

**HOUSING FINANCE IN JAMAICA: THE NATIONAL HOUSING TRUST AS A  
MODEL FOR PROVIDING LOW-INCOME HOUSING?**

by

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Submitted to the Department of Urban Studies and Planning in Partial Fulfillment of the  
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# **HOUSING FINANCE IN JAMAICA: THE NHT AS THE MODEL FOR PROVIDING LOW-INCOME HOUSING?**

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**MARLENE MARIE SMITH**

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## **ABSTRACT**

The majority of households, more so urban households in developing countries, do not normally have access to mortgage finance. The consequence is a lower level investment in housing, resulting in overcrowding, lower quality housing, and a proliferation of squatter communities. For high inflation economies in particular, households are faced with incomes that are not rising as fast, so that, over time, the number of persons able to invest in the housing market decreases. These conditions characterize, to a large extent, the housing situation in Jamaica.

The National Housing Trust, established in 1976 and modeled after the Brazil Housing Bank, was an attempt by the State at finding solutions to these problems. The essence of the NHT program is its pool of funds from compulsory contributions and its mortgage credit system. The thrust of the program was to target mortgage lending to its contributor in a socially progressive manner. Low-income contributors would be given priority, but loans would be apportioned equitably among all contributors. The allocation criteria were designed so that all income groups contributing to the Trust would have approximately the same proportion of mortgages.

This thesis evaluated the housing finance system in Jamaica and its implications for low-income individuals. Special attention was given to the poor working class and the extent to which they benefited under the NHT housing program. The intention was to evaluate the distribution of total subsidy among the various income groups of NHT's mortgagors. It was necessary also to evaluate how NHT's activities were influenced by macro-economic and government policies.

The main conclusion of the study is that the NHT is a financially sound institution. Nevertheless, it has fallen short of its stated goal of serving its low-income contributors. The evaluation revealed that under the NHT mortgage credit system the distribution of mortgagors by income group bore no resemblance to the distribution of contributors by income groups. In other words, the higher income contributors received more than their proportionate share of the housing benefits. Overall, interest subsidies among mortgagors were substantial, but are not used to cross-subsidize smaller loans or lower income groups. But whereas the data presented a checkered record for the 1980's, data for the 1990's suggest an improved climate for mortgage lending for low-income contributors. These data should be interpreted with caution, since they do not account for internal inaccuracies such as data entry errors and incomplete entries. Given this, the challenge remains for the provision of a housing finance system that is viable for the lower-income contributors. Recommendations for internal or institutional reform are outlined.

Thesis Supervisor: Dr. Omar Razzaz

Title: Assistant Professor of Urban Studies and Planning

To My Mother

Daphne Smith

August 4, 1939 - June 5, 1988

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## TABLE OF CONTENTS

<b>ABSTRACT</b>	<b>i</b>
<b>DEDICATION</b>	<b>ii</b>
<b>ACKNOWLEDGMENT</b>	<b>iii</b>
<b>TABLE OF CONTENTS</b>	<b>iv</b>
<b>LIST OF TABLES</b>	<b>vi</b>
<b>LIST OF FIGURES</b>	<b>vii</b>

### PART A: AN OVERVIEW

<b>1. INTRODUCTION</b>	<b>1</b>
<b>1.1 National Housing Finance Institutions in Developing Countries: A Review of Problems and Practices in the Housing of Low-Income Households</b>	<b>1</b>
1.1.1 The Research Problem	10
1.1.2 Data Sources and Methodology	12
1.1.3 Outline of Chapters	15
<b>2. ASPECTS OF THE HOUSING SITUATION IN JAMAICA</b>	<b>16</b>
<b>2.1 The Political and Economic Context</b>	<b>16</b>
<b>2.2 Dimensions of the Shelter Problem</b>	<b>19</b>
2.2.1 Definition of the Target Population	19
2.2.2 A Review of the Shelter Policies and Strategies	22
<b>2.3 The Housing Finance System</b>	<b>29</b>
2.3.1 Existing Public Financial Institutions	31
2.3.2 Existing Private Financial Institutions	36

**PART B: THE NATIONAL HOUSING TRUST AND ITS TARGETS**

<b>3. WHO PAYS, WHO BENEFITS - NHT'S CREDIT SUBSIDY PROGRAM</b>	<b>44</b>
<b>3.1 Introduction - NHT's Mortgage Policy</b>	<b>44</b>
<b>3.2 A Profile of NHT's Target Population</b>	<b>51</b>
3.2.1 NHT's Contributors	51
3.2.2 NHT's Mortgagors	52
<b>3.3 The Interest Rate Policy and Subsidies</b>	<b>62</b>
3.3.1 Cost of Subsidy	65
3.3.2 Distribution of Interest-Rate Subsidies by Income and Loan Size	68
<b>4. NHT'S BUSINESS ACTIVITIES - ITS SOURCES AND USES OF FUNDS</b>	<b>75</b>
<b>4.1 Its Business and Financial Activities - An Overview</b>	<b>75</b>
4.1.1 NHT's Activities and the Wider Economy	77
<b>5. CONCLUSION AND POLICY IMPLICATIONS</b>	<b>88</b>
<b>5.1 NHT Missing its Target(s)?</b>	<b>88</b>
<b>5.2 The Future for Low-Income Housing Finance in Jamaica and the NHT</b>	<b>90</b>
5.2.1 Prospects for NHT's Contributors	90
<b>5.3 Implications for Policy and Administrative Reform</b>	<b>95</b>
<b>BIBLIOGRAPHY</b>	<b>98</b>
<b>APPENDIX 1</b>	<b>102</b>
<b>APPENDIX 2</b>	<b>109</b>
<b>APPENDIX 3</b>	<b>113</b>

## TABLES

Table 2-1: Selected Economic Indicators _____	18
Table 2-2: Housing Completions 1971-1980 _____	24
Table 2-3: Housing Completions, 1981-1990 _____	25
Table 2-4: Projected Needs for New Units and Upgrades, 1990-2006 _____	26
Table 2-5: Housing Starts and Completions 1990-1994 _____	27
Table 2-6: Institutions Financing Housing Developments _____	30
Table 2-7: Mortgages by Values by Major Agencies Jan - Dec 1990 -1994 _____	37
Table 3-1: Weekly Income Distribution of Contributors in 1993 _____	52
Table 3-2: The Nominal Values of Loans, 1976 - 1995 _____	56
Table 3.3: Distribution of Discounted Weekly Income of Mortgagors and Contributors for 1995 _____	58
Table 3-4: Percentage Distribution of Discounted Incomes by Years _____	59
Table 3-5: Age and Sex Distribution of Mortgagors _____	61
Table 3-6: The Distribution of NHT Rates on NHT Loans 1976 -1995 _____	62
Table 3-7: Mean Interest Rates by Year by Number of Mortgagors _____	63
Table 3.8: Mean and Median Interest Rates by Income Groups of Mortgagors _____	65
Table 3-9: Mean & Median Interest Subsidies by Year of Loan Allocation _____	67
Table 3-10: Pearson and Partial Correlation Coefficients for Interest Subsidies, Interest Rates and Loan Amounts _____	70
Table 3-11: NHT's Annual Interest Subsidies by Loan Types _____	71
Table 4-1: Total Operating Income 1986 - 1995 _____	75
Table 4-2: Percentage Distribution of Components of Housing Finance, 1986 -1995 _____	76
Table 4.3: Ministry of Finance Growth Targets for the years 1989/90-1995/1996 _____	85

## **FIGURES**

Figure 2-1: Home Mortgage Finance Sources of Supply _____	31
Figure 3-1: Distribution of Mortgages by the Year Loan was Committed _____	53
Figure 3-2: Number of Loans by Managing Director's Term's of Office _____	54
Figure 3-3: Real and Nominal Mean Loan Values by Year of Allocation _____	57
Figure 3-4: Median Incomes of Mortgagors _____	60
Figure 3-5: Distribution of Mean and Median Interest Subsidies by Income Group _____	68
Figure 3-6: Distribution of Mean and Median Real Loan Values by Income Groups _____	69
Figure 4-1: Percentage Change in Real Assets 1986 -1995 _____	78
Figure 4-2: Values of Housing Expenditure, 1978 - 1995 _____	79
Figure 4-3: Value of NHT's Contributions, Mortgage Loans, Total Assets and Housing Expenditure__	80



## PART A: AN OVERVIEW

### 1. INTRODUCTION

#### **1.1 National Housing Finance Institutions in Developing Countries: A Review of Problems and Practices in the Housing of Low-Income Households**

In the summer of 1995, the National Housing Trust (NHT) accepted applications for 1000 studio units. These units were specifically targeted to lower-income applicants. The price of each unit was approximately J\$450,000, and the qualifying income was J\$1,200 per week. Fifteen thousand persons applied for these units, with less than half, about 40% being low-income applicants - those earning J\$2,000 and less weekly.<sup>1</sup> This incongruence between demand and supply simply means that not all applicants will be successful, and usually it is the lower-income applicants that are the unlucky ones. At the end of the process the majority of the low-income applicants 'dropped out of the race'. Less than 15% of these applicants were successful mortgagors.

This scenario describes very well what the housing situation has been in Jamaica for a long time now. First, there is always a shortfall in the supply of affordable solutions, particularly, complete units. Second, the disenfranchised group is usually the low-income persons. The National Housing Trust, one of the main providers of housing for the working class, has been battling for years with the problem of meeting the housing needs of all its contributors, particularly the low-income ones. The records show that the lowest income group of its target population, those earning equal to or less than J\$1,100, weekly, have hardly been benefiting over the years.

As part of this chapter, I surveyed of the relevant literature on national housing finance institutions in developing countries, to derive some possible explanations for their failures and successes. I used the experiences of the NHT and the Brazilian National

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<sup>1</sup> See appendix 3 for the distribution of applicants by income groups.

Housing Bank (BNH) to try and discern, within the context of each country, the factors that prevent these finance institutions from adequately meeting their mandate. As a prelude to the exploration of the literature, I attempt a generalized definition of the housing finance predicament of the low-income persons. I then appraise the practices and characteristics of both the formal and informal sectors, borrowing from the experiences of developed countries, matching these with what the literature considers to be requisites of an efficient housing finance system. Part of my interest too is to understand why the development of seemingly viable institutions, such as those in the developing countries, lag behind their developed country counterparts, and particularly why they fail in meeting the needs of their low-income clientele. The final section of the review looks at some of the suggested strategies housing finance institutions may employ to facilitate housing solutions for their low-income clientele.

Perhaps a good starting point to this chapter is understanding the housing finance problem - its perceived dimensions, and its clientele of low-income persons. The definition of the problem<sup>2</sup> as a starting point is important for two reasons, first it provides some context for ensuing arguments and discussions, and second, in many cases the nature of solution that is prescribed, depends to a large extent on how the problem has been defined<sup>3</sup>. The whole idea is to demonstrate that if the problem is narrowly defined in the first instance, then there is the danger that the solutions may also be narrowly defined. But, as the a review of the literature will demonstrate, defining the problem or its solution(s) is not a straightforward task.

Housing is defined in this context as a unit of dwelling space and amenities that provides the occupants with the necessities of healthy living (UNCHS, Habitat 1991). In developing countries, almost every household is housed in a dwelling, but not every

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<sup>2</sup> The group that derives the greatest benefit from improved housing is the group that gets to define the problem by its own standards. Politicians may be the greatest benefactors. They view housing programs as being very attractive, partly because the end product is very visible, signaling an image of progress. Politicians feel that if individuals are given a stake in their economic development, they may be more willing to exercise their franchise. Economic power and importance attained through the new housing, particularly if it is owned, may very well act as a panacea for the poor and engender political stability.

<sup>3</sup> In Jamaica For the low-income household, the problem is defined as one of affordability, hence the solution was the use of mortgage credit subsidy, below market interest rates. See Paul Chen Young, 1976, A study of Housing in Jamaica, Vls. 1, 2.

dwelling is considered a healthy living space. If housing is defined in this manner, then the first problem of housing is understood as one of providing people with suitable housing services . The provision of suitable housing services requires adequate financial resources to cover the cost of the necessary land, material, and human resources for the construction of these services - financial resources that far exceed that of the low-income individual or household. The shortage of adequate housing, therefore, hits the poor the hardest, indicating a lack of finance.

Affordability is, therefore, a major aspect of the problem. In market economies for example, there are some instances where the poor are called upon to pay in relation to their income high prices for housing, even prices higher than those charged to higher income groups for similar products. This is due in part to the fact that capital for low-income housing demands a higher price than capital for higher-income housing. Households, or individuals whose incomes cannot accommodate the monthly payments to defray the costs of their housing needs are referred to as low-income individuals or households. Low-income households have limited access to the formal market for financing their housing. Their source of finance is from friends, family, and savings.<sup>4</sup> With limited finance, they have access to what the formal sector describes as slum dwellings. A perceived solution to this 'dilemma', is that a strategy must be devised to get these households into reasonably priced housing that characterizes healthy living. In order to accommodate the transition of these households, their income must be augmented, either through gifts or by government subsidies. The issue of what housing finance strategies should be put in place to facilitate this transition, is the focus of this chapter.

### **The Practices**

In most developing countries, the need to channel 'adequate and reliable' resources for the construction sector to meet the demand for housing, is usually the premise on which

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<sup>4</sup> In Jamaica, a very important informal source of finance is the Partner system - a saving s and loan arrangement among individuals.

most national housing finance institutions are created. For example, in 1976, a study conducted by the Jamaican government, emphasized that if the country was ever to meet its housing needs, an adequate and reliable source of funds was needed for the housing (construction) sector, (Paul Chen-Young and Associates, 1976).<sup>5</sup> The National Housing Trust was established as the institution that would solve the problem of the lack of funds, and that of the inequitable distribution of existing funds. Besides stimulating the housing sector, the other important task of the Trust was to provide housing for the country's working poor. The NHT's counterpart, the BNH was founded on a similar premise. The BNH of Brazil "was created with the authority to guide, discipline and control the Housing Finance System, and to promote the construction and acquisition of houses, especially by lower income groups" (Vliet, 1994).

The NHT and the BNH typify most national housing finance institutions in developing countries. These institutions are created and basically maintained by the government. According to Malpezzi (1994), this fact forms the basis of the problems of these institutions. Governmental policies constrain the efficient functioning of these institutions; in many cases, the functions, policies and objectives of the institution cannot be distinguished from that of the government. But this is just one argument offered to help explain the failures of these institutions. Other explanations include: market imperfections such as the macro-economic/financial constraints (Renaud, 1987, 1984; Okpala, 1994); institutional constraints (Grimes, 1976); inappropriate housing policy and regulatory framework (Renaud, 1987, 1984; Fass 1987; Lim, 1987); as well as socio-political factors (Klak, 1995).

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<sup>5</sup> The premise was that the economy could indeed be stimulated through publicly-financed housing construction as this activity could likely stimulate indirectly, employment and the materials industry.

## **Attempted Explanations of the Failures:**

### Failures Linked to Government Regulatory and Macro-Economic Policies

It has been established that, the better the housing finance system performs, relative to incomes, the lower housing prices will be (Malpezzi, pg. 993). But few developing countries have demonstrated that government interventions in the housing sector (as a provider of the product rather than a facilitator) achieve. Criticisms levied against governments are that their policies constrain the efficient functioning of national housing institutions, severely limiting their autonomy. Their operations and institutional structure are influenced by government policies, and if their funds are sponsored by the government, their resources are often not sufficient to keep them on a sustainable path (Okpala, 1994). In some countries, examples of constraining policies are, regulated lending rates, and restriction on how the housing budget of these institutions is deployed. Experiences in Jamaica and Brazil, show that these institutions have little control too over their housing resources. The NHT, for example, is required to invest some of its funds into government securities. This significantly restricts the amount of funds that can be invested in housing. In the case of Brazil, loans of large sums are given to the government to finance jumbo projects (Shidlo,1990). With lending rates, regulated below market rates under an inflationary environment are highly negative in real terms.

The development of any well-functioning housing finance system is strongly linked to the level of sophistication of the country's financial system. This in turn is linked to the overall economy (Malpezzi, 1990; Renaud, 1987, 1984, Boleat, 1985; Lim 1987). As such, appropriate monetary policies play an important role in the availability of housing finance. Inappropriate interest rate structures among housing finance institutions, can create distortions in the housing finance market. Klak and Peterson (1990), suggest that an appropriate housing finance policy is one in which:

- "Credit terms for shelter development should be consistent with the terms of credit extended to other sectors of the economy. In absence of special justification

for sectoral treatment, there is the presumption in favor of uniform interest rates throughout the economy;

- public credit institution should not undercut the interest rate structure of the rest of shelter sector, particularly those of the private institutions in the sector. Below market credit terms, offered by one institution is likely to not expand the credit availability to the shelter sector'.

Inappropriately conceived economic policies too can worsen the housing problems. Rakoodi's (1995 ) work in Zimbabwe lends support to this claim. For instance, the differential treatment of Post Office Savings Banks (PSOBs), have put them in a greater financial position than their only competitors, Building Societies during the inflationary period of the 1980's. The non-taxing of interest on POSBs accounts, have enabled them to increase their share of total savings over that of the building societies. The country's implemented structural adjustment measures, including trade and financial liberalization of the beginning of the 1990's had a negative impact on the activities of the housing sector. These measures led to rapid increases in interest rates, and a fall off in savings. The resulting increased economic instability inevitably threatened other policies designed to improve the activities of the housing sector such as the increased use of private sector housing finance to extend home ownership to low-income persons.

Economic destabilizers, such as chronic inflation do not produce conducive environments for a well-functioning finance institution. However, some corrective measures can be a source of handicap to the housing finance system. Generally structural adjustment policies are designed to avoid the collapse of the national economy, and require rigorous almost continuous and severe credit rationing and social spending (Grimes, 1976). During economic crisis of the 1980s, NHT was regulated to limit its housing budget . This was all part of the government's fiscal measures to mop-up excess liquidity in the economy to reduce inflation. These measures, however, have undoubtedly reduced the amount of funds available for housing finance.

## Failures Linked to Weak Institutional Relationships

Weak institutional relationships between different agencies involved in the finance of housing not only makes it difficult to integrate the housing finance system within the wider financial system, but also makes the negative effects of some inappropriate government policies even greater. In turn, some government policies seem to also perpetuate the weaknesses. In Jamaica, for example, housing finance is channeled through various institutions, a system that lacks a definite coordinated approach. According to Malpezzi (1990), the lack of a coordinated approach prevents the most efficient utilization of limited funds available for investment in housing. Such inefficiency is reflected in the co-existence of excess liquidity in some financial institutions, and the severe shortage of investment funds in other areas of the housing market.

According to Malpezzi (1990), other institutional weaknesses may stem from within the institutions themselves. He maintains, for instance, that housing finance institutions need to consider also, their mortgage packages. How best to manipulate these packages to suit their clientele; and how to measure the impacts of these instruments on their profitability. The Graduated Payment mortgage method makes mortgage more affordable for low-income persons, but negatively impacts the profitability of the institutions because of the longer time it takes to repay the principal. This is even a greater problem in inflationary economies. As a result of inflation, therefore, some oppose long-term mortgage payment method even when these are more appropriate for low income persons.

Grimes (1976) in his contribution considers mismanagement and the lack of effective administration as institutional weaknesses that contribute the inefficiency of finance institutions. According to Okpala (1994, pg. 1581), the problem of “the lack of competent management is yet all too common and pervasive in national housing finance institutions” as in most other government institutions in developing countries. The NHT, for example, is criticized for its bureaucratic administration that is said is far removed

from its clientele. Findings of a recent study done on the NHT, indicated that, reduction in the bureaucratic nature of its administration would lead to considerable savings in personnel costs (Altman, Mende, Uecker, 1993). Inefficiency in administration and mismanagement in external agencies, for example, the Land Valuation Department, which housing finance institutions must work with also constrain performance. The cumbersome system of the land administration, particularly the land titling processes, slows loan processing significantly. The success of the NHT's Build-On-Own-Land and Home Improvement loan programs, have been limited by the lack of proper titling of land in rural Jamaica - the areas in which these loan programs would be best suited.<sup>6</sup>

Though it is a fact that the problem of housing finance, particularly for low-income individuals, is a multi-faceted one (the mistargeting of subsidies, the use of inappropriate building and architectural standards, inaccurate/inappropriate accounting of financial flows etc.), Grimes (1976) suggested that, the real problem may be due to the enormity of the task of providing housing for low-income persons . As such, even if conducive financial and economic environments were created to support an efficient housing finance system, the available resources may be only marginally adequate to make a significant impact on the housing situation. The sentiments expressed by Grimes are that 'the development of housing for all low-income households in developing countries is such a gigantic enterprise that it would use up all available national resources.'

#### Failures linked to Socio-Political Factors

Thomas Klak (1992) considers the aforementioned explanations lacking an appreciation of 'more fundamental state characteristics that produce and maintain such housing structures.' He centers his criticism of housing finance programs in developing countries around the 'workings of the state'. Klak shows that state housing programs that are to a large extent shaped by the structure of a country's political economy or dependence. He maintains, therefore, that a state centered-approach provides a deeper understanding of

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<sup>6</sup> Harris Walder, Cheryll, 1992. " The NHT Build-Own-Land Program".



the problems inherent in these institutions and their programs, and can indirectly provide better answers to broader policy-oriented questions such as: why low-income households are so poorly understood? How is the form of housing assistance determined? Why does the state build housing with high standards?

Many of Klak's arguments are based on work done in Ecuador, Jamaica and Brazil. He shows that though these countries are different in certain respects, they share some common 'successes' and 'failures' in their housing programs. Klak shows how effective cross-regional, comparative analyses can be in understanding the workings of contemporary housing programs of similar makings. With this method of analysis, he demonstrates that weaknesses of housing programs in these countries can be traced "to a history of 'dependency capitalism'. This is a system of skewed distribution of power and privilege, and therefore, a system that is inherently incapable of meeting the basic needs of its working class". His characterization of economies with dependent capitalism helps to identify the possible causes of failures of the housing institutions mandates. Such economies, he says:

- are weak in terms of internal dynamics of capital accumulation;
- do not possess strong internal multipliers;
- do not effectively circulate social surplus in the domestic sphere;
- and have skewed income distribution;

These conditions, he maintains, make it impossible for governments to satisfy the "material needs of the citizenry, particularly housing for the working class." The demand for housing will not be provided by the private sector because of its unprofitability. The state, therefore, steps in to try to correct the situation, but it must also accommodate the wishes of the private sector, even at the expense of providing housing for the needy.

This described by Klak, to a certain extent illustrates the environment in which the Jamaica's National Housing Trust operates. It is a situation in which the social objective

of channeling housing to those of the greatest need has almost been abandoned. Grimes (page 89-90), says that as long that there is an unserved demand for housing among the higher-income groups, houses intended for low-income individuals will be diverted to this group. Klak extends this argument by maintaining that the socio-political environment engenders such 'inefficiencies'. He says that as long as the economic environment continues to be one of dependency, "these socially progressive institutions necessary to meet the needs of the low-income clientele will continue to dwindle." ( Klak, 1995). But the question is, despite these failures and inefficiencies, how do these finance institutions still able to legitimate their existence. This is not a difficult question to answer since the 'disenfranchised' are not those with the power to influence change; those with the power benefit from maintaining the status quo.

### **1.1.1 The Research Problem**

The review of the literature has revealed that the failure of national housing finance institutions in meeting their mandates of providing housing for their low-income clientele must be attributed to a variety of factors. I will therefore, used the explanations provided by the literature as a starting point to evaluate the success of the NHT's mortgage credit subsidy program.

One of the main objectives of the NHT is to "add to and to improve the existing housing in Jamaica<sup>7</sup> whereby initially, low-income contributors are to be given priority consideration." The expansion of the housing stock was to be achieved through direct construction of units and the provision of below-market loans to its contributors, for not only purchasing new units, but also to improve existing ones. To encourage and promote improved methods of housing production, and to increase the overall capability of the sector, NHT's role also to included the provision of technical training and research. However, this thesis will focus primarily on the social mandate of the Trust - that of providing working class housing.

