

University of Miami Law Review

Volume 20 | Number 2

Article 9

12-1-1965

Technical Assistance in the Development of a Latin American Savings and Loan System

Warren W. Koffler

Follow this and additional works at: <https://repository.law.miami.edu/umlr>

Recommended Citation

Warren W. Koffler, *Technical Assistance in the Development of a Latin American Savings and Loan System*, 20 U. Miami L. Rev. 438 (1965)

Available at: <https://repository.law.miami.edu/umlr/vol20/iss2/9>

This Comment is brought to you for free and open access by the Journals at University of Miami School of Law Institutional Repository. It has been accepted for inclusion in University of Miami Law Review by an authorized editor of University of Miami School of Law Institutional Repository. For more information, please contact library@law.miami.edu.

TECHNICAL ASSISTANCE IN THE DEVELOPMENT OF A LATIN AMERICAN SAVINGS AND LOAN SYSTEM†

WARREN WM. KOFFLER*

I. THE PROBLEM	438
II. THE METHOD	439
III. THE MEANS	440
A. Chile	443
B. Bolivia	444
C. Guatemala	446
D. Peru	447
E. Brazil	449
F. Colombia	450
G. Paraguay	450
H. Uruguay	450
I. Argentina	450
IV. THE NEXT STEP	453
V. THE FUTURE	455

I. THE PROBLEM

Latin America has a vast residential dwelling shortage. Elimination of this deficit constitutes one of the basic goals of the Alliance for Progress.¹ To currently meet this deficiency, in the urban centers of Central and South American alone, would require the construction of more than fourteen million residential units.² It is plain that a sum of this magnitude cannot be acquired through either bi-national or multi-national financial arrangements, except to the extent that development loans from such sources may serve to lubricate the machinery for mobilizing dormant domestic resources.³ To this end, free enterprise has joined together with the Agency for International Development (AID) and the Inter-American Development Bank (IDB) to provide developing nations with the technical skills needed to establish a system of thrift and home financing institutions.

Concurrent programs are being carried out by IDB, as Administrator

† An official paper of the fourteenth conference of the Inter-American Bar Association (San Juan, Puerto Rico).

* Attorney at Law, Washington, D.C.

1. *Hearings on the Establishment of an International Home Loan Bank Before the House Committee on Banking & Currency*, 88th Congress, 1st Session, 253 (1963) (hereinafter cited as "1963-Hearings"); see also, 108 CONG. REC. 186 (1962) (remarks of Sen. Dirksen, citing data of the International Union of Building Societies & Savings Associations).

2. Inter-American Economic & Social Council (IA-ECOSOC), Organization of American States, *Estudio Social Latina, 1963-1964*, submitted to a meeting of IA-ECOSOC (Lima, Peru 1964); 1963 Hearings at 44.

3. *Hearings on International Housing Before a Subcommittee of the Senate Committee on Banking & Currency*, 88th Congress, 1st Session (1963) (testimony of Stanley Baruch at 37).

of the Social Progress Trust Fund, and by AID in conjunction with the National League of Insured Savings Associations. In less than five years from the commencement of this effort, the accomplishments are becoming clearly visible. The results to date establish this program as one of the most successful foreign assistance programs ever conducted.⁴

II. THE METHOD

Savings and loan associations, or "building societies" as they are called throughout the British Commonwealth, have recorded extensive growth in both size and stature during the last two hundred years. Today, the United States, which has 4.985 insured savings and loan associations with assets in excess of 117 billion dollars,⁵ is one of forty nations in which these institutions are operating.⁶ Each of these associations, wherever located, is chartered for an identical purpose: to seek savings and make long-term loans upon residential real property and structures. Prior to the commencement of this effort, few countries in Latin America had the requisite legislation to charter an institution for the purpose of garnering free savings as an investment, and to loan the acquired capital, independent of its source of investment, upon long-term residential mortgage loans.⁷ Thus, this program, dedicated to the establishment of a series of savings and loan systems in Latin America, had to begin at the most fundamental level: the enactment of appropriate legislation in each of the host countries.

Acquisition of funds for the development of residential housing in Latin America has proven exceptionally difficult. Development specialists have tended to view housing as a "social need," in contrast to a "capital development need." They have frequently argued against this alleged tangential use of a relatively limited funding pool dedicated to capital development.⁸ The development of thrift and home financing institutions is one of the expressly delineated goals of the Alliance for Progress, which incorporates by reference the Act of Bogata,⁹ as well as one of the particular goals of the Foreign Assistance Act,¹⁰ wherein Congress stated:

[I]t is declared to be the policy of the United States to encourage the efforts of other countries . . . to foster private initiative

4. 110 CONG. REC. 65 (1964) (remarks of Sen. Sparkman); National League of Insured Savings Association (hereinafter identified as "NLISA"), *Report on the International Program*, No. 2 (1963).

5. *Federal Home Loan Bank Board Press Release*, 2-3 (Feb. 16, 1965).

6. *The American Banker*, 97-98 (Oct. 28, 1964).

7. NLISA, *Latin American Savings & Loan Seminar* 22 (1964) (hereinafter cited as "Seminar").

8. Bradley, *A Private Enterprise Answer for Homeless Millions*, 18 NLISA JOURNAL 9 (1963) (hereinafter cited as "Answer").

9. Charter of Punta del Este, tit. II, ch. I(2) & (3); all United States aid to Latin America is directed through the Alliance for Progress framework, see *Washington Post*, sec. A, p. 12, col. 7 (Jan. 15, 1965).

