

## Non-Lending Technical Assistance Concept Note

### Brazil – Technical Assistance to the Government of Brazil in Housing Sector Reform and the Implementation of the *Minha Casa, Minha Vida* Stimulus Package

#### I. CONTEXT AND CLIENT

1. **Summary of Proposed Technical Assistance.** The Ministries of Finance and Cities have requested Non-Lending Technical Assistance (NLTA) from the Bank to support its ongoing housing sector reform efforts related to the implementation of the new R\$34 billion economic stimulus package – *Minha Casa, Minha Vida* (MCMV, a description of the program is in Annex I). The program provides a large package of subsidies to stimulate the construction of one million new affordable houses by 2012, which is aimed at reducing<sup>[T1]</sup> the existing housing deficit<sup>[T2]</sup> in Brazil by an estimated 14 percent and contributing to employment creation in the context of the economic crisis. In addition to providing immediate stimulus to the economy, the program is clearly targeted at the low-income segment of the population (beneficiaries are households that earn up to 10 minimum wages<sup>[T3]</sup>). The program also advances the housing policy reform agenda through use of upfront mortgage-linked household subsidies, set up of a new Guarantee Fund to reduce households' insecurity due to unemployment or temporary loss of income and reforms to streamline land development and tenure regularization. Yet, implementation of the announced program is a challenge. In addition to the need to efficiently implement this large scale program in a short timeframe, it is critical to address key incentive issues (e.g. encouraging private lenders participation and mitigating potential moral hazard under the Guarantee Fund) and to ensure that the program's short-term measures are in alignment with housing sector and subsidy policy for the medium- and long-term<sup>[T4]</sup>.

2. **Links to past and on-going activities.** In 2001, the Brazilian authorities requested Bank assistance in preparing a National Housing Policy for Brazil taking into account the new macroeconomic stability of Brazil, the much wanted deregulation of the credit system, and the increased potential for capital market development. This dialogue, as well as the completion of a comprehensive ESW (Brazil Progressive Low-Income Housing: Alternatives for the Poor, Report 22032-BR), paved the way for the approval in 2005 of a US\$500 million Housing Sector Reform Development Policy Loan (DPL, 7306-BR) that focused on four policy areas: (i) Strengthening the Housing Policy and Government Institutional Framework; (ii) Reforms to Increase the Stability and Scale of the Housing Finance Market; (iii) Improving the Effectiveness of Federal Housing Subsidies; and (iv) Land and Urban Development. Several important institutional and regulatory reforms took place during this period including the creation of the Ministry of Cities in 2003, the operationalization of the *Fundo Nacional de Habitação de Interesse Social* (FNHIS, National Fund for Social Housing) to consolidate and harmonize subsidies, and mainstreaming of the trust deed (*Alienação Fiduciária*) instrument and the housing subsidy auction program *Programa de Subsídio à Habitação de Interesse Social* (PSH). An accompanying Technical Assistance Loan (TAL) was approved by the Board a few months later in 2005 to assist the Government in pursuing its new housing policy and design the necessary policy reforms which would be supported by further Bank lending planned under a second DPL. The TAL is currently under execution, but has faced multiple impediments in its implementation.

3. **Primary client or audience.** The primary client for this NLTA is the Ministry of Finance (Letter of Request included in Annex 2). The Secretariat of Economic Policy is the lead agency for the design of the Guarantee Fund under the MCMV program and the promotion of expanded

private lenders participation in housing finance. The other main government agency that would benefit from the NLTA is the National Housing Secretariat within the Ministry of Cities, related to monitoring and evaluation and housing subsidy policy. Within Caixa Econômica Federal, the administrator of the *Fundo de Garantia de Tempo de Serviço* (FGTS, Workers Severance Fund) funds to which improved access by private lenders is a key policy objective, and the Central Bank of Brazil (BACEN), as the regulator of the Brazilian savings and loans (SBPE) system—the other core element of the directed Housing Finance System (*Sistema Financeiro de Habitação*, SFH), are also key stakeholders in this NLTA.