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<sup>7</sup> The 1976 NHT Act

The Trust targets its contributors with below-market mortgage credit subsidies. Mortgage rates are tied to specific income bands, and lower rates are to be charged with low incomes. To maintain the Trust's progressive objective, allocation criteria disregarded market rules, example loan to value ratio, and were designed such that housing assistance would be divided equitably among each income group. Awards of benefits were, therefore, weighted on a priority basis between the different income groups.

In practice, an increasing number of middle- and higher-income groups is those granted loans.<sup>8</sup> The major target group of low-income and the self-employed contributors' level of participation in the program is low. **The question, therefore, is why is this so?** But the more important policy question, given the design of the Trust's housing program, is **whether the Trust can really target its low-income contributors or put another way, whether the Trust is intent on realigning its housing policy to target more of its low-income contributors.** The aim of the thesis is to investigate what it is about the NHT low-income housing program, that seems to 'discriminate' against its low-income contributors. In recent years, the NHT introduced some measures, for example, changes to the interest rate and income bands to try to 'reconcile the differences', but to date the efforts have been less than successful. Substantive research has been done in this area, and recommendations made to help the NHT realize its original objectives of progressive allocation of its housing benefits. I am particularly interested in doing this study because I think that the NHT, given its resources the institution is best poised to help low-income workers house themselves. As such I would like to uncover the bottlenecks in the system that prevent low-income contributors from accessing the loans. I will also suggest strategies that could make the NHT at least a facilitator for the provision of low-income housing. The main thrust of this thesis is not to cast blame, but rather to find reasonable solutions to the housing problems of the Trust's low-income contributors.

The thesis will, therefore, look at the housing finance<sup>9</sup> system in Jamaica, and its implications for low-income households. It will emphasize the appraisal of the National

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<sup>8</sup> Klak, Thomas and Peterson G., 1989, Rev. 1990 "Credit and Subsidies in Jamaican Government Housing Programs," Urban Institute, Washington DC.

<sup>9</sup> Housing Finance: The credit supplied by (housing ) finance institutions to households to acquire or access housing?

Housing Trust's mortgage subsidy program as a means of providing housing finance for low-income workers.

### Research Hypotheses

For this research then, two basic hypotheses are tested. The first hypothesis is that: the Trust has been moving further and further away from its mandate of serving its lower-income contributors, or phrased in stronger terms, the income distribution of mortgagors, is characterized by a redistribution of funds, from the lower-income to higher-income contributors. In other words, low-income contributors are subsidizing those of a higher income bracket, with they themselves having a very low, and decreasing probability of being selected for an NHT mortgage.

If these postulates are correct, speculations for possible explanations lead to the second hypothesis. This is that factors such as, institutional constraints; macro-economic imperfections; inappropriate housing policy and regulatory framework, and the NHT's policies all work together, to 'discriminate' against low-income contributors.

## **1.1.2 Data Sources and Methodology**

### Scope of Research

Since the research focuses on the NHT, **all its low-income and self-employed contributors make up the target group**<sup>10</sup>. According to the objectives of the Trust these persons are to be the priority target group for its housing program. The NHT does not target all low-income persons in Jamaica. Rather, it targets only a subset of that group, the employed low-income persons who contribute to the Trust.

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<sup>10</sup> For the purpose of this research, the phrase 'low-income contributor' will also include a 'self-employed contributor'.

Since this research is part of a master's thesis, not all the pertinent issues on housing finance can be addressed. For instance, the problem of inflation severely limits the ability of the Trust to meet some of its objectives. I will merely be able to point out some of the possible effects. I will not be able to undertake any major measurement of the inflationary impacts on the Trust's operations. Housing finance in Jamaica is a very wide and varied field and involves cultural, political, as well as economic processes. It is beyond the scope of this project to focus on each and every aspect of housing finance in the country. I am particularly interested in how best low-income persons can be targeted for financing their housing needs. I have chosen to look at the NHT model to determine how its program can be improved to benefit the greatest number of its contributors in this income group.

This study will, therefore, evaluate the NHT's housing program since its establishment. The study will be a broad evaluation of the Trust within the context of its primary mandate, and the country's macro-economic environment. The essential aspects of the housing program that will be examined are, the profile of selectees and mortgagors, the mortgage selection process, its interest rate policy, and its business activities. (See outline of the contents of study). The evaluation will compare planned objectives with actual achievements, and draw essential conclusions and make recommendations.

### Data and Methodology

The research makes use of primarily secondary data. For data on the NHT, two major sources are used. These are two existing data bases of information on the Trust's mortgagors and contributors. The **Mortgage Master** contains information on the Trust's mortgagors from 1976 to present. The size of the Mortgage Master file is about 48, 000 records and includes data on mortgagors such as:

- mortgage application date;
- mortgage approval date;

- mortgage amount;
- interest rate charged on mortgage;
- amortization period;
- socio-demographic data such as sex, age, income, occupation, parish of residence, and place of work at the time of application.

The **Contributor File** is source of income data for all NHT contributors, but this file is less current than the Mortgage Master. The 1993 Contributor file utilized for this research contains data on sample of approximately 175,000 contributors for whom annual returns were filed by respective employers.<sup>11</sup> The file represents the most complete and current information on annual income and contribution payments of contributors to the Trust. To facilitate more refined income analyses, a subset of some 9,000 mortgagors is created by matching the two files, the Mortgage Master and Contributor file. The files are matched by using the individual's National Insurance Security number, which appears on both files.

Both files needed some amount of cleaning to remove errors such as missing data and key punching errors. NHT's data bases are plagued with these problems, and this has been a sore point for years. No data file is spared. For instance, to date, the Trust has no accurate estimate of the total number of their contributors. The data files represent very valuable sources of data, and as such serious measures should be taken to clean them. Data errors not only place serious limitation on data analysis, but also place considerable difficulty in managing such a large business, precisely because these data problems are compounded each year the number of mortgagors grow.

Before any analysis was done on the mortgage master, all inactive files (such as auctioned units, frozen files, etc.) were removed. This reduced the total number of mortgage records from 39998 to 29774. But even with this total not all records are not complete on

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<sup>11</sup> The size of the Contributor file is about 500,000 employees.

every variable included in the file. The problem of data will be a recurrent point in this report.

Other sources of data include financial statements, NHT's library reports, departmental files and reports, policies' papers and personal interviews with key persons in the Trust. To present a general picture of Jamaica's housing finance system, data from other housing finance institutions, for example, the Building Societies were collected.

### **1.1.3 Outline of Chapters**

The thesis is of two parts, and comprising five chapters. Chapter two looks at various aspects of the housing situation in Jamaica and, therefore, provides a 'backdrop' for the discussion of housing in Jamaica. This chapter briefly gives a political and economic context in which the provision takes place, and presents the various policies and strategies that have been tried over the years. The chapter ends with an overview of the institutional framework of the housing finance system in Jamaica. Part A, therefore, gives an overview of some of the dimensions of the housing finance problem.

Part B is an evaluation of the NHT's performance in housing its target population. In this section also, it is demonstrated how factors both internal and external to the Trust influence its activities. The section starts with chapter three that gives first a profile of the Trust's target population, and ends with an evaluation of the interest rate and credit subsidy program. Chapter four deals with the business activities of the Trust. The major emphasis of this chapter is an appraisal of the NHT's sources and application of its funds; how external factors such as inflation and government policies, affect the activities of the Trust are also dealt with in this chapter. For example, a look at the impact of inflation on the housing resources is done. The study's conclusion and policy implications are presented in chapter five. The chapter also looks at some alternatives for housing the Trust's low-income contributors.

## 2. ASPECTS OF THE HOUSING SITUATION IN JAMAICA

### 2.1 The Political and Economic Context

#### The Political Parties

An adequate understanding of the history and transformation of housing policies in Jamaica relies heavily on understanding the political variable. While a country's economic situation may dictate, for instance, the amount of money available for investment in housing construction activities, the housing agenda is also shaped by the political forces. There are two main political parties<sup>12</sup> existing in Jamaica. The People's National Party (PNP), a social democratic party, is led by Michael Manley and now by P.J. Patterson, the Prime Minister and is affiliated to the National Workers Union. The conservative Jamaica Labor Party, is led by the opposition leader Edward Seaga and supported by the Bustamante Industrial Trade Union. The JLP's ten-year reign since independence in 1962, ended in 1972 when the PNP, under the leadership of Michael Manley took office, and repeated that victory four years later. But Manley's pursuit of socialist policies since, deterred large investors in the economy primarily from western donors. The resultant economic crisis might have caused the subsequent defeat of the PNP in 1980.

Edward Seaga's first move as the new Prime Minister in 1980 was to seek conciliation with the international Monetary Fund (IMF) which Manley had rejected in the latter part of his term of office. The country received some support from the US government under the Caribbean Basin Initiative during Seaga's reign, but it was not enough to improve a very crippled economy. In 1986 when Manley returned to power, he reversed his policies and subscribed to a market-friendly economic strategy, largely because of pressure from

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<sup>12</sup>There are other political groups which act from time to time as 'watch dogs' to keep these parties in line. The main group is the Peoples' Workers Party headed by Trevor Munroe. Mr. Munroe's Party has a socialist orientation and is particularly concerned about the 'perils' of the working poor. The most recent recently formed political group, the National Democratic Movement (NDM), is made up primarily of a group of defectors who have become disgruntled with the leadership style of the JLP's Edward Seaga.



the international agencies such as the IMF and the World Bank. The new Prime Minister, P.J. Patterson has continued where Manley has left off, pursuing the same reform course.

The PNP government, with its emphasis on social services, and expenditure for social programs, particularly during the 70s, it is not surprising that housing has been an important component of the government's policies. The National Housing Trust, for instance was one borne out of the PNP's social regime. Since the administration of the PNP the government has had various housing programs: the housing component of the emergency production plan of 1977/78; the 1987 shelter sector strategy; the housing component of the 5-year development plan, 1990-1995; and the most recent Operation Pride.

### The Economic Trends

Since independence Jamaica's economic development has been characterized by three main problems; high and persistent inflation, high unemployment, a highly devalued dollar, and slow economic growth. In the latter part of the 70's to the early 80's, Jamaica's economy performed badly, but was helped by an influx of American and international aid in the wake of the Jamaica Labour Party's (JLP) election victory in 1980. Between 1980 and 1989, the JLP administration pursued a course of widespread devaluation as part of their free market system. The government, therefore, pursued a bold program of reforms, tax reform, liberalization of trade and exchange rate regimes, and the elimination of fiscal deficit. Other reforms included, the strengthening of the financial sector regulatory framework, the deregulation of prices and distribution marketing channels, the discontinuance of general food subsidies, the elimination of trade restrictions and monopolies, and the lowering of external tariffs. The JLP government adopted basically a flexible exchange rate regime based on the commercial bank transaction and discontinued exchange controls.

The election of the People's National Party in 1989 made no change to these policies. The party was reelected in 1993, and the challenge at this time was to sustain and accelerate the reform to move the economy forward and to improve social conditions. At present, the government is building up its reserves more slowly than last year, but is still committed to continuing tight demand management policies aimed at strengthening the financial system and stemming inflation.

According to the World Bank report, 1995, Jamaica's policy path, if continued, should allow a sustained improvement in economic performance. But the challenges facing the government remain great in view of the country's large debt. Success is based to a large extent on a committed and enthused private sector who continues to invest in especially the productive sectors (Table 2.1).

Table 2-1: Selected Economic Indicators

Selected Indicators				
Year	Inflation Rate	T'Bill Rate	Real Int. Rate	Exchange Rate US\$1=J\$
1975	15.7			0.91
1976	8.1	7.28	-0.82	0.91
1977	14.1	7.39	-6.71	0.91
1978	49.4	8.33	-41.07	1.69
1979	19.8	9.56	-10.24	1.78
1980	28.6	9.91	-18.69	1.78
1981	4.9	9.97	5.00	1.78
1982	6.9	8.61	1.71	1.78
1983	16.7	12.38	-4.32	3.30
1984	31.2	13.29	-17.9	4.95
1985	23.1	19.03	-4.07	5.50
1986	10.7	20.88	10.18	5.50
1987	8.4	18.16	9.76	5.52
1988	8.9	18.58	9.68	5.50
1989	17.2	19.09	1.89	6.50
1990	29.8	26.19	-3.61	8.17
1991	80.2	26.56	-53.64	20.91
1992	40.2	33.90	-6.3	22.20
1993	30.1	28.94	-1.16	32.70
1994	26.7	35.91	-9.21	33.32
1995	25.6	23.61	-8.91	39.81

## **2.2 Dimensions of the Shelter Problem**

Constraining factors such as a weak economy makes it necessary for successive governments to try a variety of housing solutions in solving the country's housing problem. The following section is a review of the various programs that have been tried since the 1970s. The section also looks at how the housing problem and the target groups have been defined over the years. Appendix 1 is summary of other relevant aspects of the provision of housing such as population characteristics, the housing stock and attitudes towards shelter and development components and costs.

### **2.2.1 Definition of the Target Population**

Poverty and poor housing seem to go hand in hand, and as such, the most difficult portion of the population to serve in any housing program, is usually the poor who have low, and/or unstable incomes. Government housing programs over the years have primarily been directed to the urban poor living older tenement areas, the urban poor living in squatter settlements, and the rural poor.

Considering consumption data of 1993, 28% of the Jamaican population fell below the poverty line of J\$70,000. In "per capita terms, it would require an income of J\$4.4 billion (US\$130 million) to bring the incomes of all those persons below the line to it" (Brown, 1995). For regional distribution, in the Kingston Metropolitan Area (KMA) tend to be more spectacular because of its greater concentration of poor. It is primarily for this reason that the problem of housing is more acute in the KMA. The majority of the poor (60%), are however, found in the rural areas.

The poor are young persons. Although only 54% of the population is below the age of 25 years, this group makes up 61% of the poor. Women comprise 51% of the total number of poor people. With employment, the data show that most of the poor in the labor force is employed. The majority of the poor are employed as farmers, agricultural laborers,

domestic servants, street vendors, factory workers, craftsmen and machine operators. Some of these jobs are very low-paying and, therefore reflect very high levels of underemployment. On the other hand, based on 1993 data, the unemployment rate among the poor in the labor force was a high 20%, and 70% of these were below the age of 25 years.

### The Urban Poor in Tenements

The older tenements are usually located 'downtown' urban areas. These units are usually physically deteriorated, overcrowded, and lacking in community facilities, though sometimes water and electricity are available. Tenement slums are made up of yards with three to five, may be as many as eight families living in very near, all sharing basic amenities such as stand pipe, kitchen and toilet facilities. Most of these occupants are usually renters.

Persons in living in these tenements are often unemployed or under-employed, earning very low incomes. These persons usually earn income in the fourth to fifth quintile of the income distribution. These facts are supported by numerous surveys done among these groups. An estimate income for a person in this group would be about J\$1,200 or less per week .

### Urban Poor in Squatter Settlements

Squatting is a common urban phenomenon and is among the housing solutions in many developing countries. Squatters invade, but are not confined to government lands, and seem to always occupy those lands that are either idle or in marginal locations. It is, therefore, not surprising to see little 'shanty' areas cropped alongside gullies, in railroad rights of way, and garbage dumps or river banks.

The structures erected are usually very simple, usually one-room shelters of wood, and/or waste. As the positions of the squatters become more permanent, the waste may give way

to more durable material. The tenure arrangement is also peculiar in squatter communities. It is certainly not unusual to have persons paying rent to other squatters. What happens sometimes is that, the first sets of squatters to an area usually capture as much land as they can and then rent portions to other squatters.

Studies have shown these areas to be characterized usually, but not predominantly by unemployment and under employment. The incomes are also low.

### The Rural Poor

The situation for some rural poor may be somewhat different, particularly from sugar estate workers whose housing conditions are made better through Sugar Industry Housing. For the rest of the rural population, housing conditions is bad; their homes are frequently one-room impoverished shacks, without any utility. Inadequate social amenities exacerbate the problem. In mountainous areas for instance, there may be no regular roads, no water pipes, and residents, therefore, have to carry water for considerable distances or use polluted streams. Pit toilets are common forms of waste disposal.

Incomes in rural areas are irregular because, jobs for the most part are irregular. Small farmers who are earning subsistence incomes are dependent on market, or climatic conditions. For sugar workers, during the off-season those who are non-unionized will receive a portion of their wage; those who are not must seek other sources of income. Considering figures from housing demand surveys of selected parishes, the average income per persons for the rural parishes was about J\$1000 to J\$2000 weekly.<sup>13</sup>

Studies have shown that incomes for farmers earning less than five acres range from \$25,000 to \$100,000 per year. Sugar workers on large estates and Co-ops now have a median income of about \$160,000.

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<sup>13</sup> NHT's Research Unit - Housing Demand Surveys.

## **2.2.2 A Review of the Shelter Policies and Strategies**

Housing in Jamaica has been a scarce commodity and for some time now; the demand for housing has far outstripped supply. Over the years, successive governments have tried a range of solutions, with varying degrees of success. The country's national economic constraints have to some extent, restricted the success of these solutions.

This section of the thesis begins with a review of the past strategies and the critical issues experienced in the implementation of these strategies. The section ends with a description of current strategies, identifying the main objectives and the program targets to be pursued to improve the existing housing situation.

### ***2.2.2.1 The Strategies from 1970-1980***

The 1970s were characterized by a highly regulated economy with a few incentives to developers. But in spite of economic constraints such as, a severe contraction in investments and growth; devaluation of the Jamaican dollar and adverse international economic development, government housing projects in the mid 1970s represented about 70% of all construction.<sup>14</sup> Such a high government involvement might have been a reflection of how important it attributed housing to its economic policy. At the time, its housing programs were seen as a tool to employ a large number of unemployed workers, thereby stimulating growth in other sectors of the economy.

Housing programs during this period was premised on the encouragement of more private sector involvement in the provision of low-income housing. During the 70's, therefore, government policy was directed towards increasing the flow of funds to the housing sector and encouraging the private sector to enter the low-income housing market. Government housing activities, consisted of two main programs, direct construction, and sites and services and squatter upgrading. The main objective of direct construction was

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<sup>14</sup> The Planning Institute of Jamaica (PIOJ)

to provide accommodation for rental and sale for the middle-income and lower-income groups. Some of the schemes under this program was, slum clearance, multi-storied units in urban areas for low-income groups; build-on-own-land schemes; farm housing; indigent housing, and middle-income construction program.

The sites and services program that actually started in 1975, were a delivery of serviced lots. A “serviced lot” was composed of a core provided with piped water supply, sewerage and electricity. The sanitary cores were offered at various stages of completion. The idea was to provide the homeowner with the option of what best suited her needs, and ability to complete with her resources. The squatter upgrading program was designed to improve living conditions in squatter settlements by providing, security of tenure to residents, infrastructure and community facilities.

To facilitate private sector participation, and to increase the flow of funds to the sector, the NHT, created in 1976, provided long-term and interim financing to public and private sectors. The other major public sector finance institution operating during this period was the Jamaica Mortgage Bank (JMB). The bank played an important role in mobilizing funds from overseas, and in addition, undertook primary mortgage and interim financing to private sector investors.

Activity of the private sector was very low between 1971 and 1975, particularly because attractive finance was not available. But with the expansion of KMA, and when the NHT came on-stream, the private sector was encouraged to provide units within the Trust’s price range to be sold to its contributors. The NHT was also a source of very cheap funds, and as result developers undertook schemes financed by the Trust. There was, therefore, an increase in the number of units produced. But towards the end of the 1970s early 80s, macroeconomic factors- devaluation of the dollar, increase in construction costs, affected the sector severely.

Table 2-2: Housing Completions 1971-1980

Housing Completions									
Year	Public Sector			Private Sector			Totals		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
1971	63	1110	1173	-	322	322	63	1432	1495
1972	25	1560	1585	-	322	322	25	1882	1907
1973	534	2309	2843	-	90	90	534	2399	2933
1974	381	1240	1621	-	64	64	381	1304	1685
1975	372	2703	3075	300	314	614	672	3017	3689
1976	816	3822	4638	3100	104	3214	3926	3926	7852
1977	1203	3181	4384	2453	-	2453	3656	3181	6837
1978	1181	3419	4601	275	-	275	1457	3419	4876
1979	927	2726	3653	1116	204	1320	2043	2930	4973
1980	487	1472	1959	99	1105	1204	586	2577	3163

Source: The 5-Year Development Plan - Planning Institute of Jamaica

### 2.2.2.2 The Strategies 1981-1989

In 1982 the government's housing policy was introduced. The focus of the policy was to increase finance for housing. But this was not to be so easily achieved. The period saw a significant decline in investment in the construction industry, hence investment in housing. As a percentage of Gross Domestic Fixed Capital Formation, housing investment varied from a high of 12% in 1980, to a low of 4.4% in 1985.

By 1987, it was then very clear that the objectives of the housing policy were not going to be met. The National Shelter Sector Strategy, became the result of an in-depth look at the constraints of the sector then. The new approach adopted by the Strategy was a shift in the national policy, from one of "provider-base" to "support-base" housing. The informal sector was seen as a valuable source of housing, and as such, support of the informal sector became a major part of the housing objectives of this period. Within the year period, the public sector, together with the private sector provided 24,846 housing units. But the informal sector also played a major role in the supply of housing. The census data, findings of the Urban Development Corporation and the Ministry of Construction, showed that there was significant investment in shelter by the informal sector within this period.



The public sector concentrated on delivering housing through the Starter Home; the Build-On-Own-Land, and Settlement upgrading programs. As part of the housing policy, the NHT was to concentrate exclusively on providing and servicing mortgages; interim financing was discontinued. The JMB also discontinued both its primary mortgage and interim financing activities. Its efforts were reduced to concentrating on, mobilizing funds from both local and overseas sources; increasing its secondary mortgage operations; providing mortgage insurance coverage to private sector investors, and the issuing of bonds. The Caribbean Housing Finance Corporation (CHFC), created in 1960, had the responsibility of providing and servicing mortgages to qualified persons who purchased homes built by the Ministry of Construction (Housing).

Table 2-3: Housing Completions, 1981-1990

Housing Completions			
Year	Public Sector	Private Sector	Total
1981	1838	466	2304
1982	5019	1210	6224
1983	2406	2108	4514
1984	1265	1867	3132
1985	1005	861	1866
1986	2121	59	2180
1987	2208	62	2270
1988	2276	120	2396
1989	3234	-	3234
1990	2625	-	2625

Source: The 5-Year Development Plan  
- Planning Institute of Jamaica

### 2.2.2.3 *The 5-year Development Plan (housing) - 1990-1995*

One of the objectives of the 5-year development plan was to be a review of the past strategies, taking account of the issues that constrained their success. Some of the critical issues and constraints to providing shelter, particularly for low-income groups were identified as, access to land, land use controls, financing, and rent control Government was to focus its attention on households with annual incomes J\$21,500 and less. The shelter solutions for this period included new construction, upgrading, and the extension and provision of basic amenities. It was estimated that 15,000 new housing units needed to be built, and 9,700 to be upgraded, annually to meet Jamaica's housing need for the planning period (Table 2.4).