10. 22 U.S.C. 2351 (1963).

and competition, (and) to encourage the development and use of . . . savings and loan associations. . . . (Emphasis added.).

Nevertheless, 99.5 percent of current United States foreign aid is designed for projects that are not related to meeting the need for residential housing in developing nations. Of the one-half of one percent dedicated to housing, a majority has gone into the development of programs other than those related to the creation and expansion of central banking institutions dedicated to the growth of thrift and home ownership.¹¹ In Latin America, only 75.9 million dollars, or less than fifteen percent of all residential development loans between 1960 and 1965 were directed to the private sector of the economy via capital funding of savings and loan institutions.¹²

Since it is an economic fact of life that it is necessary for a prospective homeowner to have the funds needed for a down-payment upon a mortgage loan, no matter how small that investment may be, it is obvious that the savings and loan system does not serve the very lowest economic classes wherein the greatest need exists. The latter are equally unable to make reasonable payments upon any type of housing developed to meet their needs. To provide this class with adequate shelter, they must be accorded charges unrelated to the cost of the units which they occupy. A line must be drawn between those who are economically self-sufficient in meeting their needs for household dwellings, and those who are not self-sufficient and must, to some degree, receive public and/or private help in meeting this need. The wage earner, constituting Latin America's growing upper-lower and lower-middle economic classes, is ready and able to pay his own way for decent housing, provided that an economical source of long-term home financing is made available to him. Prior to the creation of the relatively small number of savings and loan institutions in Latin America today, this goal was a virtual impossibility for the average worker; it continues to be most difficult today. Few men who must earn their bread and shelter through their own productivity can afford to pay interest rates of from 25 to 50 percent upon three year loans, equal to only 50 percent of the value of the house they seek to finance, and yet they are the current minimum terms in many areas of Latin America.¹³ Thus, this entire program, in essence, is dedicated to the creation of institutions which will make private home ownership possible for the working man.

III. THE MEANS

In January of 1965, President Johnson, submitted a special message on Foreign Aid¹⁴ to Congress. He stated, in part, that increased non-

11. Bradley, Answer, *supra* note 8.

12. 1963 Hearings at 254.

13. NLISA, *Savings & Loan International Newsletter*, No. 2 (Jan. 1965); NLISA, *Report On The International Program*, No. 2 (1964).

governmental efforts in the foreign aid program were most desirable. In particular, he praised the efforts that had already been made by the domestic savings and loan industry in this regard. These efforts, which were motivated by a strong desire for participation by private enterprise in the foreign assistance program, were given impetus by a severe shortage of experienced industry executives available for long-term contract assignments with AID or IDB.¹⁵ These factors led to the establishment of short-term individual, or two-man, savings and loan missions to host countries by a small cadre of very able, dedicated, and diligent thrift and home financing executives from the United States.¹⁶ The technique adopted has utilized the services of these experts as Mission Heads, each leading their own special purpose and limited duration mission. In this capacity, they have performed assignments in the following areas:

- (1) feasibility surveys; (2) legislative drafting; and (3) new system start-up supervision.

The majority of these assignments have been funneled through an open-end contract between AID and the NLISA.¹⁷ Each such technical assistance mission operates under a specific and delineated Task Order, as required by the terms of the contract. Each Task Order issued must include:¹⁸

- (1) the identity of the country or region serviced; (2) the Task Order number; (3) the effective date of the Task Order; (4) the expiration date of the Task Order; (5) the dollar amount of the Task Order; (6) the description of services to be performed.

In addition, if the individual who is to perform the described services is known, he is frequently identified in the description. To date, there have been fifteen Task Orders written pursuant to this contract.

NLISA has taken other steps, partially utilizing the Task Order method, in fulfilling its contractual obligations, which are, in part: "To provide expert technical services, counsel, and support in the development of savings and loan associations. . . ."¹⁹ In cooperation with IDB and AID, NLISA has sponsored three Inter-American Savings and Loan Conferences: the Lima Conference of January, 1963 (also known as the First I-A S&L Conference), the Santiago Conference of January, 1964 (also known as the Second I-A S&L Conference), and the Quito Con-

14. 111 CONG. REC. 647 (1965).

15. Bradley, *Shortage of Experienced Technicians Impedes Overseas Savings & Loan Operations*, 18 NLISA JOURNAL 9 (1963).

16. NLISA, *Report on the International Program No. 1* (1964).

17. Dep't of State, Agency for International Development, Contract # csd-292.

18. Letter from Monica C. Bode, Agency for International Development, Washington, D.C., to Warren W. Koffler, Washington, D.C., including data, prepared at my request (Dec. 8, 1964) (hereinafter cited as the "Bode Letter.")

19. *Ibid.*

ference of March, 1965 (also known as the Third I-A S&L Conference).²⁰ At the conclusion of the Third Conference at Quito, plans were made, pursuant to the adoption of a resolution by the delegates to the Conference, for holding a Fourth Inter-American Savings and Loan Conference at Caracas, Venezuela, during the Spring of 1966.²¹

In May of 1964, NLISA was the sole sponsor of the Latin American Savings and Loan Seminar, which was held in New York City. This meeting was a unique gathering which brought together the thirty senior savings and loan executives who had led technical assistance missions in Latin America. In addition, eight Latin Americans who were currently active as supervisors of their own operating savings and loan systems developed by these same missions were invited to the meeting. Other delegates included several officials from both AID and IDB. The purpose of this gathering was to attempt to appraise the work that had been accomplished thus far in Latin America, and to provide guidelines for future activities in this and other areas of the world.²² The meeting represented the first organized effort that had been made to bring together all at one time most of the individuals who had actively participated in the development of the savings and loan systems of Latin America.

