# THE MORTGAGE MARKET:

## A REVIEW OF THE HOUSING FINANCE SYSTEM IN TRINIDAD AND TOBAGO

by

Roland Victor

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Research Department,
Central Bank of Trinidad
and Tobago

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# INTRODUCTION

Inadequate shelter has long been recognised as a problem of national social importance in Trinidad and Tobago and over the last quarter of a century has received a great deal of official attention in the national development planning exercise undertaken between 1958 and 1973, as well as in subsequent annual budget statements. Following the increase in public sector revenues from 1973, and the consequent rapid expansion of the financial sector, a considerable amount of financial resources have been channelled into this sector. Nevertheless, the housing situation has continued to be a major social problem which, within recent years, has been exacerbated by the downturn in the performance of the economy. In this paper, an attempt is made to evaluate recent developments in the mortgage market and to examine ways in which the mobilisation of resources in the housing sector can be enhanced.

The paper is divided into four sections. In the first section an overview is made of housing finance systems in both developed and developing countries. Given the inadequacy of housing in developing countries, we highlight the housing finance problems which typically beset those countries and the role which governments play in the mobilisation of resources in this sector. Against this background, Section II examines the role of government in the housing finance system of Trinidad and Tobago.

Section III looks at the housing situation in Trinidad and Tobago in light of certain demographic factors which have important implications for supply and demand conditions in the housing market and consequently, housing prices. Following this, we look at the issue of the affordability of housing particularly to low and middle income households.

The sources of mortgage credit are indentified on an institutional basis in Section IV and a comparative analysis of the lending policies of the various classes of lending institutions is attempted. Section V evaluates these policies as well as the housing policy of government and examines the prospect for the development of the housing finance system.

In preparing this paper, it was quite apparent that despite the high degree of importance attached to the need for shelter, very little meaningful research had been attempted in respect of the domestic mortgage market. Other available published woeks in this area have tended to concentrate largely on the housing finance systems in a few of the developed economies. It can be inferred that the inadequacy of available data with regard to developing countries, and certainly in the case of Trinidad and Tobago, severely constrains proper economic analysis of this sector. It is for this reason that this study is viewed as being exploratory in nature and to an important extent, concerns itself with highlighting some of the major deficiencies in the system of reporting data on the mortgage market. Nevertheless, it is felt that this paper begin to help fill an important void in financial sector analyses and

# I. OVERVIEW OF HOUSING FINANCE SYSTEMS

## A. Types of Housing Finance Systems

Given that house purchase involves expenditures which are high relative to the individual's income it is evident that to work effectively, any housing finance system has to raise money from those who do not intend to borrow and be able to lend it over long periods of time. In a recent comparative study of national housing finance systems, Boleat (1985) identifies four routes by which these objectives can be achieved, (i) the direct route (ii) the contractual route (iii) the deposit financing route and (iv) the mortgage bank route. However, he points out that the first two routes can only be partially successful and do not make full use of the intermediation process.

Through the deposit financing route, short-term savings of individuals are channelled into long-term loans by intermediaries, generally retail banks, either generally or which specialise in the provision of housing finance. In contrast, under the mortgage bank route, institutions making mortgage loans, fund these by bond issues which are purchased by institutional investors and, to a much lesser extent, by individuals.

It is important, however, to distinguish between 'contractual route' and contractual savings institutions such as life insurance companies and pension funds which in the housing finance system examined by Boleat, did not play a very important role except in so far as they were significant purchasers of bonds issued by mortgage banks. Nevertheless, in developing countries where capital markets are largely undeveloped, life insurance companies and pension funds play an important role in originating mortgage loans and are also significant holders of mortgage debt. In Trinidad and Tobago, for instance, life insurance companies and pension funds, account for roughly one third of the total outstanding real estate mortgage loans. It is generally true, however, that most housing finance systems take either the deposit financing route or the mortgage bank route and for this reason it may be useful to discuss these systems in some detail.

In the deposit-taking system, the institutions solicit deposits from the general public to lend to households that want to build or purchase a home. There are a variety of types of deposit-taking institutions and they can broadly speaking be subdivided into commercial banks which offer the complete range of banking facilities, savings banks and specialist housing finance institutions. Because deposit-taking institutions usually borrow short and lend long, each institution is usually faced with a maturity transformation problem and may be very sensitive to inflation. In order to hedge against the potential liquidity risk of an increase in short term interest rates, variable rates on house purchase loans have generally been employed. In addition deposit insurance can play a major role in the protection of deposits and the development of the housing finance system.

It has been argued that specialist institutions are more likely to be successful in promoting housing finance systems in developing countries than general institutions. The main reasons which have been advanced to support this argument are firstly, that specialist expertise is required and this can best be provided by specialist rather than general institutions and, secondly, that where a financial institution is able to make loans for house purchase and for other purposes, then it is likely to neglect the housing market because such lending is inherently riskier and is generally less profitable than other forms of lending

The alternative approach to the deposit-taking route is the mortgage banking system. This system is based on specialized banking institutions which make loans to house-buyers and fund these loans by selling bonds on the capital markets at going interest rates. Typically, bonds issued by mortgage banks are purchased by financial intermediaries such as insurance companies and pension funds and indeed, in some countries financial institutions are often required to purchase a certain quantity of mortgage bonds. The major advantage of mortgage banks is that they are better able to match the maturity structure of their assets with that of their liabilities and hence are able to provide fixed interest rate mortgages. In addition, because of the specialist nature of their operations, they are better able to take advantage of economies of scale to lower their administrative costs. However, they have to pay a higher rate for loanable funds and are highly dependent on the existence of a developed capital market with an active bond market in which private sector institutions can participate.

In practice, a variety of institutions can be present in the same country and they tend to play a complementary role. Arrangements of this nature exists in several Latin American and European countries. However, there is a refinement of this system in the United States, one that is developing very rapidly. Basically mortgage bankers in the U.S. borrow money from a bank or raise money through other short-term instruments. They then make mortgage loans which they pool together and sell to investors in the secondary market in the form of mortgage-backed securities. After the loans are sold, the mortgage banker usually continues to collect monthly repayments which are then passed on to the investor purchasing the loan.

## B. The Role of Government

Housing finance systems are regulated and controlled or otherwise influenced by government in varying degrees in all countries. Essentially there are three broad ways by which the action of government may affect the housing finance system. These are through (i) its housing policy (ii) its taxation policy, and (iii) the regulation of the financial system.

