DISCUSSION PAPER

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CONTRACTUAL SAVINGS SCHEMES FOR HOUSING:
International Comparisons and Applications
to Developing Countries

by
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The views presented herein are those of the author(s), and they should not be interpreted as reflecting those of the World Bank.
ABSTRACT

Contractual savings schemes are frequently mentioned as desirable instruments for the mobilization of financial savings for housing but comparative data about the characteristics of this special form of mutual saving deposits are scarce. Even more scarce are analyses of the conditions for successful use of such instruments. The objective of this paper is to contribute to filling such a gap. It describes the savings phase and credit phase of such schemes and offers evaluations of their impacts on households entering into these contracts, on the financial institutions offering them, and on the national financial system within which they are expected to operate. Country specific data are presented in annexes.
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Contractual savings schemes for housing (HCSS) represents a special form of mutual credit which has been extensively used in Continental Europe and particularly in Germany, Austria and France. In recent years these HCSS have been frequently mentioned as an excellent approach to household savings mobilization and as self selection device for potential borrowers in developing countries. However, there is a broad gap between statements of principle regarding the potential usefulness of an HCSS and its successful implementation in the financial environment of a given country.

The present discussion paper is the English translation of a paper originally written in French by Mr. Michel Chretien under a consultant's contract with WUD. The objective was to present systematic comparative data on the types of contract actually used in various countries for which data were available to WUD and to determine more clearly the conditions of success for HCSS programs. This paper is circulated for the convenience of those who should like to get better acquainted with this kind of saving mobilization instruments. It is circulated in its present form to avoid delays. However, the reader should be aware of two limitations of the document in its present form: first, the translation could not be verified by the author and there may be differences with the French original; second, the present version deals mostly with the qualitative aspects of HCSS instruments and limited use of the comparative data is made. As usual, the author bears sole responsibility for the contents and specific data in this paper.

The original English terms of reference are provided at the end of this paper. Further quantitative analyses are under active consideration.

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INTRODUCTION

Housing financing is a relatively recent concern of developing country governments. However, while many countries still assimilate this problem to that of budget capacity to finance "turnkey" housing programs, others have come to realize that savings "reserves" exist within their populations and that it makes good sense to mobilize them for housing finance.

One course sometimes followed is to seek an effective instrument, even a "successful model," among countries implicitly considered to represent good institutional references.

The most eloquent example is that of contractual housing savings schemes, which some developing countries have managed to introduce by mechanical imitation. This appropriation -- sometimes completely unchanged -- of processes developed in other countries with totally different socioeconomic, financial and cultural characteristics has given rise to a twofold confusion:

- the concept of a general housing finance system has been taken to be synonymous with only one of its components: the housing savings subsystem;

- the latter has been reduced to a mere "technique," i.e. a set of financial procedures with a built-in logic which is assumed to be independent of its environment.

In the present paper it is proposed to analyze these two points in turn. We shall endeavor to place contractual housing savings in its true context: the aggregate setting represented by the urban and finance sectors, particularly in the developing countries.

To do this we shall first review the underlying concepts of housing savings systems and then go on to rate the characteristics of the various national schemes.

We shall comment on the characteristics of these subsystems in a number of countries, including the Federal Republic of Germany and France but also Tunisia, India and Cameroon, in order to derive conclusions utilizable by other developing countries.

We shall endeavor also to identify the constraints inherent in a housing savings system in order to assess the nature and impact of the internal and external factors that determine its success or failure.

We propose to adopt the following scheme.
1. Finance systems and developing countries:
   Nature and possible forms of a housing finance system. The role of history and economics in determining them. Characteristics of the urban sector in the developing countries.

2. The contractual housing savings system:
   Types of loans and categories of subscribers. The saving phase. The credit phase.

3. The impact of the system on households:
   Characteristics of deposits and depositors. Tailoring of savings instruments to needs. Flexibility measures.

4. The impact of the system on the financial institution:
   The liquidity risk; the operating risk; the default risk. Management efficiency and development strategy.

5. The impact on the housing finance and national savings mobilization systems:
   The need for supplemental loans. Dependence on state assistance. Net savings. Tailoring to actual conditions on the housing market.

Finally, we shall comment on the system's viability requirements and discuss alternative ways of mobilizing household savings.
1. THE HOUSING FINANCE SYSTEM AND DEVELOPING COUNTRIES

It is proposed in this chapter to define what a housing finance system is and describe the forms it can take in individual countries and over history.

We shall then review the principal socioeconomic characteristics of the finance sector and the urban sector in the developing countries in order to evaluate how well they are adjusted to each other.

1.1 Housing finance is more than just real-estate lending

A housing financing system is by its very nature located at the meeting point of the finance sector (UPSTREAM) and the housing sector (DOWNSTREAM). It belongs simultaneously to both sectors and therefore, in order to be viable and in proper balance, must be tailored structurally to each.

Whatever the details of the scheme applied, the granting of a housing loan is only the last stage, the most "politically" visible -- but perhaps the simplest -- stage, in an entire process, the first phase of which was the mobilization of the savings. This means that an analysis of a housing finance system must necessarily integrate, upstream, the concepts of private, public, institutional and international savings, the forms in which they occur and the ways in which they are captured.

After these resources have been mobilized on the local "financial market" -- formal or informal, sophisticated or rudimentary, organized or embryonic -- they are channeled, managed and then redistributed (in whole or in part) to the housing sector.

Housing finance is thus much more than a mere "technique": restored to its macroeconomic setting it is a subsector, intermediate between the finance sector and the urban sector. This renders it doubly sensitive to any blockage factor arising in either of these two sectors.

In developing countries the situation of the housing finance subsector is particularly precarious because it faces a constant dilemma:

- On the resource mobilization side, it must be able to compete on the capital market with the other sectors, which are also looking for funds to finance their investments. This constraint imposes a series of requirements, two of which are particularly important:

(a) the financial schemes and instruments offered must be sufficiently attractive to holders of "saved money" (the financial factor being only one of a complex set of motivations);
(b). the government, and more generally the monetary authorities, must avoid discriminating against this subsector on the excuse that it is less directly "productive";

- On the resource utilization side, it is in no way sufficient that a substantial need exist. It must also be possible for this demand to be met, to be expressed and to be channeled to the credit agency.

This means that, downstream of the institution, the resources will be used only on condition that the economic, institutional and legal structures of the urban sector permit their absorption.

This requirement entails a series of hypotheses. For an effective demand to exist, many institutional obstacles need to be eliminated, chief of which is access to land. For it to be met, action is necessary with respect to the share of income that can be allocated to housing, either prior to the housing investment (savings/ex ante savings rate) or subsequently (effort/ex post savings rate).

An institution's margin of action is thus limited to these latter two parameters.

In order to develop specific financial instruments, it can to some degree adapt its various procedures to national socioeconomic conditions. But the number of factors — upstream or downstream — that jeopardize the viability of the finance system and are beyond its control remains large.

1.2 Principal housing financing schemes

A global and structural analysis of the above kind shows that a system is characterized by the stages through which financial flows pass between savings capture and housing investment.

These flows are generated by a number of agents which operate financial instruments and interconnect to form a network.

These money flows vary in form from country to country according to the nature of the savings (private, public, institutional, external), their structure (particularly the public/private savings ratio), the juridical nature of the operators, the physical points of convergence or divergence, and so on.

To group these parameters into component elements of an inherent logic we have to lay special emphasis on certain criteria which are seen to be poles of reference of each of the systems.

The following are possible such criteria:

- the length of the financial intermediation network;

- the degree to which the network is specialized or, on the contrary, unspecialized (i.e. multiservice in nature);
interest rate policy as an instrument of resource allocation;

the nature of the housing savings subsystem (if there is one), and the role of the state in the particular system under consideration.

The first criterion -- the length of the intermediation network -- is undoubtedly the most interesting one in that it overlaps with other criteria. Intermediation can be simple or complex, short or long, depending on how sophisticated the network is.

The advantage of a short intermediation network lies in the control that the saver can exercise over the utilization of his savings: the borrower can be either himself or another person known to him. On the other hand, of course, the narrower the user group, the smaller the volume of savings the members represent; consequently, the borrower will have access to a loan only rarely or else in a ludicrously small amount.

Conversely, the longer and more complex the network grows, the more the statistical compensations will produce redistribution effects.

We can distinguish three broad categories of systems, ranging from the simplest to the most complex: direct financing (with little or no intermediation), primary indirect financing (with one intermediation stage), and secondary indirect financing (with more than one stage between saving and final loan).

1.2.1 Direct financing

This is the commonest case, at least in the developing countries. The only savings that can be converted into investment are ex ante savings: a person puts by a little at a time and builds his house in step with his income, with the cycle of harvests and dry seasons.

Ex ante savings are more difficult to accumulate than ex post savings, since the household is a priori young (and therefore has a low income) and is less motivated to save (being less subject to mandatory repayment pressures).

This behavior, although inefficient in economic terms, is explained by two motivating factors: (a) impossibility of obtaining bank credit (lack of a local network or of suitable facilities, irregular income, non-legal land tenure status, and so on) and/or (b) desire to hoard construction materials as a hedge against price increases.

In order to shorten the accumulation time (in cash or kind), the household broadens its sources of financing to include the entire family. In developing countries, where mutual assistance aid is (still) high, western observers have been astonished at how fast and efficiently resources can be mobilized in this way. During execution of urban projects in Africa it was observed that a large sum (a year's income, for example) for the purchase of a "legal" parcel of land could be mobilized over a very short period (three months).
This having been said, we cannot stop at this method, which has perhaps been effective only because the operations involved were also exceptional.

Direct financing can be widened to include the extended family (in rural cultures) but also the members of a revolving credit association (a tontine).

A tontine is defined as a voluntary financial association of persons who know each other well, in which each member pays in a predetermined sum at set intervals and the total accumulated is paid out, at each distribution meeting, to a different member.

Associations of this kind exist on all five continents; indeed, they appear to be growing in number and in procedural complexity. In Cameroon, for example, membership of new tontines in urban areas is based more on socio-occupational than tribal considerations (e.g. employees of a given service) and their purpose is increasingly economic and financial rather than mutualist and fraternal.

Let us note simply a number of interesting factors concerning this current trend:

- although informal in the legal sense, tontines adopt detailed statutes akin to those of commercial firms or legal associations;
- the amounts involved may be very high, particularly in tontines of merchants;
- the subscription quotas may be fixed but may also be optional;
- a "turn" (i.e. a payout entitlement) is sometimes allocated by auction, at rates which may be very high;
- mutualist, but also investment, funds are being increasingly grafted on to tontine activities in the strict sense.

Note that the immediate advantage of the tontine, at least in its elementary version, can only be the reciprocal moral constraint between members since, at best, each recovers only what he has put in.

These two examples are typical of short networks: the savings mobilizing entity is itself the investor. There is no intermediate stage between saving and loan.

Let us now consider the nature and possible forms of actual financial intermediation.
1.2.2 Intermediation by primary institutions between the savings mobilization stage and the real-estate loan stage

The central concept of network length can be refined by supplemental criteria (of operational significance), such as whether and to what extent (a) the network offers a specific service or a range of services, and (b) the saver and borrower groups are identical or different. The intermediation function can thus be performed by four main types of institutions:

- a savings and loan mutual (or cooperative);
- a universal or multiservice bank;
- a specialized (or multiservice) bank operating a contractual housing savings scheme;
- a specialized bank operating an unrestricted housing savings scheme.

A feature common to the four types of institutions is that they all make real-estate loans, funded by direct access to savers' deposits. However, their modes of operation differ according to their respective purposes and savings mobilization techniques.

The credit union is a well known institution. Let us simply recall some of the characteristics of a credit union that overlap with housing financing:

The function of cooperatives, which receive strong support from churches in developing countries, is first of all moral and then financial. This has a number of consequences:

- An approach to the allocation of responsibilities that maximizes the number of members involved in current operations and relies on volunteer management services. While positive from the standpoint of "learning by doing" and in terms of management economy, this policy has a cost, evidenced by repayment arrears and defaults.

- The interest rate policy seems to be a matter of symbolism rather than of calculations aimed at attracting available savings and covering the institution's administrative expenses.

- The savers group and the borrowers group are in principle identical. The institution does not lend to non-members of the group (which may be explained by the fact that in this case the scarce good is the loan). But in addition (and this may seem more surprising), it refuses in principle to accept deposits from non-members. This deliberate limitation of its resources naturally limits the scope of its utilizations.

- The assigning of priority (all too often to agriculture, implicitly assimilated to a sector that is "productive," "serious" and "poor," the opposite of the city) can result in de facto penalization of
housing loans. If the credit union refuses to regard urban, even low-cost, housing as anything but an investment that is "a priori" unproductive, then it will very likely rapidly find itself with insufficient capacity to utilize its resources.

The rural population is generally speaking a net saver. Consequently, a financial intermediary that refuses to recycle its surplus funds to the urban sector is unlikely to find any placement opportunities for them other than commercial banks or Treasury bonds.

The multiservice bank is unrestricted with respect both to resource mobilization and utilization.

The deposit funds held by this type of institution, represented by the "commercial banks" or "clearing banks," consist largely of demand deposits. Therefore, in order to reduce its conversion risk, the institution does relatively little real-estate lending, at least to home buyers if not to housing promoters, whose loan maturity period is shorter.

Moreover, because of the constant interdependence between housing finance and legal and institutional climate, a housing loan can cause the lender more problems than a simple commercial loan, hence its reluctance to intervene in a "risk" sector.

The specialized banks were created precisely in recognition of the specificity of the housing sector in terms not only of the physical asset involved (a building) but also of the type of financing (long-term resources) and of the institutional aspects (nature of guarantees). Their distinguishing feature is that their utilizations are limited strictly to real estate.

In resource mobilization, on the other hand, they are more eclectic, offering a range of savings instruments to the different types of customers. Unlike the commercial banks, however, the aim of these instruments is to raise resources at least at short term but if possible at medium and long term.

Historically, two different schemes have been developed:

- the first has evolved from the base upward, from the mutualist movement, and has culminated in the building societies and savings and loan associations;

- the second, more recent, intermediation system begins at the top, in the form of a governmental initiative, which gives it a nationwide dimension right from the start.

The building societies, contrary to their name, do not build but are strictly financial institutions which receive savings from the public and convert them into real-estate loans. Highly developed in the English-speaking countries, their status is of the cooperative type, though that is not an essential condition. What is essential, however, is that the building societies (and the S and Ls) obtain their funds by offering an unrestricted housing savings system to private individuals.
An unrestricted housing savings system is characterized by freedom of action of both partners: the saver-borrower, and the financial institution. To obtain its funds the institution offers its clients a range of savings instruments. The first (and often the most important) is the passbook savings account, into which the subscriber deposits, at his own pace and discretion, the savings he wishes to utilize to acquire his future home.

This preloan saving is not only a source of financing for the institution; it is also a condition, imposed on its clients, of later eligibility for a loan.

It may, for example, require that the borrower have saved for a period of at least 18 months and thereby have accumulated a personal contribution of at least 10% prior to any loan application.

- However, fulfillment of this mandatory requirement is not sufficient to obtain a loan, since the institution reserves the right to accept or reject the application after assessing the risk.

- As a corollary to this freedom of action by the institution, the saver retains initiative and freedom with respect to the amount and timing of his deposits.

A building society thus differs from a credit union in that it accepts deposits from non-members, not necessarily with the object of later obtaining a loan, and from a multiservice bank in that its loans are restricted to a particular sector.

Contractual housing savings schemes are operated by both multiservice and specialized institutions. 6/

Thus, since a contractual housing savings scheme is an instrument, in apparent equilibrium, which generates both its own resources and its own utilizations, it can technically be operated by an institution either as its only instrument or in conjunction with others.

