



# AN ASSESSMENT OF THE NATIONAL HOUSING TRUST

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# EXECUTIVE SUMMARY

The NHT was founded with a mandate to provide affordable housing for poorer Jamaicans. Given the current housing conditions of the urban poor, however, an examination of the effectiveness of the Trust is overdue. The NHT is funded by a “tax” on formal employment equal to five percent of wages, which exacts a high cost to the economy in terms of both financial resources, and resource allocation distortion. It is therefore important to investigate whether the country is getting the best value for this enormous cost. Towards informing that enquiry, this report seeks to answer three questions: (i) How much money does the NHT really need to carry out its mandate in the way it has been doing? (ii) Is the NHT executing its mandate adequately? (iii) Is it using the right approach to delivering on its mandate?

An analysis of the value of contributions the NHT needs to carry out its mandate reveals that the Trust actually requires far less money than it currently receives. The NHT’s present level of housing construction and mortgage financing remains feasible if employer contributions are reduced to 2 percent, and employee contributions are eliminated entirely. At that level of contributions, the NHT is infinitely sustainable. The remaining 3 percent of the wage bill that the Trust would no longer receive could then either be left in the pockets of employees and employers (to boost disposable income and profits), or it could be diverted to income taxes (to support the programme of fiscal consolidation).

An analysis of the distribution of benefits across income levels reveals a disturbing picture, especially given the mandate of the NHT to support the housing needs of the

poor. Middle and upper-income contributors have received more mortgages than those in the lower income groups. Between 2009 and 2014, contributors earning more than J\$20,000 weekly – which is the highest income group served by the Trust – were twice as likely to gain mortgages as contributors earning less than J\$10,000 – the lowest income group.

Contributors in the lowest income group received only 23 percent of the mortgages disbursed during the said period, revealing that the vast majority of mortgages went to households that were well above the poverty line. The NHT, therefore, appears to be an instrument of a perverse social transfer, insofar as it taxes poor and rich alike, but the majority of its benefits accrue to those who are better off. Poorer contributors are subsidizing wealthier ones.

How can the NHT do better? The way forward involves finding new strategies to divert financing to low-income earners by tackling, in turn, issues of housing finance, the rental market, land titling, and subsidies. One way to increase the share of low-income households that access mortgage financing is to make loan prerequisites more suited to their particular circumstances. Since the income of the poor is often sporadic and insecure, they prefer to build incrementally, rather than purchase a complete house which requires a long-term financial obligation.

Poor households rightly avoid exposure to such long term obligations which may mean loss of the entire house when payments cannot be maintained even for a short period. Housing finance should accordingly be structured to accommodate an unstable income pattern and the concomitant risk aversion. To meet this need, the NHT can create a credit instrument that mimics the best practice in housing microfinance, which involves a sequence of loans at shorter terms.

For some contributors, owning a house is not an accessible option. This would be especially true of the poorest contributors. Accordingly, the greatest need for the poorest households is rental housing. A well-functioning rental housing market at the lower end of the scale is critical to addressing the needs of the poorest and therefore needs to be part of an effective housing agency's programme. Rental housing is one mechanism that can broaden the choice of housing and help to address what is perceived as a shortfall in the quantity of housing.

Although the NHT has diversified its mix of housing solutions by including serviced lots and starter plus homes (one-room units with basic amenities targeted to the poor), the serviced lots do not include a house, and the starter plus homes require the contributor to own land. Since owning the required plot of land is beyond the reach of the poorest households, rental housing is a better solution because it averts the need for land-ownership.

The NHT's traditional methods of intervening in the housing market – financing housing construction on the supply side and subsidizing mortgages on the demand side – are flawed for two reasons. The primary concern with publicly built housing is the absence of an incentive for efficiency. Whereas the drive for profits increases the likelihood of efficiency in the private sector, there is no such motive or incentive for the public housing institution. The second concern is that government expenditure on housing may simply be crowding out equivalent investments by private builders.

Moreover, the policy of subsidies may be worsening the unequal distribution of housing, rather than correcting it. We have already noted the perverse welfare transfer. But since the NHT obligation is a net loss to most of the poorest households, it reduces their ability to afford housing. Further, to the extent that the NHT's presence in the housing market, which is quantitatively significant, raises demand (and discourages private sector suppliers), it will raise housing prices. This would push housing further out of the reach of poor NHT contributors.