In March of 1965, AID entered into a contract with the American Savings and Loan Institute, an educational foundation sponsored by the United States Savings and Loan League, to provide a review and evaluation of the educational needs of the rapidly growing savings and loan systems in Latin America.²³ Initially, two consultants from the Institute are visiting Argentina, Brazil, Chile, Ecuador, El Salvador, Peru and Venezuela. The objective of the program is to provide an assessment of existing skills and abilities, in order to make recommendations for placing savings and loan education on a more formalized basis in Latin America.²⁴

On November 12, 1964, a group of Latin American Savings & Loan²⁵ Officials met at Caracas, Venezuela, to form the Inter-American Savings & Loan Union. The Union, as established, will function as a multi-national trade association, and will attempt to focus upon the numerous problems which are common to all of the new Latin American savings & loan associations.

20. *Banco Interamericano de Desarrollo*, "Primera Reunion Interamericana Sobre Ahorros y Prestamos," Lima, Peru, Enero de 1963 (1964); "Informe Preliminar de Segunda Reunion Interamericana de Ahorros y Prestamos," Santiago de Chile, Enero de 1964 (1964) (hereinafter cited as "Segunda Reunion"); NLISA, *Savings & Loan International Newsletter*, No. 1 (December 1964).

21. Telephone conversation with Thomas Bradley, International Program Director of the NLISA, at Washington, D.C. (Apr. 12, 1965).

22. Seminar, *passim*.

23. *Dep't of State Press Release*, P.R. No. A-65-20 (Mar. 15, 1965).

24. *Ibid*.

25. NLISA, *Savings & Loan International Newsletter*, No. 1 (Dec. 1964) and No. 2 (Jan. 1965).

Early in 1965, the Union held its first general membership meeting at Quito, Ecuador. At that time, its membership represented more than thirty individual institutions throughout Latin America. The meeting selected Santiago, Chile, as the permanent headquarters for the Union, and selected directors and officers for the new trade association.

Considering its broad membership and strong economic base, the Union would seem to represent a potentially significant source of industry position.

A. *Chile*

With the oldest, the largest, and the most financially sophisticated free savings and loan system on the Southern Continent, Chile represents the pilot program for the entire savings and loan technical assistance effort in Latin America.²⁶ Since its creation in 1960, the Caja Central de Ahorros y Prestamos, which is the Chilean equivalent of the Federal Home Loan Bank Board in the United States, has chartered twenty-two savings and loan associations.²⁷ They in turn, currently represent some 86,443 savings accounts, valued at E-75,605,000, or 25,202,000 dollars (E-3 equals \$1.00). To date, these associations have financed some 14,301 homes, with recorded mortgage values of E-142,603,000 or 47,534,000 dollars. The average monthly income of the persons to whom the loans were made was about E-600, or 190 dollars. The average home financed was valued at E-12,460 or 4,150 dollars. Interest on the 97 percent loan ran between 4.5 and 7.0 percent, subject to readjustment of "cuota." From these figures it is clear that in less than four years Chile has developed a most successful savings and loan system.²⁸ Technical assistance experts are currently scrutinizing their experiences in Chile to determine the factor, or factors, which led to this rapid achievement substantially ahead of program-goal projection dates.

Early in 1958, ICA sent the Courshon-Krooth Mission to Chile to help the government in establishing a savings and loan system. Part of the draft legislation suggested by Mr. Krooth was enacted by the Chilean Government in 1959. These enactments led to the creation of the Adjustable Savings Division of the Chilean Government Bank. The funds collected in this division were made available to the Government Building Corporation, which constructed homes and executed long-term mortgages upon reasonable terms and conditions. These long-term mortgages were

26. NLISA, *Savings & Loan Progress Report No. 14* (Aug. 31, 1964); Departamento de Planificación y Estudios, Caja Central de Ahorros y Prestamos, Santiago de Chile, *Informativo Estadístico Mensual No. 29* (Sept. 1964) (hereinafter cited as "Estadístico de Chile").

27. Decreto Fuerze de Ley No 205 de 5 de abril 1960 (Chile); Decreto Hacienda No 11429 de 30 de Septiembre 1960 (que reglamenta et DFL 205) (Chile); Decreto Hacienda No 1020 de 9 de mayo 1960 (que reglamenta el impuesto del 5% sobre utilidades) (Chile); for details concerning the operation of this legislation, see also, *Disposiciones Legales Que Rigen Su Existencia y Funcionamiento*, Editorial Juridica de Chile, for the Caja Central de A. y P., Inscripción No 23982, (Santiago de Chile 1961).

28. NLISA, *Savings & Loan Progress Report No. 19* (Jan. 31, 1965); Estadístico de Chile 22.

the first in Latin America to contain an "inflation adjustment clause"; known in Chile as a "cuota."²⁹ Subsequently, Mr. Courshon, the other member of the 1958 Courshon-Krooth Mission, made two additional trips to Chile in 1960 and in 1962. In addition, he proposed that an experienced operational expert be brought to Chile for a relatively long residency assistance program. Shortly thereafter, an experienced middle management savings and loan technician took up a two year residence in Santiago. In the opinion of many well respected technical assistance experts in this field, this single factor, the resident attention of a well trained middle management technician, familiar with the day to day operational aspects of the business, in contrast to the higher level planning areas of the industry, may well be the catalyst in making Chile's savings and loan system as successful as it is today.³⁰

The Caja Central de A. y P. was created by Executive Decree D.F.L. No. 205 in April of 1960. In addition to its supervisory functions, the Caja Central acts as:³¹

- (1) guarantor of deposits; (2) guarantor of approved credits; and (3) executor of system rediscount functions.

