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**PROJECT PERFORMANCE ASSESSMENT REPORT**

**BRAZIL**

**PROGRAMMATIC LOAN FOR SUSTAINABLE AND EQUITABLE GROWTH:  
HOUSING SECTOR REFORM (LOAN 7306)**

**June 30, 2010**

*Sector Evaluations (IEGSE)  
Independent Evaluation Group (World Bank)*

Currency Equivalent (annual averages)	Currency Unit = Real (R\$)	
2004	US\$1.00	R\$2.93
2005	US\$1.00	R\$2.43
2006	US\$1.00	R\$2.18
2007	US\$1.00	R\$1.95
2008	US\$1.00	R\$1.83
2009	US\$1.00	R\$2.01

## Abbreviations and Acronyms

ABECIP	<i>Associação Brasileira de Entidades de Crédito Imobiliário e Poupança</i> (Brazilian Association of Real Estate Credit and Savings Entities)
BACEN	<i>Banco Central</i> (Brazil's Central Bank)
CEF	<i>Caixa Econômica Federal</i> (Federal Loan and Savings Bank)
DPL	Development Policy Loan
FNHIS	<i>Fundo Nacional de Habitação de Interesse Social</i> (National Fund of Social Housing)
FGTS	<i>Fundo de Garantia de Tempo de Serviço</i> (Workers Severance Fund)
GDP	Gross Domestic Product
HTAP	Housing Sector Technical Assistance Project (Ln7338)
ICR	Implementation Completion Report
IEG	Independent Evaluation Group
IEGWB	Independent Evaluation Group (World Bank)
M&E	Monitoring and Evaluation
MOC	<i>Ministério das Cidades</i> (Ministry of Cities)
MOF	Ministry of Finance
MW	Minimum wage
PAC	<i>Programa de Aceleração do Crescimento</i> (Growth Acceleration Program)
PAR	Programa de Arrendamento Residencial (Social Rental Program)
PD	Program Document
PPAR	Project Performance Assessment Report
PSH	<i>Programa de Subsídios a Habitação de Interesse Social</i> (Subsidy Program for Social Housing)
SBPE	<i>Sistema Brasileiro de Poupança e Empréstimo</i> (Savings and Loan System)
SELIC	<i>Sistema Especial de Liquidação e Custódia</i> (Brazil's benchmark interest rate)

## Fiscal Year

Government: January 1 – December 31

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### **About this Report**

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEGWB annually assesses about 25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEGWB staff examine project files and other documents, interview operational staff, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEGWB peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. IEGWB incorporates the comments as relevant. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

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**Risk to Development Outcome:** The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High Significant, Moderate, Negligible to Low, Not Evaluable.

**Bank Performance:** The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

**Borrower Performance:** The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.



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<p>This report was prepared by Roy Gilbert who assessed the project in December 2009. Maria Margarita Sanchez provided administrative support.</p>
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## Brazil: Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform (loan 7306)

### Principal Ratings

	<i>ICR*</i>	<i>ICR REVIEW*</i>	<i>PPAR</i>
Outcome	Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Risk to Development Outcome	Low	Low	Moderate
Bank Performance	Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

\* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

### Key Staff Responsible

<i>PROJECT</i>	<i>TASK MANAGER/</i>	<i>DIVISION CHIEF/ SECTOR DIRECTOR</i>	<i>COUNTRY DIRECTOR</i>
Appraisal	Maria Emilia Freire	John Henry Stein	Vinod Thomas
Completion	Ming Zhang	Guang Zhe Chen	Makhtar Diop





## **Preface**

This is the Project Performance Assessment Report (PPAR) of the Brazil Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform Loan (Ln7306) for which the World Bank approved a Loan of US\$502.5 million on June 14, 2005. The Loan was fully disbursed and closed on June 30, 2006, as planned.

The report is based on a review of project documents, including the Implementation Completion Report, the Program Document, legal documents and project files, and on discussions held with Bank staff involved in the project. An IEG mission visited Brazil in December 2009 to review project results and met with more than 30 interlocutors including officials of housing and urban development agencies at the federal level in Brasilia and representatives of commercial banks in São Paulo and Belo Horizonte. IEG gratefully acknowledges the courtesies and attention given by all these interlocutors, as well as the outstanding planning and logistical support for an intense and tight mission agenda provided by *SAIN*, the International Affairs Secretariat of the Ministry of Finance.

IEG selected this operation for a PPAR field assessment, as recommended at the time that the Implementation Completion Report was reviewed by IEG, to verify the ongoing performance of this important housing and urban development project and to provide an input into a comparative IEG analysis of Bank support for housing sector development.

Following standard IEG procedures, copies of the draft PPAR were sent to government officials and agencies for their review. Comments received are attached as Annex C.



## Summary

The Brazil Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform Loan (Ln7306), called the “Operation” here, rightly focused upon achieving better access to quality housing by the poor, those most negatively affected by Brazil’s declining, but still large, housing deficit. The 6.4 percent fall of the deficit over the 2004-2007 period of the Operation was a good result, especially as the nation’s population continued to grow and become more urbanized.

Raising necessary funds for building and purchasing the extra houses needed to reduce the deficit was a major part of the Operation’s focus. Using unfettered local financial markets with Brazil’s present high interest rate regime, with large spreads between savings and lending rates expected by lenders would not itself lead to affordable lending. According to data reported to the International Monetary Fund and to the Bank, Brazil has the highest interest rates and broadest interest rate spreads in the world.

Nearly all mortgage funding for house purchase in Brazil therefore occurs within the government-driven Housing Finance System, through its two main windows, the Brazilian Loans and Savings System (SBPE) and the Workers’ Provident Fund (FGTS). Together, they have taken outstanding mortgage debt in Brazil to the equivalent of just 2.9 percent of GDP, far behind Mexico’s 12 percent, Chile’s 15 percent, and the 60-85 percent range of most advanced industrialized economies. Brazil’s current housing program, as the Operation itself, sought to strengthen and improve the existing Housing Finance System and its two windows, SBPE and FGTS, not overhaul and reform the system altogether. Deep reform of the Housing Finance System may be inevitable in the longer term, but it is a system that has served Brazil well for nearly fifty sometimes-turbulent years, a period that included military dictatorship and hyperinflation.

Deep housing sector reform will have to await macro-conditions that can bring Brazil’s high interest regime to a close. The Government of Brazil has its sights set upon lower interest rates, but there are constraints. One is that the interbank rate cannot fall below the interest paid on Brazil’s widely used savings accounts, historically set at 6 percent per annum (plus a currently small adjustment for future expected inflation which is currently negligible). Smaller spreads between savings and lending rates will most likely be driven by greater market competition across an expanding financial sector.

The Operation’s overall objective of improving the access of the poor to housing was substantially relevant. It fits the Government’s ongoing commitment to housing the poor through the country’s principal stimulus and development programs *Minha Casa, Minha Vida* (My House, My Life) and the *Programa de Aceleração de Crescimento* (PAC – Growth Acceleration Program). Two of the Operation’s four specific objectives aimed at developing housing policy and implementing housing subsidies for the poor were more relevant. The other two, expanding housing finance (within constraints of the Housing Finance System) and reducing urban land development costs through regularizing property registration, were less so. These intended Operation outcomes amount to a significant improvement to the functioning of the Housing Finance System, but may fall short of the reform of it, an expectation raised by the *Housing Sector Reform* title of the Operation.

But the Operation design relevance was substantial, focusing mostly upon prior actions instrumental for achieving the objectives. An exception was the operation’s unrealistic

expectation of achieving lower costs of *new* urban land provision through regularizing property registers in *existing* informal settlements, such as *favelas*. Pre-preparing a follow-on Operation-II and having a Housing Sector Technical Assistance Project (Ln7338) alongside were good design principles. But the Government did not want a second follow-on operation, so it was not prepared. Although approved shortly after the Operation reviewed here, the Technical Assistance Project was barely implemented, but it remains ongoing at this writing with two-thirds of the US\$4.0 million loan already cancelled.

The Operation design itself earned mixed reviews in Brazil, even though the Operation did bring together these various parties, with the Bank acting as honest broker among them. As Borrower, the Ministry of Finance valued the flexibility and ownership it conferred. As implementing agencies, the Ministry of Cities and the principal state bank, the *Caixa Econômica Federal* (CEF) lamented incurring costs during implementation that could have been eligible for reimbursement under an investment loan, but not a policy loan like the one reviewed here. The Ministry of Cities made little use of funding available through the parallel Technical Assistance Project, however.

The backdrop of Brazil's buoyant macro-economy with GDP growth and falling—but still very high—interest rates, boosted the demand for housing and housing finance. Bank supervision focused primarily on preparing a follow-on Operation-II—one that a fiscally stronger Government no longer wanted, indicating that Borrower demand for long-term Bank assistance for sector development may be affected by unrelated short-run fiscal considerations.

Monitoring and evaluation (M&E) was not fully designed by the Operation, and failed during implementation because it depended upon work that should have been done through the parallel HTAP that was not implemented. This outcome points to the need for M&E to be an integral part of the design of the operation if it is to monitor, and not rely upon a parallel activity that may or may not go ahead. Clear evidence of housing finance's down-market move and of cost reduction new urban land provision is among the resulting gaps.

Housing in Brazil has a much higher political profile than before, especially through the Government's *Minha Casa, Minha Vida* mega-program. Housing policy's traditionally volatile institutional framework in Brazil was stabilized through the consolidation of the Ministry of Cities. The Housing Finance System's institutional arrangements, with CEF at the heart, remain solid having been in place for nearly half a century. Even the new *Minha Casa, Minha Vida* fits within that old framework.

Between 2006 and 2009 new housing finance grew six-fold in real terms; twice the rate of the number of houses financed. Thus the average loan size doubled, a trend that does not bode well for affordability, especially for low-income groups, and the Operation's intended down-market shift. Construction finance nearly quintupled between 2004 and 2008, helping alleviate supply-side constraints. Evidence of the down-market move of housing finance intended by the Operation is elusive. Rising average loan amounts have prompted the Government to introduce new incentives for banks to lend down-market within SBPE, and to pursue the *Minha Casa, Minha Vida* program more intensively. While Brazil's housing finance is large in absolute terms, it is still small in relation to the

size of its economy. Under present macro-economic circumstances, housing finance in Brazil can only grow within the Housing Finance System parameters and the funding constraints of its two main instruments. Thus, lenders could provide more loans through greater use of the *alienação fiduciária* (trust deed) instrument, a more easily executed lien in the event of loan repayment default, than a traditional mortgage, or *hipoteca*.

With a solid legal framework in place, securitization of housing loans took a firmer institutional footing in Brazil, with new businesses in São Paulo bundling loans and trading mortgage-backed securities called *Certificados de Recebíveis Imobiliários* in Brazil. At this writing, the sale of these *Certificados* has lapsed in Brazil as has the trading of such securities worldwide following the sub-prime lending crisis in the US.

The private sector share of housing finance has remained constant and is unlikely to take off before interest rates are normalized in Brazil's financial markets. Private banks complain that they have difficult access to FGTS funding because of excessive bureaucracy that leaves CEF to dominate the use of FGTS funds. These banks also argue that the small spreads allowed make FGTS lending unprofitable for them.

Comprehensive reform of housing finance in Brazil remains hostage to the country's high interest rate regime, something likely to change only over the longer-term. Interest rates did fall over the 2004-2009 period, but still remain extraordinarily high by international standards. This makes free-market-driven housing finance a distant reality, leaving the field to the SBPE-FGTS windows.

The Ministry of Cities began work on a national housing subsidy policy covering all instruments, including direct up-front subsidies awarded by the federal government, below-market interest rates of the Housing Finance System mortgage loans—still by far the largest—and tax breaks on interest payments. Operation support came principally for the *Programa de Subsídios a Habitação de Interesse Social* (PSH) Brazil's up-front Subsidy Program for Social Housing. But PSH did not take off. Excessive bureaucracy discouraged large-scale operators. At this stage, PSH has effectively been incorporated into *Minha Casa, Minha Vida*. Up-front subsidies were provided with FGTS lending for the first time, although this meant borrowers receiving a double subsidy—the lump sum and the below-market interest.

IEG found little evidence of the lower costs of urban land provision sought by the Operation. But data on this are difficult to come by. Baselines and targets were not systematically measured or reported. Furthermore, the Operation's focus upon regularizing land titling of existing informal settlements was not the right one, as already noted.

The Operation supported Government efforts to bring about necessary changes to Brazil's housing sector. With so many other factors at play, attributing changes to the Operation itself is not easy, but the 6.7 percent fall in the national housing deficit during 2004-2007 is consistent with the achievement of the Operation's overall objective.

The **Overall Outcome** of the project is rated *moderately satisfactory*. It achieved its relevant objectives, helping to increase access by the poor to housing, strengthening

policy and institutions and expanding housing finances, albeit with moderate shortcomings. These included scant evidence of a down-market shift of housing finance, little lasting impact on subsidies, and no evidence of reduced costs of urban land provision. The **Risk to Development Outcome** is rated *moderate*. Government commitment to the Operation-supported improvements is unlikely to waver. But possible impacts—real estate bubbles, for instance—of rapid expansion of housing finance upon the real supply and demand for housing were not addressed by the Operation. **Bank Performance** is rated *moderately satisfactory*. The project was prepared with care except for M&E that was given cursory treatment and failed. Except for actions to lower the costs of urban land delivery, the project was well designed to achieve the relevant objectives. **Borrower Performance** is rated *satisfactory*. The Government was committed to improving the Housing Finance System, while placing housing center stage of its two flagship programs, the PAC and the *Minha Casa, Minha Vida*. Those agencies responsible for implementation, the Ministry of Cities and CEF, industriously pursued Operation-endorsed actions at their own expense.

## LESSONS

- Strengthening housing finance is an important sectoral goal, but it should be pursued alongside efforts to overcome bottlenecks in real housing supply and demand that, if not addressed, may lead to a surge in property prices, creating a real estate bubble and collapse—as experience elsewhere has shown.
- Monitoring and Evaluation should be an integral part of the operation it is monitoring. Establishing a new M&E system or consolidating an existing one should be a key prior action for an Operation, and trigger for subsequent operations or tranches. Consigning Monitoring and Evaluation to another operation (such as a parallel Technical Assistance Project in this case) increases the risk of a total lack of evidence if the host operation fails.
- Bank value-added for its clients arises when it offers different advice from the local expert opinion and knowledge that exist in abundance in middle-income countries especially. This Operation provided an opportunity for a broad sector policy discussion of reform beyond the parameters of Brazil’s Housing Finance System that could have been more fully exploited by the Bank.
- A policy lending operation can usefully bring together different sectoral stakeholders among whom the Bank can serve as honest broker, even when sector reform opportunities or achievements may be modest.

Vinod Thomas  
Director-General  
Evaluation

## 1. The Need for Housing Reform in Brazil

1.1 The Brazil: Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform Loan (Ln7306), called the “Operation” in this report, rightly focused upon improving the access of the poor to better quality housing as its top priority. As in most countries, the poor in Brazil suffer disproportionately from low quality housing. Poorer households—earning three minimum salaries<sup>1</sup> or less, up to R\$1,140 (US\$585) per month—make up the lower half of the income distribution but earn only 16.7 percent of all household income. 19.5 percent of them occupy deficient housing, when only 2.3 percent of households in the top half of the income distribution do. In the year after the completion of the Operation in 2007, Brazil’s housing deficit was reported to affect 7.3 million households,<sup>2</sup> equivalent to 12.9 percent of the total.<sup>3</sup> (Box 1). Fully 89.4 percent of this housing deficit affects lower income households.

### Box 1. Estimating Brazil’s Housing Deficit

Households affected: 7.8 million in 2004 and 7.3 million in 2007

Since 1995, the *Fundação João Pinheiro* of Minas Gerais has been researching and measuring Brazil’s housing deficit for the Federal Government, an effort supported by the United Nations Development Programme and the Inter-American Development Bank. This is not a survey of the physical housing stock and its conditions and occupancy status as the name implies. Instead, it is a review of housing conditions reported annually by a national sample of households as well as the full population census every ten years by Brazil’s census bureau and statistical institute, IBGE. The housing deficit estimate derives from household reports of: (i) the poor physical condition of the house itself, its inadequate services or a location that is inaccessible or risky; and (ii) overcrowding where two or more households unwillingly share a single dwelling. The first results from the deteriorating condition of the dwellings themselves, while the second is the product of population growth and new household formation. Reducing this deficit thus requires improving existing housing and providing new units.

Source: *Fundação João Pinheiro Déficit Habitacional no Brasil 2007 Ministério das Cidades*  
<http://www.fjp.mg.gov.br/index.php/component/search/deficit%2Bhabitacional?ordering=&searchphrase=all>

1.2 In the year before the approval of the Operation in 2004, the total housing deficit was even higher, standing at 7.8 million units. Thus, over the 2004-2007 period covered by the Operation, Brazil’s housing deficit *fell* by 6.4 percent, a good result considering that the overall population *grew* by 4.7 percent over the same period, and the share of Brazilians living in urban areas rose from 83 percent to 85 percent. Preliminary data for 2008

<sup>1</sup> Value of Brazil’s minimum salary in *Reais* per month (with US\$ equivalent using average exchange rate of the year): 2004 – R\$260 (US\$88.7); 2005 – R\$290 (US\$119); 2006 – R\$360 (US\$165); 2007 – R\$380 (US\$195); 2008 – R\$415 (US\$227); 2009 - R\$465 (US\$239); 2010 – R\$510 (US\$287)

<sup>2</sup> This 2007 figure was later revised down to 6.3 million households, when the 2007 survey revealed that one million households were cohabiting voluntarily with other households in the same dwelling, a situation that was not deemed to constitute overcrowding.

<sup>3</sup> The equivalent figure for Mexico for 2006 was of a housing deficit of 4.6 million units, representing 18.6 percent of the total housing stock.

announced at the Fifth World Urban Forum, held in Rio de Janeiro in March 2010, show a further 7.9 percent fall in the housing deficit since 2007. Brazil's housing sector is moving in the right direction, but clearing the housing deficit still has some way to go to free Brazil of overcrowded and substandard housing, as dramatically seen in the proliferation of *favelas*, especially in the largest cities.

1.3 Mobilizing funding for the construction and purchase of the quantity and quality of housing units needed is among the challenges facing the further reduction and eventual elimination of this deficit. In Brazil, raising the necessary funds directly in unfettered local financial markets would only lead to unaffordable lending. Interest rates in Brazil are the highest reported in the world, multiples of those in comparable states (Table 1.1). If one would exist carrying Brazil's 44.7 percent per annum interest rate, for instance, a hypothetical 15 year mortgage loan of US\$150,000 would require a monthly repayment of US\$5,500<sup>4</sup>—affordable only by households in the top few percentiles of the income distribution—clearly not a feasible solution. Large spreads between deposit and lending rates add to the high interest rates on loans. Brazil's spreads were the largest among the 121 countries reporting this data for the 2008 *World Development Indicators*.<sup>5</sup>

**Table 1.1 Interest Rates and Spreads are High in Brazil (% per annum)**

	2004		2005		2006		2007		2008		2009	
	Deposit	Lending	Deposit	Lending	Deposit	Lending	Deposit	Lending	Deposit	Lending	Deposit	Lending
<b>Brazil</b>	15.4	54.9	17.6	55.4	13.9	50.8	10.6	43.7	11.7	47.3	9.2	44.7
	(inflation: 6.6)		(inflation: 6.9)		(inflation: 4.2)		(inflation: 3.6)		(inflation: 5.7)		(inflation: 4.6)	
<b>Mexico</b>	2.7	7.4	3.5	9.7	3.3	7.5	3.2	7.6	3.0	8.7	2.0	7.1
	(inflation: 4.7)		(inflation: 4.0)		(inflation: 3.6)		(inflation: 4.0)		(inflation: 5.1)		(inflation: 3.6)	
<b>Chile</b>	1.9	5.1	3.9	6.7	5.1	8.0	5.6	8.7	7.5	13.3	na	na
	(inflation: 1.1)		(inflation: 3.1)		(inflation: 3.4)		(inflation: 4.4)		(inflation: 8.7)		(inflation: 2.0)	
<b>U.S.A.</b>	1.6	4.3	3.5	6.2	5.2	8.0	5.3	8.1	3.0	5.1	0.6	3.3
	(inflation: 2.7)		(inflation: 3.4)		(inflation: 3.2)		(inflation: 2.9)		(inflation: 3.8)		(inflation: -0.4)	
<b>Japan</b>	0.0	1.8	0.0	1.7	0.4	1.7	0.7	1.9	0.7	1.9	0.2	1.7
	(inflation: 0.0)		(inflation: -0.3)		(inflation: 0.2)		(inflation: 0.1)		(inflation: 1.4)		(inflation: -1.6)	

Sources: (i) World Development Indicators (except deposit interest rates for USA and Japan—from International Monetary Fund "International Finance Statistics"); (ii) 2009 figures from national sources. Note: inflation = consumer price inflation

1.4 Although interest rates fell between 2004 and 2007, they began to rise again in 2008. At the time of writing, financial markets in Brazil were concerned about further possible interest rates hikes in 2010, as a tight monetary policy might be needed to curtail inflationary pressures as GDP accelerates. This high interest rate regime explains why no new mortgage lenders came to the market during 2004-2009, as the ICR correctly observed (ICR p. 20).

<sup>4</sup> At this writing, the equivalent monthly repayment in the United States with interest of 4.5 percent per annum would be US\$1,132.

<sup>5</sup> Although currently very high, interest rates have been higher still in Brazil in recent times. It is worth noting that the *O Globo* newspaper of November 30, 2009 carried a celebratory headline announcing that the 43 percent interest for consumer credit that month was the *lowest* level charged since 1994.



1.5 Thus, most mortgage funding in Brazil takes place today within what is called in Brazil the *Sistema Financeiro de Habitação* (SFH – Housing Finance System) as it has since the 1960s. In the Housing Finance System, most housing finance passes through two lending windows driven, if not directly controlled, by the Federal Government of Brazil: (i) the *Sistema Brasileiro de Poupança e Empréstimo* (SBPE – Brazilian Saving and Loan System) for higher-income borrowers; and (ii) the *Fundo de Garantia de Tempo de Serviço* (FGTS – Workers’ Provident Fund) for middle-income borrowers (details Box 2). Data for 2009 show that three quarters of SBPE loans went to finance new housing, and only one quarter for the purchase of existing units. Thus lending is poised to help meet the growing demand for new housing. In 2004 SBPE mortgage lending had been split evenly between new and existing housing. The loan to value ratio of SPBE mortgage lending has risen from 47 percent in 2004 to 60 percent in 2009. This is an important increase. Home buyers in Brazil, facing high interest rates—even when subsidized—typically borrow the least amount they need to supplement their savings, making for very varied loan to value ratios across individual loans.

