

Savings schemes to finance housing in Brazil



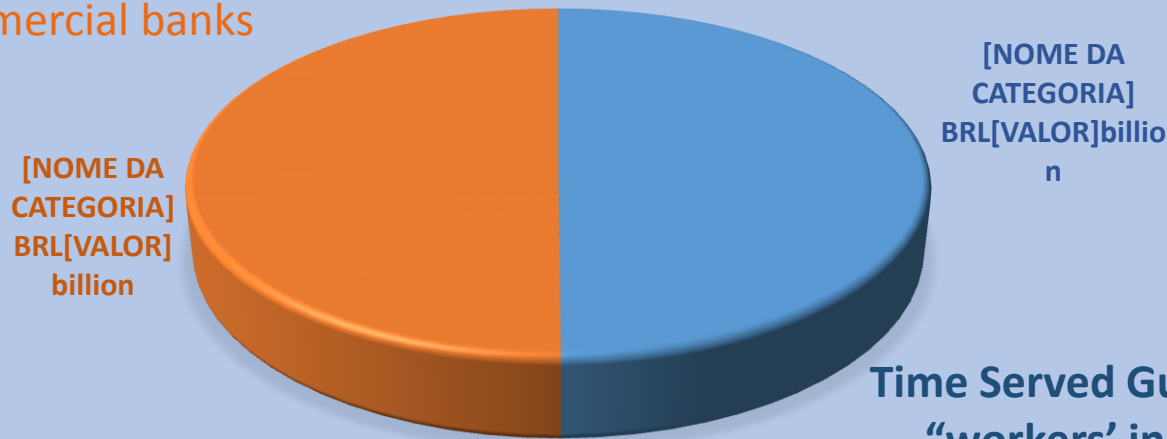
The National Housing Finance System (SFH)

Nov 2016

Total: BRL\$ 1 trillion

Savings & Loans System (SBPE):

- Voluntary savings
- Below mkt interest rates
- Min. 56% earmarked for housing loans
- SFH loans - ir and house price caps
- Commercial banks



Time Served Guarantee Fund (FGTS) “workers’ indemnity fund”

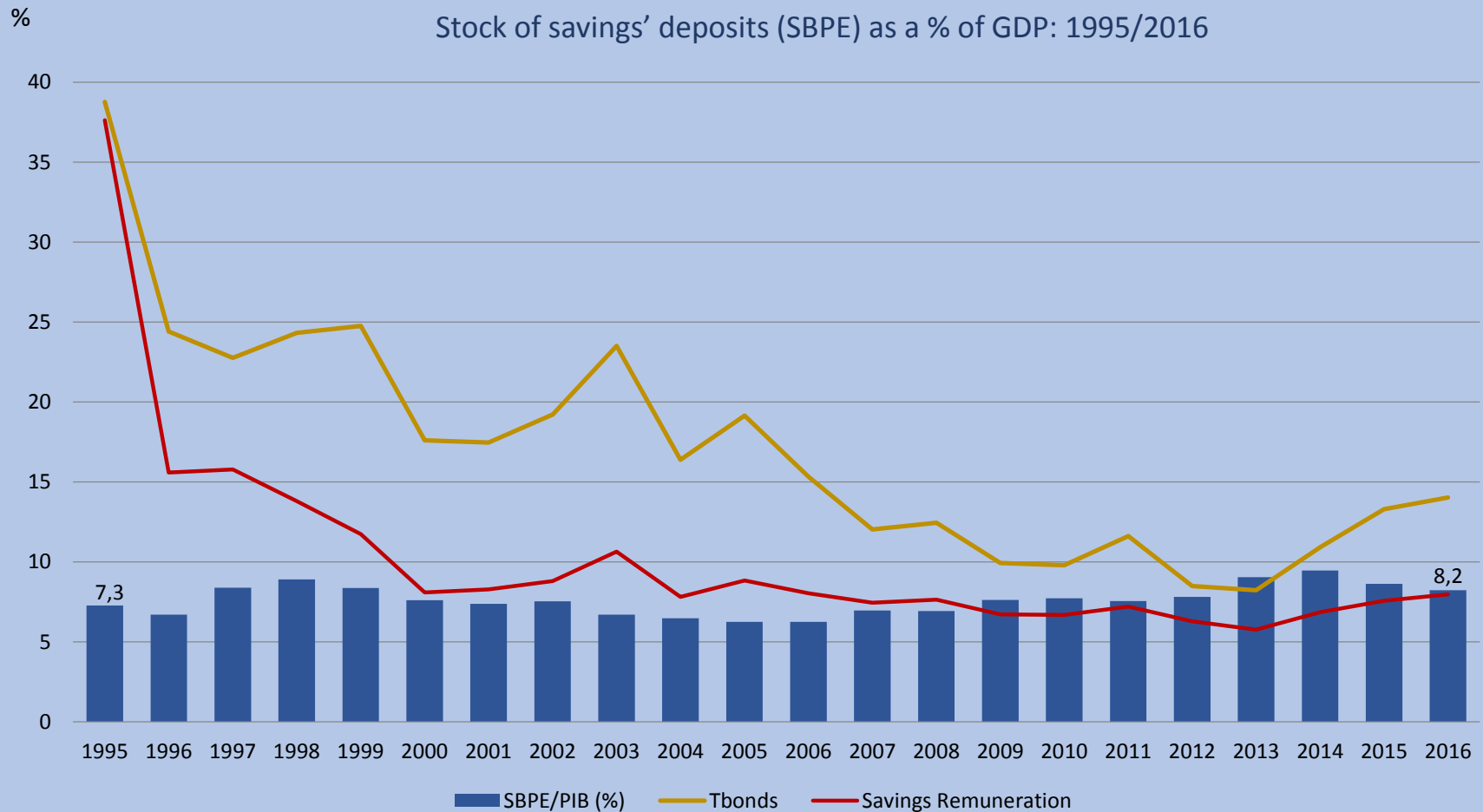
- Compulsory savings
- Below mkt interest rates
- Min. 60% earmarked for housing loans
- Public banks (CAIXA & BB)