The Central Bank is also the designated recipient of development loan funds and technical assistance grants directed to the nation's savings and loan system. In June of 1962, it was the recipient of a 2.7 million dollar seed capital loan by IDB, from the SPTF, for twenty-seven years duration. These funds were conditioned upon their re-loan by members of the system at no more than six percent, for terms of up to twenty-five years.³² In 1964, Caja Central received an additional seed capital loan of 8.7 million dollars from AID,³³ and a 5 million dollar seed loan from IDB.³⁴

There is little doubt among the savings and loan experts that have been active in the technical assistance program in Latin America, that Chile's progressive and advanced system is going to play an increasingly important role in the nation's financial future.

B. *Bolivia*

Two mutual savings and loan associations, "La Primera" and "Mi Casa," have been chartered in La Paz, pursuant to the enactment of legis-

29. 1963 Hearings at 94; Seminar at 15-16.

30. 1963 Hearings at 58; Inter-American Development Bank, Social Progress Trust Fund, *First Annual Report* 24 (1962) (hereinafter cited as "First Report").

31. Inter-American Development Bank, Social Progress Trust Fund, *Third Annual Report* 105, 182 (1964) (hereinafter cited as "Third Report").

32. *Id.* at 48.

33. Inter-American Development Bank, Social Progress Trust Fund, *Fourth Annual Report* 225 (1965) (hereinafter cited as "Fourth Report"); in consideration of the loan, the Caja Central agreed to develop the secondary mortgage market, and to sell not less than five million dollars worth of mortgages on that market by September of 1965.

34. *Id.* at 24.

lation proposed by an IDB-SPTF technical assistance mission which visited the country. The enabling act was promulgated by a Supreme Decree of September, 1963.³⁵ Whether these two associations are still in existence following the latest change of the Bolivian Government, is subject to some uncertainty. This article assumes their continuation. The decree which chartered these associations incorporates the language of the Supreme Decree and provides for detailed supervisory examinations and procedures by the Banco Central.³⁶

Bolivia currently has an urban housing deficit which exceeds 100,000 units. This figure has continued to increase despite two legislative attempts by the government to induce new residential construction. In 1954, the Urban Reform Law granted some eight thousand city lots to workers who indicated that they would use them to build homes. However, few, if any, houses were built because no method of construction financing accompanied the grant of the real property to the workers. The Reform Law of 1956 provided for a fifty percent subsidy for workers who would construct homes, plus a payroll tax deduction for the cost of construction. Again, this effort proved unsuccessful and did not essentially aid the housing problem.³⁷ Thus, the government sought the aid of the IDB in solving this problem. In 1963, IDB sent a SPTF technical assistance mission to La Paz to assist the local authorities in drafting a savings and loan act. Concurrently, in March of 1963, a 150,000 dollar technical assistance grant was made to the Corporacion Boliviana de Formento, by IDB, for SPTF, with directions that a portion of it was to be used in the development of a savings and loan system. Shortly thereafter, in June of 1963, IDB made a 4 million dollar SPTF development loan to Bolivia, and provided that one hundred of the homes to be built were to be financed by savings and loan associations to be created by the new system.³⁸ These three coordinated events represent the exceptionally well managed IDB approach to technical assistance in this field.

While the Bolivian system is clearly a free savings system, some of the operational techniques required by the supervisory regulations reflect the influence of contract savings philosophy. For example, before an association can grant a mortgage to an otherwise qualified applicant, he must have "qualified" by having maintained a minimum balance of at least 50 dollars for no less than one year.³⁹ This creates a significant problem for the associations, because 50 dollars, or 600 Bolivian Pesos, represents a very substantial sum to the average Boliviano, a sum difficult to save

35. Segunda Reunion at 82; final enactment of legislation confirmed by telephone conversation with First Acting Minister, Bolivian Embassy, Washington, D.C. (Dec. 11, 1964); Third Report at 157.

36. *Ibid.*

37. *Id.* at 151, 152, 157.

38. *Id.* at 55, 157.

39. Equal to 600,000 of the "withdrawn" Bolivianos, which still enjoy mass circulation in Bolivia.

for one year. Thus, serious thought is being given to revision of this provision because it has retarded the growth of the system.