<b>Box 2: Government-driven Housing Finance System (SFH) in Brazil</b>	
<b>SBPE</b> <i>Sistema Brasileiro de Poupança e Empréstimo</i> <b>Brazil’s Saving and Loan System</b>	<b>FGTS</b> <i>Fundo de Garantia de Tempo de Serviço</i> <b>Provident Fund For Length of Service</b>
<p><i>Created: 1964 (Law 4380/64)</i>  <i>Resources: Voluntary savings by individuals</i>  <i>Use of funds: 65% of savings deposits to finance housing loans</i>  <i>New:used housing: 73%:27%</i>  <i>Supervised by: National Monetary Council; BACEN</i>  <i>Administered by: Private and state banks</i>  <i>New housing loans 2009 (R\$): 30.2 billion</i>  <i>Delinquency: 2004 – 9.7%; 2009 – 2.8%</i>  <i>Target population: 80-89 percentile (PD p.25)<sup>6</sup></i>  <i>Housing loan terms: 12% - 13% interest pa.</i></p>	<p><i>Created: 1966 (Law 5107/66)</i>  <i>Resources: All workers’ monthly deposits of 8 percent of gross salary</i>  <i>Use of funds: For workers severance (62%), retirement (14%) housing (13%). Small share used for infrastructure.</i>  <i>New:used housing: na</i>  <i>Supervised by: Conselho Curador (of 24 Trustees: Min. of Labor)</i>  <i>Administered by: CEF: state federal loan and savings bank.</i>  <i>New housing loans 2009 (R\$): 15.8 billion</i>  <i>Delinquency: na</i>  <i>Target population: 30-79 percentile (PD p.25)</i>  <i>Housing loan terms: 8% - 11% interest pa.</i></p>
Source: ABECIP	

1.6 With just these two windows, the scope of housing finance in Brazil is still very constrained in a country where 60 percent of house sales are cash and still only 40 percent financed (up from 28 percent in 2007)<sup>7</sup>. Outstanding mortgage debt is the equivalent of only 2.9 percent of GDP, far behind Mexico’s 12 percent, Chile’s 15 percent<sup>8</sup>, Spain’s 59 percent, the United States’ 77 percent and the UK’s 83 percent<sup>9</sup>. Brazil’s housing program, as the

<sup>6</sup> The analysis on p. 25 in the Program Document (PD) Table 5 is incomplete for reporting data for only nine of the ten deciles of the income distribution. The figures cited in this PPAR assume that the missing decile is the 90-100 percent one.

<sup>7</sup> 2009 data from Sao Paulo’s real estate company CRECI-SP

<sup>8</sup> 2009 data provided to IEG from Unibanco-Itau.

<sup>9</sup> Reported in Kim (2009) from data from the European Mortgage Foundation and the US Federal Reserve. All 17 countries providing this data report an increase in these shares over the 1994 – 2006 period. Among the most rapid increases were: Greece 3.6 percent in 1994 to 29 percent in 2006; Spain 16 percent in 1994 to 59 percent in 2006; Portugal 16 percent in 1994 to 59 percent in 2006; and Italy 6.0 percent in 1994 to 19 percent in 2006.

Operation itself, sought to strengthen and make improvements to the existing Housing Finance System, not to make deep reforms to it that would complement or replace it with the private market-driven financing behind the higher figures of other countries reported here. With the inevitability of such reform in Brazil, the Operation could have elaborated scenarios of reform steps and timing, identifying some of them as key prior actions.

1.7 Housing sector experts both within the Government and the Bank recognize the need for and the inevitability of deep reform to the Housing Finance System, a system that has been in place for nearly 50 years, and that has served Brazil well during periods of financial and political volatility. They also recognize that such reform will only take place after interest rates in Brazil, and spreads too, have fallen to levels similar to those practiced in other countries.

1.8 Lowering Brazil's benchmark interest rate, called *SELIC (Sistema Especial de Liquidação e Custódia)*, from its current 8.75 percent per annum towards Treasury Bill rates in, say, Mexico (5.4 percent per annum) or the United States (0.2 percent per annum) is Government policy as far as monetary conditions allow. Already, the Government succeeded in bringing it down from 22.1 percent in 2003. This has helped lower pre-fixed interest rates of Housing Finance System mortgage loans too, but not to the same degree.<sup>10</sup> In the short run, further deep cuts in interest rates are unlikely. The historic 6 percent minimum rate plus an adjustment for likely future interest rate adjustments (*taxa referencial*) paid for widely used savings accounts constitutes a floor below which the *SELIC* cannot fall.

1.9 Narrower spreads too are desired, but not controlled by the Government. For narrower spreads, banks and non-bank financial institutions would have to be able to increase the volume of their business significantly keeping it profitable through larger volumes. Normalization of financial markets with a competitive market-driven interest rate regime offers the best hope.

## 2. Bank Support for Strengthening the Housing Sector

### RELEVANCE OF OBJECTIVES

2.1 Through its overall objective, the Operation's focus upon the Government's priority of improving the access of the poor—who suffer disproportionately from the deficit—to housing was *substantially relevant* (Box 3). The creation of the Ministry of Cities (MOC) in 2003 signaled a new Government determination to tackle the housing deficit systematically. The ongoing relevance of the Operation objectives is clear from housing's priority in the

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<sup>10</sup> Interest rates on government driven mortgages through SBPE and FGTS have not fallen over the 2003-2010 period as rapidly as the 60 percent fall in the *SELIC* rate in this period. The mortgage loan rates are driven by a more complex formula involving base rates in the 12-14 percent per annum range plus a *taxa referencial* adjustment for likely future interest rates, a legacy from Brazil's erstwhile hyperinflation. At this writing, the value of the *taxa referencial* is approximately 0.5 percent per annum, down from 4.7 per annum in 2003. This would mean a fall of a mortgage loan rate from, say, 16.7 percent per annum to 12.5 percent per annum over the 2003-2010 period, a drop of 25 percent (against *SELIC*'s 60 percent).

Government's 2007 launch of the R\$13.5 billion Growth Acceleration Program (*PAC*) and the April 2009 launch of the *Minha Casa, Minha Vida* ("My House My Life")<sup>11</sup> stimulus mega-program with a start up investment of R\$34 billion. The commitment is there even if initial performance has fallen short of initial expectations. Only 230,000 loan agreements for house purchase, 58 percent of *Minha Casa, Minha Vida*'s 400,000 target for 2009, were signed in that year.<sup>12</sup> Also, signed *Minha Casa, Minha Vida* construction loan agreements amount to only one third of the applications received.<sup>13</sup> But, the specific objectives of the operation (details Box 3) were relevant too.

2.2 Specific objective (a), developing a sound national housing policy, is **substantially relevant**, and remains a priority for the Government, although it has lost some urgency as attention has shifted to implementing the *PAC* and *Minha Casa, Minha Vida* mega-housing programs. Specific objective (b), expanding the housing finance system and moving it down-market, is **modestly relevant** since the scope for expansion is constrained by the ceiling levels of SBPE savings and FGTS contributions. Specific objective (c), implementing a housing subsidy system for the poor, is **highly relevant** because of the Government's efforts to promote the use of more efficient and transparent up-front subsidies. Specific objective (d); reducing the cost of formal land development through better land legislation and property registration, is **modestly relevant**, since it overlooks the main causes of the high costs in Brazil, namely the inadequate delivery of infrastructure, the urban land ownership patterns, and inflexible urban planning, building regulations and land use zoning.

2.3 At the same time, however, the Program Document (PD) is more modest and realistic about the scope and aim of the Operation itself, consigning reform within it to the SBPE/FGTS system only: "to support policy and micro-institutional reforms in the SBPE and FGTS systems to promote the development of a more integrated housing finance system" (PD p. 20). But does the SBPE/FGTS system itself not constitute a straightjacket that housing finance in Brazil has to reform its way out of, to expand and provide housing opportunities for more Brazilians? The Government certainly seems to think so. The PD reported the Government's commitment to such reform thus: "The Government's explicit policy agenda is to create a liquid and efficient integrated formal housing market based on private capital-markets is a clear departure from a history of directed credit and market segmentation". This Operation cannot be expected to bring about such reform by itself. It is likely to occur only over the medium to long-term as Brazil's financial markets acquire competitive interest rates at levels of comparator countries. But in the short-run, the Operation could have started a dialogue on what genuine reforms would mean for the operation of the real housing sector in

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<sup>11</sup> With financing through the federal budget R\$14 billion), plus SBPE and FGTS funding, *Minha Casa, Minha Vida* originally planned to build one million houses by 2010, especially for lower and middle-income families earning less than ten minimum salaries—currently worth R\$5,100 (US\$2,800) per month—that includes all households up to the 90<sup>th</sup> percentile of the income distribution. At this writing, some 380,000 units had been financed, with an additional 800,000 applications for financing under review. To finance these house purchasers, CEF would make available and administer thirty-year mortgage loans at 5.0 - 8.5 percent interest per annum. In the run-up to Brazil's general elections in the fall of 2010, the *Minha Casa, Minha Vida* program target has been extended to provide two million more units by 2014, involving investments of R\$71.7 billion.

<sup>12</sup> <http://www.tubozan.com.br/noticias/em-oito-meses-minha-casa-minha-vida-contratou-229-9-mil-moradias>

<sup>13</sup> *O Estado de Sao Paulo* 12 Jan 2010 report on MOC findings.

Brazil, particularly supply and demand for housing.<sup>14</sup> These aspects were not covered by the Operation design to which the assessment of relevance now turns. This could have been done by identifying prior actions, such as policy think-tanks and brainstorming, to take the policy dialogue further toward deep sector reforms on the horizon.

<b>Box 3: Brazil Housing Sector Reform Operation's Design</b>	
<b>Project Development Objectives (PDOs):</b>	<b>Summary of Prior Actions (more details in Annex B.)</b>
<p><b>Overall:</b> To support the Government of Brazil's efforts to improve access of the poor to improved housing and serviced/serviceable land, while maintaining fiscal discipline.</p>	
<p><b>Specific:</b> (a) to develop a sound national policy and institutional framework for housing and urban development;</p> <p><i><b>Policy area #1: Strengthening housing policy and the Government institutional framework</b></i> <i><b>TA project component 1: Institutional and legal framework</b></i></p>	<ol style="list-style-type: none"> <li>1. Creation of Ministry of Cities and its Housing Secretariat.</li> <li>2. Preparation of National Housing Policy.</li> <li>3. Creation of an inter-ministerial committee on housing subsidies.</li> <li>4. Creation of Housing Production Directorate in MOC.</li> <li>5. Law 36/04 defining National Social Housing Fund (FNHIS)</li> <li>6. National Program of Cities' Capacity Building.</li> <li>7. Assess sub-national agencies' capacity for housing policy.</li> <li>8. TA and training activities of metropolitan area municipalities in housing policies.</li> </ol>
<p>(b) to strengthen the housing credit and savings systems, and provide incentives for the housing finance market to expand as well as move "down-market".</p> <p><i><b>Policy area #2: Reforms to increase the stability and scale of the housing finance market.</b></i> <i><b>TA project component 2: Housing finance market development.</b></i></p>	<ol style="list-style-type: none"> <li>9. Strengthen <i>Alienação Fiduciária</i> (Trust Deed) as property lien.</li> <li>10. Law 10,931/04 strengthening housing credit institutions' regulation.</li> <li>11. Legal reforms allowing securitization of housing loans.</li> <li>12. Creation of trust letters for re-purchase of real estate receivables.</li> <li>13. Laws 11,053/04 and 11,033/04 facilitating securitization of mortgages.</li> <li>14. Information on micro-credit and cooperative institutions collected.</li> <li>15. Monetary Council Resolution 3005/04 obliging banks to finance more housing from SBPE savings.</li> <li>16. Monetary Council Resolution 3177/04 speeding use of SBPE funds for housing.</li> <li>17. SBPE regulations giving preference to low-income housing finance.</li> <li>18. FGTS acceptance of trust deed as property lien.</li> <li>19. FGTS Resolutions giving higher priority to low-income households.</li> </ol>
<p>(c) to design and implement a unified federal housing subsidy system to address the affordability of housing solutions for the poor.</p> <p><i><b>Policy area #3: Improve effectiveness and harmonize federal housing subsidies.</b></i> <i><b>TA project component 3: Housing subsidies for the poor.</b></i></p>	<ol style="list-style-type: none"> <li>20. Subsidies in housing policy work of inter-ministerial working group.</li> <li>21. PSH (Social Housing Subsidy Program) established by Law 10,008/04.</li> <li>22. Creation of auction for allocation for PSH resources.</li> <li>23. Better qualification system of lenders to create more competition.</li> <li>24. New FGTS policy with up-front subsidies of R\$1.2 billion for 2005.</li> <li>25. Establishment of criteria for selection of beneficiaries.</li> <li>26. Inclusion of subsidy component for existing houses.</li> <li>27. More efficiency by more owner equity in subsidy formula.</li> <li>28. PSH and FGTS up-front subsidies.</li> <li>29. M&amp;E framework of the Government's housing program, with attention to subsidies.</li> </ol>
<p>(d) to reduce the cost of formal land development by strengthening land legislation and regulations and real property registries.</p> <p><i><b>Policy area #4: Land and urban development.</b></i> <i><b>TA project component 4: Land and urban development.</b></i></p>	<ol style="list-style-type: none"> <li>30. Government drafting the broad Law of Territorial Responsibility.</li> <li>31. Review of how <i>Codigo Florestal</i> applies to urban land.</li> <li>32. Government program to support development of strategic municipal plans.</li> <li>33. Implemented new policy of sustainable regularization of land tenure.</li> <li>34. Budget support to 49 municipalities and 17 states for land tenure regulation.</li> <li>35. Draft Land Subdivision Law.</li> </ol>

Source: Program Document: Loan and Program Summary

<sup>14</sup> That said, CEF comments on this PPAR, note that the SFH was created as a mechanism for making decent housing feasible for the worker through providing sustainably low interest rates on housing loans than an unfettered market itself would offer.

## RELEVANCE OF DESIGN

2.4 The original two-DPL series design was **substantially relevant** for offering an opportunity for further policy dialogue and engagement through the preparation of a second loan. In identifying 35 prior actions (details Box 3) the first loan plus 33 more for the proposed follow-on Operation-II (details Annex B), the Operation reviewed here, may have diluted policy attention from fewer most important key actions whose continued evolution most needed monitoring. The Government chose not to continue with the Operation-II, however, on finding itself much stronger fiscally, and no longer in need of a second Bank loan. The Government's decision to continue pursuing housing sector reform without Operation-II means that that operation's prior actions, that were an integral part of the design of the first Operation, were no longer relevant to the Borrower's priorities.

2.5 Within three of the four areas focused by the objectives of the Operation, namely housing policy, finance and subsidies, several of the prior actions identified, if continued, could help lead to the changes sought. Of particular note were: preparation of a national housing policy; actions to modernize SBPE/FGTS by using trust deeds; regulations to accelerate mortgage loan origination; and up-front subsidies for low-income house buyers.

2.6 The Operation design for the fourth area, aimed at lowering the costs of formal urban land development, invoked few actions relevant to meeting this objective. The principal focus upon regularizing land tenure and registration in *existing* informal settlements, principally *favelas*, had little relevance to the development of *new* urban land, the lack of which is one of the principal causes of the expansion of *favelas* themselves. For this lack of relevance, IEG mission interlocutors in Brasilia noted that this fourth area of urban land supply was not a Government priority, having been included in the Operation at the Bank's insistence. To lower the costs of urban land development, the Operation should have focused more upon actions to remove bottlenecks to urban infrastructure provision, such as inadequate supply capacity, outdated urban plans, and restrictive land use and building codes.

2.7 On the design of the DPL instrument itself, the IEG mission heard diverse opinions in Brasilia. Ministry of Finance (MOF) officials found the absence of an investment loan's conditionalities gave more local ownership of an operation. On the other hand, officials of MOC and CEF—agencies that did not receive Operation funding as anticipated in a DPL of this kind—were less enthusiastic. They had to carry forward the prior actions at considerable cost to themselves without any financial reimbursement from the operation—as intended by the Operation design, of course. MOC did not make much use of funding available through the parallel Housing Sector Technical Assistance Loan (Ln7338), however. But most agreed that a DPL, like the housing operation reviewed here, had the convening power to bring different stakeholders to the table; MOF, MOC, CEF and even BACEN in this case. Thus, this Operation did assign the Bank the role of honest broker among different and sometimes competing interests.




2.8 The relevance of a common Operation design that has an accompanying technical assistance project is substantial, as it would support Borrower actions to take the prior actions forward toward meeting the relevant objectives. In this case, it included the Brazil: Housing Sector Technical Assistance Project (HTAP) (Ln7338) under which a Bank loan of US\$4.0

million would finance 15 technical assistance and study activities across the four Operation areas. At this writing 67.5 percent of the HTAP loan has been cancelled and only 8.3 percent disbursed. Planned for implementation over the 2005-2009 period, the closing date has been extended to December 2010 (from the original September 2009 date). While its ex-post evaluation is premature at this time, it is already clear that HTAP will be barely implemented and will contribute very little to the results of the Operation.<sup>15</sup> The negative impact upon the Operation results of it not being implemented is testimony to its importance as part of the overall design. A particular loss was the Operation's M&E (discussed in the next section).

### 3. Implementation

3.1 Brazil's sound macro-economy during project implementation provided a positive backdrop to the performance of the Operation (Table 3.1). GDP growth remained significant and accelerated after Operation completion—until the 2008 global financial crisis—perhaps contributing to the Government's reluctance to continue with Operation-II. Inflation fell over the period, as did interest rates—that increased the demand for SBPE/FGTS mortgages (Table 4.1). But interest rates did not approach normal international levels needed to augur the Brazil's much-awaited free market in housing finance (see also Table 1.1). Government expenditures during this period remained relatively stable, as a percentage of GDP.

**Table 3.1 Brazil: Macroeconomic Indicators 1998-2008**

	2004	2005	2006	2007	2008	2009
GDP growth (annual %)	5.7	3.2	4.0	5.7	5.1	0.2
Inflation, consumer prices (annual %)	6.6	6.9	4.2	3.6	5.7	
Lending interest rate (%)	54.9	55.4	50.8	43.7	47.2	
Deposit interest rate (%)	15.4	17.6	13.9	10.6	11.7	
Government consumption expenditure (% of GDP)	19.2	19.9	20.0	19.9	20.2	
<i>(timelines)</i>						
<i>Housing Sector Reform Operation</i>						
<i>Operation-II (planned but not implemented)</i>						
<i>Housing Technical Assistance Project (ongoing)</i>						

*Source: World Development Indicators*

3.2 MOC and CEF, as the main executing agencies, implemented most of the Operation by taking the agreed prior actions forward. How far forward will be assessed in the following chapter of this report.

3.3 But the Government did not wish to pursue the follow-on project further. From what the IEG mission learned in Brasilia, the ICR was correct in concluding that: "Government did not require a fast disbursing loan at this time due to its improved fiscal stance" and "did

<sup>15</sup> In comments on this PPAR, MOC describes a series of courses, live and distance learning, underway thanks to HTAL (see: Annex C).

not need to borrow for budget support” (ICR p. 13 and p. 16). While understandable from the data available, this turn of events raises an important concern about the vulnerability of the Bank’s longer-term sector policy lending to the volatility of short-term shifts in fiscal performance unrelated to the performance and needs of target sector.

## **MONITORING AND EVALUATION (M&E)**

3.4 M&E is rated **negligible**. M&E was not a key part of the Operation design itself. The PD treatment of M&E was covered in one paragraph (para. 5.26) and a three-page Annex 8 of a 105 page report. The PD therefore provides few details of baseline or target values of performance indicators. It does not indicate who should collect the M&E data and how.<sup>16</sup> M&E for the Operation was left to HTAP that, barely implemented thus far, did not deliver the M&E hoped for.

3.5 Thus M&E performance under this operation is widely recognized in both the Bank (ICR p. 13) and the Government as having been inadequate—a finding endorsed by IEG. This was a serious shortcoming for an operation with a total of 88 prior actions identified. Thirty-three of these were for the planned follow-on Operation-II. Of these, 19 were earmarked as triggers for disbursement. The main reason given for this failure was that HTAP was not implemented.

3.6 How can such a failure be avoided in the future? One answer may be to ensure that all lending operations incorporate M&E fully as a key element of their own designs. Trusting to the vagaries of a parallel activity, even a TA operation firmly linked to the Operation as this was, poses too high a risk. M&E will fail if its host parallel operation is not implemented. Another important question is what to do after a failure like this has occurred? IEG learned that MOC is actively engaged in developing a broader M&E system to measure progress in improving housing conditions and in moves toward sector reform in Brazil. Clearly this is no easy task, especially given the vast scale and diversity of the housing sector in the country. Thus, MOC’s efforts are still work-in-progress at this writing, leaving the Operation still without effective M&E. The lack of M&E implementation and utilization leaves notable gaps: a lack of evidence of housing finance’s down-market moves, and little data on the cost of developing urban land and evidence of the cost reduction intended.

## **4. Housing Sector Results Achieved**

### **MEETING THE OVERALL OBJECTIVE: BETTER ACCESS OF THE POOR TO BETTER HOUSING**

4.1 During the 2004-2006 period of its preparation, launch and implementation the Operation did support the Government’s efforts to bring necessary changes to how Brazil’s

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<sup>16</sup> As the ICR noted: “Given that no specific organization was clearly designated as responsible for monitoring and evaluation of the performance indicators for the DPL, no coordinated effort was made to consolidate the necessary information from the different agencies or to use these indicators to inform decision-making and resource allocation.” (ICR p. 15).

housing sector operated. Given the large scale, diversity and complexity of Brazil's housing sector with many different forces acting upon it, it may be impossible to unequivocally attribute observed outcomes directly to the single tranche Operation reviewed here, as the ICR correctly recognizes (ICR p. 22). With the caveats of unclear attribution and mixed results obtained, the results points to a positive impact of the Operation on the functioning of Brazil's housing sector, likely bringing some additional benefits to the poor.

4.2 Improved housing access by the poor is consistent with the 6.4 percent decline of Brazil's housing deficit between 2004 and 2007. As noted earlier in this report, the poor suffer disproportionately from this deficit. On the other hand, evidence that the poor directly benefited from the expansion of mortgage lending during this period is weak, as is a convincing demonstration that housing finance moved own-market. While these sector changes were occurring, the Government maintained fiscal discipline as the Operation promised it would. The Government's primary surplus was sustained at around 4.0 percent throughout this period and Government debt service (as a percentage of exports) fell from 23.8 percent in 2003 to 10.7 percent in 2007—the latest *World Development Indicators* figure. The performance and outcomes in each of the four Operation areas are mixed too, as the following sections show.