The Savings & Loans System (SBPE)

Advantages:

Large scale low cost funding source – affordable financing

Stable and well established source of funding

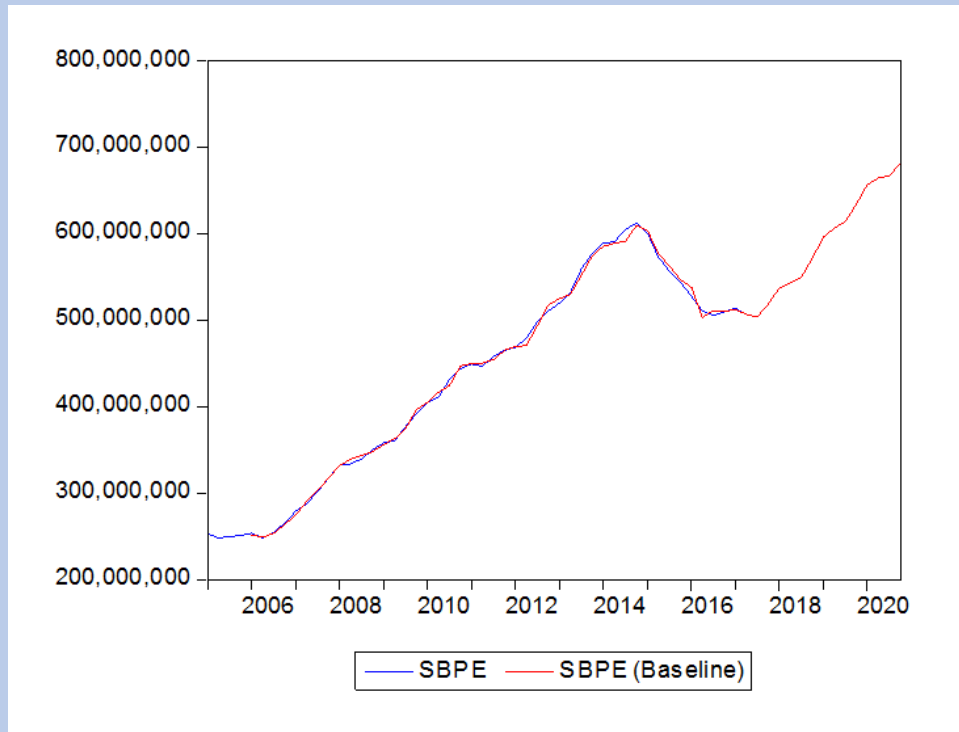


The Savings & Loans System (SBPE)