In less developed countries where housing conditions are usuallly inadequate, the provision of adequate shelter is generally one of the major goals of public policy and usually constitutes an important part of national plans. Often specific or general housing targets are set and financial and construction agencies are created by government in order to assist in attaining these targets. Sometimes house construction and construction activity in general are encouraged and promoted by government as an effective method of mobilising domestic resources since it is a significant generator of unskilled and semi-skilled employment and utilizes very little foreign exchange. In many developed countries however, government has left private sector institutions to deal with the market as they find it and there is no direction of housing finance institutions to achieve specific housing finance objectives.

Governments also provide a wide range of subsidies to the housing finance system, of which tax subsidies comprise the most extensive form. These may take the form of tax exemptions to the housing finance institutions or corporations which purchase housing debentures. Their objectives are to increase the level of resources in the housing finance system, to increase access to housing by lowering capital costs and to encourage support for housing investments. A major problem with tax subsidies is that although the level of resources may appear small at first, as the housing sector grows they may become politically very sensitive and are almost impossible to remove. In addition, tax incentives may be inconsistent with overall objectives of financial policies, they may directly increase capital costs to other sectors and imply a redistributive approach favouring high income groups.

Finally, regulation of the financial system is the most direct form of control which has been used by governments to influence their housing finance systems. Such regulations may relate specifically to the mortgage market, to a particular type of housing finance institution, or may seek to promote the growth and development of multipurpose financial institutions and in general, have three broad aims: (i) to improve competition (ii) to increase efficiency and (iii) to stimulate long-term finance. Occasionally, regulations have been used to exert even greater control over the investment of resources of financial institutions in order to promote the development of the housing finance system. Thus, in some countries, banks, insurance companies, and retirement systems may be required to earmark a certain fixed proportion of their resources for housing or, indirectly, to channel savings into the sector by restricting other forms of investment.

## II. TRINIDAD AND TOBAGO GOVERNMENT HOUSING POLICY

The goal of providing adequate shelter to its citizens has been a major preoccupation of the Government of Trinidad and Tobago for almost three decades and has been the focus of attention in several official policy documents including successive annual budget speeches in the 1970's and 1980's. The mortgage market and indeed the entire housing finance system, therefore, has been influenced to a significant extent by the housing policies of government, particularly since the coming of the oil boom in the mid 1970's. These policies can be examined under three headings: (1) housing construction; (2) subsidies; and (3) legislation.

### Government Housing Construction

Initially, the National Housing Authority (NHA), was the main Government housing agency which was incorporated under the Housing Act 1962, was responsible for the implementation of Government's housing construction programme which was aimed primarily at meeting the housing needs of low income families through (1) low cost housing construction (2) construction of rental apartments for low and lower income households and (3) acquisition and development of sites for its own projects, assisted private projects and for the housing of sugar workers. Budgetary allocations and loans from external agencies were the NHA's main sources of funds which had not been forthcoming in sufficiently large quantities to make any significant impact on the housing supply situation.

Following the increase in public sector revenues from 1973, the government seized upon the opportunity to increase its allocation to the housing sector and to accelerate its housing construction programme.

The accelarated housing construction programme which was outlined in some detail inthe 1978 Budget Speech was formulated on the basis of an estimated housing deficit of 10,000 units annually, or a shortfall of 6,500 units in the existing rate of housing construction by both the private and public sectors. In order to meet this housing shortage, the government proposed to increase its own housing construction level to 6,500 units annually, leaving the rest to be provided by the private sector.

Several measures were adopted to facilitate the attainment of this target. Firstly, a special long term fund which was named the 'Housing Fund' was established through budgetary allocations in order to finance expenditures on the programme. Secondly, given the NHA's lack of administrative and technical capacity to handle such a large scale programme, a Housing Task Force was appointed to undertake full responsibility for the programme with assistance from two public agencies which had been engaged in property development, the National Insurance Property Development Company (NIPDEC) and the Point Lisas Port Development Company (PLIPDECO). In addition, several other measures were implemented in order to reduce housing construction costs. These included price controls and subsidies as well as duty free importation of a wide range of building materials.

TABLE I

LONG TERM PROJECT FUND

HOUSING FUND

Appropriations and Expenditure, 1976-1983

| YEAR | APPROPRIATIONS | INTEREST | EXPENDITURE |
|---|---|---|---|
| 1976 | 2.6 | 0.1 | 14.9 |
| 1977 | 131.7 | 0.9 | 46.5 |
| 1978 | 200.0 | 6.0 | 54.9 |
| 1979 | 48.1 | 13.4 | 134.0 |
| 1980 | 150.0 | 7.0 | 237.4 |
| 1981 | 315.0 | 8.1 | 386.6 |
| 1982 | 285.0 | 38.8 | 454.7 |
| 1983 | 306.1 | 12.3 | - |
| TOTAL | 1,132.4 | 86.6 | 1,626.8 |

SOURCE: Accounting for the Petrodollar, 1973-1983

Inadequacy of data does not permit a proper evaluation of the impact of the measures outlined above though some indication of the scale of the financing requirements of the modified housing programme is provided by the pattern of expenditures from the Housing Fund. As shown in table VIII, total annual expenditure from the Housing Fund for house construction and site development showed a nine-fold increase over the period 1978 to 1982 and exceeded appropriations to the fund over the same period. Again, the unavailability of accurate data on construction starts, completions and costs of many of the projects does not permit any meaningful examination of public sector housing construction on an annual basis. A similar problem occurs in the case of private sector housing construction. However, according to figures provided in the 1985 Budget, over the period 1978 to 1984 government-sponsored housing construction resulted in the completion of 10,802 units in newly established residential communities located in several urban and suburban areas. In addition, several hundred fully serviced building lots were distributed to low and middle income households. Altogether, however, this was well short of the government's own subsequently adjusted target of 6,500 units annually.

An important reason for the limited success of the programme was inadequate planning particularly in view of the large scale nature of the project. Moreover, the stated goals of the programme were based on housing needs of the entire country rather than a sound assessment of the potential utilization of available resources. Another significant factor was that the implementation of the programme was concurrent with the execution of several large infrastructural development programmes which had competing claims on the resources available to the construction sector. As a result, there were shortages in the supplies of both construction materials and quality managerial and technical resources, rising prices and long delays in construction.

## Subsidies

Apart from the construction of low-cost housing, the official housing policy has attempted to address the problem of access to adequate levels of finance by lower and middle income households particularly in view of the escalation in the costs of land and housing which characterised much of the 1970's and the early 1980's. Prior to 1978, a number of taxation and other measures had been instituted in order to enhance the capacity of households to obtain adequate mortgage finance to satisfy their housing needs. These measures were modified and, in certain instances, new measures introduced in order to maintain the significance of intended benefits to home buyers and to facilitate the acceleration of government's housing programme.