In short, adopting strategies that deal with issues related to housing finance, the rental market, land titling, and subsidies are important to improving the service provided by the NHT to society's neediest. But they must be coupled with soliciting greater participation by the private sector in the

housing market. Satisfying the mandate of the NHT requires a well-functioning housing market that allows private housing providers to thrive. This will result in a diversified mix of housing solutions for a wider cross-section of households. As a result, more Jamaicans will be able to access housing at competitive prices, while, at the same time, enabling the NHT to focus on providing solutions only for those who are too poor to participate in the housing market effectively.

The following recommendations are aimed at making government intervention in the housing market more effective:

**Reduce required contributions:** NHT contributions should be reduced from the current 5 percent to 2 percent of the wage bill.

**Minimise non-housing expenditures:** The NHT legislation must limit the non-housing use of NHT's funds.

**Facilitate incremental building more efficiently:** Design lending schemes that allow contributors to access mortgages in small disbursements over shorter terms.

**Improve the rental market:** The NHT should broaden its housing solution mix with the inclusion of facilitating rental housing.

**Increase access to land:** The NHT, in a conjunction with the National Land Agency, should play a more active role in assisting contributors with titling.

**Reserve subsidies only for the poor:** The NHT's legislation should stipulate that subsidised funds should only be made available to the poorest contributors, determined by being below, either a certain percentile of the income distribution or a specified income threshold.

**Subsidise the demand side:** For low-income contributors who require subsidies, demand-side subsidies only should be provided with developer subsidies being discontinued.

**Relinquish housing construction:** The NHT should withdraw from the direct construction of housing, in which it has no advantage over the private sector.

**Improve the legislative and regulatory framework of the housing market:** Housing policy should seek to make the housing market more efficient by targeting issues such as the lengthy processing time for construction approval, the ineffective and unenforced building codes, and the onerous land titling process.

The long-term goal of the government should be to use the NHT as a regulator and facilitator of the housing market (including rentals), rather than as an active participant.



# INTRODUCTION

Most Jamaicans dream of owning a ‘big house on the hill’. While many would settle for a basic two-bedroom, concrete structure with just the basic amenities, houses are nonetheless expensive assets that require a substantial portion of buyers’ lifetime incomes. The National Housing Trust (NHT) was established in the belief that homeownership could be facilitated by a public mortgage body that built homes and subsidised the loans to purchase them.

However, the current accumulated capital of J\$126 billion, along with an additional J\$76 billion in employee contributions held in the Trust, raises the following questions: (i) How much money does the NHT need to carry out its mandate in the way it has been doing? (ii) Is the NHT meeting its mandate? (iii) Is it using the right approach to deliver on its mandate?