4. ***Value added of this activity.*** Providing immediate technical assistance to the Government of Brazil on its ongoing housing sector reform agenda accompanying the implementation of the MCMV program would have important impacts. Proposed improvements that are adopted during the course of program implementation, as may be feasible, would support the goal of efficient production and targeting of the one million homes over the next three years. More importantly, it would assist in ensuring the sustainability over the medium and long-term of key measures introduced under the MCMV program (notably the Guarantee Fund) and important related sector reforms (expanding private lenders participation in housing finance, strengthening Monitoring and Evaluation, and further harmonizing subsidy programs with subsidy policy), which would collectively provide significant long-term benefits to the development of the housing finance industry and the effectiveness of national housing policy. During meetings with the Government in April, it was determined that Non-Lending Technical Assistance would be the most appropriate type of instrument to provide the requested assistance due to the need to take actions quickly. The existing TAL has suffered implementation difficulties due to, in a large part, procurement delays and impediments to using loan funds to contract international consultants<sup>[T5]</sup>. The scope of work needed to assist the Government with housing sector reform and the implementation of MCMV requires the participation of several experienced international consultants, which is difficult and time consuming to do under the existing Housing TAL<sup>[T6]</sup>.

## **II. OBJECTIVES AND RESULTS INDICATORS**

5. The objective of this NLTA is to assist the client in implementing its ongoing housing sector reform efforts accompanying the implementation of the *Minha Casa, Minha Vida* stimulus package. Specific outcomes would include: (i) a Guarantee Fund that is designed to ensure long-term sustainability, combined with credit enhancement measures such as mortgage insurance as may be deemed viable; (ii) expanded opportunities for participation by private banks in housing finance through improved access to FGTS funds for on-lending<sup>[T7]</sup>; (iii) design of a comprehensive monitoring and evaluation system for the MCMV program in the short-term, and for the housing sector in the long-term; and (iv) a strategy for harmonizing the stimulus program measures with the medium/long-term housing sector and subsidy policy, as stipulated in the National Housing Plan, which was completed in 2008<sup>[T8]</sup>.

## **III. SCOPE AND METHODOLOGY**

6. Four areas for technical assistance were identified in discussions with the Ministries of Finance and Cities in April 2009 and were confirmed in the July 2009 request letter, including:

7. **Guarantee Fund/Mortgage Insurance:** One of the important instruments introduced under the MCMV program is a Government-funded guarantee fund (*Fundo Garantidor da Habitação Popular*, FGHab) with two elements – a Guarantee Fund and an Insurance Fund. The Guarantee Fund makes advances on behalf of borrowers faced with loss of employment or temporary drop of income to cover unpaid monthly mortgage repayment obligations for a maximum duration that

varies by household income level; these advances, however, are treated as a deferred debt to be repaid by the borrower during the life of the loan or through an extended term, upon restoration of income earning capacity. The Insurance Fund offers low-cost, deeply subsidized government-provided mortgage redemption life insurance, disability insurance covering permanent borrower disability, and insurance against physical damage to the property. FGHab was capitalized with R\$2 billion, equally divided between the guarantee and insurance components. In developing the MCMV Guarantee Fund, the Ministry of Finance's emphasis was to ensure that the regulatory framework allows for the long-term sustainability of the fund to support the development of the housing finance market beyond the current program[T9].

8. The requested technical assistance to the Government includes assessing the MCMV guarantee fund FGHab including the guarantee and insurance components in light of international experience, recommending future development measures to ensure sustainability in the medium and long-term after completion of the MCMV program. This includes assessing the feasibility of transitioning the Guarantee Fund component over time into a more sustainable mortgage credit enhancement framework and of introducing traditional mortgage insurance. The technical assistance would also assess alternative institutional arrangements for the Guarantee Fund over the medium and long-term as well as for mortgage insurance, and recommend potential measures that could be introduced to the current model to avoid moral hazard[T10].

9. In regard to methodology, the legal, regulatory and institutional framework governing the MCMV Guarantee Fund, including its two components – the Guarantee Fund and the Insurance Fund, would be assessed, as well as applicable procedures for claims. Potential improvements would be suggested to enhance its sustainability in the medium/long-term, in light of the review of the regulatory framework and lessons learnt from international experience, as well as in-depth discussions with key public and private stakeholders (including CAIXA and private lenders and insurers, the insurance regulator SUSEP, etc). The viability of introducing traditional mortgage insurance among other forms of credit enhancements (lender-benefit) will be assessed as well as the feasibility of introducing these alongside the Guarantee Fund (borrower-benefit). A review would be undertaken of international experiences and best practices in setting up guarantee funds and mortgage insurance schemes, the applicable institutional frameworks and public-private-partnerships, would include the Netherlands, France, Sweden, Morocco, Columbia and/or Chile.