Thus, in Tunisia the system is operated by a specialized institution whereas in France it is operated by all the banking networks.

Institutions operating this system have in many cases been set up by the state. However, this is very probably due more to ideological considerations than to any financial logic.

We shall study this system in detail later on. For the moment, suffice it to say that in terms of length of intermediation network contractual schemes differ from unrestricted schemes in their resource mobilization procedures or techniques; otherwise, both types of institutions operating such systems have direct access to household savings.
1.2.3 Specialized financing institutions

The specialized financing institutions do not -- as such -- have access to savings deposits of individuals. Since they do not generally have the status of a bank, they have to obtain their funds by borrowing from primary deposit institutions:

- deposit banks, in the case of private household savings;
- investors of the insurance company or social security fund type, in the case of institutional savings;
- even the public treasury, if and when public savings available for housing exist.

These institutions enjoy the advantage of low overhead since they have no savings deposit windows.

On the other hand, their viability depends on a reliable and growing inflow of funds supplied by other financial institutions.

This can make their situation precarious in the case of competition with deposit banks in the real-estate sector, sectoral capping of credit or action by the political authorities to steer placements by institutional investors.

An arrangement of this kind requires a highly developed capital market; it can be particularly effective where a mortgage market exists. That situation is rare in developing countries.

Thus, between the time they are captured and the time they are converted into loans, savings funds pass through an intermediation circuit which can vary in length. At one extreme the same institution carries out all the operations. At the other, the institution that captures the savings deposits them, at a return, with another specialized institution which itself uses them for its real-estate loans.

However, a relatively long circuit is not necessarily synonymous with a relatively high intermediation cost.

This can be the case on an oligopolistic financial market where management margins, charged cumulatively by each intermediary, lead to a high differential between initial deposit interest and final lending interest. On a more competitive, but narrow, market it can sometimes be more economical for the lender to "subcontract" the savings mobilization operations with pre-existing networks at their marginal cost.

In this way housing credit operations have to bear only part of the intermediation overhead, to the benefit in the last analysis of the final borrower.
1.3 Principal characteristics of the urban and finance sectors in the developing countries

We are interested here only in the circumstances that impinge upon the principles or techniques of a housing finance system. The characteristics of the two sectors -- housing and finance -- define two series of constraints (downstream and upstream) which determine the success or failure of such a system.

1.3.1 The urban sector

The situation of Sub-Saharan Africa is easy to diagnose in descriptive terms: peripheral shantytowns, deteriorating city-center plant, dramatically inadequate community infrastructure (particularly sewerage and storm drainage) outside modern city cores, inadequate management of community life (garbage collection, standpipes), long distance between living and work areas and poor mass transit connections, and so on. This situation is undoubtedly attributable in part to high urbanization and rural emigration rates and low income in absolute terms.

But other, more contingent, factors aggravate these primary obstacles. Five of them appear to merit special mention: the legal-administrative framework, the role of the state, works supervision and control responsibilities, urban management, and poorly adapted financial networks. The last-named factor will form the subject of the next chapter. We shall look at the other points in turn.

* The legal framework is ill adapted to actual economic development level and to national cultures.

The land tenure problem is of prime importance. Whatever the political system and type of housing, access to land is an essential (though not the sole) prerequisite for housing construction.

This is a key problem in the developing countries, particularly French-speaking Africa. Numerous laws and regulations of expediency have been grafted on to a land tenure law formulated in the colonial era and therefore external to the traditional oral law. This has produced a body of legislation that is impossible to administer because it is out of line with social practice and with the government's effective administrative capacity.

The result is widespread uncertainty concerning land tenure. This has two major adverse consequences:

- first, it discourages "consistent" investment on the part of a potential builder, who rightly fears possible absconndment;
- second, it allows the public authorities to "freeze" the land pending clarification of its status or planning of its use -- something that can go on for decades.
Similarly, urban development regulations, building permit procedures, technical construction standards and supervision of enterprises all too often slavishly imitate European models and are therefore ill adapted to income patterns and the productive structure in the construction sector.

* The state often plays a substantial role in developing countries, for a variety of historical reasons.

These responsibilities extend not only into the administrative area but also into production and spatial planning (land management, development authorization, infrastructure and community plant construction and management, and so on).

Unfortunately, lack of financial and human resources prevents the government from performing the tasks assigned to it. This would not be too serious if it admitted this inability and delegated its functions to groups of inhabitants, cooperatives, municipalities, concessionaries, and so on. But unfortunately again, for reasons "of principle" it rarely agrees to delegate its authority.

The effect of this attitude (bolstered by fear of local particularism among young nations still in the formative stage) is to weaken the municipalities in terms of legal authority, financial resources and technical capacity, particularly in the area of urban management.

* Works supervision and management of housing projects is commonly entrusted to real-estate companies which annually deliver a ludicrously small number of "turnkey" units to a minority of the target population (meeting less than 5% of demand).

These instruments, installed in French-speaking Africa in the 1950s with objectives and resources that were right for the times, have since become obsolete. The financial situation has changed completely, while the tools and procedures remain. The seriousness of this situation is due not only to the inadequate capacity of public promoters to satisfy the demand but also to the fossilizing effect they exert, by their very existence, on any housing policy. Thus, they absorb the whole of the public resources allocated to housing (allocated parafiscal revenues, external debt capacity); they appropriate the best located and/or best serviced sites (transferred to the awardees at "administrative" rather than market prices, so that any value appreciation accrues to private hands); and, finally, they serve as an alibi for the public authorities, even in their own eyes, preventing them from facing up to the need for a comprehensive and coherent housing policy.

The combination of these impediments to urban development due to inappropriate policies reinforces the dualistic nature of the urban sector:

- on the one hand, dwellings built to "western standards" by contractors (who meet their tax and social security obligations) on properly recorded sites and financed by a bank loan;
on the other hand, "clandestine" dwellings built of "non-durable" materials by "non-approved" jobbers on unsuitable or unapproved sites and financed out of "informal" savings.

This second sector is the larger of the two numerically and it is therefore to that sector that a housing finance system should be directed.

But such a system can only be a component part of the national financial sector, which is itself markedly dualistic.

1.3.2 The finance sector

In the developing countries the financial sector comprises two segments: a formal and institutionalized subsector, and an informal and uncontrolled subsector which may none the less sometimes be the larger of the two in terms of financial flows.

The financial sector institutions are divided into a number of different networks, usually placed under the jurisdictional supervision of the Central Bank. Some may be responsible directly to the Treasury Department of the Ministry of Finance (particularly the postal network and the Savings Fund -- Caisse d'Epargne).

The Central Bank performs the classical role of an issuing institution, similar to that in the developed countries. In the case of French-speaking Africa, however, there are two monetary areas: the West African Monetary Union (WAMU) and the Customs Union of the Central African States (CUCAS), each governed by a central bank (BCEAO and BCEAC, respectively), managing a currency (the CFA franc) common to the 13 member countries.

The advantage of such a formula is community and collective regulation of currency, credit and exchange.

* The "commercial" banks account for the larger share of the financial transactions that take place in a given country. They obtain their resources mainly from demand deposits and engage mainly in commercial transactions (import-export operations).

Their privileged links with the former parent banks in Europe, together with free convertibility with the French franc, allow them to manage their cash positions flexibly in the event of excess liquidity or financing needs.

As a result, in spite of the efforts made by the central banks, domestic monetary and financial markets remain insufficiently developed. The commercial banks' credit instruments and techniques are ill adapted to the economic and social conditions in the countries where they are located. Their working methods are the same as in the developed countries, whereas local conditions would call for a special effort of imagination.
The development banks have for the most part been set up by governments to supplement the commercial banks' activities in a sector inadequately served by the latter: that of medium- and long-term loans for productive investment (industry, agriculture, handicrafts).

In addition to their capital, which is provided by the government and is often high, their resources come from external loans. Very few of these agencies have tried to supplement these resources (which are often cheap and at long term) by accepting deposits from the public.

When a housing bank is set up, it operates under that category.

The savings funds (caisses d'épargne) (and the postal checking accounts) are operated in French-speaking Africa by the Post Office. Their comparative advantage lies in the availability to them of the many post office counters distributed throughout the country.

On the other hand, the management of these deposits is excessively bureaucratic: the funds are used by the public treasury, while the deposits earn negative interest, in real terms, and savers cannot obtain a loan.

Institutional investors operate in parallel with these banking institutions: insurance companies and social security funds (social security, pension systems, family allowances and welfare fund, and so on).

The insurance companies, setting aside funds to cover their risks, continually generate investable capital; similarly, the provident funds, having been set up relatively recently (in the 1950s or 1960s), still present, on the basis of the distribution principle, a favorable age structure between young wage-earners and elderly retired persons.

These funds are frequently appropriated by governments, either directly (compulsory minimum subscription of treasury bonds) or indirectly (participation in companies or programs at the government's "instigation").

The structure of the financial sector in developing countries is ill adapted to their development constraints. Even commercial banks that have been nationalized have retained the management habits of a bygone era. Instead of bringing about a general revitalization of this sector, the creation by the government of specialized public institutions has aggravated the segmentation of the credit market, with all the associated monopoly rents and incremental management costs.

The credit policy set by the financial authorities is not autonomous; it stems from monetary priorities set by the central bank.

Thus, the export sectors, as suppliers of foreign exchange, will be favored whereas sectors like housing will suffer the full impact of any cyclical measures designed to trim demand. Exporters will enjoy preferential lending rates, refinancing terms and shares of authorized growth of total debt (in the case of credit capping), while housing will all too often be regarded at best as an "unproductive investment" and at worst as a "durable consumer good."
* Interest rate policy is often determined by the pursuit of a minimum lending rate. In developing countries, where accumulation is the priority of priorities, preference is inevitably given to the Keynesian approach, seeking to reduce the cost of the loan to the potential borrower. It is to be feared, however, that the financial authorities — and above all the political authorities — have not taken sufficient account of the corollary to a low lending rate, which is a low deposit rate.

The result is inadequate incentive to save or even, given an unsuitable taxation policy, de facto penalization of saving.

* Private savings mobilization policy is very inadequate. The political and monetary authorities underestimate household saving capacities.

Because they are excessively swayed by the statistical data on (official) household income, national authorities often display lack of confidence in their own resources. The government, again all too often, turns to institutional savings or compulsory saving when it needs new funds to finance a housing policy.

Similarly, the commercial banks still have a long way to go in modifying their procedures and their branching policy and in offering differentiated savings instruments tailored to the particular needs of their various potential customer groups. There are still too many banks that will not open an account without an initial deposit of at least twice the minimum legal wage.

Fortunately, some governments are coming more and more to understand the importance of the small saver and the need to prospect these new "exploitable reserves." Two examples will suffice. In Morocco, the Banque Populaire (People's Bank), by the simple fact of offering savings instruments tailored to emigrant workers in Europe, has in ten years risen from last place to first place among the country's banks. In the Ivory Coast, the Banque de l'Habitat (Housing Bank) in its first three years of existence mobilized the equivalent of US$7 million in savings deposited essentially by modest wage-earners.

The informal financial sector is more difficult to pin down, yet is probably more important in terms of its impact on the population.

It is estimated that in the developing countries the degree of formal intermediation in the housing sector does not as a rule exceed 20%. In India, for example, only 7% of households use the formal financial network to finance their housing needs.

The "informal" nature of certain financial flows can result from several types of transactions whose common characteristic is that they remain outside the official banking network. These are the operations of the moneylender or the pawnbroker. They can also include loans (or more precisely reciprocal gifts, with indeterminate maturity, between members of the same family), hoarding (of gold, silver, jewelry, wool, materials, etc.) and dishoarding (transfers/assignments of jewelry, etc.).
None of these transactions -- running to countless numbers every day -- are recorded statistically. They present characteristics of minimal management efficiency both for the national economy and for the wellbeing of households.

It is the task of the financial intermediaries, particularly those whose function it is to channel savings to housing, to improve the economic efficiency of these flows.
2. THE CONTRACTUAL HOUSING SAVINGS SYSTEM

2.1 Definition and principles

The contractual housing savings system is based on a contract between a saver and a financial institution under which the former undertakes to save an agreed amount over a prescribed period and the latter undertakes to grant him, at the end of that period, a loan whose amount and term depend (via a more or less complex formula) on the amount of savings he has accumulated.

The advantage of such an arrangement is that it -- apparently -- reduces the element of uncertainty, both for the institution, which can more easily project its financial commitments, and for the saver, who knows for certain that he can obtain a real-estate loan at the end of the agreed period.

This principal can be implemented in a number of different ways, depending on the precise nature and the amount of the parameters involved.

Thus, the contractual link between prior saving and the loan can be either direct or indirect. In the former case, the amount of the loan will be equal to the volume of savings accumulated, multiplied by a factor specified in the contract. In the second case, the link may be cumulative total borrowing interest, which will be equal to cumulative deposit interest, multiplied by a prescribed factor.

In this second hypothesis, account is taken of the effective duration of saving; for a given volume of savings at the end of the agreed period, this gives an old saver an advantage over a recent saver (in terms of amount deposited, for accounts opened on the same date).

This second method also allows the institution to offer the borrower very flexible and financially neutral loan terms: since the loan amount, duration and finance charges are linked by a mathematical formula and one of the three variables (lending interest) is determined by the duration of the contract, the simple fact of the borrower choosing one of the other two parameters ipso facto determines the amount of the last parameter (loan term or amount).

The first method is the one used in Tunisia and West Germany and the second the one used in France and Cameroon.

2.2 Activities eligible for loans

As a rule, the housing savings loan, i.e. the loan obtained at the end of the saving period, is limited to real-estate investment; the funds cannot usually be used for other purposes.

A comparable procedure has in some cases been instituted for subjects other than housing. For example, Tunisia has offered artisan savings accounts through which equipment loans can be obtained by entrepreneurs who
have previously built up savings. Very little use appears to have been made of this instrument, and it has been abandoned.

In a housing savings scheme, the investments eligible for a loan can also be as varied as the loans of a specialized housing finance institution. The nature of these loans will be determined by the priority policy laid down by the public authorities, the institution's risk assessment, the structure of the real-estate market, and the volume of the institution's uncommitted funds.

Let us consider the various types of loans that occur, according to the purpose of the loan and the status of the borrower.

A loan may relate to either undeveloped land, a serviced lot or a dwelling to be built, acquired or improved. The borrower may be either an individual or a juridical person (company or cooperative).

The following are the possible categories of loans, in ascending order of frequency:

2.2.1 Loan for acquisition of undeveloped land

Such loans are rather uncommon. Bankers always fear inadequate security if the land depreciates in value (which, incidentally, would be exceptional); moreover, governments often limit this type of credit, which is rightly or wrongly perceived as likely to fuel speculation.

2.2.2 Loan for acquisition of a serviced lot

The reservations with respect to these loans are the same as in the preceding case. However, such loans are often found twinned with a loan for construction of a dwelling on the lot. This means that the lender possesses a pledge, in the form of the housing built; moreover, the housing loan allows the borrower to transfer his residence to the lot immediately and thereby to reduce the effort demanded of him by the amount of his former rent.

These loans are usually made at medium term (of the order of five years) with the object of regularizing the legal land tenure status (commonly linked to final repayment of the loan) as quickly as possible and thereby strengthening the lender's lien. This makes it necessary, in order to reach the lower-income social groups, to provide for repayment of the principal loan (housing) to be deferred until the subsidiary loan (lot) has been completely paid off.

2.2.3 Housing completion loan

This type of loan (which is not in sufficiently common use in the world) is used to complete a dwelling which the owner the owner has financed until then out of his own funds in step with the inflow of resources.

This approach, which is very common in developing countries, results in slow, stage-by-stage construction of housing which remains uninhabitable and exposed to the weather. This is a clear case of unproductive savings, of
"dead" capital, which justifies — a contrario — the advantage of financial intermediation.