C. Guatemala

Like several of the other Central American countries, Guatemala has had savings and loan type institutions for many years. Prior to the creation of the Institute to Promote Insured Mortgages (IFA), in 1961, all of the existing associations were operated on a contract savings basis.⁴⁰ With the creation of the Institute, the Savings and Loan Law was amended to incorporate a mortgage insurance system similar to the FHA system in the United States. At the same time, IDB earmarked a 2.2 million dollar SPTF loan to the government to provide one-half the initial capitalization of the Fund of Mutual Savings and Loan Associations.⁴¹

Currently, three stock company savings and loan associations are providing free savings and loan services to Guatemala. Those companies, that were previously operated under the contract savings system, have converted to the free savings method of operation. Together, these three institutions have total assets of 18.5 million dollars. They have succeeded in attracting more than 45,604 savers, who have deposited some 7.75 million dollars in their coffers. In less than three years time, they have financed better than 2,700 new homes, with a total value of recorded mortgages in excess of 7.8 million dollars.⁴² The true significance of these accomplishments are well illustrated by their comparison with the accomplishments of the strongest of the Latin American savings and loan systems in Chile:⁴³

(in 000's)	1962 GNP	Number of Savers	Net Savings	Mortgages Recorded	New Homes
CHILE	\$2.63 bill.	86,443	\$25.2	\$47.5	14,301
GUATEMALA	\$6.9 mill.	45,604	\$ 7.7	\$17.6	2,763

Thus, Guatemala, with a Gross National Product equal to only one-fourth the GNP of Chile, has attracted almost one-third the total savings deposits, and has made loans in the same ratio.

D. Peru

The nineteen savings and loan associations operating in Peru are under the supervision and control of the National Housing Bank.⁴⁴ The Bank, which was chartered in November of 1962, is unique in the multiplicity of functions it performs. These include:⁴⁵

40. Seminar at 40-44.

41. Fourth Report at 334.

42. NLISA, *Savings & Loan Progress Report No. 18* (Dec. 1964).

43. NLISA, *Savings & Loan International Newsletter, No. 1* (Dec. 1964).

44. Decree Law No. 14,241 (Nov. 29, 1962 Peru).

45. Fourth Report at 458.

(a) promotion of the savings and loan system; (b) supervision of savings and loan associations; and (c) operation of savings and loan facilities in those communities which lack any association service.

Prior to the incorporation of the National Housing Bank, the Government of Peru provided matching funds for a 7.5 million dollar AID seed capital loan, for the creation of the 15 million dollars initial capitalization of the Bank.⁴⁶ Presently, the nineteen associations have garnered combined total assets of 26.1 million dollars. They have attracted some 52,658 savers, who have deposited more than 15.6 million dollars, or S/406.6 million, in these thrift and home financing institutions. By the end of 1964, these associations had some 6,000 mortgage loans, amounting to some one-half billion soles or almost 18 million dollars. When compared with the data for 1961, when the system had a total of 7,711 savers, with some S/42.7 million in deposits, and a total of 423 mortgage loans, the substantial growth of the system becomes obvious.⁴⁷

E. *Brazil*

Brazil is unique, whether measured by size, population, or by its politics. In recognition of this fact, it is being served by a series of technical assistance programs designed to create a savings and loan system in Brazil which differs from those utilized in any of the other Latin American Republics. The vast size and limited communication facilities of this nation, plus the relative weakness of its central government and the relative strength of certain of its state governments, pointed to the benefit of initially establishing savings and loan systems in several of these states, with the goal of eventual unification into a federal system; this would re-enact the history of the United States system.⁴⁸

The need for additional housing in Brazil is acute. The current urban deficit exceeds eight million units. The current population is in excess of eighty million people. However, the relative insignificance of the current population becomes apparent when contrasted with the fact that a child is born in Brazil every ten seconds, and that this results in an annual population increase of three and one-half percent. Based upon these statistics, the Government has determined that to merely meet the housing deficit created by each new birth, it would be necessary to build one new house every two minutes.⁴⁹ While the savings and loan system is neither designed nor equipped to meet the totality of this problem, there is an honest necessity for its early implementation to meet even a minute portion of this growing massive deficit.

46. *Ibid.*

47. *Op. cit. supra* note 43.

48. Seminar at 59.

49. Third Report at 65; Brazilian Government Trade Bureau, *Brazilian Bulletin*, vol. XX, no. 457, at 1 (Dec. 1, 1964).

In 1962, Brazil received its initial technical assistance in the development of a savings and loan system. At that time, as part of a 3.8 million dollar SPTF loan to the Banco do Nordeste do Brasil, S.A., to be administered by the Servicio Social Contra o Mocambo, IDB earmarked 100,000 dollars to be used by the Servicio to retain experts for the creation of a mutual savings and loan system.⁵⁰ Subsequently, in 1964, AID sent the Glikborg Mission to Brazil to conduct a feasibility study. In view of the gigantic inflation of the cruzeiro, the mission immediately informed the federal monetary authorities, represented by SUMOC,⁵¹ of the absolute necessity for Brazil to adopt the savings and mortgage readjustment clause if any savings and loan system was to succeed. The Director General of SUMOC rejected this proposal, pointing to the illegality of any type of monetary readjustment provision, because of the so called "gold clause" of the Brazilian Constitution. When the Glikborg Mission presented three hundred of SUMOC's own contracts containing a substantially identical provision, the financial executives remained unimpressed. Thus ended any attempt whatever to deal with the federal government of Brazil, who had requested the mission be sent. Subsequently, invitations were received from six state governments. Limited funds and time required that the feasibility study be limited to a single state. The State of Guanbara was selected.⁵²

In the State of Guanbara, the state government has created an entity which they claim to be uniquely Brazilian; a "mixed corporation," in which 51 percent of the stock is owned by the State, while 49 percent is owned by undisclosed private citizens. This corporation, known as COHAB, is developing residential housing, which it sells on a real estate sales contract which includes a variable price clause. Thus, under the Brazilian Constitution, as viewed by SUMOC, the State of Guanabara is acting illegally. In addition, subsequent to the departure of the Glikborg Mission, the State passed legislation for the issuance of a State Bond, which contrary to the advice of the Mission, is most similar to the contract savings plan. The bond requires a one hundred month term, and includes the mortgage payment readjustment feature. In addition, it has a lottery superimposed on this already unusual variation, and is thus, as one might expect, strictly Brazilian.⁵³ A second Glikborg Mission has returned from Brazil, where they performed a technical assistance project calling for the study, evaluation, and aid in the suggestion of recommendations to the Coixa Economica (savings bank) in the State of Minas Gerais.⁵⁴

Recently, a significant change has occurred in the Federal Govern-

50. First Report at 21; Bode Letter, *supra* note 18.

51. Seminar at 59; Superintendency of Currency and Credit of Brazil is SUMOC.

52. Seminar at 59, 60.

53. *Id.* at 60-61.