Various forms of subsidies have been used. These include:

(a) provision of mortgage loans at rates of interest substantially below existing commercial rates

(b) raising the maximum loan ceiling while increasing the income eligibility criteria

(c) extending the mortgage repayment period

(d) modifying the repayment schedule so that monthly instalments are reduced in the early years of the mortgage; and

(e) provision of construction lots at small lease premiums and low monthly rental.

A wide array of subsidies in the form of tax measures have also been employed to provide financial relief to homeowners and to influence the demand for house purchase loans. Some of these measures had their origin in the Housing Act 1962 and have been modified over time on the basis of changing economic circumstances. Others were enunciated in the annual Budget Speech as part of the on-going fiscal programme of Government. In general, the policy measures provided for tax reliefs to homeowners for certain expenditures classified as 'Revenue' expenses which are considered necessary for upkeeping the property and maintaining its original value. Available expenses include Land and Building Taxes, Water and Sewerage Rates, Fire Insurance, Interest on Mortgage Loans and Repairs. In addition rental income up to a specified maximum limit is exempt from tax.

Tax subsidies have also been provided to building contractors and registered traders in houses as in the case of an "initial sale", the profits from which are exempt for tax. In certain instances, however the subsidy is provided to the housing finance or mortgage lending institution. Under the Housing Act 1962, institutions which receive "approved mortgagee" status can issue debentures on which the interest can be tax free. "Approved mortgagee" status applies to institutions currently making loans of less than $200,000 at interest rates not exceeding 9 per cent, for the purchase or construction of a dwelling and allows the mortgagee to apply to the NHA to guarantee the repayment of the loan. On such loans, the mortgagee is exempt from tax on interest it receives. Profits of specialized mortgage finance institutions such as Building and Loan Associations are also exempt from taxes.

In reviewing the mortgage market, the estimation of the subsidies involved through budget allocations, tax ememptions and direct interest rates subsidies is of primary importance. Unfortunately, the monitoring of this aspect of housing finance is an area that has been sadly neglected and as such no proper data series exist. Some attempt has been made by the Ministry of Finance to provide estimates of interest rate subsidies paid through the National Housing Authority and the results are presented in Table II. The subsidy for each year is calculated as the difference between mortgage repayments on outstanding loans at the mean NHA rates and repayments on the same volume of loans at the mean commercial mortgage lending rates. However, a major problem

TABLE II

INTEREST RATE SUBSIDIES PAID THROUGH NATIONAL HOUSING AUTHORITY, 1973-83
$000

| YEAR | ESTIMATED SUBSIDY |
|---|---|
| 1973 | 95 |
| 1974 | 158 |
| 1975 | 244 |
| 1976 | 268 |
| 1977 | 690 |
| 1978 | 3,619 |
| 1979 | 4,912 |
| 1980 | 6,284 |
| 1981 | 3,608 |
| 1982 | 4,172 |
| 1983 | 3,869 |
| TOTAL | 27,919 |

SOURCE: Accounting for the Petrodollar, 1973 - 1983.

with this technique stems from the selection of an appropriate measure for the commercial mean. The use of a weighted average mean of commerial rates would have been the most appropriate measure. However, the unavailability of data renders the calculation of a resonably accurate measure of this mean an almost impossible task.

Despite its inadequacies, the table provides some indication of the degree of assistance provided by government under one of several aspects of its housing subsidy programme. However, a great deal of statistical work still needs to be done, not only to provide a basis for calculating the total expenditure on government's housing programme, but also to determine how the benefits of these subsidies are allocated to the different income groups and their impact on housing demand.

Legislation

The evolution of the mortgage market in Trinidad and Tobago within the last decade has been significantly influenced by the financial polices of government. In general these policies have sought through legislative instruments to foster the growth and expansion of sound and viable housing finance institutions, and to ensure that locally mobilised savings are invested in Trinidad and Tobago assets. Among these legislative measures are the Banking Act 1962, the Financial Institutions (Non-Banking) Act, 1979 and the Insurance Act 1980.

In addition to its efforts to increase the supply of housing finance through the regulation of financial institutions government has also used legislative measures to remove certain non-financial constraints on the supply of housing. These constraints generally relate to the absence of or inadequate and improper land and property titles, and rent controls which generally increase the difficulty of providing housing finance to middle-income as well as low income families. Examples of such legislation include the condiminuim Act 1981 and the Land Tenants (Security of Tenure) Act 1981. It has sometimes been the case however, that such regulatory measures have imposed additional constraints on the supply of residential mortgage loans as, for example, in the case of the Rent Restrictions (Dwelling) Act 1981. An evaluation of these legislative measures is to a large extent outside the scope of this discussion. Suffice it to say, however, there is a need for continous review of the measures in order to ensure that they do not conflict with other important policy objectives.

## III. THE HOUSING PROBLEM IN TRINIDAD AND TOBAGO

According to the latest census conducted in 1980, the population of Trinidad and Tobago was 1,058,230 in 1980 an increase of 127,249 persons over the figure for 1970. The growth rate for the ten year period was 1.29 per cent per annum, compared with 1.19 per cent between 1960 and 1970. A significant feature of the 1980 population structure is the high proportion of young persons. Approximately half (46.9 per cent) were under 20 years of age while the 20-29 age group accounted for another ten (10) per cent.

Data on the rate of household formation, which are essential in providing a basis for forecasting the likely demand for housing, are unavailable. However, a somewhat crude indicator of this trend is provided by the annual marriage rate which has shown a slightly upward fluctuating trend over the period 1973-1983. (See Table III). Despite the acceleration in the rate of population increase, GNP per capita increased from $10,200 ($TT)[1] in 1979 to $16,900 ($TT) in 1982, but this fell to $16,3000 ($TT) in 1983 following the downturn in the economy. Nevertheless, on the basis of this measure Trinidad and Tobago is still ranked among the wealthiest countries in the Western Hemisphere.

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[1] U.S.$1.00 = TT$2.40

## TABLE III

### PERSONS MARRYING PER '1000' OF THE POPULATION

| YEAR | TOTAL POPULATION[1] | TOTAL MARRIAGES | | MARRIAGES PER '000' |
|---|---|---|---|---|
| 1973 | 986,394 | 7,001 | 14.1 | 7.1 |
| 1975 | 1,008,769 | 7,546 | 13.4 | 7.5 |
| 1977 | 1,041,626 | 8,151 | 12.8 | 7.8 |
| 1979 | 1,076,920 | 9,290 | 11.6 | 8.6 |
| 1980 | 1,081,764 | 8,924 | 12.1 | 8.2 |
| 1981 | 1,112,209 | 8,185 | 13.6 | 7.4 |
| 1982 | 1,128,597 | 9,504 | 11.5 | 8.4 |
| 1983 | 1,149,264 | 8,536 | 13.5 | 7.4 |

SOURCE: Central Statistical Office

1. Mid-Year Population Estimates.

Table IV presents a breakdown of households by type of dwelling units as revealed by the 1970 and 1980 census data. The evolution of the housing stock over the period indicate a total increase of 41,940 units to 235,100 units. The bulk of the increase was in the form of single family dwellings which continued to be the dominant form of housing. However, an important development was the emergence of multi-family dwellings such as condiminuims, townhouses and duplexes as an acceptable method of satisfying the housing needs of the population.

