

Housing finance experiences of developing countries: The case of selected Caribbean Community (CARICOM) Member States.

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Objective:

- Analysis of housing finance provided by formal financial institutions in the Caribbean.

■ Outline:

- Summary of housing problems
- Brief description of CARICOM
- Background information on housing sector
- Summary of housing policy
- Housing finance
- Analysis of best practices

Background

- **Housing problems experienced by Caribbean countries since political independence include:**
- Shortages of affordable finance
- Limited availability of:
 - affordable owner occupied housing
 - affordable rented accommodation
- Shortage of land for housing
- Limited infrastructure in housing
- Overcrowding in urban areas

Selected CARICOM Countries

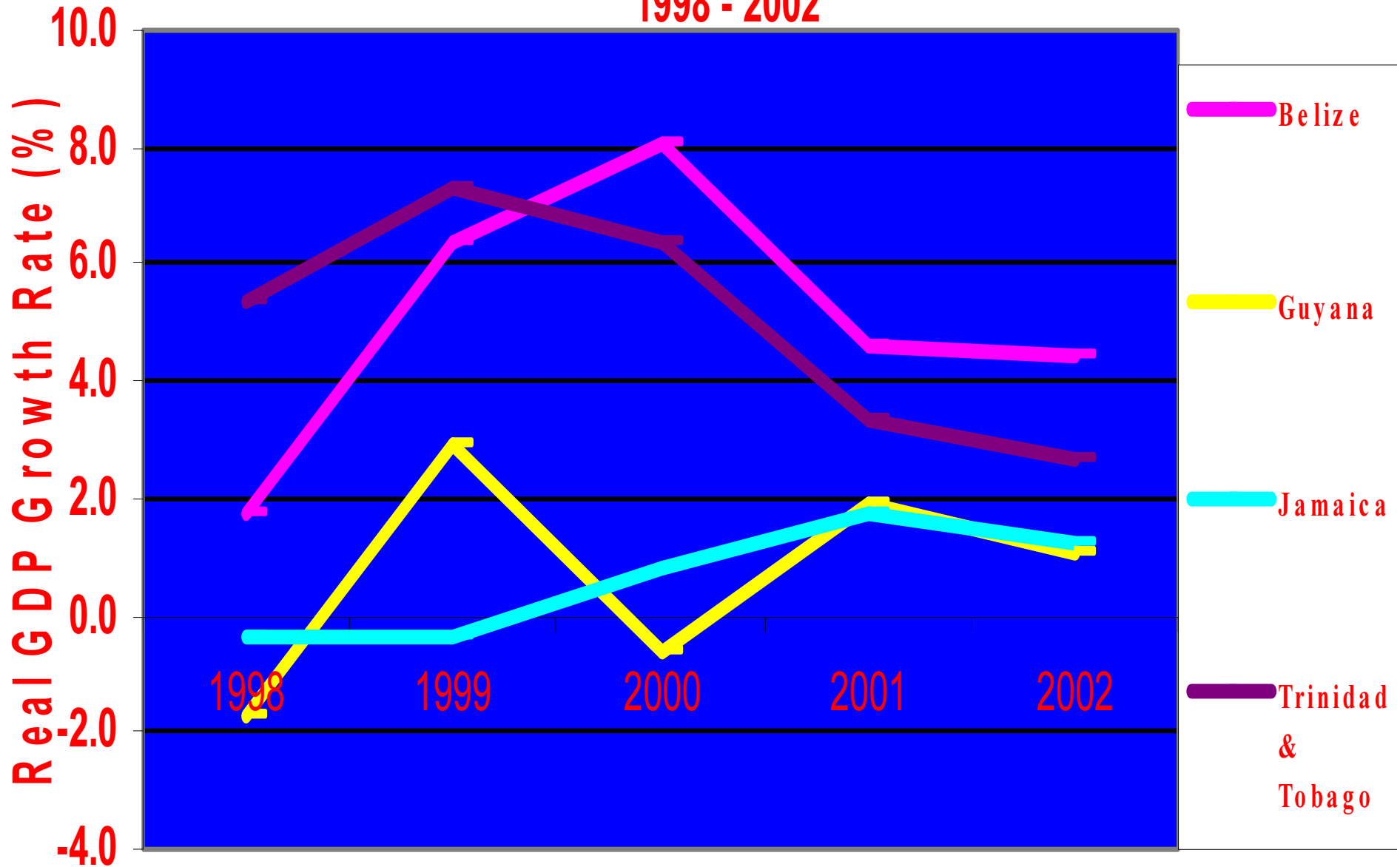
- Caribbean Economic Community (CARICOM)
- Analysis deals with the following selected CARICOM countries:
 - Belize
 - Guyana
 - Jamaica
 - Trinidad and Tobago

Selected Indicators (2001)

	Bel.	Guy.	Jam.	T&T
Area (km sq.)	22,966	214,970	10,991	5,128
Pop. (000)	245	750	2,603	1,294
Per capita Income (US\$)	3,258	912	3,005	6,752
HDI	0.776	0.740	0.757	0.802

Real GDP Growth Rates (%)

1998 - 2002



Overview of Housing Sector: Selected CARICOM Countries

	Current Housing Needs (annual avg.) (1990s)	Units Completed (annual avg.) (1990s)	Gap (annual avg.) (1990s)
Jamaica	15, 000	5, 371	9, 629
Trinidad * & Tobago	11, 500	4, 000	7, 500
Guyana	5, 200	3, 429	1, 771

* Represents data for 1980s

Overview of Housing Sector: Selected CARICOM Members

- **Homeownership rates** (annual averages)

- Jamaica 1990 - 2002 63 %
- Guyana 1990 - 1998 60 %
- Trinidad and
Tobago 1980 - 1990 70 %

Housing Policy (Belize)

■ Sector Plans

- Creation of Housing Co-operatives through fiscal incentives
- Promotion of private land development
- Special emphasis on urban renewal
- Housing Credit Facilitation

Housing Policy (Guyana)

■ **Specific objectives:**

- More rapid expansion of housing supply
- Housing to be made affordable
- Improved access to housing for poor families

■ **Operational objectives include:**

- Incentives to private sector to develop land for housing and housing construction.
- Improve accessibility to rental and mortgage payments for low-income households.
- Regularization of informal housing development.