54. Bode Letter, *supra* note 18, indicates Mission Report is not ready for release.

ment's position concerning the development of a national system of thrift and home financing institutions. By the passage of the National Housing Plan, in August of 1964,⁵⁵ and the Banking Reform Law in December of 1964,⁵⁶ the National Congress gave the Federal Government significant new authority to act in the housing sector. It is authorized to act through a newly created National Housing Bank, the Federal Savings Banks, and regional mixed companies, among other institutions. Provisions are made in the law for price adjustments, or a "quota" system, for the sale or construction of houses. The amount of the "quota" is to be determined by SUMOC. Financial resources will be derived from the Federal Savings Banks, among other institutions. The National Housing Bank, which was created by law as an autonomous agency under the Ministry of Finance with an initial capital stock of one billion cruzeiros, is the coordinating agency responsible for implementation of the National Housing Plan. The National Treasury is authorized to guarantee the Bank's borrowing up to the total amount of its capitalization. Building contractors will be granted special mortgage notes with "quota" clauses as a protection against inflation.⁵⁷ To date, one savings and loan association has been established under the new legislation.⁵⁸

F. Colombia

This country, with expanding urban population centers which house increasing numbers of its rapidly expanding middle class, could easily support an extensive system of savings and loan associations. To date, no savings and loan system has been established. The National Congress has twice failed to act upon proposed enabling legislation.⁵⁹ The prospect for enactment of this legislation within the foreseeable future appears to be quite dim.

In 1961, the Campos del Torro Mission drafted suggested enabling legislation establishing a Caja Central, and it was presented to Congress. Concurrently, AID allocated 5 million dollars as a seed capital loan for the proposed system. After the legislature failed to act, the commitment was extended through 1964 upon the advice of the then AID Mission Director in Bogota, who had received assurances from the government that action upon the pending legislative program was imminent. Subsequently, upon the failure the Colombian Government to approve the legislation during 1964, the allocation was withdrawn.⁶⁰

55. Law No. 4380, Diario Oficial (Sept. 11, 1964 Brazil).

56. Fourth Report at 192.

57. *Ibid.*

58. *Op. cit. supra* note 21.

59. *Op. cit. supra* note 31; Third Report at 199.

60. Inter-American Development Bank, Social Progress Trust Fund, *Second Annual Report*, 134 (1963) (hereinafter cited as "Second Report") (enacted in 1965).

G. *Paraguay*

No savings and loan system exists in this essentially rural and land-locked country. A single institution, Corporacion Asuncena, S.A., was created as a savings and loan type of stock company in 1957. To date, its savings and loan activities have been very slight.⁶¹

In 1962, Paraguay created the Instituto Paraguayo de la Vivienda, by Law No. 759. One of its "stated" purposes is to study the possibilities of a savings and loan system in the country. Shortly after its creation, an IDB mission arrived in Asuncion to engage in an initial interchange as to such technical assistance as might be needed or desired by the government. No public report has resulted from that mission's discussion with Paraguayan officials.⁶²

H. *Uruguay*

Government officials in Montivideo have made several attempts to establish a savings and loan system in Uruguay. However, with the contract savings system, imported from neighboring Argentina, in full scale operation, little support for these efforts has come from the nation's financial interests.⁶³ In 1961, the government issued a decree in support of the concept of establishing a central savings and loan system for free savings investment.⁶⁴ Subsequently, in 1962, IDB loaned the government 100,000 dollars for technical assistance in the establishment of such a savings and loan system.⁶⁵

The efforts of the government were rewarded with the establishment of three savings and loan stock companies during 1962 and 1963. Unfortunately, these companies were chartered under the old stock company banking laws, rather than a modern savings and loan system act; which the Congress had refused to act upon. Thus, due to the omnibus nature of the older legislation, they were permitted to engage in both free and contract savings activities. The result has been to increase the number of contract savings companies, with very little effect upon the development of free savings institutions in Uruguay.⁶⁶

I. *Argentina*

The Argentina Republic has not adopted the savings and loan system of "free savings,"⁶⁷ which United States technical assistance missions

61. Third Report at 105, 341.

62. Third Report at 105; Bode Letter, *supra* note 18.

63. Third Report at 105.

64. First Report at 203.

65. Second Report at 71.

66. Third Report at 365.

67. The "free savings" concept seeks to attract an investor by offering him a potential profit, in the form of dividends or interest, upon his savings, and not by any actual or suggested preference he might enjoy in obtaining a home loan from the institution.

have attempted to introduce in this country and the rest of Latin America. Instead, it has become the prime proponent in the Western Hemisphere for the "contract savings"⁶⁸ system, which has proven operationally successful in Germany.⁶⁹ Based upon sincere assurances that free savings legislation would be enacted shortly, AID committed 12.5 million dollars as a seed capital development loan for such a system in 1963. This commitment followed the completion of two technical assistance contracts intended to provide the Government of Argentina, who had requested such assistance, with know-how in the establishment of a savings and loan system, to be regulated by an independent agency of the federal government. To date, several changes in the federal government's leadership subsequent to the 1963 Mission, have retarded enactment of the requisite enabling legislation.⁷⁰ The proposed bills have been placed upon the agenda of the federal congress for 1965. The pending expiration of the current and continuing AID loan commitment has given impetus to an early review of this legislation and increased its chances of successful enactment.