Table 2-4: Projected Needs for New Units and Upgrades, 1990-2006

New Units and Upgrades in '000s					
Areas	1990	1991	1996	2001	2006
<b>Kingston</b>					
New Units	8.24	7.86	7.76	7.24	8.30
Upgrades	0.48	0.48	0.48	0.48	0.48
<b>Other Urban</b>					
New Units	4.52	4.36	4.62	4.62	4.86
Upgrades	0.88	0.88	0.88	0.88	0.88
<b>Rural</b>					
New Units	2.82	2.33	2.78	3.01	3.37
Upgrades	8.31	8.31	8.31	8.31	8.31
<b>Total Country</b>					
New Units	15.59	14.55	15.16	14.87	16.53
Upgrades	9.67	9.67	9.67	9.67	9.67

Source: The 5-Year Development Plan - Planning Institute of Jamaica

The housing strategies for this period entailed limited government involvement in housing construction. Again, the emphasis was the encouragement of the private sector participation. Government would also to direct its efforts towards mobilizing financial resources. These objectives were similar to those of the 70's. In keeping with the objectives, the NHT in 1990 resumed interim financing to the private and public sector developers. The NHT would also concentrate some of its effort on the provision of serviced lots, to target particularly low-income individuals. Considering the table below, it is obvious that the housing targets were not met. The Greater Portmore development, a ten-thousand-unit housing project was to provide the bulk of low-income housing units; the studio units were intended for low-income individuals of the 'downtown' tenements. But even this project has to date, not successfully delivered its target of low-income units.

Table 2-5: Housing Starts and Completions 1990-1994

Housing Starts					
PROJECTS	1990	1991	1992	1993	1994
Public Sector	2132	4634	3132	2375	2007
Privates Sector (Greater Portmore)	938	1664 (545)	2578 (2144)	3670 (2500)	421 (1708)
<b>TOTAL</b>	<b>3070</b>	<b>6298</b>	<b>5710</b>	<b>6045</b>	<b>2428</b>
Housing Completions					
Public Sector	2132	2904	2504	2474	2736
Privates Sector (Greater Portmore)	667	899 -	2699 (1708)	3573 (2568)	5094 -
<b>TOTAL</b>	<b>2799</b>	<b>3803</b>	<b>5203</b>	<b>6047</b>	<b>7920</b>

Source: The Economic and Social Surveys - Planning Institute of Jamaica

#### 2.2.2.4 Operation Pride - 1995

The newest of government's housing efforts, is 'Operation Pride', a 'Program for Resettlement and Development Enterprise'.<sup>15</sup> This program represents the government's commitment to making land accessible and affordable to wide cross-section of persons who are presently without. This is a new approach to solving the housing problem; it is a multi-faceted program that emphasizes a collaborative effort between the private sector, non-governmental organizations, and the public sector. Under this five-year plan, the program plans to deliver some 20,000 lots on some 76 sites to beneficiaries islandwide.

The strong point of this program is its integrated community focus. Fifteen communities are identified in 12 parishes, and the emphasis will be on the improvement of infrastructure. This should result in the "delivery of social services, increase the productivity of labor force, creation of an environment for investment and ultimate alleviation of poverty".<sup>16</sup>

<sup>15</sup> "Operation Pride - Bringing Land to the Landless" The Herald, October 8, 1995.

<sup>16</sup> "PNP: Continuing Commitment JLP: Land without Policy", The Daily Gleaner, September, 1995.

The components of Pride are organized around the issue of access to land. The main components include, the provision of lots for public sector workers; the streamlining of squatter settlements - slum clearance program, which will curb environmental degradation, criminal activities, malnutrition, and infant mortality. This strategy differs from the others, particularly because of the wide cross-section of participants in the program. For instance, the Office of Disaster Preparedness and Emergency Management (ODPEM) is an active participant; the Forest Industries Development Company (FIDCO) is to develop and store building kits that can be rapidly assembled if there is a natural disaster.

Pride represents another 5-year housing plan, designed to help the nation meet its backlog of housing demand. Pride has the potential of at least alleviating some of the housing problems among low-income persons, but one cannot help wonder whether this project will eventually end like its predecessors- missing the target. One strong point of this housing plan is the approach to the provision of housing as part of a comprehensive development program, where the economic needs of the residents of the various communities are also under consideration. One major draw back to the program though, is that the land component is not part of a comprehensive land policy. For instance, the problem of land titling is one of the constraints to programs such as build-on-own land. Many lands are without proper titling, especially in rural areas. The leader of the opposition, made a valid point that, “the lack of a comprehensive land policy may result in the fragmentation of choice parcels leading to impoverishment rather than enrichment” (Gleaner 1995). Another major drawback is the absence of any commitment from the NHT. Since it mobilizes such a large sum of money from the target population, it should, therefore, provide some of the funds for the program.

The problems which have plagued the housing sector over the years could be summarized as, the unavailability of land particularly in urban areas; the lack of definition and responsibilities of the different agencies involved in the provision of housing; the lack of security for long-term financing; the huge increases in building costs; and the

incongruence between the cost of various solutions and the levels of affordability of the target groups. All the strategies attempted thus far have not been truly successful. Some breakthrough were achieved in the 70s, but generally, most attempts have fallen very short of the identified needs. Some critiques have maintained that the failed attempts have much to do with the shortage of funds in the system, exacerbated by inflationary induced rising construction costs. Others stress the weak institutional relationships between the agencies involved in the provision of housing as part of the problem.

The remainder of this thesis will look at the issue of long-term housing finance, particularly for the low-income groups. The next section will start with an overview of the housing finance system.

### **2.3 The Housing Finance System**

Housing finance is derived from various sources and channeled through various institutions. Though duplication and overlap can be advantageous because of the possibility of checks and balances such a set up offer, this is not the case in the institutional set up of the housing finance system. There is about a dozen institutions involved in some aspect of housing finance (Table 6). There are, however, three main public institutions involved in the finance of housing for low-income households: The National Housing Trust, Caribbean Housing Finance Corporation and the Ministry of Housing.

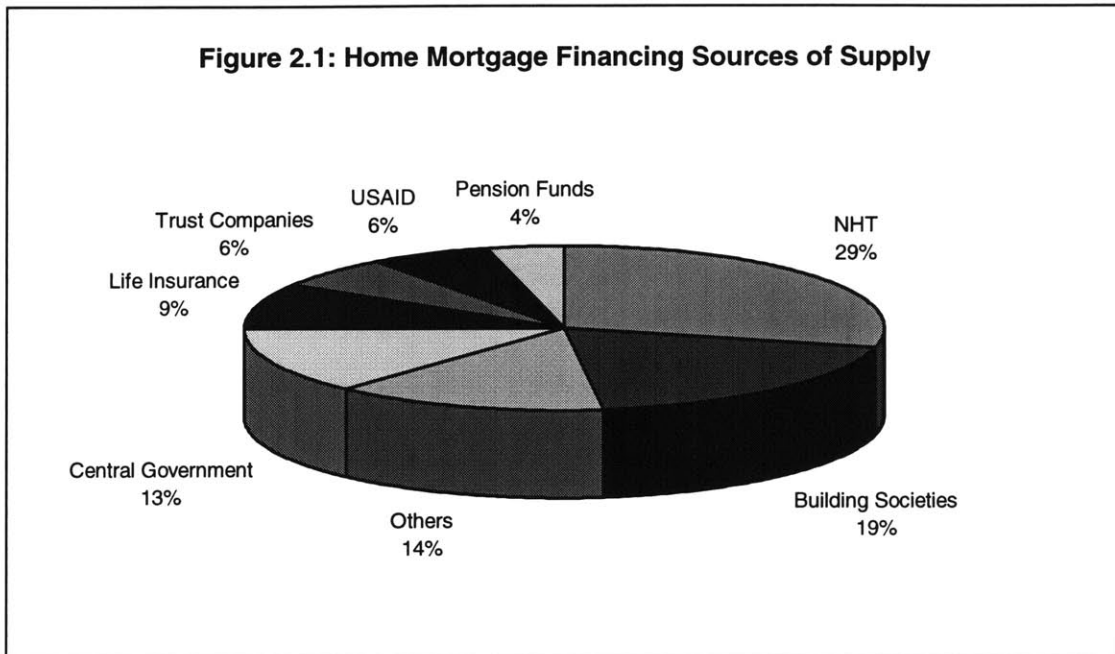
Part of the problem is the absence of a coordinated approach to housing finance between the various actors, resulting in an inefficient use of the limited funds available for housing investment. This has reflected in the co-existence of excess liquidity in some financial institutions and a shortage of investment funds in others. Part of the objectives of the housing policy of 1982 was strengthen the institutional relationships between the various housing finance institutions, in particular the public ones. This would include a clearer definition of the roles of individual institutions, set within a framework of increasing the

flow of funds into the sector. This led to the development of specialized institutions for primary and secondary mortgage financing.

**Table 2-6: Institutions Financing Housing Developments**

Institution	Type of Financing	Sources of Funds
<u>Public Sector</u>		
Ministry of Housing	Interim and Long-term	Public revenue and grants
National Housing Corp.	Long-term	
Caribbean Housing Finance Corp.	Interim and Long-term	Institutional Loans
Jamaica Mortgage Bank	Long-term	Institutional loans and bonds
Sugar Industry Housing Ltd.	Interim and Long-term	Sugar Industry Authority
The National Housing Trust	Interim and long-term	Contributions of employers and employees
Urban Development Corp.	Interim Financing and Develop't.	
<u>Private Sector</u>		
Building Societies	Interim and long-term	Savings and deposits
Insurance Companies	Interim and long-term	Insurance premiums
Commercial Banks	Long-term	Deposits
Trust Companies	Short-term	Savings
	Long-term	Deposits

A study in done by Hamilton and Associates in 1989 estimated that 40% of total savings go towards housing finance. The distribution of the sources of funds for mortgages were as follows:<sup>17</sup>



Source: Hamilton, Trevor and Associates, 1988

The following section looks at the various institutions, both private and public sectors that are involved in financing housing in Jamaica. Comparison between each institution is somewhat inhibited because the data provided for each are not similar. Data were collected, for most part, from various secondary sources and so consistency in the type of data was not guaranteed. However, this section gives to some extent, an idea of the capacity of the nation's housing finance system.

### 2.3.1 Existing Public Financial Institutions

The main public sector financing agencies are the NHT, the Caribbean Housing Corporation (CHFC), and the Ministry of Construction (Housing). The majority of state

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<sup>17</sup> Hamilton, Trevor and Associates, 1988, "Alternative Approaches to Improving Mortgage Affordability".

housing finance is done by the NHT and CHFC as home mortgages. The NHT, however, is by far the largest housing agency, particularly due its steady flow of funds from its compulsory salary deductions. The CHFC is the second largest housing agency in terms of asset base, and is funded primarily loans, example, from the United States Agency for International Development (USAID) and the NHT itself. The MOC(H), with its focus on the provision of low-income housing is the third largest finance agency, and certainly underfunded in comparison to NHT and CHFC. The Ministry received sizable loans from the World Bank and the USAID in the 1970s and early 1980s.

### **The Ministry of Housing and the Environment**

Though the level of financing for housing has never approached the level needed to meet the estimated targets, over the years, the public sector through the Ministry of Housing and the Environment formerly the Ministry of Construction (Housing) has provided a significant percentage of financing for the housing sector. The primary contribution of the ministry to housing include, disaster management, assistance to public sector and other agencies, community amenities and facilities, and some housing schemes. Capital contributions to Government Housing Development Program, are for the most part made up of contributions to the Housing Funds. The housing fund is a statutory fund, established by the Housing Act to be a source of capital for the construction of housing for low-income individuals. The fund derives most of its capital in the form of grants from the Consolidated Fund. The fund has on an average, declined significantly over the years, a decline which seem to coincide with the overall decline in the economy.



The fund ceased in 1990. Contributions to the Housing Fund between 1974 - 1990 are as follows:<sup>18</sup>

Fiscal Year	J\$ Million
1974/75	13.6
1975/76	24.3
1976/77	26.2
1977/78	41.4
1978/79	41.5
1979/80	28.3
1980/81	17.3
1981/82	0.0
1982/83	0.6
1983/84	0.2
1984/85	0.0
1985/86	29.9
1986/87	10.0
1987/88	9.1
1988/89	8.7
1989/90	5.0

Source Statistical Yearbooks -  
Statistical Institute of Jamaica

### **The Jamaica Mortgage Bank**

This mortgage bank was founded in 1971 with a capital of J\$40 million. In anticipation of JMB becoming the main mobilizer of finance for the sector, with an important role of ensuring a level of liquidity conducive to housing development, the 1982 National Housing Policy recommended that there be a discontinuation of both primary mortgage and interim financing activities. Instead the organization was to direct its fullest attention to:

- mobilizing local and overseas funding for deployment on a wholesale basis to primary mortgage institutions, to facilitate new housing construction;
- undertaking secondary market activities;
- providing mortgage insurance coverage to facilitate higher levels of investment by the private investors.

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<sup>18</sup> Statistical Year Book of Jamaica, 1994, STATIN

Today the bank has continued down the path established in the 1970s, as a borrower and distributor of housing guarantee loans.

In the late 70s, early 80s, the organization played an outstanding, financing close to 80% of all units built in Portmore. The bank benefited from three external funding sources; the USAID, the Caribbean Development Bank, and the American commercial banks. But the activities of the JMB was severely hampered by the continued devaluation of the Jamaican dollar. The organization had to bear the risk of these devaluations.

Today, the bank's primary source of funds is the floating of bonds on the money market. Its activities are largely confined to the secondary mortgage market for mortgages of CHFC.

### **The Caribbean Housing Finance Corporation**

Another agency that continues to be directly involved in housing finance is the Caribbean Housing Corporation (CHFC). The CHFC is attached to the Ministry of Construction (Housing) and is, therefore, largely subjected to the housing policy. The CHFC Finances a maximum 90% of the required value of the mortgage, with interest ranging between 10% and 13% a year and the period generally is 25 years. The organization gets some of its clients from the NHT, but primarily provides and services mortgages to qualified persons who purchase homes from the ministry . The organization also services the existing mortgage portfolio of the ministry.

The institution has no equity, and uses external credit facilities including a US\$30 million-program from USAID. It gets additional funds from the San Jose agreement. The organization is also involved in mortgage financing for units of the Greater Portmore housing development. Part of the money for this project is a below-market interest loan from the NHT.

This, being a statutory institution, CHFC is also subjected to Ministry of Finance growth targets. These targets constrain the organization as set portions of the funds for providing must go towards this requirement. As such as much as a third of its funds available cannot be used to provide mortgages.

### **The Sugar Industry Housing Limited**

This company restricts its housing financing facilities to its employees, which allows the institution to be more careful in selecting borrowers and grant special conditions. The financial structure of the organization is very sound. Considering the most recent annual report, the organization seem to have adequate liquidity at its disposal and is still able to maintain an acceptable debt to equity ratio. The organization is not distributive and so the annual surplus is invested capital reserves.

### **The National Housing Corporation**

The National Housing Corporation (NHC) is a housing development company that was created in 1973 specifically to provide housing solutions for the middle-income individuals. Only recently has the NHC broadened its mandate to include the lower-income section of the housing market.

### **The National Housing Trust**

It was estimated that the Trust provided about 29% of the nation's mortgaging financing (Hamilton and Associates, 1988). Peterson and Klak's report of 1989 estimated the Trust's contribution to the total annual output of formal sector housing units to be about 40-45%.<sup>19</sup> The NHT has to date granted approximately 42,000 mortgages to its contributors, valuing about J\$3 billion, and representing less than half the total asset of the Trust. The controversy that surrounds the NHT, therefore, is why the NHT is not converting more of its assets to housing solutions for particularly its low-income

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<sup>19</sup> Peterson, G. E., and Thomas Klak, 1989, "Credit and Subsidies in Jamaican Government Housing Programs",.

contributors. Section B of this thesis is dedicated to looking at the activities of the NHT in detail, exploring some of the explanations for its predicament, and finding strategies that can help the Trust in meeting some of its original social objectives.

### **2.3.2 Existing Private Financial Institutions**

Jamaica's financial market is fairly well developed. The savings mobilized by its institutions, are channeled either directly or indirectly into the housing and mortgage markets. Commercial banks are the chief mobilizers of savings in the country, but fund mainly interim financing needs in the housing construction sector. Building Societies, on the other hand, finance long-term mortgages. Overall, these institutions are not able to serve adequately the 'small man', particularly because the loans that would be required are too small to fit within their portfolio. It is for this reason that the specialized housing finance institution like the NHT is created. There are also trust companies, merchant banks, credit unions, and the insurance companies that have a significant portion of their portfolio in mortgages.

At the end of 1994, private sector financial institutions such as the Building Societies, the Credit Unions and the insurance companies accounted for approximately J\$1,754.20 million worth of mortgages. This represented a 15% increase over the previous year (Table 2.7).

Table 2-7: Mortgages by Values by Major Agencies Jan - Dec 1990 -1994

Agencies	Number of Mortgages					Value (J\$M)				
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994
Building Soc.	2205	2579	2696	2424	2400	556	741	906	1225	1500
Credit Union	79	28	30	18	24	11	4	6	5	9
Insurance Co.	276	305	265	538	295	62	99	272	286	245
Total	2560	2912	2991	2980	2719	630	791	1184	1517	1754

Source: The Economic and Social Survey - The Planning Institute of Jamaica

## The Building Societies

The Building Societies Association of Jamaica, a six-member organization (Victoria Mutual Building Society, Jamaica National Building Society, Jamaica Savings and Loan Building Society, etc.) provides a major source of mortgage financing. The Building Societies are analogous to the Savings and Loan Association in the United States. These societies were largely founded by commercial banks, as interest earnings in Building Societies are not subject to tax, while similar income earned by the commercial banks is taxable.

Building Societies account for approximately 17% to 19% of Jamaica's savings stock, and form a principal source of long-term housing credit. In recent years, to increase affordability of its clients, Building Societies have used a number of strategies. These include, the use of flexible debt service ratio requirement. Borrowers can use between 25% and 30% of their gross income to meet mortgage amortization (principal, downpayment, service charge, peril insurance and other payment). Building Societies will only lend as much as 90% of the value, or the purchase price of the property.

Increased access to home funding is also provided under the contractual Mortgage Plan or the 5% Mortgage Plan. Under this plan the household contracts to save on a regular basis for a predetermined period, at a specified rate of interest. At the end, savers can then apply for a housing loan at 5% a year.

Under a partnership program with the NHT, the Building Societies will finance a mortgage up to 90% of the credit through the Combined Mortgage Certificate program - a loan facility offered by the NHT in conjunction with other approved lending agencies. Typically a borrower under this program benefit from an interest averaging about 15%, in contrast to the market rate of between 19% and 23%. The average lending sum at present is J\$600,000. Under a similar program of partnership also with other public sector agencies, the Building Societies have undertaken several property developments, producing housing units as well as service lots. Properties are developed and then transferred to purchasers without incurring transfer costs.

At the end of 1994, with a loan portfolio of J\$1500 million the Building Societies were responsible for 2,400 mortgages, 55% of the total created for that period. This represented 55% of the value of the mortgages created. These loans were provided for the following purposes and were apportioned as follows:

Owner-occupied	84.8%
Agriculture	9.0%
Building Lots	3.1%
Tenanted	2.0%
Hou.scheme, Semi-resid., Commercial	1.1%

Building Societies, however, have not been successful in making more of their mortgages available to low-income individuals. Considering analysis done in 1991, it has been shown that between 1987 and 1991, the proportion of Building Societies' loans advanced to individuals earning more than J\$5000 monthly, increased gradually over the years, and by 1991 they accounted for 96.2% of the mortgages during that year. This was an increase of 9 percentage points over the 1990 figure of 87.2%. An analysis of the 1991 data showed that a typical Building Society borrower is a 35-44 year old individual married with two children, is employed as a professional or managerial group and earns more than J\$5,000 per month. Part of the explanation for this skewing of mortgages in

favor of higher income earners was the rapid increases in housing costs, forcing the majority of low-income earners out of the housing market. The position of low-income Building Society savers today have still not improved.<sup>20</sup>

### **Life Insurance Companies**

The government of Jamaica has authorized Life Insurance companies to invest their legal reserves in housing. With substantial funds of primarily insurance premiums at their disposal, these institutions can make a sizable contribution to providing housing finance for their clients. These companies share of total housing finance is estimated to be on average about 9%.

Insured persons can apply for a mortgage at an interest rate of 19%, provided the housing is owner-occupied, and is not intended for commercial use. Applicants intend to use their homes as place of residence as business such as shops or similar activities would incur interest of 32%. It is not unusual in many developing countries for individuals to use their premises to support informal business activities to supplement their incomes or to help pay their mortgage, so such a stipulation would negatively impact their low-income clients. Borrowers from these companies are predominantly middle- to higher-income individuals.

Insurance Companies provided 5% of the total mortgages created in 1994, which represented a J\$244.7 million in value.

### **Commercial Banks**

The housing finance portfolio of commercial banks is very negligible. These banks are primarily concerned with bridging finance of mainly commercial operations at interest of over 30% or even 40%. Financing mortgages seem to be such an unattractive venture for

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<sup>20</sup> Analysis of Mortgages Advances 1990-1991, BSAJ, Fact book, 1990.

such entities, particularly because of the heavy administrative component and because of the very low returns such activities offer.

The Workers of Bank of Jamaica is a commercial bank that is entirely Jamaican owned. The bank is traditionally known to attract a high percentage of 'barefoot' workers - low-income savers. The bank has a program called the 'partner plan' that is based on an informal saving and lending practice among low-income persons. This program is designed to bring even more low-income persons to save with the bank. Savers in this program are guaranteed a lower interest rate on loans, but being a commercial bank, the rates on mortgages are still prohibitive for a low-income borrower.

### **Credit Unions**

The Credit Union Movement is well established in Jamaica and has been involved in granting mortgages since 1976. There are Credit Unions in every parish. In some rural areas, no other source of financing is available, since the population is too poor to interest a profit-oriented institution. Unlike the other credit institutions, Credit Unions confine their finance facilities to their members. All the local Credit Unions are members of the Cooperative Credit Union League, an umbrella organization, set up to provide joint services to other member unions.

The Credit Unions have been keenly interested in loan programs for housing and have invested in low-income housing developments. With a total combined assets at December of J\$2.7 billion Since 1976, the League has granted more than 2,000 mortgage loans, totaling more than J\$60 million. In 1993, to increase its commitment to housing its members, the league set up a Housing Development Fund, separately financed. The Leagues housing program is also funded through USAID Guaranty Loan and NHT Combined Mortgage Certificate program.



Mortgage Loans are made for open market purchase and build-in-own land. The Credit Union League grants mortgage loans only to first time owners. Interest rates charged are below the prevailing market rates and are at 16% under the Central Mortgage Fund. Under the NHT Combined Mortgage Program, rates are determined by a weighted average plus 1% management fee. Under this program Credit Union members can each access mortgage loans of up to J\$300,000 from the mortgage fund, along with another J\$600,000 made available by the NHT.

### **Trust Companies**

The mortgage facilities offered by these companies are similar to those available from Building Societies. But the clientele is somewhat up-market and so interests charge are high. The lending ceiling is 75% of total, and through the NHT's Mortgage Certificate Program it is possible to combine the Trust Company funds with those of NHT.

### **NGO Activities**

Non-Governmental Organizations (NGOs) have to a limited extent, contributed to the provision of low-income housing. Among the more well established NGOs are the local (MSO) and Habitat for Humanity of Jamaica Ltd., both headed by catholic fathers. The 'modus operandi' of these NGOs is usually to adopt communities and work in partnership in helping them to organize themselves and improve their living conditions. The NGO projects include but is not limited to some community health care, operating basic schools, developing cost effective building methods and training members of the community in income generating skills. A significant activity also is the provision of shelter. For example, the Mustard Seed Organization is now in partnership with the NHT in constructing 80 low-income housing units in a slum area of Downtown Kingston. The NHT has granted a sum of money to the NGO, which is being used to construct 80 units.. To keep the cost to a minimum, residents from the area are employed on the project. Eligible residents, provided that they are members can apply to the Credit Union and NHT for loans.

Habitat on the other hand concentrates its efforts on financing and supporting the construction of locally-controlled housing projects in needy communities. The organization is now in partnership with the government, under its Operation Pride program to regularize squatter communities. The organization relies on local self-initiative in carrying out its projects. A volunteer committee composed of members from the community directs the work of each local habitat project. Through the local committee, habitat provides credit to beneficiary families, enabling them to buy building material and to pay other cost relating to the construction of their houses. Habitat staff provide technical support and training. Funding for these projects come from churches, corporations, and foundations. These donations a revolving capital fund for the projects.