The small number of such loans is attributable to the institutions' reservations with respect to two factors that frequently reduce the value of the pledge: the status of the land, and failure to respect the rules "of the art."

2.2.4 Housing improvement or expansion loan

It is often required that the works exceed a high percentage of the value of the building and that a mortgage be taken out on the asset already built.

2.2.5 Housing acquisition or construction loan

It is a matter in both cases of a long-term loan (at least ten years) in order to reach the widest possible range of social groups.

The loan supplements the contribution represented by the prior savings. From the lender's point of view only, the contribution presents three sets of advantages: 1/

1. It reduces the amount owed by the borrower (and therefore his repayment installment); it meets the institution's fear of granting a loan for an amount exceeding the pledge; and finally, it responds to the implicit or explicit desire to "test" the borrower's capacity to save regularly.

The loan conditions are usually identical, whether the loan is for purchase by an individual of a dwelling already built (by a promoter) or for construction initiated and supervised (or even carried out) by the borrower himself.

The only difference is in the disbursement procedure: the lender prefers to disburse the funds into the hands of the builder rather than of the private party in order to avoid possible unauthorized uses.

The conditions applicable to these loans depend on the average cost of the resources applied to them and also on the policy of specialized institutions of favoring one or another category of housing.

Housing units are usually classified according to their cost ranking. For example, the housing for which a loan is made falls within a range defined by a ceiling cost, to which an interest rate is applied. This can be a single or a varying rate. The range may extend from "very low cost" to "very high standard" via "low-cost," "average" and "high standard."

The family criterion is very frequently used to differentiate the loan conditions for a given investment amount. The government then applies supplementary subsidies that substantially subsidize loans intended for large families.
2.3 Types of subscribers

Subscribers of housing savings contracts may be either individuals (private persons or members of a cooperative) or juridical persons (enterprises).

The commonest case is subscription limited to individuals. However, this concept is more or less flexible, depending on whether the advantages obtained by the opening of several accounts can be accumulated within a given family.

Limitation of subscription to individuals is found in countries where the government acts on a large scale to assist families to become owners and where it wishes to be able to identify the beneficiaries of its assistance.

On the other hand, some countries, such as West Germany and India, authorize the opening of accounts by enterprises on condition that the final beneficiaries of the contracts are their employees. The requirements that the enterprises have to meet are more severe than those for individuals: for example, longer savings period (in West Germany 36 months, against 18 months) or a higher contribution (in India, in a single sum upon opening of the contract, plus more than two years waiting time).

2.4 The saving phase

The saving phase opens with the signature of the contract providing for regular paying in of deposits over a minimum period of time.

* The deposit payments must begin with an initial deposit for which a minimum amount may be imposed. In France the PEL (Plan d'Epargne-Logement = Housing Savings Plan) cannot be opened with less than F 1,500. 2/ The deposit interval is in theory very flexible: every month, quarter, or even half-year, in order to take account of non-wage income. In practice, almost all deposit payments are made monthly.

The amount to be paid in may be prescribed for each act of deposit, for example per month, or for the entire year. Thus, an amount may be set for the whole of the year, with the subscriber allowed to distribute the payments at his discretion over the entire period.

The German Bausparkassen permit this flexible procedure.

On the other hand, the rules concerning the fixed amounts to be paid in may be very stringent, as in Tunisia. There, the subscriber is required to select one of nine contracts (designated B through G), depending on the income group to which he belongs, which define precisely the amount of his payments and the final amount of the savings that he must have accumulated by the end of the period. Thus, a household earning D 30 a month will belong to category B. 3/ It will therefore be required to save D 10 each month in order to accumulate savings of D 600 after five years and then aim at a dwelling of D 2,000. If, on the other hand, its monthly income is D 195 it will have to choose "category G," save D 65 a month and aim at a dwelling worth D 13,000.
The purpose of prescribing a minimum deposit, either upon opening the account or during the life of the contract, is to minimize management expenses by avoiding an excessive number of small operations. It also tends to limit access to the contract to clients who are truly "motivated," and thereby to reduce foreclosures.

The duration of the "contract," i.e. of the saving phase, varies from 1.5 to 5 years. It is most commonly 4 years.

Of course, the longer the duration of contractual savings the greater the benefits accorded at the time of the loan.

Thus, while the West German Bausparkassen require only a minimum saving period of 18 months, they undertake to lend only 1.5 times the amount of the savings accumulated.

In Tunisia, on the other hand, for a prior saving period of 4 years (or 5 years) the multiplier reaches 2.0. In France, for a saving period of 5 years, it is 2.5.

The yield of the placement depends on the deposit interest rate, augmented by the various premiums or advantages accorded by the government.

It is seen that, to be attractive, all housing savings schemes must offer:

(a) a remunerative interest rate, i.e. a rate not much different from that on the other financial instruments;

(b) an advantage accorded by the government in the form of a savings premium and/or tax exemption;

(c) a guarantee that a real-estate loan will be obtained.

The deposit interest rate paid is comparable to the rate paid on savings instruments of comparable liquidity.

If the housing savings contract imposes a relatively short minimum housing savings period (18 months), the return is close to that obtained on term accounts of the same duration. If the period is 4-5 years, the return is similar to the rates paid on 4-5 year deposit certificates (bons de caisse). The possible difference -- upward or downward -- will depend on the government's financial capacity to subsidize the cost of the resources for the mobilizing institutions and on its strategy for orienting household savings toward this or the other savings instrument.

Governments perhaps too often regard the right to obtain a loan as the primary motivation of households and therefore underestimate the effect of the deposit interest rate on the volume of savings mobilized.
In Morocco in 1980 the rate did not exceed 3% for a deposit period of 2 years. In India the HDFC project did not prescribe rates in excess of 5% for deposit immobilization periods ranging from 2 to 7 years. In Cameroon in 1984 the rate was even zero for holders of accounts conferring automatic entitlement to a loan.

The deposit rate is determined by the level of the rates paid on alternative savings instruments but also by the desire to arrive at the lowest possible borrowing rate.

A principle sometimes followed is for the state to bear the operating costs of the system.

Thus, in France in May 1985 the rate paid to holders of housing savings plans is 9% a year: 5.3 points paid by the mobilizing institution to its client plus 3.7 points borne by the government as a savings premium.

The funds, converted into loans, are re-lent at 7% (5.3% for resource mobilization cost plus 1.7% for the institution's loan administration cost).

The "savings" premium paid by the government thus has a dual effect: it is an incentive to save, and it reduces the overall cost of the resources (or the state bears the management costs of the scheme, which comes to exactly the same thing) and thereby lowers the borrowing rate.

In the case in question, the aim of the principle is to give the institution a clear and simple balance sheet and transfer the intermediation cost to the government.

In Tunisia the procedure is similar: savings are remunerated at 6%, of which 4% is paid by the institution (CNEL) and 2% by the government. 4/

The loans carry a borrowing rate of 4.5% paid by the customer, supplemented by a 1% premium paid by the government to CNEL.

From the institution's point of view, everything thus proceeds as if the sums were re-lent at cost (4%), with the intermediation cost (1.5%) covered as to one-third by the borrower (half a point) and two-thirds by the government (1 point).

The premiums accorded by the government to encourage savings can take a number of different forms. The simplest consist in paying supplemental interest (additional to that paid by the savings mobilizing institution), applicable to total outstanding savings deposits.

This is the formula used by France, Tunisia, India and other countries.

The West German method appears to be particularly interesting, from the standpoint both of commercial promotion of the savings instrument and of the government's anti-cyclical policy. The government pays savers a premium (explicitly identified) of 14% on the amount saved during the year. 5/ This premium is reserved for account holders with annual incomes below DM 51,600 (couple with two children).
It should be noted that the rate of this premium, previously 25%, was reduced to 23% in 1975 and 18% in 1976 and has been 14% since 1982.

Because the premium applies to the deposits made during the year and not to total outstanding deposits, it lacks "inertia" feature of an interest premium (of the interest subsidy type).

In addition to this cyclical advantage, it represents a lower cost to the government than might appear from the actual amount of the ratio, since the latter is applied only to the deposits made during the year and not to cumulative total deposits.

The other advantages granted by the state comprise, almost invariably, tax exemption of the premium (or of the supplemental interest) paid by it and also, very commonly, total exemption of the interest paid by the mobilizing institution on its housing savings accounts.

The tax advantages accorded on savings accounts are generally aligned on those granted to the savings funds, as an incentive to small savers.

The liquidity of housing savings accounts is normally zero: the account holder cannot as a rule make withdrawals (even partial) from his account before expiration of the saving phase.

If an unforeseen need arises, the saver is required to close his account and cannot claim credit for the time the account existed, even if he reopens it later.

The penalties for withdrawal of funds involve cancellation not only of the advantages associated with housing savings but also of the remuneration on the savings previously deposited.

These stringent measures are, of course, intended to encourage stability of deposits and to reduce the conversion risk run by the institution.

2.5. The credit phase

At the end of the minimum saving period the institution is contractually bound to grant a real-estate loan. This loan is linked to the saver's behavior by means of a multiplier.

The multiplier can vary from 1.5 (West Germany) to 4.0 (Morocco, 1980). It may be applied either to cumulative savings at the end of the contractual phase or cumulative deposit interest earned.

In the former case, the formula is simple, particularly since the loan has a fixed term.

In the second case, the lending interest is determined by multiplying the deposit interest by the multiplier factor, so that the borrower has a choice between a large short-term loan or a modest long-term loan.
In France, for example, for a loan term of five years (i.e. equal to the savings duration) the factor is 2.5. In India and West Germany it is 1.5 and in Tunisia 2.0.

In order to reduce the cost of its intervention by limiting it to the low- and medium-income social groups, the government may impose ceilings on the loans granted.

It is not unknown for the institutions to do the same thing in order to limit their risk.

In Cameroon, loans are limited to CFAF 5 million (which would correspond to the choice by the borrower of a loan term of only two years!), in India to Rs 60,000 and in France to F 400,000.

The amount of the repayments depends on the loan term (whether fixed or selected by the borrower).

As with any loan, this amount may not exceed a maximum threshold representing 25% or 33% of the borrower's income.

To the extent that loan appraisal is not very thorough (since the institution is obliged to grant the loan), the provision of real security, such as the taking out of a mortgage, is particularly necessary.

It should be noted, however, that in the cases of West Germany and India the institution reserves the right, at the time the savings contract is signed, to carry out a preliminary risk study and, where appropriate, to refuse the loan application.

The cost of the loan is systematically lower than the ordinary cost of real-estate loans in the country concerned. This fact is attributable — as we have seen — to the government's assumption of all or part of the intermediation cost and to a cost of resources which, because of the savers' motives, is generally lower than average.

These lending rates reach 4.5% in Tunisia, 7% in France and 4.5% or 5.75% in West Germany. In the inflationary world in which we live such rates are particularly exceptional.

The cost of the loan is usually uniform; sometimes, however, it may be tied to the borrower's performance. In West Germany, for example, a saver who has signed a 40% contract will be entitled to a loan bearing interest at 4.5% p.a., i.e. 2 points above the rate of return on his savings (2.5%). In contrast, a signatory of a 50% contract will pay 5.75% on his loan, i.e. 1.25 points above the rate at which his savings were remunerated (4.5% during the first phase).

Variable rates (tied to the cost of money or the inflation rate) are not used in contractual housing savings schemes. They are, however, very frequently used in unrestricted savings schemes (building societies and saving and loan associations).
Could there be a structural reason for this dichotomy, or is it perhaps attributable to differing mental attitudes, each associated with a particular culture? Could it therefore be that there are two groups of countries: those with centralized governments which set up a fixed-rate contractual scheme based on scientific calculations, and those with decentralized governments which, culturally pragmatic, set up unrestricted and flexible housing savings schemes?

The loan term is not very long: it may sometimes reach 15 years (the maximum in Tunisia and France) but is more often of the order of 10 years.

Access to loans is during normal periods automatic since it is a contractual right. Difficulty may, however, arise if the institution finds itself with more commitments than resources. A number of procedures are then possible:

(a) The time taken to appraise and process the loan application may be (artificially) prolonged in order to slow the pace of loan approvals.

(b) A waiting list may be established of loan applicants (e.g. on a "first in, first out" basis) which are dealt with as and when funds become available.

However, both procedures involve a serious commercial risk in that they can give savers the feeling of having been "deceived," in which case they may close their accounts just when the liquidity risk is highest.

(c) The West German Bausparkassen have developed a number of procedures under which each client is allocated a number of points as the basis for ranking loan applications received during periods of limited resources.

Two factors come into play: the amount saved, and the duration of saving. These factors are evaluated on three fixed value dates during the year (April, August, December). The total of outstanding savings on each value date confers a certain number of points, which are accumulated from one date to the next. When a minimum number of points is reached the saver becomes eligible for a loan.

There are six possible loan allocation dates during the year (end of January, end of March, and so on) on which potential beneficiaries are informed of their entitlement to a loan. If any does not respond, the next person on the list is approached. These clauses are, of course, known to the savers at the contract is signed.

The loan purpose is limited by the contract. To the extent that the government subsidizes the scheme, it generally limits loan eligibility to the saver's principal residence.

Sometimes, however, as in Cameroon, the loan purpose can be extended to include rental housing. The reason for this extension probably has to do
with the nature of the social groups at which the scheme is aimed. In the
case in point, the medium-income and well-off groups who nowadays possess
savings in this country apply them in preference to the construction of rental
housing, which brings in a high income because of the housing crisis. The
desire to recycle these resources in the formal intermediation network (CFC)
therefore required that these savers be offered a savings instrument tailored
to their requirements when the scheme was set up.
3. IMPACT ON HOUSEHOLDS

For a housing savings scheme to be viable it must be based on a stable and growing source of saving funds, i.e. household savings.

These savings are captured by setting up networks (financial intermediaries) which offer the savers instruments tailored to their motives (objective or subjective needs).

3.1 Saving motives

Savings motives are as diverse as personal situations and cultures. Nevertheless, a number of constants underlie these contingent factors.

Money held by households is considered — by classical economists — to serve three types of motives, each with its corresponding cash category: transaction motive/cash, precautionary motive/cash and savings motive/cash.

* Transaction cash means a household's cash in hand to meet its day-to-day expenses. It is necessitated by the difference between the income receipt interval (month) and the purchases interval (day).

* Precautionary cash means funds set aside to meet unforeseen needs. These eventualities may be unhappy (death, unemployment, sickness) or happy (marriage, baptism, children's education).

* Speculative cash means funds held by a household surplus to the needs dictated by its current and anticipated style of living. It usually migrates to the investment offering the highest return.

We may therefore assume, according to J. Christian, that "the savings market is distributed between transaction cash, which is directed to the commercial banks, precautionary cash, which is the natural "arena" of the housing finance institutions, and speculative cash, which tends to flow toward the placement offering the highest return and is an essential source of funds for the capital market."

One of the prime motives for building up precautionary cash is the aspiration to ownership of real-estate property. This universal feeling is perhaps stronger in the developing countries, for both subjective and objective reasons.

One objective motivation can be the need for greater security of tenure because of the absence or inadequacy of social protection systems. 1/

* The instruments that a financial intermediary offers to savers to induce them to entrust their savings to it must, of course, serve one or more of these motives.
The instruments that the financial institutions offer must meet at least two of the following four requirements:

- **Safety:** The funds must be better protected against theft, fire, weather hazards and so on with the institution than they are with the owner.

- **Yield:** The funds deposited must earn what is considered to be consistent net interest; the interest must therefore be either high or tax-exempt.

- **Access to credit:** This attractant of the saving instrument supplements the other two. It is usually the most highly motivating feature, to the point that it sometimes replaces the yield requirement.

