



## **DIAGNOSTICS MARKET SUPPLY OF FINANCIAL PRODUCTS FOR HOUSING IMPROVING**

### **AUTHOR:**

Marulanda Consultores

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FINAL REPORT FOR BANCA DE LAS OPORTUNIDADES

MARULANDA CONSULTORES  
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## Abbreviations

AT	Assistance Technique
CF	Finance company
CCF	Family compensation
CNCA	National Agricultural Credit Commission
SFVE	Family Housing Subsidy in Kind
FNA	National Savings Fund
FNG	National Guarantee Fund
Fonvivienda	National Housing Fund
FRECH	Reserve Fund for Stabilization of the Mortgage Portfolio
IPM	Multidimensional Poverty Index
MARD	Ministry of Agriculture and Rural Development
MVCT	Ministry of Housing, City and Territory
OPV	Private operators housing
OPIC	Overseas Private Investment Corporation
PIPE	Plan to Boost Productivity and Employment
POT	Territorial Management Plan
PVG	Free Housing Program
VIPA	Housing Program Priority Interest savers
VIP	Priority Interest Housing
VIS	Social interest housing
SFV	Family Housing Subsidies
SFC	Financial Superintendence of Colombia
SES	Superintendence of the Solidarity Economy
UAF	Family Agricultural Unit

## Introduction

The housing deficit remains very high in Colombia, especially in rural areas. According to the results published by DANE a 36.21% of households in the country has housing needs. In the municipalities the deficit affects 27% of households, and in rural area it reaches 68%.

Regarding the qualitative deficit, 23.84% of households live in dwellings with deficiencies: in the structure of the floors, mitigatable overcrowding, lack of public services or places suitable for preparing food. In this case the indicator is also more critical in rural areas where the rate reaches 56%, while in the municipal head affects 14.4% of households. According to DANE, 2.5 million households in Colombia have qualitative deficit in their homes.

One of the financial instruments has identified Latin America as an ideal to help solve the qualitative housing deficit it's the access to credit for housing improvement through products that suit the characteristics and conditions of the target population. The qualitative housing deficit commonly affects more strongly low-income families and contributes significantly to deepening poverty, as measured by the Multidimensional Poverty Index (WPI) in dimensions such as access to water sources, eliminating excreta, inadequate floors and walls and critical overcrowding as connecting elements between housing policy and the policy of poverty reduction. These features and informality of productive activities of the target population require financial instruments that meet these conditions, so that microcredit housing has traditionally been used to help address these deficiencies. However, as will be seen throughout the document, in the case of Colombia they have developed products under the definition of housing mortgage loans, consumer credit and micro-credit for locational reforms.

This report contains the results of the consultation on the diagnosis that identifies and defines both the existence of financing products for housing improvement in the Colombian market, as well as potential difficulties for the development of this product and the interest of banks to implement them. Based on the above options and the relevance of designing a strategy that can boost the development of home improvement financing from banking opportunities and promotion program of financial inclusion are discussed.

The first chapter contains the general framework of public policy aimed at solving the housing deficit, as well as the outcome of the review and analysis of regulations related to financing housing improvement in Colombia and the participating public bodies. The second chapter contains the inventory of supply of

financing products for housing improvement both entities supervised by the SFC or the SES as well as other funders of the real sector, and identification of the limitations that have been found by financial institutions to develop home improvement products. This section is based on the results of in-depth interviews and entities in the survey sent to funders housing and improvement through Asomicrofinanzas and SES (Annex 1). Based on these results, the last chapter makes recommendations on intervention strategies of Banca de las Oportunidades to promote further development of financing housing improvement.

After conducting interviews it is clear that under the term "home improvement" different entities related to the topic conceive housing interventions on different style. For that reason and for purposes of standardization of terminology, throughout the document, the term structural improvement will be used when referring to interventions that overcome deficiencies that affect the main structure, foundations, walls or roofs, lack of electricity grids or aqueduct, and require construction license (extension, modification, adaptation, restoration, structural reinforcement, among others) On the other hand, a reference to "renovation or better of habitability" will be made when addressing minor construction work or locative repairs that allow to better basic health conditions, and the generic term "home improvement" will be used when referring to both.

## 1. General and Regulatory Framework

This chapter includes the national housing policy aimed at reducing the qualitative housing deficit. It also refers to the policy actions related to funding instruments of the various forms of purchase and improvement of housing units aimed primarily at market of Priority Housing Interest (VIP) and the Social Interest Housing (VIS).

To understand the importance of the subject, this chapter begins with a brief look at the most recent publicly available figures that illustrate the quantitative and qualitative housing deficit in Colombia.

### 1.1 Housing shortage

According to the methodology of DANE<sup>1</sup>, the quantitative housing deficit is made up of the "housing that society should build or add to the stock so that there is a one to one relationship between adequate housing and households

<sup>1</sup> DANE, Research Housing Deficit (DEVI) developed to measure housing shortages in Colombia from the results of the Census 1993 and 2005. DANE, Methodology Housing Deficit Collection Documents-- Update 2009, No. 79, Bogota.

That needs accommodation. “The qualitative deficit includes households living in homes that is part of the stock, but do not offer the minimum living conditions. The estimation of qualitative deficit involves discounting or excluding households that are in quantitative deficit.

**Table 1. Characteristics of households with housing deficit.**

Attribut	household characteristics
<b>quantitative deficit</b>	
<b>Structure</b>	inadequate housing, built with or without walls unstable materials.
<b>Cohabitation</b>	Secondary homes of any size who share housing with other households.
<b>Non-reducing Overcrowding</b>	Five or more people per room (urban)
<b>qualitative deficit</b>	
<b>Floors</b>	stable material but with sand floors
<b>Mitigatable overcrowding</b>	Urban: 3 to 5 people per room. Rural: more than 3 people per room.
<b>spaces</b>	Without proper place to prepare food
<b>Public services</b>	Aqueduct: urban, without aqueduct. Rural: water consumption taken river, creek, birth, tank truck, water carrier or rain water.
	urban, no sewage or disconnected toilet: sanitary sewer. Rural: no toilet, latrine or low tide.
	Energy: without power
	Garbage: urban, without collection.

Source: DANE, Methodology Home Deficit, Collection Document-- 2009, Wildebeestm 79, Bogotá.

\* Households may be in qualitative deficiency condition as a result of the combination of lacking in several of these attributes.

**In 2005, the housing deficit nationally was concentrated in households with qualitative deficit: 23.8% of all households.** According to the results published by the DANE based on the 2005 census, nationwide there were 10.5 million households out of which 63.8% had no deficit while 36.2% had quantitative or qualitative deficit.

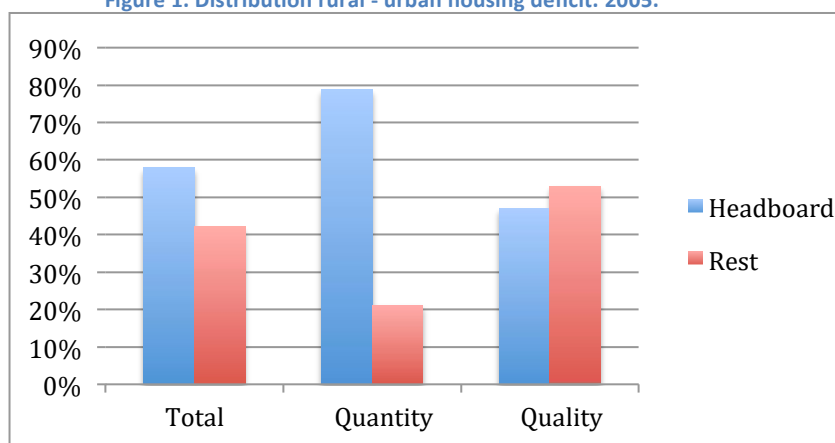
**Table 1. Deficit housing. General Census 2005**

	Total households	Households without deficit	Households with deficit		
			Total	quanti	quali
<b>Total National</b>	<b>10570899</b> 100.0%	<b>6742844</b> 63.8%	<b>3828055</b> 36.2%	<b>1307757</b> 12.4%	<b>2520298</b> 23.8%
<b>Headboard</b>	<b>8210347</b> 100.0%	<b>5993484</b> 73.0%	<b>2216863</b> 27.0%	<b>1031256</b> 12.6%	<b>1185607</b> 14.4%
<b>Rest</b>	<b>2360552</b> 100.0%	<b>749.360</b> 31.7%	<b>1611192</b> 68.3%	<b>276.501</b> 11.7%	<b>1334691</b> 56.5%

Source: DANE.

**The housing deficit in 2005 was concentrated in households inhabited by rural areas where the qualitative deficit it was also concentrated.** On a rural-urban level (headboard and rest), most of the deficit households in the municipalities were the same as most households with quantitative deficit. Qualitative deficit households nationwide were more concentrated outside the municipalities: 53% of total households with qualitative deficit.

Figure 1. Distribution rural - urban housing deficit. 2005.



Source: DANE.

**The biggest challenge for the deficit was smaller intermediate cities and municipalities.** The 4 main cities (Bogota, Medellin, Cali, Barranquilla) in number of households according to the 2005 Census, only 16.3% concentrated in the total deficit and Bogota 9.7% of the total deficit. In these cities, most of the deficit was quantitative: 32.9% of the national quantitative deficit.

**By 2013 the MVCT made an estimate of the urban housing deficit using the Great Integrated Household Survey (GEIH) where considerable quantitative deficit reduction is shown.** According to these figures, although the qualitative deficit is relatively reduced, in absolute terms, it shows an increase of 117.426 in households deficit.

Table 2. Urban Housing deficit by 2013

homes	census 2005	GEIH 2013	composition 2013	Variation
<b>Total</b>	8210347	10200364	100%	1990017
<b>Total deficit</b>	2216863	1523848	14.9%	(693.015)
<b>Quantity deficit</b>	1031256	493.805	4.8%	(537.451)
<b>Quality deficit</b>	1185607	1303043	12.8%	117.436

Source: MVCT, 2014.

**However, the most recent estimates made in 2014 by the Ministry of Housing, DNP, DANE and Cenac give very different results very since on a national level**

**34% of households have housing deficit and 85% of that deficit is precisely qualitative.** While this methodology yields quite different to the exercise on the above table results and differs from that used by DANE in the 2005 Census, what is indeed confirmed is that most of the qualitative deficit is concentrated in rural areas (65%) .

Table 3. Estimated housing deficit 2014

	No. Homes	Composition
Total Homes	13189362	100.0%
No Deficit	8683766	65.8%
<b>Total Deficit</b>	<b>4505596</b>	<b>34.2%</b>
Quantitative	662.147	fifteen%
<b>Qualitative</b>	<b>3843449</b>	<b>85%</b>
Urban	1347935	35%
Rural	2495514	65%

Source: Ministry of Housing, DANE, DNP, CENAC.

## 1.2 Public politics<sup>2</sup>

**Public housing policy has been focused on the last two decades to solve the quantitative housing deficit.** To this end, various mechanisms have been used from the direct construction of housing by the State to the assigning of subsidies to the demand for new home purchases. Since 1991<sup>3</sup> the National System of Social Interest Housing based on direct demand subsidies (Family Housing Subsidy) under the administration of INURBE was created, which then would be replaced by the National Housing Fund (Fonvivienda). Since then there have been several policy interventions to allocate subsidies to low-income people to purchase housing including improving. However, it has been common to focus more resources towards the purchase of new housing than toward improvement.

**Housing policy has faced several difficulties of implementation of subsidies related to access to mortgage credit and limitations to achieve financial closure by the characteristics of the target population.** Because the target population is traditionally of low income, achieving financial closure through savings and credit has been a difficult challenge to overcome since it is precisely this population that has trouble achieving savings and access to credit by the informal nature of their activity and their low income.

<sup>2</sup> This section is partly based on: Ministry of Housing, City and Territory, Colombia: One Hundred Years of housing policies, in April 2014.

<sup>3</sup> With the issuance of Law No. 3 of 1991.

#### Box 1: Definitions of housing policy.

**Affordable Housing (VIS).** It assembles the elements that ensure habitability, quality standards in urban, architectural and construction design. Maximum value: 135 SMLM (\$ 83.16 million).

**Priority Social Interest Housing (VIP).** VIS maximum 70 SMLM (\$ 43.12 million).

**Home object to subsidy. Formed by** spouses, de facto unions and / or people with family ties to 3 degree of consanguinity, affinity and first civilian who share the same living space. Applicants to households are those with monthly income below 4 SMLM.

**Urban housing plan.** It is the set of 5 or more solutions subsidiable VIS within the modalities of new housing, on-site construction, improvement and enhancement for healthy housing developed by bidders who meet the legal standards for the construction and sale of homes.

**Housing Solutions.** Set of operations that allows a home room to have satisfactory sanitary conditions of space, public services and quality of structure, or start the process to obtain them in the future.

From 2006, housing policy was framed within the strategy for poverty reduction based on the development of sectoral policies of overall improvement of neighborhoods, macro projects for VIS, urban renewal and densification, strengthening housing supply, promotion banks materials and agreements with the financial sector. However, from 2010, based on the results of two evaluations<sup>4</sup> which identified the difficulties in achieving financial closure and lack of effectiveness in achieving results in terms of reducing the quantitative and qualitative housing deficit <sup>5</sup>, the housing policy focused on achieving a goal of building 1 million new houses of which 649.454 should be VIS.

**The housing policy of the current government is focused on deficit reduction with an urban quantitative approach<sup>6</sup>.** According to publications of the Ministry of Housing<sup>7</sup>, housing policy of the current government is integrated into programs to combat poverty and social policy with supply and demand interventions with direct state intervention with the development and construction of Priority Interest Housing solutions (VIP). The current strategy is based on the provision of social housing from urban areas systems with the aim of reducing urban quantitative housing deficit in each region. However, the policy stresses the importance of the 5 dimensions of Multidimensional Poverty Index as access to water sources, sewage disposal, inadequate walls and floors and critical overcrowding as connecting elements between housing policy and reduction policy poverty, that make reference to qualitative deficit.

<sup>4</sup> IDB, 2011. Gaviria y Tovar, 2011.