Disadvantage:

Vulnerability - loss of net inflow since jan/2015

- economic recession
- relatively low remuneration of deposits



	Net inflow / year	Nominal values	Inflation (IPCA)	Real Value March/2017
2013	54,3	466,8	27,50%	595,3
2014	23,8	522,3	19,70%	625,2
2015	50,1	509,2	8,34%	551,7
2016	31,2	516,0	1,27%	522,5
2017	12,7	512,4		512,4

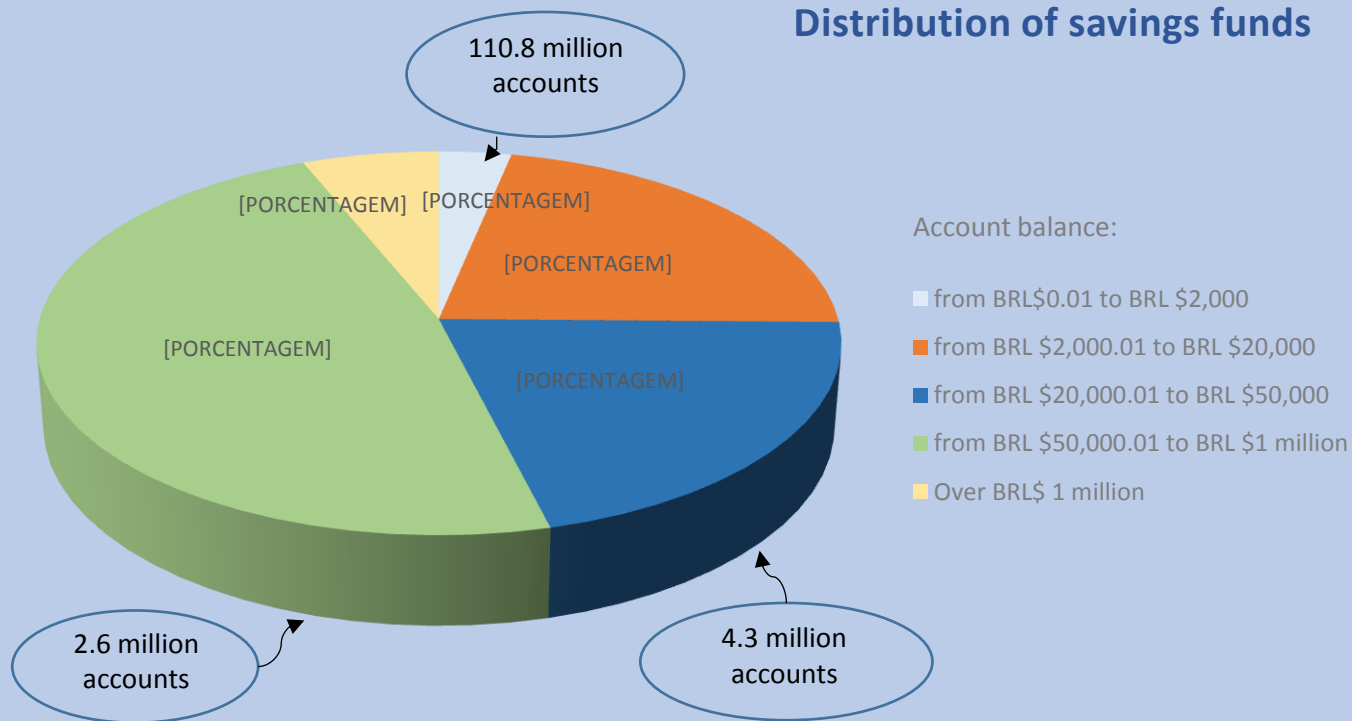
*Values in billions of December, each year, except for 2017.

Vector Error Correction Model. Variables: quarterly stock of savings deposits; difference from deposits' remuneration to the reference rate (SELIC); Extended labor incomes. BRL\$ of Mar/2017.

Authors: Claudia M Eloy; Henrique B Paiva; Marcos Vinicius Barroso, Mar/2017.