10. Private Lenders' Participation: Enabling the expansion of private lenders' participation in housing finance continues to be a priority policy objective of the Government. Key to achieving this objective is improved access by private lenders to FGTS funds (whose cost of funds, at TR+3 percent, enables on-lending for housing finance at below-market rates); this would enable further down-market penetration by private lenders to cater to low-income households, particularly those earning less than 5-6 minimum wages[T11]. The majority of Brazil's current housing deficit, estimated at 7.9 million units in 2006, and future needs (estimated at 27 million units by 2023) lie within this income group. Today, only CAIXA caters to the bulk of the housing credit demand of this segment of the market[T12].

11. Access to FGTS funds is a source of tension. Private lenders underscore their interest but complain of an unlevel playing field due to CAIXA housing two incongruent functions – administrator of FGTS funds, and the lender that is a direct competitor for the funds. Operational challenges are also highlighted including a limited regulated spread for lenders of 2.16 percent relative to high perceived risk and high transaction costs to set up underwriting and servicing platforms for a new customer base, and complex and costly regulation of FGTS funds' flows and disbursement. By contrast, CAIXA's FGTS administrator notes that private lenders are not interested (at least as of yet) to access FGTS funds due to the availability of large volumes of

SBPE deposits, a large portion of which must be on-lent for housing credit and which provides a more lucrative returns. CAIXA draws evidence from the Pro-Cotista program where the R\$3 billion earmarked in 2008 for private lenders' use in infrastructure loans were underutilized[T13].

12. Yet, despite the recent rapid increase in CAIXA's lending volume and improvement of its portfolio, bearing alone the responsibility of meeting the target of one million new housing units in a three year period, including issuance of 600,000 loans and development of several new business lines (a subsidy fund under FAR for 0-3 minimum wages, the Guarantee Fund, the Insurance Fund, and the Infrastructure Fund) would be a tall order. As such, expanding private lenders' participation is an imperative if Brazil is to address its housing deficit and needs over the short and medium term in accordance with the National Housing Plan and to ensure the achievement of MCMV targets in such short timeframe[T14].

13. The objective of this technical assistance is to support the Government in formulating a package of necessary measures and incentives to expand private lenders' participation in housing finance and further down-market penetration using FGTS funds[T15]. The proposed methodology for developing such a strategy includes[T16]: (i) an overview of the existing situation of the SFH and an assessment the impact of SBPE lending requirements on the demand for FGTS funding by private banks; (ii) a mapping of the regulations and procedures governing access to FGTS funds and of private lenders' existing underwriting, servicing and accounting platforms to assess the extent of transaction costs associated with access to FGTS funding; and (iii) accordingly, an assessment of the feasibility of access to FGTS funds in current conditions, including the maximum permitted spread to lenders. This would rely on an in-depth discussions with CAIXA's FGTS administrator and lender arms, private lenders (those that have undertaken or seriously considered lending using FGTS funds), and the *Associação Brasileira das Entidades de Crédito Imobiliário e Poupança* (ABECIP, Brazilian Association of Real Estate Lending and Savings Institutions). The development of a strategy for private lenders' down-market penetration in housing finance will be based on ongoing dialogue with private lenders and ABECIP. To the extent possible, the technical assistance would also provide assistance in developing standard mortgage documents, strengthening the appraisal system, and developing new operational systems to serve a lower-income customer base.

14. Monitoring and Evaluation (M&E) System: The establishment of a housing information system in the Ministry of Cities was set out in Law no.11124, 2005 Art 14 which stipulated that such a system was needed to support "policy formulation, implementation and control of activities". The housing sector DPL and the companion TAL set out to support the strengthening of capacity within the Ministry of Cities' National Housing Secretariat and the establishment of a comprehensive M&E system for the sector. The latter, however, was not established. Some improvements have taken place since then, including periodic monitoring of public investment programs (the *Programa de Aceleração do Crescimento*, PAC) and the completion of evaluations for the PSH and the rental program Programa de Arrendamento Residencial (PAR).