In 1961, the Kreutz-Adams Mission was sent to Argentina by ICA. Its task was to examine the existing thrift and home financing situation, and to assist the federal government in drafting legislation for a savings and loan system based upon the acquisition of free savings, as well as legislation and regulations necessary to create and administer such a system by an independent regulatory agency. The report of that Mission clearly revealed the very real and immediate need for home financing legislation in Argentina. They point out in their report to ICA, that this country, unlike any other country in Latin America, has a very large existing middle class which could easily afford home ownership if the financial facilities for long-term mortgage credits were available. They suggest the immediate enactment of the requisite legislation.⁷¹

Traditionally, long-term-term mortgage financing in the Argentine, as in many other Spanish American Republics, was conducted by and through the sale of cédulas (mortgage bonds) of the National Mortgage Bank. For more than a century, this system, while neither economical nor efficient, enjoyed the respect, support, and confidence of the mass of Argentinos; the latter being a virtue which current Argentine economic history suggests ought not to be quickly discarded. Subsequently, during the regime of Juan Peron, the discount window at the Central Bank was

68. The "contract savings" concept seeks to attract the investment of a prospective borrower, by limiting the institutions loans to those who entered into an investment contract with the Association. Thus, to borrow you must invest. However, since all investors are prospective borrowers, and the loan funds are limited to the investment pool, there are inadequate funds to satisfy the resulting demand.

69. Seminar at 10; Segunda Reunion at 28.

70. Seminar at 10; 1963 Hearings at 111.

71. 1963 Hearings at 111, 114.

opened to bond holders for the liquidation of cedulas. This abortive attempt to create increased peso liquidity was vastly inflationary, and eventually resulted in almost total loss of confidence in the mortgage market. As a result, long-term financing became non-existent.⁷²

When the Kreutz-Adams Report suggested the commencement of a free savings system, wherein the investments were to be utilized to finance residential mortgages, many viewed this as simply an attempt to revive indirectly the same system which had been discarded after the fall of Peron, by utilization of the association entity as a front. The suggestion was thus received with a significant degree of apathy. To the contrary however, the portion of the report dealing with the need for mortgage financing facilities, as such, was enthusiastically received by the mass middle class. At the same point in time, many Argentinos of German extraction were greatly impressed with the contract savings system which they correctly learned was enjoying great success in Germany.⁷³ Given these factors, it becomes somewhat less difficult to comprehend the rapid growth of the contract savings system in the shadow of the continuing efforts of United States technical assistance missions continually working for the establishment of free savings institutions.

Decree Law No. 11,179 was enacted by the Federal Congress in October of 1962. It created the Caja Federal Para Las Entidades de Ahorro y Prestamos, to promote and supervise the establishment and regulation of savings and loan associations. The Caja Federal, reporting to the Minister of Economy, is assisted in its functions by its operational sub-unit, the Superintendencia de Ahorro y Prestamos.⁷⁴ This law, Decree 11,179, was very broadly drawn, and provided for, among other things, the creation of either free and/or contract savings and loan associations by federal charter. In addition, it permitted interested applicant groups, after registering their intentions to form an association, to solicit funds from investors and contract savers in order to meet their initial minimum subscription requirements for their charter. By January of 1963, 110 applicant groups had registered; none had qualified for a charter. Later that month, the Minister of Economy announced that February 1, 1963, was the deadline for completion of organizational arrangements; while this deadline was later advanced, it had a decidedly settling effect upon the growth of new registrants. Following the announcement, field audits and office examinations were conducted to determine the qualifications of the applicant groups. By May of 1964, thirty-four associations, all contract savings companies, were chartered, while sixty-six groups were deemed unqualified.⁷⁵ In 1963, AID sent the Kreutz Mission back to Argentina to assist the government in meeting the prerequisites for a

72. 1963 Hearings at 113, 115.

73. Seminar at 26; *Durvauran*, "Argentina Adopts the S. & L. Idea," 19 *NLISA JOURNAL* 26-27 (1964).

74. 1963 Hearings at 163; Third Report at 105; *Durvauran*, *supra* note 73.

75. Seminar at 10; 1963 Hearings at 163; *Durvauran*, *supra* note 73.

12.5 million dollar seed capital loan which had previously been committed. Once again, suggested decrees and legislation were drafted with and for the federal government;⁷⁶ this legislation currently awaits possible legislative action in 1965.