Along with this development, the quality of housing has also improved since 1970. This is evidenced by a reduction in the number of dwelling units in poor structures, such as barracks, outrooms and part commercial buildings. In terms of the age of housing structure, however, roughly one-third of the existing housing stock was over 20 years old and although this does not constitute an adequate basis for determining the condition of the housing, estimates of the required rate of replacement of obsolescent stock have invariably been high.

Although the level of owner occupation is relatively high, (See Table V) the pattern of economic and social infrastructural development in Trinidad and Tobago has led to a growing concentration of housing in and around the urban areas. The increased demand for urban residential lands together with its limited availability have in recent years, contributed significantly to the upward pressure on the cost of urban

TABLE IV

HOUSEHOLD BY TYPE OF DWELLING UNIT: 1970 and 1980

| TYPE OF UNIT | CENSUS YEAR 1970 | % | 1980 | % | CHANGE |
|---|---|---|---|---|---|
| Separate House | 144,210 | 74.6 | 183,400 | 78.0 | +39,190 |
| Flat/Apartment | 39,000 | 20.2 | 32,440 | 13.8 | -6,640 |
| Condiminium, Town/house | - | - | 670 | 0.3 | +670 |
| Double House/Duplex | - | - | 13,990 | 6.0 | +13,990 |
| Barracks | 2,550 | 1.3 | 1,340 | 0.6 | -1,210 |
| Out room | 1,140 | 0.6 | 670 | 0.3 | -470 |
| Part Commercial Building | 2,660 | 1.4 | 20 | - | -2,640 |
| Other | 1,200 | 0.6 | 2,080 | 0.9 | +880 |
| Not Stated | 2,320 | 1.2 | 490 | 0.2 | -1,830 |
| TOTAL | 193,160 | 100.0 | 235,100 | 100.0 | +41,940 |

SOURCE: Central Statistical Office, Population Census 1980

housing, making it unaffordable to the lower and middle income households. As a consequence, a variety of tenure arrangements exist, which often constrain the development of proper housing. Among these arrangements are squatting, chattel rental, in which land is rented to households on an ad hoc basis without any formal or legal arrangements and family land systems which have the same effect as chattel rental.

TABLE V

HOUSEHOLD BY TYPE OF TENURE, 1970 and 1980

| TYPE OF TENURE | CENSUS YEAR | | | | CHANGE |
|---|---|---|---|---|---|
| | 1970 | % | 1980 | % | |
| Owned | 117,510 | 60.8 | 149,950 | 63.8 | +32,440 |
| Rented | 54,510 | 28.2 | 57,020 | 24.3 | +2,510 |
| Leased | 1,300 | ~~0.7~~ | 900 | 0.4 | -310 |
| Rent Free | 14,780 | 7.7 | 23,620 | 10.0 | +8,840 |
| Squatted | 1,780 | 0.9 | 1,740 | 0.7 | -40 |
| Other | 790 | 0.4 | 1,080 | 0.4 | +290 |
| Not Stated | 2,500 | 1.3 | 700 | 0.3 | -1,800 |
| TOTAL | 193,170 | 100.0 | 235,100 | 100.0 | |

SOURCE: Central Statistical Office Population Census 1970 and 1980

Arrangements of this nature inevitably result in low levels of services, poor subdivision standards and living environment and inaccessibility to financing from established financial institutions.

These informal types of housing arrangements usually by-pass municipal laws which provide for the regulation of housing construction and urban development. However, the regulations themselves have been found to be very cumbersome and impose severe constraints on the supply of housing. Under the present legal arrangements, approval for housing construction must be sought from several agencies such as the Town and Country Planning Division, the Ministry of Health and Water and Sewerage Authority. In addition, in the case of subdivision of land, advice must be sought from the Highways and Drainage Division of the Ministry of Works and, for multi-storeyed public and commercial buildings, approval must be obtained from the Ministry of Works, The Town Engineer's Department, the Chief Fire Officer and the Factory Inspectorate. As a result of these bureaucratic procedures required for obtaining construction approval, there has often been inordinate delays in the commencement of construction, estimated to range between two months to three years, resulting in increased costs. Moreover, these agencies sometimes appear to have conflicting standards, overlapping authority and to set unrealistically high standards.

Affordability of Housing

The major problem facing the housing sector concerns the high costs of newly built houses constructed by both the private and public sectors. Though official statistics are unavailable, it has been estimated that the rate of inflation in housing over the last decade or so, was several times higher than the general inflation rate over the same period. With the recent downturn in the domestic economy, increases in house prices are expected to moderate somewhat. However, on account of the decline in revenues and the need to ensure that other priority sectors are provided with adequate resources, Government has begun to reduce its housing construction and housing subsidy programme.

According to recent estimates the cost of the least expensive house built by the public sector is approximately $84,000[1]. On the other hand, prices of houses constructed by private developers vary substantially, though the range of quotations is normally upwards of $200,000. On rare occasions, however, lower prices have been advertised in the daily press. Table VI attempts to provide some indications of the downpayments, monthly payments and income requirements for a range of house prices between $84,000 and $250,000. The table assumes that there are no interest rate subsidies and that the loan to value ratio is eighty per cent (80%) although, in practice, the latter may vary between 60 per cent to 90 per cent. There may also be variations in the debt to income ratio which can have the effect of increasing the income requirements. However, threshold payments such as origination fees, legal fees, stamp duties etc, which have to be borne by the borrower and which are often quite substantial, have not been included.

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1 Urban Projects Division, Latin America and Caribbean Regional Office, "Trinidad and Tobago Housing Sector Analysis, mimeo, November 1984.

TABLE VI

MONTHLY PAYMENTS AND INCOME REQUIREMENTS

FOR SELECTED MORTGAGE LOANS [1]

dollars

| | | | | | |
|---|---|---|---|---|---|
| House Cost | 84,000 | 100,000 | 150,000 | 200,000 | 250,000 |
| Downpayment | 8,400 | 10,000 | 15,000 | 20,000 | 25,000 |
| Mortgage Loan | 75,600 | 90,000 | 135,000 | 180,000 | 225,000 |
| Monthly Payment | 940 | 1,120 | 1,680 | 2,240 | 2,800 |
| Income Required[2] | 3,120 | 3,740 | 5,600 | 7,500 | 9,400 |

1 Assumes a rate of interest of 14 per cent per annum and a repayment period of 20 years.

2 Assumes a debt to gross income ratio of thirty per cent.

A proper assessment of the affordability of housing to the various income groups is constrained by the unavailability of recent data on the distribution of income among households. However a classification of households by income level of the household head, based on the 1980 Population Census, is presented in Table VII. Again, in addition ot the problem of recency, the data provided can only be of restricted use since assessment of affordability may, in instances where there are more than one income earner, depend upon the income level of the entire household rather than on one member. Nevertheless, even if it is assumed that the average household comprises two income earners, it is apparent from the data that the majority of households is concentrated in the lower end of the income scale.