- ** Preferential loan terms** in relation to current financial market conditions.

There are a large number of savings instruments available to savers: since the general principle is that liquidness is an alternative criterion to yield, financial institutions are completely free to design instruments tailored to their target clientele and therefore to devise an infinite number of combinations of these criteria.

The institution's purpose is to raise resources at longest possible term and, of course, lowest possible cost. Conversely, the saver wants his investment to be as liquid as possible — i.e. to be tied up for the shortest possible time while earning the highest possible rate.

The weighting of these factors varies according to the type of institution. In the case of a contractual housing savings scheme, the resource mobilizing institution will obviously place maximum emphasis on the criterion of "access to credit" so as to be able to prevent the savings accounts from being liquid and at the same time minimize their remuneration.

The "safety" criterion is no doubt negligible in the developed countries (except perhaps among the elderly). In the developing countries, on the other hand, it can be important in view of the precarious housing with its increased theft and fire risks.

### 3.2 Rigidity and flexibility

A housing savings contract contains a set of rules which vary in number and flexibility not only from one country to another but historically within a given country.

The rigidity of a contract may be due to the multiplicity of requirements that have to be met: amount of initial deposit, amount of periodic deposits, paying-in-dates, prescribed amount to be accumulated, minimum (or maximum) income of the saver-borrower, family size, and so on.
Rigidity can also result when the actual mechanics of a scheme are poorly adapted to the socioeconomic environment in which it operates. Finally, it can be due to immutability of parameters in an evolving situation.

### 3.2.1 Compulsory nature of contractual housing saving schemes

This is often regarded as a positive factor because it is a means of inducing people with modest incomes to increase their savings. That opinion is based on an approach that pays preferential regard to individual behavior patterns. Thus, according to Guttentag, households are prepared to pay a price, which is sometimes very high, to be "forced to save."

The importance of the extended family in developing countries (particularly in Africa) is reflected in mutual support of family members which, however, severely limits the possibility of accumulating individual savings. A housing savings scheme would therefore be a good way for a subscriber to protect himself — to some degree — against requests for help from family members.

This is borne out by the notable development of rotating credit associations (tontines), at least in Africa and Asia.

The underlying principle of these informal groupings is well known: in its simplest form, each member deposits a prescribed amount (which is the same for all) every month into a common fund which is distributed to each member in turn.

In practice, as Guttentag notes, while it happens that a member (an honest one) receives less than his contribution, no one ever receives more.

It is therefore possible that the only motivation for the tontine is its "cohesive" nature.

Another factor, which operates in western societies as well as among the better-off groups in developing countries, is a definite "demonstration effect" which, as Dusenberry has shown, culturally determines the consumption of a given social stratum by reference to that of the next higher stratum. This means that the difficulty would not be to launch a housing saving scheme but to keep it going. Constant pressure would therefore have the effect of helping the saver to persevere.

Finally, the saver's behavior will be all the more regular, the stronger his psychological attachment to the system. His certainty that he will obtain a loan and his precise knowledge of the loan amount will be the deciding factors in securing that attachment.

The second type of opinion in favor of the contractual type of scheme is based not on observation of behavior patterns but on the "integrating" nature of the process. This opinion holds that, through the obligation to make regular deposits, a contractual housing saving scheme would allow people with irregular incomes to adopt an attitude — toward the financial institution — similar to that of wage-earners and thereby to be treated by the institution on equal terms with the latter. This would provide
social groups without fixed incomes -- which are in the majority in the developing countries -- with a way of entering the formal banking sector, from which they are as a rule systematically excluded.

3.2.2 Need for flexibility

Conversely, a contractual scheme can have a negative impact on households if its procedures are insufficiently adapted to the cultural, economic, sociological and institutional circumstances of the country concerned.

A contractual savings scheme that recommended an excessively high saving rate during the first phase could probably not be applied by households that are by definition still renters and would therefore be asked during that period to undertake the saving effort in conjunction with the rental effort.

For the same reasons, as Mark Boleat points out, a contractual housing savings scheme is difficult to implement in a country with a low stock of rental housing.

If the government's housing policy has had the effect of reducing the share of rental housing, then young, newly formed households will clearly have no other choice than to turn to ownership at an age when they are simultaneously entering the labor market, have not accumulated any savings, and have not had the chance to wait for a number of years, the time needed to build up the required prior savings. In such an environment, therefore, an unrestricted savings system (of the building society type) may prove to be more suitable since it allows "cross financing" between older savers and young borrowers.

To believe that households with irregular/informal income have a latent desire to integrate into the official intermediation networks is perhaps an ethnocentric deviation typical of official analysts.

Is it not possible that the mistrust between formal financial sector and informal households is mutual? Hoarding, which is important in the developing countries, results from an inadequate effort on the part of the banks to serve the needs of social groups which they all too often ignore; however, these groups also display a lack of confidence in the banks owing to the low quality of the services offered and to fear of fiscal checks or even of freezing of accounts in the event of an unforeseen political crisis.

For this reason, a housing savings scheme that prohibits withdrawals during the saving phase under penalty of closure of the account can be interpreted -- in certain cultures -- as a loss of ownership by the client over his savings.

Informal-sector artisans, merchants and other self-employed persons, even if they may make an aggregate annual income higher than wage-earners in the public and private sectors, will have difficulty in estimating their monthly saving capacities in advance and committing themselves to depositing fixed sums on prescribed dates. Moreover, non-wage earners are
doubly penalized if they do not possess a bank account (which is usual among the low-income population) since they have to travel on a set day to deposit their savings in person at the savings institution's offices.

These various constraints probably do little to encourage savers and are hardly conducive to any fundamental change in the traditional behavior patterns of households.

The fact that accounts opened under contractual housing savings schemes are not liquid deprives them of any character of demand or short-term precautionary savings.

In the European countries, where the social protection system is highly developed, medium-term savings utilization projections suffice. In the developing countries, on the other hand, an individual's future is more precarious: dismissal often at very short notice, poor social protection, non-coverage of sickness risks, children's schooling that has to be paid for, expensive unforeseen family ceremonies, and so on. Even if, from the legal and contractual standpoint, the account can be closed without any restriction if an unforeseen need arises, account has to be taken of the subscriber's emotional behavior, particularly in view of his small legal and economic knowledge. In France, for example, the proportion of housing savings accounts (quasi-liquid) in relation to housing savings plans (blocked accounts) is much higher in the Savings Funds (Caisses d'Epargne), whose customers are on average of more modest income level (and older), than it is in the ordinary banks, which offer the same instruments.

It may therefore be assumed that the attractiveness of liquidity is directly proportional to the degree of uncertainty concerning the future. That attitude, which is probably very widespread in the developing countries, must be incorporated into the definition of a well-adapted financial instrument.

3.2.3 Combination of the two constraints

The combination of a rigid system and a complex environment has frequently led to bottlenecks. Elements of flexibility have had to be introduced in order to keep the system moving.

In West Germany, for example, the system is kept in balance by two essential devices:

(a) the financial institutions (Bausparkassen) give a saver who has complied with his contract an agreement in principle, but no guarantee, with respect to the date on which the loan will be granted;

(b) the institutions grant loans "outside the contract," i.e. bridging credits or advance loans pending unfreezing of contractual loans, for up to about 20% of their assets.

Through accelerated or possibly deferred granting of loans, these institutions introduce an element of flexibility into their policy: by
manipulating time, they adapt to the complexity of the housing delivery system within which they operate.

Another notable example is that of Tunisia, where a 1974 law instituted a contractual housing savings system and also set up the institution responsible for administering it (the CNEL).

Under the theoretical scheme instituted, subscribers had to commit themselves to prior saving periods of $h$ or 5 years and would later be entitled to 10-15 year loans. The results were apparently excellent, since by the end of 1983 more than 100,000 accounts had been opened, representing total outstanding deposits of D 150 million.

It should be noted, however, that the saving requirements were less stringent than might appear, since from 1977 (year 3 of the scheme) "immediate" loans were permitted, replaced from 1979 (year 5) by "advance" loans.

As a departure from the principle of a minimum saving period, these loans can be granted at the end of only two years of saving against low penalties applied to the rate (2.5 points at most).

It was noted at the beginning of 1983 that out of 20,600 loans approved (totaling D 117 million), advance loans accounted for 57% (70% of total amount), immediate loans for 16% (9% of amount) and housing savings loans for only 27% (21% of amount).

This means that four-fifths of the loans had been made "in derogation" of the theoretical contractual rules.

It is interesting to trace the link between the introduction of immediate and advance loans and cyclical economic policy, while noting in what ways their terms deviated from the "normal" system.

* In the first case (1977), housing savings account holders who had had their accounts for at least two years and had accumulated at least one-half of the required savings, $6$ were entitled to a loan to be used for the sole purpose of acquiring a dwelling unit from an approved promoter. It is clear that this measure was taken only for cyclical reasons external to the system, i.e. to help the SNIT (a public promoter) to move a stock of new housing which was no doubt larger than the demand.

* In the second case (1979), which is still in effect, the saver is entitled to an advance loan at the end of only two years, even for an individual construction project, but he must previously have accumulated over a period of two years the whole of the savings originally prescribed for four years.

This introduces true flexibility for households which if a sudden opportunity arises may, subject to low penalties, obtain a loan from the end of the second year.
The prior savings phase has *de facto* been reduced to only two years provided that the loan applicant possesses sufficient income. 7/

It may be wondered whether all this is only an intermediate step toward a more flexible resource mobilization policy.

Tunisia is currently considering modifying the present system, in which a savings amount is prescribed at the time of signature of the contract and a single multiplier (= 2) is applied irrespective of the saving period, to one in which differential ratios (for example: 1.5, 2.0, 2.5) would be applied, depending on the duration of saving.

Thus, saving would continue to be contractual, consisting of regular deposits of a prescribed amount, but within a more flexible framework, no rigid saving periods being prescribed other than a minimum period imposed on all subscribers.

3.3 Tailoring to needs

The conditions of housing savings loans should facilitate access to them by the various social classes, including in particular the lowest income groups.

Access will be all the greater, the lower the loan amortization installment. Low installments will be brought about by a combination of the following measures:

- reducing the lending rate;
- lengthening the loan term;
- increasing the personal contribution;
- if possible, allowing amortization in increasing monthly installments;
- limiting the ceiling prices for loan-eligible housing.

In practice it is noted that government interest subsidies enable low borrowing rates to be achieved, to the benefit of the borrowers. 8/

These rates are even often negative in real terms.

Lengthening the loan term benefits the borrower. However, it increases the institution's conversion risk and delays the replenishment of its resources and their recycling into new loans. Thus, while such a measure is favorable in individual cases, it reduces *ipso facto* the potential number of beneficiaries and necessitates enlargement of the institution's resources.

* Increasing the personal contribution reduces the amount of the loan. For the contribution to be high and to reduce the multiplier (in West Germany, for example, 40% = a factor of 1.5), it can require a long saving period. 9/ Would such saving perseverance not be limited to
countries enjoying low inflation rates and stable economic and financial situations?

In the case of Tunisia, the probability of a client closing his account and withdrawing from the system is estimated at 50% in year 1, 35% in year 2, 20% in year 3 and 15% in year 4.

This means that less than one-fourth of the initial subscribers would complete their contractual saving term.

Real-estate loans repayable in increasing monthly installments have grown sharply in recent years. It appears, however, that no contractual housing savings system has applied this new procedure to its loans.

The housing savings loans are insufficient to cover the total cost of the dwelling units to which their subscribers aspire. The function of these systems is more to help individuals accumulate their personal contribution than to provide housing finance in the true sense.

Two factors may be cited: the level of the multiplier, and inflation.

Unless it imposes very high contribution levels, a contractual scheme requires supplemental resources in order to be able to grant the loans on the prescribed date. These resources may be obtained either from outside the housing savings system or else by "borrowing against the future" based on an exponential growth of subscribers. Anticipating this risk, the institution sets its multiplier (credit/savings) as low as possible.

However, during the course of the saving phase, inflation by itself has the effect of reducing the real amount of the loan. 10/

This inevitably leads the borrower to seek further resources to supplement his own contribution and his housing savings loan. 11/

The volume of such resources has to be taken into account in an overall evolution of the contractual housing saving system; it can be important, not only in relative terms but also in absolute terms in that it determines the equilibrium of the system from the saver's point of view.

In France, the housing savings system is operated by the whole of the financial institutions which, concurrently with "housing savings" loans on preferential terms, grant "supplemental" loans on market terms out of their own resources. This financing is not marginal: at the beginning of 1980, "principal" housing savings loans totaled F 37 billion and "supplemental" loans F 34 billion.

Surveys have shown that supplemental loans reach on average twice the amount of the principal loan and are applied for by one borrower out of two. 12/

In West Germany, the average structure of housing finance showed that housing was financed as to 40% by the personal contribution, 30% by the
specialized housing savings institution (Bausparkasse) and 30% by other sources, including the savings funds (Caisse d'Epargne), banks and financial institutions.

The need to supplement the loans proper to the housing saving system by loans financed out of resources external to it has often been "forgotten" in the replication of such systems in developing countries. As a result, a number of households have seen no interest in the system because it did not meet their needs.

It would therefore appear that one of the key elements in the success of the French and German systems has been their "universal" or full-service character, i.e. the fact that the institutions responsible for operating the system have been at the same time institutions that capture deposits from the public directly and therefore possess adequate resources to amplify the utilizations by the theoretically "closed" housing savings system.

A problem that has arisen when two types of loans (principal and supplemental) were granted by different institutions is the furnishing of first-grade security. Thus, in Tunisia difficulty has been caused by the obligation of the banks, imposed by the banking regulations, to require a first-grade mortgage regardless of the bank's share of the financing. Since identical regulations applied to the principal lender (CNEL), there was a conflict of interest which forced the borrower to make a choice, whereas the putting together of such cofinancing packages should be a matter simply of procedural details.
4. IMPACT ON THE FINANCIAL INSTITUTION

The implementation of a housing savings scheme has an essential impact on the life of the institution concerned in that it exposes it to new risks which call for an appropriate management response.

4.1 The liquidity risk

This is the major risk: since the institution has committed itself -- by contract -- to granting a loan at a specified time, it must have the corresponding cash in hand on that precise date.

However, since the principle (and the attraction) of housing savings lie in its multiplier effect, it is clear that, once the scheme is in full operation, all other factors remaining unchanged, the institution must disburse more in loans than it receives in deposits.

- In static terms, the contractual system generates a financing need directly proportional to the multiplier.

- In dynamic terms, we need to distinguish between two periods in the operation of the scheme:
  
  (a) the early years, during which only deposits take place, and
  
  (b) the later years, when the scheme enters into the lending phase, which can pose liquidity problems for the institution if total outstanding loan portfolio exceeds total savings deposits in hand.

Except in West Germany, contractual schemes are of such recent date that they are still, if not in the initial period of deposits without loans (3-4-5 years), at least in the early years of the lending phase.

The liquidity risk therefore arises either in connection with the theoretical financial projections or as an early symptom in a system once it is fully under way.

A contractual housing savings scheme cannot function within a closed circuit.

For it to remain in balance (resources at least equal to utilizations), two requirements must be met:

(a) The number of depositors must grow faster than the number of borrowers. This implies a quasi-exponential growth of households attracted to the scheme: the field of savers expands every year by a large number of new subscribers. This may also take the form of differential growth between depositor and borrower numbers, the latter growing more slowly, in relative terms, than the former.
(b) The institution must have access to supplemental resources. A number of possibilities exist:

- large equity resources (e.g. in the case of an exclusive institution, a large initial capital);

- the availability of abundant and cheap resources within the institution itself (as in the case of deposit banks that operate a housing savings scheme and at the same time receive deposits from the general public);

- obtaining of supplemental resources from closely connected institutions belonging either to the same network or to interrelated financial institutions (interlocking capital participations or dependence on a parent house);

- ancillary management of funds placed at its disposal, e.g. by the government, and used as a floating cash reserve (this is the case in Tunisia);

- refinancing with a mortgage market specializing in long-term real-estate obligations;

- refinancing through a line of credit with the Central Bank or the Treasury or even with the banks generally, "constrained" by the monetary authorities to place part of their funds in operations of this kind.