Argentine financial experts do not believe that United States foreign assistance officials have been entirely objective in rejecting the contract savings system on its face, as the basis for a seed capital loan. They point out the success the system has enjoyed:⁷⁷

1) Number of Associations	54 (34 approved)
2) Number of Contracts (saving)	205,931
3) Number of Homes Financed	8,895
4) Volume of Gross Saving	44,902,000 dollars
5) Mortgages Recorded	37,730,000 dollars
6) Average Sales Price(home)	6,440 dollars

Those who work with and for AID maintain that the contract system is actuarially unsound in Argentina's inflationary economy.⁷⁸ It is, however, upon this very point, that Argentina's financial community make their stand for contract savings. They point out the impossibility of capturing free savings at a rate of return reasonably related to the making of economical home mortgages. As an example, they proffer the advertisements of the Bank of London and South America, S.A., and the First National Bank of Boston's office in B.A., offering a return of from 18 to 24 percent per annum upon regular savings accounts. Thus, they do not compete for the free savings funds of the potential investor, but rather seek the savings of the potential borrower, who is attracted by a contract which promises the eventual loan which he is seeking.⁷⁹ To this argument, our foreign aid experts have countered by suggesting the adoption of the savings and mortgage readjustment clause, as operative in Chile, and the creation of a secondary mortgage market. Our experts firmly believe that any system which acquires its capital solely from future borrowers cannot hope to even dent the vast housing deficit that exists today. Thus, since the entire purpose of a seed capital loan is to create a system of institutions that will begin to meet this very need, the contract savings and loan association method has been deemed unsuited for technical assistance, or seed capital development loans, by both AID and IDB, as related to SPTF activities.⁸⁰

IV. THE NEXT STEP

Establishing a viable savings and loan system in a developing nation is the first step of this technical assistance program, which is dedicated

76. 1963 Hearings at 111, 114.

77. As of May 1964; *Durvavran, supra* note 73.

78. *Segunda Reunion* at 28.

79. *Durvavran, supra* note 73.

80. 1963 Hearings at 165; *Estadístico de Chile, supra*; *Segunda Reunion* at 28.

to the eventual involvement of these systems into a meaningful financial force in Latin America.⁸¹ Each of the currently operating systems have a common problem requiring immediate assistance in both its immediate and long-term solution; expansion of the limited credits available for mortgage lending.⁸² The solution to this problem may well fall within the several areas currently under active consideration and discussion. These include:⁸³ 1) secondary mortgage market, creation and/or expansion; 2) retrieval of escaping domestic savings; and 3) establishment of an International Home Loan Bank.

Limited secondary mortgage markets already exist in each of the nations with operative savings and loan systems. They are presently limited however, to transactions between the individual associations and their central banking institution. Each association now discounts, or sells, its mortgages to the central bank at a 2 to 1, or 3 to 1, ratio, or even at Ecuador's 6 to 1 ratio. These rates, however, are artificially high, and are possible only because of the currently outstanding seed capital loan funds; the funds, and thus the rates, cannot last much longer.⁸⁴ There are available today in Latin America those institutions necessary to form the basis of a successful secondary mortgage market institution. They include insurance companies, utility companies, etc. Each of these institutions has the purchasing power to potentially subscribe to the large volume of mortgages generated by savings and loan associations. Similarly, many wealthy individuals, whose capital is currently leaving Latin America for relatively low yield investments in Geneva and New York, are potential purchasers of association mortgages.⁸⁵ One important factor has prevented all of these potential customers from participating in the secondary market that must exist if the savings and loan associations already established are to continue to grow and enjoy success. Inflation detracts from the security of a fixed price mortgage bond. Chile developed the solution to this problem; adoption of a readjustment clause.⁸⁶ A guaranteed return of from six to eight percent, secured by real property, will then make an association mortgage an attractive and conservative investment. While the "cuota" is politically unpopular, for no one likes to see their expenses rise, the necessity of this provision has become increasingly apparent to savings and loan officials who are meeting only very limited success in their current marketing efforts on the open secondary mortgage market.⁸⁷ Thus, while the concept of a secured first mortgage upon real property is attractive, a legal instrument must be

81. Bradley, S. & L. and *Private Enterprise Show Results Aiding Overseas Housing*, 19 NLISA JOURNAL 24-25 (January 1964).

82. 110 CONG. REC. 12 (1964).

83. *Segunda Reunion* at 64, 26.

84. *Id.* at 26.

85. *Ibid.*

86. *Estadístico de Chile*, Cuadro No. 22, at 21.

87. *Segunda Reunion* at 26.

created which embodies this concept into a non-inflationary and secure investment, if the merchandise is to prove marketable.⁸⁸

V. THE FUTURE

The future of the savings and loan system in Latin America is truly unlimited. In the United States, savings and loan associations hold about 45 percent of all single family residential mortgages. While this is not an insignificant accomplishment, it took our domestic industry 130 years to achieve their current position. With a continuation of the current growth of the systems developing in Latin America, it is conservatively estimated that they should reach and exceed United States growth figures within this decade. Reasonable current predictions estimate that by 1975, these associations should hold at least 70 percent of all one family non-farm mortgages in each system country. Within ten years, there may well be at least five hundred association offices, operating in fifteen countries of Latin America. These facilities will be financing some nine hundred thousand to one million residential units per year with total mortgage commitments exceeding four billion dollars annually (average mortgage of four thousand dollars). With current average total savings deposits doubling every six months, it is estimated that total savings, by the mid-1970's, should amount to between fifteen and eighteen billion dollars. With mortgage repayments alone exceeding one and one-half billion dollars annually, less than ten percent of total association finances should have to come from non-system sources.⁸⁹

The present success and future potential of the savings and loan systems of Latin America are a continuing example of a soundly conceived, well planned, and carefully executed foreign assistance program.

88. *Id.* at 28.

89. *Id.* at 24-29.