TABLE VII

PRIVATE HOUSEHOLDS BY INCOME LEVEL OF HEAD, 1980

| INCOME | NO. OF HEADS | PER CENT OF TOTAL |
|---|---|---|
| Under $500 | 79,071 | 33.7 |
| $500 - $899 | 58,841 | 25.1 |
| $900 - $1299 | 36,019 | 15.3 |
| $1300 - $1699 | 15,110 | 6.4 |
| $1700 - $2499 | 13,629 | 5.8 |
| $2500 - $3999 | 6,492 | 2.8 |
| Over $4000 | 8,512 | 3.6 |
| Not Stated | 17,053 | 7.3 |
| TOTAL | 234,727 | 100.0 |

SOURCE: 1980 Census (Unpublished Data)

Given the inadequacy of data on household incomes, only cursory analysis of the affordability of housing can be attempted. Three broad categories of households can be identified. Firstly, the lowest income group will not normally be able to meet the income and other requirements for purchase of low cost housing and consequently, need to be assisted through Public Sector Housing programmes in order to meet their housing needs. Secondly, at the second level are those households who are able to afford low cost public sector housing often only if subsidies in the form of lower interest rates and smaller downpayments are provided. Finally, at the upper end of the income scale are those households who have access to finance from established mortgage institution for purchase of private sector housing, i.e. houses in the price range of $200 thousand and upwards, but who may also be bemeficiaries of interest rate and other subsidies. Given the relatively high cost structures of both public sector and private sector housing, therefore subsidies of one form or another is essential if greater home ownership is to be encouraged among the low and middle income households.

## IV. SOURCES OF MORTGAGE CREDIT

The bulk of mortgage debt outstanding in Trinidad and Tobago is held by commercial banks and their subsidiary non-banking financial institutions -- i.e. trust companies and mortgage institutions, - life insurance companies, pension funds and certain statutory financial corporations (See Table V). Mortgage financing patterns of these lending institutions vary from one another in a variety of ways, reflecting differences in statutory restrictions, in investment powers and asset management policies. Mortgage lending institutions also differ widely in their sources of funding and as such may be classified under two broad categories; (1) deposit-taking, and (2) non-deposit-taking.

### Deposit-taking Institutions

Commercial banks are important suppliers of mortgage construction financing as well as residential and non-residential mortgage loans, although precise estimates of the actual proportion of each form of credit is unavailable. In addition, the banks also provide substantial amounts of home mortgage credit through their subsidiary trust and mortgage finance companies. Trust Companies were established to manage other peoples assets placed 'in trust.' In addition, they provide mortgage loans which are financed mainly from deposits mobilised from the public. Mortgage finance companies operate in a manner similar to the trust companies, but do not perform trust functions.

TABLE VIII

DISTRIBUTION OF MORTGAGE DEBT OUTSTANDING

BY TYPE OF HOLDER AND PROPERTY

DECEMBER 31, 1982*

($ million)

| | Real Estate Residential | Mortgage Non-Residential | Total | % of Total |
|---|---|---|---|---|
| Trust Companies | 282.2 | 161.5 | 443.7 | ~~13.8~~ 15.8 |
| Mortgage Institutions | 188.1 | 137.2 | 325.3 | 11.5 ~~15.8~~ |
| Finance Companies | 4.0 | 6.7 | 10.7 | 0.4 ~~11.6~~ |
| Building Societies | 44.4 | 1.4 | 45.8 | 1.6 ~~0.4~~ |
| Life Insurance Co's. | n.a. | n.a. | 480.9 | 17.1 |
| Pension Funds | n.a. | n.a. | 203.7 | 7.2 |
| National Insurance Board | | | 421.0 | 15.0 |
| Trinidad & Tobago Mortgage Finance Company | 255.3 | - | 255.3 | 9.1 |
| National Housing Authority | 411.5 | - | 411.5 | 14.6 |
| Agricultural Develop. Bank | - | 215.1 | 215.1 | 7.6 |
| Sugar Welfare Fund | 19.0 | - | 19.0 | 0.6 |
| TOTAL | n.a. | n.a. | 2,813.0 | 100.0 |

SOURCE: Central Bank of Trinidad and Tobago

* excludes commerçial banks

n.a. - Not available

Trust and mortgage finance companies provide real estate mortgage loans at commercial rates of interests for the purchase of residential and commercial properties. Buoyant deposit growth over the last decade has enabled these institutions to expand their loan portfolio at a rapid rate and to assume a position of dominance in the mortgage market. Over the period 1980 to 1984, their total outstanding mortgage debt grew at an annual average rate of 20.4 per cent to $1,204.3 million, the bulk of which was secured by residential mortgages. Data on the investment of assets managed under the trustee function are not available. However, at the end of 1984, deposits placed with the eight (8) trust and mortgage institutions, on behalf of Pension Funds, Trust and Other 'Managed' Accounts amounted to $87.2 million or approximately six (6) per cent of their total deposit liabilities.

Finance houses have also been significant mobilisers of domestic savings in the form of deposits. Their total deposits grew considerably since the mid-1970's and over the period 1980-1984, averaged 27 per cent on an annual basis. During 1984, However, total deposits fell by 9.6 per cent to $868 million consequent upon the downturn in the performance of the economy. Of the fourteen companies in existence at the end of 1984, eight (8) were licensed to carry on the business of a mortgage institution. However, the total outstanding loan portfolio of finance companies have shown a concentration of medium term loans to such sectors as construction, distributive trades and personal consumer loans with only a marginal allocation to mortgages.

The Building Societies are specialist mortgage lending institutions which were established to provide residential mortgage loans to its members who fund its lending through the placement of deposits and the purchase of shares. Although income of the Building Societies is exempt from taxation, deposit and assets growth of these institution have not exhibited the same pattern as was the case for other non-bank deposit-taking institutions. Consequently, the societies have shown only modest increases in their outstanding mortgage debt and they continue to operate on a relatively small scale.

