44	7,633.92	1,372.77	3,627.23
169-180	45.44	8,179.20	1,563.93	3,436.07
181-192	45.44	8,724.48	1,775.11	3,224.89
193-204	45.44	9,269.76	2,008.40	2,991.60

Payment number	Amount of monthly payment	Amount paid	Amount amortized	Outstanding loan balance
205-216	$45.44	$ 9,815.04	$2,266.12	$2,733.88
217-228	45.44	10,360.32	2,550.83	2,449.17
229-240	45.44	10,905.60	2,865.35	2,134.65
241-252	45.44	11,450.88	3,212.80	1,787.20
253-264	45.44	11,996.16	3,596.64	1,403.36
265-276	45.44	12,541.44	4,020.67	979.33
277-288	45.44	13,086.72	4,489.10	510.90
289-299	45.44	13,586.56	4,961.46	38.54
300	38.85	13,625.41	5,000.00	-

a/See page 13 for a description of the variable payment mortgage method for financing housing.

b/Parentheses indicate amounts added to principal balance.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

April 17, 1974

Mr. J. K. Fasick
Director
International Division
U.S General Accounting Office
441 G Street NW
Washington, D.C. 20548

Dear Mr. Fasick

I am forwarding herewith a memorandum dated April 17, 1974 from Mr. Peter M Kimm, Director, Office of Housing, which presents the comments of the Agency for International Development on the U S. General Accounting Office's draft report titled, "Management and Accomplishments of the Agency for International Development's Housing Investment Guaranty Program."

Sincerely yours,

MJCarroll

Michael J. Carroll
GAO/IGA Liaison Officer

Enclosure a/s

April 17, 1974

MEMORANDUM FOR AA/SER, James E Williams

FROM SFR/H Peter M Kimm PMK

SUBJECT General Accounting Office (GAO) Draft Report Titled, "Management and Accomplishments of the Agency for International Development's Housing Investment Guaranty Program"

In response to the AG memorandum dated November 19, 1973, on the subject draft GAO report we attach herewith final A I D comments dated April 17, 1974 on such draft report These comments are based on discussions with GAO representatives subsequent to our first round of comments submitted informally to the GAO

Attachment

A I D COMMENTS ON GENERAL ACCOUNTING OFFICE (GAO) DRAFT REPORT TITLED "MANAGEMENT AND ACCOMPLISHMENTS OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT'S HOUSING INVESTMENT GUARANTY PROGRAM"

We appreciate the time and effort put in by GAO staff in reviewing the latest draft of this report, and the changes that have been made to reflect agreements reached in this review However, we still have substantive concerns relating to the overall impact of the report

Our comments fall into two principal types First, as an overview on the draft report, we have seven points, which we feel should be included or reflected in the report Second, we have comments on specific conclusions and recommendations in the report, which, again, we believe should appear at the appropriate places in the report

1 Overview on Draft Report

1 The overall impact of the report does not reflect the fact that the principal target of the housing guaranty program in the late 60's and early 70's was the development of thrift institutions in less developed countries This effort was carried out in accordance with the mandate from Congress that the program should assist in developing and strengthening LDC housing institutions, cooperatives and trade unions and in mobilizing LDC resources for the housing sector Even though the program had some individual projects with other goals and objectives, the fundamental thrust of the program was in the developing and strengthening of savings

and loan and other thrift institutions We believe that the GAO report does not reflect the magnitude of this undertaking and the very real accomplishments in this area The statement in the GAO report that A I D contributed to institution building to an "unmeasurable degree" is particularly troublesome, it tends to damn this effort by faint praise

2 The pursuit of additional housing for very low income groups, while one of the five legislative categories, was not a major thrust of the program until 1973 However, the draft report provides considerable discussion and analysis on the weaknesses of A I D 's lower income housing programs Many readers will be given the mistaken impression that housing guaranties were intended only to reach the lowest income levels It is unfair to judge the program by criteria that was not being applied at the time the acts in question were taken