15. The urgency of establishing a comprehensive M&E system is underpinned by a dramatic increase in the scale of public funding for housing programs under the MCMV (at least a sixfold increase in OGU resources per year over FNHIS funding and a fourfold increase in FGTS upfront subsidies). This has ensured strong Government support for the establishment of such a system. The technical assistance would focus on supporting the Ministry of Cities' efforts to design a pilot M&E system for the MCMV program, in collaboration with the Ministry of Finance and CAIXA as the implementing agency[T17]. The proposed system would provide: (i) timely feedback on outcome data such as housing solutions delivered by city, beneficiary profiles, unit occupancy, developer participation and housing products, administrative and implementation

timelines and bottlenecks, loan financing and repayment data, employment created; (ii) regular assessments of program impact on customer satisfaction; improvements in municipal and public notary procedures and municipal backlogs, and effects on the land and housing markets (prices and transactions), etc. Regular progress reports would provide the necessary input to adjust program parameters and implementation procedures.

16. The approach to the technical assistance in this area would be based on working in collaboration with the M&E working group established within the Ministry of Cities and drawing on the expertise of the World Bank's M&E Task Force to support the Ministry's existing efforts and develop a pilot system for MCMV. Initially, a workshop would be held to define the "logical framework" for the MCMV program, including the identification of key actors, critical data and collection points. Specific data collection requirements would then be included in the official regulations (*normas*) for participation in the MCMV program. A strategy for impact assessment and outcome-based program modification/policymaking would subsequently be developed. Once the pilot is in place, and as may be feasible, the technical assistance would expand to the broader objective of the national housing system, and could include, for example: (i) a survey of existing data channels (state/ municipal/ housing company data, Cadunico, and Cadmut); (ii) the design of an institutional and data collection model (roles and responsibilities, indicators, needed human resources, evaluation parameters, and costs and necessary actions to establish the system); and (iii) and support for the implementation of a consolidated database combining housing demand (in Cadunico) and subsidy supply (Cadmut) information. Depending on progress and needs in this area, further resources could be explored to support some pilot impact evaluation studies for MCMV or PAC urban upgrading investments including data collection and analysis[T18].

17. Subsidy Policy: In light of its nature as an anti-cyclical response to the global financial crisis, the MCMV program is designed to have an immediate effect on economic growth and, therefore, offers high subsidies (an average of R\$40,000 in upfront subsidy per household earning between 0-3 minimum wages from OGU funds, and an average of R\$25,000 per household earning from 3-6 minimum wages), in addition to generous guarantee coverage for borrowers facing unemployment or temporary loss of income and heavily subsidized insurance premiums[T19]. Moreover, in the process of passing the program's Medida Provisoria into law, further subsidies were earmarked for municipalities with 50,000-100,000 residents under an auction-type program. These deep program subsidies are added to existing subsidy systems, including the R\$1 billion in annual allocation for FNHIS. To ensure that this significant program could be implemented at a time when state and municipal capacity is stretched with the PAC, it focuses on CAIXA as the sole implementer of the scheme[T20].

18. After the initial 3-year period of the program, and in view of long-term sustainability of the Government's commitment to housing, a concerted effort to improve subsidy efficiency is important. This would include (i) decreasing subsidy levels and using alternative subsidy designs for mortgage-linked subsidies that may be less dependent on interest rate subsidies and would be more attractive to private lenders[T21], (ii) integrating micro-lending and other types of contributions to the ownership programs for the income group with 0-3 minimum wages, and (iii) considering alternative rental subsidies. The objective of the technical assistance in this area would thus be to support the harmonization of the MCMV program measures with medium/long-term housing and subsidy policy, as stipulated in the National Housing Plan (PlanHab). This would support the Ministry of Cities in moving from an overall subsidy policy (in PlanHab) to specific subsidy programs, as well as assist in evolving the stimulus package into a long-term affordable housing plan (building on PlanHab).