Non-deposit Taking Institutions

(a) Statutory Financial Corporations

Several statutory financial corporations provide mortgage loans to middle and low income households, who on the basis of established lending criteria could not qualify for accommodation from the deposit-taking mortgage finance institutions or to whom such accommodation would have been inadequate to meet their housing needs. These institutions include the National Insurance Board, (NIB) the National Housing Authority (NHA) the Trinidad and Tobago Mortgage Finance Company (T&TMF) and the Sugar Industry Welfare Fund.

The NHA is the main agency for the implementation of Government's housing programs and addresses itself primarily to lower-income groups. It obtains its funds from government allocations, its operations and from external agencies. The Authority has been faced with severe organisational and administrative problems which has impaired the efficiency of its operations. As a consequence of this, precise estimates of its total loan portfolio are currently unavailable. It is apparent, however, that there has been a marked slowdown in the rate of loan disbursement over the last two years.

Both the T&TMF and the NIB provide mortgage loans to households at the middle income level. The NIB administers the country's national insurance scheme and derives its revenues largely from premium contributions of insured persons. However, since the funds it receives are far in excess of that which it pays out in claims, it is a major source of funds for mortgage loans. It is not an originator of such loans. Rather, it employs seven financial institutions as agents which grant the loans on its behalf and manage and service them in exchange for fees ranging from 0.75 per cent per annum to 1.5 per cent per annum. The NIB is currently the largest single source of mortgage credit among all financial institution. In the first nine months of 1984, the agency disbursed a total of $147.7 million in mortgage loans, while at June 1983, its total outstanding mortgage loans stood at $578.4 million. The NIB also provides assistance to the mortgage market through its placement of substantial deposits with other mortgage institutions for on-lending to home buyers.

The NIB and the government of Trinidad and Tobago are the joint holders of the equity of the Trinidad and Tobago mortgage finance company, a specialist mortgage lending institution which caters to the needs of the middle income households. The company's major source of funds has been unsecured credit in the form of debentures which are held by its equity partners. Over the period 1980 to 1984 the company was able to attain a more than ten-fold increase in its mortgage loans portfolio from $32.6 million to $346.8 million, the latter representing a total of 3189 loans. However, as a result of the downturn in the economy, the flow of resources has not kept pace with the level of demand to the extent where it frequently became necessary for the company to institute temporary freezes in its mortgage lending pending the renegotiation of new credits. The T&TMF has also attempted to mobilise resources through the placement of a debenture bond issue which was made in 1984. However, the amount realised fell well short of original expectations.

(b) Life Insurance Companies and Pension Funds

Life Insurance companies and Pension Funds comprise the largest group of private non-deposit taking financial institutions and are also major suppliers of non-residential and home mortgage credit though estimates of the actual proportions of each of these classes of mortgage debt held in their portfolios are currently not available. Under the

Insurance Act, 1980, these institutions are required to invest their statutory funds in approved local assets such as Government securities, mortgages, real estate, and equities of companies approved by the Ministry of Finance, with at least 80 per cent of the total required to be invested in Trinidad and Tobago.

Unlike commercial banks and other deposit-taking institutions, life insurance companies and pension funds enjoy relatively stable inflows of investment funds from contractual additions to their reserves. This factor enables them to plan their mortgage investment programs on a long-term basis. In the period 1975-1982, total assets in the Statutory Funds of Life Insurance companies and Pension Funds grew at average annual rates of 16.8 per cent, and 25.3 per cent respectively. These high growth rates largely reflected increases in their holdings of real estate mortgage loans (See Table VII).

TABLE IX

STATUTORY FUNDS OF LIFE INSURANCE COMPANIES AND

SELF ADMINISTERED PENSION PLANS

REAL ESTATE MORTGAGE LOANS AS PERCENTAGE OF TOTAL ASSETS

$million

| | LIFE INSURANCE COMPANIES | | | SELF ADMINISTERED PENSION PLANS | | |
|---|---|---|---|---|---|---|
| | Total Assets | Real Estate Mortgage Loans | % of Total | Total Assets | Real Estate Mortgage Loans | % of Total |
| 1975 | 258.6 | 68.7 | 26.6 | 148.6 | 15.6 | 10.5 |
| 1977 | 395.6 | 113.1 | 28.6 | 277.6 | 51.8 | 18.7 |
| 1979 | 466.5 | 222.1 | 47.6 | 309.9 | 70.6 | 22.8 |
| 1981 | 581.5 | 313.2 | 53.9 | 520.8 | 150.2 | 28.8 |
| 1982 | 768.0 | 383.7 | 50.0 | 720.0 | 201.2 | 27.9 |

SOURCE: Supervisor of Insurance Reports.

## Interest Rate and Other Policies of Deposit-Taking Mortgage Finance Institutions - The Effect of Competition

As has already been stated, deposit-taking mortgage lending institutions have been regulated under the Financial Institutions (Non-Banking), Act 1979. To the extent that legislative and regulatory controls impose explicit barriers to the entry of new institutions into the financial activities of NFIs, they severely limit the degree of competition among these institutions. Nevertheless, various elements of price and non-price competition exist among the deposit-taking mortgage finance institutions and other non-bank financial institutions.

The most important aspect of price competition is interest rates. Act No. 34 of 1978 sought to amend the Central Bank Act, 1964 in order to provide for the fixing of interest rates, but this power has never been exercised. The interest rate policies of mortgage finance institutions consequently reflect, to an important extent, the effect of competition among themselves, and with commercial banks and other non-bank financial institutions. It is significant to note, however, that although trust and mortgage finance companies compete directly with finance houses for deposits, they compete only at the margin with banks whose deposits are mainly short-term with maturities of under one year.

TABLE X

## COMMERCIAL BANKS AND NON-BANK FINANCIAL INSTITUTIONS SELECTED INTEREST RATES: 1979-1985

| | Commercial Banks | | | Trust and Mortgage Finance Cos. | | | Finance Companies | |
|---|---|---|---|---|---|---|---|---|
| PERIOD | Time Deposits (1 yr) | Mortgage Loans | | Time Deposits (1-3 yrs) | Residential Mortgage Loans | | Time Deposits (1-3 yrs) | |
| | Median | Median | Range | Median | Median | Range | Median | Range |
| 1980 | 8.13 | - | - | 9.40 | 12.00 | 11.00-14.00 | 11.75 | 7.00-15.00 |
| 1981 | 8.94 | 11.50 | 11.50 | 10.19 | 13.50 | 11.00-15.00 | 11.75 | 7.00-18.00 |
| 1982 | 8.82 | 12.75 | 11.00-16.00 | 9.73 | 13.57 | 12.50-15.00 | 12.75 | 9.00-16.00 |
| 1983 | 8.25 | 12.75 | 12.00-16.00 | 10.32 | 13.50 | 13.00-15.00 | 13.38 | 10.00-16.00 |
| 1984 | 8.63 | 13.00 | 12.50-16.00 | 10.25 | 14.00 | 9.50-15.00 | 13.00 | 9.50-18.00 |
| 1985 | | | | | | | | |
| Qtr. I | 8.50 | 12.50 | 11.50-15.00 | 10.25 | 13.88 | 12.00-15.00 | 18.00 | 9.50-16.00 |

SOURCE: Central Bank of Trinidad and Tobago.