<sup>5</sup> Lack of implementation / disbursement of subsidies allocated originates beneficiary households did not have mostly no access to credit and savings capacity to achieve financial closure.

<sup>6</sup> The current housing policy is based on the provisions of the Act 1537 of 2012 issued to address limitations of previous housing policies as required to meet displaced people and victims the armed conflict as priority groups of politics.

<sup>7</sup> Ministry of Housing, City and Territory, Colombia: One Hundred Years of housing policies, in April 2014.

**Reducing the qualitative deficit in the current housing policy is focused on providing infrastructure and the overall improvement of neighborhoods (out of doors) to the detriment of activities aimed at improving structural conditions and habitability of housing (doors inward).** While, historically, public policy has always included the solution to the qualitative deficit (improvement) within its objectives, the reality is that most of the resources has been earmarked for the purchase of new housing. Currently, the housing policy is focused on delivering solutions of free new housing taking into account the difficulties of implementation of subsidies related to the lack of financial closure. However, taking into account the problems of financial closure occur in the poorest households (BOP) for other low-income households with housing deficit are still under strategies related to the delivery of subsidies demand defined in Decree 2190 of 2009 and Law 1537 of 2012. According to the Ministry of Housing and many of the interviewed, the resources available in the National Budget for the delivery of subsidy have been absorbed almost in its entirety by the free delivery of housing strategy to households in extreme poverty.

**According to MVCT, the development of Free Housing Program (PVG) entails no substantive changes in the market model for the construction of social housing.** Construction and financing remains in charge of the private sector, within the general framework defined by the state. However, there are changes in the assigning and management of resources for SFV resources that are managed through trust mechanisms to be delivered directly to the bidders (subsidy demand is delivered through the offer). The rotation of advances was removed and the requirement to prove financial closure by the proposers payment on delivery of housing was included.

**The current policy is based on the design of different policy instruments based on the segmentation of the target population and the design of specific policy instruments for each segment, all aimed at new home,** As shown in Table 2

**Comprehensive housing policy of the current government also includes strategies such as:**

- **Macro projects of national social interest.** This strategy seeks to contribute to the generation of ground-enabled VIS and VIP. The contribution of the Nation has been \$ 359.000 million. As a result 12 mega projects have been developed in several regions that do not include Bogota. This strategy is limited because the Constitutional Court (Case C - 149/10) quashed the competence of the national government on territorial autonomy of municipalities and departments. This has required efforts to achieve coordination with local authorities limiting the ability of implementation of the national policy.

- **Comprehensive program of neighborhood improvement (PMIB).** This program seeks to improve the living conditions of the poor and extremely poor inhabiting informal neighborhoods through the improvement of the environment. The goal is to meet gaps in public services (water and sanitation), road infrastructure, basic equipment and public space. Through the program support is given to the territorial government to formalize informal settlements. It includes urban planning of the district, legalization and regulation, implementation of basic infrastructure and equipment, support for social development and resettlement of families living in risk areas. Until April 2014, they had made interventions in 9 municipalities with direct impact on 14,031 people in extreme poverty and vulnerability.
- **Strategy to consolidate cities.** PND 2010--2014 (Law 1450 of 2011) defined the need to formulate a long-term policy based on the system of cities, which led to the Mission Cities System developed by DNP in 2012 and 2013. 76% the population lives in urban centers and it is estimated that by 2050 will increase to 86%.

Table 2. Summary of housing policy instruments in force until October 2014.

Instrument	Target population	goals	results
<b>Free Housing Program (VPG)<sup>8</sup>.</b>	Homes in poverty, extreme poverty and prioritized vulnerability. Without access to credit and savings capacity.	Delivery of 100,000 free homes.	MVCT is running PVG for the construction and delivery of 100,000 VIP. The estimated cost is \$ 4.4 billion for the execution of 281 projects in 211 municipalities. In April 2014 they had hired 100% of the first 40,000 homes and were in the process of delivery.
<b>Housing Program From Social Priority Interest for Savers (VIPA)</b>	Homes in poverty With incomes from 1 and 2 SMLM in informality labor, without Credit access	Improve risk profile Of potential buyers with subsidy to the interest rate and Saving requirement of beneficiary = 5% of the value VIP. They used the Fonvivienda resources and the FOVIS of the CCF.	

<sup>8</sup> Law 1537 of 2012 established the legal framework for free access to housing for vulnerable households without savings capacity or access to credit. To do this, the law included rules to ensure the availability of land for construction of VIS.

		Administration of subsidies: trust that selects projects of private initiative in which beneficiaries of the subsidy must purchase.	
Conditional Interest Rate Coverage Program for acquisition of new VIP and VIS <sup>9</sup>	Low-income households with access to credit (FRECH 2). Income up to 8 SMLM.	Facilitate purchase of new housing. Subsidy to demand through supply: budget resources are delivered to financial entities <sup>10</sup> to reduce the interest rate actually paid by mortgage debtors. Subsidy: difference between the nominal rate agreed with the financial institution and the final debtor. It is delivered for the first 7 years of life of the credit. Subject to payment discipline.	Reduction of the final credit interest rate from 12% to 7% annually between July 2012 and December 2013. Public resources transferred to FRECH were \$ 1.3 billion with a budget allocation for the second stage of \$ 1.4 billion. The effect of the subsidy on the interest rate has been the reduction of the income required for access to credit that, according to Camacol 2012, went from 2 SMLM to 1.5 SMLM and facilitated the access of 600,000 households to mortgage credit.
Conditional Interest Rate Coverage Program for acquisition of non-VIS up to 335 SMLM (\$ 206 million)	Middle-income households with access to credit (PIPE)	Stimulate construction as a counter-cyclical tool initiated in April 2013 to stimulate growth within PIPE <sup>11</sup> . Reduction of 2.5 points in the mortgage interest rate of non-VIS new homes up to 335 SMLM. The subsidy applies to credits with a nominal maximum rate of 9.5% E.A. During the first 7 years of the credit.	

<sup>9</sup> The funds come from the national budget and deposited in the FRECH administered by the Bank of the Republic. Currently resources are budgeted using future years and are deposited annually in the FRECH. This mechanism has two stages. In the second, which is the current, reducing the interest rate is 5 points for home buyers VIP and 4 points for VIS buyers. Financial institutions keep the subsidy offered for the next 8 years, although according to the interviews is not clear that this will happen.

<sup>10</sup> This means that in practice only the clients of the entities supervised by the Superintendence Financial can access this allowance, leaving unattended (CCF and credit union) outside this market.

<sup>11</sup> This plan contemplated the investment of more than \$ 5 trillion in total within which it was allocated \$ 2.1 billion for subsidy programs to the interest rate and Vis No VIPA program.

**Local housing policies are part of national policy objectives and financing instruments.**

The issue of attention to qualitative deficit would seem then to be at the level of local authorities. In urban areas the problems of qualitative deficit, further deepening the poverty of the population, may become more important for municipal administration than for the national one. Moreover, there are difficulties of coordinating national government and local administrations since in many cases the policy of the National Government does not match the logic of local administrations. These difficulties have been expressed clearly in Housing Macro projects programs which development has not been as dynamic by the lack of agreement between the national and territorial level.

**Box 2: Bogota an example of Housing Improvement Policy**

In the case of Bogotá, the home improvement activities have been carried out based on comprehensive programs of slum upgrading in order to optimize interventions and avoid scattered efforts. The process is based on identifying households requiring improvement within selected neighborhoods and the definition of individual shortcomings of each housing within the overall improvement of the neighborhood. The aim is to ensure the minimum conditions of habitability and security structures but not necessarily earthquake - resistance. Because in any case of structural improvements a construction license is required and this hinders the implementation of subsidies and works, the district administration decided to focus on improving living conditions and health (healthy housing).

Subsidies given to improving healthy housing are 18 SMLM (\$ 11,000,000) and seek to cover the full costs of improvements so that the household does not have to provide resources. These resources are used to pay the direct costs necessary studies and financial costs (fiduciary and policies). These processes require the supervision of the district. The process is based on identifying improvement bidders who participate in open calls for Popular Housing Fund to develop all improvement projects within a specific area. The assigning is a function of the technical and operational capacity of the bidders. Resources are executed in the same way as the national level: through the offer constituting an autonomous patrimony for the twists based on the progress of work (up by 90%), although advances are delivered up to 50% and requirements include compliance policies, stability of work and good management the advance. After the work, the rest of the resources are delivered. According to the information provided by the District Department of Habitat, in 2013 they executed 1,299 housing improvement grants and October 2014 had only executed 200.

*On structural improvements in housing*, they still do not have any project due to difficulties in obtaining construction permits. In addition, given the costs of compliance with licensing requirements, households would have to put from their own resources because the subsidy is not enough. In these cases, households do not have enough capacity to save and do not recognize the importance of complying to urban regulations and earthquake resistance standards, since they have always applied the techniques of traditional construction with relative success, so they prefer not to participate in such improvements.

Source: District Department of Habitat

**There is no a currently a nationwide program to promote urban land titling. It would appear that this issue is left to be served at the municipal level.** Given that the policy recognizes the importance of resolving the informal and disorderly growth of cities, it would be necessary to develop

specific instruments that allow not only the legalization of settlements but also the granting of property deeds. On the contrary, it appears that housing policy seeks indirectly to induce the legalization of land by requiring certification as a prerequisite for access to subsidized housing. In the case of improvement, given the characteristics of households with qualitative deficit precisely related to the informality of the property on the premises they occupy, the title as a requisite limits considerably the access to subsidy and so the effectiveness in accomplishing the objective of reducing qualitative deficit and even impacts the reach of private financing to a point where some of the interviewed pointed out the importance of counting with accompaniment during the legalization of the property of the land.

### 1.2.1 Subsidies

**Family housing allowance is defined as a state contribution in cash or in kind delivered once to a beneficiary household, which is not restored and is a complement to facilitate the purchase of new housing, on-site construction or improvement of housing.** It complements savings and / or resources to acquire new or used housing, build in own site, or improve a social housing.<sup>12</sup> The subsidy has nationwide coverage and applies to areas defined as urban land in the ETP.

**In the case of housing improvement subsidy, it is only granted to projects that fit within the precise definition as said by regulation, which also requires proof of ownership of the property.** From the point of view of access to housing allowance, improved housing has a precise definition and requirements that go beyond the specific goal of improving housing conditions and home life as is the title of home ownership.

- **Housing improvement:** Is defined as the process by which the beneficiary of the subsidy exceeds one or more of the basic needs of a house belonging to a legal or legalized development, or a building. Involves the involvement of the main structure, foundations, walls or roofs, lack of or dilapidated electricity grids or aqueduct, and the development requires acquisition of permits or prior licenses to the competent authorities. To access the subsidy housing improvement, it is required:
  - - **Property title** of the housing to improve registered with the Office of Public Records on behalf of any of the household members who must live in the home. In cases where the

<sup>12</sup> Decree 2190 of 2009 which regulates all aspects of housing allowance and follows the same concepts raised by Law 3 of 1991 that created the National System of Social Interest Housing.

housing is completely built in temporary materials it shall be considered subject to a program of on-site construction.

- **Titling:** For households inhabitants of houses in the process of legalization of property demonstrating possession of at least 3 years of goods still, peaceful and public is required.
- **Buildings permit** in the case of structural reforms.
- **Improvement for healthy housing.** Applicable to dwellings requiring minor works, repairs or improvements that do not require locative construction license but aim to optimize the basic health conditions of the most vulnerable households. As priorities within this concept enabling or battery installation of bathrooms, utility rooms, kitchens, water and sanitation networks, flooring surfaces ground or inadequate materials, and other conditions related to sanitation and improvement of facades of VIP in order to gradually achieve housing solutions with decent conditions.

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**As for the defined amounts of subsidy for house purchase today they are inversely proportional to the level of household income and range from 4 to 22 SMLMV. In the case of housing improvement, the amount is up to \$ 7,084,000 (11.5 SMLMV) And \$ 4,928,000 (8 SMLMV) for healthy housing.** The amount of subsidy can be represented in whole or in part in building materials offered by the provider selected by the operator of materials' bank<sup>13</sup>. The amount of subsidy can not in any case exceed 90% of the value of the home (or value of the lot or work budget as appropriate) to acquire, build or upgrade.

**Access to housing improvement grant that requires demonstrating the degree of the property and having construction license involves transaction costs that can absorb much of the value of the subsidy.** Indeed, the costs to qualify for the construction license in cases of structural improvements significantly exceed the value of the subsidy defined by policy. This totally reduces the effectiveness of the subsidy for the poor population as they end up making improvements without compliance with minimum safety standards in their homes.

**Although there is a subsidy for housing improvement, in terms of resource assigning is not significant in practice.** The following table shows the total budget allocated to Fonvivienda according to figures of MVCT. low budget execution shows until 2013 when the program free housing starts.

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<sup>13</sup> Decree 2190, 2009.

Table 4. Budget and implementation Fonvivienda. Millions.

	Budget	Performance	Exec / pres
<b>2011</b>	730.542	460,000	63.0%
<b>2012</b>	969.860	245,000	25.3%
<b>2013</b>	1290646	1,214,000	94.1%
<b>2014</b>	1794961	755,000 <sup>14</sup>	42.1%

Source: MVCT.

**Since 2011 investment subsidies of healthy housing or improvement disappeared.** This conclusion is clear when analyzing the distribution of execution Fonvivienda box according to records SIIF in the General Treasury of the Nation. In fact, according to the MVCT in 2014 until October, only 132 have been considered improvement projects which 124 are healthy housing. Of these only 22 are in progress and 77 have been terminated by a value of \$ 15.435 million of a total investment of \$ 35.070 million in improvement.

Table 5. Distribution of resources invested by Fonvivienda

	2010	2011	2012	2013
<b>Macro projects of social interest linked to the subsidy in kind</b>	5.6%	0.0%	0.9%	0.6%
<b>Healthy housing subsidy—Together/United</b>	0.7%			
<b>Housing Solutions United</b>	0.0%	0.0%	12.5%	0.0%
<b>Housing subsidy</b>	25.8%	8.4%	31.1%	47.0%
<b>Subsidy displaced population</b>	56.6%	57.7%	50.0%	39.6%
<b>Macro projects Colombian cities</b>	11.4%	0.0%	4.3%	3.6%
<b>Housing subsidy winter wave</b>		24.3%	0.0%	4.0%
<b>housing loans program coverage</b>			1.2%	5.2%
<b>Total</b>	100.0%	100.0%	100.0%	100.0%

Source: Based on SIIF.