The Savings & Loans System (SBPE)

Savings deposits composition:

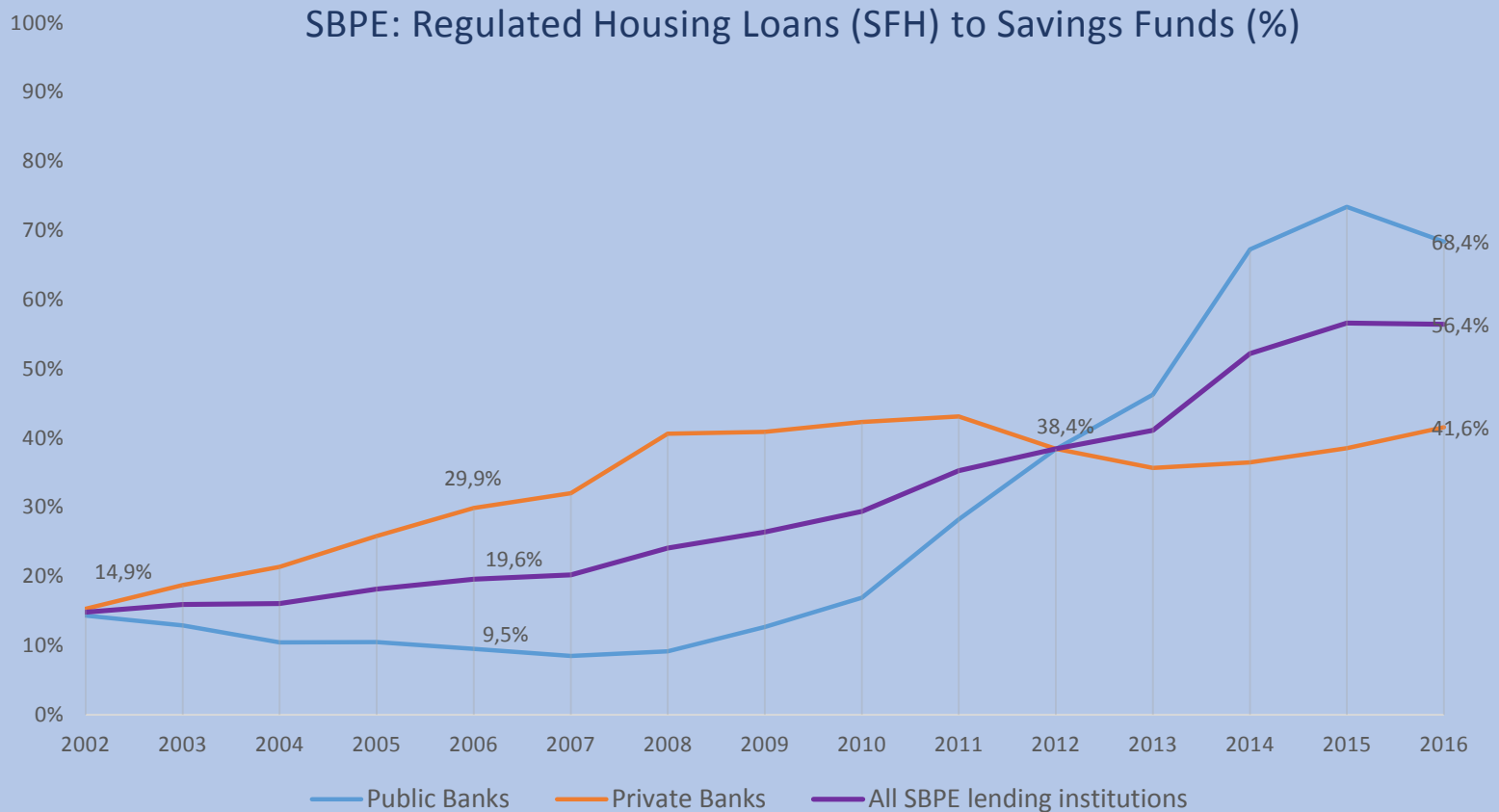


Source of data: FGC, 2015 (1st semester census data). Includes "poupança rural" and SBPE.