### **Informal Lending**

The informal sector has been hailed as a very important source of financing, particularly for low-income persons. It relies primarily on bits and pieces, improvisation of raw material, and on personal inputs from the beneficiaries such as labor and direct financing. But the impact of these practices are very difficult to measure because of the unavailability of data. The 'partner' system is one example of these informal practices. This has provided a source of funding for the direct financing for the provision of housing for some low-income individuals.

The 'partner' system is a group of individuals, regularly contributes a specific sum. This contribution, often weekly, is small. At the end of regular intervals, usually at the end of the period that each contribution is due, each contributing member is given the total collection or 'draw', as it is called. For example, if 10 members participate in the system, each contributing \$10 every week to the pool of money, every week one member would be awarded the total collection, and so any one member is assured the total collection every tenth week. A partner system can comprise a sufficiently large group that the collection can be large enough to purchase building material for home improvements. It

is a common practice for low-income individuals to use their 'draw' to purchase items of furniture, and is also an important source for downpayment for the home purchase or improvements.

Considering the foregoing, it is clearly established that Jamaica has a well established housing finance market, with a myriad of housing finance agencies which under the right incentives and economic environment, seem to be able to mobilize enough funds to provide housing for the higher income individuals at market rate. Government's main responsibilities then must include, the development of strategies to strengthen the institutional framework of the housing finance system, create a healthy economic environment through the pursual of economic policies that will boost government surplus leading to lower inflation rates, and create policies which target lower-income individuals more efficiently.

## **PART B: THE NATIONAL HOUSING TRUST AND ITS TARGETS**

### **3. WHO PAYS, WHO BENEFITS - NHT'S CREDIT SUBSIDY PROGRAM**

#### **3.1 Introduction - NHT's Mortgage Policy**

##### Functions of the NHT

The NHT, a creation out of a joint initiative of the government, the trade unions, and private sector employers, was to play a key role in the housing market. The Trust was envisioned to be a chief mobilizer of funds for the housing sector, and was also seen as a central institution in the provision of affordable housing for the working class. From the onset, therefore, the NHT was charged with an extremely broad mandate. Its objectives were wide, encompassing far reaching institutional and national goals. The objectives of the NHT could be summarized under four broad headings:

1. **Objectives relating to the Provision of Shelter**

To add to and improve the existing housing stock in Jamaica, and in doing so, those of its contributors with the greatest need were to benefit first;

2. **Objectives relating to the economy**

To provide a steady flow of funds to the building industry in order to expand construction and employment in that sector;

3. **Objectives relating to Growth and Operations**

To increase the assets of the Trust through prudent investment so that additional funds could be made available for the provision of housing; a way of diversifying the portfolio of the Trust. Complementary to this objective, the Trust was to maintain a strong financial position in the housing industry;

#### 4. Objectives relating to Equity

To provide mortgages equitably to those qualified.

Throughout the history of the Trust, all of these objectives were never given equal emphasis. The emphasis of the housing program has, to a large extent been dictated by the political orientation and economic objectives of the government (Klak 1995). But perhaps its main objective is to address the shortfall in the supply of housing to the working class that cannot be met by the traditional private sector. It was the thinking of the PNP government at the creation of the Trust, that the benefits to contributors were to be delivered in a 'socially progressive manner', that is, those contributors with the lowest incomes were the ones to benefit the most. The commitment to this is expressed in the Trust's mission statement.

Many families have benefited over the years from the Trust, and many more are looking to benefit. To assess the access to and the participation in NHT's mortgage lending program, I will use a vignette of proto-typical, low-income contributors, Mr. Hopeful and his wife who after many years of contributing to the Trust, and are now looking to apply to the Trust for a benefit. Mr. Hopeful earns \$55,000 and his wife, \$50,000 annually. They are, therefore, both considered as part of the target group of low-income contributors (persons earning \$1,100 and less weekly). This chapter reviews the level of participation of this group of contributors in particular, in the mortgage program over the years and, therefore, indicates how successful Mr. Hopeful might be in owning a home the NHT-way. It also looks at the distribution of the mortgage subsidies among mortgagors, and tests the extent to which the NHT's redistribution objective, that is, the lower income mortgagor benefiting more, has been achieved.

#### NHT's Offered Assistance

The Trust provides a mix of housing solutions for its contributors from which Mr. Hopeful could choose. Housing loans are at extremely favorable terms. At current

inflation rate of approximately 26%, loans are issued for a maximum of 30 years at interest rates between 2% to 14%. Although the Trust offers eight types of mortgage loans - the NHT-financed schemes (scheme loans); Open Market; Build-on-own-land; Home Improvement; House Lots; the NHT-financed Serviced lots; the Mortgage Certificate program, and the NHT/Employer Joint Venture facility. The scheme loan is by far the most popular, for both the NHT and its contributors. Mr. Hopeful has no house yet, so naturally this loan would be his first choice.

### **Scheme Loan**

The NHT offers ready built houses with housing finance of 95%. The schemes are usually built by small sub-contractors, and offer studio units and one to three bedroom units. Since the NHT can only build where affordable land is available, the supply of these units is in most cases way below the demand. For example, in August 1995, the NHT offered 1000 quads - one-room units, and over 15,000 persons applied. Mr. Hopeful was one of these applicants, but was not successful; his name was not among the selected individuals.

### **Build-On-Own-Land Loan (BOL)**

As part of this program the NHT offers contributors with land (leased and family land is included), funding to build their homes themselves. This is premised on the idea that persons will be able to build more cheaply for themselves. The loan limit under this program is J\$500,000.

The Hopefuls have no land, but if they can identify a piece of land that is being sold by an individual or an agency other than the NHT, they could get the **house lot loan** of J\$200 to help them buy it. Mr. Hopeful's income could carry a loan for J\$200,000 but he lives in Kingston and wants to remain there and land prices are out of this range.

## **Serviced lots**

Contributors to the NHT can get loans to buy serviced lots being sold by the Trust. Under this program, lots are developed in the NHT schemes and infrastructure like road, water, street lighting, and sewerage are put in. But land is so expensive in Kingston that these schemes are also not regularly developed by the Trust.

The NHT provides 95% financing for serviced lots in its schemes. Persons who purchase these lots can later apply to the Trust under its BOL program for funds to build their houses.

## **Home Improvement Loans**

For this benefit, loans are granted up J\$150,000. It is also possible to make more than one application. This program poses very low risk, as the offered collateral is usually high. It is obvious that Mr. Hopeful cannot apply because he owns no house.

## **Mortgage Certificate (MCP)**

Applicants in need of a loan to purchase something on the open market that is more than the maximum finance provided by the NHT, can make up the required amount by mixing funds under the mortgage certificate program. This program combines funds from the NHT and certain selected credit institutions, such as building societies, credit unions, trust companies and life insurance firms. The net result is a reduction in the overall interest rate; an interest rate that is higher than the NHT 14%, but lower than the market mortgage rate.

In this program, the other participating institution handles the loans and bears the entire risk. The NHT contribution is a time deposit and yields interest accordingly.

But as attractive as this loan type might seem, it is out of the reach of Mr. Hopeful and his wife. Mr. Hopeful has money deposited with a building society, but even the combined income of the couple cannot access all of this amount. Also the amount that they could access he could not afford the interest rate mix between NHT and the participating income; the interest rate would be above 14%. The mix of funds between the two institutions would only support 90% of the total loan. The Hopefuls would have to have money for a deposit of 10%. This they would not be able to find.

### **Open Market Loan**

The predicament is more or less the same for the Hopefuls under this program. The Open Market loans also allow for the purchase of a house being sold on the open market. The maximum amount granted under this program is \$600,000, but subject to income qualification. But under the individual benefit policy, Mr. Hopeful and his wife can each get up to \$600,000 from the Trust. With their income, however, the couple can only access approximately \$960,000, approximately \$480,000 each from the NHT. The couple must, therefore, find something that will cost that amount. They are, however, exempted from the 5% required deposit.

### **NHT/Employer Joint Venture Facility**

Enterprises intending to build owner-occupier housing for employees can combine their funds with a long-term loan from the NHT. The company generally makes use of its pension fund for this. The NHT will provide interim financing for construction of units. The employers' contributions may take the form of land and/or cash, and the minimum participation is 10% of the total project cost.

The Joint Venture facility also enables employers to assist their employees with mortgage financing. With the arrangement, the NHT will contribute 45% of the total mortgage loan, provided that this does not exceed the prevailing ceiling for that particular benefit



type. The participating institution will provide mortgage investment of 45% of the cost price of the unit or house lot. The mortgagor is expected to add the other 10%.

Here too, the other programs already mentioned such as the Open Market, BOL, and HI and House Lot benefits can be applied. Mr. Hopeful is self-employed and his wife is an office attendant in a doctor's office, so this loan is not applicable to them.

### General Requirements for Mortgage Application

Each of the above programs has its qualifying and selection procedures, but there are still some general requirements a contributor must meet if she is to apply for a loan from the NHT. Eligibility for application is based on a points system. First, a contributor must: be a current contributor who has made at least 13 weekly contributions to the NHT in the last 6 months or, at the date of the application; has made not less than one 156 weekly contributions and has accumulated at least 200 points under the Priority Index Entitlement (PIE) system. Under this system, points are accumulated as follows:

- Each contributor is allotted 20 points for each year that she contributes. [Unemployment for any period would reduce the number of contributions, hence the number of points];
- The Trust allocates a specific number of points to each contributor based on the income group in which she falls, and
- Contributors can earn a further 100 points from the purchase of home bonds from the NHT.

The applicant must also be a first-time home or land owner and, in the case where the applicant owns a non-NHT house, is now in the process of selling it to buy another.

Mr. Hopeful has accumulated a total of 400 points, but still was not able to get one of the units the Trust had on the open market. This attest to the fact that acquiring the points is

no guarantee for getting a serviced lot or a house in one of the Trust's schemes. Because of the great incongruence between demand and supply, preference is given to those with the most points.

### NHT Lending Rates

The NHT's lending rates are scaled according to a person's income. The lower the income group, the lower the interest rate. In an effort to make loans more accessible to contributors at the lower end of the income scale, starting in August 1995, the Trust's mortgage rate structure was modified.<sup>21</sup> The interest rates now ranging from a low of 2 percent for persons earning under \$1,100 per week, to high of 14% for those earning over \$6,500 per week. The Trust added three new interest bands, 2%, 4%, and 14%. The interest that an NHT mortgagor pays on her loan is based on her weekly income. the breakdown is as follows:

Weekly Income (\$)	Interest Rate
Under 1,100	2
1,100 - 2,000	4
2,001 - 3,000	6
3,001 - 4,000	8
4,001 - 5000	10
5,001 - 6,500	12
Over \$6, 500	14

Other modification included the waiving of the 5% service charge for persons in the 2 percent income group and the increasing of the Debt Service Ratio from 33.3% to 40%.

The next section of the thesis looks at the income profile of Mr. Hopeful's counterparts, the Trust's contributors, and relates this information to the allocation of mortgages among mortgagors. This should give a better idea of the chances of Mr. Hopeful becoming an NHT mortgagor.

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<sup>21</sup> Monthly Bulletin of the NHT, July 12, 1995

## 3.2 A Profile of NHT's Target Population

Any discussion about the distribution of mortgage funds between NHT mortgagors must commence with a look at the profile of its contributors. An income profile of the contributors gives an indication of how the income distribution of this group matches that of that of the country. Most importantly though, it gives an indication of the percentage of the Trust contributor population that falls in the lowest-income category (those earning J\$1,100 and less weekly). On the other hand, a profile of the mortgagors shows clearly how successful this group has been in receiving mortgages over the years. For such an analysis, an indication of the number of low-income contributors that are **selected each year** of the program is very important, but the inconsistent manner in which this information has been recorded over the years makes an analysis of data on 'selectees' rather limited.

### 3.2.1 NHT's Contributors

The data for analysis are based on a sample of 171,737 contributors,<sup>22</sup> an extract of the Contributor file as of 1993. Of this total, no income data were available for 27708 (16%) individuals. For purpose of comparison, incomes of contributors were adjusted to 1995 values.

Considering the data, the NHT contributor population could largely be described as a low-income one. The median weekly income for the contributor population, was J\$1459 weekly, a figure that is below the national median income of J\$1731 for 1995. The income distribution of contributors also shows that as much as 40% of contributors earned less than \$1,100 weekly, and that for this group, the weekly median income was approximately J\$830. Seventy percent of contributors earn incomes less than or equal to J\$3000 weekly (Table 3.1).

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<sup>22</sup> The size of the Contributor File is approximately 550,000 contributors. The exact size is not known.

Table 3-1: Weekly Income Distribution of Contributors in 1993

Income Groups (\$)	Number of Contributors	Percent	Valid Percent
<1,100	56878	33	40
1,101 - 2,000	28618	17	20
2,001 - 3,000	16612	10	11
3,001 - 5,000	19738	12	14
5,001 - 20,000	20043	12	14
20,000+	2140	1	1
No data	27708	16	Missing
Total	171737	100	100

Valid Percent - Percentages based on valid cases

Source: NHT's 1993 Contributor file

These data emphasize, the need for the Trust to focus its efforts on reaching more its low-income contributors. But the fact that this group contributes very little to total contributions, warrants the question of whether they should be treated 'partially'. The answer to this question should be yes, since the intention was that the housing program would be a redistributive scheme, where the higher income contributors subsidize the benefits to the lower income contributors.

### 3.2.2 NHT's Mortgagors

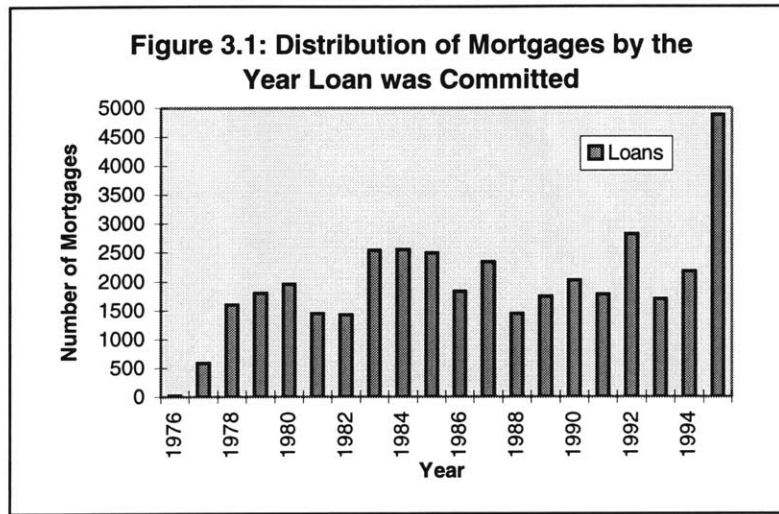
#### 3.2.2.1 *Number and Size of Loans*

##### Number of loans

Perhaps the most appropriate starting point for examining the characteristics of NHT mortgagors is to look first at the distribution of loans over the years, since the inception of the Trust. The distribution of loans gives an idea of the level of output. The variation in the distribution of loans reflects the variation in the factors that affect the delivery of mortgages. Such factors could include: policy shifts within the Trust itself; the number of qualified applicants and the performance of the Trust in the preceding year; the vision for the Trust held by the political directorate in power at the time; the economic environment at the time; and the availability of capital, land in particular. Chapter 4 will, provide a

more detailed analysis of how some of these factors influence the Trust's ability to deliver its mandate.

As of August 1995, the records of the mortgage master showed that a total of 39,998 mortgages had been made by the Trust. This total could be considered a sample since it excludes some files currently being processed and some not yet entered on the computer. Also, some special benefits are not yet on this file.<sup>23</sup> Of the total 39,998, 919 records could not be assigned to a specific year. The remaining ones were distributed as follows:

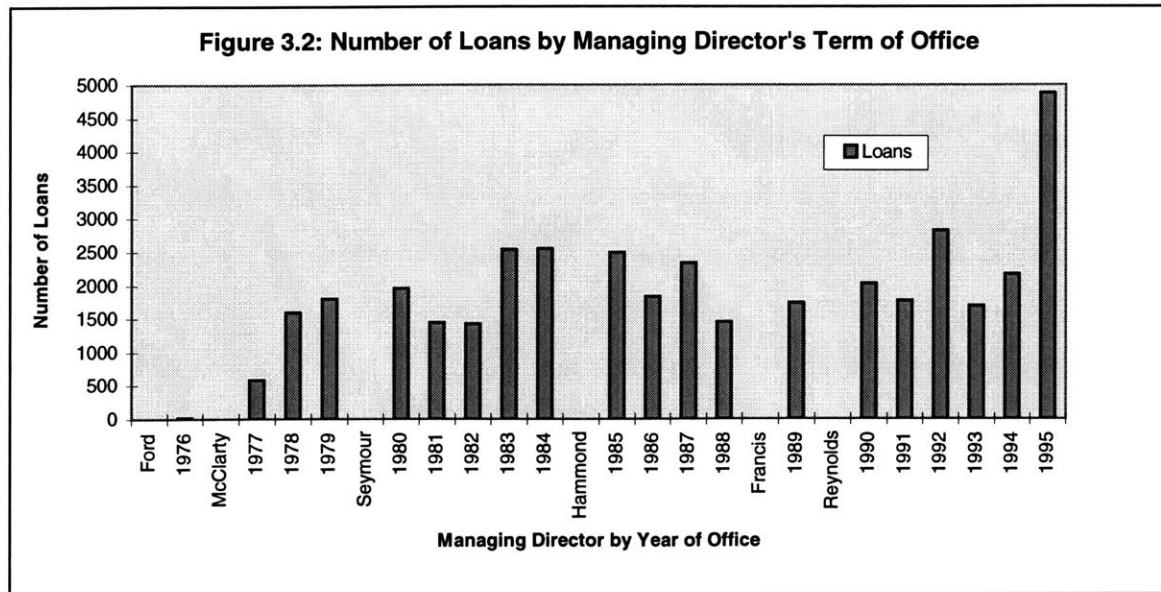


The trend in the delivery of mortgages over the years has been positive, with only two deviant years, 1976 and 1995. In 1976, a very small number of loans were made. Being the year when operations were started, the slow start that was experienced between 1976 and 1977 could possibly be explained by the problems associated with 'start-up'. In the year 1995 the percent of mortgages delivered doubled, and in some cases, more than doubled percentages for the previous years.

To test whether time had any significant influence on the delivery of mortgages, the number of mortgages is regressed on time (year). The outcome is a positive correlation between the two ( $r=.62$ ). A coefficient of determination of .38, suggests that the time factor can explain some of the variations in the delivery of mortgages. This is not

<sup>23</sup> According to the financial statement for 1995, the total number of loans granted since inception was 42,000.

surprising, since as suggested earlier, NHT's output is affected by the policies of the



political directorate at the time, a point that will be developed later in the thesis. A closer look at the figures also reveal a sort of ‘cyclical pattern’ in the distribution - periods of increase, separated by troughs. Each period of increase coincide with a passing of the ‘baton’, change in the political party, hence change in policy directives through the new Managing Directors (MDs). The distribution to shows a decrease in activities between the changes flowed by some recovery when the new MD takes control. The figure below shows the activities during each MD’s term in office.<sup>24</sup>

Lending peaked in 1980, in 1983-1987 and between 1992 - 1995. The most deviant term of office of a managing director was that of Hammond; there was hardly any increase in the number of loans made during his term. Reynolds seem to have the highest record so far, despite the two bad years of 1991 and 1993. The year 1991 was characterized by very high inflation rates, which may have negatively impacted the Trust’s business activity. The year 1993 was a year of tight monetary polices.

<sup>24</sup> See the report, “The NHT Beneficiaries”, 1991 (revised), by Marlene Smith and Vincent George. The authors looked at the Trust’s selectees.

What the above data demonstrate is that housing finance, to a large extent is affected the policies of the political directorate, as well as the macro-economic policies prevailing at the time. For instance, for each development plan, the NHT is given a specific role to play regarding the delivery of housing solutions. A part of the role of the NHT in the 1990 - 1995 development plan was an increase in its interim financing activities to private and public sector housing developments. In 1982, this activity was suspended. Under the 1982 housing policy, the Trust was to concentrate on providing and servicing primary mortgages.

Since its inception, the Trust, among its competitors, continues to provide the greatest number of mortgages. But with asset growth, the NHT has been surpassed only by the Victoria Mutual Building Society (VMBS).<sup>25</sup> With these vital statistics, matched with its low mortgage rates, what should be the primary role of the NHT continues to be in dispute. What is sure though is that NHT's contribution to housing for its contributors, particularly for its lower-income contributor has to be improved. The data also show that, in relation to the size of its resources, and the size of its contributor population, the number of beneficiaries is relatively small, less than 8% of the contributor population. Given this, the NHT must make every attempt at increasing the number of housing loans granted.

### Size of Loans

Any attempt at analyzing the distribution of housing resources among mortgagors, a good start is to look at the size and type of loans that are distributed. The next step is to see who actually gets these loans. Also, the combination of loan amounts and the interest rates charged present an interesting picture of the redistribution objective of the Trust. Original loan amount refers to the amount of money committed at the time of mortgage disbursement. For the purpose of this analysis, these amounts were inflated to current

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<sup>25</sup> Brown, Keith, 1994, "Financial Analysis of the NHT, Victoria Mutual Building Society, Jamaica National Building Society & Jamaica Savings and Loans Building Society -1993 -1994.

1995 dollars. The revaluing of the loan amounts is an attempt to standardize the loans to allow for comparisons between them in current terms. Reference to original loan amounts in current terms are the value of these loans in 1995 dollars. Revaluation have inflated these loan amounts to large sums. This points at two important issues: the first is that between 1976 and 1995, the country has experienced extremely high levels of inflation, and so, in earlier years, goods and services were far less expensive. Earlier loans were, therefore, much smaller sums; the second is that those who received loans in earlier years could be considered as now subsidizing the new-comers. But even the inflated values are still very conservative estimates for housing loans because of the dramatic increases in house values over the years, as result of inflation and other negative macro-economic factors.

The mean nominal loan amount was J\$128,163, with the smallest loan in nominal terms being J\$57, and the highest being \$1,800,000. The NHT introduced a new policy where up to three NHT contributors can join to access a mortgage loan. With this policy, each person would be able to get the maximum loan amount, subject to individual affordability. This new policy has increased individual loan amounts since 1994 to a maximum of J\$1.8 million. The table below shows the nominal loan amounts since 1976.

Table 3-2: The Nominal Values of Loans, 1976 - 1995

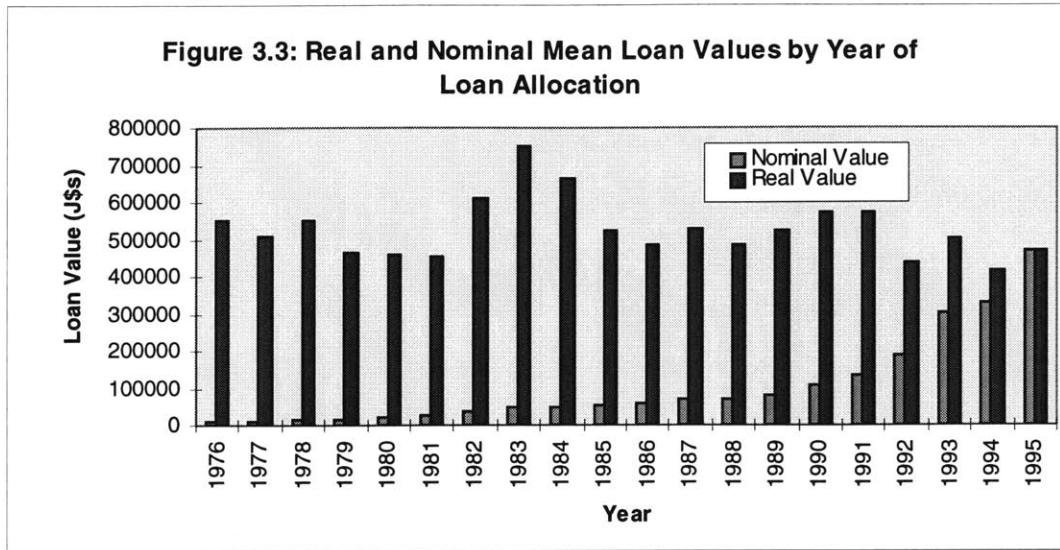
Nominal Loan Amounts (\$)	# of Mortgagors
< 10,000	830 (3)
10,001 - 40,000	2598 (9)
40,001 - 80,000	4789 (16)
80,001 - 100,000	6507 (22)
100,001 - 120,000	4415 (15)
120,001 - 160,000	2864 (10)
160,001 - 200,000	3070 (10)
200,001 - 300,000	1988 (7)
300,001 - 500,000	2324 (8)
Over 500,000	389 (1)
Total	29774

(5) Percentages of valid cases

Source: NHT's 1995 Mortgage Master File



In real terms, mean loan amount was J\$528,379, with the smallest loans being J\$485, and the highest being J\$18,181,818. Figure 3.3 compares the mean values of loans both in nominal and real terms.