#### **STRENGTHENING HOUSING POLICY AND INSTITUTIONAL FRAMEWORK**

4.3 *Substantial efficacy:* At this writing work is under way on the dissemination of *PlanHab*, the National Housing Plan, a key prior action for strengthening housing policy that was identified by the Operation. Today, thanks to its central stage in Brazil's main stimulus and development programs, the *Minha Casa, Minha Vida* and *PAC*, housing in Brazil probably enjoys its highest policy profile since the creation of the SBPE/FGTS system nearly a half-century ago. But the adoption of these mega-programs cannot be directly attributed to the housing Operation reviewed here. In terms of policy, it is as if housing has outgrown its own sectoral bounds.

4.4 As far as developing a sound institutional framework for housing and urban development is concerned, an important achievement is the consolidation of MOC itself and its Housing Secretariat. Prior to MOC, housing and urban development policy and its institutions were volatile and fractured in Brazil. Several institution set-ups came and went. For instance, a Ministry of Urban Development and Environment was created in 1985, transformed into a Ministry of Housing, Urban Development and Environment in 1987, and changed once again to become a Ministry of Housing and Social Welfare, which was made extinct in 1989. Prior to 1985 and after 1989, the Government's housing and urban development policy responsibility was carried by the Ministry of the Interior. In 1995, the responsibility shifted to the Ministry of Planning, until the creation of the present Ministry of Cities itself in 2003. This stimulated the Operation, which was correctly anchored to the creation of MOC, a positive move for the sector. Since then, MOC has established itself as the Government's principal housing sector interlocutor. At this writing, however, as Brazil prepares for general elections in November 2010, MOC's policymaking role is being challenged by the President's *Minha Casa, Minha Vida* initiative, a challenge that might lessen after the election.



4.5 Even the bold *Minha Casa, Minha Vida* program relies upon the legacy Housing Finance System institutional framework, entrusting its implementation to the *Caixa Econômica Federal* (CEF), the Government's principal saving and loan bank, particularly through FGTS. In the short-term, there is no alternative arrangement, and the Government was pragmatic and realistic about this (as was the Operation too<sup>17</sup>). Recent reports in Brazil's financial press point to deep reform of Housing Finance System likely to begin after 2013 when the Housing Finance System is projected to mobilize insufficient resources for the very high levels of demand for housing and housing finance expected.<sup>18</sup> So the Operation too relied on a Housing Finance System framework whose principal elements had been in place for nearly 50 years. Its bedrock agency today, the CEF, has been in the savings and lending business since 1931. Some IEG mission interlocutors, both in government and in private banking, consider CEF to be the *de facto* lead agency of low-income housing policy formulation too. It was so during the sector's state of institutional flux during the 1980s and 1990s, and it remains so today as implementing agency of *Minha Casa, Minha Vida*, the Government's largest investment program.

4.6 One specific Operation-supported institution building effort prospers little in today's *Minha Casa, Minha Vida* environment. The creation of the National Fund of Social Housing (FNHIS) in 2005 was cited as a key prior action by the Operation. Managed by CEF as its *agente operador*, or operating agency, and expanding to R\$0.9 billion commitments for housing and infrastructure projects for 2009, FNHIS was a new element in housing's institutional framework, but demand at the municipal level, its mainstay, did not take off as much as expected. Being funded by the federal budget meant that unused funds had to be returned at the end of the fiscal year, according to Brazil's budget law. For these reasons, FNHIS was integrated into the *PAC* and *Minha Casa, Minha Vida* sought off-budget funding through FGTS in particular.

#### **STRENGTHENING HOUSING CREDIT AND SAVINGS, MOVING IT DOWN-MARKET**

4.7 ***Substantial efficacy:*** By 2009, housing finance through Housing Finance System in Brazil expanded in real terms more than six-fold since before the Operation in 2004, while number of housing units financed grew at half the rate (Table 4.1). This difference is reflected in the average Housing Finance System mortgage loan size that nearly doubled in real terms from R\$37,334 in 2004 (in R\$ of 2009) to R\$71,786 in 2009. SBPE loans expanded most, thanks to increased savings in an economy growing at 5 percent per annum, and banks' statutory requirement to apply 65 percent of new saving to housing finance. FGTS loans grew at only half the rate despite Government efforts, supported by the Operation, to allow banks other than CEF access to FGTS funds. For SBPE lending,

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<sup>17</sup> The Housing DPL PD did, however, refer to the gradual phasing out of the SBPE directed credit system, but only "When interest rates normalize and converge and the secondary market for mortgage {SIC} is fully consolidated." (PD p. 20). But, as noted earlier, the DPL did not bring specific proposals to the table about this.

<sup>18</sup> Adriana Cotias *Valor Economico* March 19, 2010.

**Table 4.1 Housing Finance in Brazil 2004-2009 (in constant 2009 R\$)**

	New Loans*						
<b>SBPE</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Total</b>
Mortgage loans (R\$b.)	3.9	5.9	10.7	20.2	31.7	30.2	102.6
Mortgage loans (number)	53,826	61,123	113,873	195,900	299,685	270,982	995.4
Average loan size (R\$)	72,526	96,829	93,593	102,197	105,925	111,397	103,074
<b>FGTS</b>							
Mortgage loans (R\$b.)	3.6	5.4	6.3	7.2	11.0	15.8	49.3
Mortgage loans (number)	220,334	299,554	367,149	246,729	236,662	370,244	1,740.7
Average loan size (R\$)	16,293	18,075	17,153	29,213	46,646	42,793	28,321
<b>SBPE + FGTS</b>							
Lending (R\$b.)	7.5	11.3	17.0	27.2	42.8	46.0	151.8
Mortgage loans (number)	274,160	360,677	481,022	442,629	536,347	641,236	2,736.1
Average loan size (R\$)	37,334	31,421	35,249	61,517	79,768	71,786	55,482
<b>Outstanding Loan Amounts**</b>							
<b>SBPE</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>-</b>
Savings (R\$b.)	171.2	169.4	175.8	207.1	228.1	250.4	-
Mortgage loans (R\$b.)	31.6	33.4	37.1	41.7	50.7	64.4	-
Construction loans (R\$b)	3.9	5.4	6.2	6.9	10.4	15.1	-
Private lenders' share (%)	41.8	41.4	41.8	43.4	44.6	43.6	-

Sources: \*\* ABECIP, CEF, BACEN; \*\* BACEN

BACEN data shows how the total outstanding mortgage debt increased during 2004-2008, although by less than the reported increased lending would lead one to expect. SBPE's outstanding mortgage debt as a share of the stock of savings increased from 18.5 percent to 25.7 percent over the period, indicating a more intensive use of savings for mortgage lending purposes. A positive sign of housing sector development, given the supply-side constraints, is the rapid increase of outstanding construction loans. These nearly quadrupled between 2004 and 2009. Finally, it is worth noting that the relative constancy of private banks' share of outstanding mortgage debt points to business as usual in the Housing Finance System. Private funding of housing finance will only take off toward its potential after interest rates in Brazil's financial markets are normalized, prompting the inevitable deep sector reform.

4.8 The remainder of this section looks at some outcomes related to the strength of Brazil's housing finance system today, the market shift up or down, and whether they can be attributed to the Operation.

4.9 **Housing finance has far to expand in Brazil:** Measured by both the award of new loans and the total debt outstanding, mortgage lending expanded significantly in Brazil. It

represents an improvement, albeit within the confines of the existing Housing Finance System. The biggest gains were in 2008 and 2009, mostly through additional CEF lending. Outstanding mortgage debt increased by 46 percent in real terms over the 2004-2009 period, while GDP growth itself accumulated 26 percent. Although large in absolute terms because of the size of the country, mortgage debt in Brazil is still relatively small for the scale of its economy as noted earlier in this report (para. 1.6). IEG learned from bankers in São Paulo that to expand beyond the present 2-4 percent of GDP niche in which it finds itself, housing finance in Brazil will most likely expand, as in most advanced countries, through increases of unshackled private funding. More private funding would be driven by a growing economy and the normalization of Brazil's interest rate regime, developments that could lead housing finance beyond the Housing Finance System straightjacket in the medium to long-term. The expanded housing finance market sought by the Operation would require, as a counterpoint, strengthening the supply lines of housing itself through better infrastructure and greater participation of more agile private developers and builders. All these, it should be stressed, would be the consequences of deep housing sector reform outside the SBPE/FGTS duo, something beyond the scope the Operation reviewed here.

**4.10 There has been some growth, nevertheless:** Improvements on the demand side, on the other hand, have helped expansion of housing finance. First, nearly 50 percent more savings in real terms during 2004-2009 has likely helped make more households into potential home buyers eligible for mortgage loans. But this effect is also the result of a buoyant macro-economy over this period. A second improvement that bolstered the quantity and quality of demand for mortgage lending, the widespread use of the *alienação fiduciária* (trust deed) instrument as mortgage lien, is directly related to the Operation. First introduced through Law 9,541 of 1997, the trust deed was put to more widespread use after being identified as a key prior action by the Operation. It was a lot more attractive to lenders than the conventional mortgage instrument—called a *hipoteca* in Brazil—which is slow and difficult to execute through the courts in cases of loan repayment default. An important legal difference is that the trust deed withholds full ownership until the loan is fully repaid, making its execution in a court of law more agile. Delinquencies (when repayments are more than three months late) on loans backed by trust deeds were only 1.2 percent in 2009, compared with 33.1 percent for loans backed by mortgages. Greater use of trust deeds helped reduce SBPE delinquency in general from 9.7 percent in 2004 to 2.8 percent in 2009.<sup>19</sup>

**4.11 Securitization:** Strengthening housing finance through mortgage-backed securities by consolidating secondary mortgage markets has had mixed results thus far in Brazil. The legal framework is in place. Laws 11,033/04 and 11,053/04 recognizing institutions entitled to carry out this business and affording them income tax breaks on the transaction were key prior actions for the Operation. From this, businesses have been established, especially in São Paulo, to launch securities on the market backed by real estate loans for residential *and* commercial property. From visits to two operators in this market, the IEG mission could see that they were well prepared and equipped to conduct this business. Their deals were typically in the R\$4.5 million to R\$470 million range and they demonstrated the professionalism and technical know-how for the job. Pension funds and other institutional

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<sup>19</sup> Delinquency data, based upon repayments delayed three months or more, from ABECIP (Associação Brasileira de Entidades de Crédito Imobiliário).

investors were the typical buyers. This secondary market's performance has lapsed at this time, however. After being laggard since 1997 when it was created, the market picked up in 2005 through the sales of these securities called *Certificados de Recebíveis Imobiliários* in Brazil. Sales peaked in 2008 to R\$4.9 billion (US\$2.7 billion) but fell thereafter to a trickle at this writing in the wake of the international financial crisis.<sup>20</sup> Just R\$0.4 billion-worth was auctioned in the first two months of 2010. Brazil's level of financing through secondary mortgage markets is about half Mexico's, the region's leader. Thus, securitization in Brazil mobilizes only a small share of what is still only a small market lodged within the SBPE/FGTS constraints. FGTS regulations themselves prohibit the securitization of mortgage loans that it funds. Banks are required to hold FGTS-funded mortgage loans on their balance sheets. With the fall-out of the sub-prime crisis, more countries are following suit, as the risks involved in a mortgage originator bundling and selling poor quality loans to others have become more evident.

4.12 The IEG mission learned from two firms that had auctioned mortgage-backed securities in São Paulo in recent years that the scale of the deals was relatively small, but well received in the market for their A+ or higher credit ratings. Most of the mortgages bundled into the securities were for higher income borrowers, considered lower risk in Brazil's financial markets. Both reported that securitization had become easier with the standardization of mortgage loan documentation that the Operation supported. This made it simpler to identify the components of the bundle and remove the most risky ones from it.

4.13 **Little evidence of down-market shift:** Evidence of the down-market move of housing finance, intended by the Operation, is elusive<sup>21</sup>. For both SBPE, and more sharply for FGTS, average loan size increased in real terms during 2004-2009 (Table 4.1). But, by themselves, the mean values do not describe the distribution of loan sizes. IEG sought data on the number of loans and amount lent per cohort of loan size, but was unable to obtain it. Without such data, evaluation findings must remain tentative. But, significantly rising average loan sizes make housing finance less affordable to households at least across some if not all ranges of the income distribution. If it less affordable in the lower income part, then housing finance would have moved up-market. Even without knowing the distribution, we can conclude that larger loan sizes are not compatible with an increasing *share* of total lending going to lower income households. Out of concern for a possible drift of lending away from lower-income borrowers, Resolution 3347/06 of the National Monetary Council introduced a system of weights that made it easier for lending banks to meet the minimum requirement of 65 percent of savings going to housing, by doing more SBPE lending to lower income borrowers. On the FGTS side, the ICR reports that a falling share of lending—from

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<sup>20</sup> Beyond Brazil, securitization of mortgages is undergoing a thorough review worldwide, and it is unclear at this time, how the future of mortgage-backed securities will unfold. As recent research has shown (Renaud 2007), securitization propagated high-risk sub-prime lending in the US, now widely regarded as the trigger, if not cause, of the global financial crisis. At this writing, investors are looking warily at such securities, now seen as bundles of mortgage loans harboring much more risk than previously imagined. Also US sub-prime lending is, in practice, suspended.

<sup>21</sup> In comments on this PPAR, CEF regards the growth of housing finance through FGTS itself as being evidence of lending to low-income families. IEG sees the need for additional evidence, such as an increasing share of all FGTS lending going to low-income families over time.

85.6 percent in 2006 to 71.4 percent in 2008—went to households earning five minimum salaries or less (ICR p. 19). More recent data cited by the Government in its comments on this report point to a modest increase in the share of all FGTS mortgage contracts going to families earning three minimum salaries or less from 25 percent to 28 percent between 2008 and 2009. Without knowing the distribution of all lending by average loan size across all market segments (FGTS, *Minha Casa, Minha Vida* and others) and knowing how this has changed over time, the limited evidence available does not directly support the ICR’s finding of “improved targeting to low-income borrowers” (ICR p. 12).<sup>22 23</sup>

**4.14 Private sector finance has still to take off:** Behind several Operation prior actions, such as Monetary Council Resolutions and SBPE Regulations (details Box 3), is the expectation of greater private sector participation in housing finance in Brazil. Actual results achieved have been modest. One (private) banker in São Paulo even complained about state banks recently buying up small private banks in Brazil. As noted earlier in this report, private lenders’ share of outstanding SBPE mortgage loans increased very little over the 2004-2008 period from 41.8 percent of the total to 43.6 percent. At this writing, CEF alone is still responsible for 79 percent of all new mortgage loans awarded. CEF’s position on FGTS funding is still more dominant, accounting for 98.3 percent of all FGTS loans in 2004, and 96.9 percent in 2008. As well as operator, CEF is also guarantor of the FGTS, giving the appearance of a conflict of interest in CEF’s role of screening other lenders’ access to FGTS. Why should CEF take the extra risk of allowing others to use FGTS funding, when CEF would be ultimately responsible in case of another lender’s default? The IEG mission found officials of CEF and the FGTS *Conselho Curador* (Governing Council) open and willing for private and other state banks to participate, even if some officials were concerned about private banks making excessive profits out of FGTS. Representatives of these banks told IEG that they found CEF’s protracted processing and tight spreads offering little profit constituted a bureaucratic firewall that prevented banks other than CEF from participating on a significant scale. Some even proposed that what they called the “hellish” bureaucracy surrounding mortgage loan origination through FGTS was designed to keep non-CEF lenders out of the FGTS game. MOC, CEF and FGTS officials reminded the IEG mission that official policy was to make FGTS funding accessible to all interested banks.<sup>24</sup>

**4.15 The interest rate trap:** The demand for mortgage lending in Brazil during 2004-2008 was spurred by rising incomes through economic growth and declining interest rates

<sup>22</sup> Using data of the allocation of FGTS subsidies by salary level of beneficiaries, as the ICR does (ICR p. vi) as evidence of moving housing finance down-market is not convincing. Subsidies are more accurately interpreted as measures to correct for market distortions or to redistribute market allocations for policy reasons. Convincing evidence of a down-market shift of housing finance would include time series data showing an increasing share of the volume of all housing finance going to lower income borrowers over the period of the project. IEG requested such data or its proxy (e.g. housing lending going to small loans affordable by low-income borrowers), but was unable to obtain any.

<sup>23</sup> Government comments on this PPAR (reproduced in Annex C), reported, specifically for the *Minha Casa, Minha Vida* program at the national level, an increase in the share of all mortgage contracts going to families with less than six minimum salaries from 67 percent to 92 percent between 2008 and 2009, and a reduction from 24 percent to 5 percent for those families with more than six minimum salaries.

<sup>24</sup> Furthermore, in comments on this PPAR, CEF listed the measures that CEF has taken to facilitate private abnks’ access to FGTS (Annex C)

(Tables 1.1, 3.1 and 4.1). Despite the fall, interest rates in Brazil still remain extraordinarily high, and the interest rate regime unreformed. This has meant that, at this writing, “normal” market-driven solutions for housing finance cannot prosper, and only the “exceptional” Housing Finance System can still fund mortgage lending on a large-scale. Even this falls far short of Brazil’s potential and the levels already achieved by comparator countries, as noted earlier in this report. The Operation design did recognize the constraints posed by Brazil’s high interest rate regime: “Continued high interest rates will hamper the expected development of the housing finance market and housing subsidies will remain necessary in the medium-term.” (PD p. ii). Indeed, unsubsidized mortgage loans in Brazil’s current system are not feasible and would be affordable only by households in the top percentiles of the income distribution—and, even then, only if such households felt them to be worthwhile. In practice, very few high interest loans are offered because there are so few takers in the market. Realistically, the Operation recognized that “the full deregulation of the current government-directed housing finance system” will not happen in the short-run (PD p.2), and that “Sustainable lower interest rates depend on a further remaining structural reform agenda” (PD p. 5).<sup>25</sup>

**4.16 The outlook for housing finance in Brazil:** Brazil’s housing finance system has the potential to become much larger and stronger, as well as move down-market, but maybe not much in the short run. Comprehensive housing sector reform is likely to follow the normalization of the financial system as a whole, which would take interest rates in Brazil down to levels of comparator markets. Mortgage financing could easily quadruple in a scenario of private sector lenders moving in with resources mobilized on efficient financial markets—an enormous increase, but one only bringing Brazil into line with comparator countries. But there are supply-side constraints in the real housing market for such a scenario. The Operation PD itself noted that formal developers and builders provided only 250,000 units in 2003, just one quarter of the supply needed to house Brazil’s one million additional households that year (PD p. 7). Still such rapid growth would have to be calibrated with expansion of the real housing economy. Supply-side constraints in particular would have to be overcome through expansion of the developer/construction industry, and the improvement of municipal urban planning, land use and building regulations.

**4.17** If extra housing finance boosting demand is not met by additional housing supply, it can stimulate a bubble of rising house prices, as current developments in Brazil<sup>26</sup> and experiences elsewhere have shown. The recent experience of Spain, a country with a more open financial system than Brazil’s and with a strong construction sector, provides a striking counterpoint. Even with an agile supply-side response between 1996 and 2006 when annual

<sup>25</sup> While in Brazil, the IEG mission inquired of participants of nearly all meetings why interest rates remained so high. A common reaction was to note that, by historical standards, they are not so high. Thus, only fifteen years ago, at a time of high inflation and recent government default on debt, people remember interest rates that were three times higher than what they are today.

<sup>26</sup> A recent press report informed that MCMV has heated up local real estate markets, doubling the price of units for “low-income” households that were in the R\$40K to R\$50K range to more than twice that level over a period of twelve months in the region of the capital Brasilia (*Correio Braxiliense* April 4, 2010). Early 2010 residential real estate prices in Sao Paulo were reported to be 50 percent higher than twelve months earlier in 2009, and actual sales have increased 25 percent, pointing to a market overheated by the greater supply of financing (*Diario Comercio, Industria e Servicos* April 13, 2010).

construction output in Spain increased from 200,000 units to 600,000 units, real house prices still rose 170 percent in that country. Housing finance accelerated far ahead of house building. Rising prices helped take residential construction from 4 percent of GDP in 1995 to more than 8 percent by 2006. Affordability—measured by the ratio of house prices to household income—was badly hit as it rose from 2.8 to 5.5 over the same period. Rising house prices hit low-income households particularly hard, excluding many of them from the home-owners' market altogether (Kim 2009). There may be lessons for Brazil about calibrating the expansion of housing's financial and real sectors in the context of housing sector reform.

#### **DESIGNING AND IMPLEMENTING A UNIFIED HOUSING SUBSIDY SYSTEM FOR THE POOR**

4.18 *Modest efficacy:* As part of its preparation of the National Housing Plan, MOC is working on preparing a national housing subsidy policy. The work is broad-based, encompassing direct up-front subsidies to be awarded by the Federal Government through *Minha Casa, Minha Vida*, for instance, existing below-market interest rate subsidies through SBPE and FGTS, and indirect subsidies of income tax deductions on mortgage interest payments. By a large margin, most housing subsidies in Brazil are provided through the below-market interest of the Housing Finance System mortgage financing, since interest charged on SBPE and FGTS loans is much lower than it would be if determined by the parameters of Brazil high interest regime.

4.19 Among these subsidies, the Operation focused upon consolidating and rationalizing them. This included strengthening the *Programa de Subsídios a Habitação de Interesse Social* (PSH – Subsidy Program for Social Housing) by ensuring that its budgetary resources continued to be made available. It also meant adding up-front subsidies to (the already subsidized) FGTS. Originally established in 2001 as a pilot program, PSH was retained as a permanent instrument for providing up-front housing subsidies for the construction of social housing through Laws 10,008/04 and 10,998/04. Both laws left it for the implementing agency, the CEF in this case, to decide which target income groups would benefit at the time of implementation. At this time, an autonomous PSH has lost momentum, having disbursed nothing since November 2009,<sup>27</sup> having been incorporated into *Minha Casa, Minha Vida*. Another reason for its slow-down may have been the feeble take-up by states and municipalities and by private operators. The IEG mission heard complaints about PSH's excessive bureaucracy, in much the same vein as criticisms of FGTS processing. Smaller and under-capitalized developers and builders were more willing to bid for PSH funds in auction in order to get a foot into the market, but were often unable to mobilize their own counterpart funding needed to complete the deal which would then fall through. Despite not having taken off, the PSH experience served to stimulate a long-overdue discussion in Brazil about up-front housing subsidies. Results having fallen short of achieving a unified subsidy system for the poor.