Table X provides a comparative picture of the rates of various deposit-taking financial institutions over the period 1979 - 1985. Rates offered on deposits have generally shown a rising trend over the last five years but there were significant differences between the rates of the various classes of institutions. On deposits of 1-3 years maturity, rates quoted by finance companies appear by historical standards to be excessively high reaching as high as 18 per cent in at least one instance while the median rate for the entire group have consistently remained several percentage points above the median of the quoted rates of trust companies on deposits of similar maturities. However, it has been widely recognised that certain finance companies did not always adhere to the conventionally established standards of prudential controls and have suffered the inevitable consequences of such behaviour.

Reflecting to some extent, the relatively higher interest rates paid to its suppliers of funds, mortgage rates charged by trust companies to their customers for house purchase have consistently been significantly higher than the corresponding rates of commercial banks. An indication of the spread of rates and of the profitability of trust and mortgage finance companies over the period 1981-1983 is provided in table XII. Analytical comparison of the data is severely constrained by differences in data classification and the lack of a consistent series for the two groups of institutions. Nevertheless, the data reveal that over the three year period, trust and mortgage finance companies have maintained higher ratios of profit after tax to total assets and to total deposits than commercial banks.

TABLE XI

SELECTED OPERATING RATIOS OF COMMERCIAL BANKS AND TRUST AND MORTGAGE FINANCE COMPANIES: 1981-1983
(per cent)

| | 1976 - 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|
| **Commercial Banks** | | | | |
| 1. Return on Loans | 10.30 | 12.41 | 13.79 | 14.36 |
| 2. Interest on Time and Savings Deposits to Total Deposit | - | 5.7 | 5.61 | 5.71 |
| 3. Profit after Tax to Total Assets | 1.32 | 1.32 | 1.29 | 1.39 |
| 4. Profit after Tax to Total Deposits | 1.55 | 1.69 | 1.69 | 1.80 |
| **Trust and Mortgage Finance Companies** | | | | |
| 1. Interest on Loans to Average Total Loans | - | 15.2 | 15.0 | 13.5 |
| 2. Interest on Deposits to Average Total Dposits | - | 9.4 | 9.2 | 7.4 |
| 3. Profit After Tax to Total Assets | - | 2.4 | 1.7 | 1.8 |
| 4. Profit After Tax to Total Deposits | - | 2.7 | 1.9 | 2.1 |

SOURCE: Central Bank of Trinidad and Tobago.

Apart from the price element of competition among mortgage finance institutions, their lending policies often reflect certain conventionally established self regulatory measures which are used to ensure that loans are of a desirably sound quality. However, these terms and conditions of lending can influence to some degree, the demand for mortgage loans and therefore provide a limited basis for competition among housing finance institutions.

Mortgage finance institutions provide loans on the security of both residential and commercial or industrial properties and may finance up to 90 per cent of the valuation or purchase price of the property, whichever is lower, although maximum loan values have been specified in certain instances. Residential mortgage loans carry higher loan to value ratios and longer repayment periods but generally have a lower specified maximum value. Some institutions require that the entire loan or part of it be insured with the cost of insurance being borne by the borrower. It is also a requirement of all institutions that income of the applicant be verifiable and that loan instalments do not exceed thirty (30) per cent of the gross amount. However, in order to accomodate a larger number of prospective borrowers, one trust company has introduced a system of graduated payment mortgages which provide for lower monthly payments in the early years of the mortgage contract and higher payments later on.

All institutions have recently introduced adjustable rate mortgages whose contract interest rates are adjusted periodically depending on movements in domestic interest rates. Other requirements which may increase the cost of mortgage finance to the borrower include life insurance coverage equal to the amount of the loan, as well as property insurance commitment fee equal to 1-2 per cent of the value of the loan, penalties for prepayments and also late payments and procedures for foreclosure of the mortgage contract.

## V. THE MORTGAGE MARKET - PROSPECTS AND PROBLEMS

The decline in petroleum revenues and the consequent downturn in the economy has resulted in a reduction in government spending on domestically produced goods and services which was the major source of increases in the monetary base and money supply within recent years. After a more than two fold increase in 1982, the net domestic budget deficit which is used as a measure of the financial impact of government's domestic expenditure, registered consecutive declines in 1983 and 1984. These developments have important consequences for the deposit-taking mortgage finance institutions in their role of mobilising domestic resources for the purpose of on-lending for the purchase and construction of residential dwellings and also for government in respect of its programme of assistance to middle and lower income households.

Deposit growth of commercial banks slowed considerably to 6.6 per cent and 5.3 per cent, in 1983 and 1984 respectively from an average annual rate of over 25 per cent over the preceding five years. The trend of slower deposit growth is likely to continue, at least, into the immediate future and will constrain both the mortgage construction financing and mortgage lending activities of banks. Trust and mortgage finance companies on the other hand, continued to experience buoyant deposit growth in 1983 (32 per cent) and 1984 (16 per cent) although the pattern of ... declining growth rates is also evident. Similarly, outstanding real estate mortgage loans extended by these specialist institutions grew by 22.3 per cent during 1984 but was substantially lower than the 36.2 per cent increase in 1983.

On the other hand, [redacted] drastically their scale of lending. In addition, the Minister of Finance has acknowledged in his 1985 Budget Speech that the government cannot continue in its public investment programme to place so great an emphasis on the provision of fully completed dwelling units, and that other methods have to be found so that a large number of households can continue to benefit from public expenditure on housing. Moreover, since [redacted]

From the above scenario, it is evident that the major problem to be addressed by the policy makers concerns that of ensuring an adequate flow of financial resources into the housing sector. An important question [redacted] Moreover, it is important to recognize that the poorest section of the population will not be able to gain access to mortgage finance and therefore must be assisted by government to meet their housing needs. A related question is how can public sector resources be efficiently mobilised and allocated to meet the specific needs of low income households?

In examining the ways in which the housing finance objectives can be met, it is essential to evaluate the current housing policy environment which plays a most important role in promoting the growth and development of housing finance institutions and in the allocation of resources in the housing sector, in order to ascertain the extent to which these goals are being met and the policy modifications which might be necessary to enhance the mobilisation of resources in this sector.