19. In regard to the general methodology for implementing the technical assistance package, the following sequence of activities is proposed:

- a. Review of existing legal, regulatory and institutional frameworks, including the MCMV's Medida Provisoria No. 459, the Guarantee Fund's statute, FGTS lending-related regulations, etc;
- b. Review of applicable procedures, including those governing access to FGTS funds, submitting claims for the Guarantee Fund, monitoring of MCMV;
- c. In-depth discussions/sustained dialogue with key stakeholders from Government entities and regulators (Ministry of Finance, Ministry of Cities, BACEN, the lender and FGTS operator arms within CAIXA, and SUSEP), the private sector (lenders with access to or strong interest in FGTS funds, developers participating in MCMV, and insurers), and trade representative groups (ABECIP, FENASEG<sup>[T22]</sup>);
- d. Review of relevant lessons learned from international and local experience, including guarantee fund/mortgage insurance schemes implemented in other countries, the M&E systems implemented for *Bolsa Familia* program and Minas Gerais state; and
- e. Development of alternative proposals for regulatory, institutional and procedural improvements drawing on the analysis of the existing situation, the review of best practices and discussions with key stakeholders.

#### **IV. CONSULTATIONS WITH CLIENT AND OTHER STAKEHOLDERS**

20. During the Housing DPL ICR mission and the Housing Subsidy and Guarantee workshops held April 1-8, 2009, the Bank team provided preliminary inputs and suggestions to the Government on the new program. The Government welcomed these inputs and requested continued Bank TA support for program implementation. The Bank is in a unique position to provide the requested TA, as a result of its long-term involvement in the sector, and access to experts in housing finance and policy, both inside and outside the Bank, as well as the M&E task force.

21. The Ministry of Finance's Economic Policy Secretariat indicated that its key priorities are the Guarantee Fund/Mortgage Insurance and Private Lenders Participation, where it will take the lead in overseeing/coordination the TA in collaboration with the National Treasury Secretariat, the Ministry of Cities' National housing Secretariat, CAIXA and the Central Bank of Brazil. The two other issues—housing subsidy policy and M&E—are key priorities of the Ministry of Cities, where the National housing Secretariat will take the lead in coordination/oversight with the support of key stakeholders. To be able to address the comprehensive scope of this TA within the limited available resources, it is proposed to build upon other ongoing housing sector activities to address the issues of subsidies and M&E.

22. ***Scope of complementary work on housing subsidies under a concurrent Cities Alliance grant.*** Support for the development of the housing sector in Brazil is also being provided with support from the Cities Alliance. A grant of US\$65,000 was made in 2007 to assist the National Housing Secretariat with the development of the National Housing Plan. The support for the Plan was crucial to define the model of subsidies and finance, targets and strategies. The consultancy work supported by the grant played a leading role in the formulation of the Plan. An additional grant of US\$75,000 for FY10 was approved by Cities Alliance in July 2009. The main objective of the grant is to provide guidance and technical advice regarding the implementation of the National Housing Plan, especially in regard to elaboration of slum upgrading policies and the

detailed development and implementation of a new government housing subsidy program. It will also support dissemination and learning efforts in these areas. The grant is Bank-executed and is structured to complement the efforts of the NLTA.

23. Specifically, the grant will support the contracting of local and international housing subsidy experts to:

- a. Prepare a detailed housing subsidy program based on the PlanHab, including segmentation of the target population by income and ability to access mortgage finance, definition of program targets, resource requirements and implementation timeframe, identification of the responsibilities and financial commitments of federal, state and municipal governments to implement the program, and harmonization with other housing programs;
- b. Assess the viability of existing and proposed supply-side housing subsidies and their impact on attracting developers to scale-up their activities for the low- and moderate-income market in line with PlanHab's guidelines; and
- c. Assess different housing subsidy program options to operationalize PlanHab based on lessons learned from international experience and best practices.

24. ***Scope of complementary work on Monitoring & Evaluation under the Housing Technical Assistance Loan (TAL)***. Supporting the development of a housing sector M&E system was one of the outcomes under the TAL. Although the planned client-executed activities in this regard were canceled as a result of the procurement difficulties hindering the implementation of the TAL, support to the Ministry of Cities' efforts to establish an M&E system remains critical, especially in light of the MCMV program. The M&E working group within the Ministry of Cities used a grant from the IDB to hire an individual consultant, who participated in the design of the M&E system for the *Bolsa Familia* program, to prepare a preliminary design of the housing M&E system. The National Housing Secretariat requested Bank advice on the requirements to establish the M&E system and on the process for consolidating *Cadunico* (registry of low-income households, used for *Bolsa Familia*) and *Cadmut* (registry of housing subsidy recipients) to improve the targeting of public interventions. Thus, under the TAL, Bank staff would review outputs produced by the M&E working group, which would also include representatives from the Ministry of Finance and CAIXA. All M&E technical assistance will be implemented in coordination with the M&E Task Force.