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<sup>27</sup> [http://agenciabrasil.ebc.com.br/home:jsessionId=3E1E39EB0D4DB4A2943BC9964CA66F5E?p\\_p\\_id=56&p\\_p\\_lifecycle=0&p\\_p\\_state=maximized&p\\_p\\_mode=view&p\\_p\\_col\\_id=column-2&p\\_p\\_col\\_pos=3&p\\_p\\_col\\_count=4&\\_56\\_groupId=19523&\\_56\\_articleId=189785](http://agenciabrasil.ebc.com.br/home:jsessionId=3E1E39EB0D4DB4A2943BC9964CA66F5E?p_p_id=56&p_p_lifecycle=0&p_p_state=maximized&p_p_mode=view&p_p_col_id=column-2&p_p_col_pos=3&p_p_col_count=4&_56_groupId=19523&_56_articleId=189785)

4.20 FGTS, with its below-market interest rates, already embodies a significant housing subsidy driven by the state. Even so, direct up-front subsidies were added to the FGTS package for the first time after the Operation. According to the ICR, 70,000 FGTS borrowers received R\$380 million in 2008, equivalent to R\$5,430 per household. Using up-front subsidies in FGTS for the first time was an important program innovation, albeit introducing a double subsidy for one borrower; the lump sum and below-market interest.

4.21 Reading the ICR (p. 12) that: “Housing subsidies in Brazil had traditionally been embedded in below-market interest rates inherent in the FGTS system and to a lesser extent in the SBPE system” might leave a false impression that such below-market interest rate subsidies are a thing of the past. But that is not the case. Nor is there evidence to support the PD finding that there had been “a clear shift away from implicit interest subsidies” (PD p. iii). On the contrary, at this writing, up-front subsidies are very far from replacing the below-market-interest-rate-subsidy, the mainstay of FGTS and SBPE.

#### **REDUCING THE COST OF FORMAL LAND DEVELOPMENT<sup>28</sup>**

4.22 *Negligible efficacy:* IEG found little evidence of lower costs of urban land delivery sought by the Operation. Meaningful and comparable data about the real costs of formally developing urban land across and within different cities in Brazil is not generally available. Even if current data is obtained, it will be impossible to establish whether costs have risen or fallen over time without baselines for generally accepted indicators. IEG cannot therefore report a satisfactory Operation outcome in this area.

4.23 As noted earlier in this report, the Operation fell short in identifying prior actions that might have best led to the desired outcome. The Operation focus upon the regularization of land tenure in *existing* informal settlements, such as *favelas*, relied upon a prior action unlikely to lead to the desired outcome of lower costs for the provision of *additional* urban land. Even so, it is important to recognize important MOC work in this area that has obtained good results thus far, even if it did not directly contribute to the desired Operation outcome.

4.24 With the help of the *Cities Alliance* MOC has, since 2006, produced a number of very useful documents on land title regularization. They include summaries of and guides to model practices, to be emulated, that involve municipal administrations and non-governmental organizations (NGOs) across the country. In particular, they highlight how to make the role of notaries public, called *cartórios* in Brazil, more effective. IEG learned of successful examples in the northern State of Pará and in São Paulo too. A field visit by the IEG mission to São Paulo revealed how far title registration can now be done directly by the interested party on the Internet. To inform legal opinion, MOC has prepared texts of the laws and regulations governing title regularization, as well as references to case law. To make the topic more accessible by the most interested party, the resident head of household, MOC designed and produced well-illustrated manuals using readily understood and simple language. Finally, with an eye upon the international dissemination of these experiences,

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<sup>28</sup> This PPAR understands formal land development, to be the process of subdivision and the introduction of urban services and infrastructure to provide *additional* urbanized land that is ripe for urban development, in this case for housing.



some of the documents have been prepared in English. All this work makes clear that title regularization is not an easy task. It should be made easier once the draft Law of Territorial Responsibility is approved by Congress where it is still currently under discussion, as it has been for these past several years. This work also makes clear the need to modernize Law 6766 of 1979 that still provides the legal framework for land and property registration in Brazil.

## 5. Ratings

### OUTCOME

5.1 ***Rated: Moderately Satisfactory.*** The project achieved its relevant objectives of improving the access of the poor to better quality housing with some moderate shortcomings; the weakness of evidence of a downward shift in the housing finance market, little lasting impact upon subsidies, and no evidence of lower costs of urban land delivery. “Housing Sector Reform” was in the title of the Operation (but not in the formulation of its objectives) but deep sector reform will likely be for the medium to long-term, and has barely begun. In the meantime, the Operation supported useful improvements within the existing Housing Finance System—incentives for financing ore lower income housing, use of the trust deed as a property lien, and tighter regulation of housing credit institutions, for instance—earning this operation a positive outcome rating, but did not take even preliminary steps for reorganizing the half-century old Housing Finance System, an inevitable step for Brazil to achieve the comprehensive housing reform that it seeks and needs.

### RISK TO DEVELOPMENT OUTCOME

5.2 ***Rated: Moderate.*** The Government’s commitment to ongoing changes in the existing Housing Finance System and its reform in the medium to long-term is not likely to waver. The enormous potential for expanding Brazil’s housing finance beyond the present straight-jacketed housing market and improving the quality of the housing stock for poor households is there. The deep reform of housing finance will be unavoidable once Brazil’s financial markets and interest rate regime normalize. But without proper preparation on the real supply and demand sides of the housing market, which the Operation addressed little, an explosion of housing finance would lead to soaring property prices and a real estate bubble. An over-heated property market risks undermining the gains made thus far with the support of the Operation.

### BANK PERFORMANCE

5.3 ***Preparation and quality-at-entry: rated Moderately Satisfactory.*** Project preparation was thorough, except for M&E that was assigned to the parallel Technical Assistance operation that was not fully implemented and given cursory treatment by the Operation design. Project design had realistic expectations of what might be achieved through the operation. But entitling the operation as “Housing Sector Reform” was, perhaps, an overstatement of what it set out to achieve. To help bring about improvements to the existing Housing Finance System, the Operation design focused upon supporting actions that would help bring about needed changes. A weak part of the design was the Operation’s

inclusion of land tenure regularization, a worthy topic but not one that, by itself, could lower the costs of new urban land delivery as the operation boldly intended.

5.4 ***Supervision: not rated.*** For a single tranche DPL such as this, there was no formal supervision. Although the ICR reported 14 staff weeks (US\$181,930) spent on supervision, this was, in fact, for the preparation effort of the Operation-II that did not come to fruition. As has become normal DPL practice, Bank supervision missions were not fielded primarily to monitor and report on implementation progress. Instead, ostensible Bank supervision missions worked on the preparation of the expected follow-on Operation-II, whose 33 prior actions were already identified in the PD of the (first) Operation, the operation reviewed here.

5.5 ***Overall Bank Performance: rated Moderately Satisfactory***

#### **BORROWER PERFORMANCE**

5.6 ***Government: rated Satisfactory.*** The Government, through MOF and MOC initially demonstrated strong ownership of the Operation. Their commitment to improving the Housing Finance System was strengthened as housing took a prominent role in Government development and stimulus programs, particularly the *PAC* and *Minha Casa, Minha Vida*. But, with stronger fiscal revenues than expected, the Government had less need of the loan funds offered by the Bank and decided not to request the follow-on Operation-II that had been factored into the design of the first operation. With this decision, the Government continued to pursue its path toward housing sector reform, but without the support of a second Operation. As a result the Government/Bank housing sector dialogue diminished.

5.7 ***Implementing Agency: rated Satisfactory.*** In several respects MOF and MOC were implementing agencies for the operation, and, as such, they performed proactively, carrying forward selected prior actions that were deemed to be taking the operation toward a successful outcome. As noted earlier in this report, the achievements in the case of MOC especially should not be underestimated. Under the Operation, MOC had to undertake many actions at its own cost for which there was not direct reimbursement through the Operation, of course.

5.8 ***Overall Borrower Performance: rated Satisfactory***

## **6. Lessons**

- When deep sector reform is sought by Government and warranted by the challenges posed by existing constraints, Bank operational support should realistically address such reform, initially through scenarios that cover the necessary reform steps and timelines. At the same time Bank assistance can and should continue to support improvement and strengthening of the existing Housing Finance System arrangements as this Operation did. But calling such interim support “sector reform” can mistakenly convey the idea that deep reform is already under way, when much still needs to be done just to get the process started.

- Strengthening housing finance is an important sectoral goal, but it should be pursued alongside efforts to overcome bottlenecks in real housing supply and demand that, if not overcome, may lead to a surge in property prices, creating a real estate bubble and collapse—as experience elsewhere has shown.
- M&E should be an integral part of the operation it is monitoring. Establishing a new M&E system or consolidating an existing one should be a key prior action for a DPL, and trigger for subsequent operations or tranches. Consigning M&E to another operation (such as a parallel TA Project in this case) diminishes M&E's importance, and increases the risk of a total loss of it if the host operation fails.
- Particularly for a sector like housing, that tends to assume a *sui generis* form in each country, Bank assistance to try to bring an innovative outsider's perspective upon the country housing sector problems. Bank value-added for its clients comes through offering different advice from local expert opinion and knowledge that exists in abundance, especially in a middle-income country.



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## Annex A. Basic Data Sheet

Brazil: Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform (Loan 7306)

### Key Project Data (amounts in US\$ million)

	<i>APPRAISAL ESTIMATE</i>	<i>ACTUAL OR CURRENT ESTIMATE</i>	<i>ACTUAL AS % OF APPRAISAL ESTIMATE</i>
Total project costs	502.5	502.5	100
Loan amount	502.5	502.5	100
Cofinancing	-	-	-
Cancellation	-	-	-

### Cumulative Estimated and Actual Disbursements

	<b>FY06</b>
Appraisal estimate (US\$M)	502.5
Actual (US\$M)	502.5
Actual as % of appraisal	100.0
Date of final disbursement:	May 9, 2006

### Project Dates

	<i>ORIGINAL</i>	<i>ACTUAL</i>
Negotiations	-	04/13/2005
Board approval	06/14/2005	06/14/2005
Signing	04/11/2006	04/11/2006
Effectiveness	05/09/2006	05/09/2006
Closing date	06/30/2006	06/30/2006

**Staff Inputs (staff weeks)**

		<i>Staff Weeks</i>	<i>USD Thousands (including travel and consultant costs)</i>
Lending			
	FY03	5	104.73
	FY04	-	0.24
	FY05	26	252.41
	Total	31	357.11
Supervision			
	FY06	13	143.48
	FY07	1	41.44
	Total	14	184.92

**Mission Data**

	<i>Name</i>	<i>Title</i>	<i>Unit</i>
Lending/Supervision/ ICR	Maria Emilia Freire	Regional Adviser (Task Manager)	LCR
	Loic Chiquier	Lead Financial Officer	GCMNB
	Dean A. Cira	Senior Urban Specialist	EASVS
	Ivo G.P. Imparato	Senior Urban Specialist	LCSUW
	Pedro Olinto	Senior Economist	DECVP
	David N. Sislen	Sector Leader	LCSSD



## Annex B. Policy Matrix (from May 11, 2005 draft of Program Document) plus IEG Comments

MATRIX OF OBJECTIVES, KEY ACTIONS AND OUTCOMES (from Program Document Annex 2)						
Issue /Policy Need	Actions prior to Proposed Loan Growth DPL / Housing	Actions Prior to Subsequent Growth DPL Supporting Housing (loan triggers in bold)	Complementary TA Activities	Performance / Outcome Indicators	Medium-term Outlook	IEG PPAR COMMENTS
<p><b>Policy Area #1. Strengthening the Housing Policy and Government Institutional Framework for the Housing Sector</b></p> <p><b>Relevant Objective: To support the Government in its efforts to develop a sound national policy and institutional framework for housing and urban development.</b></p>						
<p>1. Strengthen government's hierarchy of housing policy making institutions: MOC, SNH, technical units, Interministerial coordinating</p>	<p>Creation of the Ministry of Cities, of the National Housing Secretariat (SNH) representing the commitment of the Federal Government to treat Housing and Urban Development as State priorities. (Law 10.683, May 28 2003)</p> <p>Legally establish the National Housing Secretariat - SNH (<i>Secretaria Nacional da Habitação</i>) as the federal agency responsible for housing sector policy, programs and actions, including, inter alia: (a) creation of a technical unit to design the housing plan and conduct the associated monitoring and evaluation; and (b) contracting of staff/consultants for producing the Plan and operating the technical unit.</p> <p><b>Preparation of the National Housing Policy</b> document with the participation of a wide array of stakeholders containing the proposals of the Ministry of Cities to the formulation of the National Housing Plan as well as the principles, guidelines and objectives for the sector.</p> <p><b>Creation of an inter-ministerial committee</b> to follow up proposals on the market-based and/or subsidy components of the Housing Policy</p> <p>Creation of a Housing Production Directorate to act as a unit of policy analysis and monitoring actions of housing programs in the Ministry of Cities..</p>	<p><b>Elaboration and dissemination of National Housing Plan</b> and its monitoring with the participation of all relevant actors, defining targets, priorities, and investment levels over the next 20 years.</p> <p>Develop and make operational the monitoring and evaluation system for the National Housing Plan.</p>	<p>Technical assistance to strengthen the managerial, technical and operational capacities within SNH in support of the National Housing Policy, National Housing Plan and its instruments.</p> <p>Technical assistance to support the dissemination, monitoring and evaluation of the National Housing Plan.</p>	<p>Completion and dissemination of the National Housing Plan</p>	<p>Multi-year development plan with clear targets established at the three levels of government and monitoring indicators to evaluate progress towards the goals to improve access to shelter and deepen the financial market</p>	<p><b>At this writing, MOC still has to complete the preparation and dissemination of the National Housing Plan. The Housing Plan itself has been pre-empted by the launch of <i>Minha Casa Minha Vida</i>, an economic stimulus program focused upon housing that has come directly out of the President's office.</b></p> <p><b>Through its support to MOC, the DPL helped develop the broad institutional framework of housing and urban development.</b></p> <p><b>The narrower institutional framework for housing finance based upon FGTS and SBPE remained unchanged.</b></p>

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2. Consolidate financial resources for federal housing subsidies.	<p>Approval by the House of Representatives of Project Law 36/2004 defining the National Social Housing Fund (FNHIS) to coordinate transfers, subsidies and funding structures.</p>	<p>Progressive inclusion of federal subsidies under FNHIS, according to final law text as approved by National Congress.</p> <p><b>The government will have regulated the National Housing Subsidy Fund and addressed</b> within the time established in the final version</p> <ul style="list-style-type: none"> <li>• Definition and agreement among the parties of the final rules for management of FNHIS</li> <li>• Definition of mechanisms to ensure wide access to Fund resources to leverage resources from the private sector, beneficiaries and public in general.</li> <li>• Address potential conflicts of interests in Fund administration and possible solutions</li> <li>• Clarification of the type of subsidy mechanisms and subsidy calculations used by FNHIS ( e.g., upfront subsidies, yearly allocations for interest rate subsidies).</li> </ul> <p>Promote transparency of all off-budget housing subsidies.</p>	<p>Technical assistance to support the <i>regulamentação</i> of the National Housing Fund and the definition of the model, mechanisms and adhesion instruments at sub-national government levels, as well as the participation of other financial agents, promoters and technicians.</p>	<p>Group for managing FNHIS established upon the general approval of the Law. OGU resources for housing included in FNHIS in the medium term as determined in the legislation.</p>	<p>Increase the efficiency of the resources available for low income finance and leverage private sector. Resources</p> <p>Public sector resources available for low income housing will be managed in an integrated fashion by intersector institution in line with the perceived need to address market failures and problems of affordability in a targeted fashion</p>	<p>(see policy area #3 below)</p>

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3. Strengthen sub-national governments for implementation of the National Housing Policy and Programmatic action.	<p>Preparation and dissemination of the National Program of Cities' Capacity Building with action lines aimed at institutional strengthening of municipalities in operation of programs and policies of Ministry of Cities.</p> <p>Implementation of measures to map and assess the capacity of the sub-national agencies involved with housing planning and policy, including the COHABs, notably the signing of the agreement (convenio) between the Ministry of Cities, CEF and COHAB's aimed to strengthen their institutional and technical capacity.</p> <p>Institutional and training activities of the municipalities in metropolitan regions through the creation and improvement of their instruments and practices in urban and housing policies within the Slum Upgrading program coordinated by the Secretariat of Housing.</p>	<p>Strengthen technical and operational capacities of sub-national planning and housing entities for implementation of the National Housing Plan.</p> <p>Definition of minimum criteria for sub-national entities to access federal housing funds</p>	<p>Development of tool kits for local planning and housing entities in the functional areas of the Secretariat of Housing.</p>	<p>Number of municipalities with Housing Plans (<i>Planes Directores</i>) prepared and approved.</p> <p>Number of public workers trained by means of the tool kits.</p> <p>Number of municipalities in the metropolitan regions which received training and institutional development actions.</p>	<p>Local governments are able to identify the dynamics of their low income housing market, evaluate the capacity to address the main issues, request assistance from the higher government levels as needed and engage with the community in the development of shared visions to address the shelter problem in a sustainable fashion , anticipating need for further serviced land.</p>	<p><b>State and municipal governments' role within the institutional framework of housing and urban development remains unchanged.</b></p>

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<b>Policy Area #2: Reforms to Increase the Stability and Scale of Housing Finance Market</b>						
<b>Relevant Objective: To support the Government in its efforts to strengthen the housing credit and savings systems, and provide incentives for the housing finance market to expand as well as move downmarket.</b>						
1. Improve regulatory and legal environment for housing finance.	<p>Strengthening of alienacao fiduciaria (trust deed created in 1997, Law 9514) as an alternative mode of collateralization (Law 10.931, 2004)</p> <p><b>Approval of improvements in the housing credit regulatory framework (Federal Law 10,931/2004)</b>, that will propitiate the strengthening of credit institutions interested on housing financing, making it possible to:</p> <p>(a) regulate real estate credit titles;</p> <p>(b) regulate the <i>Patrimônio de Afetação</i> ("affected assets") at real estate developments, introducing efficacious means of inspection and making feasible the continuity of the construction works in case of the developers' bankruptcy;</p> <p>(c) simplify the taxing of "affected assets" through the institution of the Special Tax Regimen (RET – <i>Regime Especial de Tributação</i>), grouping federal taxes in a single tax aliquot; and</p> <p>(d) regulate the solution of controversial legal disputes.</p>	<p>Complete standardization of mortgage instruments (with ABECIPE).</p> <p><b>Present proposal to reduce the judiciary risk in the housing finance contracts</b> strengthening the borrower and lender rights and obligations.</p> <p><b>Study of potential for the development of credit insurance</b></p> <p>Conduct workshops and seminars (<i>promover debates</i>) to promote awareness in the judiciary system, NGO community and congressional committees about importance of efficient housing finance contract execution.</p> <p>Preparation of Draft Project of Law to solve legal ambiguity about capitalization of interests applied to existing portfolios (interpretation of 1933 law).</p>	<p>Support outreach and information dissemination for Judiciary, NGO and Congressional committee members.</p>	<p>Number (and aggregate value) of mortgages issued for existing and new housing, (relative to data of houses build in the formal housing market).</p> <p>Record of court cases on housing finance.</p>	<p>Housing Credit and Housing Finance systems grow to the level of comparable countries such as Chile, South Africa or Spain.</p> <p>Regulatory framework is transparent and credit insurance has been launched allowing better pricing for risky clients.</p> <p>Most newly formed households will be able to access formal, market produced housing – either rental or ownership - according to their preferences and income level.</p>	<p><b>Brazil's existing housing credit and savings systems—FGTS and SBPE—remain strong and in place. Evidence of greater strengthening is thin.</b></p> <p><b>Over the 2004-2009 period, average mortgage loan sizes increased in real terms: 47.5% for SBPE and 162.7%. While the mean loan size figures do not by themselves indicate the directions of the market, they are unlikely to be consistent with the down-market move intended.<sup>29</sup></b></p>

<sup>29</sup> In comments on this PPAR, CEF provided additional details of work done in strengthening the institutional and regulatory framework (details in Annex C).