**A similar conclusion is reached by analyzing the resources assigned by the Family Compensation Fund where the progressive disappearance of subsidies assigned to housing improvement programs is clear.** According to figures published by Asocajas, subsidies given to improvement accounted for 4% of total housing subsidies in 2013 but in 2012 it had been 8% of total subsidies. In total, the year the CCF delivered about 500 grants for improvement according to the information provided by Asocajas.

<sup>14</sup> Until May 2014.

Table 6: Housing allowances issued for the FOVIS.

	Value (\$ Millions)	Number
<b>2011</b>	321.922	31.153
<b>2012</b>	360.145	34.776
<b>2013</b>	531.709	30.911

Source: Asocajas

**Running subsidies improvement of CCF is done within the same concepts defined by national politics.** In fact, while subsidies are demand, channeling done through project operators that serve the function of being organizers demand and ensure quality improvement interventions. In these cases, subsidies are deposited in an autonomous patrimony and are given operators depending on the progress of the works. As a result of the requirements to obtain building permits (see description below), the reality is that most of the improvement projects are location reforms that do not require a building permit.

#### 1.2.1.1 Rural Housing Subsidy

**The rural housing subsidy is framed within the general principles of housing allowance, and resources are implemented through the Ministry of Agriculture and Rural Development (MARD) as provided by Law 1537 of 2012.** In fact the regulation of the provisions of the law has been through decrees issued by MARD. The licensing bodies of this grant are the Banco Agrario with resources from the national budget and the CCF with quasi-fiscal resources.

**The implementation of the subsidy is given by bidders of Rural VIS projects.** The bidders are those entities that organize demand and present the Rural VIS projects to the grantor of the subsidy. Bidders may be local authorities that develop within its structure Policy Affordable Housing, governors and councils of indigenous reserves and community councils legally established black communities. bidders may also be private legal persons who are within its corporate purpose the promotion and development of VIS and programs that meet the requirements and conditions established by MARD.

**The amounts of subsidies for rural housing improvement are higher than in the case of urban housing and the difference with those assigned for new housing are lower.** Within Subsidy modalities it is included:

**Table 7. Modalities Subject of subsidy VIS.**

modalities Subject of subsidy	Features / Deficiencies to remedy	Maximum value of the grant
<b>improvement and basic sanitation</b> <sup>15</sup>	Main structure, foundations, walls or roof. Sewer systems or system for sewage disposal.	16 to 20 SMLM. \$ 9,856,000 to \$ 12,320,000.
	Bathrooms and / or kitchen	
	Ground floors or inappropriate materials Interim construction materials such as cans, tarpaulin and wood waste, among others. critical overcrowding, when at home live more than three people per room, including multiple space, dining	Up to 80% of the value of the living place. With resources CCF, up to 90% of the value of the House.
<b>Construction of new home / building</b> housing structure demonstrates in:	Property owned by any member of home	24-29 SMLM. \$ 14,784,000 to \$ 17,864,000
	Property in which any member of the household demonstrates possession of minimum 5 years. Premises of the offeror entity or property collective	Up to 80% of the value of the living place. With resources CCF, up to 90% of the value of the House.
<b>New House purchase With subsidy of the CCF</b>	Beneficiary acquires within the housing rural projects declared eligible by the family compensation fund.	15 to 19 SMLM. \$ 9,240,000 to \$ 11,704,000
		Up to 70% of the value of the living place.

Source: Decree 1160 of 2010 of MARD (modified in several articles by the Decree 900 of 2012) developed every aspect of rural subsidy VIS.

**The requirements for access to VIS rural subsidies are the same as in the case of urban housing.** In the case of rural VIS, access to the subsidy improvement also requires the certificate of freedom and tradition evidencing ownership of the property by one or more of the household members. In the absence of the title, they must attach proof of possession or affidavit of the applicant showing healthy, fair, peaceful and uninterrupted possession of the property, lot or land for a period equal or greater than 5 years.<sup>16</sup>

<sup>15</sup> It is performed on an existing structure holistically and should be applied according to the diagnosis previously made by the offeror of each of the housing proposals for the improvement Entity. It may be owned by one or more of the members of the applicant's home or may be a building in which one or more of household members demonstrate regular possession, for a minimum period of five years.

<sup>16</sup> Defined in the Operating Regulations issued by the Housing Management Banco Agrario in accordance with the defined for urban housing subsidies

The Banco Agrario under the leadership of MARD has the function of granting subsidies of VIS rural to families that apply to projects receiving assignment of resources as Banco Agrario.<sup>17</sup> VIS rural subsidy implemented by the Banco Agrario seeks to meet the qualitative and quantitative deficit through its assigning in two ways that can be given in scattered or clustered solutions:

- **Improvement of housing and basic sanitation (Type A):** Aimed at overcoming structural deficiencies in the main, covered walls or foundations; lack or deficiency in sewage systems or system for disposal of wastewater; lack or deficiency bathroom (s) and / or kitchen; ground floors or inappropriate materials; provisional construction materials; critical overcrowding.
- **New Housing Construction (Type B):** Aimed at allowing the household to build a housing structure of at least 36 square meters with a multiple space, two bedrooms, bathroom, kitchen and facilities and residential connections.

During 2013 and 2014 National Budget resources were executed by \$ 376,931,000<sup>18</sup> for the construction of new and improvement of housing and rural sanitation projects clustered housing, as shown in the following table:

Table 8. Implementation of subsidies construction and improvement of rural VIS. Banco Agrario. Million \$.

	2013	May 2014	Rural Development and displaced	Total 2013--2014
<b>Total budget</b>	<b>38,200</b>	<b>296.370</b>	42.361	376.931
<b>returns</b>	357	12,241	.	12,598
<b>Performance</b>	59.856	308.611	9,987	378.454
<b>funded projects</b>	173	524	33	730
<b>beneficiary households</b>	5,987	20,069	1,044	27,100
<b>Household subsidy</b>	10	15	10	14
<b>Improvement</b>				
beneficiary households	5,987	66	ND	6,053
Performance	59.856	671	ND	60.528

Source: Banco Agrario.

<sup>17</sup> These projects must meet appropriate conditions of space, health, basic sanitation, structural quality and progressive development. The assigning process requirements and conform to the provisions of Act 1537 of 2012 and 1160 decrees 2010 and 900 of 2012.

<sup>18</sup> These resources are part of the MARD budget.

**Of the total resources allocated to May 2014, 16% went to projects to improve rural VIS.** Most of these resources were implemented in 2013 and since 2014 it has been given more resources to construction projects of new housing.

Until September 2014, the MARD through the Banco Agrario had delivered 46.903 solutions of rural households nationwide <sup>19</sup>, in 496 municipalities in 28 departments. The value of subsidies allocated for construction of new housing and improvement through September was \$ 336,984,000.

**In addition to these calls, the Banco Agrario has opened the permanent application for access to VIS subsidies for displaced rural population and productive chains linked to rural development programs.** The resources of the national budget assigned for these programs are \$ 42,361,000 since April 2013, of which \$ 9,987,000 have been implemented in 33 new housing projects and housing improvements of 1,044 homes linked to productive chains of rural development.

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### 1.3 Construction regulations affecting housing improvement works

**According to interviews with funders and market operators, the regulations to which must be held housing construction and structural improvement works negatively affect the qualitative deficit reduction caused by structural problems.** The requirements involve obtaining the construction license make it unfeasible formal development of projects of structural improvement, with or without subsidy, due to the costs and delays involving against the value of homes to improve and / or the perceived benefit by households. In fact, obtaining the construction license requires compliance with various requirements and standards of earthquake - resistance nationally defined, as described below.

**The requirements for obtaining building permits were defined by the national government through Decree 1469 of 2010 within the rules for planning permission.** The issuing of planning permission involves certification of compliance with the standards and other regulations on which it is based and involves the specific authorization of use and land use.

**Urbanistic standards describe various kinds of licenses depending on the type of construction or urban intervention to carry out. In addition to those related to development, parceling and subdivision, which would apply in the case of improvement are those relating to building permits:**

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<sup>19</sup> Figures based on MARD

- **Construction:** Development of buildings, traffic areas and communal areas in one or more properties. In building permits uses are specified, buildable volume, accessibility and other technical aspects approved for the respective building. Construction permits have several kinds:
  - **New construction:** Building on land not constructed.
  - **Extension:** increase an existing building constructed area.
  - **Adequacy:** change the use of a building or part of it, ensuring total or partial retention of the original building.
  - **Modification:** Change the architectural or structural design.
  - **Restoration:** Recover and adapt a property
  - **Structural reinforcement:** Intervene or reinforce the structure of one or more properties, in order to condition them to adequate levels of safety and earthquake - resistance according to the requirements of Law 400 of 1997 and the Colombian Regulations of Earthquake – resistant Construction.
  - **Demolition:** Tear down a building wholly or partially
  - **Reconstruction:** Re-build constructions that were licensed
  - **Enclosure:** Permanently close a property privately owned.

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**Urban entities are in charge of the study, processing and issuance of licenses for development, parceling, subdivision and construction in municipalities and districts.** In other municipalities and districts and in the department of San Andrés and Providencia it corresponds to the municipal authority or district.

**According to national planning regulations, the location repairs do not require construction license<sup>20</sup>.** These reforms are typically required to improve "healthy housing" for an aim to maintain the property in proper conditions of hygiene and beautification without affecting its structure, its interior layout, functional, formal and / or volumetric characteristics. Locative repairs include works such as maintenance, replacement, restoration or improvement of materials of floors, ceilings, wall coverings, painting in general, and replacement, improvement or expansion of networks of water facilities, sanitation, electricity, telephone or gas.

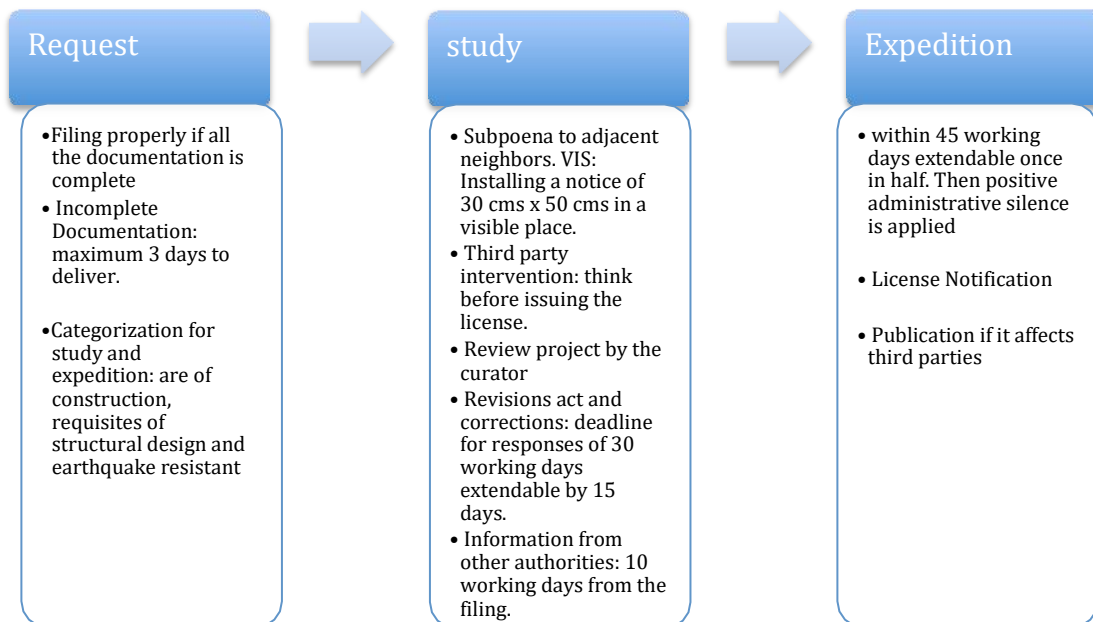
### 1.3.1 Planning permission

**The first step requires a structural improvement project is the processing of the construction license, resulting in a high transaction cost for the time demands.**

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<sup>20</sup> Article 8 of Law 810 of 2003

The process of issuing planning permission is described in this diagram.



In any case, if these deadlines are not met, urban entities must rule within 45 working days of filing the license application, which can be extended only once until half of it<sup>21</sup>.

All planning permissions require the following documentation:

- Freedom certificate not older than 1 month.
- Unique National form (see Annex 3)
- Identification of the applicant.
- Declaration of property tax of the last year of the property.
- Steering ratio of the neighboring properties
- A copy in print of the architectural project, prepared in accordance with the urbanistic and labeling buildable force and signed by an architect with professional registration, who will be legally responsible for the designs and the information contained therein standards.

**Building permits are classified according to their complexity, which determines the timing and additional documentation required** as shown in the table in Annex 4. From this it is concluded that the simplest category could be applicable to cases of improvement before us, the maximum period could be reduced to 20 days. In practice, however, as these terms apply from the time of delivery of the complete documentation with the full requirements, licenses may take longer than six months

<sup>21</sup> Article 99 paragraph 3 of Law 388 of 1997

**The increase in earthquake resistance requirements makes the process more complex.** Since the adoption of the regulation of earthquake - resistance recommended by the Permanent Advisory Committee of Earthquake - resistant Building System NSR - 10 in 2010<sup>22</sup> the requirements for buildings nationwide became more complex. This has important implications for issuing building permits because when verifying compliance with the requirements, is requested to perform much deeper interventions to ensure that the parts of the built housing comply with the new requirements, which increase substantially the budget value of the work performed.

**As mentioned earlier, the local repairs do not require planning permission and for their characteristics should not incur the cost of compliance of earthquake – resistance regulations.** The local repairs are those required for healthy housing as an aim to maintain the property in proper conditions of hygiene and beautification without affecting its structure, its interior layout, functional, formal and / or volumetric characteristics. In this situation, for example, the District Department of Habitat chose to focus on improving healthy housing as mentioned in Box 2.