In practice, combinations of these possibilities occur within a given country. Attention is drawn, however, to the particularly precarious situation of institutions that specialize in housing savings schemes and do not offer other financial instruments to the public.

The institution is thus closely dependent on outside agencies -- other financial intermediaries and government -- whose demands and requirements can jeopardize its survival.

For this reason, in most cases it is the commercial banks that operate the housing savings system, supplementing its resources by those accruing from their ordinary operations. This is the case in France, for example.

In Germany, the Bausparkassen are able to refinance thanks to the ramified interlinkage of financial intermediaries and the relatively moderate level of the multiplier.

In Cameroon, the scheme has been launched by a specialized institution which already possesses abundant parafiscal resources. Because the system is still young and in the early stages of development, lending has not yet generated a need for such supplemental financing. It is apparent, however, that if the system develops at the rate originally foreseen by its
promoters, a conflict of interest is likely to arise between the government and the Land Credit institution (Crédit Foncier): the government will want the funds to be applied to promotional "group" programs, while the Crédit Foncier will have entered into ex ante commitments to private individuals for building their homes themselves.

Tunisia's experience is fairly typical of the refinancing constraints that affect the specialized institutions. The CNEL, which relaxed its credit procedures in 1977, quickly found itself short of cash. Its needs were met out of the surpluses on the Wage Earners Housing Promotion Fund (Fond de Promotion du Logement pour les Salariés — FROPLOS) (1978), which is administered by the CNEL and funded by an annual compulsory levy of 2%, payable by the employer, on personal wages and salaries.

In spite of the CNEL's growing waiting lists (25,000 savers out of 160,000 at the end of 1984), meeting the demand of only a portion of the potential beneficiaries exhausted its available surpluses by 1985. It is probable that in the near future — all other things remaining unchanged — the CNEL will have to turn to its second financing recourse: the "banking ratio," which requires the national banking institutions, in case of need, to subscribe CNEL obligations for the equivalent of 5% of their deposits.

If this second safety line is passed, the third and last will have to be deployed: Public Treasury guarantee.

Guarantees of refinancing in case of need are essential to the viability of the system, unless either the institution retains the right to defer granting loans until it has replenished its resources (as in the case of West Germany) or the government retains the right to alter the parameters of the system in case of need (as in France).

The relative magnitude of the supplemental financing needs can be demonstrated by, for example, the results of recent financial projections (1984) prepared prior to the institution of such a system. With a contract providing for a 4-year savings plan and an 18-year lending phase, and with a credit/savings multiplier of 4, a non-borrowing saver ratio of 40% and a clientele growth of 50% in year 1, 35% in year 2 and 10% in subsequent years, the system's financing requirement reaches 70% of total outstanding loan portfolio in year 10 and 77% in year 15.

While it is true that the supplemental resources requirement is lower when the scheme is in full normal operation, the example does demonstrate the relative magnitude of the "non-system" financing that has to be found. 1/

If it is unable to speed up the opening of new savings accounts or to draw on supplemental savings outside the system, the institution retains the possibility of reducing the ratio of borrowers to depositors. Keeping that ratio low will result in a surplus of resources over utilizations and hence in a sound financial situation. 2/
Such a result can be brought about in several different ways:

(a) **On the lending side**, insufficient capacity of the sector to absorb loan funds; this is the commonest -- and least "deliberate" -- reason.

Although the potential borrowers have met their savings obligations, they cannot find lots and/or dwellings available for sale on the market. This situation is normal in the developing countries.

This was the case in Tunisia, for example, with the failure to meet demand: the lack of "physical equilibrium" made it possible to achieve "financial equilibrium."

(b) **On the resources side**, the attracting of savings not motivated essentially by access to credit.

To attract such savings (which will not increase the loan portfolio), the institution must offer instruments with suitable features (term, deposit interest rate, tax advantages, and so on). Anything is possible within the limits of the advantages offered by the alternative instruments available elsewhere.

(c) **Limitation of loan-eligible projects**, e.g. refusal to consider old housing, housing not intended as principal residence, and so on.

Modifying the ratio of borrower to non-borrower savers has a direct impact on the viability of the system. In France, for example, the ratio of outstanding loans to outstanding deposits rose from only 24% in 1979 to 40% in 1983. This means that "good brothers" are scarcer today than yesterday because since 1981 they have found that other investment instruments offer equally good (or better) yields and tax advantages. Moreover, the credit ceilings that have been in effect in France for several years now have made it harder to obtain supplemental loans.

The borrower/non-borrower ratio is thus a strategic parameter essential to the system's viability.

4.2 **The operating risk**

A financial institution operating a housing savings scheme runs two sets of operating risks: general risks, and specific risks.

A. **General risks**

As an institution operating in the housing field -- a politically sensitive sector -- it is commonly subject to administrative setting of interest rates, both those it can pay and those it can charge.

The desire of the political authorities to minimize the rate charged on loans, so as to make them more accessible, can lead them to set rates without regard to the real cost of the institution's resources and overhead.
This is a risk common to all housing-sector institutions but one to which institutions operating housing savings schemes are particularly vulnerable in that their contractual commitments are less flexible.

An inadequate (or possibly even negative) margin on housing savings operations can produce adverse effects of three kinds:

- the cumulative operating losses are an increasing drag on the institution's operations, which eventually cease;

- because the operations are not remunerative, the institution loses interest in them and restricts its lending (and in doing so departs from its official purpose);

- to balance its operating account the institution has to reduce the cost of its resources, particularly the interest it pays on savers' deposits. This discourages both saving and financial intermediation and diminishes the sector's capacity for action.

The usual consequence of administrative rate-setting is to reduce the sector's aggregate resources and reorient them toward a minority of borrowers who represent limited risks. Such a policy is therefore detrimental to the interests of the social groups it is intended to serve.

B. Specific risks

A second, more specific, risk stems from the contractual nature of the housing savings system. As we have seen, the system involves liquidity risks because of the need to maintain a balance between aggregate loans generated and aggregate resources available.

A second balance must also be maintained, between average cost of resources and average return on their deployment, within the confines of the scheme itself. Thus, sharing the resource mobilization cost between the institution and the government (premium) gives the latter the right to oversee the final levels of both lending and deposit rates.

In France, for example, the interest rate on housing savings loans is 7%, comprising 5.3% (resource cost borne by the mobilizing institution) plus 1.7% (normalized gross management margin).

In recent years the average gross margin on credit operations as a whole has varied between 4% and 5% of the capital managed by the banks. We can assume that the inherent profitability of the housing savings instrument is low or even negative.

In reality, the bank's financial advantage stems not from management of the loan portfolio but from investment of cash surpluses while the system is getting into full operation.
Loan operations income appears to be insufficient to cover resource cost plus overhead. Equilibrium will not therefore be achieved, over time, unless the housing savings deposit surpluses (over the housing savings loans made) are invested and produce supplemental resources that make up for the lending "losses."

This fact has several consequences for the management of the institution:

**B-1** Not only the institution’s cash position but also the conduct of its operations depend on the ratio between borrower savers and "good brother" non-borrower savers.

**B-2** The ratio between total outstanding loans and total resources in hand must not exceed a certain threshold. 

This means that the operating risks will be correspondingly lower:

- the less customers exercise their loan right (behavior/motivation; institution/type of clientele; features of the savings scheme, etc.);

- the greater the inflation rate (probable incremental savings mobilization with monetary expansion and reduction in loan amounts in constant terms);

- the longer the saving period;

- the narrower the range of loan-eligible projects (lower propensity of customers to exercise their loan rights).

4.3 **The default risk**

It may be felt that a "good saver" will a priori be a "good borrower." The fact that a customer has made regular deposits over the course of the saving period is, if not proof, at least a good indication that he is reliable. It is evidence of the future borrower's psychological willingness to honor his commitments.

A second test is his financial capacity to come up with a specific amount at regular (usually monthly) intervals. Bearing in mind that the saver
is usually paying rent, the institution is entitled to assume that his future repayment capacity as a borrower will be at least equal to the sum of his saving rate and his current rental effort. 4/

On the basis of the usual rental efforts observed (rent/income = 10-30%) and the saving rate often required by housing savings contracts (10-25%), it would appear that, given the preferential terms of the loans, borrowers will be able to meet the repayment obligations without difficulty.

Some authors consider that the habit of regular saving and payment at fixed intervals become acquired behavior during the credit phase. Thus, some population groups not yet receiving banking services, offered an instrument that is "simple," "physical" and more attractive than just its yield, would modify their behavior in order to "integrate" into a pre-existing financial system within which the "best" of them would be afforded the same advantages as wage-earners. This belief is correct in that selection of loan applicants will be strengthened to the extent that the less motivated savers are discouraged during the first phase. 5/ However, it is perhaps wrong to assign a quasi-moral content to "regularity" when it may result only from the simple fact of belonging to a (privileged?) minority of wage-earners.

If, in order to reduce the future probability of delinquent loans, it is desired to establish a "reliability" rating for each saver-borrower, it seems to us that the saving rate he has actually accomplished over a long period (in segments of a year, for example) is more meaningful than the regularity of his prior deposits.

Conversely, a contractual savings system -- which gives preference to regularity -- can increase the delinquency risk unless certain precautions are taken.

* If the prior savings period is short (for example, a year), we can imagine a "saver" raising the sums he has to deposit regularly by obtaining loans from other individuals which are repaid upon disbursement of the housing loan (which is a multiple of the amounts deposited). Making the saving phase sufficiently long eliminates this type of possible fraud.

* The automatic granting of the loan, subject only to compliance with the saving requirements, means that the institution is not entitled to assess its risk as of the date of the loan application. This appraisal therefore has to be transferred to the date when the plan is opened.

The institution may then take one of two possible approaches:

(a) It carries out an in-depth appraisal, with the resulting limitation of the number of potential customers. From the commercial standpoint, such an approach can be very harmful in terms of the reception met with by households that come to entrust their savings to the institution. From the management standpoint, since savers
are, as a matter of principle, more numerous than borrowers, systematically conducting risk appraisals upstream will mean that two, three or four times as many case files have to be handled, with the consequent increase in cost;

or (b) It carries out a superficial and less expensive appraisal; in that case, will the effect on the delinquency rate not be felt a few years later?

It is not uncommon for the default rate to be higher among high-income than lower-income borrowers. 6/ The demonstration effect of imported consumption models, and social and family obligations, sharply reduce the savings rate of the middle and upper social classes which, being for the most part salaried staff of the public or private sector, represent the natural source of customers of housing savings schemes.

Is it not possible -- all other factors remaining unchanged -- that there is a greater likelihood of default over the 10-15-20 years of amortization of the loan on the part of an owner than over the 3-4 years of probation of a candidate for accession to ownership?

The advantages that a housing savings system offers for personal knowledge of a client and reduction of the risk appear to us to be exactly the same in a contractual and an unrestricted savings scheme. Knowledge of behavior reduces the risk, but in the case of the contractual scheme the institution is compelled to make the loan on the basis solely of criteria laid down uniformly for all savers.

In reality, the only effective guarantee of a real-estate loan derives from the existence in a given country of two factors:

(a) clear land tenure legislation, supported by administrative services capable of enforcing it;

(b) a real possibility of effecting legal expulsions (even if only in rare cases) in cases of delinquency, without political obstruction.

As regards reduction of the delinquency risk, a contractual savings scheme has an impact which derives from the sociological selection of its customers through the agency of its procedures (savers/wage-earners correlation) rather than from an objective selection based on a financial and personal appraisal of the risk represented by the loan.

4.4 The management of housing savings schemes has specific characteristics which distinguish it from other banking activities

As we have said, the fact that the loan is granted automatically and the risk appraisal therefore transferred upstream, has two sets of management consequences:
(a) A rapid appraisal can be carried out at the time the saver joins the scheme. Thus, the Bausparkassen in West Germany and the HDFC in India have a waiting period of several days before approving the contract. The appraisal process, even if not very thorough, has to be extensive in terms of the number of case files and rapid in terms of the number of days it takes.

(b) The opening of accounts for non-wage earners entails more complex and therefore more costly appraisals. Will the institution, for the sake of management economy, not tend -- explicitly or implicitly -- to reject such savers or at least devote little effort to finding them?

Generally speaking, housing saving schemes are less complex to operate than other banking activities. On the utilization side, the loans in question are secured by mortgage. On the resources side, the specific deposit accounts are credited on a fixed date and withdrawals are not permitted. Cash operations are limited to opening of the accounts, credit operations for deposit or transfer, and closures; management costs are limited.

Conversely, account has to be taken of the great sensitivity of the housing finance sector vis-à-vis the finance sector and the housing sector. Sectoral studies, the obtaining of guarantees and the provision of necessary assistance (technical and financial) to individual borrowers entail supplemental costs that have to be absorbed into the intermediation margin.

The permanent liquidity risk calls for delicate management of available resources and continuous updating of financial projections. The financial and cash-handling services have to be relatively well-staffed. Overall, however, the aggregate intermediation cost of institutions operating contractual housing savings schemes can be regarded as lower than in the other sectors.

If the scheme is operated by a single specialized institution (or a single network), which is commonly the case in developing countries, there is an additional risk stemming from segmentation of the market.

Insufficient competition between savings mobilization institutions can place the specialized housing institution in a quasi-monopoly situation. The possession of a "captive" clientele can result in excessive intermediation margins and a certain in management laxity. For this reason, while it is sometimes necessary to have certain institutions specialize within specific sectors, the possibility must always be retained for the multiservice networks to offer similar or identical financial instruments.

There is evidence of a general tendency of specialized housing savings institutions to evolve toward multiservice operations. The process is inevitable, both to diversify their resources and to hold on to their clientele.
We have seen that the contractual system was intrinsically out of balance and that the savings deposited under the schemes did not suffice to cover utilizations. This means that supplemental resources have to be raised. The fact that the most abundant and most stable savings are those of the public leads specialized institutions to offer differentiated savings plans in order to attract cheap but less liquid resources and/or more expensive but more long-term resources. 7/

In conjunction with the basic question of its operations financing capacity, the institution has to consider the quality of the service offered to its clients. For some of these clients, at least in developing countries, the housing savings account is their first bank account.

To avoid savers having to travel every month to make their deposits, the question arises sooner or later of opening a demand account with the institution which then makes credits to the savings scheme under a standing order. The institution managing the savings scheme is naturally led to offer a complete "package" of services which are mutually reinforcing, through simpler and more coherent management of savers' total incomes.

4.5 Commercial strategy

The object of a commercial strategy is to promote a product on a given market. To that end, the institution must clearly define its long-term objectives, identify its potential clientele and make the necessary reciprocal adjustments to maximize the impact of its activities (on the resources and/or utilizations side).

4.5.1 The "product" to be promoted is the housing savings scheme. This may be regarded as a good "product" to the extent that it meets an objective need that is widely expressed by all strata of the population.

In the developing countries, probably more than elsewhere, a banking instrument that combines the concepts of saving and housing 8/ can be an excellent basic product attractive to population groups that do not yet receive banking services.

The image of the product -- and the institution, if the product is offered by a specialized entity -- in the eyes of the public will be all the better for being linked to a physical and concrete element: a dwelling unit.