Housing Policy (Jamaica)

■ 1987 – National Shelter Strategy

Main goals:

- creation of appropriate market conditions in housing sector
- provisions of various incentives to the sector
- enhancing resource flows to augment shelter supply.

Housing Policy (Jamaica)

■ 1992 – Joint venture policy

- public-private sector partnership in housing sector under Joint Venture programme

■ 1996 – National Land Policy

- Programme for Resettlement and Integrated Development Enterprise (Operation PRIDE)
- Emancipation Lands and the Community Economic Centres programme

Housing Policy (Trinidad & Tobago)

■ Government Policy since 1970s

- House types and density of development
- Reduction in land leasing rates
- Increasing size of mortgage loans
- Providing security of tenure on housing land

Housing Policy T & T

■ The Settlements Policy (1987 – 2000)

- Part of the Medium Term Macro Planning Framework.

■ Main Policy Features

- Squatter regularization
- Government provision of increased rental units
- Development of a Rent-To-Own Programme

Housing Policy (Trinidad and Tobago)

■ The Settlements Policy (continued)

■ Main Policy Features

- Acquisition by government of privately owned land for resale to tenants at affordable prices.
- Provision of subsidized housing to persons with special needs.
- Housing credit facilitation for housing construction and home improvements
- 95% - 97% of loan amounts provided by government

Housing Finance

■ Characteristics of financial sector in CARICOM countries

- Small financial systems
- Dominated by commercial banks
- High degree of concentration
- Thin financial markets

Housing Finance (Belize)

Loans and Advances to the Building and Construction Sector (1998 – 2002) (% of Total)

	1998	1999	2000	2001	2002
Commercial Banks	19	22	22	23	24
Development Finance Corporation	43	13	39	34	42

Housing Finance (Belize)

- **Development Finance Corporation (DFC)**

- Loans provided for:
 - construction financing and land development
 - purchases of houses from DFC
 - improvements and/or expansion of existing houses

Housing Finance (Belize)

■ DFC Loan terms:

New construction

- maximum repayment period of 25 years.

Home improvement

- maximum repayment period of 15 years.
- 2000 – 2003, interest charges vary between 12 % and 15 %.

Housing Finance (Belize)

- **Mortgage Securitization Program (DFC)**
 - Income flows from the sale of mortgages on the secondary market.
 - Proceeds are reinvested in new housing mortgages and other projects.

Housing Finance (Guyana)

- Government increased low income mortgage threshold to **G\$2 million** from \$1.5 million.
- An 8 % concessionary interest rate is applied.
- Exemption from 45 % corporation tax to selected commercial banks and building societies.

Housing Finance (Jamaica)

Value of Mortgages by various institutions 1998 – 2002 (%)

	1998	1999	2000	2001	2002
N. H. T.	71	70	66	56	49
N. H. D. C.	n.a.	4	0	3	3
Building Societies	27	25	34	38	45
Credit Unions & Insurance Companies	2	1	0	3	3

Housing Finance (Jamaica)

■ National Housing Trust (NHT)

- Established in 1971
- Main objective - provide access to affordable land and housing, especially for lower income groups.
- Employed persons 18 years and above contribute 2 % of their wages to NHT; employers required to provide 3 % of wage bill to NHT.

Housing Finance (Jamaica)

- **Informal sources of housing finance.**
 - 'Stages' approach to construction.
 - Principle of reciprocity.
 - Sources of finance include:
 - 'partners funds'
 - legal and illegal informal economic activities.
 - remittances

Housing Finance (Trinidad & Tobago)

- Important role of Trinidad and Tobago Home Mortgage Bank (HMB)
- Consumer home improvement loans increased by 113 % between 1995 – 2000.
- Residential mortgage lending increased by 15 %.

Housing Finance (Trinidad & Tobago)

■ **Approved Mortgage Initiative**

- Provides tax incentives to approved mortgage lenders.
- Borrowers can access 95 % of financing for over 30 years.
- Reduction in interest rate from 8-9 % to 6-8 %.
- Tax-deductible allowance of 1/6 for first time homeowners
- Allowances are made for lower up-front costs and rebate of VAT to homeowners.

Current Best Practices in Caribbean Housing Finance

- National Housing Trust (NHT) - Jamaica
- Development Finance Corporation (DFC) – Belize
- Trinidad and Tobago Home Mortgage Bank (HMB) – Trinidad and Tobago
- Eastern Caribbean Home Mortgage Bank modeled after HMB.

Case for Micro-finance in the Caribbean Housing Sector

- Despite performance of these best practices, inadequate supplies of funds exist to meet mortgage finance demands of low-income persons.
- Need to examine experience of countries with housing micro-finance, specifically for low and moderate income borrowers.

Mortgage Guarantee Scheme

- Homeownership Guarantee Fund widely used internationally to enhance affordability and promote homeownership.
- Currently being introduced in Sint Maarten, Netherlands Antilles:
 - Fund reduces credit risks of individual lenders.
 - Provides guarantee at a cost priced based level.
 - Lower credit costs for borrowers.