### 1.3.2 Costs of building license for VIS

**The second cost is monetary and refers to the fees for the technical adviser and curatorship.**

Accordingly defined by Decree 1469 of 2010 (Article 127) the costs of licensing individual construction of social housing for single-family or two-family in social levels 1, 2 and 3, generate in favor of the curator a single expense equivalent to 5 minimum daily legal wages that will take effect at the time of filing for each housing unit.

**Table 9. Cost of construction license for a 50-meter house VIS Strata 1 and 2 (including VAT)**

	Cost + VAT
<b>Fixed costs + VAT</b>	
Town planning	\$ 67.026
Construction	\$ 119.093
<b>Variable costs + VAT</b>	
Extension	\$ 60.323
Adequacy, structural reinforcement, modification.	\$ 18.097

Source: based on <http://arquitecturai.co/servicios/licencia--of - construction / cost - of - license - of-- construction/>.

<sup>22</sup> Decrees 926 and 2525 of 2010. The effective date was defined from December 2010

To these costs it is necessary to add professional fees for the development of architectural design, structural design and study of soils. Such activities could cost between \$ 1 million and \$ 5 million, depending on whether the improvement project is being conducted under an individual project or corresponds to one organized under a consulting contract to an organizer of demand, common in the case of Family Compensation Funds.

**In short, households that want to advance on an improvement of their home will not only have to incur costs that can represent between 10--15% of the budget of the work to apply for the license, but also wait an average of six months for the license that will be approved as long as the title to the property they want to intervene is in order.**

## 1.4 Housing finance

### 1.4.1 Categories and Conditions

**Housing finance is based on two standard forms: mortgage lending and credit hedge funds typically used to finance housing improvement**

**The residential mortgage in Colombia is framed within the provisions of Law 546 of 1999 and its amendments regulating the specialized system of financing long-term individual housing (Article 17).** This law defined the mortgage housing as wrongheaded to the purchase of new or used housing or construction of individual housing and which meets the following general criteria:

- Denominated in pesos or UVR.
- Remunerative interest rate which conditions must be set by the Board of the Bank of the Republic and must be the lowest in the market<sup>23</sup>. Currently they are: UVR + 12.4% for housing in general and UVR + 10.7% for VIS.<sup>24</sup>
- Repayment period between 5 and 30 years.
- Secured by first mortgages constituted on homes financed.
- maximum amounts of credit and first installment, relative to the value of the home and family income respectively, to be defined by the Government.<sup>25</sup>

<sup>23</sup> "Numeral 2 is only EXEQUIBLE on the understanding that the rate of remunerative interest refers to not include the value of inflation, will always be lower than the lowest real rate that is being charged on other lending on financial activity as attested by the Banking Superintendence, and the maximum will be determined by the Board of the Bank of the Republic, as decided by the Constitutional Court in Case C - 481, July 7, 1999 and C - 208 1 March 2000. "

<sup>24</sup> Resolution 3 of 2012 by the Board of the Bank of the Republic.

<sup>25</sup> regulated by the National Government Securities

**For purposes of credit risk assessment<sup>26</sup>, The Financial Superintendence defined the housing credit according to the definition of Law 456 of 1999.** For these purposes, housing loans are, regardless of the amount, those granted to individuals for the purchase of new or used housing or individual housing construction, fulfilling the conditions of Law 546. In addition, it was decided that:

- The loan amount can be up to 70% of the property cost. For appropriations to finance VIS, the loan amount can be up to 80% of the property cost.
- The cost of the first installment of the loan may not exceed 30% of household income.
- Real estate financed should be insured against fire and earthquake risks.

**According to the criteria of the Ministry of Finance and the Financial Supervisory mentioned conditions and restrictions will only apply to loans that meet all these conditions.** Thus, loans of less than 5 years without mortgage guarantee would not be included within this definition, nor be subject to restrictions on interest rates.

**From the point of view of financial regulation of housing credit, credit enhancement has no restrictions that prevent its development.** Indeed, improvement loans are typically short term (less than 5 years) and cannot have a mortgage guarantee, so you are not confined to the definitions of the legal framework for housing finance.

**While funding housing improvement can meet the conditions of mortgage housing, it can also be classified by credit institutions as microcredit consumption or as it is commonly a credit under 5 years without mortgage guarantee.** The definitions apply in these cases for purposes of credit risk are:

- **Consumer credit:** Consumer loans, regardless of amount, those granted to individuals to finance the purchase of consumer goods or payment for services for non-commercial or business purposes other than those granted in the form of microcredit.
- **microcredit:** Consisting of active operations with micro credit in which the primary source of repayment of the obligation comes from income from their business, the balance of debt

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<sup>26</sup> Circular Basic Financial and Accounting, Financial Superintendence.

SMLM exceed 120 at the time of approval of the respective active credit transaction.

#### 1.4.2 Funding by public entities

**Given that public policy is not focused on improving housing and healthy housing, the role of public financial institutions in promoting the improvement is very little, except for the role of Finagro and the Banco Agrario's rural VIS.** Both FNA and Findeter recognize improving housing within its funding activities but in practice there is little or nothing they do in this area. In the case of Findeter, and FNA their intervention focuses on financing construction of new housing. FNA noted that there is no demand for this type of credit. In case, the FNG participation focuses on the guarantees related to microcredit but also said to have a specific product for home improvement credit.

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**Finagro has a line of credit to finance rural projects VIS, both construction and purchase of new housing and improvement.** Derived from the mandate from Law 546 of 1999 which ordered the destination of 20% of the proceeds from the forced investments Finagro to finance rural VIS through construction, acquisition, improvement or construction site itself, the CNCA in 2001<sup>27</sup> stipulated that the VIS projects would be financed in municipalities with less than 30,000 inhabitants in the rural land of the same<sup>28</sup>. The ultimate beneficiaries of this line are varied. It includes builders, individuals or legal entities that advance VIS rural programs; local authorities that carry complementary contributions to family allowance rural VIS, for the acquisition of land to third parties, pre-investment expenses and designs, and construction of public utilities infrastructure; users of urban housing and those that derive 100% of their income of agricultural activity developed in a rural zone.

**The financial terms of this line fit the general definition of housing mortgage established by Law 546 and described in the qualification standards and classification of portfolio of the Financial Superintendence except for the requirement of mortgage collateral.** The detailed conditions are included in the following table:

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<sup>27</sup> See Finagro Service Manual.

<sup>28</sup> If there is a POT is considered rural land, the space between the urban perimeter of the municipal head and the respective municipal boundary, and the towns of the districts with population up to 2,500 inhabitants. You can also finance housing projects in urban areas, as long as the beneficiaries are natural persons whose income is derived entirely from the agricultural activity in rural areas. Bankable projects individual houses can be grouped into levels 1 and 2 or ungrouped. Not clustered housing should be located in areas of agriculture, forestry or fisheries use less than 3 UAF or under 75 SMLMN (\$ 46.2 million) commercial appraisal. This funding will also be allocated to VIS in indigenous communities.

Table 3. Financial conditions VIS rural credit line. I FINAGRO.

	Natural people	Builders	local authorities
<b>coverage funding</b>	Up to 80% of the project value.	Up to 70% of the project value	Up to 70% of the project value
<b>disbursements</b>	Installments depending on the progress of work and application of resources to the project		
<b>Term</b>	Minimum 5 years maximum 30 years.	Project duration + 1 year	Up to 10 years
<b>Amortization</b>	In UVR or		
<b>Interest rate</b>	UVR + current annual rate JDBR		
<b>Rediscount rate</b>	UVR + JDBR maximum current rate - 5 points		
<b>Margin rediscount</b>	To 100%		

Source: Finagro, Services Manual.

According to Finagro, demand for rediscount resources through this line is very low but has been showing a greater dynamism in recent years. The following table includes the number of loans and amounts disbursed by the lines of construction and home repair. As shown, both the number and amount of loans has increased considerably since 2011 both in construction loans to improvement. It should be noted that improvement loans represent most of the number of credits but a smaller proportion of the amount, except from 2012 when average credit increases for improvement.

Table 10: Disbursements Finagro in credit lines for rural VIS

	2009	2010	2011	2012	2013	2014/9
<b>Number of Credits</b>						
Housing construction	26	22	37	66	55	30
Rural housing repair	22	23	36	77	104	54
Total	48	45	73	143	159	84
<b>\$ Million</b>						
Housing construction	663	530	1,290	1,999	2,158	1,404
Rural housing repair	359	568	423	1,858	2,813	2,227
Total	1,022	1,098	1,713	3,856	4,971	3,631
<b>average payout (\$ Millions)</b>						
Housing construction	25	24	35	30	39	47
Rural housing repair	16	25	12	24	27	41
Total	21	24	23	27	31	43

Source: Finagro

Access to these credits can be given by a financial institution, directly or through an integrator (CCF, local authorities, associations of producers, NGOs, private companies, marketing of agricultural products).

When presented through an integrator, it must identify each of the final beneficiaries. The disbursement is done through the bank to the integrator, who should pay for building materials, labor and other services required. These resources can be managed through a trust management.

**These credits can have FAG guarantee or mortgage could apply if it is to purchase.** In any case, for improving the conditions of Finagro doesn't necessarily require title.

As in all the rediscount of Finagro, the Banco Agrario is the one that uses this line the most but also used by the Bancolombia. Credit institutions that grant loans under these conditions can be used as replacement of forced investment portfolio.

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### 1.4.3 Tax incentives

**In order to stimulate the construction and financing of housing, as well as to offset the adverse effects of the interest rate cap that was applied for mortgage loans, since 1999 a series of tax incentives to stimulate defined these activities.** Some of these incentives are focused on promoting the construction and financing of subsidy object VIS which would be understood that also apply to works and housing improvement funding. However, the requirements imposed on the subsidy object improvement planning rules and the definition of housing credit (long-term and mortgage) limit significantly the demand for improving subsidy object VIS so that, in practice, these incentives would not be effective in stimulating finance of housing improvement.

Some of these incentives still exist they are<sup>29</sup>:

- **Income tax exemption for securities of long-term savings for housing finance.** This standard applies to the titles issued in mortgage titling processes as long as the deadline is more than 5 years. This exemption was extended by Law 965 of 2005 (Article 81) for 11 years, i.e. until 2016. While the law does not say that is not for improvement, long-term credits indicate that it is financing home purchase to more than 5 years, but obviously it could benefit the improvement that is classified as mortgage housing to meet the same conditions.

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<sup>29</sup> The exemptions are no longer in force are:

**Exemption from income tax for financing VIS subsidy object:** Established by Law 546 of 1999 for 5 years. The validity of this article has not been extended or is that no longer exists.

**Exemption from income housing leasing.** (Act 788 of 2002) applies to all interest received by leasing contracts without limiting the VIS was established in 2002. This exemption was applied to contracts for more than 10 years over the next 10 years after the issuing of this statement.

- **Special rates of notary and registration:** Would apply for improvement if the qualification requirement is fulfilled. However, the reduced rates apply to VIS funding for the establishment or modification of mortgage lines.
- **VAT refund for building materials in VIS.** According to the defined in 2012 by Law 1537 of 2012<sup>30</sup>, the refund of VAT paid on the purchase of building materials for VIS and VIP in levels 1, 2 and 3 is established.

In addition to the interest rate subsidies and other subsidies described earlier, demand benefits from the following tax incentives:

- **Exemption from the funds deposited in accounts AFC.** The yields of these accounts are exempt from income tax as long as the resources are assigned to the payment of the down payment and the payment of fees mortgages or leasing for new house purchase. Given this, it would not apply for improvement. Beginning in the fiscal year 2013, deposits in the AFC accounts (along with voluntary contributions to pensions) that have this benefit have a cap of 3,800 UVT year (\$ 104 million in 2014).
- **Exemption for interest paid on housing leasing contracts or mortgage housing.** The interest paid on credit or leasing during the previous year can be deducted from the retention base. The deduction for interest and inflation may reach the sum of 1,200 UVT per year (\$ 33 million for 2014).

## 1.5 Implications

**The national policy of urban housing is more aimed at solving the quantitative housing deficit.** Currently there are no resources for subsidies for urban housing improvement given the priorities of the national housing policy of the current government aimed at resolving the quantitative deficit. Some isolated local initiatives aimed at reducing the qualitative deficit through comprehensive neighborhood improvement as is the case of Bogota were identified.

**In rural areas, the intersection between rural development policy and housing policy has allowed the assigning of resources to solve the quantitative and qualitative deficit rural.** On a rural level, there have recently been assigned more resources to subsidize the improvement of housing at the urban level. Equally noteworthy is the effort made by financial institutions in the agricultural sector who see in the rural qualitative deficit reduction a tool of rural development policy.

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<sup>30</sup> Article 40.

**While improving housing (structural and healthy) remains part of the subsidy policy, the requirements to be met by beneficiaries in practice limit the effectiveness of the subsidy especially in the case of structural reforms.** Grant access improvement requirement is to prove ownership of the property or, if that fails, possession. This requirement limits the access of lower income population that normally lives in informal settlements whose land titling processes are complex if not impossible. This limits the effectiveness of resources devoted to improving subsidy even though in reality the degree should not be indispensable to achieving the objectives of reducing the qualitative deficit. In fact, solving titling problems is a goal in itself for which it must be developed specific policies and not try to solve the detriment of others also important goals such as reducing the qualitative deficit and associated conditions of poverty.

**National planning regulations do not facilitate the implementation of structural improvements in housing, since the requirements for obtaining the construction license are expensive and delayed.** While the importance of compliance with the urban regulations and national earthquake - resistance is clear, on an improvement level of VIS or VIP they are an obstacle to achieving the goal of reducing the qualitative deficit related to the structural deficiencies of the housing of the population in poverty. In fact, the costs of compliance with these standards in many cases exceed the value of housing subsidy requiring additional funding for the development of individual projects. This situation ends up alienating the population of such improvements within the minimum urban requirements and earthquake - resistance to perform them on their own without observing the minimum standards to ensure their safety and habitability.