### 3.2.2.2 Income Distributions of Mortgagors

My intention was to investigate whether or not the flow of funds represented a redistribution of funds from low-income to high-income contributors. But this was difficult to show. This is because income redistribution that takes place under NHT's mortgage financing is not systematically related to income, while the contributions to NHT are strongly and positively correlated to income (Peterson and Klak, 1989). This, therefore, makes the net redistributive impact difficult to determine.

A look at the profile of the NHT's mortgagors will start with a look at data on the contributor file for 1993. It was possible to match a subset of 9,422 mortgagors with their income data from the contributor file. This subset was used to examine the income distribution of mortgagors. Incomes were also inflated to 1995 levels. A glance (which is what the contributor file provides) at the distribution of mortgagors' income shows that their incomes were far greater than those of the contributor population as a whole. Considering the data, mortgagors earning an income of J\$1,100 or less were only 10% of

the total. Those mortgagors earning equal to or less than J\$3,000 were only 42% of the total. These income groups together represent 70% of contributors. The median weekly income for mortgagors was J\$3640 in comparison to J\$1459 for contributors. Mortgagors' weekly median income was almost twice (1.99 times) the national median of J\$1,731 for 1995. Information on the distribution of income of mortgagors from the mortgage master corroborates these findings.

Comparing contributors' incomes with discounted incomes of mortgagors from the **mortgage master** showed that mortgagors' incomes were greater than those of contributors'. Weekly median income of mortgagors was J\$3,179, 1.8 times the national weekly median income. The data, therefore, show that contributors with the lowest income are not those who have benefited the most from the most from NHT's cheap loan. Table 3.3: shows that those earning J\$1,100 or less weekly make up only 14% of the mortgagors (the figure was 10% for the sample of mortgagors from the contributor file). Mortgagors with incomes equal to and less than J\$3,000 weekly, make up only 48% of mortgagors. Table 3.3 shows two areas of bunching in the distribution of mortgagors' incomes - around incomes J\$1,101 to J\$3,000 and J\$20,000 and greater. Mortgagors in the income group of J\$20,000 and over weekly accounted for 34% of the total, but represented less than 1% of the contributor population according to sample contributor file. Here in lies part of the problem - this group seem to be receiving more than their proportionate share of the mortgages.

Table 3.3: Distribution of Discounted Weekly Income of Mortgagors and Contributors for 1995

Income Groups (\$)	# of Contributors	# of Mortgagors
<1,100	58878 (40)	1775 (14)
1,101 - 2,000	28618 (20)	2417 (19)
2,001 - 3,000	16612 (11)	1834 (15)
3,001 - 5000	19738 (14)	1182 (9)
5,001 -20,000	20043 (14)	904 (7)
20,001 -40,000	1603 (1)	1274 (10)
40,001 - 60,000	253 (-)	1285 (10)
60,000+	284 (-)	1729 (14)
Total Valid cases	144029 (100)	12400 (100)

(40) Percentages of valid cases

Source: NHT's 1995 Mortgage Master File & 1993 Contributor File

Notice that no income data were available for more than 50% of the mortgagors. Missing data for some variables is one of the many problems associated with NHT's data. The Contributor file may have provided a much more accurate data on mortgagors income. There are fewer errors in this file than the Mortgage Master data set. Income estimates based on the mortgage master are at the very least conservative and it is, therefore, possible that mortgagors' income could be even larger.

But even with missing data, information on income is at least reasonably reliable since it matches information derived from the contributor file. Table 3.4 shows the percentage distribution of mortgagors by income group over the years. The group earning less than J\$1,100 accounted for between 10% and 33% of mortgagors over the years (compared to 40% of contributors). This group received no loans in 1976, but between 1977 and 1982, this group represented between 10% to 16% of mortgagors, but dropped to single digit percentages between 1983 and 1987.

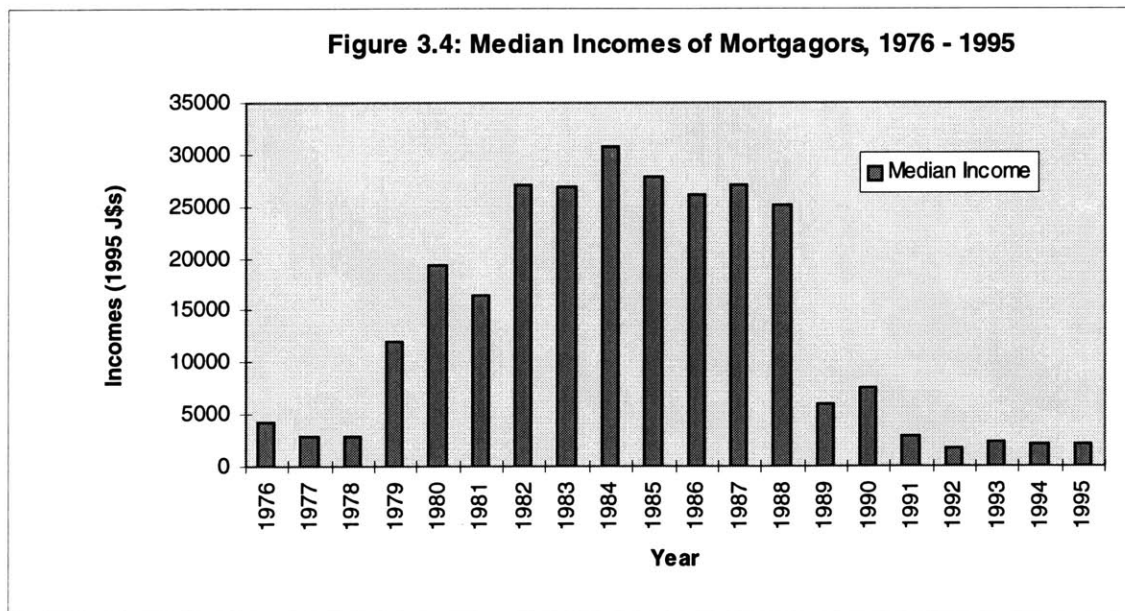
Table 3-4: Percentage Distribution of Discounted Incomes by Years

Years	Number of Mortgagors by Weekly Income Groups							
	<1,100	1,101 - 2,000	2,001 - 3,000	3,001 - 5,000	5,001 - 20,000	20,001 - 40,000	40,001 - 60,000	60,00+-
1976	-	33	-	33	-	-	-	33
1977	5	32	13	4	7	18	7	13
1978	15	22	13	6	8	11	8	16
1979	16	26	5	1	5	16	18	12
1980	13	21	10	2	5	17	18	13
1981	10	22	10	1	9	18	20	10
1982	12	14	10	5	4	16	13	26
1983	6	15	12	9	5	9	7	37
1984	5	16	12	8	3	9	9	37
1985	7	19	11	4	5	11	16	27
1986	9	21	10	1	5	17	20	16
1987	9	18	10	3	6	20	19	14
1988	12	11	12	6	7	18	18	16
1989	7	11	21	9	12	15	13	11
1990	10	13	14	10	8	14	17	12
1991	16	18	18	10	9	12	8	8
1992	33	26	20	13	7	-	-	-
1993	18	24	17	29	11	-	-	-
1994	29	19	21	20	9	-	-	-
1995	20	23	25	19	11	1	-	-
Total	14	19	15	10	7	10	10	14

Source: NHT's 1995 Mortgage Master File

The position for mortgagors earning less than J\$1,100 weekly increased slightly after 1990, but not to the level of those of the income group J\$1,101 to J\$2,000 weekly. The percentage of mortgagors in this group ranged from 24% to 33% (compared to 20% of contributors). Their position for the most part, has been consistent, and their numbers have increased towards the later years. The group earning between J\$3,000 and J\$5,000 has also improved their position in the later years. The deviant group - those earning J\$20,000 and over, represented 28% to 55% of the total mortgagors, though only hardly being represented in the contributor population. Between 1977 and 1990. Their numbers, though, have fallen off tremendously after 1991.

Overall then, the data seem to suggest that the lower income groups benefited more in the earlier years, but their position was has always been behind those of the higher income mortgagors. However, after 1990, the positions were reversed and the lower income groups seem to be taking more of the loans. The Figure below shows median income of mortgagors to be decreasing after 1990.



There have been efforts by the Reynolds' administration to emphasize lower-cost housing solutions such as serviced lots, core/studio units and 2-bedroom scheme units. The focus

has also included the use of small contractors who were able to keep the cost of scheme units substantially lower than what held on the open market. These cheaper solutions attracted more lower-income applicants.

But a disconcerting fact is that these low incomes can be explained by other factors. Low incomes could also be a reflection of the general decrease in real national income. Nominal incomes have been increasing, but real incomes have been decreasing. The Senior Director of the Corporate Service division of the NHT, Dr. Vincent George (personal communication, May 13, 1996) pointed out that what a teacher now earns in real terms is less than what a domestic worker earned in the 70s. Recent analysis done by the Trust on the occupations of beneficiaries shows that these low-income are made by beneficiaries with ‘market occupations,’ like nursing and teaching. This observation suggests that what seem like more low-income contributors benefiting, may simply be higher income earners with overall reduced real incomes.

Nevertheless based on the data, a typical NHT mortgagor is likely a male, of about 36 years, employed in the formal sector,<sup>26</sup> and is earning more than the national weekly median income. Table 3.5 presents the data on sex and age distribution of mortgagors, and as the total column shows, the majority of mortgagors, 69%, were between the ages of 25 and 40 years, showing a greater demand for housing among this age group on one hand.

**Table 3-5: Age and Sex Distribution of Mortgagors**

Age-group	Males	Females	Total
19- 24	703 (4)	494 (4)	1197 (4)
25 - 30	3662 (22)	2885 (21)	6547 (22)
31 - 35	4322 (27)	3509 (26)	7831 (26)
36 - 40	3199 (20)	2994 (22)	6193 (21)
41 - 45	2061 (13)	1799 (13)	3860 (13)
46 - 50	1251 (8)	1015 (7)	2266 (8)
> 50	1066 (7)	814 (6)	1880 (6)
Total	16264 (55)	13510 (45)	29774 (100)

Mean age = 36 years  
 Source: NHT’s 1995 Mortgage Master File

<sup>26</sup> Only 5% of the Trust’s 550,000 contributors are self-employed. The figure for mortgagors is even less.

Females accounted for 45% of the total mortgagors<sup>27</sup>, and could be more if the NHT had a policy that directly targeted female contributors. As to the distribution of mortgagors by age group, there was no significant difference between the sexes. For both males and females, the age distribution was almost identical to the overall distribution.

### 3.3 The Interest Rate Policy and Subsidies

A critical aspect of this thesis is the analysis of NHT's interest rate policy. In order to do this, I will examine how interest rates affect: mortgage affordability of contributors; program costs; the redistribution or cross-subsidization among mortgagors; and the real cost of the subsidies attached to these interest rates.

#### Interest Rate Spread

Interest rates are one of the main tools that the Trust manipulates in an effort to bring more housing benefits to its low-income contributors. Only recently, the Trust has lowered its interest rate to attract more low-income persons. Table 3.6 shows the distribution of interest rates on loans since 1976.

Table 3-6: The Distribution of NHT Rates on NHT Loans 1976 -1995

Interest Rates <sup>28</sup>	Number of Mortgages
2	164 (.6)
4	2292 (8)
5	249 (1)
6	1285 (4)
7	305 (1)
8	5661 (19)
9	10 (-)
10	18499 (64)
11	67 (-)
12	477 (2)
13	1 (-)
14	78 (-)
Total	29088

(64) Percentages of valid cases

Source: NHT's 1995 Mortgage Master File

<sup>27</sup> This percentage is not low in comparisons to statistics from other countries including the US.

<sup>28</sup> Prior to 1992, a scale of interest rates of 6% - 10% were charged on loans, with the best rate going to the lowest income group. In 1992, the rates were extended on both ends to includes rate of 12%. Finally in 1995, three more bands were added, 2%, 4% and 14%.

Based on the table above, it can be seen that over the years, the interest charged on loans have been much above the average rate of 8.9 %, (or the weighted average of 8.98 %). The data show that 64% of loans have been made at a rate of 10%. A further look at the data show that lower rates, that is, rates below 8% was a feature of the 70s and early 80s. Average interest rates increased after 1977 and continued until 1995 (Table 3.7). During the 1980s, average interest rates were between 8% and 9%. A concentration of most of the lending at these high rates may be a possible indication that the individuals who benefit the greatest are those in higher income brackets.

Table 3-7: Mean Interest Rates by Year by Number of Mortgages

Year	Mean Interest rates	# of Mortgages
1976	7	4
1977	6.5	305
1978	6.7	668
1979	6.3	1143
1980	7.1	1329
1981	7.4	987
1982	7.7	1081
1983	8.7	2058
1984	9.4	2066
1985	9.4	2080
1986	9.3	1603
1987	9.1	2098
1988	9.5	1297
1989	8.5	1607
1990	9.1	1874
1991	9.6	1645
1992	9.9	2642
1993	9.9	1471
1994	9.8	1791
1995	8.9	2020

Source: NHT's 1995 Mortgage Master File

One resulting feature of NHT's financial structure, is the very wide spread between its costs of capital and its investment returns. Three fifths of its capital flow, contributions from employers, are relatively free, in that the Trust does not refund this money. The remainder consist of employees' contributions, which are returned after 7 years, paying 3% per annum. But over the years, inflation has reduced the real value of these original payments and one result, is that a lot of this money is not collected because of the small

individual amounts. The conclusion, therefore, is that, the NHT is paying very little for the use of this money, 1.2% (3% of 40% of contributions made to the Trust). The net spread on all NHT's has been calculated to be around 12 percentage points.<sup>29</sup> What this shows is that the Trust does have the financial capacity and flexibility, more than any other housing institution in Jamaica, to make more benefits available to its low-income contributors. Its interest rate spread is greater than that which is found in the building societies or other public sector housing institutions. The next chapter shows how the Trust uses this spread.

Looking at table 3.8 also gives a hint of how the interest rate subsidies might be distributed among mortgagors. The table indicates that the Trust has a very limited range of interest rates, and as such is a sure indication that mortgage allocation system is not progressively redistributive. If a large range of interest rates are not charged on the loans made, then differences in loan sizes will offset any differences in interest rates (Peterson and Klak, 1989). Any policy of cross-subsidization is undermined, since higher loans will receive larger subsidies, and these larger loans are usually taken up by higher income groups. This is what is meant when it is said that the subsidies are not targeted according to need. Interest rates and loan sizes seem to cancel one another out, so that the subsidies are scattered among mortgagors, irrespective of income levels. But this is not to say that cross-subsidization is not occurring; as long as there are small and large subsidies some form of cross-subsidization will occur. What may be happening is that some are benefiting from others. A look at the relationship between income and the interest subsidies should tell more. But even without that analysis, the efficiency of this redistribution of benefits is questionable, particularly since it is obvious that low-income mortgagors may also be paying higher interest rates. A cross-tabulation of interest rates and mortgagors income does not confirm that low-income mortgagors are charged significantly lower interest rates than higher-income counterparts. (Table 3.8).

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<sup>29</sup> NHT's Corporate Planning Department.



Table 3.8: Mean and Median Interest Rates by Income Groups of Mortgagors

Income Groups (J\$)	Interest Rates		% of Mortgagors
	Mean	Median	
< 1,100	8.3	10.0	14
1,100 - 2,000	8.4	10.0	19
2,001 - 3,000	9.1	10.0	15
3,001 - 5,000	9.5	10.0	9
5,001 - 20,000	8.9	10.0	7
20,001 - 40,000	8.0	8.0	10
40,001 - 60,000	8.4	8.0	10
60,000 +	9.0	10.0	10

Source: NHT's 1995 Mortgage Master File

### 3.3.1 Cost of Subsidy

Much of the analysis in this section follows the format used by Klak and Peterson in their work done on the NHT in 1989. As such, this section of the thesis updates what has already been done on this subject.

The purpose of this section is to quantify the below market interest rate subsidies enjoyed by NHT mortgagors, and how these subsidies have been distributed among its mortgagors. But first, it must be mentioned that subsidies are being used in its narrowest sense, in that subsidies from arrears are not included. The estimates of subsidies on NHT's mortgages are only a part of the total subsidy incurred by the Trust housing program. However, what this analysis gives, is a picture of how efficient and progressive NHT's mortgage subsidy program is.

The measurement of the interest subsidies is the current annual mortgage payment, multiplied by the difference between the market and the NHT's mortgage's interest rates. This is a very conservative estimate, but it does capture the annual monetary value of interest foregone by charging less than market rate. Market rate here is defined at 19%, which is current rate charged by the building societies, NHT's closest competitor. But, as mentioned earlier, even the building society rate is not market rate, since this rate is substantially below inflation rate.

Based on the above then, the equation for NHT's annual interest subsidy looks like this:

ANNUAL INTEREST SUBSIDY = ORIGINAL LOAN BALANCE X (MARKET INTEREST RATE - NHT INTEREST RATE)

The equation measure the interest NHT's foregoes by charging less than market rate. To derive NHT's mean value of interest subsidy, the mean values for loan amount and the interest rate are inserted in the equation. To get the true mean interest rate, a rate weighted by loan amount is used. This rate is therefore, 8.95 instead of 8.9. NHT's mean annual interest subsidy is equal to:

$$J\$528,379 \times (.19 - .0895) = J\$53,102.$$

Using another method, mean annual interest subsidy = J\$ 53,162

A good estimate is somewhere between these two numbers.

NHT's total annual interest subsidy for 29769 mortgagors equals:

$$J\$15,370,000,000 \times (.19 - .0895) = J\$1,544,685,000.$$

Using another method, the total interest subsidy comes out to be J\$ 1,582,552,633.

The above estimate of NHT's interest subsidy is quite large, but is still very conservative, particularly because interest rates in the market fluctuate. However, since interest rates of the building societies are fixed, the estimates provide a reasonable preliminary measure of NHT's interest subsidies.

As a measure of opportunity costs at current rates, NHT's annual interest subsidies could finance the mortgages for 3,433 studio units of 216 sq. ft, at a price of J\$450,000, and approximately 7,021 serviced lots at J\$220,000. This gives an idea of the depth of the value of NHT's interest subsidy. The values of the interest subsidies are very large, both

in the aggregate, and at an individual level. The explanation for this lies not only in the large sizes of loans, but also in the low interest rates. Low interest rates, especially with large loans, as will be demonstrated later, do produce deep subsidies (Table 3.9).

Table 3-9: Mean & Median Interest Subsidies by Year of Loan Allocation

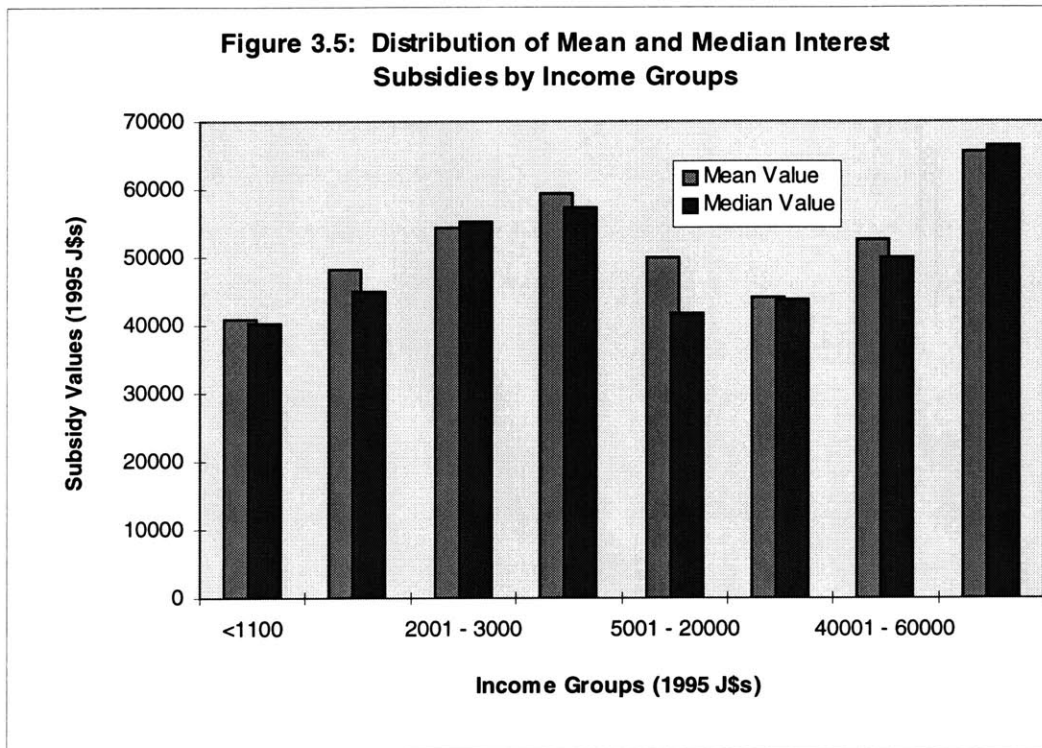
Year	Interest Subsidy in Real Terms (J\$)		Mean Interest rates	# of Mortgages
	Mean	Median		
1976	55297	59513	7	4
1977	50980	43671	6.5	305
1978	55266	44490	6.7	668
1979	46561	44963	6.3	1143
1980	46236	46823	7.1	1329
1981	45671	37183	7.4	987
1982	61503	58872	7.7	1081
1983	75250	80321	8.7	2058
1984	66696	69392	9.4	2066
1985	52849	60831	9.4	2080
1986	48797	52608	9.3	1603
1987	53112	47653	9.1	2098
1988	49046	45294	9.5	1297
1989	52595	50385	8.5	1607
1990	57422	57376	9.1	1874
1991	57427	50409	9.6	1645
1992	43967	37430	9.9	2642
1993	50372	49671	9.9	1471
1994	42054	46810	9.8	1791
1995	47334	43267	8.9	2020

Source: NHT's 1995 Mortgage Master File

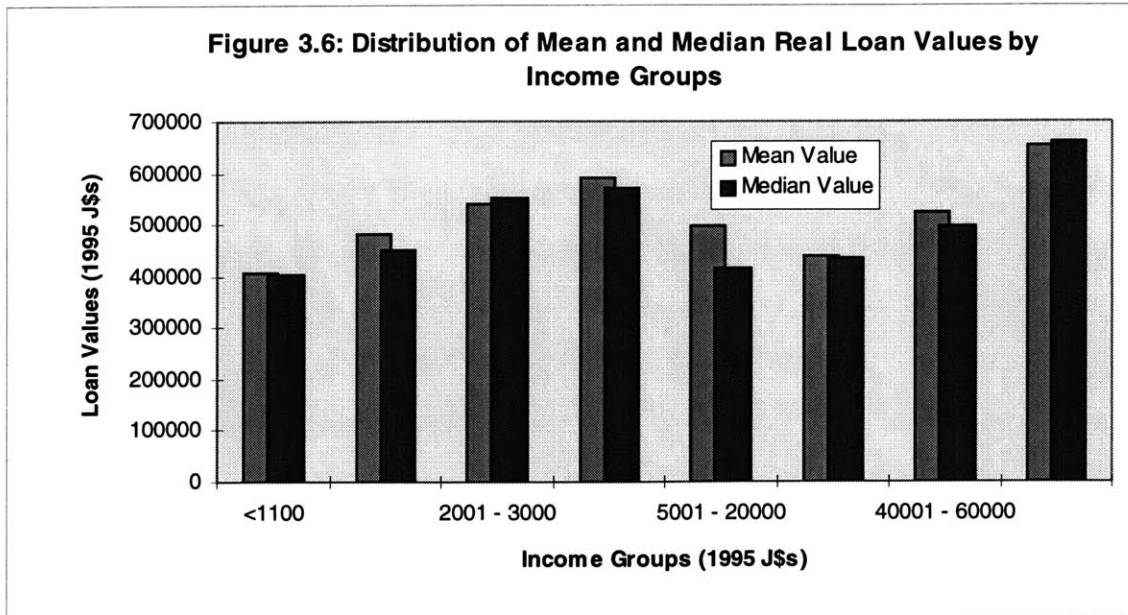
Table 3.9 also show very well how large these subsidies are annually. Ninety four percent of mortgagors get interest subsidies of a value ranging from less than J\$30,000 to J\$90,000. Both mean and median values of subsidies are over J\$40,000 annually. This works out to be about \$800 weekly. The mean and median values of the subsidies are not very far apart which suggest a slight tending towards a normal distribution that may suggest that some level of redistribution of funds is indeed occurring among mortgagors. The next logical question to ask then is, whom are the mortgagors getting these subsidies. Another interesting observation is that lower interest rates do necessarily produce lower subsidy amounts, nor does higher interest rates - higher subsidies.