The Savings & Loans System (SBPE)

Disadvantage:

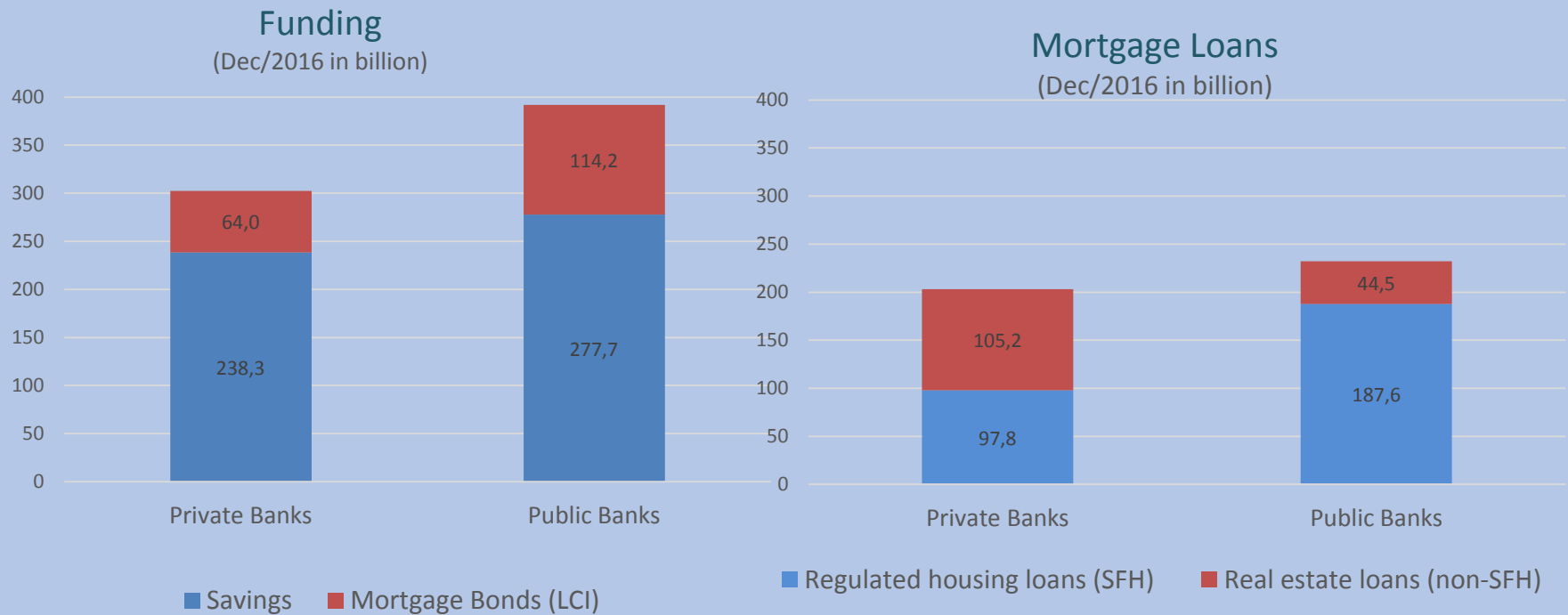
Bank performance on required min. % of SFH's mortgage loans – flexibility embedded in regulation



The Savings & Loans System (SBPE)

Disadvantage:

Preference for non-SFH real estate loans over regulated housing loans – less affordable credit



*SFH ruling on mortgage loans: maximum interest rate of 12% and maximum home price (BRL \$ 1.5 million)

The Savings & Loans System (SBPE)

The affordability issue:



Based on PNAD (IBGE, 2015) and Central Bank of Brazil.
Authors: Claudia M Eloy; Henrique B Paiva; Mar/2017.

* average interest rates between mar/2012 and feb/2017

FGTS (worker's indemnity fund)

Funding side:

- Monthly contributions - 8% of worker's salary
- Account holders - formal workers
- Remuneration of deposits at below market rates
- Withdrawal restrictions
- Funds = deposits + amortization of loans and spreads + investment returns
- Council Board (CCFGTS) - members from Govt, Employer and Union representatives
- Financial and operational management by CAIXA

Lending side:

- 60% of the annual budget approved by the CCFGTS earmarked for housing loans
- Accessible to any family that qualifies, subject to income limits and house price caps
- Pro-Cotista – special line of credit for account holders
- Loan interest rates at below market rates
- Exclusively by public banks
- Larger LTVs and longer amortization terms

FGTS (worker's indemnity fund)