Finally, while the national housing policy is still based on market solutions, discontinuity of policies makes it difficult to planning by private operators.

## 2. Financing Offer<sup>31</sup>

**The housing improvement has resources of funding from all kinds of financial institutions, both supervised and unsupervised, but it is difficult to quantify the volume of portfolio and number of clients who are benefiting or are assigning insurance received with this end.** The main constraint to the

<sup>31</sup> This section collects information from the offer on lending for housing improvement, its focus, the main risks identified and perspectives on that product, once evaluated the results collected from conducting direct interviews to different guilds, Asomicrofinanzas, Confecoop, Asobancaria, Asocajas, and Analfe, the national leadership of 5 banks, cooperative two finance companies, three NGOs and 4 financing programs offered by companies in the real sector. Additionally, the answers are complemented by the results of 21 surveys received through Asomicrofinanzas and the Superintendence of Solidarity Economy.

measurement is the classification of claims, as classified by each entity in various portfolio categories, depending on the conditions and type of beneficiary is focus of the entity.

**Colombian market in the formal and informal financial institutions that finance housing improvement projects in the form of mortgage credit, a free investment or consumer credit and microcredit found.** A total of 12 institutions mentioned provide the specific product, while in the other, especially cooperatives, it is recognized that resources to finance housing improvements are granted through credit lines free investment classified in consumption mode or microcredit institutions and ensure that the borrower uses all or part of the credit for this purpose.

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## 2.1 Mortgage credit

**Improving financing mortgage-backed securities is mainly done by the specialized banks in housing finance VIS.** The credit is usually granted as a supplement to mortgage credit for the purchase of new housing and which customers demonstrate a good payment culture, which is determined by the timely payment of quotas. The profile of clients served in mortgage VIS is typically employees who represent a lower credit risk. The conditions under which credit for housing improvements are offered are similar to those of a home loan in terms of interest rate and term exceeding 5 years.

**The fate of the loans under the mortgage financing modality is remodeling the VIS housing mortgage loans offered to purchase housing VIS<sup>32</sup>.** Credit enhancement get easy when this facility is extended to families who have purchased new VIS which usually comes with minimal finishes (see Box 2) for families to go performing over time the adjustments and improvements in habitability that are necessary. Typically these works do not require license except where housing progressive development has been purchased. However, even in these cases and to facilitate these adjustments, most builders that sell these solutions deliver them to buyers with architectural designs for future expansion, thus facilitating the achievement of the license.

**Given the boom in housing construction VIS, the demand for credit for these improvements is growing, and there is strong competition from other funders.** Two organizations interviewed have the product as a special line in less than 6 months, with results still very early. Still, one is

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<sup>32</sup> a summary of the main funders of the VIS portfolio is reported in the country in Annex 5, some of whom also attend informal segments through their areas of microcredit.

considering to adjust the product, since credit is associated with the granting of a credit card with which the customer can make purchases of building materials in specific warehouses previously linked, and the scheme has not had the results expected by the bank.

**Box 3: new VIS Housing is delivered with minimal finishes**



Photo Housing project VIS Equilateral builder Bogotá

**Access to this type of financing is concentrated in the segment of employees, who are precisely the profile that gets access to mortgage housing.** The third entity, has implemented the product 5 years ago and offers all kinds of clients mortgage portfolio, especially the best qualified as loyalty policy. Although he is very satisfied with the product, she is exploring the best way to extend the informal segment. For it, she is developing a pilot with the technical assistance of a foundation in which it had disbursed 39 loans to July 2014.

**Finance structural improvement is minimal under this modality.** Only one of the three credit funds entities does structural improvement, and in this case the construction license is required, which manifested was the main constraint to grant it.

Table 11: Product Features for housing improvement mortgage-backed securities - June 2014

	Bank 1	Bank 2	CF 1
Number of clients	236	19.056	0
Portfolio balance (\$ Mill)	6,260	525.821	0
Average credit (Mill \$)	15	27.5	0
Minimum credit (SMLV)	8	10	16
Maximum term (years)	15	10	15
Average term (years)	10	9	---
Average interest rate	12.5% EA	12.5% EA	12.5% EA
structural reform	No	Yes	No
Home remodeling	Yes	Yes	Yes
Remodeling Business	No	No	No
additional requirements against other credit	Life insurance And Fire Insurance Earthquake Assessment if the customer mortgaged the house with the bank.	Life insurance And Fire Insurance Earthquake. minimum income required Group 3 SMLV family.	Appraisal fees, survey titles, notary fees and registration on the value of the mortgage.
Collaterals or guarantees	Mortgage.	Mortgage	open unlimited amount mortgage.
Greater risk concern	The destination and use of And the quality of since I improvement It affects the value of the Mortgage.		Pavment and morality Technical specifications housing to be expanded or improved.
Restraining	regulatory framework related to building standards	Licensing.	Office Coverage and guarantees to massif.
Features of the product	Exclusively buying materials and labor Disbursement: 70% (fertilizer in card) for materials and 30% with fertilizer account. Only business card strategic allies		Types of improvement to applying credit • Remodeling, repair subdivision.

Source: interviews and surveys to entities Note:  
Figures are Bank 2 July 2014.

## 2.2 Microcredit for housing improvements informal sector

Through microcredit several entities attend the informal segment generated revenues of productive activity, not only by financing housing improvement, but also by improving the business infrastructure. Seven institutions have specially designed lines for this product, one more is in the assembly stage of the product, and three institutions said they were financing loans for this purpose, through working capital lines or free investment. From the institutions that recognize having special lines, two stand out by the number of clients funded (in the case of a bank with customers and 16.322

an NGO with 48.398 customers), while in the remaining, none surpass 500 financed customers. Of those interviewed, only one NGO said they don't offer such credit, because they don't count with the funding at low rate (which would not be a real impediment), or with technical support for the product evaluation and monitoring.

**Microfinance is intended both to finance structural improvement and improvements in habitability.** Interviewed credit institutions clearly classify the insurance in function of three destinations:

- a. Enlargement, or structural reforms (e.g. Concrete slab or construction of the second floor), which is offered by 6 institutions.
- b. Improvement or remodeling business (e.g. plates, floors) offered by 7 institutions.
- c. Improvement or remodeling home (e.g. plates, floors, etc.), offered by 8 institutions, in this case are usually taken into account for assessing household income, and one of them mentioned that it offers only if it's in the same place of business.

3.4

Box 4: Neighborhoods with suitable housing for structural improvement



**Microfinance doesn't require as part of its risk analysis documentation on structural improvements related licenses.** With the exception of an institution, entities do not require the submission of building permits, mentioning that they only make sure that the buildings are not in risk areas. They don't do additional supervision but what is traditionally done for a microcredit, nor interferes with the quality of construction.

**Credit enhancement is offered as a reward for microcredit clients who have demonstrated a good payment culture.** Three institutions in the award is accompanied by a reduction in the interest rate, which varies between 1 and 2 percentage points compared with the interest rate of traditional microcredit.

**Credit characteristics are consistent with the type of customers of microfinance.** In this case the average amount of credit is in a range between \$ 1,500,000 and \$ 8,000,000 with average maturities not exceeding 36 months, finding only one NGO with a term of 60 months. Only one CF that provides credit progressive construction for on-site construction mentioned improvement lending in excess of the above amounts, reaching \$ 24,000,000, and longer terms reaching up to 54 months<sup>33</sup>. Usually in institutions that combine smaller amounts and shorter terms, dominates the design of a product financing progressive improvement or step by step.

**The requirements and evaluation methodology used to assimilate to the granting of a traditional microcredit, in which the evaluation "in situ" of the adviser can understand and evaluate the customer's ability to pay.** In addition to signing a promissory note, seven of them required the support of a co-signer and three will ask the customer to prove ownership of the property, either by certificate of freedom, purchase contract - sale or utility bill .

**Table 12: Characteristics of product for housing improvement under the microcredit fashion-- June 2014**

	Number of clients	Portfolio balance (\$ Mill)	Average credit (\$ Mill)	Minimum credit	Maximum Term	Average term (months)	Average interest rate	
<b>Bank 1</b>	330	2,616	3	1	36	24	EA 30.5% pref. 42.6% EA new	Y
<b>Bank 2</b>	16.322	63.776	5.4	1	48	31	37.91% EA	
<b>CF</b>	454	11,012	24	0.3	59	54	23.74% EA	
<b>Coop 1</b>	53	316	7	1.8	60	37	35.1% EA	
<b>NGOs 1</b>	19	98	6.5	1		36	40.4% EA	
<b>NGO 2</b>	101	71	1.5	0.8	24	24	21.6% EA.	
<b>NGOs 3</b>	48.398	76,926	1.58	1	60	36	51% EA	

Note: Bank 1 supply information to July 2014.

**Most organizations do not perceive in this financing a different risk than the one that must be managed in other types of credit.** The risks mentioned by MFIs in relation to this product are associated with morality payment debtor, the credit is not destined to productive activity and

<sup>33</sup> In this case the CF uses three classifications portfolio in accordance with the purpose of credit, if credit is for business expansion are classified in microcredit, but if the credit is intended for business expansion that is located in the home of micro entrepreneurs or if it is to improve housing is classified within the mode of consumption.

therefore, does not generate revenue, and over indebtedness. The specific risks to the fact that they are housing are mentioned by some institutions:

- Technical specifications of the housing (4 institutions)
- Credit destination (1 institution)
- That the property is new or used (1 institution).
- Have the capital to labor remodeling because only equipment is delivered (1 institution).

**The main constraints that microfinance institutions manifest to expand the supply of improvement credit, are linked to extend the term of the loan and having more funding resources.** Other aspects mentioned as restrictions are land titling, difficulty submitting registrations and licenses which are consider to limit the number of credits that will surely be granted, but ensure that the construction is done with a better technical quality. the need for guarantees was also highlighted, as the line does not apply to the FNG guarantee.

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#### Box 5: Are there specific lines of funding for housing improvement?

##### Micro Build fund an initiative to finance housing improvement in IMF

It was born in 2012 as an initiative of funding from Habitat for Humanity, OPIC, and Omidyar to stimulate housing product development MFIs. The fund worth USD 100 million is managed by Triple Jump, and gives AT nonrefundable through Habitat for Humanity. Deadlines can go up to the maximum duration of the fund, but in practice they are in a range between 4 and 5 years and are granted at market rates for international funding.

The fund manager, said they have already placed 30% of the fund's resources that lasts 10 years, but in Colombia has not been granted any loan because institutions regulated by microfinance are not authorized to receive funds from abroad, and the not regulated ones don't have funding lines at lower costs than provided by the fund.

**Interestingly, the institutions have an AT to enhance the product.** Three of the respondent organizations already offer credit, they expressed as desirable to have technical support to better develop, as did the only entity that said not to have implemented financial product.

**Some entities also perceive competition from funders with credit card.** In one case the example of utility companies that provide financing for the purchase of materials becoming a limiting financing schemes that not only financed the materials but could finance the cost of labor was mentioned.

**a program of technical assistance is collaborating with two microfinance entities in the country already exists. In neither case is incorporated customer support to advise the construction process or documentation required relative to licenses.** Two institutions mentioned of being currently accompanied by a specialized NGO that offers technical assistance component specializing in credit

for housing improvements. The program is oriented at a 70% to finance structural improvements and 30% to finance location improvements. In the second case the NGO is considering the possibility of implementing the pilot in 2015, supported by AT it made an initial study of demand with its own customers, identifying that about 30% of them have used part of the funds received in microcredit to improve their home or business.

#### Box 6: Example of interventions of Habitat for Humanity related to housing improvement

##### Habitat for Humanity – Center of Innovation for housing and Finance – Component of AT

The Center for Innovation in Housing and Finance (CIVF) is a business unit of Habitat for Humanity International, which promotes solutions to the housing shortage to meet the demand for low-income families, being scalable and sustainable. CIVF work is based on the experience of Habitat for Humanity, more than 30 years in mobilizing communities to build more than 400,000 homes. In addition, since 2000, Habitat has been a pioneer in the design of financial services that support low-income families in improving their homes.

AT advises institutions in designing financial products for building, housing repair and expand gradually. This includes conducting market research and diagnosis to each organization to carry out subsequently the accompanying financial projections and analysis of financial viability of the product and the design and support of the product and the pilot. From the point of view of demand, the AT is also involved in lifting needs and design service model in the creation and design of tools to facilitate access to housing services, training of staff and basics of construction.

The credit structures a credit by phases, defined according to the reach of the work and are defined within the limits of the capacity of customer payment. It is based on short-term loans and in small amounts. Usually for structural improvements or locations on average within 15 to 18 months in amounts ranging from USD \$ 2,000 to USD \$ 3,000. The advisor of microcredit should be multiproduct, receives basic training to guide the client to estimate the cost of construction for evaluation and monitoring are similar to traditional microcredit.

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### 2.3 Free investment or consumption credit

**Several institutions recognized to be financing housing improvement in all its forms through consumption loans, especially under the line of free investment.** This type of credit doesn't request the customer requirements regarding the fate of the credit, since the entity only focuses on assessing the payment capacity of the debtor and the guarantees required. Consumer credit is not classified by the destination for which it was granted, so most institutions can only estimate the amount that is intended for this purpose. (Most institutions agree estimate that about 30% of the volume of consumer loans are intended to finance home improvements.)

cooperatives, banks specialized credit cards, employee funds and compensation funds, and non-financial bidders corresponding to credit programs promoted by companies in the real sector: under this classification several credit suppliers differ.

### 2.3.1 Cooperatives

**The cooperative sector recognizes to provide credit for housing improvements, even though customers can identify are not significant.** In the case of 7 of them that do identify it, indicate that the number of served customers is not significant, considering that the entity that the largest number of customers is 1.178 while in the remaining 6 entities in 4 the number is less than 68 customers. In the other 2 they are not able to identify within its portfolio the number and amount of credit for housing improvement but it granted, and only one does not finance because of the difficulty in meeting requirements such as building permits and standards of earthquake --resistance.

**The average credit in these entities is higher than in microfinance, and lower than in banks with mortgage.** The ranges vary between \$ 8,000,000 and \$ 25,000,000, with maximum periods greater than 60 months in 4 of the 7 institutions, even though the average term in any of them exceeds 60 months.