Similarly, publicity is all the less essential the more simply the scheme works. In that connection, the institution must be able to utilize, in a coordinated fashion, both the formal information networks (the media) and the informal networks. The impact of the information passed on through the latter channels ("by word of mouth") can be substantial in countries whose populations are still far from being saturated by official information, which is frequently insipid because excessively controlled.

The publicity aspect of a commercial strategy is less essential in the case of a contractual than of an unrestricted housing savings scheme.
In the case of a contractual scheme, if it is operated by a multiservice network, the latter will place the new instrument among its existing clientele without incurring any large market prospecting expenses. If it is operated by a specialized network -- in the shape of an institution -- the mechanical and contractual link between saving and housing will be readily understandable and easily passed on within households.

In the case of an unrestricted housing saving scheme, on the other hand, is a more complicated and longer process to create an association of ideas among households between:

(a) saving,
(b) housing, and
(c) the institution operating the combined scheme.

Financial association between these two types of activities will be possible only provided a psychological and emotional link has previously been established between these two concepts among a certain number of individuals.

The competition against which the housing saving scheme must arm itself stems essentially from the other investment instruments offered to borrowers.

The orientations of the saver clientele -- not motivated primarily by the right to a loan -- can vary according to the advantages offered by this or the other instrument. This has been clearly apparent in France since 1982, in the form of shifts of housing savings toward the financial market consequent on the creation of new instruments offering higher yields. However, the capacity of institutions operating housing savings schemes to adopt a true commercial strategy is open to doubt since the parameters that determine the relative attractiveness of their product are outside their control. It is the government that, in the context of its economic policy, regulates the admission of savings instruments to the financial market, their form, their gross interest rates (in part) and their tax treatment. This makes the room for maneuver of institutions operating contractual schemes particularly narrow: quality of service and quickness of operation.

The operation of a housing savings scheme inevitably leads the institution to consider widening its activities. We have already seen that a contractual scheme could not achieve financial equilibrium without the injection of supplemental resources. In cash-flow terms, therefore, the institution already found itself compelled either to refinance with other financial intermediaries or to offer supplementary instruments itself in order to mobilize public savings not tied to the right to a loan. This obligation is strengthened by a second, commercial reason:

On the one hand, the management of a savings scheme is facilitated if the customer can open a parallel account to which the amount prescribed in the contract can be debited at regular intervals for transfer to the savings plan.
Opening up to other financial instruments, initially intended simply as a means of regularizing payments, leads progressively toward more complete diversification.

The personal relationship is perhaps more essential in banking than in any other commercial activity. It is probably of even greater importance in developing countries, where interpersonal relationships embody a larger number of subjective factors than in the present Western world. Generally speaking, customers want all the banking services to be available to them at the same counter.

There is therefore a tendency on both sides -- the banker and the customer -- to want to broaden the housing savings scheme into a diversified package of products.

4.5.2 The market (the households to which the housing savings scheme is directed) must be sufficiently large in numbers and must have qualitative goals that the scheme can meet. The institution's commercial policy must therefore take account of demand from two angles:

(a) There must be adequate capacity to absorb the product, which means that non-financial obstacles must be removed so that households regard membership of the housing savings scheme as an effective means of obtaining housing.

(b) It must be possible to divide the potential pool of customers into motivation categories and to offer a specific instrument to each category so as to maximize resource mobilization without incurring equivalent utilization commitments.

The first requirement is met to a much better extent in the developed than in the developing countries. The West German and French systems have been able to expand because a housing market truly existed in those countries, in the form of viabilized sites and housing offered for sale.

In contrast, the high saver dropout rate in Tunisia and the lack of interest in the system on the part of potential savers in Cameroon are due to the fact that households have become aware that financing is only one housing input among others, and is not, in their country, the essential obstacle to acquisition of ownership.

The second requirement is also met all too rarely in developing countries. An instrument with identical characteristics 9/ is offered to customers who vary widely in age, income, occupational status, geographic location, household size, and so on.

The end result of this excessively simplistic approach to the market is the formation of a limited group of customers who match the form of the product: generally speaking, the urban and salaried middle class. 10/
Finally, the specialized financial institutions are often public-sector entities, a status that is ill-suited to a dynamic and commercial approach to the market; that situation is not linked to the legal nature of the institution but rather to the mentality of its staff.

4.5.3 The institution will be all the more stimulated to pursue a dynamic (and therefore costly) commercial policy the more convinced it is of the value of the instrument. It may therefore be assumed that the commercial strategy of a specialized institution operating on a non-captive market will be more dynamic and efficient than that of a multiservice institution that is placing a particular savings instrument which is only one among others, in compliance with the instructions of monetary authorities who have conceived its form and its purpose.

For that reason, a commercial strategy designed to market a housing savings instrument can be defined by subjective as well as objective factors: in the developing countries, a private banking sector geared to short-term commercial operations may sometimes be less dynamic than a public institution specializing in housing. Similarly, the image of the ordinary banking network among the public, particularly the segment that is not yet reached by the banks, can be detrimental to the operation of a housing savings instrument designed to serve the masses.

Conversely, a short intermediation network accommodating small savings and real-estate loans within a single institution is an attraction because the public can understand it easily.

In conclusion, the institution's commercial strategy will depend on the structure of the financial market, the existence or otherwise of numerous alternative instruments, the social-class structure of the market, and so on.

However, there appear to be three constants for the viability of the system:

- it must progressively diversify in order to supplement its resources;
- it must generate its own demand through upstream and downstream activities;
- there must be no parallel unrestricted housing finance scheme, \textit{\textit{a fortiori}} one that is also state-assisted.
5. IMPACT OF HOUSING SAVINGS SCHEMES ON NATIONAL FINANCIAL SYSTEMS

5.1 Net savings or savings shift

Savings statistics customarily distinguish between real-estate and financial savings of households. On the other hand, certain cyclical policy measures designed to reduce the relative advantage of housing savings may have caused savings (not motivated by the right to a loan) to be transferred to alternative financial instruments.

These two factors could have given the impression that within a given savings rate shifts could take place between instruments in response to cyclical advantages offered by one or the other.

This belief is incorrect: only a small part of household savings can be assimilated to floating capital in quest of investment opportunities. We need to distinguish between short-term movements and long-term trend.

Over time, the structure of household savings shows relatively stable trends within which housing remains the priority motivation.

Changes in social stratification, decline in household size, and urbanization are three major factors in the expansion of savings intended for housing. In France, for example, in 1970 the household saving rate was in the range 15-18%, estimated to be double the rate half a century earlier. This suggests that over the long term the saving rate rises with income.

But the structure of household saving is more significant than its amount. Thus, in 1890, of total household savings:

- persons of independent means (rentiers) accounted for 55%,
- self-employed persons (individuals) (mainly farmers) for 38%,
- and wage-earners for only 7%.

By 1970, the share of non-actives in total savings had fallen to 10% and that of self-employed persons was holding at 34%, while that of wage-earners had risen to 56% (of which middle and upper level white-collar workers accounted for 40%).

This distribution of savings reflects not only the population and income level structures but also the savings-rate differences between socio-occupational categories:

1890: persons of independent means 25%
1970: non-active population 7%
1890: wage-earners 2%
1970: upper management 20%, manual workers 6%

These trend variations (membership of the CSPs, behavior, redistribution mechanisms, etc.) produce changes in the structure of household assets. Housing, which accounted for 15% of household assets in 1890, today represents 50%. Total real assets has risen in a century from 65% to 75%. Conversely, the total of financial assets has fallen from 35% to 25%.

This fall is due to a relative reduction in movable securities from 24% to 8%, not compensated for by the growth in other financial assets (fiduciary and bank money), from 11% to 17%, with the expansion of the banking networks.

We may therefore conclude that, for structural reasons, over the long term household saving grows in absolute amount and that the share thereof allocated to housing grows in both absolute and relative terms.

The existence of housing savings schemes, or any other housing savings system, can only accelerate this trend.

Over the medium term, a number of findings have been made concerning the behavior of households in developed as well as in developing countries.

* Housing is the primary stimulus to household saving. The lower the household's income, the higher this savings motivation.

For most households there is no competition between real-estate savings and financial savings: the construction or purchase of a dwelling is commonly the sole motive for regular saving during the economically active years and the principal form of protecting the value of savings for people of mature age.

* The savings habit, during the saving phase then during the loan repayment phase, does not cease upon accession to ownership.

It is then redirected toward other savings instruments with a more financial purpose. Real-estate saving is a behavioral phase of transition toward financial saving.

* A housing policy that favors accession to ownership (rather than renting) helps boost the overall household savings rate because the acceptable repayment effort for an owner is higher than the acceptable rental effort for a tenant.

* In some cultures the concept of return on investment can be morally unacceptable. In contrast, saving with a view to acquiring a dwelling "intended to protect the family" is perceived in all societies not only as a "financially positive" but above all as a "morally good" act.

This ethical aspect of housing savings, if properly incorporated into the definition of the instrument, can have a very wide impact among the lower-income groups, which are the major repositories of traditional cultural values.
Many countries with highly centralized governments, particularly in the developing world, have formulated housing policies based on public saving (quite unobtainable) and institutional saving (compulsory investment in enterprises). When, faced with a resources shortfall, they turn toward private savings, which can be mobilized through housing savings schemes, they help to add long-term savings, formed spontaneously by households, to the savings levied by decree. The result is a net savings increment in macroeconomic terms.

This incremental saving is all the greater if the pre-existing housing finance system did not impose any prior saving obligation. That is the case in countries where the state intervenes on a large scale through subsidy, premium, special loan and other schemes. It was the case in France, where the housing savings scheme introduced in 1970 did not replace the existing highly diversified scheme of assistance measures but rather supplemented them. It would be the case in Cameroon or Morocco if well adapted housing savings systems were instituted there tomorrow.

The simultaneous existence in developing countries of an official banking system which bypasses the majority of households (minimum opening deposit, unsuitability of instruments, and so on) and informal savings circulating "in the neighborhoods" is socially and financially inefficient. The creation of housing banks in French-speaking Africa showed that offering simple and well adapted instruments (housing savings passbook) attracted a working-class clientele the bulk of whom were entering the banking circuit for the first time. Access to a "legal," "official," "formal" dwelling can be the best means of linking together the institutional financial system and the informal savings networks.

The whole of the foregoing considerations apply to savings channeled to housing, without offering any prejudgment as to the nature of the most appropriate housing savings system for achieving the savings mobilization and housing finance goals.

This means that while housing savings represents, for the most part, net incremental savings, the contractual housing savings system is not necessarily the most efficient method of achieving that goal.

5.2 The need for supplemental loans

As we saw earlier, a contractual housing scheme can show a cash-flow imbalance for more than a decade after it starts up, because its supplemental financial needs can exceed its internal resources. This therefore represents the first lever effect of a contractual housing savings system on the national financial sector.

In addition to this refinancing need inherent in the actual mechanism of housing savings, there is a second lever effect on the nation's financial resources arising out of the need for loans to supplement the housing savings loan.
The reason is that, because the savings multiplier factor is relatively small, the housing savings loan does not usually cover the difference between the cost of the dwelling and the savings the buyer has accumulated.

Account also has to be taken of inflation, which can raise the eventual price of the dwelling above what the saver estimated on the contract date. 3/

Finally, the housing market is not perfectly fluid, and incomes can vary. It is therefore essential, in order to bring the purchaser's financing plan into balance, that the possibility be provided of a supplemental loan to bring the "principal" housing savings loan up to the necessary amount.

This second lever effect can be important to the mobilizing of resources.

In France, for example, in 1980 the total of outstanding supplemental loans made by the banks was nearly as large as the total of principal housing savings loans.

* The introduction of supplemental loans is thus essential to the flexibility of the system: it allows a better balance to be maintained between housing supply and demand. Lack of this facility can cause disappointed savers to withdraw from the scheme; failure to plot in this factor may explain the lack of success of the scheme instituted in Morocco in 1972.

Exceptionally, a contractual housing savings scheme may be not a net seeker but a net supplier of capital on the financial market. This situation occurs during the first few years of operation of the scheme, when total outstanding loan portfolio is still smaller than total outstanding deposits.

To the extent that the system is state-supported, the government retains the right to supervise the use of these surpluses: it requires the institutions to keep them within the sector. It is from these resources that supplemental loans have been financed in France, for example.

This formula is particularly interesting for the banks, since resources obtained in this way at low cost are converted into loans bearing interest on market terms.

The making of supplemental loans can be jeopardized if they are included in any credit-capping ceilings imposed on the banks. This can cause the institutions to reject or delay applications and thereby reduce the overall attractiveness of the housing savings instrument. Thus, in France the limits on supplemental lending imposed in 1980 have diverted part of the clientele. Bearing in mind that until then a supplemental loan could represent up to three times the maximum amount of the principal loan, it is understandable that putting a quota on supplemental loans can have led many savers to doubt the very principle of housing purchase.
To protect itself against this risk, an institution should have a high initial capital at its disposal. But because of the long loan recovery period for housing loans, the sums required to ensure this financial independence would be so large that such a scheme would be hardly feasible even in principle.

5.3 Dependence on the State

Contractual housing savings schemes, whatever their practical modalities, have at least one point in common: financial assistance by the state. Two explanations can be cited, one financial and the other historical:

(a) A contractual savings system is a particular form of deferred credit. It differs from a savings and credit loan mutual, and has a greater impact, in that it supplements its borrower-saver resources by resources obtained from non-borrower savers. This technique increases the resource pool and therefore the institution's intermediation capacity. However, it also raises the average cost of its funds. Remuneration of the "good brothers" has a relatively high cost which cannot be absorbed in average loan cost without jeopardizing loan access. The state therefore steps in to assume the cost of this supplemental resource mobilization, directly or indirectly, and thereby allow the system to widen its base in terms of savers and borrowers.

(b) The second explanation has perhaps more to do with history and ideology. The countries with contractual schemes include some centralized states whose governments have introduced schemes of this kind as an extension of previous policies or have taken the view that the entire housing delivery system is -- directly or indirectly -- the responsibility of the state.

Would the contractual system not meet the two priority criteria applied by the state: obligatoriness and cost?

The extension of "enforced" saving, public or institutional, would mean that henceforth there would be a system of private savers "forced" by contract to save regularly. Similarly, the budget item representing the cost of direct housing financing would be replaced by the cost of subsidizing a private savings mobilization system.

This "centralizing" and "macroeconomic" approach can be found in young developing nations where attention focuses on the mechanism, in contrast to the pragmatic approach, in which the primary emphasis is on the specialized institutions' commercial strategy and on sociocultural adaptation of their savings instruments to the local market.

State assistance can take a wide variety of forms, which we can group under three main headings, as follows:
(a) Subsidies to households

These take the form of savers' interest premiums or borrowers' interest subsidies, tax exemptions on interest and premiums received, exemption or reduction of registration duties on housing financed under the contract, and so on.

(b) Subsidies to institutions

These take the form of capital contributions, operating or balancing subsidies, exemption from duties on loans made, and so on.

In the long run, all of these measures, by reducing the intermediation cost, indirectly benefit the savers and/or the borrowers.

(c) General measures

The most important of these is in many cases the guarantee of liquidity in the event of massive withdrawals by savers (as in the 1929 crisis) or, less dramatically, of refinancing by the Treasury or the Central Bank in case of need due to lending trends.

The assistance can be more indirect, through exemption of the housing savings system (on either the resources or the utilizations side) from banking control measures: credit capping, compulsory reserves ratio, liquidity ratios, etc.

In the developed countries, subsidizing a housing savings system is seen to be more efficient than direct financing. The lever effect is used judiciously and enhances the efficiency of public expenditure. In France, for example, the cost of state maintenance of the system in 1982 reached F 7 billion (housing savings premiums F 4.5 billion plus tax exemptions F 2.5 billion), giving a global cost of the housing policy of F 80 billion. In that year 500,000 new principal housing savings loans were granted, for an aggregate amount of F 37 billion.