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1. (cont.) Improve regulatory and legal environment for housing finance.		<p>Improve and consolidate the management information contained in the data base on housing loans from the main agents in the market (e.g., CEF, Financial Institutions, BACEN, developers and Brazil's Securities and Exchange Commission) making such information available to the public.</p> <ul style="list-style-type: none"> <li>- Review of results of law 10,931 and suggestions for further improvements.</li> <li>- Introduce project of law to regulate the system of <i>cadastro positivo</i> (credit risk information) which will include housing credit information.</li> </ul> <p>Introduce proposal of regulation to allow and expand the use of payroll deductions for housing loans.</p> <p>Improve the legal processes related to the housing rental markets with the objective to expand the alternatives to fill the demand for shelter. (Review of Law n° 8,245/1991).</p>				

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2. Strengthen capital market funding systems for housing finance (SFI).	<p>Instituted legal reforms which allow lenders to securitize their housing loans, facilitate the creation of private securitization companies and establish legal framework for capital market instruments <i>Certificados de Recebíveis Imobiliários</i> for mortgage derivatives.</p> <p>Creation of Trust Letters for the rebuying of <i>Certificados de Crédito Imobiliário</i> by resolution of the National Monetary Council (Res. 3,155/2003) aiming at increasing the liquidity of these titles, improving the security of credit holders and stimulating the expansion of a secondary mortgage market.</p> <p>Approval of Laws 11,053/04 and 11,033/04 which facilitate development of mortgage securities, including (a) tax incentives for mutual and pension funds to purchase long term securities; and (b) income tax exemptions for retail investors holding SFI paper.</p>	<p>Adopt revisions in the incentives structures for investment in real estate securities as deemed appropriated in line with studies to be undertaken by the Ministry of Finance. These studies will consider the impact and equity of current tax incentive schemes for investors and analyze alternative incentives to improve the returns (and liquidity) of mortgage securities (including for down-market social housing loans), taking into account the macro-economic environment and the need for an exit clause when macro-economic conditions improve.</p> <p>Assessment of the impact of the measures taken and their revision and improvement, if deemed necessary.</p>		<p>Number (and aggregate value) of mortgage-backed securities, issued and traded. (<i>Certificados de Crédito Imobiliário</i>) registered and authorized by the BACEN and Brazil's Securities and Exchange Commission.</p>	<p>Substantial increase of housing loans, expansion of secondary markets and securitization.</p>	<p><b>Capital market funding for housing finance remains small-scale, with secondary mortgage securitization only incipient.</b></p>
3. Strengthen and facilitate expansion of alternative lenders for non-collateralized shorter term lending for low and moderate income housing.	<p>Include in the existing working group on Micro-credit, including Ministry of Finance, Central Bank, Casa Civil, Ministry of Labor the issue of collection of information on alternative housing finance agents (e.g. micro-credit and cooperatives).</p>	<p>Improve system to collect information on micro-lenders and cooperatives.</p>	<p>Training for alternative lenders in micro-finance and related lending practices.</p> <p>Diagnosis of performance of alternative housing finance agents and proposal to expand their role in the market, including improving the regulation of those agents.</p>	<p>Number of alternative lending agencies included in the data base on housing finance.</p> <p>Improve data base on performance of alternative agents.</p>	<p>Expansion of alternative financing system for low income classes including micro-credit and others.</p> <p>Shared and open information/monitoring systems help alternative agencies to become more relevant in the sector and to reduce exposure of low income clients to dishonest practices.</p>	<p><b>Micro-credit still plays only a small role.</b></p>

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4. Reform of SBPE to expand its scope and move it down-market in the intermediate term and to consider its potential deregulation.	<p>Passage of: Resolution 3,005/2004 of Monetary Council which obliged private banks to increase their housing loans using SBPE funds.</p> <p>Resolution 3177/2004 and its subsequent amendments increased the speed at which Banks were obliged to use SBPE funds for mortgage loans and increased penalties for non-compliance.</p> <p><b>Progress in SBPE regulations (Resolution 3,259 of January 2005)</b> bringing them in line with the sector capacity and introducing weights in favor of loans to low income households or and to low housing value.</p>	<p><b>Preparation of proposals aimed at making housing finance accessible to different income level without discontinuity and considering the characteristics of different sources of funds.</b></p> <p>Diagnosis of proposal to improve in the short run the SBPE with the objective of integrating it in the market in the future when the macroeconomic conditions improve and the interest rates go down.</p>	<p><b>Analysis of performance of SBPE in present housing finance and ongoing regulation;</b> analysis of the impact of an eventual deregulation.</p> <p>Study to develop alternative modalities of housing savings, closer to market instruments</p> <p>Diagnosis/legal review to study alternatives to reduce the gap between FGTS and SBPE housing finance systems..</p> <p>Identify profile of beneficiaries of SBPE and FGTS housing credit by credit instrument and income level.</p>	<p>Increase in aggregate value and number of SBPE mortgages.</p> <p>Deposits retained in BACEN due to lack of adherence to the measures included in Resolution 3529/2005 determining the allocation of SBPE funds.</p> <p>Structure of FGTS and SBPE housing lending by income brackets.</p>	<p>Gradual deregulation of SBPE and integration of its funding into the formal capital market, in line with the consolidation of the macroeconomic stability and the development of the housing finance market system (SFI).</p>	<p><b>SBPE mostly unchanged, albeit with newer flexible regulations favoring low-income housing finance that carry greater weight for banks in meeting the minimum share of savings going to housing finance.</b></p>
5. Improving the targeting and transparency of the FGTS interest rate subsidy program and extended access to FGTS funds.	<p>FGTS accepted use of trust deed as eligible credit collateral.</p> <p><b>Approval of Resolution of Board of Directors of FGTS (Conselho Curador resolution 460, December 2004) (a) improving the targeting and transparency of the of the FGTS interest rate subsidy program differentiated by income group, (b) ensuring that, by 2008, all FGTS resources will benefit households of less than 10 MW ; (c) increased the amount of credit available for households earning less than 6 MW in 2005.</b></p>	<p><b>Implementation of measures to contribute to expand the number of financial institutions that access FGTS</b></p> <p>Other measures to improve the pricing of FGTS credits as identified from the strategic study of FGTS.</p>	<p>Strategic study to revisit the structure, efficiency, and coherence of FGTS' role and activities, including: the restriction for other agents to be able to operate with the Fund and or to access its funds.</p> <p>Study of interest rate pricing for housing lending according to income and credit risk.</p>	<p>Financial institutions with access to FGTS funding for housing finance purposes. Total amount made available for FGTS interest rate subsidies (both for mortgage loans and material construction). Distribution of housing subsidies by income brackets.</p>	<p>FGTS is improving its performance as a provident fund without sacrificing its role in the financing of low income housing.</p>	<p><b>The increased mean size of mortgage loan financed by FGTS is probably not consistent with better targeting toward low income beneficiaries.</b></p> <p><b>FGTS funding for housing is now available to banks other than CEF, but actual take up is limited. Other banks complain about bureaucracy and de facto exclusion by CEF.</b></p>

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<p><b>Policy Area #3: Improve effectiveness and harmonize Federal Housing Subsidies</b></p> <p><b>Relevant Objective: To support the Government in its efforts to design and implement a unified federal subsidy system to address the affordability of housing solutions for the poor.</b></p>						
<p>I: Consolidate and rationalize Federal housing subsidies in order to leverage private funds and local government actions.</p>	<p>Inclusion of the theme of rationalization and coordination of subsidy programs, consistent with the Government housing policy and plan, in the work program of the inter-ministerial working group.</p>	<p>Publication of a plan to rationalize and harmonize subsidy programs (including FGTS interest rate subsidy, FGTS upfront subsidy, PAR and PSH programs and others) in terms of:</p> <ul style="list-style-type: none"> <li>(a) loan to value ratios,</li> <li>(b) maximum house-value to be financed,</li> <li>(c) depth of subsidies across income groups, and</li> <li>(d) Procedures to access subsidy funds.</li> </ul> <p>Including improvements to the income verification process and assurance that beneficiaries of loan-linked subsidies be checked for credit performance.</p>	<p>Consulting services aimed at harmonizing and rationalizing all the housing subsidy programs of the Government.</p> <p>Dissemination of national subsidy programs to improve understanding of federal subsidy schemes at local level.</p>	<p>Preparation and publication of a comprehensive housing subsidy policy as a core component of the National Housing Plan.</p>	<p>Rationalization of subsidy programs with clear criteria of targeting and monitoring.</p> <p>Subsidy system expands the access of credit to low income families, promoting individual savings and encouraging the housing market to answer to the needs of the low income classes as much as possible.</p>	<p><b>Up-front lump-sum subsidies were introduced by FGTS for the first time under this project. Interest-rate subsidies through FGTS and SBPE continue in force.</b></p>



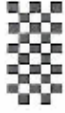
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<p>2. Create a budget financed upfront housing subsidy system for the very low income groups</p>	<p><b>Establishment of the PSH, with approval of Law 10,008/2014, which creates a transparent upfront subsidy program</b> financed from OGU with two distinct schemes: (a) <i>parcelamento</i>, not necessarily linked to credit and (b) <i>financiamento</i>, a credit-linked subsidy.</p> <p>Creation of a transparent auction system for the allocation of PSH resources to expand the universe of participating financial institutions.</p> <p>Creation of a competitive environment for alternative lenders and products by establishing an improved system of pre-qualification of lenders and other agents, including local public sector companies</p>	<p>Ensure that budgetary resources continue to be made available to finance PSH.</p> <p>Requirement within the PSH <i>parcelamento</i> for equity contributions from beneficiaries through cash, and self-help contributions, (except in exceptional circumstances when such contribution is not possible.)</p> <p>Enforce sanctions when bidders do not comply with the terms of the contracts and after PSH is consolidated, establishment of sanctions for bidders that do not execute the number of contracts allocated by the "leilao".</p> <p>Improvement of the technical accreditation process to reduce the risk of possible unfair/illegal practices</p>	<p>Technical assistance to local communities, local governments for structuring and packaging PSH subsidy requests and support the local level to improve transparency and enforcement of targeting of households.</p> <p>Study of how to include municipal contributions in the bid evaluation criteria for the <i>parcelamento</i> program (adjusted according to different levels of human development index across municipalities).</p> <p>Study to assess viability of a program combining <i>parcelamento</i> w/ other programs; in specific municipalities aimed at improve the <b>supply of urbanized land for low income.</b></p>	<p>Amount of PSH subsidies (both <i>parcelamento</i> and <i>financiamento</i>) in terms of aggregate volume and number of households benefiting.</p> <p>% of PSH subsidies which reach the very poor (below 2 MW) under new verification regime.</p> <p>Number of financial institutions participating in the <i>financiamento</i> program</p> <p>Number of <i>parcelamento</i> agents prequalified / application of sanctions for banks which do not comply with the terms of bids</p> <p>Number of municipalities trained in <i>parcelamento</i> procedures</p>		

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<p>3. Improve the FGTS upfront grant subsidy and its harmonization with PSH</p>	<p>Establishment of a new policy of FGTS upfront subsidies with an allocation of SR 1.2 billion for 2005. (Resolution 460)</p> <p>The establishment of criteria for the selection of beneficiaries</p> <p>Inclusion of the subsidy component for existing houses</p> <p>Increase efficiency by increasing owner equity in subsidy formula</p>	<p>Improve design of FGTS upfront subsidy program, taking into account the results of the study to evaluate all subsidy programs. This would include:</p> <ul style="list-style-type: none"> <li>• Broadening lending distribution channels to attract more lenders to low income markets.</li> <li>• Harmonize it with PSH program, including the use of a similar targeting, prioritization and selection system</li> </ul>	<p>Study of prioritization and verification of households in the upfront subsidy study</p>	<p>Number of households which receive upfront grants and aggregate volume of subsidies</p> <p>% of FGTS upfront grants which go to households with &lt;4MW</p> <p>No. financial institutions participating in FGTS upfront grant system</p>		
<p>4. Improve subsidy targeting and monitoring and evaluation of subsidy programs across institutions (particularly FGTS and STN/MOC the PSH administrators).</p>	<p>Both PSH and the FGTS upfront subsidies have included regional allocation criteria and have targeted households below 3MW and below R\$1500 respectively.</p> <p><b>Preparation of a Framework for the Monitoring and Evaluation system</b> of the Housing Program of the Government, with particular attention to the Subsidies component. (For example, Subsidies for Urban and Land Policy, and Housing Finance).</p>	<p>Creation of a program to prioritize and select PSH and upfront FGTS subsidies beneficiaries, including eligibility verification based on expected demand excess.</p> <p><b>Develop and implement a comprehensive monitoring and evaluation system which would include among others (a) ensure that program criteria are respected on a random fashion and establish sanctions when criteria are not met; (b) improve household income verification based on successful methods used in other programs; (c) design verification procedures for household eligibility that can be transferred to the municipal agents. Include other means besides self declaration and CADMUT checking, such as <i>Cadastro Unico</i></b></p> <p>Potential beneficiaries of credit-linked programs (PSH financiamento and FGTS) will be checked on credit performance.</p>	<p>Technical assistance to design a targeting, prioritization, and M&amp;E system. (Review existing household targeting and prioritization used by PSH and FGTS.)</p> <p>Evaluate performance of past PSH and PAR programs to assist in their adjustment and the design of targeting and monitoring systems</p>	<p>M&amp;E system is designed and in place. Execute regular audits consistent with Brazilian law.</p> <p>Periodic and long-term monitoring and evaluation.</p> <p>Completion of an evaluation of the PAR program and the first round of PSH subsidies.</p>	<p>M&amp;E in place and used for accountability purposes for local and central decision makers.</p>	

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<p><b>Policy Area #4: Land and Urban Development</b></p> <p><b>Relevant Objective: To support the Government in its efforts to reduce the cost of formal land development by strengthening land legislation and regulations and real property registries.</b></p>						
<p>Create a legal framework that would reduce the cost of formality, provide incentives for the regularization of land tenure, and the development of progressive housing and infrastructure.</p>	<p>The Government has championed the public consultation process and supported the drafting of a new land law, known as the Law of Territorial Responsibility, which aims to (a) define new requirements for the development of urban land; (b) establish more flexible procedures for land development projects; (c) reduce the cost of land development; (d) promote the regularization of low income settlements based on the right to shelter.</p> <p>The Government has undertaken a review and diagnosis of the <i>Código Florestal</i> as it relates to urban land and as an input to the drafting of the new law of Territorial Responsibility.</p> <p>The Government has launched a program to support the development of strategic municipal plans including:</p> <ul style="list-style-type: none"> <li>The development of a toolkit for the preparation of master plans within the framework of the City Statute.</li> <li>The development of a national database of qualified consultants for providing support to municipalities in preparing participatory urban strategic plans.</li> <li>Providing OGU resources to 130 municipalities for the development of their participatory urban plans.</li> </ul>	<p>Efforts to support the revision of the Law of Territorial Responsibility, in the thematic groups of Congress in a process of consultation with wide sectors of the society aiming at generating a common view for new sub-divisions and settlements for low income and to the uniformization of processes for housing registration and regularization <i>fundiaria</i>.</p> <p>Wide dissemination of the contents of the law once approved.</p> <p><b>The Government has launched a national Urban Upgrading Program (Programa de integração urbana de assentamentos precários) for the major metropolitan areas (which include 90% of the country's informal settlements).</b></p> <p>Providing OGU resources to 250 municipalities for the development of their participative urban plans.</p>	<p>Activities for the development of a toolkit to local governments for improving permitting and registration processes and for the <i>cartorios to simplify their</i> processes including the establishment of free registration of land regularization (law 10.931)</p> <p>% of municipalities that had developed local housing plans, % of municipalities that implemented municipal policies of land regularization</p> <p>% of municipalities that implemented municipal regularization programs in relation to the number of municipalities with problems of irregular settlements.</p> <p>% of families assisted by the national program for precarious settlements, relative to the demand defined by official data available.</p>	<p>% of municipalities that had developed local housing plans, % of municipalities that implemented municipal policies of land regularization</p> <p>% of municipalities that implemented municipal regularization programs in relation to the number of municipalities with problems of irregular settlements.</p> <p>% of families assisted by the national program for precarious settlements, relative to the demand defined by official data available.</p>	<p>Budgetary resources are available to leverage other resources to implement an integrated strategy between the different levels of public sector and between private and public sectors.</p> <p>Operational plan outlining plan to address the major upgrading problems in an integrated and sustainable way.</p> <p>Municipalities have the capacity and knowledge to understand level of urgent interventions, the need for proactive prevention and a combination of all strategies across government levels and private sector.</p>	<p><b>There is no convincing evidence of the reduction of formal urban land development in Brazil. The Operation focused primarily upon land title registration as a area to reduce these costs, without giving full recognition to other major factors determining these costs, such as urban planning, building regulations, and infrastructure costs in particular.</b></p>

PD ANNEX 2: MATRIX OF OBJECTIVES, KEY ACTIONS AND OUTCOMES						
Issue / Policy Need	Actions prior to Proposed Loan Growth DPL / Housing	Actions Prior to Subsequent Growth DPL Supporting Housing (loan triggers in bold)	Complementary TA Activities	Performance / Outcome Indicators	Medium-term Outlook	IEG PPAR COMMENTS
<p>1. cont Create a legal framework that would reduce the cost of formality, provide incentives for the regularization of land tenure, and the development of progressive housing and infrastructure.</p>	<p>Prepared/implemented a national policy for sustainable urban land tenure regularization – <i>politica nacional de regularizacao fundiaria sustentavel - Programa Papel Passado</i> aimed at guaranteeing the title of the land to poor people.</p> <p>Provided budget support to 49 municipalities and 17 states for the rollout of land tenure regularization efforts.</p> <p>Presentation to Congress of new Land Subdivision Law (to revise Law 6766). It delegates to municipal governments the role to formulate land policy in terms of land subdivision and establishes the concept of progressive land development and infrastructure, and introduces innovative ways to deal with procedures to regularize informal settlements (especially with regard to property registries) and the regularization of “horizontal condominium.”</p>	<p>The Government has included as part of the National Housing Plan a program for increasing urban land, which established the goals, timing, instruments, incentives to local governments and other agents, and concrete policy initiatives for reducing the administrative costs of entry to the market and subdivision of urban land.</p> <p>Establishment of a system of benchmark to assess the performance of the municipal governments in the process of land subdivision including licensing and registration of new subdivisions (<i>loteamentos</i>).</p> <p>Establishment of minimal criteria to transfer resources from the Federal Government to municipalities that abide to the national urban, housing and land policy.</p> <p>Implementation of a National Campaign of Sensibilization and Mobilization to implement the <i>Estatuto da Cidade</i> and local municipal City Plans (<i>Plano Diretores</i>) participatory that define, among others, a land policy and a land management system that increases the access of social housing in adequate sites.</p> <p>Include in all housing and urban plans financed with federal funds the guidelines of the National Policy for Land Regularization as well as the new legal and urban instruments available after the approval of the Estatuto da Cidade.</p> <p>Efforts to reach full recognition and use of legal instruments which guarantee the right and security of land titles.</p>	<p>Assessment of participative city plans with focus on the experiences focused on the promotion for access to urbanized land for low income people.</p> <p>Technical Assistance to make the diagnosis and definition of a model for the Integration of the Irregular Settlements in the metropolitan regions.</p>			

## Annex C. Borrower Comments



28-06-10;11:40 :

# 1 / 21

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 Brasilia (DF), June 28, 2010
 

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**FAX MESSAGE**


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**TO :** Monika Huppi  
 Manager  
 Sector Evaluations Division  
 Independent Evaluation Group (World Bank)  
 Fax n. (+1 202) 522 3123

**FROM :** Marcos Bezerra Abbott Galvão  
 Secretary for International Affairs  
 Ministry of Finance of Brazil  
 Fax n. (+55 61) 3412.1722

N. of pages: 21 (including this)

In case of bad transmission, please contact (55 61) 3412-2231 / 3412-2296 or send a message to (artur.lacerda@fazenda.gov.br)

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Please see attached comments on the draft Project Performance Assessment Report regarding the Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform (Loan 7506) – Draft Project Performance Assessment Report.

Marcos Bezerra Abbott Galvão  
 Chefe de Gabinete do Secretário  
 de Assuntos Internacionais  
 Ministério da Fazenda



**MINISTÉRIO DA FAZENDA**  
 Secretaria de Assuntos Internacionais  
 Esplanada dos Ministérios, Bl. P - 2º andar - 70048-900 - Brasília - DF  
 Tel: (61) 3412-2202 - Fax: (61) 3412-1722

Ofício nº 96/2010 – SAIN/MF

Brasília, 28 de junho de 2010.

À Senhora  
 Monika Huppi, Manager  
 Sector Evaluation Division  
 Independent Evaluation Group  
 1818 H Street N.W.  
 Washington, D.C. 20433 - U.S.A.

Assunto: Empréstimo Programático para o Desenvolvimento Equitativo e Sustentável – Banco Mundial - Empréstimos Nos. 7306-BR - Relatório de Desempenho do Projeto

Prezada Senhora,


1 De ordem do Secretário de Assuntos Internacionais, Embaixador Marcos Bezerra Abbott Galvão, devolvo a Vossa Senhoria o documento intitulado "*Project-Performance Assessment Report – Brazil – Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform (Loan-7306)*", elaborado pelo Independent Evaluation Group (IEG), recebido por esta Secretaria de Assuntos Internacionais por intermédio de seu escritório de 02 de junho de 2010.

2 A propósito, cumpre-me informar que o documento foi objeto de análise por diversos órgãos e entidades da Administração Pública Federal, responsáveis pelas questões referentes à política habitacional do País.

3 As análises identificaram incorreções, bem como apresentaram divergências de julgamento em relação a alguns aspectos do texto. Assim, estamos encaminhando, em anexo, as observações e os comentários dos órgãos que participaram do exame do documento, com a solicitação do Governo Brasileiro de que sejam incorporados ao relatório final do IEG.

4 Aproveito a oportunidade para manifestar meus protestos de estima e consideração com que me subscrevo.

Atenciosamente,

  
**ROBERIO AGUIAR**  
 Chefe de Gabinete

## ANEXO AO OFÍCIO nº 96/2010 – SAIN/MF

Comentários ao documento intitulado “*Project-Performance Assessment Report – Brazil – Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform (Loan-7306)*”

## Ministério das Cidades

1. Segundo o documento supracitado, o resultado global do projeto foi considerado moderadamente satisfatório. O projeto alcançou relevantes objetivos, no que diz respeito ao aumento do acesso das camadas mais pobres da população à habitação; ao fortalecimento das políticas e das instituições do setor; e à expansão dos recursos disponíveis para financiamento habitacional.

O relatório considera que, embora o Programa Minha Casa Minha Vida – PMCMV represente uma evolução, não houve um aumento significativo do mercado de financiamento habitacional para as faixas de renda mais baixas, pois o crescimento das operações nestes nichos está limitado ao FGTS e SRPE. (favor ver comentários da CAIXA)

Importante ressaltar que o Governo Federal ampliou muito o número de operações para a população de baixa renda, especialmente no âmbito do PMCMV: os financiamentos imobiliários neste segmento, sobretudo com recursos do FGTS, tem crescido substancialmente ao longo dos anos.

Cabe destacar, que dos R\$ 34 bilhões previstos para o PMCMV, R\$ 14 bilhões (41%) são transferidos do Orçamento Geral da União (OGU) para o Fundo de Arrendamento Residencial (FAR), destinados exclusivamente para as famílias com renda de até 3 salários mínimos.

O PMCMV implementou uma reforma significativa no modelo de subsídios ao introduzir subsídios fixos e ao estabelecer linha de corte por faixa de renda para acesso a financiamento de longo prazo, promovendo com isso um aumento significativo nos montantes individuais, bem como no volume total de recursos direcionados a subsídios. O volume total de recursos destinados à subsídios corresponde à R\$ 26 bilhões para construção de moradias.

O Programa inova também, ao promover a articulação entre os recursos do Orçamento Geral da União e do Fundo de Garantia do tempo de Serviço – FGTS. O objetivo maior das políticas habitacionais de combater o déficit habitacional levou a um desenho de Programa que concentra os recursos no atendimento das famílias com renda de até R\$ 1.395,00. O programa também prevê incentivos para famílias com renda até R\$ 2.790,00.

Uma das grandes conquistas do PMCMV foi o crescimento das contratações na faixa de renda até 6 SM, sob todos os aspectos que se considere, tanto em quantidade de operações (valores absolutos e relativos) quanto no valor unitário dos financiamentos concedidos. Mesmo desconsiderando as operações de 0 a 3 SM com recursos do OGU/FAR, 207.684 unidades, e levando em conta somente as operações de financiamento com recursos do FGTS, 150.500 unidades, as contratações por faixa de renda, neste primeiro ano de Programa, completados no final do mês de abril, mostram avanços importantes em relação ao ano de 2008. Houve significativa elevação, em âmbito nacional, das contratações na faixa até 6 SM, de 76% para 95%, sendo que a maior contribuição para esta reversão aconteceu, para reforçar a conquista, na região Sudeste, o maior déficit urbano do país, que passou de 67% de contratações na faixa até 6 SM para 92% (25pp).

Quebrado por faixa de renda, esse aumento das contratações no país foi de 25% para 37% (12pp), na faixa de renda até 3 SM, e de 51% para 58% (7pp), na faixa de renda de 3 a 6 SM, com redução de 24% para 5% (19pp), na faixa acima de 6 SM. A mesma melhora foi observada em todas as regiões do país, com reduções drásticas na participação das contratações na faixa de renda acima de 6 SM no total das contratações e crescimentos importantes das contratações na faixa de renda até 3 SM, com destaque para a região Sul, que teve crescimento de 17 pontos percentuais nesta faixa passando de 20% para 37%, e com ressalvas para os estados da região Norte, como um todo, onde, embora com aumento progressivo do ritmo de crescimento, ainda é pequeno o número de contratações com recursos do FGTS, especialmente na faixa de renda de 0 a 3 SM, um pouco em consequência do desempenho do PAR, nesta mesma faixa. As regiões Nordeste e Centro Oeste exigem uma análise mais aprofundada, em função da concentração nestas regiões, no ano de 2008, de operações na faixa de renda até 1 SM, referente as operações caucionadas com recursos do FGTS, que não podem ser comparadas com os financiamentos convencionais.