**These entities are giving credit for structural improvement, and only one mentioned concern about the risk in housing specifications to be improved, demanding guarantees in all cases.** Three institutions mentioned finance home improvement and 5 business improvements. The risk in all cases is covered by warranty, either mortgage-backed securities (4 cases) or personal guarantee and support of a cosigner. Only two budget work request to approve the loan.

**The major limitations found in cooperatives to expand financing are related to the lack of funding sources, and the cost thereof.** Only one of them mentioned not offering it for not having government subsidies.

**Box 13: Product characteristics for the improvement of housing under consumption June 2014**

	Coop 1	Coop 2	Coop 3	Coop 4	Coop 5	Coop 6	Coop 7
<b>Number of clients</b>	10	53	16	470	68	428	<b>1,178</b>
<b>Portfolio balance (\$ Mill)</b>	42	711	406	6,881	905	3,874	<b>9,799</b>
<b>Average credit (\$ Mill)</b>	8	8	25	14	10	10	<b>12</b>
<b>Minimum credit (SMLV)</b>	0	1.6	16.2	3.2	8.1	0.5	<b>0.5</b>
<b>Maximum Term</b>	ND	60	84	84	60	72	<b>60</b>
<b>Average term (months)</b>	42.9	48	60	60	60	48	<b>57</b>
<b>Average interest rate</b>	17.74% EA	17.6% EA	18.86 EA	14%	20.7% EA	24.96% EA	<b>15.5% EA</b>
<b>structural reform</b>	X	X	x	X	X	X	
<b>Home remodeling</b>	X	X					<b>X</b>
<b>Remodeling Business</b>	x	x		x	x	x	
<b>Additional requirements vs Other types of credit requirements</b>	mortgage and cosigner	Personal, cosigner and mortgage	Real	personal or mortgage	Personal Or real	personal or real	cosigner And mortgage
	Ability to pay, respective guarantee, promissory quote of the reshuffle	Must be owner of the house	Mortgage , Salary or pension	Capacity of payment, economic solvency, good paying habit, accurate information			Associate at least one year, social contributi Of 1 SMLV, PPTO work, cosigner, mortgage document To perfect it or Freedom certificate
<b>Restraining</b>	limited demand	Funding sources	Long-term	Long-term funding	Resource s at low	Limited demand	Designed to reward

Source: In-depth interviews and survey organizations

### 2.3.2 Employees funds<sup>34</sup>

**Employee funds represent an important option for its members, offering consumer loans, consumption credits both for housing expansion and structural reforms to local repairs. It is estimated that about 30% of the total**

<sup>34</sup> Information obtained from Analfe, guild represents about 700 of the nearly 1,400 existing employees Funds.

portfolio of funds is destined for housing improvements. As support for approval of this type of credit contributions are requested by the partner of the reforms to be undertaken and no license is required, only in the case where the facade of the building is affected.

**For funds it is a safe credit.** The amount approved depends on the amount of savings, since credit is granted for up to 5 times the amount of these. The procedure is simple because it is granted with personal guarantees and signing a promissory note and depending on the amount, the signature of a cosigner or collateral in the event that the amount exceeds the savings plus contributions requested. However the payment is assured in most cases through payroll deduction. The portfolio indicator to more than 30 days is 3.5%. Employee funds do not perform checkups to the work after the disbursement.

### 2.3.3 Codensa

**It is the most important credit card financing related to appliances but also building materials.** It was born in 2001 as a appliance financing program with resources of energy company Codensa, and in 2009 the portfolio was bought by a bank that held the trademark. It is a consumer credit using a credit card without excess, more than 900 shops are affiliated and 97% of its costumers correspond to social levels 1 to 3 customers, about 80% of customers are employed and 10% independent<sup>35</sup>.

**While it is impossible to estimate the percentage of people or the space available which is used to finance housing improvement or local repairs, it is known that about 25% of all purchases are made in establishments in which they could have purchased products for housing improvement.** According to statistics cited by Colpatria even when the maximum credit is

\$ 12,000,000 the average credit limit is \$ 2,500,000, and the average quota used is \$ 1,250,000. In these stores customers can also obtain other products such as appliances, or home furnishings, so it can not be said that all purchases have been destined to improving housing. This card has had a positive impact on access to credit, considering that 35% of customers start their financial life with this product.

### 2.3.4 Family compensation

**The credit offered by the family compensation funds are exclusively for households with salaried members affiliated or not to the same, and typically is linked**

<sup>35</sup> University of the Andes. Assessing the Economic Impact of easy credit program Codensa 2012. The impact assessment included 1324 representative surveys of a universe of 445.098 people study the cut-off date (February 2012), they had made a purchase in the last two years and had had at least 3 months portfolio balance. 48% of customers have family home and 32% own homes and 72% of customers in the last year had made additions or improvements to your home.

**with a subsidy for housing improvement.** Therefore they can only serve homes in neighborhoods that are certified, that have 100% public services and that have recorded deed. One of the funds has focused on lending for construction on own site with an average value of \$ 10,000,000, at an interest rate of 6% annually. However, this program is still marginal because it only has channeled 250 operations per year.

**The boxes have also developed alternative financing and its affiliates offer consumer loans, in line free investment, which are used to finance housing improvement.** In this case, loans are easier to disburse and have fewer requirements. Similar to what happens with other financial intermediaries, in this case it is difficult to quantify the volume of resources directed to financing housing improvement within the portfolio of the funds

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**In this case, they also say they have difficulty with credit for structural improvement because of the formalities required for the construction license, thereby giving priority funding habitability improvements or local reforms where the only requirement is not to be in a high-risk site.** One of the funds reported to have financed 15,000 improvements over the last 4 years, representing 3% of the portfolio balance with a very low default, since it is given in a high percentage warrant. It is aimed at workers who earn an average of 2 SMLV (minimum 1 and maximum of 4 SMLV), with a minimum of \$ 1,000,000 and \$ 30,000,000 maximum. The average of this type of credit is currently \$ 4,200,000. The structure of the product includes two components, a portion of the payment is made in cash to cover the cost of labor, and the remaining 60% is deposited directly to the hardware store or bailee with which it has signed agreements with to cover the cost of construction materials and to which must be followed.

**Historically the institutions that have made greater use of technical advisers, called SPOs Housing - OPV, and recognize their technical capacity but also highlight their financial weaknesses.** This stems from the requirements for checks to verify the proper use of subsidies. As mentioned by respondents funds, there are not many providers of this specialist services and those that exist, especially in Bogota, have good technical ability but weaknesses in its financial structure. The accompaniment is today a cost that fluctuates between 10% and 15% of the value of the work. These costs are assumed in several cities for programs of municipalities, and if not, it is paid for by the beneficiaries with their subsidy.

### Box 7 Cost of an improvement project, including the cost of the Technical Advisory

The estimated cost of an AT according to the information provided by one of the OPV in the market is about 10% of the value of a typical project worth \$ 11,249,788, which would qualify for subsidy improvement in a compensation fund.

PROGRAMA DE MEJORAMIENTO			
TIPOLOGÍA B			
ÁREA	41.97	M2	
NOMBRE:	BARRIO:	VEREDA TARQUI	
C.C.	LOCALIDAD:	FLANDES (TOLIMA)	
DIRECCION: LOTE N° 2	PROGRAMA:		
CAPÍTULOS	MATERIAL	MANO OBRA	VALOR CAPÍTULO
01. TRABAJOS PRELIMINARES	80,870.50	177,449.16	258,319.7
02. CIMENTACION	237,858.52	69,655.95	307,514.5
03. ESTRUCTURA EN CONCRETO	972,327.96	391,431.95	1,363,759.9
04. MAMPOSTERIA	1,186,676.08	514,070.20	1,700,746.3
08. INSTALACIONES ELECTRICAS	931,814.63	0.00	931,814.6
09. CUBIERTA	1,490,424.00	0.00	1,490,424.0
11. CARPINTERIA METÁLICA	1,080,880.74	95,900.00	1,176,780.7
12. CARPINTERIA MADERA	228,358.62	0.00	228,358.6
15. VIDRIOS Y CERRADURAS	55,663.44	0.00	55,663.4
17. ASEO GENERAL	122,400.00	167,805.75	290,205.8
TOTAL MATERIALES		6,387,274.49	57.7%
MANO DE OBRA		1,416,313.01	12.8%
<b>TOTAL COSTOS DIRECTOS</b>			<b>70.5%</b>
			<b>\$ 7,803,587.50</b>
ADMINISTRACIÓN GENERAL Y GERENCIA DEL PROYECTO		371,832.87	3.3%
IMPREVISTOS		225,232.04	2.0%
UTILIDAD CONTRATISTA		508,772.10	4.5%
ASESORIA TECNICA		1,092,375.41	9.7%
CERTIFICADO DE HABITABILIDAD		90,000.00	0.8%
DERECHOS E IMPUESTOS		168,924.03	1.5%
SEGUROS Y GARANTÍAS		104,000.00	0.9%
<b>TOTAL COSTOS INDIRECTOS</b>			<b>23.1%</b>
			<b>\$ 2,558,936.46</b>
NOTARIALES Y DE REGISTRO		450,000.00	4.1%
FINANCIEROS		260,682.44	2.4%
<b>TOTAL GASTOS ADMINISTRACIÓN Y FINANCIEROS</b>			<b>6.4%</b>
			<b>\$ 710,682.44</b>
<b>COSTO DEL PROYECTO</b>			<b>\$ 11,073,206</b>
<b>IVA SOBRE A.I.U.</b>		1,103,637.02	16.0%
			<b>176,581.9</b>
<b>COSTO TOTAL DEL PROYECTO</b>			<b>\$ 11,249,788</b>

Source: OPV.

### 2.3.5 Non-financial credit - real sector Programs

Several companies in the real sector, using their own capital, have developed financing programs for the purchase of the products they produce, which are used for structural improvement or local reforms, focused mainly for the low-income population. Even if they could assimilate social responsibility programs, they seek to be self - sustainable, which in practice has sometimes been difficult to achieve.

They commonly operate using the distribution network of hardware and building materials stores for granting discounts, storage or delivery of the products, despite having failed to scale. The commercial work is based on hiring promoters who visit neighborhoods, provide basic advice and make

an initial financial assessment of customers, which are presented to the respective company for analysis of repayment capacity and loan approval. The oldest is known as promoted by CEMEX Patrimony Hoy but there are also those implemented by other companies such as Corona, Cementos Argos, and Promigas Brilla program on the Atlantic Coast. With the exception of one, for the other programs the main problem has been precisely achieving good quality of the portfolio, and argues on the difficulty of making agreements with the financial sector, which in turn complains about the commissions proposed by these companies considering the risk they assume.

- **Patrimony Hoy - CEMEX**

**The program born in Mexico has been operating since 2005 in Colombia, obtaining financing 17,000 families, with coverage in Bogota and Ibagué.** They use a sales force of 20 advisers and focus their attention on women of social levels 1 to 3. It includes a savings component that is deposited in financial institutions and a credit component which the company gives on a phased manner and based on the amount of savings, risk rating and the payment culture demonstrated by the customer.

**They include a basic advisory provided by the consultants and also based on the delivery of products by a network of hardware stores or warehouses with whom the company previously made agreements to obtain special discounts.** Advisers, who visit the customer at home, give a basic constructive technical assistance and "land" the scope of each project. It is sought to make a recommendation for a progressive constructive development, limiting the advisory to recommendations on the purchase of materials. To ensure the constructive development with the best quality in terms of standards, they have worked in partnership with SERVIVIENDA and Habitat for Humanity.

**The program prides itself on not charging interest to customers, achieving sustainability from the fees paid by customers and discounts granted to distributors.** Varying cement prices has become an obstacle for the company as a model and cost savings. The deadlines vary from 12 to 24 months, but on average credits are awarded to 1.5 years, with average amounts of \$ 4,000,000 per customer.

- **Dress up your home program - Corona**

**The inclusive business model Corona - Colcerámica launched in 2006 offers both direct loans and financing schemes in partnership with other institutions, operates in 8 cities and reached a turnover in 2013 of \$ 16,000 million, benefiting 24,000 households.** To achieve these results the company set up a sales network of over 220 advisers, mostly women heads of households, with an average age of 45 and with the same income profile of the population to be

attended. The sales network covers daily different low-income neighborhoods in 8 major cities, and by a personal attention similar to a microcredit advisory where the advisor visits the customer at home, makes a local improvement needs study, defines the amount of material and budget costs and says the available financing options, according to an initial assessment of their ability to pay which is subsequently validated by Corona using scoring models.

**It uses two types of financing to its customers, all aimed at the sale of own products, without installation service, and aimed at remodeling and local reforms process which does not require or solicit construction or remodeling licenses.**

- *Financing with partnerships of collection through public service companies.* The loan is approved in Corona who assumes the risk of granting it, but the collection is outsourced to a public service company and a fee for the service is paid.
- *Financing through Brilla -Promigas.* Limited to the Coast and Valle, in this case the Brilla Program is granted funding, and Corona is responsible for delivering the product. Payment by check is performed between 30 and 45 days. Sales are made on the basis of quota pre - approved by Brilla to each customer, in this case sales are at an average between \$ 1,000,000 and \$ 1,200,000, and financing is extended to a period between 3 and 5 years .

**After seven years a breakeven for the company was reached. Expectations for 2016 are extended to 11 departments and reach a sum of \$ 28,000 million in sales.**

- **Brilla - Promigas**

**Launched in December 2006, it offers a similar credit financing as Codensa as it is based on a credit card with an assigned quota that can be used at affiliated establishments as they don't have a franchise.** It started from the need to finance the connection of domestic gas by Promigas, on the Caribbean coast to each of its customers. After verifying the good payment culture of customers after the first loan, the company decided to expand its finance system to gas appliances, household appliances, building materials, computers, furniture and access to university degrees or technical institutions.