25. ***Plan for dissemination and consensus building***<sup>[T23]</sup>. The main outputs of this NLTA would be focused, issue-specific policy and technical notes. These notes would incorporate Bank staff and consultants' technical outputs and would include a documentation of discussions and working sessions held with the Government and the private sector. The notes would be developed in different stages in line with the priorities established with the Ministries of Finance and Cities in their respective priority areas and would be attached to mission Aide Memoires as feasible. These outputs would be provided to the relevant ministries and the plan for dissemination would be developed in conjunction with the Ministry of Finance and Cities for each area of this TA in view of the issues' specificities.

26. In regard to the expansion of private lenders' participation in lower-income lending, it is envisioned that the team will engage directly with the ABECIP, the FGTS Operator within Caixa, and the FGTS Conselho Curador Secretariat to build consensus on operational modifications that could be made to the system to attract more private bank participation. Workshops and roundtable discussions would be planned, bringing together the Ministry of Finance, ABECIP and private lenders' representatives to discuss key issues and proposed alternatives.

## V. PROPOSED TEAM AND BUDGET

27. **Management/oversight.** The NLTA will be managed by the LCSUW team leader based in Washington, in collaboration with GCMNB (the non-bank financial institutions department in the Finance and Private Sector anchor) and with oversight by the Country Management Unit in Brasilia.

28. **Staffing.** Several Bank staff members and international and local consultants would take part in the NLTA team, focusing on each of the four specific areas of technical assistance. Bank staff include: Sameh Wahba (Sr. Urban Specialist, LCSUW, TTL); Friedemann Roy (Sr. Housing Finance Specialist, GCMNB) and a M&E task force member. Consultants include: Roger Blood (mortgage insurance/guarantee fund); Eric Kestla (private lenders participation); and Catherine Lynch (housing policy). Separately, the Cities Alliance Grant would be used to hire three local and international consultants—Marja Hoek-Smit (housing finance and subsidy policy), Claudia Eloy (housing subsidies) and Adriana Meirelles (low-income housing finance and development).

29. **Estimated costs.** Funds available for this NLTA are US\$80,000 (\$26,000 fixed costs and \$54,000 variable costs). Supporting resources would come from the US\$75,000 Cities Alliance grant (\$70,000 in variable costs and \$5,000 in fixed costs). The core team is also responsible for the Housing TAL supervision.

30. **Peer reviewers.** The three peer reviewers are: Angelica Nunez (Sr. Urban Specialist, LCSUW); Maria Teresa Souza (University of Maryland), and Dean Cira (Sr. Urban Specialist, EASVS, TBC).

## VI. TIMETABLE

<b>Action</b>	<b>Anticipated Completion</b>
AIS Sign-off	July 15, 2009
Concept Note Review Meeting	August 13, 2009
NLTA outputs (Concise policy/technical notes, Aide Memoires, etc)	August 2009-February 2010
Cities Alliance grant outputs (reports)	August 2009-March 2010
Decision Meeting (NLTA)	March 2010
Final delivery	April 2010
Activity Completion Summary	May 2010



## **ANNEX I. DESCRIPTION OF THE MINHA CASA, MINHA VIDA PROGRAM**

Against the background of the global financial crisis, the Federal Government launched in March 2009 a stimulus program, called Minha Casa, Minha Vida (MCMV), focused on the housing and construction sector as part of its counter-cyclical measures to address the problem of economic slowdown and stimulate growth and employment generation.

The objective of the program is to stimulate the construction of one million new affordable homes by 2012, targeted at households earning less than 10 minimum wages (MW). This is intended to help: (a) reduce the current qualitative and quantitative housing deficit, estimated at 7 million units across Brazil, by 14%; and (b) stimulate the construction and real estate development industry.

***Program components:*** The program is comprised of a series of measures that address both demand-side issues to enable households to access adequate housing by addressing affordability and access to finance and supply-side issues to stimulate, facilitate and reduce the cost of affordable housing production, and contribute to employment generation.