Our response to your interim report discussed in considerable detail the thorny problems involved in addressing housing for lower income groups, in developed as well as developing countries Many myths (e g , essentiality of subsidies) interfere with good LDC policies, no clear model is available which has succeeded in the LDC context Despite these problems, we are very much committed to encouraging the development of housing programs which will meet the needs of all, and which, therefore, will require dramatic shifts in LDC policies and programs in the favor of lower cost housing A reading of the draft audit report fails to convey the profundity of the problem of low cost housing or A I D 's current commitment to address it It is worth noting that the housing guaranty program has never turned down an application for lower income housing, in fact, very few such applications have ever been submitted A I D is not, however, taking a passive role in regard to the problem of low cost housing and has, in fact, undertaken efforts to focus attention of housing institutions and officials in LDC's on the problems of low cost housing We have, in fact, completed a study of potential low cost housing projects in Central America This study has led to one housing guaranty which will address low cost housing and others are under consideration

3 The interrelationship between institution building and low cost housing is not made in the GAO report In many countries these activities cannot be undertaken concurrently, but rather sequentially the institution building achievements - which were the principal focus of the program over the past several years - have in fact established the basic system within which the program can operate to assist lower income groups We cannot state too strongly our view that any benefits realized as the result of isolated low cost housing projects without the parallel development of a housing finance and production system would be short-lived and truly insignificant when measured against the need

4 We have serious reservations about the use of income distribution data of the residents of a particular project in defining and evaluating

housing programs We find the available data to be generally unreliable and invariably understated, and that the effect is generally to create misconceptions in the mind of the reader

The income distribution curve in developing countries is much more skewed than it is in this country, and the families able to afford what we would consider luxury housing typically constitute only the top 1 or 2% of the population By the time we get to the 80th or 70th percentile, we are in the "lower-middle"income bracket socially, as the term is understood in this country For example, the typical income for a purchaser of an HG financed house in Central America is perhaps $300 per month, and the typical house is a modest standard house The report could create the impression that we are financing housing for the oligarchy It may be possible, by lowering standards and building only the first state of an expandable house with a plumbing core, to reach another 10% to 20% of the population The sad fact remains, though, that for the lower 50% or more of the urban population in most developing countries, the only alternatives in the foreseeable future to the room in a dilapidated, high-density slum area or a shack in an illegal, substandard squatter area will be "minimum shelter" programs - principally "sites and services" approaches where a partially or fully urbanized lot is sold to individual families, who then construct and expand a house on it To the extent they appreciate the advantages of this alternative, governments may support the efforts of lower-income families to resolve their individual housing problems through self-help and site-and-service projects At this time governments in general are only beginning such programs, and are not yet prepared to utilize HG money at "market" interest rates for this lower income housing This problem is discussed in some depth in the Agency's Shelter Sector Policy Paper, issued in August 1973 We believe that, with time, HG resources will be requested and utilized for minimum shelter projects At the moment, these projects are still in a research and development phase, and are seeking highly concessional funds, particularly World Bank (IDA) resources

5 We think that the audit does not give sufficient attention to A I D 's Shelter Policy Paper This document attempts to provide a philosophical framework within which the housing guaranty program can operate Your recommendations indicate that additional program guidance is needed We would prefer discussion in the report of the guidance given in the Shelter Sector Policy Paper

[See GAO note 1 on p. 71.]

[See GAO note 1 on p. 71.]

II. *Comments on Report Conclusions and Recommendations*

In addition to the foregoing general points, A I D. has the following specific comments on the conclusions and recommendations in the draft report

1 Chapter 2 - Latin America - *Conclusions and Recommendations*

As stated in our general comments, the report damns the housing guaranty program with faint praise by stating that the program has contributed to institution building in Latin America "to an unmeasurable degree" and this thought is stated in the conclusions section of Chapter 2. The report and this conclusion should state in a positive way the magnitude of the institution-building efforts in Latin America and the very real accomplishments in this area.