**Aimed at the population in social levels 1 and 2, it grants, a maximum credit of \$ 1,200,000, with terms not exceeding 60 months, the most frequent being the 1-year term, in the maximum interest rate in the market.** The quota is given to the best clients similar to the initially funded for installation of rotary gas and based on analysis of credit – scoring model. The company uses the public service bill of several companies: Surtigas, Gases de Occidente, Caribbean Gases, Gases of La Guajira and Efigas

to inform the tax payable which has enabled it to maintain good portfolio quality levels. The program funding is concentrated in the region of the Caribbean coast, but has also spread to the Colombian Coffee Trail.

**It has also created a network of associated hardware for the purchase of building materials, and is one of the systems of the Dress Your House Corona funding program as mentioned above.** Similar to conditions of consumers credit.

**They estimate that about 35%** of the total portfolio is channeled to the purchase of building materials. In 2014 it has \$ 207.000 million to benefit more than 220,000 people, which at the end of 2014 it is expected to reach 1,200,000 benefited users<sup>36</sup>.

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## 2.4 Implications

**The survey shows that there are various forms of financing with which low-income households may partially or fully finance improvements to their homes but mainly local reforms and improvements in habitability.** This is especially true for households that have purchased VIS housing under a mortgage loan and a grant of new housing projects delivered with minimal finishes. It is mainly provided through credit linked to the producers of materials or cards linked to the payment of public services. This implies that the biggest beneficiaries are households with salaried people who are more likely to access a mortgage. Some households also com to these sources looking for structural reforms, without the funder really knowing about its destination.

**Funding for structural improvements exists, but in smaller volume, through microfinance, and to a lesser extent through cooperatives for more valuable investments and increasingly through financial deals tied to the purchase of materials without the requirement of the corresponding license or verified project implementation<sup>37</sup> in either case.** In these cases, by the values reported, improvements are made in installments over time creating inefficiencies in the process, without the impact being clear on the quality of the intervention. In the case of microfinance it is offered typically for customers with proven credit history to retain them, and in the second case from structured credit offers by the same producers of materials or cards linked

payment of utilities that are expanding access to households with informal

<sup>36</sup> [www.larepublica.co](http://www.larepublica.co) July 2014

<sup>37</sup> The advisory microcredit as it does for other credit line in its trade round can review the credit has been the destination for which it was requested but not made a special audit project.

income. In any case, the license for the project as a requirement for assessment of credit risk is required because there is a widespread perception that the time, cost and difficulty of obtaining this document, to the new requirements of earthquake resistance, prevent the granting of these credits. However, microfinance entities find that the house where they carry out the works is not in a high-risk area and that the client has rights to the property, without requiring title. This is only required in the case of some cooperatives that structure it as a mortgage.

**The accompaniment by specialized technical consultants in architectural design and construction techniques only occurs in improvement programs related to subsidies either at the national or local level, the cost is partially paid from such subsidies.**

Financial intermediaries do not perceive an added value to require this support, for housing as such is no guarantee. Many consider it desirable to achieve better quality of life for their customers. Only mortgage banks see in this consultancy the possibility to maintain or improve the value of the mortgage credit supports, despite having failed to structure because of the operational difficulties of organizing demand with potential bidders. Only funds use it and know the cost of it, which also is offered by a small number of operators, always under a contract that assures them the right for investment of resources.

**It was only possible to identify one specialized AT in credit for housing improvement.**

Although in each institution a particular analysis of both supply and demand is made, the granting of credit is done with the same advisers to the institution, which are trained in specific aspects of the product, as the advisor should be in ability to advise the client, according to the assessment of their ability to pay, how to perform the work in stages, dividing therefore the total amount of it in 2 or 3 credits of similar size, conditions of the loans in amount and rate may be similar to those of traditional microcredit or slightly better for the customer's loyalty.

**The main constraint facing the demand, according to financial institutions, is to meet the requirements that in constructively matter are required today to arrange a construction license.** This process is so complex, that even the district authorities both in Medellin and Bogota have chosen to make fully subsidized interventions (i.e. where the home does not put resources) to ensure the habitability of housing, without interventions involving structural reforms to avoid the processing of the license.

**Loans for housing improvements can't find regulatory constraints to be offered under the conditions of rate and conditions that intermediaries considered viable.** As most of the loans are granted in installments under

60 months and have no mortgage guarantees, they should not be subject to the limits on mortgage credit referred to in Section 1.4.

**The main limitation that cooperatives and microfinance argue is the funding, but this view is not shared by financiers.** The opinion of BANCOLDEX and international funds, which have enough available lines, do not restrict the use of loans for housing improvement, mention on the contrary that the market is very liquid, because the funding of institutions that do not capture public resources are being covered by the same commercial banks, competing with better interest rates. The request for special lower rates and longer maturities lines, is associated with the desire of many of them to offer mortgage loans.

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### 3. Conclusions

**Housing policy in Colombia has been directed primarily to solve the quantitative deficit through promotion and new housing subsidy, at the same time the requirements for structural improvements in existing homes have become more demanding.** The result is that the qualitative deficit, which is served through structural improvements or facility reforms, is being served from public policy primarily through direct interventions of municipalities to relocate households living in high-risk areas, or to improve the habitability of households in poverty.

**Funding for structural improvements or facility reforms for employees is being offered primarily through credit programs linked to credit cards, without advice or support to the end customer.** By being typically associated with this segment, they are primarily derived from the demand generated by the delivery of unfinished VIS housing, which would make advice to households not important because households have ensured compliance with building standards in head of the initial builder.

**It is in the stock of informal housing, built for years in cities and even today in rural areas where there would be greater demand for credit for structural improvements in existing homes, and this is being addressed, in part, by microfinance and credit unions that offer this segment typically by micro entrepreneurs. Also, and increasingly, by credit cards they are increasingly embracing informal workers. Checking that customers have the respective authorizations to advance the construction project are not required, since the analysis focuses on determining the ability of repayment obligated.** Advancing these construction processes formally with full legal requirements is considered very desirable from the viewpoint of housing policy, but has little impact on credit supply, since being this originated under

microcredit methodology is the cash flow of the business and no guarantee that determines access.

**The offer of financing for housing improvement could improve its quality through a technical assistance program to help organize the housing loan origination.** MFIs who are receiving such support report improvements, but it is unclear the impact it could have on the volume of financing for this purpose, but rather on the quality of product that serves the customer.

**Although the counseling to households in constructive matter is of the utmost importance, this is expensive, and operators who can give it are operational and financially fragile, and with coverage in certain cities.** The requirement for this support should come from the public housing policy, but this only works in the case of municipal subsidies aimed at improving informal neighborhoods.

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## Annex 1: Form Survey to financial institutions

General information		
1. Name of entity:		
2. Name of interviewee:		
3. Position in the organization:		
4. Total number of customers of the entity	Dec 2013	
	June 2014	
5. Number of customers with credit for home improvement	Dec 2013	
	June 2014	
6. Total Balance of portfolio	Dec 2013	
	June 2014	
7. Balance of mortgage portfolio, consumption, or microcredit under which classifies this type of credit. (Please specify in which one it does)	December 2013	
	June 2014	
8. Total portfolio Balance credit for housing improvements (December 2013)	Dec 2013	
	June 2014	
9. What is the average amount of credit for home improvement loan?		
10. What is the minimum cost of a credit for home improvement?		
11. What is the maximum term for a loan for home improvement?		
12. What is the average term for loans for housing improvements?		
13. What is the average interest rate at which credit for home improvement placed?		
14. This rate is different from other types of credit? Mortgage, commercial, consumer and microcredit?		
15. This type of credit has additional fees or commissions? (Please specify with their respective cost)		
Specific information		
1. What is the typical customer that this type of credit is given to?		
to. micro entrepreneurs		
b. homes		
2. The loan will be offered to customers for the first time?		
3. What are the main needs that you identify in the application of this type of credit?		
to. Enlargement, or structural reforms (eg. construction of the second floor)		
b. Improvement or remodeling business (eg. veneers, floors)		
c. Home improvement or remodeling (eg. veneers, floors)		
4. To which of the above options do you grant funding?		
4. It has special lines of funding or does own resources?		
5. Perception and risk management in relation to the sector		
to. Applies risk assessment a different methodology of traditional credit? Please explain		

b. What types of collateral or guarantees are commonly used?	
c. The warranty varies depending on the amount of credit requested?	
d. What are the applicable requirements to grant it?	
6. What are the risks that most concern you when evaluating and gives this type of credit?	
to. Morality debtor's payment	
b. Technical specifications of housing to be expanded or improved	
c. Other: specify	
7. Is your institution thinking about extending this type of credit?	
8. What are the constraints that you're facing to increase lending for housing improvement?	
to. regulatory framework	
b. Experience in analysis and lending	
c. Product design / Risk Management specialized in this sector	
d. Coverage of offices, specialized promoters, credit officers). Please specify	
and. High costs in the origination and administration of this type of credit.	
F. Fulfillment of requirements (licenses, or earthquake rules- resistance)	
g. Guarantee	
9. Could you provide us information on the general characteristics of credit for housing improvements offered?	
10. What would be the aspect that would make your institution offer or extend the granting of such credit?	

## Annex 2: Maximum values of subsidy for house purchase


Family compensation		FONVIVIENDA		SFV value	SFV value	Subsidy / VIS	Subsidy/ VIP
Income range (SMLMV)		Score urban SISBEN		(SMLMV)	Year 2014		
From	Until	From	Until				
> 0,00	1.00	0.00	10.88	22	13552000	16.3%	31.4%
> 1.00	1.50	> 10.88	14.81	21.5	13244000	15.9%	30.7%
> 1.50	2.00	> 14.81	18.75	21	12936000	15.6%	30.0%
> 2.00	2.25	> 18.75	20.72	19	11704000	14.1%	27.1%
> 2.25	2.50	> 20.72	22,69	17	10472000	12.6%	24.3%
> 2.50	2.75	> 22.69	24,66	15	9240000	11.1%	21.4%
> 2.75	3.00	> 24.66	26.63	13	8008000	9.6%	18.6%
> 3.00	3.50	> 26.63	30.56	9	5544000	6.7%	12.9%
> 3.50	4.00	> 30.56	34,50	4	2464000	3.0%	5.7%

SOURCE: Investment in Affordable Housing. Decree 2190 of 2009, Article 8.


For on-site construction, the amount of the Family Subsidy of Urban Housing awarded both by the National Housing Fund and the Family Compensation will be up to 18 SMLM (\$ 11,088,000).

## Annex 3: Application Form Construction License

The only national form defined by the MVCT is as follows:



**Ministerio de Vivienda, Ciudad y Territorio**  
 República de Colombia



<b>FORMULARIO UNICO NACIONAL</b> <small>USO EXCLUSIVO CURADORES URBANOS - OFICINA DE PLANEACION O LA QUE HAYA SUS VICES</small>		<b>2. DATOS GENERALES</b>		<b>PAGINA 1</b>
<b>3.1. OFICINA RESPONSABLE</b>		<b>3.2. No. DE RADICACION</b> <div style="border-bottom: 1px solid black; width: 100%;"></div>	<b>3.3. Departamento - Municipio - Fecha</b> <div style="border-bottom: 1px solid black; width: 100%;"></div>	
<small>Lee cuidadosamente este formulario y las instrucciones contenidas en la Guía anexa, antes de diligenciarlo a máquina o a mano en letra impresa.</small>				
<b>1. IDENTIFICACIÓN DE LA SOLICITUD (Marcar con una X en la casilla correspondiente)</b>				
<b>1.1. TIPO DE TRAMITE</b>		<b>1.2 MODALIDAD LICENCIA / CONSTRUCCIÓN</b>		<b>1.3 MODALIDAD LICENCIA SUBDIVISIÓN</b>
a. LICENCIA DE PARCELACION <input type="checkbox"/>	d. LICENCIA DE CONSTRUCCIÓN <input type="checkbox"/>	1. OBRA NUEVA <input type="checkbox"/>	6. REPOZICIONAMIENTO ESTRUCTURAL <input type="checkbox"/>	a. SUBDIVISION RURAL <input type="checkbox"/>
b. LICENCIA DE URBANIZACION <input type="checkbox"/>	e. RECONOCIMIENTO DE LA EXISTENCIA DE UNA EDIFICACION <input type="checkbox"/>	2. AMPLIACION <input type="checkbox"/>	7. DEROGACION <input type="checkbox"/>	b. SUBDIVISION URBANA <input type="checkbox"/>
c. LICENCIA DE SUBDIVISION <input type="checkbox"/>		3. ADICION <input type="checkbox"/>	8. PARCIAL <input type="checkbox"/>	c. RELOTIO <input type="checkbox"/>
<b>1.4 USO DE VIVIENDA</b> VIP <input type="checkbox"/> VIS <input type="checkbox"/> OTRO <input type="checkbox"/>		4. MODIFICACION <input type="checkbox"/>	9. RECONSTRUCCION <input type="checkbox"/>	<b>1.5. OBJETO DEL TRAMITE</b> INICIAL <input type="checkbox"/> PRORROGA <input type="checkbox"/> MODIFICACION <input type="checkbox"/> REVITALIZACION <input type="checkbox"/>
5. REPARACION <input type="checkbox"/>		10. CENSAMIENTO <input type="checkbox"/>		
<b>1.6. USOS</b> Vivienda <input type="checkbox"/> Comercio o servicios <input type="checkbox"/> Institucional <input type="checkbox"/> Industrial <input type="checkbox"/>				
<b>2. INFORMACIÓN SOBRE EL PREDIO (Marcar con una X en la casilla correspondiente y llenar los espacios con letra impresa)</b>				
a. DIRECCION O NOMENCLATURA ACTUAL		ANTERIOR (SR)		
b. N° MATRÍCULA INMOBILIARIA		c. IDENTIFICACIÓN CATASTRAL N°		
d. ESTRATO <input type="checkbox"/>	e. SARGIO	f. URBANIZACIÓN o VEREDA		
g. PLANIMETRIA DEL LOTE PLANO DEL LOTE <input type="checkbox"/>	PLANO TOPOGRAFICO <input type="checkbox"/> OTRO <input type="checkbox"/>	NUMERO	MZ N°	Lote N°
h. URBANIZADO <input type="checkbox"/>	i. NO URBANIZADO <input type="checkbox"/>	NUMERO	MZ N°	Lote N°
<b>3. INFORMACIÓN VECINOS COLINDANTES</b>				
NOMBRE		NOMBRE		
DIRECCION PREDIO		DIRECCION PREDIO		
DIRECCION CORRESPONDENCIA		DIRECCION PARA CORRESPONDENCIA		
NOMBRE		NOMBRE		
DIRECCION PREDIO		DIRECCION PREDIO		
DIRECCION CORRESPONDENCIA		DIRECCION PARA CORRESPONDENCIA		
<b>4. LINDEROS DIMENSIONES Y AREAS</b>				
LINDEROS	Longitud M2	Colinda con:		
Norte				
Sur				
Oriente				
Occidente				
Area Total del Predio(s)		M2		