The program measures include:

- (a) Significant expansion of upfront and financing subsidies;
- (b) Introduction of a new Guarantee Fund against payment default due to temporary employment loss;
- (c) A public Insurance Fund to provide reduced-cost life and property damage insurance;
- (d) Reduction of property registration costs;
- (e) Tax reductions and exemptions for the construction industry;
- (f) Concessionary funding for infrastructure financing; and
- (g) Streamlining of land development and land tenure regularization procedures.

The program applies mostly to municipalities of over 100,000 inhabitants (municipalities of between 50,000 and 100,000 can be included under special conditions). The allocation of subsidies among the eligible municipalities will follow, to the extent possible, the existing housing deficit situation.

The maximum value of eligible units per income group is determined on the basis of criteria including regional and municipal size (e.g. in 3-6MW, maximum unit values in SP, RJ and DF is R\$130,000; in municipalities of over 500,000 and state capitals it is R\$100,000; and in other municipalities it is R\$80,000).

The package measures and targets are presented by income group as follows:

### **0-3 MW:**

- The target is 400,000 units.
- The package includes subsidies to cover the difference between what households could afford to pay (set at a maximum of 10% of income for a 10-year period, with a minimum monthly payment of R\$50) and the cost of eligible housing units (the ceiling is determined based on geographic and municipal size criteria).
- The subsidies, to be provided by the Federal Budget, total R\$16 billion, about R\$40,000 per unit.

- Caixa will administer a R\$15 billion subsidy fund on behalf of the Federal Government, and the remaining R\$1 billion will be earmarked for rural and urban housing programs with associations and cooperatives (modality unclear). The subsidy fund will rely on the existing regulatory framework of the PAR (Programa de Arrendamento Residencial) and will establish a separate account under the FAR (Fundo de Arrendamento Residencial).

### 3-6 MW:

- The target is 400,000 units: 200,000 units for 3-4 MW; 100,000 units for 4-5 MW; and 100,000 units for 5-6 MW.
- The package includes increased financing subsidies (over regular FGTS financing subsidies), access to the newly established Guarantee Fund and Insurance Fund (free up to 5 MW and reduced for others). The subsidy is calibrated based on households paying a maximum of 20% of income for a 20-year maximum loan term.
- The financing subsidies, which total R\$10 billion or about R\$25,000 per unit, will be provided by both the Federal Budget (R\$2.5 billion) and the FGTS subsidy fund (R\$7.5 billion).
- Caixa's role includes administering the FGTS subsidy, operating the Guarantee Fund on behalf of the Ministry of Finance, operating the Insurance Fund, and underwriting FGTS loans.

### 6-10 MW:

- The target is 200,000 units.
- The package includes access to the newly established Guarantee Fund and Insurance Fund.
- Caixa's role includes operating the Guarantee Fund on behalf of the Ministry of Finance, operating the Insurance Fund, and underwriting FGTS and SBPE loans.

### Summary of Benefits under the MCMV Program

	Family pays	Caixa FGTS operator receives	Financial agent/lender (incl Caixa) receives	FGTS subsidy fund & OGU pay	FGTS contributors receive	Guarantee Fund cover in months (cost as % of loan)	Insurance cost (as % of loan)
3-5SM	TR+5 **	TR+5	2.16	2.16	TR+3	36 (0.5%)	Free
5-6SM	<b>TR+6</b>	<b>TR+5***</b>	2.16	1.16	TR+3	24 (0.5%)	1.50-6.64% (acc to age)
6-10SM	TR+8.16	TR+6	2.16	--	TR+3	< 8SM: 24 >8SM: 12 (0.5%)	1.50-6.64% of loan (acc to age)

\* Maximum qualifying unit value increased from R\$ 80,000 up to R\$130,000 in SP, RJ & DF.

\*\* Maximum income<sub>[T24]</sub> increased from R\$1,875 to R\$2,325

\*\*\* Reduced return warranted by risk reduction due to access to Guarantee Fund

**Guarantee Fund:** A new Guarantee Fund will be set up for the purposes of this program; it is to be operated by Caixa on behalf of the Ministry of Finance. The Fund's objective is to provide temporary coverage for a number of loan installments for borrowers who are unable to pay because of loss of employment. The Fund would pay lenders 100% of the amount of each installment (borrowers have to pay 5% to the Fund); the debt is rescheduled during the life of the loan or by extending the amortization period, depending on the borrower's repayment capacity.