With respect to the conclusion regarding low income housing, the report should recognize and state in this conclusion that housing for lower income groups, while one of the five legislative categories, was not a major thrust of the program until 1973. Many readers will be given the mistaken impression that housing guaranties were intended only to reach the lowest income levels. The housing guaranty program should not be judged by criteria that were not being applied at the time the housing projects in question were undertaken. The GAO report and the conclusion does not recognize the important relationship between institution *building and low cost housing. The institution-building aspects of the program have in many countries satisfied the preconditions for carrying out effective low cost housing programs.*

The statement in the conclusions that "the program... has not, when measured against the need, significantly improved housing conditions." appears to be based on the number of houses actually financed by the HG program, as compared to the needs.

We understand and agree that A.I.D. cannot finance a sufficient number of houses to resolve the world housing shortage, the same considerations are true of other A.I.D. activities in agriculture, education, etc. However, we can and have contributed to the development of institutions, and policies, which will contribute permanently to the resolution of LDC housing problems, and that this approach has made, and will continue to make a significant contribution to the LDC housing problem.

This leads us to a comment about the final paragraph in the Conclusions. The report and conclusion should explain that most LDCs do not have comprehensive shelter sector plans which realistically assess their investment needs, allocate development investment resources to meet them, and set forth the policies and actions required to carry out their programs. Consequently, a priority objective of A.I.D.'s shelter strategy is to help the LDCs develop their capabilities for analyzing and developing policies and plans for overcoming their housing problems.

[See GAO note 1 on p. 71.]

With respect to the recommendations, we agree that more guidance is needed on the mechanics of carrying out individual low cost housing projects. These are important issues - though ones which must be considered on a country by country, project by project basis. These issues were not addressed in detail in A I.D 's shelter policy paper, nor did we believe that they should have been. The shelter policy paper attempts to provide a philosophical frame work within which the housing guaranty program can operate. The issues mentioned in the recommendations are analyzed in depth by the Agency - whenever a new housing guaranty loan is being considered. In addition, a variety of other equally (if not more) important questions are analyzed - such as where an individual project fits into the LDC's housing policy plan, achievement of institution-building objectives through the HG loan, etc Thus, we believe the substance of the recommendation is currently being met by the Agency.

[See GAO note 2 on p. 71.]

2. *Chapter 3 - Outside Latin America - Conclusions and Recommendations*

The audit's conclusion (paragraph 4) that it is questionable that additional housing was built in Israel as a result of HG inputs is not supported by the available information. It is true of all foreign aid that providing assistance to a country in a given sector may free up internal resources for other purposes. The question as to whether a given country would or would not have provided local resources for a given project were the external assistance not forthcoming, is almost always conjectural. It is our belief that the housing guaranty inputs into Israel did indeed result in additional housing there.

[See GAO note 1 on p. 71.]

With respect to the recommendations, our only criticism is that it suggests, incorrectly, that A I.D is not doing these things now, while in fact A.I.D does attempt to assure that HG legislative objectives are accomplished In our programming exercise, the needs of LDCs are compared with each other - in the competition for HG resources. In our pre-investment and feasibility studies and shelter sector analyses, we certainly consider in depth the extent and type of housing to be promoted. The particular problem of low income people - and how to assure that they receive decent and adequate shelter - is the overriding concern of the Office of Housing. These are the very questions that are analyzed whenever a new housing guaranty loan is being considered.

In addition, a variety of other important questions are analyzed - such as the country's formulation of its national housing policy plan, achievement of institution building objectives through the HG loan, etc Thus, we believe the substance of the recommendation is currently being met by the Agency

GAO notes

1. The deleted comments pertain to matters omitted from or revised in the final report.

2 References in this appendix may not correspond to the section cited.

PRINCIPAL OFFICIALS RESPONSIBLE FOR

ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of Office From	To
AGENCY FOR INTERNATIONAL DEVELOPMENT		
ADMINISTRATOR:		
David E. Bell	Dec. 1962	July 19[illegible]
Willam S. Gaud	Aug. 1966	Jan. 19[illegible]
John A. Hannah	Mar. 1969	Sept. 19[illegible]
Daniel Parker	Oct. 1973	Present
DIRECTOR, OFFICE OF HOUSING		
Stanley Baruch (note a)	July 1965	Jan. 19[illegible]
Peter M Kimm (acting)	Jan. 1973	May 19[illegible]
Peter M Kimm	May 1973	Present

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

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