Given that a major purpose of financial policy of government is to promote the growth and development of sound and viable housing finance institutions, the question that immediately arises is whether or not the types of housing finance institutions which have been legally licensed to carry on the business of mortgage lending were the most appropriate for a developing country such as Trinidad and Tobago. Indeed it is significant to note that although a majority of finance houses have been licensed to carry on the business of mortgage institution, they have generally ignored this area of lending despite the buoyancy of the housing market in recent years. Furthermore, with the decline in deposit growth of finance companies it seems quite likely that mortgage lending will continue to lose out against other forms of business in which finance companies are engaged. If, as has been stated earlier, the purpose of financial legislation is to increase efficiency, to improve competition and to stimulate long-term finance, then there appears to be a need for reviewing the current legislation or at least the system of issuing licences under the Financial Institution (Non-Banking) Act, 1979. Indeed it may be the case that the separate regulation of mortgage institutions will facilitate the attainment of the broad objectives of the housing finance system in Trinidad and Tobago.

Financial policies in recent years have also tended to take a rather narrow view of the housing finance system to the extent that they have not focussed on the role of the Building and Loan Associations which are the oldest specialist housing finance institutions in Trinidad and Tobago. These Associations have been regulated under the Building Societies Ordinance of 1890, which is based on the English Building Societies Act of 1874 and 1884. Partly on account of the archaic nature of these regulations, Building Societies have been placed at a competitive disadvantage against other specialist institutions and, as a result, the growth of these Societies in recent years has been stunted. Evidently, there is an urgent need for a review of the regulations governing the operations of Building Societies in Trinidad and Tobago, an important objective of which should be to ascertain whether or not these institutions should continue to be regulated separately from other mortgage lending institutions.

Mobilisation of Financial Resources

The slowdown in the growth in deposits and consequently the volume of mortgage loans of housing finance institutions highlights the need for a more efficient mobilisation of financial resources in the economy in general and the housing sector in particular. The continuing growth and development of the mortgage market will therefore depend to an increasing extent on the innovation of financial instruments which will stimulate a greater flow of savings into housing finance institutions and through which loans can be provided to lower income households on a financially viable basis. However, the role of government is important in providing the necessary financial infrastructure to facilitate the innovation of financial services by housing finance institutions.

Several innovative schemes have been employed by housing finance institutions in developed and less developed countries. On the deposit side, contractual savings have been used to encourage prospective homeowners to save towards the downpayment for their homes while government has supported such schemes by providing tax incentives to savers. On the lending side, graduated payments schemes facilitate the provision of larger loans to mortgagors by reducing monthly payments during the initial years of the contract and the latter is already being used by at least one institution in Trinidad and Tobago. However, on account of the problem of the maturity transformation of deposits, the success of housing finance institutions in attracting a greater flow of savings will depend to some extent on the provision of an adequate level of protection to depositors and in this regard the establishment of a deposit insurance scheme is essential. On the other hand, in the context of the current economic environment, mo~~rtgage finance companies a~~re like~~ly to be unduly cautious in their lending policies and as such~~, ~~mortgage insurance can provide some form of guarantee against non-payment~~ or default by borrowers.

At present, mortgage insurance to cover loans up to a specified maximum value is provided by the National Housing Authority. In addition, a few insurance companies provide indemnity insurance to cover the top 15-20 per cent of mortgage loans where such insurance might be required in order to reduce downpayments or alternatively to increase loan to value ratios. To ensure the provision of adequate levels of mortgage loans, it may therefore be necessary to provide mortgage insurance facilities to cover all sizes of loans. It may also be the case that such facilities can most efficiently be provided by a single institution and hence, the feasibility of establishing such an institution should be examined.

A significant development in recent times has been the passing of legislation to incorporate a mortgage bank in Trinidad and Tobago. The Mortgage Bank will raise funds from insurance companies, pension funds and other institutional investors through the issue of bonds and debentures, and hence, is expected to deepen the process of financial intermediation and to increase the efficiency of resource mobilisation in the housing sector. Given the high concentration of real estate mortgages in the Statutory Funds of life insurance companies and pension funds, however, investments in additional mortgage-related securities is likely to present certain portfolio risk which are likely to reduce the attractiveness of holding such securities. It may therefore be essential for government to provide some form of guarantee to holders of securities issued by the mortgage bank.

Potentially, the mortgage bank can be an important source of temporary funding to those mortgage finance institutions which have been experiencing shortages of financial resources. Statutory financial corporations such as the National Housing Authority and the Trinidad and Tobago ~~Mortgage Finance Company which rely on budgetary allocations have been particularly susceptible to the decline in public sector revenues, and may need to be favoured by the mortgage bank in the initial acquisition of its portfolio of mortgages.~~ On the other hand, this situation presents an opportunity for these institutions to introduce new methods of deposit mobilisation to ensure their continuing growth and viability. Hence, the legislation controlling these institutions may need to be amended in order to authorise them to collect savings in the form of deposits.

Finally, it must be recognised that the efficient mobilisation of financial resources in the housing sector depend not only on the supply of an adequate flow of savings but also on the efficient allocation of loans for house purchase. In our earlier discussions, we identified certain areas in which the actions of certain policies were unintentionally blocked by other policy actions often increasing the difficulties of lower income groups in obtaining mortgage finance. There is therefore an urgent need for a review of these regulations in order to ensure that proposals for reforms and development of the housing finance system are congruent with the overall financial development strategies of the country.

In summary, therefore, it has become necessary for government to modify its role in the housing sector on account of the declining trend in public sector revenues. This would inevitably mean a reduction in public sector housing investment as well as housing subsidies. Nevertheless, its basic purpose would remain the same viz providing the financial infrastructure for promoting the growth and development of housing finance institutions and assisting the poorer section of the community to acquire suitable shelter. A discussion of the latter role is to a large extent outside the scope of this discussion. Nevertheless, its major objective ought to ~~be~~ consist of developing specific programs for low income households with a major focus on the urban infrastructure that individual households cannot provide for themselves but which is central to efficient long-term urban development.

# CONCLUSION

To the extent that the mortgage market is concerned with the financing of housing needs, it can perhaps best be examined as part of the wider housing finance system. At present financial system reviews include a review of the mortgage market which is generally restricted to an analysis of the movements in outstanding loan balances. Given the high degree of social and economic importance attached to the role of housing, it is imperative that more comprehensive reviews be undertaken on a periodic basis which could inform policy decisions in respect of the mobilisation of financial resources in the housing sector.

To attain this objective, however, there is much scope for improvement in the methods of data collection not only in respect of housing finance statistics but also on all aspects of housing sector. Meaningful analysis of the mortgage market and housing finance system is, at present, constrained by the lack of sufficient and quality data which could facilitate a proper evaluation of the performance of the mortgage market and enhance, the effectiveness of housing finance policy formulation.

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