### 3.3.2 Distribution of Interest-Rate Subsidies by Income and Loan Size

A cross-tabulation of the incomes groups with subsidy groups, indicates that mortgagors benefiting from larger subsidy amounts are of two income groups; those having incomes ranging from J\$1,101 to J\$5,000 weekly, and those with incomes J\$20,000 and greater. These mortgagors together, make up 77% of the total. The data show that the Trust target low-income group (J\$1,100 weekly) receive lower subsidy amounts. The data suggest, therefore, that on an average, it is those in the middle to higher income groups who receive a larger amounts of the subsidies. Figure 3.5 shows the mean and median values of subsidies by income groups.



Middle- to high-income mortgagors are also the ones who get the larger loans. A combination of these large loans with low interest rates produce very substantial subsidy amounts for these groups. The intent, therefore, of cross-subsidizing smaller loans or lower-income groups are not realized. Figure 3.6 shows the distribution of mean and median loan values among the different income groups.



A further look at the relationship between interest subsidies, loan size and incomes show that there is a perfect one-to-one correlation between interest subsidies and loan sizes. When subsidy is regressed against loan amount, person's  $r = 1$ . The coefficient of determination  $r^2$  is also equal to one. Observations from the data show that when loan size is held constant and subsidy is regressed against interest rate, the relationship between interest rate and subsidy is positive but not significant. But this is not surprising since interest rate does not change much. Estimates from the data do show, however, that lower interest rates produce higher subsidies. Holding interest rate constant, the relationship between subsidy and loan amounts is a strong and significant one (Table 3.10). These results are suggesting that contrary to popular thinking, the manipulation of interest rates may not be the most effective way to redistribute the subsidies from large to small loans, at least not when the spread between the rates charged is so narrow and some loan amounts to higher-income contributors are so large. Based on the analysis of the data, large loan amounts seem to nullify the effects of the below market interest rates for low-income contributors, and even possibly result in reverse cross-subsidization.

Table 3-10: Pearson and Partial Correlation Coefficients for Interest Subsidies, Interest Rates and Loan Amounts

Pearson Correlation Coefficients			
	Interest Subsidy	Interest Rate	Loan Amount
<b>Interest Subsidy</b>	-	.0432 (29083) P=.000	1.000 (29769) P=.000
<b>Interest Rate</b>	.0432 (29083) P=.000	-	.0432 (29769) P=.000
<b>Loan Amount</b>	1.000 (29769) P=.500	.0432 (29080) P=.000	-
(Coefficient/D.F./1-tailed Significance)			
Partial Correlation Coefficients - Controlling for <b>Loan Amounts</b>			
	Interest Rate	Subsidy	
<b>Interest Rate</b>	-	.0432 (29083) P=.500	
<b>Subsidy</b>	.000 (29080) P=.500	-	
(Coefficient /D.F./1-tailed significance)			
Partial Correlation Coefficients - Controlling for <b>Interest Rates</b>			
	Interest Subsidy	Loan Amount	
<b>Subsidy</b>	-	1.000 (29080) P=.000	
<b>Loan Amount</b>	1.000 (29080) P=.000	-	
(Coefficient/D.F./1-tailed Significance)			

Source: NHT's 1995 Mortgage Master File

Given the fact that prices for housing solutions will continue to increase with increasing inflation rates, the Trust has to find suitable pragmatic means of targeting these cheap subsidies to those who are most in need.

To support the argument further that larger loans attract larger amounts of subsidies, a look at Table 3.13 shows that the more expensive loan types, scheme unit loans, build-on-own land loans, and purchase on the open market had larger mean subsidies. Subsidies relating to scheme units have the potential to grow even more than the other loan types because unlike the other loan types, there is no loan ceiling. Qualified mortgagors are granted 95% of the cost of the unit. The other loan types carry with them ceilings on loan sizes.

Table 3-11: NHT's Annual Interest Subsidies by Loan Types

Loan Type	Mean Subsidy	% of Mortgagors
Build-on-own-land	66210	19
Scheme Unit	58588	57
Open Market Purchase	48727	9
House Lots	21003	-
Home Improvement	17379	14

Source: NHT's 1993 Contributor file

The larger the subsidies, the less funds are available for making more loans. It may make better sense for the NHT to concentrate their its on making smaller loans, especially since low-income persons cannot afford larger loans. The Trust may redistribute its housing funds among mortgagors in a more efficient manner if more emphasis is placed on making smaller loans such as those for serviced lots and home improvement activities, rather than on increasing loan limits. The Trust is, however, faced with the problem of high land costs in urban areas, particularly in Kingston, where the housing problem among low-income persons is more acute. But the Trust's new individual loan policy, where individuals can join with others to increase their loan limits may not be effectively distributing subsidies among mortgagors, since its potential of increasing loan limits will serve to skew interest subsidies more in favor of persons with higher incomes since only they can afford larger loans.

In concluding then, the data show that the majority of NHT's contributors are low-income persons. But these persons are not the ones who benefit the greatest from the Trust's funds. There is some amount of redistribution of funds occurring among

mortgagors, but the redistribution seem to be arbitrary, where some low-income, and more higher income persons benefit from large amounts of interest subsidy. There seem to be two main factors that contribute to this, the fact that the range of interest rates charged on loans are not wide enough, and that loan amounts are large. The data also show that interest rates explained only to a small extent the depth of the subsidies, that is, the relationship between interest rates and subsidy amount was low. This suggests that the NHT's preoccupation with manipulating interest rates may not be the key to making the system of below mortgage subsidy more redistributive, especially since these rates are so far from the market rates, and also since increasing loan limits nullify the effects of the interest rates.

Considering the analysis, the options available to contributors like the Hopefuls seem limited, and things are even more daunting since continued contributions to the Trust for this group translate into a negative expected value. This is further evidence that the existing system of mortgage credit is unfavorable for low-income contributors. Given Mr. Hopeful's income; the probability of him receiving a loan; the value of the mean interest rate subsidy received by this group; and his total contributions, assuming he has been contributing for 7 years, the computation of the expected value of Mr. Hopeful's contributions is as follows:

$$\begin{aligned} \text{BENEFIT} &= \text{Mean annual subsidy} = \$41,000 \text{ ( from previous calculation)} \\ &\text{Present value (7 years, 24\%<sup>30</sup>)} = \text{J\$}132,934.94^{31} \end{aligned}$$

$$\begin{aligned} \text{COST} &= \text{total contributions in 1 year} = \text{J\$}1,100 \\ \text{Present value of contributions (7 years, 24\%)} &= \text{J\$}3566.54 \end{aligned}$$

$$\begin{aligned} \text{PRESENT VALUE OF NET BENEFIT} &= \text{J\$}132,934.94 - \text{J\$}3566.54 \\ &= \text{J\$}129,368.39 \end{aligned}$$

Forty percent or 220,200 contributors fall in the low-income group. Since only 14% or 4,168 mortgagors are in this income group, the probability of Mr. Hopeful getting a

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<sup>30</sup> The Treasury Bill rate for 1995.

<sup>31</sup>  $PV = C[1/r - 1/(r(1+r)^t)]$ , where C is the cashflows; r is the discount factor; and t is the discount period.



mortgage is 0.0189. The Probability of Mr. Hopeful not getting a mortgage is 0.9811. Therefore, the expected value to Mr. Hopeful =

$$\begin{aligned} & (0.0189 \times \text{J\$}129,368.39) - (0.9811 \times 3,566.54) \\ & = \text{J\$}2,445.06 - \text{J\$}3,499.13 \\ & = \text{J\$}-1,054.08 \end{aligned}$$

This expected value is a loss to Mr. Hopeful, and if the rate of inflation continues to increase, and his nominal income also increases, requiring an increase in the amount contributed, the loss to a contributor is likely to be more. The fact that the expected value translates into a loss suggests that the odds are against Mr. Hopeful. Nevertheless, continuing to contribute to the Trust give him even a small to benefit.

The Hopefuls could look for a plot of land to buy outside the Kingston area where land is cheaper, and apply for the house lot loan. This loan type is not in high demand as the scheme unit and no queuing is involved. The Hopefuls could later apply to the Trust for a BOL loan. Another option is that they continue to wait and hope that they are included in selection for the next available batch of studio units. But the prices of the new units could become unaffordable for the Hopefuls. The Trust has decided that for new units, applicants will be selected from group of unsuccessful applicants in the last intake. This certainty will increase the chances of the Hopefuls. While they continue to wait, their contributions are accumulating which gives them more points. Each contributor is allotted 20 points for each year that she contributes. Also, A contributor can earn a further 100 points by purchasing home bonds. It is hoped that both the Hopefuls will still be employed by the time the next batch of units are available; unemployment would disqualify them. It is also hoped that the Hopefuls will have extra money available to purchase bonds.

The next chapter, to a certain extent, give some insight in how the Trust allocates its funds between housing and other types of investments. It also gives an idea of what are

certain factors that may influence the Trust's ability to make more of its benefits available to individuals like the Hopefuls.

#### 4. NHT'S BUSINESS ACTIVITIES - ITS SOURCES AND USES OF FUNDS

This chapter examines how the Trust deploys its funds, particularly how it allocates funds in and out of investment in housing, and how different factors, both internal and external to the NHT affects its activities.

##### 4.1 Its Business and Financial Activities - An Overview

The NHT is considered as a huge mobilizer of funds. A lack of funds is never cause for the ability of the Trust to provide loans to the majority of its applicants. As mentioned earlier, this is partly because of its steady flow of cheap funds from contributions. The volume of contributions has maintained a positive trend. At least for the last seven years, total contributions has been approximately 50% of total income. Another important source of income for the NHT that has maintained a positive trend over the years is, interest payments on investments and loans.

Table 4-1: Total Operating Income 1986 - 1995

Operating Income (J\$000s)							
Year	1989	1990	1991	1992	1993	1994	1995
Contributions	169,306	206,127	247,034	423,883	707,683	1,108,791	1,580,963
Interest on:							
Investments and loans	164,512	211,383	306,704	342,197	454,137	648,048	1,092,630
Finance for Hous. Construct'n	-	2,030	118	22,798	550,000	101,642	82,207
Gains on Disposal of hous. units	3,400	1,499	2,181	11,556	921	2,827	2,058
Service Charge on loans	5,143	339	1,935	2,325	3,135	4,709	4,918
Penalties	8,235	12,423	8,268	-	-	-	-
Miscellaneous	1,214	5,088	5,041	6,354	23,570	43,908	86,815
Total Income	346,667	436,859	571,281	809,113	1,739,399	1,909,925	2,847,533

In aggregate terms, NHT has been able to maintain an overall increase in its business volume since its creation. At least for the past 10 years, NHT has been able to maintain a surplus in operating income. A look at its business activities for the period 1986-1995, has also shown significant increases in its asset base. Total assets averaged an increase in nominal terms of at least 26% between 1986 and 1995. The data also show that for the past 10 years the Trust experienced an average increase in liquid funds of over 35% in nominal terms and over 8% in real terms. Growth in the asset base is a welcome trend,

but growth in liquid funds (Treasury bills, Investments and Current Assets), suggest that less resources are being made available for mortgage loans.

The data show that proportionately less of its funds are going into housing investments. For instance, though the nominal value of mortgage loans to beneficiaries has been increasing over the years - from J\$607.8 million in 1986 to J\$4,083.8 million in 1995, the mortgage loans to total assets ratio was low, 55% and decreased over the period. This an indication that proportionately less funds are being invested in loans. Overall, housing finance has been on an increasing trend, from J\$721.118 million in 1986 to J\$5,107.6 million in 1995. But as a percentage of total assets, finance on housing represented an average of 67%. The share of housing construction to total assets was even lower, an average of approximately 11% for the period under study.

Table 4-2: Percentage Distribution of Components of Housing Finance, 1986 -1995

Items	Percentages									
	Year Ending March									
	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95
Increase in Housing Finance	-	16	21	22	16	21	20	34	33	39
Hous. Finance as a % of Contributions	74	95	96	101	100	103	99	99	94	103
Hous. Finance as % of Total Assets	77	73	71	72	68	66	63	63	59	58
Mortgage Loans as % of Contributions	62	84	89	84	86	85	81	75	74	82
Mortgage Loans as % of Total Assets	65	65	66	60	58	55	51	48	46	46
Hous. Construction as % of Total Assets	12	8	5	12	10	12	11	15	13	12

NHT's finance for housing construction has increased, though at a decreasing rate, has compensated for the low and declining mortgage loan to total asset ratio. There are few possible factors contributing to this low ratio and the rest of the chapter will explore some of these. However, as the Trust continues to invest a fair proportion of its assets into financing housing, it is necessary to deliberate whether the Trust's resources, the bulk of which is its contributions should be:

- used for housing construction;
- or used to create more mortgages particularly for its low-income contributors.

#### **4.1.1 NHT's Activities and the Wider Economy**

The operations of the Trust are guided by certain government policies, and to a certain extent, influenced by the overall health of the economy. For instance, a government directive is that government lending institutions must provide a significant part of their liquidity for the purchase of government securities. NHT's business activities are also constrained by the nation's high-inflation economy. High inflation economy has had some impact on the Trust's sources and use of funds; its total operation. Inflation reduces the real value of major source of funds, the contributions, and increases the cost of its benefits to contributors.

Jamaica has a fairly well developed money market, but it is nevertheless characterized by discernible peaks and lows over the years (please see chapter 2). Sharp devaluation and increasing inflation rates influence the flow of money in and out of the housing finance market. To counteract these negative macro-economic influences, it is customary for housing institutions like the NHT to invest large sums on the money market, rather than housing for low-income persons. For long-term investments, property funds are usually chosen and these often linked to hotel and tourist funds or other, more stable capital investments.

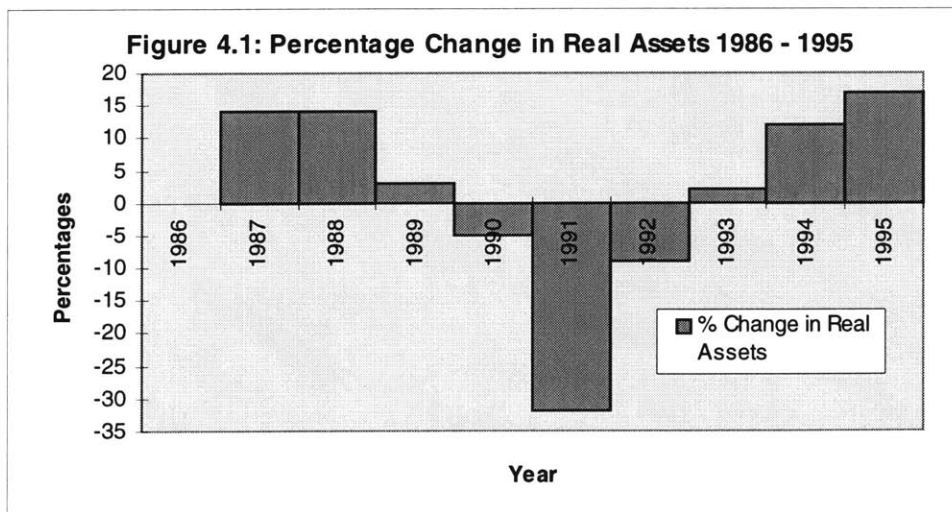
One of the ills of inflation is its impact on building cost, effects which are passed on directly to consumer. For instance, when inflation reaches highs as much as 80% (as was the case in 1991), this produces a doubling of construction costs. Increases in unit costs are further heightened by the long building approval/construction process and also mortgage processing, increases which applicants would not have been prepared for in advance. Interest rates on mortgages and construction loans at high rates of inflation is another matter. For example at an inflation rate of 80%, a realistic market rate if inflation is expected to fall, would be about 47% a year. Only purely commercial buildings can be financed at these rates. Low-income borrowers can only afford very low mortgage rates. Middle-income borrowers may be able to afford around 19%. Furthermore, it would not

be prudent financial policy for lending institutions to lend at high interest rates as this practice might in the long-run be counter-productive, derailing governments efforts at reducing inflation.

#### 4.1.1.1 The Impact of Inflation on NHT's Activities

##### Changes in Assets

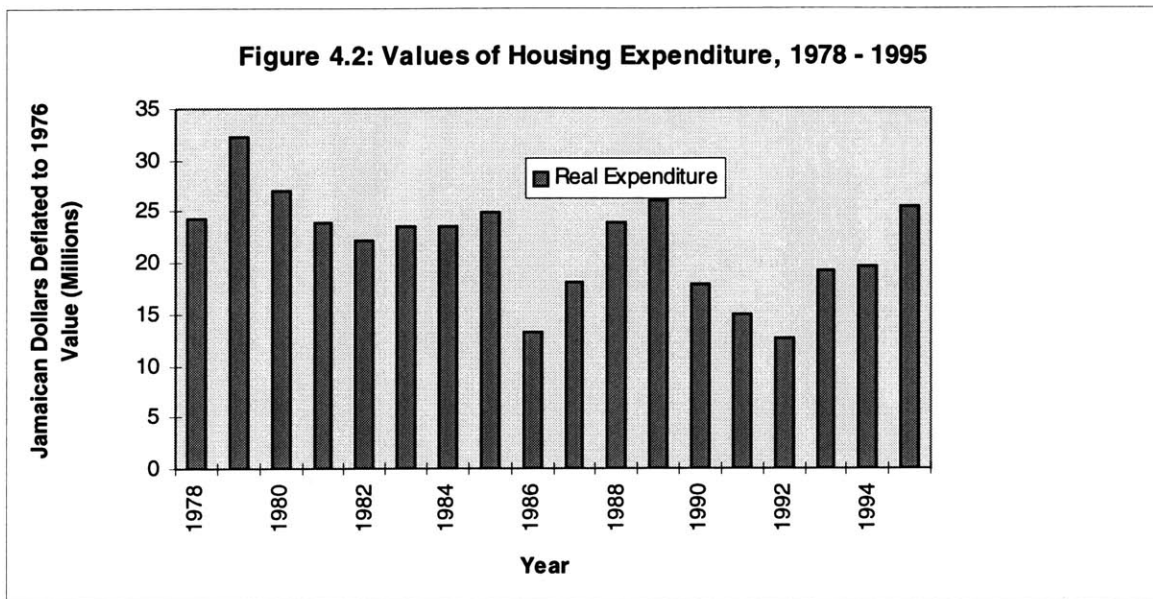
Though inflation has had some impact on the resources of the NHT, for example, diminishing value in real terms of contributions from wages, for the past 10 years, except for the period 1991 to 1993, (a period of high inflation, negative interest rates and the falling value of the dollar), the Trust recorded an increase in real assets (Figure 1). Analysis by the Corporate Planning Unit of the Trust in 1995 estimated the average growth of total asset for 1976 to 1995 to be 33.93%, an 8.56% growth rate over an average inflation rate of 25.23%; a sure indication that the Trust is not being decapitalized.<sup>32</sup> Between 1991 and 1995 also, in real terms the balance sheet total expanded by an overall 21%. In current terms, the overall expansion was 70% for the same period (Appendix 2).



<sup>32</sup> Brown, Keith, 1995, "The Impact of Inflation on the NHT Activities",

### Changes in Housing Expenditure<sup>33</sup>

The annual housing expenditure has fluctuated in real terms over the years. Based on Browns findings, “the general tendency is for the real value to decline substantially and then partly recover before substantial decline”. Therefore, with 1978<sup>34</sup> as the base year, at the end of 1995, housing expenditure was estimated to be 12.4% below the real value of 1978. The report shows too, that overall, except for 1979 and later, the level of housing expenditure was consistently below the real value of 1978. This is reflected in a persistent growth index of less than 100 in all but the two years, 1978 and 1979. The figure below shows the changes in housing investments from 1977 to present.

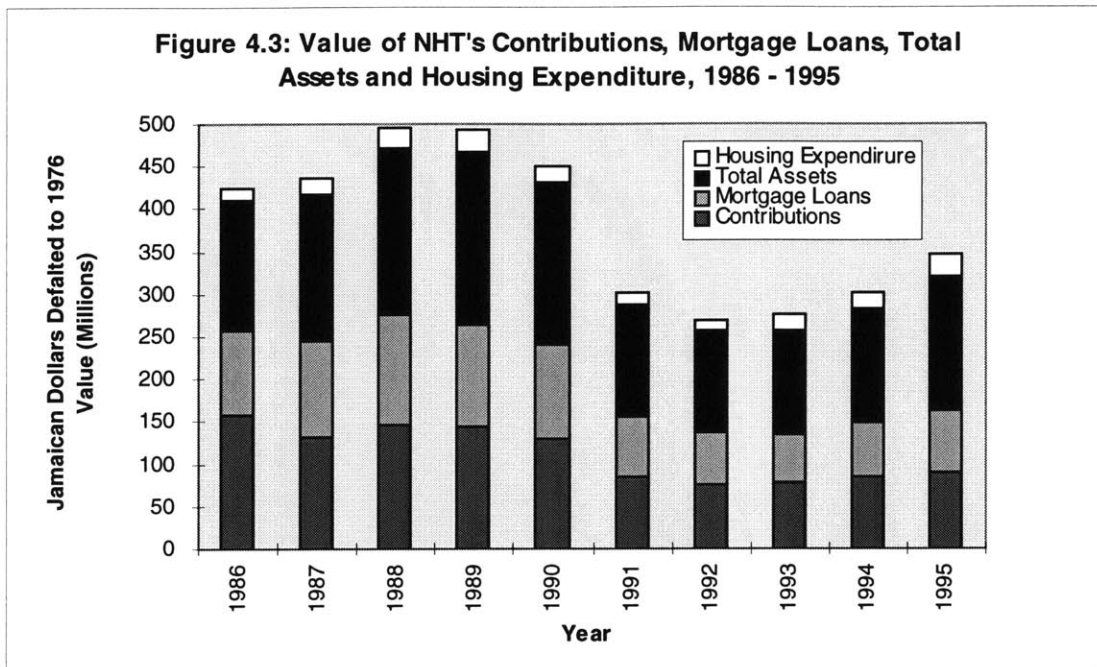


Despite high rates of inflation, between 1976 and 1995, the Trust has not experienced any erosion of its asset base. The Trust has for the most part, been buffered by the simultaneous raising of cheap funds with investing in stable fixed assets, and lending, in excess of its equity-type reserves. It is therefore, obvious that the Trust has the capacity to maintain positive real value in housing expenditure, and also higher loan to asset ratios, but would require investing less into so-called safer assets such as short-term

<sup>33</sup> These Figures are from Brown, 1995, and represent a proxy for annual housing expenditure. The proxy is the difference between closing and opening figures in the housing investment portfolio.