FORMULARIO ÚNICO NACIONAL		PAGINA 2
<b>5. TITULARES Y PROFESIONALES RESPONSABLES</b>		
LOS FIRMANTES: TITULARES Y PROFESIONALES RESPONSABLES DECLARAMOS BAJO LA GRAVEDAD DEL JURAMENTO QUE NOS RESPONSABILIZAMOS TOTALMENTE POR LOS ESTUDIOS Y DOCUMENTOS CORRESPONDIENTES PRESENTADOS CON ESTE FORMULARIO Y POR LA VERACIDAD DE LOS DATOS AQUÍ CONSIGNADOS. ASÍ MISMO, DECLARAMOS QUE CONCORDAMOS LAS DISPOSICIONES VIGENTES QUE REGEN LA MATERIA Y LAS SANCIONES ESTABLECIDAS.		
TITULAR (ES) DE LA LICENCIA	C.C. O NIT	FIRMA (S)
<b>PROFESIONALES RESPONSABLES</b>		
URBANIZADOR O CONTRATISTA	FIRMAS	N° MATRÍCULA PROFESIONAL
ARQUITECTO PROYECTISTA	FIRMAS	N° MATRÍCULA PROFESIONAL
INGENIERO CIVIL, CALCULISTA O ESTRUCTURAL (Experiencia mínima 5 años o especialización)	FIRMAS	N° MATRÍCULA PROFESIONAL
INGENIERO CIVIL O GEOTECNISTA (Experiencia mínima 5 años o especialización)	FIRMAS	N° MATRÍCULA PROFESIONAL
GERENTE DE PLANEACIÓN DE ESTRUCTURAS (Experiencia mínima 3 años)	FIRMAS	N° MATRÍCULA PROFESIONAL
OTROS PROFESIONALES ESPECIALISTAS	FIRMAS	N° MATRÍCULA PROFESIONAL
NOMBRE RESPONSABLE DE LA SOLICITUD		TELÉFONO (S)
DIRECCIÓN PARA CORRESPONDENCIA		FAX
<b>6. DOCUMENTOS QUE ACOMPAÑAN LA SOLICITUD. (Marcar con una X en la casilla de la izquierda)</b>		
<b>6.1 DOCUMENTOS COMUNES A TODA SOLICITUD</b> <sup>a</sup> Los requisitos con asterisco no se exigen cuando se puedan consultar por medios electrónicos.		
A. Copia del Certificado de Libertad y Tradición <sup>a</sup> . Verificar propietario inmueble, número matrícula inmobiliaria y que no haya sido expedido antes de 30 días contados a partir de la fecha solicitud.	C. Poder o autorización debidamente otorgado. En caso de presentar la solicitud en nombre del titular, se debe verificar que se cuente con la debida autorización y representación y que haya aceptación tanto del apoderado o autorizado, con presentación personal de quién lo otorgue.	
B. Copia documento de identidad del solicitante. Verificar si es persona natural la cédula de ciudadanía o extranjera. Si es persona jurídica, verificar nombre de la sociedad, representante legal, vigencia, certificado de existencia y representación legal <sup>a</sup> la fecha de expedición no debe ser superior a un mes.	D. Copia del documento o declaración privada impuesto predial del último año <sup>a</sup> en relación con el(los) inmueble(s) objeto de la solicitud donde figure la nomenclatura alfanumérica o identificación del predio (No se exigirá este requisito cuando exista otro documento oficial en que se pueda establecer la dirección del predio).	
E. Relación de la dirección de los predios colindantes al proyecto. (Ver presente formulario). Los predios colindantes son los que tienen un lindero en común con el inmueble(s) objeto de la solicitud.		
<b>6.2 DOCUMENTOS ADICIONALES LICENCIA DE URBANIZACIÓN</b>		<b>6.3 DOCUMENTOS ADICIONALES LICENCIA DE PARCELACIÓN</b>
A. Plano topográfico del predio(s) objeto de la solicitud. Firmado por profesional.	A. Plano topográfico del predio(s) objeto de la solicitud. Firmado por profesional.	
B. Plano del proyecto urbanístico, debidamente firmado por arquitecto.	B. Plano del proyecto de parcelación debidamente firmado por arquitecto.	
C. Certificación expedida por las empresas de servicios públicos domiciliarios, o autoridad municipal o distrital competente indicando la disponibilidad inmediata.	C. Copias de las autorizaciones que sustenten la prestación de los servicios de agua potable, saneamiento básico y demás autorizaciones ambientales.	
D. Estudios detallados de amenaza y riesgo por fenómeno de remoción en masa e inundaciones ambientales que señalen las medidas de mitigación de riesgos, en predios ubicados en zonas de amenaza y/o riesgo alto y medio de origen geotécnico o hidrológico y permitan la viabilidad de futuros desarrollos.	E. Estudios detallados de amenaza y riesgo por fenómeno de remoción en masa e inundaciones ambientales que señalen las medidas de mitigación de riesgos, en predios ubicados en zonas de amenaza y/o riesgo alto y medio de origen geotécnico o hidrológico y permitan la viabilidad de futuros desarrollos.	
<b>6.4 DOCUMENTOS ADICIONALES LICENCIA DE SUBDIVISIÓN</b>		<b>6.5 DOCUMENTOS RECONOCIMIENTO EDIFICACIONES</b>
A. Plano del levantamiento topográfico el antes y después de la subdivisión para subdivisión rural y urbana.	A. Plano de levantamiento arquitectónico de la construcción existente.	
B. Plano de lote aprobado o plano topográfico aprobado que haya incorporado urbanísticamente el predio, para la modalidad de loteo.	B. Copia del peritaje técnico que determine la estabilidad de la construcción y propuesta para las intervenciones y obras a realizar. (firmado por profesional idóneo)	
C. Plano que señale los predios resultantes de la división propuesta, debidamente enojado y alindando para la modalidad de loteo.	C. Declaración de la antigüedad de la construcción, que se entienda bajo la gravedad de juramento.	
<b>6.6 DOCUMENTOS ADICIONALES LICENCIA DE CONSTRUCCIÓN</b> <sup>a</sup> Los requisitos con asterisco deben presentarse firmados y rubricados por profesional idóneo.		
A. 1. Copia, memoria de los cálculos estructurales <sup>a</sup> y de los diseños estructurales <sup>a</sup>	Copia de las memorias de otros diseños de elementos no estructurales <sup>a</sup>	Copia de los estudios geotécnicos y de suelos <sup>a</sup> (todos los anteriores para categorías II y IV)
A. 2. Plano(s) estructural(es) <sup>a</sup> (Únicamente categoría I y II)		
B. Copia impresa del proyecto arquitectónico <sup>a</sup> y todos los planos estructurales <sup>a</sup> .		
C. Licencias anteriores y planos cuando la solicitud se presenta ante autoridad distrital o la que otorgó la licencia original, excepto para otros nuevos.		
D. Anteproyecto aprobado por el Ministerio de Cultura o la entidad competente, si es bien de interés cultural. En intervenciones sobre patrimonio arqueológico, autorización expedida por la entidad competente.		
E. Copia del acta del órgano competente de administración de la propiedad horizontal o del documento que haga sus veces, según lo disponga el reglamento, autorizando la ejecución de las obras ampliación, adecuación, modificación, reforzamiento estructural, o demolición de inmuebles sometidos al régimen de propiedad horizontal.		

## Annex 4: Deadlines, features and additional documentation depending on type of license

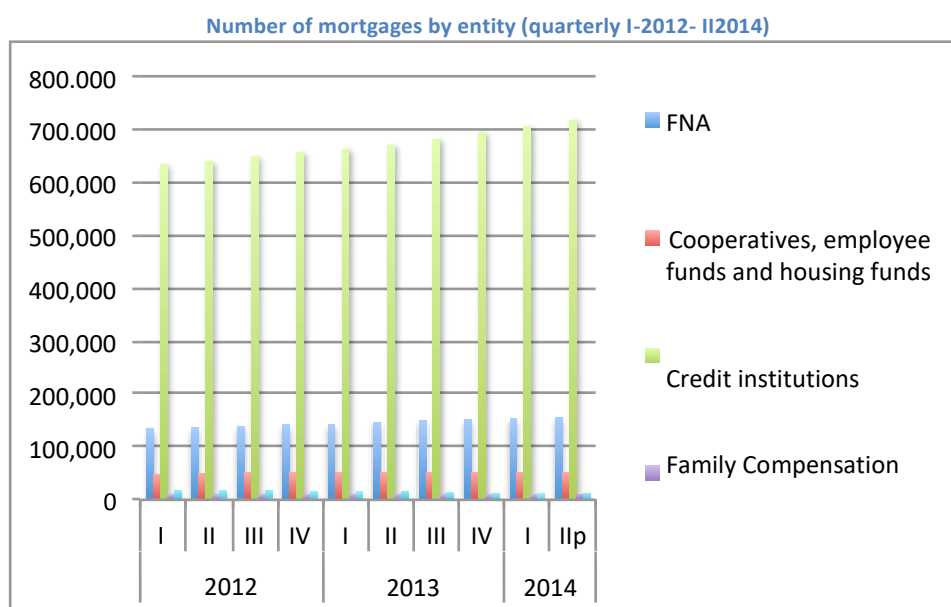
Category	characteristics	Term	additional documentation
<b>Category IV high Complexity</b>	More than 5,000 meters of Construction that are not Housing of one and two floors Masonry and cemented Bahareque	45 days	Memory calculations and structural drawings; memories of design elements not structural and geotechnical studies and Floors that work for determining the fulfillment in these aspects of Colombian Regulation of Earthquake resistant Construction --NSR-- 10 <sup>38</sup> , signed and labeled by authorized professionals For this purpose, who will be responsible legally of the designs and studies, as well as of the information contained therein.
<b>Category III High average Complexity</b>	Between 2,000 and 5,000 meters of Construction that is not and cemented bahareque. one and two story masonry	35 days	Memory calculations and structural drawings; memories of design elements not structural and geotechnical studies and Floors that work for determining the fulfillment in these aspects of Colombian Regulation of Earthquake resistant Construction --NSR-- 10 <sup>38</sup> , signed and labeled by authorized professionals For this purpose, who will be responsible legally of the designs and studies, as well as of the information contained therein.
<b>Category II Medium Complexity</b>	Between 500 and 2,000 meters of building housing one and two story masonry and cemented bahareque.	25 days	Copy of the structural drawings of the project signed and labeled by the professional that developed them.
<b>Category I Low Complexity</b>	Less than 500 meters of housing construction one and two story masonry and cemented bahareque.	20 days	Copy of the structural drawings of the project signed and labeled by the professional who Elaborated them.

Source: Decree 1460 of 2010

<sup>38</sup> The standards of earthquake - resistance defined by the National Government through the adoption of regulations earthquake - resistance recommended by the Standing Advisory Commission Regime earthquake-resistant constructions created by the Law 400 of 1997 (adopts rules on earthquake constructions --resistances) and attached to MVCT. The most recent regulations were adopted through Decrees 928 and 2525 of 2010, which defined its entry into force as of December 2010.

## Annex 5 How the purchase of VIS is funded in Colombia?

In total to June 2014, the DANE counts 946.469 mortgage loans nationwide, of which credit institutions finance 75%, FNA 16%, cooperatives, employee funds and housing funds 6%, family compensation 1% and 2% other institutions. The percentages of participation in the VIS number of credits granted by type of intermediary have not changed in the last two years.



Source: DANE.

Taking the information of institutions supervised by the SFC, the housing portfolio has a 25% stake in the total portfolio and VIS represents 33% of the total placed in the housing portfolio. Banks and FNA have the largest share in the placed portfolio balance 75% and 22% respectively.

**VIS portfolio balance by type of intermediary - June 2014 (Millions of \$).**

	Banks	FNA	CF	Solidarity Sector	Total
VIS	7943327	2365359	84.436	147.205	10540327
Housing	27150756	4632485	113.852	179.097	32076190
Total portfolio	119185653	4632485	4971268	1699756	130489162
% Housing / Total	2. 3%	100%	2%	eleven%	25%
% VIS / Total Housing	29%	51%	74%	82%	33%

Source: Superfinanciera. The portfolio balance includes VIS. VIS portfolio balance in pesos and UVR.

Davivienda, Banco Caja Social and Bancolombia are the main funders of the VIS portfolio, June 2014 representing 83% of the total portfolio VIS funded. For the first two the VIS portfolio also represents a significant percentage of the

placement housing portfolio, with 60% equity and 46% respectively. In the case of Bancolombia the percentage reaches 29%.

**VIS mortgage portfolio and bank and FNA (Millions of \$) - June 2014.**

	<b>Total VIS</b>	<b>Total Housing</b>	<b>% VIS / Total Housing</b>
Davivienda	2863091	4801961	60%
Bancolombia	2021873	6973571	29%
BCS	1535876	3355135	46%
BBVA Colombia	865.219	6313780	14%
Colpatria	245.821	2115235	12%
AV VILLAS	209.563	1131953	19%
Agrario	26.714	38.844	69%
Bogotá	5,689	972.739	1%
Popular	4,584	71.487	6%
GNB	631	9,865	6%
Corpbanca	.	662.483	0%
Occidente	.	70.929	0%
GNB Sudameris	.	2,350	0%
Bancamía	.	76	0%
Total Banks	7779061	26520410	29%
FNA	2365359	4632485	51%

Source: Financial Superintendence of Colombia. Portfolio includes VIS peso and UVR.