Nos estados da região NE, que concentram os maiores déficits do país, se desconsiderarmos nas contratações de 2008 os números das operações caucionadas por serem operações a fundo perdido, que se assemelham mais ao Programa de 0 a 3 SM, tivemos crescimento nas operações na faixa até 3 SM, semelhantes aos da região sul, 17 pontos percentuais, sendo hoje o maior percentual de atendimento na faixa até 3 SM, com 47%. A região Centro Oeste foi a menos impactada, no que diz respeito à mudança de perfil nas contratações, ainda assim com crescimento de 84% para 96% (12pp) das contratações na faixa até 6 SM, todavia com decréscimo na faixa até 3 SM, de 46% para 43% (3pp). No entanto, é importante que se registre os avanços obtidos também nesta região, pois eles são grandes na faixa entre 3 e 6 SM onde todos os estados cresceram, o DF cresceu de 20% para 62%, o MT de 18% para 54% e o MS de 48% para 62% e nada desprezíveis na faixa até 3 SM, se, igualmente, desconsiderarmos nas contratações de 2008 os números das operações caucionadas, nos estados de MS e MT, onde chegou, naquele ano, a 67% das contratações, distorcendo os números do período. Apartadas estas contratações o crescimento nesta faixa foi também importante sendo que o DF cresceu de 4% para 14% e nestes dois estados, desconsideradas as mencionadas operações, o crescimento foi bastante expressivos, MT de 10% para 40% e MS de 23% para 32%.

Se considerarmos todas as operações do PMCMV, incluindo as operações do Programa de 0 a 3 SM, a expansão das operações nas faixas de renda mais baixa fica ainda mais evidenciada. As operações com Pessoa Física na faixa de renda de 0 a 3 SM representavam, em 31/12/2009, 77,6% das contratações; as operações na faixa de 3 a 6 SM, 20,2% e na faixa acima de 6 SM, 2,2%, com uma convergência significativa em relação ao déficit o que revela o extremo alcance social do programa e os seus efeitos nas demais operações do FGTS. O Quadro V, abaixo, traz uma síntese da evolução da distribuição relativa das contratações e do déficit, por faixa de renda.

QUADRO V - Contratações por Faixa de Renda (percentual)						
			Até 3 SM %	3 a 6 SM %	Acima de 6 SM %	Total %
FGTS	2008	(só novos) <sup>1</sup>	25	51	24	100
FGTS	2009	(só novos)	28	62	10	100
PMCMV	(só FGTS)		32	61	7	100
PMCMV	(FGTS/FAR)		28	20	2	100

<sup>1</sup> Incluindo as operações caucionadas.



Déficit Urbano	189,5	8	2,5	100
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Fonte: CAIXA/SUHAB – Fundação João Pinheiro

No que se refere ao aspecto qualitativo das intervenções, duas considerações são importantes, a primeira delas diz respeito ao valor do financiamento unitário concedido o qual, por conta da série de medidas introduzidas pelo PMCMV2, foi significativamente incrementado com crescimento médio superior a 45%, na faixa subsidiada. Os crescimentos mais expressivos ocorreram na faixa entre 1 e 3 SM, anteriormente praticamente alijadas do processo de crédito habitacional, o que fez com que a faixa de renda entre 2 e 3 SM passasse de uma representação de 13% para 30% do total de financiamentos concedidos no país com recursos do FGTS e sendo superior a 40% em importantes unidades da federação. Tais incrementos, somados aos subsídios concedidos para complementar a capacidade de pagamento, contribuem significativamente para a melhoria do produto acessado e do atendimento às necessidades dos beneficiários. A segunda consideração se refere exatamente ao produto acessado, também neste aspecto foram grandes os avanços do Programa uma vez que o financiamento se destina à aquisição de um imóvel novo, pronto ou em construção, com especificações mínimas definidas, enquanto nos anos anteriores parcela representativa dos financiamentos concedidos destinava-se a aquisição de imóveis usados ou a aquisição de material de construção. Finalmente, quanto à distribuição das contratações, o Programa prioriza as regiões metropolitanas, onde se concentra hoje 35% do déficit habitacional urbano do país, e está com 42% das suas intervenções nestas regiões, sendo 20% nas capitais.

2. O relatório critica a não disseminação e falta de clareza sobre o PLANHAB. Mas estabelece um prazo indicado pelo MCidades para publicação até junho de 2010.

Embora o relatório critique uma pequena divulgação e disseminação do PlanHab, a idealização do PlanHab - foi parte de um processo de planejamento que teve início em 2007, se estendeu por todo o exercício de 2008, sendo apresentado ao Conselho das Cidades em dezembro/2008.

A elaboração de um plano nacional participativo num país com a dimensão e complexidade do Brasil foi e é um grande desafio metodológico. O Plano Nacional de Habitação enfrentou esta questão, buscando garantir que um instrumento estratégico de planejamento nacional - tradicionalmente formulado de maneira tecnoburocrática, para não dizer autoritária - pudesse incorporar todas as visões presentes da sociedade brasileira sobre a questão habitacional: a diversidade regional, a visão diferenciada de todos os segmentos sociais e os variados olhares técnicos que o tema permite.

Ao mesmo tempo, reservou papel destacado para as instâncias institucionais de controle social e participação: o Conselho das Cidades - Concidades, o Conselho Curador do FGTS e o Conselho Gestor do Fundo de Habitação de Interesse Social - FNEIS.

O PlanHab foi concluído e apresentado em dezembro de 2008. A partir de então, foi amplamente divulgado e disseminado em diversos eventos públicos, como a 3ª Conferência das Cidades, nas oficinas do PLHIS (tratadas no item 14 do presente documento), no sítio do Ministério das Cidades, em diversas apresentações realizadas por técnicos da Secretaria Nacional de Habitação

<sup>2</sup> Além do aumento do valor total e unitário dos subsídios diretos (complemento do financiamento) e indiretos (na taxa de juros) concedidos, o Programa implementou medidas importantes para melhorar as condições do financiamento e consequentemente a capacidade de pagamento das famílias, tais como a redução dos juros de financiamento, isenção ou ampliação das faixas de renda subsidiadas, redução dos prêmios mensais de seguros devidos.

em feiras, seminários, debates, reuniões, com destaque para a divulgação no V Fórum Urbano Mundial que aconteceu em março, no Rio de Janeiro, e na 4ª Conferência das Cidades.

O PMCMV se constituiu em um importante impulso à implementação do PlanHab alinhando os conceitos e ações do plano, na medida em que: i) aumenta significativamente os recursos governamentais destinados à área habitacional; ii) prioriza o atendimento às famílias de mais baixa renda; iii) propõe a diferenciação de tratamento dos grupos de família conforme a renda; iv) estabelece um marco para a consolidação de uma política de subsídios integrados à financiamento; v) institui um marco regulatório para a regularização fundiária de áreas ocupadas; vi) reduz as taxas de juros para financiamento habitacional; vii) articula investimentos de fonte de recursos e esferas de governo; e viii) cria estímulos à expansão do mercado privado para população de baixa renda.

3. Em relação ao SNHIS-FNHIS, há afirmação de que este foi “ofuscado” pelo Programa de Aceleração do Crescimento - PAC e pelo Programa Minha Casa Minha Vida - PMCMV.

O Sistema Nacional de Habitação de Interesse Social (SNHIS) passa por um processo de fortalecimento com a ampliação da adesão dos entes federativos, que criaram Conselho, Fundo e Plano de Habitação de Interesse Social para ter acesso aos recursos do Fundo Nacional de Habitação de Interesse Social (FNHIS).

Importante destacar que o FNHIS passou a integrar o PAC, a partir de 2007, como eixo fundamental no financiamento da política habitacional, tendo garantido recursos da ordem de 1 bilhão de reais por ano.

4. O relatório afirma, ainda, que o FNHIS é gerenciado pela Caixa Econômica Federal. Entretanto, a lei 11.124/2005, que estabelece o FNHIS afirma que a Caixa figura como mero “Agente Operador” do sistema.

Há uma substancial diferença entre os dois papéis.

O Ministério das Cidades como gestor do FNHIS é responsável pela execução das políticas habitacionais direcionadas à população de menor renda, incluindo a coordenação das ações do Sistema Nacional de Habitação de Interesse Social, bem como a definição de diretrizes, prioridades, estratégias e instrumentos para a implementação da Política Nacional de Habitação e os Programas de Habitação de Interesse Social.

Enquanto agente operador, a CEF é responsável pela operacionalização do sistema, implementando os procedimentos operacionais necessários à aplicação dos recursos do FNHIS, com base nas normas e diretrizes elaboradas pelo Conselho Gestor e pelo Ministério das Cidades, bem como ser depositário dos recursos do FNHIS, realizando as devidas prestações de contas.

5. Finalmente, há menção, na página 17, de que o DPL visava o fortalecimento do PSH. Na verdade o que estava na matriz era um objetivo de harmonização geral de subsídios e alocação orçamentária mais consistente para o PSH.

Isso ocorre porque o PSH era um dos programas ativos à época. Atualmente, pode-se dizer que o PMCMV promove esta harmonização de uma certa forma, e recursos orçamentários foram significativamente alocados sim para subsídios à habitação, mas via MCMV e não PSH.

6. O TAL foi criticado pela sua subutilização, aliás citando além do MCidades, também a Caixa pela falta de aproveitamento da oportunidade desta assistência técnica.

O Projeto de Assistência Técnica ao Setor Habitacional, denominado TAL HABITAÇÃO, foi concebido e iniciado em um momento que coadunou com a discussão das principais diretrizes que envolviam o Plano Nacional de Habitação – PlanHab. O plano tem horizonte temporal de 15 anos e determinou uma nova agenda de discussões e demandas por estudos relacionados à temática habitacional.

A implementação do PlanHab foi complexa e faz parte de um processo de planejamento que teve início em 2007, se estendeu por todo o exercício de 2008, sendo apresentado ao Conselho das Cidades em dezembro/2008. Nesse novo contexto, algumas das contratações previstas à época da assinatura do Empréstimo tornaram-se inadequadas extemporâneas aos objetivos da SNH.

Por esse motivo, houve a necessidade da adequação do planejamento do Projeto e alinhar ao momento atual do setor habitacional.

Importante salientar que a gestão e execução do Projeto TAL é do Ministério das Cidades, não estando a Caixa envolvida em sua execução.

7. No item da matriz do DPL onde estava previsto um programa amplo de capacitação dos municípios, com tool kits, programas de treinamento e PLHIS terminados. A crítica é: o papel dos estados e municípios no âmbito do arcabouço institucional de habitação e desenvolvimento urbano permanece inalterado.

Entretanto, ao longo dos anos de 2008, 2009 e 2010 estão ocorrendo diversos cursos à distância, com a finalidade de capacitar funcionários públicos da área habitacional de estados e municípios, com o intuito de aumentar as capacidades administrativas destes entes na área habitacional.

Em 2008, foi realizado o chamado EAD Urbanização de Favelas (capacitação à distância para realização de intervenções integradas em assentamentos precários), realizado pela Aliança de Cidades, em parceria com o Ministério das Cidades, e contou com mais de 300 alunos concluintes.

No ano de 2009, por sua vez, foram realizadas duas edições de curso à distância para capacitação destes técnicos à elaboração de planos de habitação de interesse social. Este curso totalizou, em duas edições, abrangendo um público alvo de mais de 4.000 técnicos, sendo que quase 2.000 destes concluíram o curso, com o recebimento de certificados.

O curso foi devidamente avaliado pelos alunos de forma positiva e o material didático produzido para o mesmo encontra-se disponível no site do Ministério das Cidades, com o intuito de figurar como guia à elaboração dos afudidos planos.

Finalmente, em 2010, foi encerrado em 22/06/2010 uma segunda edição do curso EAD Urbanização de Favelas, com mais de 800 alunos e o menor índice de evasão entre as capacitações ministradas pelo Ministério das Cidades, foi considerado um sucesso pelos participantes.

Ainda em 2010, a SNH promoverá um curso à distância, para 2.000 técnicos, com o intuito de capacitá-los para realização de trabalho social em assentamentos precários. Este curso iniciará no mês de julho e está com inscrições abertas até 11/07/2010.

Além de todas as capacitações, à distância, realizadas com recursos do TAL HABITAÇÃO, o DICT - Departamento de Desenvolvimento Institucional e Cooperação Técnica/SNH,

promoveu, ao longo do ano de 2009, diversas capacitações presenciais. Destaque às oficinas estaduais de PLHIS.

Realizadas em parceria com a CAIXA e com os governos estaduais, as oficinas presenciais de PLHIS atingiram mais de 700 municípios e capacitaram um total de 2.188 pessoas.

As oficinas tiveram como público alvo os agentes sociais diretamente envolvidos na elaboração, acompanhamento ou avaliação dos PLHIS, priorizou-se a participação dos:

- técnicos municipais responsáveis pela execução do contrato junto à CAIXA e/ou de seu substituto imediato.
- representantes e técnicos dos governos estaduais que atuam no setor habitacional e/ou do desenvolvimento urbano, responsáveis pelo desenvolvimento do Plano Estadual de Habitação.
- técnicos da CAIXA (representantes das GIDURs ou REDURs) responsáveis pela análise dos Termos de Referência e produtos dos PLHIS.

agentes sociais responsáveis pelo controle social dos PLHIS, preferencialmente membros dos Conselhos Gestores dos Fundos de Habitação de Interesse Social.

## Ministério da Fazenda

### Secretaria do Tesouro Nacional (STN)

Relatório: "One is that the interbank rate cannot fall below the interest paid on Brazil's widely used savings accounts, historically set at 6 percent per annum (plus an adjustment for inflation)" (Summary, Página ix, 4º Parágrafo, 3ª Linha).

Comentário: "A Taxa de Referência (TR) não pode ser entendida como correção da inflação."

Relatório: "Excessive bureaucracy discouraged large-scale operators. PSH is on-hold at this writing, having, among other things, been upstaged by Minha Casa, Minha Vida. Up-front subsidies were provided with FGTS lending for the first time, although this meant borrowers receiving a double subsidy—the lump sum and the below-market interest." (Summary, Página xi, 5º Parágrafo, 6ª Linha).

Comentário: "Discordamos da afirmação de que o PSII "não decolou" em razão da excessiva burocracia. Os recursos destinados ao Programa foram totalmente utilizados. Novas operações não foram realizadas, pois sua sistemática foi incorporada ao PMCMV."

Relatório: "The Operation design itself earned mixed reviews in Brazil, even though the Operation did bring together these various parties, with the Bank acting as honest broker among them. As Borrower, the Ministry of Finance valued the flexibility and ownership it conferred. As implementing agencies, the Ministry of Cities and the principal state bank, the Caixa Econômica Federal (CEF) lamented incurring costs to execute the project while receiving no reimbursement from it as the Operation design intended, of course. Neither the Ministry of Cities nor CEF made much use of funding available through the parallel Technical Assistance Project, however". (Summary, Página x, 2º Parágrafo Na Íntegra)

"...and CEF, industriously pursued Operation-endorsed actions at their own expense—for which they received no reimbursement". (Summary, Página xii, 2º Parágrafo, 16ª Linha)

Comentário: "Não temos conhecimento da execução do Empréstimo Programático, referido no texto como Operação. No entanto, chamou-nos a atenção o relato de que a Caixa incorreu em custos que ainda não foram ressarcidos. Esse comentário pode trazer para a União risco institucional, em virtude do hipotético não cumprimento de contratos."

### Secretaria de Política Econômica (SPE)

A Secretaria de Política Econômica, do Ministério da Fazenda, solicita as seguintes alterações no texto da minuta do relatório (código do editor de texto: (i) tachado indica exclusão e (ii) sublinhado, inclusão de texto).

a) Em: "Summary"

a.1 – página xi

Sugestão de redação:

With a solid legal framework in place, securitization of housing loans took a firmer institutional footing in Brazil, with new businesses in São Paulo bundling loans and trading mortgage-backed securities called *Certificados de Recebíveis Imobiliários* in

Brazil. At this writing, the sale of these *Certificados* has lapsed in Brazil as has the trading of such securities worldwide following the sub-prime lending crisis in the US<sup>1</sup>.

The private sector share of housing finance has remained constant and is unlikely to take off before interest rates are normalized in Brazil's financial markets. Private banks complain that they ~~cannot~~ have difficulty to access existing FGTS funding, as they are entitled to, because of excessive bureaucracy that leaves CEF to dominate the use FGTS funds. These banks also argue that the small spreads allowed make FGTS lending unprofitable for them.

Comprehensive reform of housing finance in Brazil remains hostage to the country's high interest rate regime, something likely to change only over the longer-term. Interest rates did fall over the 2004-2009 period, but still remain extraordinarily high by international standards. This makes free-market-driven housing finance a far reality unaffordable, leaving the field to the SBPE-FGTS windows.

<sup>1</sup> According with data collected at the regulatory agency of capital market, CVM, the sale of *Certificados* reached, just in a period ended in June 18<sup>th</sup>, the same amount of the sales realized in all over the year of 2006.

a.2 – página xii

Sugestão de Redação:


The Overall Outcome of the project is rated *moderately satisfactory*. It achieved its relevant objectives, helping to increase access by the poor to housing, strengthening policy and institutions and expanding housing finances, albeit with moderate shortcomings. These included scant evidence of a down-market shift of housing finance, little lasting impact on subsidies, and no evidence of reduced costs of urban land provision. The Risk to Development Outcome is rated *moderate*. Government commitment to the Operation-supported improvements is unlikely to waver. But possible impacts—real estate bubbles, for instance—of rapid expansion of housing finance upon the real supply and demand for housing were left-out-of-the-scope-of ~~Operation~~ Operation minimized into the scope of the Operation. Bank Performance is rated *moderately satisfactory*. The project was prepared with care except for M&E that was given cursory treatment and failed. Except for actions to lower the costs of urban land delivery, the project was well designed to achieve the relevant objectives. Borrower Performance is rated *satisfactory*. The Government was committed to improving the Housing Finance System, while placing housing center stage of its two flagship programs, the PAC and the *Minha Casa, Minha Vida*. Those agencies responsible for implementation, the Ministry of Cities and CEF, industriously pursued Operation-endorsed actions at their own expense—for which they received no reimbursement.

b) Em: "1. The Need for Housing Reform in Brazil."

b.1 – página 2

Sugestão de Redação:

1.3 Mobilizing funding for the construction and purchase of the quantity and quality of housing units needed is among the challenges facing the further reduction and eventual elimination of this deficit. In Brazil, raising the necessary funds directly in unfettered local financial markets would only lead to unaffordable lending. Interest rates in Brazil are the highest reported in the world, multiples of those in comparable states (Table 1.1). If one would exist carrying Brazil's 44.7 percent per annum interest rate, for instance, a hypothetical 15 year mortgage loan of US\$150,000 would require a monthly repayment of US\$5,500<sup>4</sup>—affordable only by households in the top few percentiles of the income distribution—clearly not a feasible solution. Large spreads between deposit and lending rates add to the high interest rates on loans. Brazil's spreads were the




largest among the 121 countries reporting this data for the 2008 World Development Indicators.

5 Although currently very high, interest rates have been higher still in Brazil in recent times. It is worth noting that the *O Globo* newspaper of November 10, 2009 carried a celebratory headline announcing that the 43 percent interest for consumer credit that month was the lowest level of charges since 1984.

**Banco Central do Brasil**

O Banco Central do Brasil solicita as seguintes alterações no texto da minuta do relatório:

- 
- a. Na Lista de Abreviações e Acrônimos, página II, incluir “BACEN – Banco Central do Brasil (Central Bank of Brazil)”
  - b. No parágrafo 4.7, substituir “...to R\$ 71,786 in 2008” por “...to R\$ 71,786 in 2009”
  - c. No parágrafo 4.7, substituir “...increased from 18.5 percent of 25.7 percent...” por “...increased from 18.5 percent to 25.7 percent...”
  - d. No parágrafo 4.7, substituir “These nearly quintupled between 2004 and 2008” por “These nearly quadrupled between 2004 and 2009”
  - e. No parágrafo 4.9, substituir “Outstanding mortgage debt increased by 46 percent over the 2004-2009 period...” por “Outstanding mortgage debt increased by 46 percent, in real terms, over 2004-2009 period...”
  - f. No parágrafo 4.10, substituir “nearly 50 percent more savings in real terms during 2004-2008” por “nearly 50 percent more savings in real terms during 2004-2009”



## Caixa Econômica Federal

### Agente Operador do FGTS

#### 1- O mercado de financiamento imobiliário e o SFH

**Afirmação do relatório:** O mercado de financiamento imobiliário brasileiro é excessivamente dependente do SFH, que é uma solução que existe há mais de 50 anos. Como nas outras edições deste relatório, é dito que o financiamento imobiliário deve ser deixado a cargo do livre mercado. Porém, isto somente será possível quando as taxas de juros no Brasil baixarem a níveis tidos como aceitáveis, pois ainda são muito altas se comparadas às taxas de outros países.

**Contra-Ponto:** O SFH tem o objetivo justamente de viabilizar aos mutuários empréstimos com taxas de juros diferenciadas como forma, inclusive, de trazer para baixo as taxas de juros praticadas pelo mercado. O SFH foi criado como um mecanismo de viabilização de moradia digna ao trabalhador e, como o próprio relatório cita, sua tendência é de, ao longo do tempo, propiciar baixa sustentável da taxa de juros do crédito imobiliário, o que, inclusive, tem sido verificado nos últimos anos.

#### 2- O mercado de financiamento para famílias de baixa-renda

**Afirmação do relatório:** Não há evidências de que os financiamentos imobiliários direcionados a famílias de baixa renda tenham aumentado significativamente nos últimos anos, mesmo os concedidos com recursos do SPBE e do FGTS. O relatório afirmou que solicitou informações a esse respeito, mas que não as conseguiu.