<sup>34</sup> Brown' used 1978 as the base year since 1977 was the Trust's first year of existence and activities were low.

investments (Figure 3). But how the Trust shuffles funds between housing and other investments is largely influenced by the policies of the government. For instance increases in short-term investments is also a Ministry of Finance (MOF) requirement that the NHT meets a stipulated ratio of its cash and short-term investments. This requirement and other government policies will be expounded on later in the chapter.



Another problem experienced by mortgage lending institutions like that of the NHT is finding a mortgage finance system that can deal with the shocks experienced in high inflation-economy. This can be a mammoth task particularly because of the inter-relations between the different aspects of housing finance, the countervailing forces of the sustainability of the funds for lending, and the affordability of the funds for borrowing. The NHT has been spared some of the negative consequences of inflation particularly because of its very low cost of funds, 1.2%.

Given this then, the main problem is making mortgage funds affordable to a majority of contributors. One strategy used is lowering the initial costs of financing so that homeownership becomes more affordable. But this can make the system unsustainable; the real rate of return can become so low that the supply of funds mobilized to fund such



'affordable' mortgages continually contracts in real terms. Similarly increasing future mortgage repayments to match increases in inflation preserves the real value of funds that are mobilized through the institution. But unless the income of borrowers is also increasing, allowing them to keep pace with the increases in prices, payments can become unaffordable.

Mortgage lenders have tried various instruments to battle the mortgage tilting problem, that is, when inflation causes real payments to be redistributed towards the early years of the loan. This tilting of the real repayment stream causes an increasing mismatch between real loan repayments and the income capacity of the borrower over the life of the loan. The NHT has introduced the graduated mortgage payment (GPM) instrument for most of its mortgages in order to combat this tilting problem. This mortgage instrument works by having relatively lower payments in the earlier years of the loan. The theory is that borrowers' income will rise in later years, and that payments will rise at expected rates of inflation. But the risk of the lender is increased tremendously, particularly in the Jamaican context where inflation levels are usually very high (in the long-run the one who benefits in is the mortgagor where her equity position increases in real terms, an equity increase in which the lender does not share.

The conventional straight line mortgage method, protects the lender to a certain extent because amortization of the loan starts immediately. But under inflationary conditions, the protection is limited mainly because the contract is locked into a fixed mortgage rate. For example, consider a family income of J\$70,000 per year (J\$1,346 per week), and paying 30% of this initial income for mortgage payments on a 30-year fully-amortizing fixed rate loan. In a world of zero inflation, and a 6% real interest rate, this payment would be sufficient to finance a loan for about J\$306,400. If inflation increases to 10% the lender should increase nominal lending rate to about 16% to compensate lender for the erosion in the value of later payments. The borrower with the same amount of income could only afford a mortgage of J\$150,400. At a mortgage rate of 16%, for a loan of J\$306,400 would require an annual salary of approximately J\$130,000.

The analysis shows that some of the inflation risk of the lender is being passed on to the contributors' 3% yield deposits. Along with the negative interest, contributors have also been burdened with increasing price trends in the building industry. It is shown that within reasonable limits of inflation, the Trust can maintain some growth in real assets. It becomes government's responsibility, therefore, to devise policies to maintain inflation within reasonable limits so that the Trust will be able to recover the real value of its loans to mortgagors, and disburse the same real value to new mortgagors. The Trust's responsibility among others is to devise steps to increase the real value of housing expenditure.

#### ***4.1.1.2 The Influence of Government Policies and Politics on NHT's Activities***

##### **4.1.1.2.1 Structural Adjustment Policies**

###### Some Implications for Mortgage Rates

Policies advocated by international donor agencies such as the World Bank, USAID, IBRD, and the IMF for economic growth as a whole has had some impact on the activities of the Trust. Jamaica has been under structural adjustment policies since the late 1970's, but in the late eighties, early nineties, these policies have been extended to the housing sector. This is particularly because the housing sector has been viewed as absorbing a lot of foreign exchange. The sentiments have been that there are better ways to utilize scarce foreign exchange. Government housing programs, therefore, become a major target for cut backs under the economic restructuring policies. It is often argued that housing funds such as the NHT's are better put to productive use. Reliance on the market to allocate scarce resources, and the promotion of private sector activities, with reduced direct government intervention are also part of the structural adjustment strategies. Clearly then, the NHT's housing program would definitely be at odds with the government's market oriented economic restructuring policies.

Some structural adjustment policies incorporated in the 1990-1995 housing development plan included the curbing of direct government housing construction to make way for increased housing finance, particularly for the private sector. Notably, the interim financing of private sector housing projects by the Trust increased. But how such an approach was to benefit the target group was questionable, primarily because the motivation of the private sector is based on profits, and therefore, a strategy which with no incentives, example, tax breaks would hardly be enticing to the private sector. The inability of the private sector to provide adequate housing solutions for the target group was one of the main reasons the NHT was created.

Structural adjustment policies were also extended to the interest rate policy. Since NHT's mortgage rates are way below the market rate, in Jamaica's inflationary economy, real interest rates are highly negative. We see that same applies to most other housing finance institutions such as the building societies, whose interest rates are below inflation rates. The interest on mortgages for building societies is currently 19%.<sup>35</sup> With inflation rates of 25.6 % in 1995, it means that real interest rates are highly negative. But for reasons of social welfare, the NHT has resisted pressure from these donor agencies to adjust interest rates to market levels.

There are two issues that seem to weaken the argument for market level interest rates. First, there is no clear definition as to what constitute market rates, and second, there is no evidence to show that charging market rates would indeed help solve the housing shortage, particularly among the target group. From an economic point of view, market interest rates should offset the inflation rate and yield certain positive real returns. Housing institutions like the building societies offer loans at rates that do not compensate for inflation. But based on the evidence presented in chapter 3, manipulation of the interest rates is only a small part of the remedy. The NHT has increased its interest rates over the years, though not near market levels, but nullifies the effect because it maintains a narrow range between the actual rates charged on loans. The data also show that there

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<sup>35</sup> Building Societies are regulated by the Central Bank and as such there interest rate structure is also regulated.

is a significant percentage of NHT's contributor population for which any interest on loan for even the cheapest solution of is still unaffordable to them. There seems to be a case then for other alternatives.

The debate also continues around the issue of income versus interest subsidies. The main argument has been that income subsidies are more easily targeted. But that may not be true if the problem of mistargeting is partly an administrative one. Income subsidies call for adequate administrative capabilities, and it is difficult to see how the administration of income subsidies is likely to be any easier than interest subsidies for the NHT. Also, there would be the problem of defining income, individual income or family income, and the irregular and varying sources of income.

There is enough evidence to show that interest subsidies distort the market, but so too can be the case of income subsidies. Bearing in mind that distortion occurs when those not entitled are those who claim the benefit, without efficient management capabilities, income subsidies could also go to those who are not entitled. Therein lies the problem. What has been clear from the debate however, is that NHT's reliance on the manipulation of interest rates to better help their large low-income contributor population, as brought out clearly in the preceding chapter, is only a partial solution.

### Subsidizing the State Budget?

A related structural adjustment constraint on the Trust's housing activities are the stipulated reserve requirements of the Ministry of Finance<sup>36</sup>. These reserve requirements, or MOF targets as they are called, are the amounts by which investments (specifically short-term investments) should grow in order for the government to meet its liquidity requirement. A major percentage of the Trust's cash inflows, therefore, goes into the national budget as a kind of indirect subsidy. According to the budget rules, the NHT is required to invest a large part of its income in short-term, usually revolving, securities.

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<sup>36</sup> Klak, T., 1995, "Obstacle to Low-Income Housing Assistance in a Capitalist Periphery: The Case of Jamaica".

The MOF targets are related to cash inflows and not to surplus income, so that whether or not a surplus is made, these targets must be met. In other words, it is cash flow sources such as contributions and investment income from which the MOF targets must be met. Table 4.3 shows the minimum portion of income that must be kept in cash and short-term deposits. Based on the price of J\$356,727 in 1995 for a studio unit of 300 sq. ft., the target of J\$ 1,117.89 million for the 1995/1996 financial year, for instance, could finance approximately 3,134 mortgages.

Table 4.3: Ministry of Finance Growth Targets for the years 1989/90-1995/1996

Year	Total (J\$Ms)
1989/90	203.5
1990/91	76.60
1991/92	253.90
1992/93	264.09
1993/94	630.0
1994/95	1,030.0
1995/96	1,117.89

Source: The Finance Division, NHT

It is obvious that some government policies are irrelevant to the cause of improving the housing conditions of the target population if they restrict the amount of resources which flow into the housing sector (Klak,1995). But there is also some substance to the argument that the NHT be regulated because some of its activities distort the financial market, at least to the extent that higher income groups take advantage of NHT's cheap funds rather than going on the open market. The precise impact of this ought to be analyzed and quantified, but must be separated from the issue of targeting low-income groups, particularly because these individuals would hardly be contributing to the distortion since they are not borrowers on the open market.

#### **4.1.1.2.2 NHT's Activities and Politics**

It is no news that politics in Jamaica has been a major influencing agent of housing policy and programs. Klak refers to this influence as *regime ideology* (Klak, 1995). This concept constitutes the philosophy for the particular housing policy or program, and the

housing priorities of the administration in power. But though regime influence is important, Klak has maintained that its influence has weakened over the years; the neoliberal approach to development has taken over. The National Housing Trust is a product of the Michael Manley socialist agenda of the 1970s. As such, much of its objectives and activities, at least its earlier activities, have been shaped by its origin. Today however, the social objectives of the Trust takes second place to its more mortgage banking activities and orientation. This may be due to the fact that the job of becoming an efficient mortgage bank is more straight forward, therefore, more easily achieved than finding solutions for the low-income contributors.

As supported by the literature, one of the ways to determine regime influence is to study the policies implemented under each regime of the PNP and the JLP, and the extent to which these policies prioritize low-income persons. The premise behind this method is that the PNP has a more socialist orientation, and therefore, during its administration, one would expect to find more of its housing policies to be low-income inclined, with more low-income persons benefiting. While on the other hand, with the JLP having a more free market orientation, one would expect to find more higher income persons being beneficiaries. Klak used a three-step calculation to measure the regime effect from NHT's data. These included, looking at the proportion of contributors at each income level receiving mortgages; making a comparison between each income level's contribution to the housing fund and the value of its housing loans; and finally, combining these two methods to produce a measure that account for both the loan probability, and the financial flow both in and out of each income level under each administration.

As seen in the information presented in chapter 3, during the 70s, period of the PNP's administration, mean and median income of mortgagors were lower than those of the 1980's, during the JLP's reign. As supported by Klak's analysis, the probability of a getting a loan was greater for those persons in the 6th and the 7th income decile during the 70's. Klak's findings corroborated well with the information presented in the

preceding chapter. Under Seaga's regime, NHT's lending favored those contributors of higher income brackets (See Figure 3.4 on pg. 65).

Overall, both groups have not target most of the housing benefits to the lowest-income groups. This may support the claim, that "the forces that redirect socially progressive policies of the NHT toward a more market-oriented behavior transcends the regime in power" (Klak, 1995). Nevertheless, all research on housing activities in Jamaica, do support the fact that the PNP regime is the one that makes a much greater contribution in provision of housing solution for the target population. Not only are the number of loans greater under the PNP regime, but more low-income initiatives are tried by this administration. The more recent ones are the promotion of the NHT's BOL and house lot loan programs, and the introduction of the 2% interest rates for low-income contributors. The Trust has also been trying in recent times to bring in more self-employed contributors. But given the present structural adjustment policies of the government, the problem of high inflation and continuing increases in construction and land costs, and the foreign exchange shortages, the social agenda for the Trust may be forced to take a back seat.

## 5. CONCLUSION AND POLICY IMPLICATIONS

### 5.1 NHT Missing its Target(s)?

The NHT is making an invaluable contribution to the housing sector, both in terms of increasing the housing stock and also in providing mortgage financing. The Trust is the largest mobilizer of funds for housing and the single largest entity contributing to the provision of housing for the working poor. The Trust over the years has: added to the housing stock, though not to the extent that was envisioned upon its creation; provided some flow of funds to the building industry, through its interim financing activities, and construction activities; increased the assets of the organization, and maintained a strong financial position in the housing industry; provided mortgages to some of its contributors, but the extent to which these mortgages were provided equitably has been the focus of thesis.

My research shows that the Trust has fallen short of the objective of delivering more of its benefits to those with the greatest need. The majority of NHT loans have not gone to individuals earning the minimum income. There has also not been much redistribution or cross-subsidization among mortgagors. This section of the thesis will summarize some of the main causes for this imbalance, and will conclude with some recommendations for the future of the Trust.

Causes for the NHT falling short of its targets can be grouped as those from external sources, and those originating from the NHT itself. We see that, for instance, some government policies which at times cannot be distinguished from the party politics, have had some negative impact on the Trust's operations - reduction in total output. The reserve requirement policy of the government has reduced the amount of funds going into housing investments. The data also showed that the Trust's total output is to a certain extent influenced by the 'political party in power'. More mortgages were made, particularly to lower income contributors during the PNP's administration. The macro-



economic environment in which the Trust operates also influences its achievements. The country's high levels of inflation have pushed up the prices of housing solutions, and with reduced value of real wages, have made benefits unaffordable particularly to the low-income contributors.

The Trust's own operations over the years have also contributed to it missing its target(s). There is some evidence to suggest that the Trust is not able to attract more of its low-income contributors to apply for the benefits. In-depth analysis of this claim could not be done because up until the last application intake in August 1995, the Trust has maintained no complete record of information on its applicants. However, based on information from this last intake process which was largely a low-income one, the number of low-income contributors who applied to the Trust was less than 50%. Several factors can be attributed to this. Since the Trust does not advertise a maximum qualifying income for their units, higher income applicants will also apply. One could speculate also that low-income persons do not apply to the Trust because they do not meet all the eligibility requirements - one quick disqualifier is not being employed - person has to be a current contributor. Another possibility is that these persons cannot afford the cost of the units, and/or the cost of a mortgage. Cuenco (1989) mentioned in her work that low-income persons seem to have an aversion to long-term credit. Another possibility is lack of information about the available types of loan. Research done by the Trust's research unit has consistently demonstrated that the majority of individuals that have been interviewed in surveys know very little about the different loans offered by the Trust.

Another major handicap to NHT's operations is inaccuracy and inconsistency in its data bases. For instance, to date it has no accurate figure for its total contributors. The Trust's three main data bases: its Contributor File, Mortgage Master, and the Benefit Master, a file on the Trust selectees are all not accurate, primarily because of data entry errors, inactive files, and out of date information - the files reflect less than the correct number of records. The shortcomings of inaccurate data are obvious.

## **5.2 The Future for Housing Finance in Jamaica and the NHT**

Recommendations are made for the improvement of the housing finance system in Jamaica in general, and the NHT in particular. This section incorporates some of the solutions offered by the literature to the problems of housing finance in developing countries.

### **5.2.1 Prospects for NHT's Contributors**

Any discussion about the prospects of the Trust's contributors centers around the major issue of whether the Trust's primary mandate is a social one, and therefore, whether the Trust's activities should be realigned to its low-income contributors. Based on the analysis of NHT's operations, it is my observation that the Trust, whether consciously or subconsciously, is struggling to with two main objectives: providing more benefits for its low-income contributors; and increasing and maintaining its business volume with the intention of becoming a strong mortgage financing institution.

Given the present political and economic conditions of Jamaica, the question is whether the Trust can pursue the two paths concurrently? or whether the Trust should give up totally, the commitment to providing housing for low-income persons and concentrate on becoming an efficient mortgage bank? and asked another way - whether the Trust is really in a position to do more for its low-income contributors?

The remainder of this section summarizes the Trust's present corporate objectives and ends with recommendations for specific strategies to increase the benefits to low-income contributors.

### **5.2.1.1 Strategic Planning for Efficient Mortgage Financing- The Trust's Present Focus**

The primary focus of the organization, at least in the past few years, is a move towards becoming a more banking-type, housing finance institution. The Trust first major move in this direction was the establishment of a Corporate Planning unit, in 1994. The unit's main responsibility is to develop strategic and operational plans for the organization. Such plans are to give the NHT a strong competitive edge in the financial arena. The unit is to, among other things, analyze the options and alternatives of the Trust to enable it to respond quickly to new business opportunities on the financial market; help to streamline the development of new products and services; use funds more efficiently; raise capital on the capital market, etc.

For the first time in its history, the Senior Executive Management Team of the NHT developed a three-year strategic plan - April 1995 - March 1998. The plan focused on six areas of needs, ranging from customer service to staff morale. Out of these areas of needs, the executive management felt that the following areas of competencies needed to be developed:

- Improvement in the design and delivery of the needs of all contributors;
- The continuous improvement of the mortgage delivery system;
- The development and maintenance of an efficient contributions collection system;
- The provision of a first class information system.

The Trust is now in the process of re-engineering its entire operations. One of the immediate areas of focus is its information service department. Efforts will be made to update the department's application system, making it more integrated, and improving its on-line communication and processing capacity.

The Trust's strategic objectives, at least on paper, seem not to be at dissonance with the objectives of increasing services to its low-income contributors. It is necessary that the financial integrity and management capacity of the Trust be improved so that it will be able to serve its clientele well. But as operations get larger, and the pressure to stay competitive on the financial market increases, there is the danger that the more social objectives of the Trust could be derailed. To be successful in extending benefits to more of its low-income contributors in particular, has to be a firm commitment.

#### **5.2.1.2 A Commitment to Providing Low-income Housing - A Look to the Future**

NHT's present mortgage credit system could be viewed as socially unfair, since some low-income earners are forcibly contributing to this Trust fund, but are not benefiting. If this premise is accepted then, it becomes even a moral obligation of the Trust to find ways to make its credit system more aligned to the needs of its low-income contributors. Some of the possible strategies that could be employed are summarized as follows:

- A commitment to finding appropriate housing solutions for the Trust's low-income clientele should start with the establishment of a separate division whose only responsibility is to research, organize, implement, and monitor new products and services for low-income contributors. This division should work closely with the public education, the community services, and research departments to investigate appropriate ways in which the Trust's low-income contributors can be reached, both in terms of increasing their contributions, and making them aware of available benefits. The data of the last application intake period hinted that low-income contributors are not among the majority of applicants. The unit's responsibility could also include periodic review of the Trust mortgage portfolio to ensure that there is equity in the spread of benefits to the target population.

The idea of having a separate department is related to the fact that the job of managing the affairs of the low-income contributors is not a simple task, and a full-

time and complete commitment is necessary. The task is not easy, primarily because of the constantly changing situation of the low-income contributors. It is important that needs of this group be studied carefully in order to derive the most appropriate strategies. The Trust may learn a lot from organizations like the NGOs, who work directly with many low-income groups, or finance organizations such as the Credit Unions who lend to them. Accordingly, a more efficient approach might be a collaborative one.

- The Trust could establish a grant, or a small fund specifically for low-income joint-venture type activities with community organizations. This money could be indexed to inflation so that the value is maintained. This sum could be given (lent) to eligible organizations such as NGOs or other established community based organizations involved in the provision of low-income income. The NHT periodically makes monetary donations to some NGO activities in the Kingston Metropolitan area, and this practiced could be extended. Community based institutions may be the best candidates for such programs, primarily because most their clientele are low-income families. Some NGOs are already involved in community housing initiatives.
- The NHT has implemented new strategies - group credits and its 2% interest rates for the lowest-income contributors, but it will have to do more in supporting unconventional activities such as site and services and/or settlement upgrading schemes. The Trust must also push the development of its house lot program even further. In urban areas where land is expensive, the Trust should invest in inner city developments, whether through government programs or private groups, to include NGOs or CBOs. Residents in squatter communities seem to build according to their ability to pay. The Trust programs should incorporate this phenomenon in the design of loan programs for low-income contributors.

There are, therefore, some points that are critical to the viability of this program include:

- The loans must be suitable for low-income households - small loans amounts, and short maturities;
- Loan originators should be institutions which low-income individuals will approach. Hence the emphasis on community based organizations;
- The loan transaction(application, processing, etc.) must be kept as simple as possible;
- Funds from the program could be channeled through the commercial banks (The Workers Bank), and/or Credit Union, to help to integrate the program within the national financial system.

This system could easily be extended to owners of rental properties.

- The Trust mortgage credit system has encouraged a tenure bias. As the literature points out, the possibilities of housing and land tenure arrangements are as varied as the needs of the this group of individuals at different stages of their life cycle and economic circumstances. For instance, renting is popular among low-income persons, and this tenure arrangement may even be preferred and more affordable, given the financial situation of this group (McCullum, Douglas and Benjamin, 1985). The Trust is weary of embarking on any rental program, because of the potentially heavy administrative cost involved. But the Trust could be involved in such a program, if indirectly. One form of involvement is through a special loan program for landlords, to entice them into renovating their properties and keeping them in rentals. However, there would have to be some stipulation in the program that guarantees landlords will charge 'reasonable' rents. The success of this program would hinge on a functioning Rent Act.

The affordability levels of low-income contributors necessitate that the Trust concentrate on cheaper, smaller activities for this group. Making more benefits available to this group may warrant a collaborative strategy, between the Trust, its low-income

contributors, and other organizations. Perhaps the best role of the NHT is that of a facilitator, relying more on the initiative of its contributors (Turner, 1978, 1976, 1972 and Peattie, 1981, 1980, 1979).

### **5.3 Implications for Policy and Administrative Reform**

The lessons from the literature suggest a holistic approach to the problem of housing finance in developing countries. No serious attempt at solving the problems can be made without considering the housing policy in total (Okpala, 1994; Renaud, 1984). In turn, the development of a good housing policy must form part of an overall reform of the financial and economic sectors. The promotion of savings, and the free movement of capital through the housing sector must be encouraged. If these principles are accepted, then any housing activity that distorts the proper functioning of the financial and economic processes, must be reviewed.

Some proponents support non-government intervention (World Bank, 1987) allowing, therefore, the market forces to freely allocate housing resources. We have seen where the allocation of housing by the market does not guarantee that those most in need will be the ones to get it. The failed attempts of the many liberalization policies, tried at some point by many developing countries, attest to the fact that appropriate supervisory mechanisms for the finance system are necessary (Rakoodi, 1995). Therefore, the appropriate question at this point is where and how should government intervene. There is agreement that given the limited resources of some low-income workers, government intervention through some form of subsidy may be necessary. The disagreement comes in the type of subsidy that is appropriate. Interest rates subsidies are said to distort the efficient operation of the financial sector (Klak and Peterson, 1990; Malpezzi, 1990; Renaud, 1987; Mayo, 1986). Income subsidies are the ones favored, particularly because they create less distortion. However, in the context of Jamaica's politics, and administrative structure, it is unrealistic to assume the use of income subsidies are achievable in the near

future. Therefore, interest rate subsidies though not a solution, must be considered an alternative - at least in the short-run.

Perhaps a realistic strategy is a policy mix between government activities and private sector. Government's main responsibility may be that of a facilitator, facilitating for instance, the flow of capital into the housing sector; providing land and infrastructure; and providing low-income persons with opportunities to provide their own shelter. There is also the need to for some institutional streamlining and restructuring among housing institutions. But, whatever the role, there can be no substitute for a sound macro-economic policy (Malpezzi, 1990; Grimes, 1976). In an unstable economic environment, housing usually bears the brunt of it. In a housing shortage, it is the low-income groups that are at the greatest disadvantage. The review of the limitations of strategies tried thus far, also suggest that imported models and instruments, particularly those which are incompatible with the local and social environment may only serve to exacerbate the problems.