On the basis of aggregate real-estate lending of F 180 billion distributed in that year, and assuming supplemental lending to be of the same order of magnitude as principal loans, we can estimate that the lever effect of the state's expenditure is 1:10, and that nearly 40% of annual construction projects are state-dependent. It is not certain, however, that such a system, utilizing the public expenditure multiplier effect, can be transferred "as is" to the developing countries.

5.4 The contractual system and inflation

Inflation is often regarded as an incentive to consumption: households prefer to spend their income quickly before its purchasing power declines.

Conversely, some authors stress the factor of "real cash holdings": faced with inflation, households keep an ever increasing amount of cash in hand in order to maintain a constant purchasing power.
The situation of stagflation through which the world is currently passing should make it possible to reconcile these two opposite approaches. It can be assumed that the marked slowdown in the growth of household purchasing power since the first oil shock has produced changes in behavior. The relative fall in income has led households to draw down prior savings in order to maintain the previous level of living. Following a period of relative inertia, precautionary saving expanded with the increased threat of unemployment. There is thus adaptation to an actual or anticipated fall in income in the form of reduced consumption, particularly of durable goods.

Depending on the social structure, the respective shares of the self-employed and wage-earner groups, the existence of social protection systems, and so on, the rate of saving will be subject to two opposite influences: the income effect (downward) and the precautionary effect (upward). Similarly, we need to distinguish between immediate effects stemming from short-term reactions and medium- and long-term effects reflecting trends.

It can be assumed that in the developing countries inflation, by penalizing the hoarding of cash, encourages households that have a preference for liquidity (which are in the majority) to deposit their savings, against remuneration, with the banks.

Similarly, it can be expected that monetary expansion will spontaneously increase households' deposits, even if the rise is only nominal and not real.

For the institution, however, inflation brings risks of a special kind.

In order to maintain the stability of its resources, the institution is compelled to raise the nominal interest rates it pays on saving schemes. However, it is at the same time bound by loan contracts denominated at constant rates which it cannot update to reflect the (new) cost of its resources. The conversion risk that is latent during normal times becomes a permanent threat during a period of inflation.

[Translator's note: Here we enter a poorly xeroxed section of the original (page 69), involving some guesswork.]

Long-term and fixed-rate loans become unrealistic.

An explanation for the success of the West German housing system has been found in the notable stability of the economy, prices and rates in that country; the Bausparkassen could not have survived in Brazil.

The second negative effect of inflation is its tendency to undermine households' solvency.
On the one hand, the nominal rise in lending rates makes it difficult for them to meet their repayment obligations, at best during the early instalments and at worst throughout the amortization period, if incomes rise less rapidly than prices. This latter phenomenon is all the more common in the developing countries because of low wage negotiation power.

On the other hand, inflation enhances the role of housing, in relation to other investments, as a means of safeguarding the value of savings. The stimulation of demand for this purpose, combined with the maintenance of normal demand, can cause housing prices to rise faster than inflation. The waiting period during the saving phase is then all the more .... (? irritating). Assuming also that, to combat inflation, the government limits expansion of the money supply and places a ceiling on credit (including supplemental loans), the contractual system does not appear to be well suited to an inflationary world.

A policy of variable rates (both deposit and borrowing rates) would eliminate some of these difficulties. However, such a policy (? seems never to be found) in association with a contractual housing savings system. Could this be because it would involve excessively high management costs? Or because it reflects a pragmatic approach, alien to the designers of such systems?

5.5 Adaptation to housing market conditions

A contractual housing savings scheme will be all the more efficient, the more firmly it is dovetailed into the national housing policy. It has to be remembered that a dwelling is not just an orderly arrangement of materials, however .... they may be. It is the product of a combination of inputs: site, administrative permit, utility networks, materials, labor force, community infrastructure, and financing. In the absence of any one of these inputs, construction is at worst impossible and at best incomplete.

(End of defective section)

This means that having a housing financing policy does not by itself solve anything unless the inputs are furnished at the same time. To be effective, the contractual system mechanisms must incorporate procedures for dealing with innumerable special cases, bottlenecks, lack of supplemental inputs, and so on. Unless it is realistic, a contractual scheme will remain a creation of the mind without any impact on either the financial sector or the housing sector. A number of givens have to be taken into account in order to reduce the risk that the scheme will be poorly adapted to the prevailing needs and will therefore fail:

* The financing scheme must be tailored to the magnitude of the demand. It must therefore take into account the entirety of the country's needs, according to social category, type of housing and geographic area. The instrument created cannot succeed unless it is targeted to a specific social category with specific behavior patterns.
A contractual, or non-contractual, system must analyze all possible forms of demand and diversify the instruments it offers in order to cover the entirety of the needs that exist.

* "National adaptation" of a housing savings system calls for realistic adjustment to the country's economic and institutional characteristics: standards matched to incomes, guarantee mechanisms matched to real administrative capacities, disbursement rate matched to savers' incomes and cultural patterns, etc.

* The system must be closely integrated with housing policy in terms of the essential strategic options, e.g. rental policy or ownership policy; public or individual responsibility for works construction; infrastructure costs borne at the national or the local level, and so on.

Thus the lack of a rental policy, by forcing young households to look toward ownership from the very beginning, will make it difficult for them to build up prior savings. Conversely, a rental policy implies the steering of long-term saving flows toward a specific network, to the detriment of potential saver-borrowers. Similarly, whether the housing delivery system is based on a few public promoters, on private promoters or on individual self-help construction ipso facto implies specific financing circuits.

The design of a financing system, and particularly its "housing savings scheme" component, will therefore have to be tied in closely to the political choices made concerning the housing delivery system.
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CONCLUSION

Contractual housing savings schemes have met with great success in the European countries where they have been introduced.

Although they were instituted only recently -- 15 years ago in the case of France -- the results are important in sector terms. In 1983, housing savings represented more than 10% of total outstanding housing loans and more than 20% of new loans made during the year. This success is explained by the respective advantages that accrue to the various partners:

- The borrower-saver earns a modest return on his investment but he also obtains a guaranteed right to a real-estate loan. While it is true that this loan covers only part of the construction cost, the institution that administers his savings scheme will probably grant him a supplemental loan on terms which may be hard but will allow him to carry out the proposed investment.

- The "investor"-saver 1/ is not seeking to acquire a dwelling; he usually already has at least one. He is attracted by a savings instrument that offers a high return and, if possible, ancillary tax advantages in order to avoid as far as possible the heavy taxation levied on his income bracket.

- The banking institution earns attractive profit margins on its clients' deposits during the saving phase. It is true, that in the event that the loan is made, the margin becomes negative because the rates are capped. But having regard to the percentage of clients that withdraw from the scheme before the end of the saving phase and the large number (60%) of savers who do not intend to borrow, the risk remains low in spite of everything.

- Finally, this policy involves a cost to the state (F 7 billion in 1982 and F 9 billion in 1983), 2/ in the form of savings premiums and tax exemptions. But this represents only one-tenth of its housing policy. In cost-benefit terms, utilization of the public savings/private savings lever effect is, in its view, much more efficient than its customary interventions.

There is, however, a counterpart to these advantages in the precariousness of such a system, and the risk that it faces.

The housing savings scheme generates only part of the resources that it needs to maintain financial equilibrium.

It faces two basic risks:

- The first is the liquidity risk normal to any financial institution: withdrawal of their savings by its clients.
The second is more specific: the risk that all the depositors that have complied with the terms of their contract will exercise their right to a loan.

To cover this latter risk, for the parameters currently used in France (a five-year saving period and a multiplier of 2.5), the number of clients would have to increase by more than 12% a year. Such rates would be highly unlikely outside inflation periods.

The system is viable today because less than one-half of savers exercise their right to a loan. But this equilibrium is very unstable because simply widening the loan opportunities (for example, admission of second homes) or reducing the tax advantages of these investments would suffice to reduce the proportion of "good brothers" below the breakeven point.

In sum, such a system is viable only on condition that three requirements are met:

- the system must operate as part of a well-organized financial sector provided with long-term resources and covering the supplemental financing needs 3/ of the housing savings scheme only;
- the state must meet the cost of converting short-term resources into long-term savings; only the state can subsidize the remuneration of about one-half of the system's resources (that of the non-borrowers);
- the parameters must be constantly re-evaluated and modified in light of results.

In the developing countries, the vulnerability of a contractual housing savings scheme is aggravated by a number of supplemental economic, financial and institutional constraints. The cumulative effect of these constraints casts doubt on the viability of such a system in those countries.

* The first constraint is the low volume of public savings and the inadequate budget capacity to implement a policy of massive subsidizing of housing.

For example, let us compare the cases of France and the Ivory Coast in 1982. The F 80 billion expended by the French Government on its housing policy would represent, for the same population, 80% of the Ivory Coast's budget. The component "major savings scheme premiums and exemptions" would by itself represent at least 7% of the country's total budget.

It is clear that the scheme cannot be replicated without modification.

* The commercial banks undoubtedly take a very cautious attitude to a savings instrument that is intended to be distributed among all strata of the population. The lack of a refinancing guarantee in case of need (which is certain to arise if the numbers of "good brothers" are limited, which is likely), the fear of utilizing an excessively large portion of
their total loan portfolio (which is in many cases capped), the lack of knowledge about a politically sensitive and institutionally imprecise sector (land tenure status and provision of security), and so on all discourage them from handling such an instrument. Hence the need to entrust housing savings to a specialized institution with the certain advantage of expertise but the risk of lax management if it has a captive market.

* The attitude of households, particularly their preference for liquidity, is based on cultural factors but also on objective factors (precautionary saving). The employment structure and irregularity of income are ill-suited to a scheme that appears to be intended for "civil servants" and "well-off people in the towns."

* The personal contribution is not the basic obstacle to obtaining a bank loan. Generally speaking, on the basis of the loan appraisal and approval procedures followed by the banks, the receipt of a wage and the possession of an "official" right to the land are regarded as the true keys to access to a loan.

Until such time as new mechanisms eliminating these two constraints have been established there would appear to be little point in mobilizing supplemental resources.

* Finally, the necessary ongoing adjustments to a contractual scheme can only be made within the framework of a fairly sophisticated financial sector in which relationships between the banks and the Treasury are good, in which the Central Bank assigns clear importance to household savings and the construction sector in development, and in which the government does not tend to palm its responsibilities off on to the bankers through a rather arbitrary policy of administered rates.

It is not clear that these requirements are systematically met in the developing countries.

The difficulties faced by contractual housing savings schemes in the developing countries do not justify pessimism -- on the contrary. Development, i.e. national capital formation, must be based on the mobilization of domestic resources.

Household saving lies at the root of every investment. Observation of the contractual housing savings system has shown us that, in terms of principle, households have universally and unreservedly accepted the linkage between saving and housing.

The limitations of the system were found to lie in its mechanical procedures, often ill adapted to a complex world, and in the special constraints that exist in the developing countries.
The way round these difficulties could lie in the choice of an
unrestricted housing savings scheme, i.e. a scheme based on the mobilization
of household savings which utilizes the right to the real-estate loan as the
primary motivation but rejects any rigidity likely to jeopardize it in the
inflationary world in which we live today.

M. CHRETIEN

Digne, June 1985
Notes for Chapter 1

1/ This latter aspect nevertheless remains essential; it must not be underestimated.

2/ Assuming that none of the members has behaved dishonestly (e.g. has absconded after collecting his "turn").

3/ The risks derive more from the "political" dimension of housing than from the purely technical setting up of the loan.

4/ Except in the United Kingdom, at least since late 1984.

5/ Note the direct "line of descent" from the tontine: originally, the members paid in a fixed and regular quota, then used these funds to acquire a site on which to build a house which was awarded to a member selected by lot.

6/ Unlike the institutions operating unrestricted housing savings schemes, which can only be specialized.

7/ **Purpose:** to provide accommodation for national subordinate civil servants during the period of transition to Independence.
   **Means:** long-term loans by the Central Fund for Economic Cooperation (Caisse Centrale de Coopération Economique) at 3.5% and 20 years term, allowing a rental housing policy.
Notes for Chapter 2

1/ Apart from the advantages gained from the housing savings system.
3/ Assuming that the household has selected a 5-year saving plan.
4/ 5% if the deposits are made in foreign exchange.
5/ Plus 2% per child; ceiling DM 1,600 per couple.
6/ This means that he will have to build up savings equal to a personal contribution of 40% of the contract cost.
Notes for Chapter 3

1/ We therefore believe that the existence or non-existence of a social protection system is a more important factor than absolute income level. Paradoxically, would the US financial instruments not be better suited to the developing countries than those of the European type?

2/ If the housing savings scheme is limited, on the government's instructions, to purchase of the first principal residence (which it usually is).

3/ An effect consciously pursued (as in Ireland) or a perverse effect resulting from rent control legislation (as in Portugal).

4/ Even if the objective likelihood of such measures is ridiculously small, it is present in the subconscious of many people.

5/ Even if the theoretical procedures permit quarterly or half-yearly payments, the association in the mind of the public between the housing savings system and "modern-sector" wage-earners can spontaneously exclude, in fact if not in law, the other categories of potential savers.

6/ Over a normal period of 4 years.

7/ Having regard to the wage scale to which savers must belong. On the basis of a saving rate equal to one-third of their income, this clause implies:

- either a saving rate of two-thirds(!)
- or an unforeseen inflow of funds (?)
- or family loans
- or that the saver lied about his income when the contract was signed.

Because of this, the amount of the loan will be limited but it will be obtained twice as fast.

8/ As we have already seen, this subsidy can take the indirect form of a savings premium (West Germany), in which case the institution can allow itself to pay low deposit interest and therefore charge low loan interest.

9/ Periods of 8 years are currently noted in West Germany.

10/ On the basis of an inflation rate of 12% (low in the developing countries), a multiplier of 2 and a saving period of 4 years, the amount actually available is only two-thirds of its nominal value.

11/ This is not a matter of supplemental resources needed by the institution in order to keep the housing savings scheme (utilizations/resources) in balance but supplemental resources needed by the borrower to "tie up" his financing plan. The two types of supplemental resources are cumulative.

12/ It will be recalled that in France housing savings loans are permitted for expansion and rehabilitation works.
Notes for Chapter 4

1/ This depends of course on the hypotheses of the model; however, those used in the above example are relatively realistic — or at least close to several specific cases.

2/ This does not mean that satisfaction of the sector’s needs is assured in such a case; quite the contrary.

3/ All other factors remaining unchanged, this threshold should currently be of the order of 55% in France.

4/ Assuming a probable rise in income during the first phase of the contract.

5/ With the exception of the factor regularity, all the positive factors deriving from housing savings are just as valid for a contractual as for an unrestricted scheme.

6/ In Niger the delinquency rate in 1981 was higher among cement self-builders than among adobe self-builders.

7/ Perpetual choice between liquidity risk (withdrawal, etc.) and operating risk.

8/ Regardless of whether they are associated in an unrestricted or a contractual scheme.

9/ The only variable is the amount of the loan.

10/ Numerically, a relatively small class in the developing countries.

11/ That is, without any prior saving obligation.
Notes for Chapter 5

1/ For example, reduction in the scheme's deposit rate in conjunction with tax exemption of a new competing instrument.

2/ Savings/available income.

3/ On the basis of 12% annual inflation and a 5-year saving phase, the price of the dwelling will have risen by 75%.

4/ One could imagine a contractual scheme paying a low deposit interest rate (or even zero interest, in the case of a tontine) but only if the savers waived the return on their investment because they desired only the right to a cheap loan.

5/ That is, "in place of" or "in addition to."

6/ Which in some countries, since it enjoys little autonomy, can be assimilated to "the state."

7/ Including all expenses, direct and indirect, and exemptions.