**Contra-Ponto:** Os financiamentos imobiliários feitos para famílias de baixa renda, sobretudo com recursos do FGTS, tem crescido substancialmente ao longo dos anos. A variação de valor de financiamento anual concedido com recursos do FGTS no período de 2004 a 2009, por exemplo, foi de mais de 553%. O aumento do volume de desconto anual concedido, no mesmo período, foi de mais de 700% e o valor médio dos financiamentos cresceu em mais de 409%, como demonstrado a seguir:

**Evolução nos valores contratados  
Por ano de contratação**

Ano	Desconto	%	Valores em R\$ 1,00		
			VF	%	Valor Médio
2004	364.617.657,26		2.464.126.769,79		11.553,33
2005	1.006.901.373,86	176,15%	4.179.226.925,71	69,60%	14.227,11
2006	1.847.847.275,35	83,52%	5.404.835.360,38	29,33%	14.978,27
2007	1.771.734.317,43	-1,12%	5.551.618.764,43	2,72%	20.289,52
2008	1.346.597.621,11	-24,00%	8.670.167.827,22	56,17%	37.541,32
2009	2.920.202.476,50	116,86%	13.629.540.862,97	57,20%	47.272,11
2004/2009		700,89%		553,12%	409,16%

### 3- O Duplo subsídio às famílias de baixa renda

**Afirmção do relatório:** O SFH concede duplo subsídio aos mutuários, uma vez que as taxas de juros estão abaixo do mercado e ainda há os subsídios diretos que são concedidos.

**Contra-Ponto:** Os subsídios diretos são concedidos apenas aos mutuários que apresentam características específicas, relativamente à renda familiar e capacidade de pagamento. São trabalhadores que, mesmo com as taxas de juros abaixo do nível de mercado, não conseguiriam obter o financiamento se não tivessem acesso ao subsídio.

### 4- O aumento do subsídio direto e o mercado de financiamento para a baixa renda

**Afirmção do relatório:** O aumento verificado na concessão de subsídios diretos não pode ser tomado como evidência de que o mercado de financiamento imobiliário passou a cobrir com mais abrangência a população de baixa renda.

**Contra-Ponto:** O aumento da concessão de subsídios diretos é prova inequívoca de que a quantidade de financiamentos imobiliários para a população de baixa renda cresceu substancialmente. Isto se deu porque, com o subsídio, mais famílias de baixa renda passaram a ter acesso ao financiamento imobiliário.

### 5- O SFH e a reforma do setor habitacional do Brasil

**Afirmção do relatório:** O empréstimo feito pelo Banco Mundial tinha objetivos mais modestos do que financiar uma reforma no setor habitacional no Brasil, embora o título do empréstimo levasse a essa conclusão. Uma profunda e abrangente reforma do setor habitacional no Brasil é extremamente necessária no médio e longo prazo, e o SFH terá um importante papel nessa tarefa, sobretudo nos próximos anos, embora o mercado imobiliário deva ser deixado ao capital privado com mais intensidade futuramente.

**Contra-Ponto:** Concordamos que os recursos do FGTS e do SRPE têm um importante papel no setor habitacional, porém as políticas governamentais para indução do crédito à população de baixa renda são também fundamentais ao setor.

### 6- A CAIXA como Agente Operador do FGTS e o "não acesso" dos bancos privados aos recursos do FGTS

**Afirmção do relatório:** A CAIXA, na condição de Agente Operador do FGTS, não tem interesse em facilitar o acesso de outros agentes financeiros aos recursos do FGTS, já que ela também é um agente financeiro e os riscos de uma eventual inadimplência de outros agentes financeiros, perante o FGTS, é da CAIXA. Além disso, o processamento das informações junto ao FGTS, provenientes de um financiamento feito em outro agente financeiro, é burocrático e oneroso.

**Comentário:** A CAIXA, como Agente Operador do FGTS, não tem interesse em dificultar o acesso aos recursos do FGTS destinados ao financiamento imobiliário. Ao contrário, e conforme tem sido reiteradamente informado ao Banco Mundial, a CAIXA tem tomado diversas medidas para executar em sua integralidade e com eficiência o orçamento do FGTS, não obstante o constante aumento dos recursos verificado ao longo dos anos. Algumas das medidas foram:

- Anualmente, os agentes financeiros são formalmente consultados, pela CAIXA, por meio da publicação de Circular, sobre a intenção de utilizar recursos do FGTS para financiamento imobiliário e o montante que será requerido para o ano seguinte. Apenas após essas manifestações a peça orçamentária do FGTS é elaborada e submetida ao Conselho Curador do FGTS;

- O Agente Operador tem com frequência feito reuniões técnicas com os agentes financeiros para dirimir dúvidas e buscar ajustes que contribuam para a otimização da utilização dos recursos FGTS por todos. Na última delas, dentre os assuntos discutidos e ajustados, destacam-se:

- Os repasses de amortizações extraordinárias, que era executado em até 10 dias após a amortização, passou a ser feito apenas mensalmente, por solicitação dos agentes financeiros, o que aperfeiçoou o processo operacional;

- Os questionamentos acerca da taxa de risco de crédito, cobrada dos agentes financeiros, foram esclarecidos no sentido de que essa taxa, aprovada pelo Conselho Curador do FGTS é aplicada com base em rating atribuído a cada agente, e constitui mecanismo de aferição, cobrança e provisão do risco de crédito. É importante salientar que esta taxa é cobrada da própria CAIXA, quando atua no papel de agente financeiro, e que o rating da maioria dos bancos é o mínimo previsto na regulamentação do Conselho Curador do FGTS, ou seja, 0,2% ao ano. Por essa razão, a referida taxa não constitui obstáculo para a realização das operações;

- O limite do spread nas operações com recursos do FGTS, de R\$ 10.034,00, existe para atender ao objetivo do FGTS de focar sua atuação na habitação de interesse social para famílias de baixa renda. Mesmo assim, é importante salientar que tal limite somente é aplicado às operações com mutuários de baixa renda, que têm direito ao desconto do FGTS. Quando o mutuário não tem direito ao desconto, tal limite não existe.

Como também tem sido informado ao Banco Mundial, os agentes financeiros tendem a chamar de "burocracia" a política de direcionamento dos recursos do FGTS às camadas de baixa renda. Com efeito, o Conselho Curador do FGTS e o Ministério das Cidades definem as camadas de atendimento e os objetivos que devem ser focados pelo FGTS, relativamente às regiões onde os recursos devem ser aplicados, os montantes destinados a descontos e as quantidades de recursos correspondentes. Essas definições fazem parte das diretrizes setoriais, alinhadas à política de Estado para a habitação, e têm por objetivo garantir a aplicação dos recursos do FGTS prioritariamente na camada da população que mais necessita desses recursos.

#### 7- Aumento dos financiamentos imobiliários e a oferta de unidades no mercado

Afirmção do relatório: A potencialização dos financiamentos habitacionais aos mutuários é uma meta a ser permanentemente perseguida, porém deve acompanhar esforços para superar alguns gargalos que ocorrem na oferta de imóveis, ou seja, na indústria da construção civil.

Contra-Ponto: O Programa Minha Casa Minha Vida trouxe incentivo à produção imobiliária para a baixa renda, tanto sobre a ótica do empresário do setor como do mutuário final.

## PROPOSTAS DE ALTERAÇÕES NO TEXTO

A) Na página xi do Prefácio, excluir a passagem "*Evidence of the down-market move of housing finance intended by the Operation is elusive*", tendo em vista as informações do item 2 deste documento e a seguinte passagem, constante da página xiii do próprio relatório "*The Overall Outcome of the project is rated moderately satisfactory. It achieved its relevant objectives, helping to increase access by the poor to housing*" (gráfo nosso);

B) Nessa mesma página, após a passagem "*Under present macro-economic circumstances, housing finance in Brazil can only grow within the Housing Finance System parameters and the funding constraints of its two main instruments.*", incluir: "Não obstante, o Agente Operador CEF não tem expectativas de que o FGTS venha a ter restrição de recursos nos próximos anos para aplicar em financiamento imobiliário.";

C) Nessa mesma página, após a passagem "*These banks also argue that the small spreads allowed make FGTS lending unprofitable for them*", incluir: "Contudo, o Agente Financeiro CEF, responsável pela quase totalidade dos financiamentos imobiliários concedidos com recursos do FGTS, também está obrigado às mesmas regras e limitação de spread dos demais agentes financeiros. Assim, o 'domínio' da CEF no mercado não decorre de nenhuma posição privilegiada em relação aos demais agentes, mas da sua ação estratégica de executora da políticas habitacionais do governo federal.";

D) Na página xiii, excluir a expressão "*These included scant evidence of a down-market shift of housing finance*";

E) Na página 10, excluir a expressão "*On the other hand, evidence that the poor directly benefited from the expansion of mortgage lending during this period is weak, as is a convincing demonstration that housing finance moved own-market*", tendo em vista o disposto no item 2 do presente documento;

F) Na página 15, excluir todo o item 4.13 e a nota de rodapé 20, em razão do descrito no item 2 deste documento.

Agente Financeiro - VIGOV

## I PD ANNEX 2: MATRIX OF OBJECTIVES, KEY ACTIONS AND OUTCOMES - Página 29

## 1.1 1. Improve regulatory and legal environment for housing finance.

Neste item basicamente foram inseridos comentários sobre os avanços obtidos em termos de marco regulatório, tendo sido destacadas as Leis 9.514/97 e 10.931/2004 que, entre outras inovações, introduziram a alienação fiduciária e regulamentaram as regras do incontestoso.

No curso das discussões a respeito do projeto, ficou claramente evidenciado que, em termos de marco regulatório, o maior risco jurídico que precisava ser mitigado estava relacionado à polémica envolvendo a questão da capitalização de juros, em decorrência do Decreto 22.626/33. Esta questão, inclusive, está registrada na página 29 - Preparation

of Draft Project of Law to solve legal ambiguity about capitalization of interests applied to existing portfolios (interpretation of 1933 law).

Como o Relatório não apresenta nenhum comentário a respeito da evolução deste tema, nem no anexo nem tampouco no corpo do documento, passa a impressão de que não se obteve avanços. No entanto, a Lei 11.977, de 07/07/2009, apresentou importantes avanços que, certamente contribuirão para a mitigação deste que é o maior risco jurídico do crédito imobiliário brasileiro.

Considerando a importância deste tema julgamos oportuno inserir, em alguma parte do corpo do Relatório ou, no próprio anexo, os seguintes itens:

*"Em termos de melhoria do marco regulatório e mitigação de risco, foi editada em 07/07/2009, a Lei 11.977, que apresentou importantes avanços em relação ao principal risco jurídico associado ao crédito imobiliário, no caso, as controvérsias relativas à capitalização de juros. Neste contexto, referida lei autorizou expressamente a capitalização mensal dos juros, bem como regulamentou as regras matemáticas a serem observadas nos sistemas de amortização utilizados nas operações de crédito imobiliário. Nesta mesma direção, também autorizou, de forma explícita, a utilização do Sistema de Prestações Constantes, conhecido no Brasil como Tabela Price que, no caso brasileiro e no contexto da capitalização de juros, era alvo de recorrentes ações judiciais e se constituía em grave risco jurídico."*

Com o mesmo foco recomendado no parágrafo anterior em relação à Lei 11.977/2009, no que concerne à capitalização de juros e, considerando que nos debates do projeto também estava presente a preocupação quanto às regras de transparência em defesa dos interesses dos mutuários, é importante também se inserir no documento, menção aos avanços neste quesito e, para tanto, sugerimos a inclusão, também no corpo do documento ou no anexo:

*"Em termos de proteção dos interesses dos mutuários e, também, para dar maior transparência nas relações entre credores e devedores e, ainda, para fomentar a concorrência entre as instituições financeiras, foram introduzidos dois importantes mecanismos a seguir destacados:*

*I - Obrigatoriedade de os contratos de empréstimos e financiamentos informarem o Custo Efetivo Total - CET, conforme Resolução CMN/BACEN 3.517, de 06/12/2007, a fim de permitir aos tomadores de financiamento maior facilidade para identificar as melhores propostas existentes no mercado, bem como terem maior clareza quanto ao custo real do capital tomado por empréstimo.*

*II - Liberdade de escolha da Seguradora, por parte dos tomadores de crédito imobiliário, no caso da contratação do seguro habitacional, sendo que a Lei 11.977/2009, obrigou as instituições financeiras a oferecerem, no mínimo, 2 apólices, sendo pelo menos uma de seguradora não pertencente ao seu grupo econômico, além de permitir ao mutuário optar por qualquer outra seguradora que esteja legalmente habilitada a operar neste mercado. Esta medida resolve uma antiga discussão com o Ministério Público e com o Poder Judiciário, bem como promove concorrência entre as seguradoras e, inclusive, já resultou em relevantes reduções do custo dos seguros habitacionais."*

## II Comentários sobre questões constantes do corpo do Relatório

2.1 Subitem 4.19 - página 17 - Originally established in 2001 as a pilot program, PSH was retained as a permanent instrument for providing up-front housing subsidies, managed by CEF, for the construction of social housing through Laws 10,008/04 and 10.998/04. (os grifos são nossos)

A parte grifada do texto se constitui em erro técnico e, embora possa parecer irrelevante, induz a interpretações nocivas à imagem da CAIXA razão porque requeremos seja referida parte excluída do texto, até mesmo porque, além de necessária, a exclusão não traz qualquer prejuízo ao que ali se pretende explicitar.

A razão do pedido de exclusão decorre do fato de a CAIXA, quer na condição de Agente Financeiro quer na condição de Agente Operador, no caso do PSII, em nenhum momento exerceu as atribuições de administrador ou operador do referido programa, atribuições estas que sempre tiveram a cargo do Ministério da Fazenda e do Ministério das cidades.

[Unofficial translation by Roy Gilbert]

**Ministry of Finance**  
**Secretariat of International Affairs**  
**Esplanada dos Ministerios, Bl. P 2 andar – 70048-900 – Brasilia – DF**  
**Tel: (61)-3412-2202 - Fax: (61)-3412-1722**

Ref: no. 96/2010 – SAIN/MF

Brasilia, June 28, 2010

To:  
Ms Monika Huppi,  
Manager,  
Sector Evaluation Division  
Independent Evaluation Group  
1818 H Street NW  
Washington DC 20433 – U.S.A.

Subject: Programmatic Loan for Sustainable and Equitable Growth – World Bank –  
Loan 7306-BR – Project Performance Assessment Report

Dear Madam.

1 By order of the Secretary of International Affairs, Ambassador Marcos Bezerra Abbott Galvão, I return to you the document entitled Project Performance Assessment Report – Brazil - Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform (Loan 7306), prepared by the Independent Evaluation Group (IEG), and received by this Secretariat under cover of your letter dated June 2, 2010.

2 With respect to this, I can inform you that the document was subject to analysis by diverse agencies and entities of the Federal Government responsible for questions related to housing policy in the country.

3 The analyses identified errors, as well as leading to judgments that diverged from some aspects of the text. Thus, we are sending you, attached, the observations and comments of the agencies that participated in the review of the document, together with the Brazilian Government's request that they be addressed in IEG's final report.

4. I take this opportunity to express my esteemed considerations as I sign sincerely,

(signed)  
Roberto Carlos  
Chief of Staff

## ANNEX TO OFFICIAL LETTER NO. 96/2010 – SAIN/MF

**Comments on the document entitled : “*Project Performance Assessment Report – Brazil - Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform (Loan 7306)*”**

### Ministry of Cities

1. According to the above referenced document, the overall result of the project was considered to be moderately satisfactory. The project achieved its relevant objectives with respect to increasing the access of poorer people to housing; strengthening policies and institutions in the sector; and the growth of resources available for housing finance.

The report considers that, while the *Minha Casa, Minha Vida* program itself represents an advance, there was not a significant advance in the market for housing finance for the lowest income households, since the growth of lending in these cohorts is limited to the FGTS and SBPE (please see comments by CEF).

It is important to emphasize that the Federal Government increased the number of lending operations for the low income population a lot, especially through *Minha Casa, Minha Vida*. Mortgage lending in this segment, especially through FGTS resources, increased substantially over the years.

It is appropriate to highlight that, of the R\$35 billion committed to *Minha Casa, Minha Vida*, R\$14 billion (41 percent) was transferred from the General Federal Budget (OGU) to the residential rental fund (FAR) aimed exclusively at families with incomes up to 3 minimum salaries.

*Minha Casa, Minha Vida* implemented a significant reform in Brazil’s subsidy model by introducing fixed direct subsidies and by establishing a cut off income for access to long-term financing, thereby promoting a significant increase in the individual amounts and also in the total volume of resources aimed at subsidies. The total volume of resources for subsidies was R\$26 billion for house building.

The Program also innovated by promoting the blending of resources between the General Federal Budget (OGU) and the workers’ severance fund – FGTS. The greater objective of policies to tackle the housing deficit resulted in a program design that saw resources focus upon families with incomes up to R\$1,395.00. The program also foresaw incentives for families with incomes up to R\$2,790.00.

One of the great achievements of *Minha Casa, Minha Vida* was the growth of loan contracts in the income range up to 6 minimum salaries, in both the quantity of operations (absolute and relative values) and in the unit value of loans awarded. Even discounting operations from 0-3 minimum salaries with OCU/FAR resources, 207,684 units, and taking into account only the operations financed through FGTS, 150,500 units—loan contracts by income group in the first year of the program up to April 2009—there was important progress compared to 2008.



There was a significant increase at the national level, of loan contracts in the range of up to 6 minimum salaries as a share of the total, from 76 percent to 95 percent. Most of the change occurred in the South-East region, where the country's housing deficit is greatest, from 67 percent to 92 percent.

Broken down by income group at the country level, this increase in loan contracts was from 25 percent to 37 percent for the 0 – 3 minimum salary range; an increase from 51 percent to 58 percent for the 3 – 6 minimum salary range; and a fall from 24 percent to 5 percent for the range above 6 minimum salaries. The same improvement was observed in all regions of the country, with drastic reductions for the above 6 minimum salaries range, and significant growth for the 0-3 range. The South region stands out in this regard. It had a 17 percentage point increase in this range, from 20 percent to 37 percent. With caveats for the results in the states of the North-East region where, in spite of economic growth, there is still a small number of loan contracts financed by FGTS, especially for the 0- 3 range, partly because of the performance of PAR in this income range. The North-East and Central-West regions deserve closer study because of the concentration in these regions of operations for the 0 – 1 minimum salary range, through operations guaranteed by FGTS resources that cannot be compared with conventional financing.

In the states of the North-East region that concentrate the largest deficits in the country, if we overlook loan contracts made in 2008, the number of operations guaranteed, being grant funded, are similar to (conventional) programs for 0 – 3 minimum salaries. From this perspective, growth in 0 – 3 minimum salary operations was similar to that of the South region, namely 17 percentage points, making it today the largest share serving the 0- 3 range of 47 percent. The Center-West region was the least affected with respect to the changing profile of loan contracts, still seeing growth from 84 percent to 96 percent in contracts up to 6 minimum salaries, albeit with a decline for the 0 – 3 range from 46 percent to 43 percent. Nevertheless, it is important to recognize progress in this region, since it is significant for the 3 – 6 minimum salary range in which all states saw growth. DF (the Federal District) grew from 20 percent to 62 percent, MT (Mato Grosso) from 18 percent to 54 percent; and MS (Mato Grosso do Sul) from 48 percent to 62 percent. Growth was not negligible for the 0- 3 range if we take into account the guaranteed operations contracted in 2008 in the states of MT and MS, where they accounted for 67 percent in that year, distorting the overall number for that period. Leaving aside these contracts, the growth in this range was still important in the DF from 4 percent to 14 percent, in MT from 10 percent to 40 percent and in MS from 23 percent to 32 percent.

If we consider all *Minha Casa, Minha Vida* operations, including those in the 0-3 minimum salary range, the expansion of operations in the lowest income ranges is even more evident. Operations with individuals in the 0 – 3 range represent, in December 31, 2009, 77.6 percent of contracts; operations in the 3 – 6 range 20.2 percent and in the range above 6 minimum salaries, 2.2 percent. There is also a significant convergence in relation to the deficit which demonstrated the extreme social reach of the program and its effects on the rest of FGTS operations. Table V provides a synthesis of the relative distribution of the contracts and of the deficit by income range.

<b>Table V – Loan contracts by income ranges (percent)</b>				
	<b>Up to 3 min sal %</b>	<b>3 – 6 min sal %</b>	<b>Above 6 min sal %</b>	<b>Total %</b>
FGTS 2008 (only new)	25	51	24	100
FGTS 2009 (only new)	28	62	10	100
<i>Minha Casa, Minha Vida</i> (only FGTS)	32	61	7	100
<i>Minha Casa, Minha Vida</i> (FGTS/FAR)	78	20	2	100
Urban deficit	89.5	8	2.5	100
<i>Source: CEF/SUHAB – Fundação João Pinheiro</i>				

As far as more detailed aspects of the interventions are concerned, two considerations are important. The first is regarding the value of the individual loan awarded that, under new measures introduced by *Minha Casa, Minha Vida – 2*, was significantly increased to an average of 45 percent in the subsidized range. Strongest growth occurred in the 0 – 3 range, in practice previously excluded from housing finance. This resulted in the 2 -3 minimum salary income range increasing from 13 percent of FGTS funding at the national level to 30 percent. In some important states it was higher than 40 percent. Such increases, added to subsidies awarded to increase affordability, contributed significantly to the improvement of the product on offer and to the response to the needs of the beneficiaries. The second concerns precisely this product. In this aspect too, there was major progress in financing aimed at purchasing a new property or under construction, with agreed minimum specifications, while in previous years financing typically aimed instead at the acquisition of older homes and for construction materials too. Finally, with regard to the distribution of loan contracts, the program gives priority to metropolitan regions where, today, 35 percent of the country's housing deficit is found. 42 percent of the interventions are in these regions, of which 20 percent are in the state capitals.

2. The report criticizes the lack of dissemination and clarity of the PlanHab housing plan. But establishes that the date indicated by the Ministry of Cities for publication in by June 2010.

Although the report criticizes the limited dissemination of PlanHab, the conception of PlanHab was part of a planning process that began in 2007, went through all of 2008, being presented to the Council of Cities in December of that year.

The elaboration of national participative plan in a country the size and complexity of Brazil was a great methodological challenge. PlanHab confronted this challenge, seeking to become

a strategic instrument of national planning—traditionally formulated in a techno-bureaucratic, if not authoritarian manner—that could incorporate all views in Brazilian society about housing questions. These included regional diversity, the differentiated vision of all segments of society and various technical viewpoints.

At the same time it kept a special role for institutions of social control and participation: *Concidades*, the council of cities; the FGTS governing council; and managing council of FNHIS, the social housing fund.

PlanHab was concluded and presented in December 2008. From then on it was widely disseminated through diverse public events, such as a the 3<sup>rd</sup> conference of cities, in the offices of PLHIS (details in item 14 of this document), on the site of the Ministry of Cities (MOC), in various presentations made by staff of the national housing secretariat in fairs, seminars, debates, meetings, with special mention of the Fifth World Urban Forum held in March in Rio de Janeiro, and at the 4<sup>th</sup> conference of cities.

*Minha Casa, Minha Vida* constituted an important stimulus to implementing PlanHab by aligning the concepts and the actions of the plan. This was through: (i) a significant increase in government resources allocated for housing; (ii) prioritizing serving low-income families; (iii) proposing a differentiated treatment of family groups in accordance with their incomes; (iv) establishing a framework for consolidating a policy of subsidies integrated with finance; (v) instituting a regulatory framework for regularizing titling of occupied areas; (vi) reducing interest rates for housing finance; (vii) relating investments by sources of financings and government responsibilities; (viii) stimulating the expansion of the private market for low-income housing.