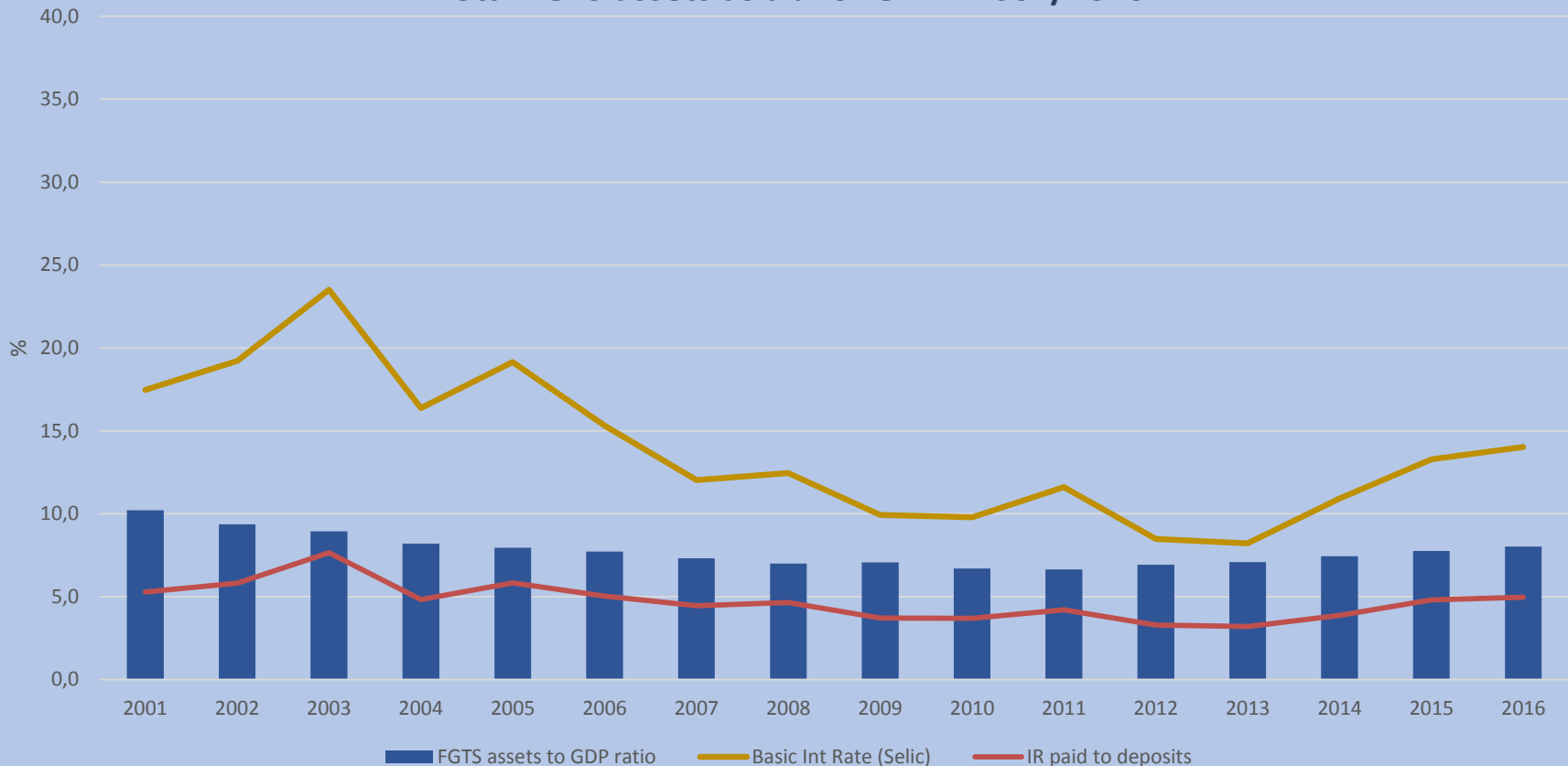
Advantages:

Lowest cost funding source – most affordable financing

Mandatory source of funding with withdrawal restrictions

Main source of funding for moderate and low income housing

Total FGTS assets as a % of GDP - 2001/2016



FGTS (worker's indemnity fund)

Disadvantages:

Political pressure

Unfairness to account holders

Recent Changes that reduce the focus of FGTS on social housing:

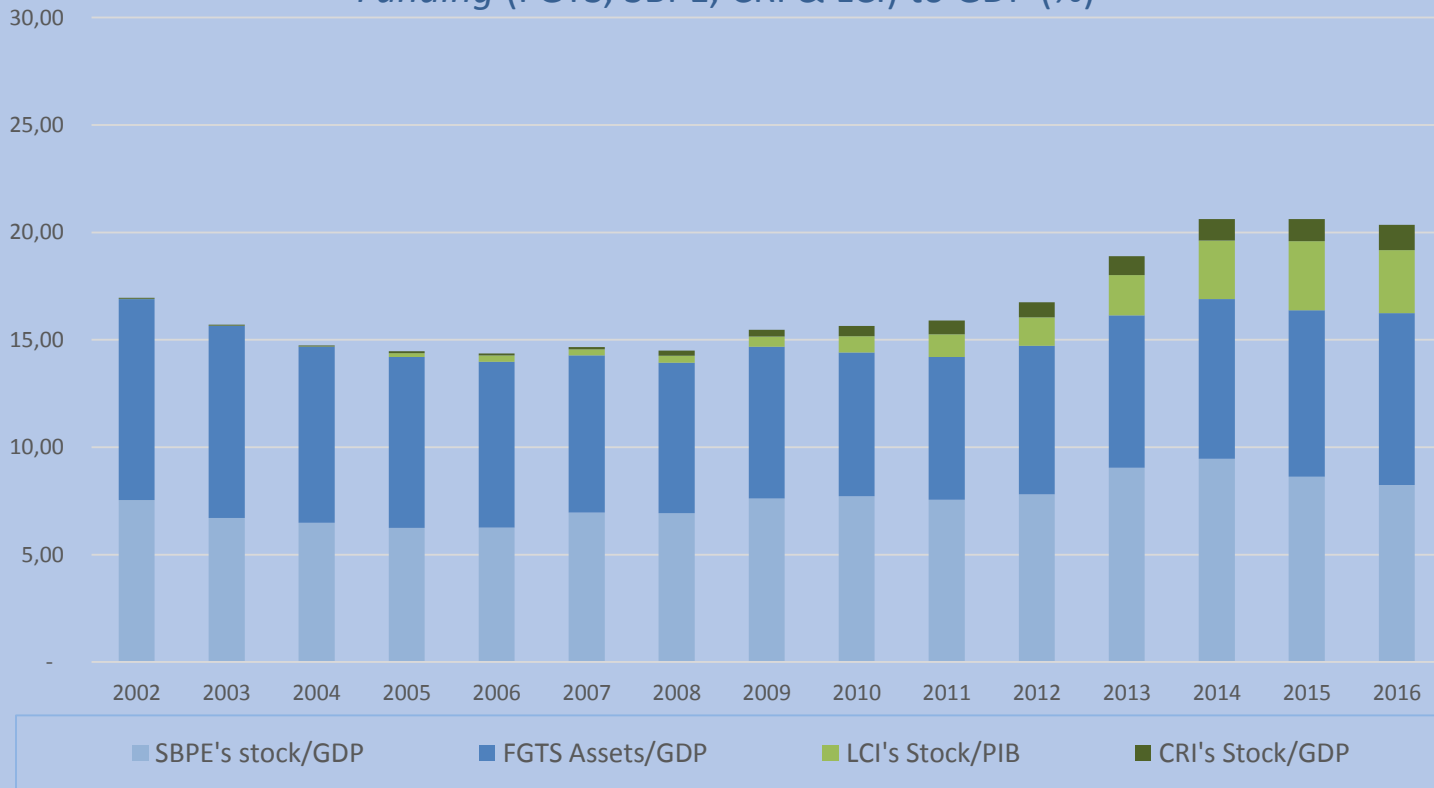
- Family income limit raised from BRL\$ 6,5 K to BRL\$ 9 k;
- Allow withdrawals for the acquisition of houses of up to BRL\$1,5 million

Funding Sources for Housing Finance

FGTS & SBPE – 80% of funding

Housing credit to GDP: 10.7%

Funding (FGTS, SBPE, CRI & LCI) to GDP (%)



Source of Data: CETIP, CAIXA and Central Bank of Brazil.

CRI (Certificado de Recebíveis Imobiliários) = MBS
 LCI (Letra de Crédito Imobiliário) = Mortgage Bonds



Funding Sources for Housing Finance

Covered Bonds in Brazil: Letra Imobiliária Garantida (LIG)

Law 13.097/2015


Further regulation currently under final revision

Estimated potential:

BRL \$ 357 billion

Dual recourse

Prospects in relation to LCIs: lower costs and longer terms



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Thank you!

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Iguaçu Waterfals, National Park