8/ It will be recalled that in France housing savings loans are permitted for repair/improvement works. These loans account for 50% of the total number of loans and one-third of total amount. Purchase of existing housing accounts for 36% of the number and 40% of the amount of loans, and acquisition of new housing for only 14% of the number and 25% of the amount.

9/ For housing savings only. For other operations, on the contrary, it is very low or even zero.
Notes for the Conclusion

1/ In the Anglo-Saxon sense of the term.
2/ In France.
3/ From the point of view of the institution and that of the borrower.
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FRANCE
HOUSING SAVINGS ACCOUNTS (CEls) AND HOUSING SAVINGS SCHEMES (PEls)
CUMULATIVE NUMBERS

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HOUSING SAVINGS ACCOUNTS (CELS) AND HOUSING SAVINGS SCHEMES (PELS)

NET OUTSTANDING AMOUNT

(millions of francs)

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HOUSING SAVINGS ACCOUNTS (CELs) AND HOUSING SAVINGS SCHEMES (PELs)

COMPARATIVE EVOLUTION OF OUTSTANDING DEPOSITS AND OUTSTANDING LOAN PORTFOLIO

(billions of francs)

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HOUSING SAVINGS ACCOUNTS (CELS) AND HOUSING SAVINGS' SCHEMES (PELS)

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**HOUSING SAVINGS ACCOUNTS (CELS) AND HOUSING SAVINGS SCHEMES (PELS)**

### SITUATION OF LOANS

(billions of francs)

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HOUSING SAVINGS ACCOUNTS (CELs)

NETWORKS SHARE
(as % of number of accounts opened)
Unit = 1,000

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FRANCE

HOUSING SAVINGS ACCOUNTS (CELS)

NETWORKS SHARE

(as % of total amount of outstanding deposits)

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**FRANCE**

**HOUSING SAVINGS SCHEMES (PELs)**

**NETWORKS SHARE**

(as % of number of accounts opened)

(cumulative)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>ORDINARY SAVINGS FUNDS</th>
<th>NATIONAL SAVINGS FUND</th>
<th>TOTAL FOR SAVINGS FUNDS</th>
<th>BANKS</th>
<th>GRAND TOTAL</th>
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FRANCE

HOUSING SAVINGS SCHEMES (PELs)

NETWORKS SHARE

(as % of total amount of outstanding deposits)

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<th>YEAR</th>
<th>ORDINARY SAVINGS FUNDS</th>
<th>NATIONAL SAVINGS FUND</th>
<th>TOTAL FOR SAVINGS FUNDS</th>
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## France

### Housing Savings Accounts (CEls) and Housing Savings Schemes (PEls)

#### Total Outstanding Disbursed Loans (%)

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Housing Savings Schemes (PELs)

PARAMETERS

WEST GERMANY (December 1983)

1. SAVING PHASE

Initial amount
Minimum regular payment 5% of contract/year (or 0.42%/month)
Minimum term 18 months
Minimum savings at end of period 40% of contract (i.e. of proposed investment) or 50% (at option)
Deposit interest 40% contract: 2.5%
50% contract: 4.5%
State premium Bonus* = 14% of annual savings (+ 2% per child), with a ceiling of DM 800

*If family income does not exceed DM 48,000 (+ DM 1,800 per child)

Tax advantages Exemption of interest up to DM 400 (DM 800 per couple) and of bonus

2. CREDIT PHASE

Loan purpose
Basis Savings accumulated
Ratio 1.5 (contribution = 40%)
Obligation to lend (Only if resources available; otherwise, waiting list)
Loan interest rate 4.5% if deposit rate is 2.5%
5.75% if deposit rate is 4.5%
Term 10-12 years
Supplemental loans Yes -- many
Advance loans Yes -- possible
## Housing Savings Accounts (CELs)

### PARAMETERS

**FRANCE (April 1985)**

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<td>Minimum deposit period</td>
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<td>Payment interval</td>
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<td>3.25% (max. F 7,500) in case of housing loan</td>
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<td>Exemption of interest and premium</td>
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<td>Maximum savings amount</td>
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<td>Basis</td>
<td>Cumulative deposit interest earned</td>
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<td>Ratio</td>
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<td>Loan ceiling</td>
<td>F 150,000</td>
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<td>Obligation to lend</td>
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<td>Maximum term</td>
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<td>Investment ceiling</td>
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<td>Supplemental loans</td>
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<td>Beneficiaries</td>
<td>Individuals</td>
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<td>Loan purpose</td>
<td>First and second houses, if new</td>
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<td>Lending rate</td>
<td>4.75%</td>
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## Annex 13

### Housing Savings Schemes (PELs)

#### PARAMETERS

**FRANCE (May 1985)**

---

### 1. PRIOR SAVINGS

- **Minimum opening amount**: F 1,500
- **Minimum deposit period**: 5 years
- **Payment interval**: Month/quarter/half-year
- **Minimum amount each deposit**: F 300/month or F 3,600/year
- **Deposit interest**: 9%
  - of which: State premium 3.7% (even in absence of loan)
- **Tax advantages**: Exemption of interest and premium
- **Maximum savings amount**: F 300,000
- **Availability**: No — withdrawals not permitted

---

### 2. LOAN GRANTED

- **Basis**: Cumulative deposit interest earned
- **Ratio**: 2.5
- **Loan ceiling**: F 400,000
- **Obligation to lend**: Yes
- **Maximum term**: 15 years
- **Investment ceiling**: --
- **Supplemental loans**: Yes, at market rate
- **Beneficiaries**: Individuals
- **Loan purpose**: Acquisition and all works: principal and secondary residence (if new)
- **Lending rate**: 7%
- **Tax advantages**: --
- **Advance loan possible?**: No
## Housing Savings Schemes (PELs)

### PARAMETERS

**INDIA (HDFC) (December 1984)**

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<td>Amount of proposed contract (= investment)</td>
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<td>Deposit interest</td>
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<td>Duration</td>
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<td>Basis</td>
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Housing Savings Schemes (PELs)

PARAMETERS

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<td>Loan ceiling</td>
</tr>
<tr>
<td>State premium</td>
</tr>
<tr>
<td>Security</td>
</tr>
<tr>
<td>Supplemental loans</td>
</tr>
<tr>
<td>Tax advantages</td>
</tr>
<tr>
<td>Advance loans</td>
</tr>
</tbody>
</table>
### Housing Savings Schemes (PELs) -- "A" PASSBOOKS

#### PARAMETERS

**CAMEROON (CFC) -- "A" PASSBOOKS (March 1983)**

<table>
<thead>
<tr>
<th>1. SAVING PHASE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum initial amount</td>
<td>CFAF 30,000</td>
</tr>
<tr>
<td>Minimum regular payment</td>
<td>CFAF 20,000</td>
</tr>
<tr>
<td>Subscribers</td>
<td>Individuals only</td>
</tr>
<tr>
<td>Deposit interval</td>
<td>Month/quarter/half-year</td>
</tr>
<tr>
<td>Deposit interest rate</td>
<td>0%</td>
</tr>
<tr>
<td>Account movements</td>
<td>Prohibited for 1 year; permitted thereafter</td>
</tr>
<tr>
<td>Tax advantages</td>
<td>Exemption (from IRPP) of interest and savings premium</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. CREDIT PHASE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Land and acquisition/construction/works for all categories of housing (even rental)</td>
</tr>
<tr>
<td>Ratio</td>
<td>(?)*</td>
</tr>
<tr>
<td>Loan term</td>
<td>2-10 years</td>
</tr>
<tr>
<td>Maximum amount</td>
<td>CFAF 5 million</td>
</tr>
<tr>
<td>Rate</td>
<td>12% p.a.</td>
</tr>
<tr>
<td>Supplemental loans</td>
<td>Yes, preferential loans granted by the institution</td>
</tr>
<tr>
<td>Tax advantages</td>
<td>Exemption of loans from the credit distribution tax (when associated with a social loan)</td>
</tr>
</tbody>
</table>

* "The amount and duration of the housing savings loan are determined in light of the average savings balance over the period of operation of the passbook." (R. Int.)
### Annex 17

### Housing Savings Schemes (PELs)

#### PARAMETERS

**MOROCCO -- PEOPLE'S BANKS (June 1980)**

<table>
<thead>
<tr>
<th><strong>1. SAVING PHASE</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum initial deposit</td>
<td>DH 500</td>
</tr>
<tr>
<td>Minimum regular payment</td>
<td>DH 100/month or DH 300/quarter</td>
</tr>
<tr>
<td>Period</td>
<td>24 months or 36 months (at option)</td>
</tr>
</tbody>
</table>
| Deposit interest rate | 24-month plan: 2.75%  
36-month plan: 3.25% |
| Availability | Advances possible at 1 month maximum but carry interest of 3.75% or 5.25% |
| Special conditions | -- |

---

<table>
<thead>
<tr>
<th><strong>2. CREDIT PHASE</strong></th>
<th></th>
</tr>
</thead>
</table>
| Loan ratio | 2-year plan: 4 x accumulated savings  
3-year plan: 5 x accumulated savings |
| Loan interest rate | 8.5% to 11% |
| Term | Not more than 10 years |
| Purpose | Construction/acquisition/works, principal residence |
Housing Savings Schemes (PELs)

PARAMETERS

MOROCCO (BMCI) (June 1980)

(This table is missing from the French original)
### Housing Savings Schemes (PELs)

#### PARAMETERS

**MOROCCO (BANQUE COMMERCIAL DU MAROC) (June 1980)**

<table>
<thead>
<tr>
<th>PHASE</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SAVING PHASE</strong></td>
<td></td>
</tr>
<tr>
<td>Minimum initial deposit</td>
<td>--</td>
</tr>
<tr>
<td>Minimum regular payment</td>
<td>DH 500/month (maximum DH 1,500/month)</td>
</tr>
<tr>
<td>Period</td>
<td>24 months</td>
</tr>
<tr>
<td>Deposit interest rate</td>
<td>3% p.a.</td>
</tr>
<tr>
<td>Availability</td>
<td>No</td>
</tr>
<tr>
<td>Special conditions</td>
<td>Minimum wage DH 2,000/month. Age under 50 years</td>
</tr>
<tr>
<td><strong>CREDIT PHASE</strong></td>
<td></td>
</tr>
<tr>
<td>Loan ratio</td>
<td>4 x accumulated savings</td>
</tr>
<tr>
<td>Loan interest rate</td>
<td>11% p.a.</td>
</tr>
<tr>
<td>Term</td>
<td>8 years</td>
</tr>
<tr>
<td>Purpose</td>
<td></td>
</tr>
<tr>
<td>Supplementary conditions</td>
<td>Personal contribution not less than 40% of aggregate investment</td>
</tr>
</tbody>
</table>
TERMS OF REFERENCE

CONTRACTUAL SAVINGS FOR HOUSING: INTERNATIONAL COMPARISONS

I. INTRODUCTION

Definitions and context

What are "savings for housing" or contractual savings schemes?
Why is there so much interest in them?
Where have they been used?
Countries included in this paper: focus on francophone countries of Africa, but conclusions are general.

Objectives of the study:
analyze the characteristics of these schemes from three viewpoints:
- households or other users
- the financial intermediaries
- the housing finance systems and the national banking system
evaluate their conditions for effectiveness compared with alternatives

II. MAJOR TYPES OF HOUSING FINANCE SYSTEMS

A. Four major approaches to housing finance which often coexist:

1. Direct financing without financial intermediaries: informal systems
2. Contractual systems
3. Systems based on deposit taking institutions
4. Systems based on term debt issuance and institutional investors: (European) mortgage banking

B. Variations among countries, here focus on countries where contractual systems have been tried and results.

Contrast between advanced countries and LDC's: income levels, levels of financial development, rapid growth in urbanization. Missing financial elements in LDC's.

C. Strategic objectives of contractual savings schemes

Types of financial services needed by depositors and borrowers. Need for stable, abundant sources of long-term finance. But LDC money and capital markets are small or nil.

Preference for specialized systems at low interest rates.

Desire to serve self employed workers
III. TYPES OF CONTRACT

1. Types of activities to be financed:
   - land purchase
   - land servicing
   - construction
   - long term mortgage
   - are non-housing uses possible

2. Types of contractors:
   - individuals
   - firms for their employees (see Germany, India, others)

3. Savings Phase of Contract:
   (a) Payments
      - duration of contract
      - minimum initial deposit
      - periodicity of deposits and minimum amount
      - maximum amount of deposit
   (b) Yields on deposits
      - base yield
      - link with loan interest rate
      - interest bonuses (basis, timing)
      - maximum cumulated bonuses

4. Withdrawal: Credit Phase
   (a) determination of loan characteristics:
      - maximum amount
      - maximum periodic payment
   (b) costs
      - interest rate
      - adjustment in interest rate?
   (c) timing of availability
      - point system
      - loans prior to contract maturity
   (d) loan restrictions
      - according to housing type to be financed?
      - obligations to borrow at maturity
      - interest rate on deposit not withdrawn after contract maturity?

IV. IMPACT ON HOUSEHOLDS

A. Desired characteristics of deposits
   - yield
   - simplicity
   - predictability
   - safety
   - liquidity
   - convenience, adjustment to household income cash flows
Use country facts about current situation of participating households: who? how much? How long? For what purpose?

B. Flexibility

Can the contracts be made more flexible (Guttentag rationale)?
Can savings be used for non-housing purposes? At what cost?
Can timing of borrowing be modified during the contract?

C. Adequacy

Can the amount contracted be adequate for home purchase?
Who does the packaging of complementary loans?
Are there problems in assigning collateral (first or second mortgage)?

V. IMPACT ON THE FINANCIAL INSTITUTION

A. Liquidity Risk

Can the system function as a closed system?
What would be the initial capitalization required?
Where will the institution find the complementary resources?

Required balance between depositors and borrowers? Problems created by unstable growth of deposits?

B. Interest rate risk

What kind of meaningful asset/liability management is possible with such a system? Do contracts improve management?

C. Default Risks: are they eliminated?

D. Administrative Effectiveness: Margins, Complexity, Competetivity with other (Housing/Non-Housing) Financial Services?

E. Commercial Growth Strategy

Can an institution be based on a single type of product?
Is this the best product to maximize the client base?
What kind of market segment can be reached: age, income, etc...
Must those offering the service have a strong relationship with institutions able to provide the remaining mortgage finance if lending is going to take place. Is specialist finance best?

VI. IMPACT OF THE HOUSING FINANCE SYSTEM

A. Necessity of complementary loans

Does this system lower the total cost of financing?
Does it lower administrative costs?
B. Partial or Total dependence on Government Support for Viability?

Public subsidies:
1. to households
   - on interest rates
   - through tax advantages
2. to institutions
   - exemption from bank reserve requirements or credit controls
   - contingent liability of the government grows with the success of the system, threat of breach of contract if budget burden grows too high, or need for undesirable major system changes.

C. Suitability to Domestic Housing Market conditions

   - market shortages and ability to wait
   - quality of land administration and collateral
   - price and quantity of housing supplied
   - nature of rental market

D. Who benefits from contractual savings schemes?

E. Net addition to Savings or Displacement?

VII. CONCLUSIONS

A. Conditions of Success of Contractual systems

B. Desirable Modifications in Existing LDC systems

C. Alternatives to Contractual savings systems

ANNEXES

Country profiles, maybe one or two pages at most. Use financial flow diagrams, preferably with magnitudes; diagrams such as those found in the Morocco case study. Very effective, also refer to Boleat diagram. (What countries: Morocco, Tunisia, Cameroon, France, Past Ivory Coast).

BIBLIOGRAPHY

Given the cost of information in this field the bibliography used for every country should be included. Quotes in the text should make reference to each source used.

Bertrand Renaud
8 Fevrier 1985
World Bank