3. With respect to SNHIS-FNHIS, the report affirms that it was “upstaged” by the growth acceleration *PAC* program and by *Minha Casa, Minha Vida*.

The national system of social housing (SNHIS) underwent a process of strengthening through broader participation of federal agencies that created the council, fund and plan of social housing. This was in order to access the resources of the fund, FNHIS.

It is important to stress that FNHIS became part of *PAC* from 2007. It was a fundamental axis of finance for housing policy, with guaranteed resources of the order of one billion reais per annum.

4. The report also states that FNHIS is managed by CEF. However, the Law 11,124/2005 that established FNHIS affirms that CEF is only the *agente operador* of the system. [*note on translation: the word “manage” in the English language would cover such a role.*]

There is a substantial difference between the two roles.

The Ministry of Cities as the manager of FNHIS is responsible for the implementation of housing policies aimed at the lower income population, as well as the coordination of actions of the National Social Housing System (SFHIS). It is also responsible for the definition of

instructions, priorities, strategies and instruments for the implementation of the National Housing Policy (PlanHab) and social housing programs.

As *agente operador* CEF is responsible for the system's operations, by implementing the operational procedures necessary for using FNHIS resources. This is based upon the norms and instructions established the governing council and the Ministry of Cities. CEF is also the depository of FNHIS resources and carries out the required accounting of them.

5. Finally, the report mentions on page 17 that the DPL foresaw the strengthening of PSH. In fact, what was at the heart of the project objective was the general harmonization of subsidies and a more consistent budget allocation for PSH.

This happened because PSH was one of the active programs at the time. Currently, it can be said that *Minha Casa, Minha Vida* promoted this harmonization up to a point, and significant budget resources were allocated to housing subsidies, but through *Minha Casa, Minha Vida*, not PSH.

6. The HTAL was criticized for being underutilized, not only by MOC but also by CEF through the lack of use of the opportunity of accessing this technical assistance.

The technical assistance project for the housing sector, called *TAL HABITAÇÃO* was conceived and started at a time when discussions involving the main directions of PlanHab were being incorporated. PlanHab has a 15 year time horizon and led to a new agenda of discussions and demands for studies on housing.

Implementing PlanHab was complex, being part of a planning process that began in 2007, went right through 2008, and was presented to the Council of Cities in December 2008. In this new context, some of the (technical assistance) contracts foreseen at the time of signing the Loan Agreement became inadequate and extemporaneous as far as SFH objectives were concerned.

For this reason, it became necessary to realign the planning of the Project to the current situation of the housing sector.

It is important to highlight that the management and implementation of the HTAL project was the responsibility of MOC. CEF was not involved in its execution.

7. On the item where the DPL focused upon a broad program of municipal capacity building, with tool kits, training programs and completed *PLHIS*, it is critical to note that the roles of states and municipalities within the institutional framework of housing and urban development remains unchanged.

Meanwhile, during 2008-2010, various distance learning courses were held with the aim of preparing public officials working in the area of housing in states and municipalities, to increase local capacity in this area.

In 2008, a distance learning event on slum upgrading (making integrated interventions in informal settlements) was carried out by the Cities Alliance in partnership with MOC. More than 300 participants completed the course.

In 2009, two versions of a distance learning course to train professionals in planning for social housing. Taken both occasions into account, the course reached out to 4,000 professionals, 2,000 of which completed the course and received certificates.

The course had a positive evaluation by the participants and didactic material produced for it is available on the MOC site, with the idea of guiding the elaboration of the plans referred to above.

Finally, in 2010, the second course on slum upgrading was closed on June 22, 2010, with more than 800 participants and the lowest dropout rate of any MOC organized training. It was considered a success by the participants.

Also in 2010, the *SNH* will organize a distance learning course for 2,000 professionals aimed at preparing them to undertake social work in informal settlements. This course will begin in the month of July and is open for registration until July 11, 2010.

Apart from distance learning courses carried out with resources of HTAL, the department of institutional development and technical cooperation (DICT) of SNH launched during 2009 various notable events, with particular attention given to the PLHIS workshops in the states.

Undertaking in partnership with CEF and with state governments, these workshops reached out to more than 700 municipalities and trained a total of 2,188 people.

The workshops were targeted upon social workers directly involved in the elaboration, follow up, or evaluation of PLHIS, giving priority to the participation of:

- Municipal officials responsible for the execution of the contract with CEF and/or its immediate substitute.
- Representatives and professionals of state governments who are active in the housing sector and/or urban development, and who are responsible for the development of the respective State Housing Plan.
- Professionals of CEF (representatives of GIDURs or REDURs) responsible for analyzing PLHIS terms of reference and products.
- Social workers responsible for the social control of PLHIS, preferably members of governing councils of social housing funds.

## Ministry of Finance

### **Secretariat of the National Treasury (STN)**

**Report:** “One is that the interbank rate cannot fall below the interest paid on Brazil’s widely used savings accounts, historically set at 6 percent per annum (plus an adjustment for inflation).” (Summary, page ix, 4<sup>th</sup> paragraph, 3<sup>rd</sup> line)

**Comment:** The *Taxa de Referencia (TR)* cannot be understood as an inflation correction.”

**Report:** “Excessive bureaucracy discouraged large-scale operators. PSH is on hold at this writing, having, among other things, been upstaged by *Minha Casa, Minha Vida*. Up-front subsidies were provided with FGTS lending for the first time, although this meant borrowers receiving a double subsidy—the lump sum and the below-market interest” (Summary, page xi, 5<sup>th</sup> paragraph, 6<sup>th</sup> line)

**Comment:** “We disagree with the affirmation that the PSH “did not take off” because of excessive bureaucracy. The resources committed to the Program were fully used. New operations were not undertaken, since PSH was incorporated into *Minha Casa, Minha Vida*.

**Report:** “The Operation design itself earned mixed reviews in Brazil, even though the Operation did bring together these various parties, with the Bank acting as honest broker among them. As Borrower, the Ministry of Finance valued the flexibility and ownership it conferred. As implementing agencies, the Ministry of Cities and the principal state bank, the Caixa Econômica Federal (CEF) lamented incurring costs to execute the project while receiving no reimbursement from it—as the Operation design intended, of course. Neither the Ministry of Cities nor CEF made much use of funding available through the parallel Technical Assistance Project, however. ” (Summary, page x, 2nd paragraph—complete)  
“...and CEF, industriously pursued Operation endorsed actions at their own expense—for which they received no reimbursement”. (Summary, page xii, 2<sup>nd</sup> paragraph, 16<sup>th</sup> line)

**Comment:** “We are not aware of the execution of the DPL, referred to in this text as the Operation. Meanwhile, our attention is called to the report of CEF incurring costs that are still not reimbursed. This comment can bring about an institutional risk for the Federal Government, through a hypothetical non-fulfillment of contracts.

### **Secretariat of the Economic Policy (SPE)**

The Secretary of Economic Policy of the Ministry of Finance (MOF) requests the following alterations to the text of the draft report (editing conventions: (i) ~~strikethrough~~ indicates deletion, and (ii) underlined indicates insertion into the text).

#### a) In Summary

a.1 – page xi. Suggested text:

With a solid legal framework in place, securitization of housing loans took a firmer institutional footing in Brazil, with new businesses in São Paulo bundling loans and trading mortgage-backed securities called *Certificados de Recebíveis Imobiliários* in Brazil. At this

writing, the sale of these *Certificados* has lapsed in Brazil as has the trading of such securities worldwide following the sub-prime lending crisis in the US.

The private sector share of housing finance has remained constant and is unlikely to take off before interest rates are normalized in Brazil's financial markets. Private banks complain that they ~~cannot~~ have difficulty to access existing FGTS funding, as they are entitled to, because of excessive bureaucracy that leaves CEF to dominate the use FGTS funds. These banks also argue that the small spreads allowed make FGTS lending unprofitable for them.

Comprehensive reform of housing finance in Brazil remains hostage to the country's high interest rate regime, something likely to change only over the longer-term. Interest rates did fall over the 2004-2009 period, but still remain extraordinarily high by international standards. This makes free-market-driven housing finance a far reality ~~unaffordable~~, leaving the field to the SBPE-FGTS windows.

a.2 page xii Suggested text:

The **Overall Outcome** of the project is rated *moderately satisfactory*. It achieved its relevant objectives, helping to increase access by the poor to housing, strengthening policy and institutions and expanding housing finances, albeit with moderate shortcomings. These included scant evidence of a down-market shift of housing finance, little lasting impact on subsidies, and no evidence of reduced costs of urban land provision. The **Risk to Development Outcome** is rated *moderate*. Government commitment to the Operation-supported improvements is unlikely to waver. But possible impacts—real estate bubbles, for instance—of rapid expansion of housing finance upon the real supply and demand for housing were ~~left out of the scope of the Operation~~ minimized into the scope of the Operation. **Bank Performance** is rated *moderately satisfactory*. The project was prepared with care except for M&E that was given cursory treatment and failed. Except for actions to lower the costs of urban land delivery, the project was well designed to achieve the relevant objectives. **Borrower Performance** is rated *satisfactory*. The Government was committed to improving the Housing Finance System, while placing housing center stage of its two flagship programs, the *PAC* and the *Minha Casa, Minha Vida*. Those agencies responsible for implementation, the Ministry of Cities and CEF, industriously pursued Operation-endorsed actions at their own expense—for which they received no reimbursement.

b) in “1. The Need for Housing Reform in Brazil”

b.1 page 2 Suggested text:

6.1 Mobilizing funding for the construction and purchase of the quantity and quality of housing units needed is among the challenges facing the further reduction and eventual elimination of this deficit. In Brazil, raising the necessary funds directly in unfettered local financial markets would only lead to unaffordable lending. Interest rates in Brazil are the highest reported in the world, multiples of those in comparable states (Table 1.1). If one would exist carrying Brazil's 44.7 percent per annum interest rate, for instance, a hypothetical 15 year mortgage loan of US\$150,000 would require a monthly repayment of US\$5,500—affordable only by households in the top few percentiles of the income

distribution—clearly not a feasible solution. Large spreads between deposit and lending rates add to the high interest rates on loans. ~~Brazil's spreads were the largest among the 121 countries reporting this data for the 2008 *World Development Indicators*.~~<sup>30</sup>

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<sup>30</sup> Although currently very high, interest rates have been higher still in Brazil in recent times. It is worth noting that the *O Globo* newspaper of November 30, 2009 carried a celebratory headline announcing that the 43 percent interest for consumer credit that month was the *lowest* level charged since 1994.



### Central Bank of Brazil– BACEN

The Central Bank of Brazil requests the following alterations in the text of the draft report:

- a. In the list of Abbreviations and Acronyms, page ii, to include “BACEN – Central Bank of Brazil.
- b. In paragraph 4.7, to substitute “...to R\$71,786 in 2008” by “...R\$71,786 in **2009**”
- c. In paragraph 4.7, to substitute “increased from 18.5 percent of 25.7 percent...” by “...increased from 18.5 percent **to** 25.7 percent...”
- d. In paragraph 4.7, to substitute “These nearly quintupled between 2004 and 2008” by “These nearly quadrupled between 2004 and **2009**”
- e. In paragraph 4.7, to substitute “Outstanding mortgage debt increased by 46 percent over the 2004-2009 period...” by “Outstanding mortgage debt increased by 46 percent, **in real terms**, over the 2004-2009 period...”
- f. In paragraph 4.10, to substitute “nearly 50 percent more savings in real terms during 2004-2009” by “nearly 50 percent more savings in real terms during 2004-**2009**”

## Caixa Economica Federal – CEF

### Operations Agent of FGTS

#### 1. The market for housing finance and the SFH

Statement of the report: The Brazilian housing finance market is excessively dependent upon the SFH, a solution that has been around for more than 50 years. As in other editions of this report, it is said that housing financing should be left to the free market. However, this will only be possible when interest rates in Brazil are reduced to acceptable levels, since they are still very high when compared with other countries.

Counterpoint: The SFH precisely has the objective of making loans with different interest rates feasible for borrowers, as a way of bringing down market interest rates. The SFH was created as a mechanism to make decent housing possible for the worker, and as the report itself notes, the tendency is to encourage a sustainable reduction in interest rates for housing loans, something that has occurred in recent years.

#### 2. The market for loans for low-income families

Statement of the report: There is no evidence that housing finance aimed at low-income families has increased significantly in recent years, even through that part financed through the SPBE and FGTS. The report states that [IEG] sought data on this, but was unable to achieve this.

Counterpoint: Housing loans awarded to low-income families, especially through the FGTS, have increased substantially over the years. The value of financing awarded through the FGTS increased by more than 553 percent between 2004 and 2009, for example. The increase of the volume of annual discount offered was more than 700 percent, and the average loan value grew by more than 409 percent, as shown below:

#### *Evolution of amounts lent by year of loan agreement (in R\$)*

Year	Discount	%	Amount lent	%	Average value
2004	364,617,657.26		2,464,126,769.79		11,553.32
2005	1,006,901,373.86	176.15%	4,179,226,925.71	69.90%	14,227.11
2006	1,847,847,275.35	83.52%	5,404,835,360.38	29.33%	14,978.27
2007	1,771,734,317.43	-4.12%	5,551,618,764.43	2.72%	20,289.52
2008	1,346,597,621.11	-24.00%	8,670,167,827.22	56.17%	37,541.32
2009	2,920,202,476.50	116.86%	13,629,540,862.97	57.20%	47,272.11
2004/2009		700.89%		553.12%	409.16%

### 3. The double subsidy to low-income families

Statement of the report: The SFH awarded double subsidies to borrowers, given that the interest rates are below-market and direct subsidies are also provided.

Counterpoint: The direct subsidies are awarded only to borrowers who have specific characteristics related to family income and affordability. They are workers who, even with below-market interest rates, would not succeed in obtaining financing unless they had access to the (direct) subsidy.

### 4. The increase of direct subsidies and the low-income (housing) finance market

Statement of the report: The confirmed increase in the award of direct subsidies cannot be taken as evidence that the housing finance market is giving a broader coverage to the low-income population.

Counterpoint: The increase in the award of direct subsidies is unequivocal proof that the quantity of housing finance for the low-income population increased substantially. This happened because, with the subsidy, more low-income families gained access to housing finance.

### 5. The SFH and housing sector reform in Brazil

Statement of the report: The World Bank loan had more modest objectives than reforming Brazil's housing sector would call for, as the title of the loan would lead one to conclude. A deep and broad reform of the housing sector in Brazil is extremely necessary in the medium to long term, and the SFH will have an important role in this task. This is especially so in the next few years, although the housing market should be left to private capital more intensively in the future

Counterpoint: We agree that FGTS and SBPE resources have an important role in the housing sector, although government policies to stimulate credit for the low-income population are also fundamental for the sector.

### 6. CEF as the operations agent of the FGTS and the lack of access to private banks to FGTS resources

Statement of the report: CEF, as operations agent of the FGTS has no interest in facilitating the access of other financial agencies to the resources of FGTS, given that the CEF itself is a financial agency. Also, the risks of a possible default by other financial agencies toward FGTS would fall upon CEF. Besides this, the processing of applications (made by other financial agencies) for FGTS funding is slow and bureaucratic.

Counterpoint: CEF, as operations agent, has no interest in making (others') access to FGTS resources for housing loans difficult. On the contrary, and as has been reiterated to the World Bank, CEF has taken several steps to fully and efficiently execute the FGTS budget, notwithstanding the constant increase in resources over the years. Some of the measures were:

- Yearly formal consultation by CEF of financial agencies through a published *Circular* about their intention to use FGTS resources for housing finance and the amount that will be needed for the following year. Only after these demonstrations of interest is the budget request made and presented to the FGTS governing council.
- The operations agent has often held technical meetings with financial agencies to remove doubts and seek adjustments that contributed to the optimization of the use of FGTS resources by all.
- Transfers of extraordinary amortizations, that used to be executed within 10 days after the amortization, are now made on a monthly basis, as the financial agencies requested. This has improved the operational process.
- Questions raised about the rate of credit risk by financial agencies were clarified in the sense that this rate, approved by the FGTS governing council, is applied on the basis of a rate for each agency, and constitutes a mechanism of calibration, collection and provision for credit risk. It is important to emphasize that this rate is collected from CEF, when it acts in the role of financial agency, and that the rating of most of the banks is the minimum foreseen by the regulations of the governing council, at 0.2 percent per annum. For this reason, this rate does not constitute an obstacle to the undertaken the operations.
- The limit to the spread of operations financed by FGTS resources, of R\$10,034.00, exists to help achieve the FGTS objective of focusing attention upon social housing for low-income families. Even so, it is important to emphasize that such a limit is only applied to low-income borrowers, those who have a right to FGTS discount. When a borrower does not have that right, there is no limit to the spread.

As the World Bank had been informed, financial agencies tend to call the policy of allocating FGTS resources to low levels of income as being "bureaucratic". Thus, the governing council of FGTS and the MOC define the target levels of income and the objectives that FGTS should try to achieve, in relation to the regions where the resources should be applied, the amounts committed to discounts, and the quantity of corresponding resources. These definitions are part of the sectoral directives that are aligned with the housing policy of the State that aims to guarantee the priority application of FGTS resources to the strata of population most in need of these resources.

## 7. Increase of housing finance and the market supply of housing units

Statement of the report: Increasing the potential of housing finance to borrowers is an aim that should be permanently pursued, although it must accompany efforts to overcome bottlenecks in the supply of houses, in other words, in the construction industry.

Counterpoint: The *Minha Casa, Minha Vida* program introduced incentives for low-income housing production, from the point of view of the entrepreneur as well as the final borrower.

## PROPOSALS FOR ALTERATIONS TO THE TEXT

A) On page xi of the Preface (viz Summary), exclude the passage “*Evidence of the down-market move of housing finance intended by the Operation is elusive*”, taking into account the information of item 2 of this document and the following passage, found in page xiii of the report itself “*The **Overall Outcome** of the project is rated **moderately satisfactory**. It achieved its relevant objectives, helping to increase access by the poor to housing” our highlighting).*

B) On the same page, after the passage “*Under the present macro-economic circumstances, housing finance in Brazil can only grow within the Housing Finance System parameters and the funding constraints of its two main instruments*”, to include: “Nevertheless, the Operations Agent CEF does not expect that FGTS is likely to face restrictions of resources for housing finance in the coming years.”

C) On the same page, after the passage “*These banks also argue that the small spreads allowed make FGTS lending unprofitable for them*”, to include: “However, the Financial Agency CEF, responsible for nearly all housing loans financed through FGTS, is also bound by the same rules and spread limits as other financial agencies. Thus CEF’s domination of the market does not result from a privileged position in relation to other agencies, but to its strategic action as executor of the Federal Government’s housing policy.”

D) On page xiii, exclude the expression “*These included scant evidence of a down-market shift of housing finance.*”

E) On page 10, exclude the expression “*On the other hand, evidence that the poor directly benefited from the expansion of mortgage lending during this period is weak, as is a convincing demonstration that housing finance moved down-market*”, taking into account the point made in item 2 of this document.

## Financial Agency – VIGOV

### **I. PD ANNEX 2: MATRIX OF OBJECTIVES, KEY ACTIONS AND OUTCOMES – Page 29**

#### **1.1 1. Improve regulatory and legal environment for housing finance**

Basically, comments on the regulatory advances especially through Laws 9,514/97 and 10,931/2004 were added. Among other things, they introduced *alienação fiduciária* [translator’s note: similar to “trust deed”] and regulated the rules of *incontroverso* [translator’s note: similar to “surety” or “escrow”].

In discussions about the project, it became clear that, in terms of the regulatory framework, the greatest legal risk that required mitigation came from the polemical question of capitalization of interest that follows Decree 22,626/33. This question is noted on page 29, namely the preparation of a draft project law to solve the legal ambiguity about capitalization of interest, as applied to existing portfolios (interpretation of 1933 law).

As the report does not present any comment on the evolution of this matter either in the annex or in the body of the document, it leaves the impression that there was no progress. Meanwhile, Law 11,977 of July 7, 2010 was a major step forward that certainly contributed to the mitigation of what is the greatest legal risk posed to Brazilian housing finance.

Considering the importance of this theme, we judge it opportune to insert in some part of the body of report, or in the annex itself, the following items:

*“In terms of improving the regulatory framework and mitigating risks, Law 11,977 was drafted in July 7, 2009. The Law incorporated important advances with respect to the principal legal risk associated with housing finance, namely controversies arising from the capitalization of interest. In this context, the Law expressly authorized the monthly capitalization of interest, as well as regulating the mathematical rules to follow in amortization systems used in housing loan operations. In the same way, the Law also explicitly authorized the use of the accounting system known in Brazil as the “Tabela Price”, that in the context of capitalization of interest was the target of recurrent legal actions against it in Brazil, putting the system at risk.”*

With the same approach recommended in the previous paragraph about the Law 19,777/2009, it is important to insert in the document some mention of the advances made in greater transparency for borrowers. Thus we suggest for inclusion in the body of the document or in the annex the following:

*“In terms of protecting the interest of borrowers and also to bring greater transparency to the relations between lenders and borrowers, as well as stimulating competition between financial institutions, two important mechanisms were introduced:*

*I – Obliging loan agreements to inform the Total Effective Cost (CET) of the operation, as per Resolution CMN/BACEN 3,517 of December 6, 2007, in order to make it easier for borrowers to identify the best proposals in the market, as well as to clarify the real costs of the loan.*

*II – Freedom for borrowers to choose their insurer for housing loans. Law 11,977/2009 obliged financial institutions to offer a minimum of two (insurance) policy options, at least one of which should not belong to the lender’s economic group. Apart from this, the Law allowed the borrower to opt for any other legally recognized insurer in the market. This measure resolved an old discussion with state attorneys and legal authorities, as well as stimulating competition between insurers that already resulted in cost reductions in this type of insurance.*

## **II Comments arising from questions noted in the body of the Report**

2.1 Paragraph 4.19 – page 17 – Originally established in 2001 as a pilot program, PSH was retained as a permanent instrument for providing up-front housing subsidies, **managed by CEF**, for the construction of social housing through Laws 10,008/04 and 10, 998/04 (our emphasis)

The part underlined in the above text constitutes **a technical error** and, although it may appear to be irrelevant, it can lead to interpretations that can be harmful to the image of CEF. For this reason, we ask that the underlined text be excluded from the report. Apart from being unnecessary, the exclusion does not undermine the point being made there.

The reason for requesting this exclusion derives from the fact that CEF, either as financial agency or as operations agent, at no time exercised the role of administrator or operator of PSH. This responsibility was always MOF's and MO