The NHT is poised as the organization most able to help the poor working class find suitable housing solutions. The present corporate objectives are a step in the right direction. But there are necessary changes in the Trust's operations that must be addressed. One of the first task at hand is the rationalization of its credit subsidy system. The present system is not very 'transparent'. As the analyses show it is not always clear who is subsidizing whom. Part of the rationalization process could include increasing the interest rates charged on loans to higher income groups. Loan amounts going to this group over a certain amount should also be indexed to inflation, which suggests that new mortgage instruments should be developed. The low interest rates charged on loans to low-income contributors can be continued without risking profitability, particularly because its cost of funds is so low. The Trust should also consider increasing the interest paid on contribution refunds, or discontinue these refunds and replace them with a savings instrument. This would not only increase the flow of resources to the Trust, but a contributor could also used it for defraying some of costs of the loan, from the Trust or



from another finance institution. This may encourage more persons to contribute. This, however, will require an amendment of the act. The sourcing of capital on the financial market through the selling of bonds to other financial institutions should be considered.

But even before any rationalization the mortgage credit system is attempted, the Trust's must first address the problems of its data bases. The NHT's data bases are very important because they are records of housing loan repayment; these data contain information about households that have obtained loans from the Trust, and about the loans themselves. They are, important because they describe both the source and end-point of the agency's flow of funds. With inaccurate accounting data bases, it becomes very difficult to, for example, keep track of the organization's business. As the analyses have shown, inaccurate data such as negative loan amounts make it difficult to quantify the total subsidy per mortgagor, an important component of the NHT's program.

If these necessary institutional reforms are undertaken, and with autonomy over the use of its housing resources the Trust could do more for its low-income contributors. This task may not be as straightforward as becoming an efficient mortgage bank, but it is achievable.

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**APPENDIX 1**  
**SPECIAL ASPECTS OF THE HOUSING PROBLEM**

**Population Characteristics and Trend**

To understand the gravity of the housing problem, some understanding of the dynamics urbanization in Jamaica is necessary. Over the past two intercensal periods, the island has experienced an annual rate of growth of 86%. According to the 1991 census, the total population was estimated to be 2.4 million people. This represented a net increment of approximately 175,710 persons since the 1980 census, a percentage change of 8.02%. The census data have also indicated that more than half of population lived in towns and cities in 1991.

Table 1: Urban Growth in Jamaica 1970-1991

Urban Areas	Population in 000s			Growth Per Year	
	1970	1982	1991	1970-1982	1982-1991
KMA	506.2	524.6	538.1	0.85	0.28
Portmore	0.5	73.4	90.1	25.0	2.30
<u>Over 15,000</u>					
Montego Bay	43.5	70.3	83.4	4.10	1.92
Spanish Town	39.2	89.1	92.6	5.70	0.40
May Pen	25.4	41.0	46.7	4.10	1.49
Mandeville	13.7	34.5	39.4	8.00	1.49
Old Harbor	9.5	18.5	20.8	6.70	1.23
St. Ann's Bay	13.0	16.8	19.3	2.20	1.49
Savanna-La-Mar	11.9	14.9	16.6	1.77	1.10
Centers 5 - 15,000	69.9	117.7	140.0	4.90	1.90
Under 5,000	28.7	46.2	37.0	4.40	-1.90
Total Urban	761.5	1047.0	1124.0	2.70	1.20
Rural	1086.9	1143.4	1124.2	.40	0.16
<b>TOTAL JAMAICA</b>	<b>1848.4</b>	<b>2190.4</b>	<b>2248.2</b>	<b>1.42</b>	<b>0.61</b>

Source: Statistical Institute of Jamaica (SATIN) Census Data

**Attitudes Towards Shelter**

The dream home for many Jamaicans is a complete, a unit of multiple rooms, made of block and steel with a yard. This dream is no different for low-income persons. But

faced with their reality, they make do with what is affordable. For instance, in tenements, tenants will make repairs to their houses, in an attempt to make them different. For tenants, especially where there is some security of tenure, their home is still their focus of pride and identity.

Squatters, even in their situation still aspire to own their own home. They too, perceive their dream home to be a complete house (A survey of a Squatter Community in Flankers, Jamaica). The greatest demonstration of self-help is seen in these squatter communities. It is always maintained that, given security of tenure, squatters will begin to improve their homes and make them more permanent. But current literature extends this view by suggesting that the actual commodity itself is more relevant than the security of tenure, since even with this security, access to credit is still limited by the low incomes.

Housing is also a priority for the rural poor and this group also hold the same aspirations. For the most part, rural folks, particularly small farmers usually build their own houses to minimize costs. They often build small wooden structures and add to them incrementally as funds become available. Rural folks are not particularly interested in borrowing money to build. The “fear of ‘losing their land titles’, with failure to repay their loans, income inadequacy and instability are the primary reasons for avoiding credit” (The NHT Research Unit Housing Demand Surveys).

A house provides a sense of security and identity for family. Homes are a source of pride to their occupants. But despite the fact that low-income individuals aspire to more, homes of block and steel and yard, there are still many strengths in the existing communities. The ties of kin and friendship are important in low-income communities and should be preserved when possible. The social function of the yard is valuable and is a situation one should work within rather than destroy.

There are two striking characteristics of the low-income population that are especially evident in low-income communities, - their adaptability and proficiency at self-help. For

example, in situation of over-crowding and lack of facilities, people have learned to share. For some, given the instability of their incomes and poverty, squatting has provided an alternative. Although block and steel are preferred, some adopt to wood. Because of the aversion to borrow money, some will build themselves.

**The housing stock**

Number of Rooms

A significantly larger proportion. 28.6% of households occupied one-room dwellings. An overall 53.2 % occupied between one- or two-bedroom dwellings. For the KMA the figures were bigger. Approximately 33% occupied one-room dwellings, with 57% occupying one- or two-bedroom dwellings.

Table 2: Distribution of Housing Stock by Number of Rooms and Households

Number of Rooms	Percentage of Households	
	KMA	All Jamaica
1	33.2	28.6
2	23.8	53.2
3	18.0	22.0
4 and over	24.6	24.1

Type of units

The vast majority of dwelling units in Jamaica (87%) are single-family detached houses, fewer than 6% are units in apartment buildings. Apartments buildings and townhouses are more prevalent in urban areas. For instance, the Kingston Metropolitan Area (KMA) accounted for 54% of these units.

The prevalence of apartment type structures in the KMA is not unusual, since higher densities are substituted for land, because of its scarcity. Spatially, therefore, all parishes except the urban areas, and to a lesser extent, Kingston and St. Catherine had at least 80% of households occupying separate detached dwelling units.



The distribution in the type of housing unit was almost the same for the two censal years. In 1991, as in 1982, the majority of households lived in separate detached dwellings, 86% compared to 87% in 1991. Based on data from housing demand surveys, conducted by the Research Department of the NHT, the preferred housing type is a detached unit with land space.

### Tenure

More than half of all households, 58% own the dwellings they live in while a less than a third rent from private landlord. Ten percent of occupants live rent-free. According to the census data, indicated only 1% of households as squatters.

There has been some improvement in the level of homeownership between the two censal periods, 1982 and 1991. Homeownership has increased by 9% over the intercensal periods. In 1991, 58% of all dwellings were owned compared to 47% in 1982. But rentals have only increased marginally, 1%, between 1982 and 1991. The changes in leased and rent-free dwellings were also marginal.

### Quality of the Housing Stock

The vast majority of dwelling units are constructed of concrete, stone and brick. Most were built before 1970, although the housing stock in other urban centers includes a large number of units built during the 1970's. Nog and wattle and daub houses represent only a small share of the total housing stock, particularly newer units in the case of urban centers. Most wattle and daub houses are found in rural areas and were built before 1960. The majority of recently built housing units are made of concrete, stone or brick, with a significant minority constructed of wood.

### Growth of the Housing Stock

By June 1991, the total occupied housing stock was over 591,710, a 14% increase over the 1982 figure of 508,710. The occupation density averaged over 4 persons per dwelling. During the intercensal period 1970 to 1982, the occupied housing stock had grown faster than the population at an annual rate of 0.96% compared with a 0.61%. This resulted in an average occupancy rate of 4.23, decreasing from 4.33 in 1982.

Based on the census definition of a household, which is 'a group of people who share accommodation and who generally eat together', most dwelling (98% in urban areas and 99% in rural areas) are occupied by only one households. However, these households tend to be large; the average size of a household for the country as a whole is 3.9 persons. In the KMA, the average household size is 3.8 persons, but approximately 9% have households of over seven persons.

A large percentage of households, 37.3% are headed by females. The KMA topped that figure with a percentage of 44.7%.

### Amenities

In the KMA, almost 70% of households enjoyed piped water to at least their yard, compared to 53% of the island's total. In rural parishes, the public standpipe was the popular source. Spring and river were also sources for domestic water. There were some parishes though, where a large percentage of households were using untreated water. For instance, according to the census, in parishes like St. Mary, St. Ann, Trelawny, Westmoreland, St. Elizabeth and Manchester, less than 70% of dwellings had potable water for domestic use.

Population in parishes with untreated water become highly susceptible to especially water borne diseases. In 1990, there was a serious typhoid outbreak in the parish of

Westmoreland because individuals relied on contaminated streams for domestic water. The need, therefore, for households to have access to potable water is very obvious.

In terms of toilet facilities, again the KMA the majority of households some form of sanitary facilities. But while less than 10% have pit latrines, the main sewerage facilities were not central systems. Even in the metropolitan areas of Kingston and St. Andrew, and to a lesser extent, St. Catherine, central sewerage facilities were available to only about 39% of households. In high densities of Kingston and St. Andrew, the census indicate that as much as 42% of households had their own soak-away systems.

In the rural areas, pit-latrines were the more common means of solid waste disposal. This is not surprising since flush-toilets require access to water supply to the house, which is in most cases, not available. Though the occurrence of pit-latrines, or soakaways may be environmentally safe in some areas, it may be a source of ground water contamination in other areas.

### **Development Components and Costs**

Perhaps the main problem providing low-cost housing is that of keeping costs within affordable limits. The level of efficiency has never been high enough to keep cost at a minimum. Over the last few years the residential building sector performed rather sluggishly. This has been attributed to a number of factors, the most important one being the high cost of financing. During the period, commercial bank rates reached a peak of 67%. This caused uncertainty among investors, resulting in the delay of some projects. These delays eventually translated in most cases to increase costs to consumers. In a recent study that looked at the evolution of housing costs, delays in the building approval process add significantly to increases in development costs (Whitter, 1989).

Another factor that directly impacted on construction costs was the escalation of prices of building materials. During the period, 1993-1994, the prices of selected materials

increased on an average by 41.2%. The prices of major construction materials cement, lumber and steel, increased by 21.7%, 21.7%, and 0.5% respectively. The increase in GCT rates in the latter part of 1993 as well as the exchange rate movements were largely responsible for the price movements. The table below shows the movement in prices for some selected unit types of the NHT. These prices are comparable to what obtains on the open market.

Table 2.4: Construction Prices in NHT's Typical Housing Units 1993 - 1995

NHT Unit Type	Size (Sq. ft)	Prices			% increase 1993 - 1995
		1993	1994	1995	
Studio	300	236,366	282,985	356,727	51
One-Bedroom	310	265,459	317,685	401,390	51
Two-Bedroom	577	385,492	458,826	615,262	60
Three-Bedroom	807	474,386	568,521	721,084	52

Source: The Technical Services Department - NHT

While it may be difficult to curtail the sliding dollar and contain inflation in the short run, they are certain easier measures that the government could undertake in order to reduce housing costs. One such measure is the reforming of the approval process to reduce the chronic delays. As Whitter pointed out in his piece, also the need for a comprehensive study of the direct and indirect tax burden on the industry. This he feels will enable the authorities to examine ways of granting tax relief on construction, without over-all loss of revenue to the government. There is also need to assess the likely impact of the GCT on housing.

## APPENDIX 2

### SOME FINANCIAL ASPECTS OF THE NHT

2a: STATISTICAL SUMMARY, 1986 - 1995 (In Current Dollars)

Items	Year									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	J\$ 000s									
<b>OPERATING INCOME</b>										
Total Operating Income	85,479	105,584	149,385	182,504	230,732	324,247	374,830	536,763	801,134	1,268,628
Total Expense	48,634	41,954	59,161	46,371	87,543	106,809	184,844	218,991	355,452	492,911
Net Operating Income (Surplus)	36,845	63,630	90,224	136,133	143,189	217,438	189,986	317,772	445,682	775,717
<b>TOTAL ASSETS</b>	936,434	1,152,233	1,425,622	1,720,200	2,115,395	2,604,346	3,322,849	4,402,563	6,220,436	8,863,819
<b>% Change</b>		23%	24%	21%	23%	23%	28%	32%	41%	42%
<b>CONTRIBUTIONS</b>	973,358	882,484	1,059,836	1,225,066	1,430,393	1,677,300	2,100,532	2,807,026	3,901,004	4,951,315
<b>% Change</b>		-9%	20%	16%	17%	17%	25%	34%	39%	27%
Refundable Contributions	486,679	506,324	596,925	669,696	766,232	883,117	1,077,278	1,403,798	1,915,264	2,127,380
Non-refundable contributions	486,679	376,160	462,911	555,370	664,161	794,183	1,023,254	1,403,228	1,985,740	2,823,935
Contributions received for the year	80,296	109,457	158,546	169,306	206,127	247,034	423,883	707,636	1,108,791	1,580,963
Contributions refunded for the year	7,950	12,879	12,082	11,484	8,968	9,976	11,219	13,272	28,368	11,210
<b>HOUSING FINANCE</b>	721,118	836,137	1,013,208	1,234,758	1,431,881	1,728,327	2,079,154	2,779,439	3,684,235	5,107,651
<b>% Change</b>		16%	21%	22%	16%	21%	20%	34%	33%	39%
Housing Construction	113,270	91,030	73,668	208,121	205,458	303,040	373,729	675,053	800,001	1,023,850
Mortgage Loans	607,848	745,107	939,540	1,026,637	1,226,423	1,425,287	1,705,425	2,104,386	2,884,234	4,083,801
Housing Finance as a percentage of Contributions	74%	95%	96%	101%	100%	103%	99%	99%	94%	103%
Mortgage loans as a percentage of Contributions	62%	84%	89%	84%	86%	85%	81%	75%	74%	82%
Housing Finance as a percentage of Total Assets	77%	73%	71%	72%	68%	66%	63%	63%	59%	58%
Mortgage loans as a percentage of Total Assets	65%	65%	66%	60%	58%	55%	51%	48%	46%	46%
Housing Construction as a Percentage of Total Assets	12%	8%	5%	12%	10%	12%	11%	15%	13%	12%
<b>NUMBER OF LOANS IN MORTGAGE PORTFOLIO</b>	19,221	21,202	23,665	24,662	27,231	29,031	31,774	35,044	38,334	42,201

2b: STATISTICAL SUMMARY, 1986 - 1995 (In 1976 Dollars)

Items	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	J\$ 000s									
<b>OPERATING INCOME</b>										
Total Operating Income	13,911	15,852	20,595	21,468	20,910	16,307	13,445	14,799	17,434	22,741
Total Expense	7,915	6,299	8,156	5,455	7,933	5,372	6,630	6,038	7,735	8,836
Net Operating Income (Surplus)	5,996	9,553	12,438	16,013	12,976	10,935	6,815	8,762	9,699	13,905
		-	-	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	152,398	172,987	196,539	202,347	191,705	130,975	119,193	121,386	135,365	158,887
<b>% Change</b>		14%	14%	3%	-5%	-32%	-9%	2%	12%	17%
		-	-	-	-	-	-	-	-	-
<b>CONTRIBUTIONS</b>	158,407	132,489	146,111	144,104	129,628	84,353	75,348	77,394	84,891	88,754
		-16%	10%	-1%	-10%	-35%	-11%	3%	10%	5%
Refundable Contributions	79,204	76,015	82,293	78,776	69,439	44,413	38,643	38,705	41,679	38,134
Non-refundable contributions	79,204	56,474	63,818	65,328	60,189	39,940	36,705	38,689	43,212	50,620
Contributions received for the year	13,068	16,433	21,858	19,915	18,680	12,424	15,205	19,511	24,129	28,339
Contributions refunded for the year	1,294	1,934	1,666	1,351	813	502	402	366	617	201
		-	-	-	-	-	-	-	-	-
<b>HOUSING FINANCE</b>	117,357	125,531	139,683	145,244	129,763	86,919	74,581	76,634	80,174	91,556
<b>% Change</b>		7%	11%	4%	-11%	-33%	-14%	3%	5%	14%
Housing Construction	18,434	13,667	10,156	24,481	18,619	15,240	13,406	18,612	17,409	18,353
Mortgage Loans	98,923	111,864	129,527	120,763	111,143	71,679	61,175	58,021	62,765	73,204
Housing Finance as a percentage of Contributions	74%	95%	96%	101%	100%	103%	99%	99%	94%	103%
Mortgage loans as a percentage of Contributions	62%	84%	89%	84%	86%	85%	81%	75%	74%	82%
Housing Finance as percentage of Total Assets	77%	73%	71%	72%	68%	66%	63%	63%	59%	58%
Mortgage loans as percentage of Total Assets	65%	65%	66%	60%	58%	55%	51%	48%	46%	46%
Housing Construction as a Percentage of Total Assets	12%	8%	5%	12%	10%	12%	11%	15%	13%	12%
<b>NUMBER OF LOANS IN MORTGAGE PORTFOLIO</b>	3,128	3,183	3,263	2,901	2,468	1,460	3,177	966	834	756

2c: NHT ASSETS AND LIABILITIES, 1986 - 1996, (In Current Dollars)

Items	Year									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	J\$ '000s									
<b>ASSETS</b>										
Current Assets	148,071	240,187	340,189	416,856	618,720	807,802	1,086,897	1,201,093	1,976,978	2,855,960
- Short-term assets	103,618	188,245	258,676	322,882	456,512	592,615	809,770	813,999	1,478,499	2,253,701
Long-Term Loans and Investments	770,650	892,895	1,067,658	1,287,471	1,481,211	1,760,070	2,187,533	3,124,115	4,132,562	5,612,716
- Long-term investments	57,121	56,758	54,450	52,713	49,330	31,743	108,739	434,998	448,327	505,065
Deferred Expenditure						5,353	11,541	23,939	27,375	22,312
Fixed Assets	20,933	19,151	17,775	15,873	15,464	31,121	36,878	53,416	83,521	372,831
<b>Total Assets</b>	<b>939,654</b>	<b>1,152,233</b>	<b>1,425,622</b>	<b>1,720,200</b>	<b>2,115,395</b>	<b>2,604,346</b>	<b>3,322,849</b>	<b>4,402,563</b>	<b>6,220,436</b>	<b>8,863,819</b>
	0.23	0.24	0.21	0.23	0.23	0.28	0.32	0.41	0.42	(1.00)
<b>LIABILITIES</b>										
Current Liabilities	114,039	97,366	111,950	117,001	138,567	160,249	180,307	242,703	472,459	471,752
Bonus to Employees Not Yet Due	21,789	24,282	28,942	31,444	36,428	41,476	49,026	61,203	82,951	120,281
Provision for Unremitted Employees Contributions	3,456	3,456	3,456	3,456	3,456	3,456	3,456	3,456	3,456	3,456
Long-Term Liabilities	27,929	85,445	30,957	25,483	47,151	61,876	128,079	104,736	133,527	125,644
Unclaimed Cash Grants			84,800	110,900	144,270	175,369	234,991	289,337	328,807	380,475
Deferred Income	25,691	24,701	35,515	35,466	40,913	43,991	48,528	59,690	73,602	123,789
Refundable Contributions Not Yet Due	359,290	394,413	430,457	468,313	524,493	590,352	731,828	997,057	1,453,060	2,127,380
Accumulated Fund	387,460	522,570	699,545	928,137	1,180,117	1,527,577	1,946,634	2,644,381	3,672,574	5,511,042
<b>Total Liabilities</b>	<b>939,654</b>	<b>1,152,233</b>	<b>1,425,622</b>	<b>1,720,200</b>	<b>2,115,395</b>	<b>2,604,346</b>	<b>3,322,849</b>	<b>4,402,563</b>	<b>6,220,436</b>	<b>8,863,819</b>

2d: NHT ASSETS AND LIABILITIES, 1986 - 1996, (In 1976 Dollars)

Items	Year									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	J\$ '000s									
<b>ASSETS</b>										
<b>Current Assets</b>	24,098	36,060	46,899	49,035	56,071	40,625	38,988	33,116	43,022	51,194
- Short-term investments	16,863	28,262	35,662	37,981	41,371	29,803	29,047	22,443	32,174	40,398
<b>Long-Term Loans and Investments</b>	125,418	134,052	147,190	151,445	134,233	88,515	78,468	86,137	89,930	100,610
- Long-term Investments	9,296	8,521	7,507	6,201	4,470	1,596	3,901	11,994	9,756	9,053
Deferred Expenditure						269	414	660	596	400
Fixed Assets	3,407	2,875	2,451	1,867	1,401	1,565	1,323	1,473	1,818	6,683
<b>Total Assets</b>	<b>152,922</b>	<b>172,987</b>	<b>196,539</b>	<b>202,347</b>	<b>191,705</b>	<b>130,975</b>	<b>119,193</b>	<b>121,386</b>	<b>135,365</b>	<b>158,887</b>
	0.13	0.14	0.03	(0.05)	(0.32)	(0.09)	0.02	0.12	0.17	(1.00)
<b>LIABILITIES</b>										
<b>Current Liabilities</b>	18,559	14,618	15,434	13,763	12,557	8,059	6,468	6,692	10,281	8,456
Bonus to Employees Not Yet Due	3,546	3,646	3,990	3,699	3,301	2,086	1,759	1,687	1,805	2,156
Provision for Unremitted Employees Contributions	562	519	476	407	313	174	124	95	75	62
<b>Long-Term Liabilities</b>	4,545	12,828	4,268	2,998	4,273	3,112	4,594	2,888	2,906	2,252
Unclaimed Cash Grants	0	0	11,691	13,045	13,074	8,819	<b>84,296</b>	7,978	7,155	6,820
Deferred Income	4,181	3,708	4,896	4,172	3,708	2,212	1,741	1,646	1,602	2,219
Refundable Contributions Not Yet Due	58,472	59,214	59,344	55,088	47,532	29,689	26,251	27,491	31,621	38,134
Accumulated Fund	63,056	78,454	96,441	109,177	106,947	76,823	69,827	72,910	79,920	98,787
<b>Total Liabilities</b>	<b>152,922</b>	<b>172,987</b>	<b>196,539</b>	<b>202,347</b>	<b>191,705</b>	<b>130,975</b>	<b>119,193</b>	<b>121,386</b>	<b>135,365</b>	<b>158,887</b>



### APPENDIX 3

#### THE INCOME DISTRIBUTION OF MORTGAGORS

3a. The Income Distribution of NHT's Mortgagors (Based on NHT's Income Bands)

Income Groups (J\$)	# of Mortgagors
< 1,101	1508 (12)
1,100 - 2,000	2417 (20)
2,001 - 3,000	1834 (15)
3,001 - 4,000	803 ( 7)
4,001 - 5,000	379 ( 3)
6,001 - 6,500	252 ( 2)
6,500+	4940 (41)

(41) Percentages of valid cases

3b. The Income Distribution of Applicants in the August 1995 Intake

Income Groups (J\$)	# of Applicants
< 1,101	1896 (12)
1,100 - 2,000	4572 (29)
2,001 - 3,000	3405 (21)
3,001 - 4,000	2989 (19)
4,001 - 5,000	1366 ( 9)
6,001 - 6,500	895 ( 6)
6,500+	693 ( 4)

(20) Percentages of valid cases