The maximum number of installments to be covered by the Fund varies by income group (up to a maximum of 36 months for 3-5 MW; 24 months for 5-8 MW; and 12 months for 8-10 MW). To be able to benefit from the fund, borrowers contribute 0.5% of the value of the loan to the Fund. Borrowers can only access the fund once they have paid 6 installments. The Fund is capitalized by R\$1 billion from the Federal Budget.

**Insurance Fund:** A new Insurance Fund will be set up for the purposes of this program; it is also to be operated by Caixa. The objective is to insure against the borrower's loss of life, disability, and property damage. Insurance is available for free for borrowers up to 5 MW, and at a reduced cost to borrowers above this level (it ranges according to the borrower's age from 1.6% of the value of the loan for those aged from 21-26 years up to 6.6% for older borrowers). The Insurance Fund is capitalized by R\$1 billion from the Federal Budget.

**Infrastructure Fund:** An infrastructure fund, capitalized by R\$5 billion, will be set up and also operated by Caixa. It will provide loans to developers to finance infrastructure delivery (mainly off-site/secondary and on-site/tertiary, in areas not yet serviced by utilities). Developers would access the fund at a 1% above the long-term-interest rate (TJLP). Caixa will also operate the Infrastructure Fund on behalf of BNDES. The repayment period is 36 months with a grace period during construction of up to 18 months.

**Land development, registration and regularization measures:** To streamline the complex and cumbersome land development and registration procedures, the following measures will be implemented in the new program: (a) a faster land development permitting process combined with environmental approval, with a devolution of environmental approval to municipalities for developments of less than 100 hectares and a maximum of 30 days to issue the environmental approval; (b) cheaper registration cost under the program for both the borrower (free for 0-3MW, 90% reduction for 3-6MW, and 80% reduction for 6-10MW) and for the developer (reduction of 75-90% of the State registration cost linked to unit value); (c) faster project processing and approval by Caixa (within a maximum of 30 days versus 120 days normally).

In addition, important measures are included to regularize informal/squatter tenure. The *Medida Provisoria* (legal measure) for the new program provides streamlined implementation measures for the City Statute provision on regularizing the tenure of squatter/informal housing on lots less than 250 square meters and in occupancy for 5 years or more. The process includes publication of a notice of identification of owners, followed by an administrative taking of lots without identified owners or negotiated agreement between the municipality and identified owners. The *Medida Provisoria* also permits the regularization of informal/squatter developments that were developed on Permanent Preservation Areas before December 2007.

**Tax advantages:** The program includes a reduction from 7% to 1% of the RET tax and a 3-month exemption from the payment of the IPI on building materials. States and municipalities participating in the program would also provide tax exemptions (ICMS, ICTD, ITBI and ISS).

**Other measures:** Measures funded by BNDES targeted at the construction industry to promote low-cost housing alternatives and improved quality, and support SMEs in acquiring building materials, components and systems (via BNDES cards).

**Program costs:** The overall cost of the MVMC program is R\$34 billion (not including state and municipal contributions), distributed as follows by funding source:

- Federal Budget R\$25.5 billion, as follows: R\$16 billion for the 0-3MW program; R\$2.5 billion for a share of the increased financing subsidies under FGTS especially for 5-

- 6MW; R\$1 billion for the Guarantee Fund; R\$1 billion for the Insurance Fund; and R\$5 billion for the Infrastructure Fund;
- FGTS subsidy fund R\$7.5 billion for the large share of the increased financing subsidies under FGTS for 3-6MW; and
  - BNDES R\$1 billion.

***Implementation arrangements:***

The program is under the overall supervision of Casa Civil, with an implementation committee that includes the Ministries of Cities and Finance.

The different program measures are for the most part implemented by the Caixa Economica Federal, which assumes the following roles:

- Administration, on behalf of the Ministry of Finance, of the subsidy account under FAR for the 0-3 MW program (firewalled activity);
- Administration of the FGTS loan and subsidy funds (operator role);
- Underwriting of FGTS loans (underwriter role);
- Administration of the Guarantee Fund, on behalf of the Ministry of Finance (firewalled activity);
- Administration of the Insurance Fund (firewalled activity); and
- Administration of the Infrastructure Fund (firewalled activity).

State and municipalities are required to sign a convention with Caixa accepting the terms of the program, which commits them to donate land, provide infrastructure services, make financial contributions, and provide tax exemptions.