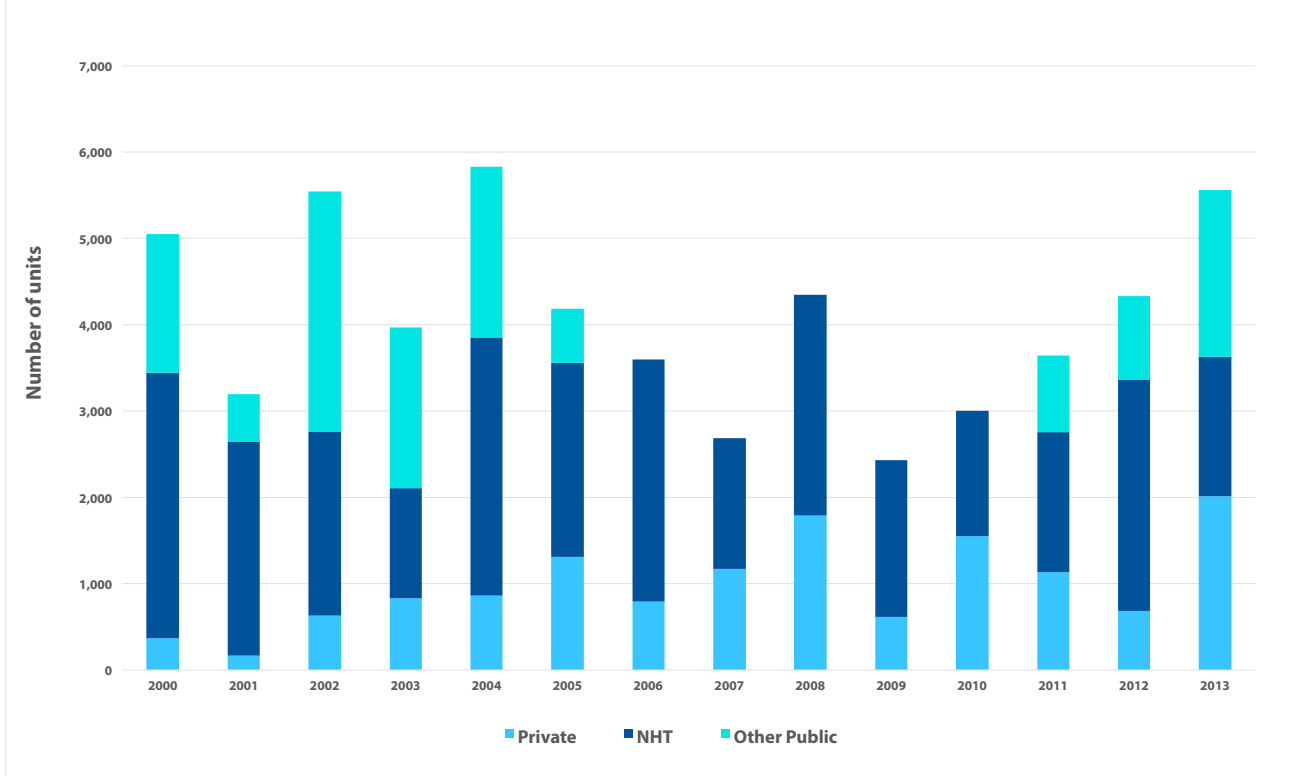
This study attempts to answer these questions. Established in 1976, section 4(1) of the NHT Act notes that the Trust was designed to:

- a. Add to and improve the existing supply of housing by –
  - I. promoting housing projects to such extent as may from time to time be approved by the Minister;
  - II. making available to such contributors as may be prescribed, in such manner and on such terms and conditions as may be prescribed, loans to assist in the purchase, building, maintenance, repair or improvement of houses; and
  - III. encouraging and stimulating improved methods of production of houses.
- b. Enhance the usefulness of the funds of the Trust by promoting greater efficiency in the housing sector.

The Trust’s main source of financing is a “tax” levied on employees and employers. The NHT Act stipulates that all persons between the ages of 18 and 65, who earn the minimum wage, must contribute to the NHT. Employed persons, including voluntary contributors, are required to contribute a refundable 2 percent of their gross salary, while employers must provide a non-refundable amount equivalent to 3 percent of salaries paid. Self-employed persons pay 2 percent to 3 percent of gross earnings.

The contributions of employees and employers have facilitated the construction of over 94,000 houses by the NHT and the issuance of approximately 180,000 individual benefits between 1976 and 2014.

FIGURE 1. CREATION OF HOUSING UNITS (1998-2013)



Source: PIOJ, Economic and Social Survey Jamaica (numerous years)

This makes the Trust the largest mortgagee in Jamaica (see Figure 1). But the Trust has also had substantial non-housing expenditures, which has led some to wonder how much financing the NHT really needs to meet its housing obligations.

Non-housing expenditures include transfers, amounting to more than J\$5 billion to the Ministry of Education and J\$ 11.4 billion annually from 2014 to 2017 to the Ministry of Finance. Other non-housing expenditures include the construction and maintenance of Kingston’s Emancipation Park, the Trelawny Multi-purpose Stadium, and the Montego Bay Convention Centre. In addition, non-housing investments of J\$2 billion were made in business ventures such as Jamaica Lifestyle Village, Central Waste Water Treatment Company and Harmonisation Limited. Finally, there was the controversial J\$200 million purchase of the “Outameni Experience” attraction in Trelawny.<sup>1</sup>

Less obvious non-housing expenditures include land purchases and investments. These activities present an opportunity for the use of the Trust’s funds for what might

appear to be political patronage, as they can be pursued under the guise of housing related expenditures. These expenditures are not obviously non-housing related, since the NHT does acquire land to fulfil its housing mandate. But the purchase of land has not historically meant that houses will be built thereupon. Land purchases can, therefore, be a source of leakage. The Auditor General’s Department Performance Audit Report of the NHT (April 2015) noted that the NHT purchased 28 parcels of land, valued at J\$2.27 billion, for which housing development plans could not be ascertained.

Despite the frequency and scale of non-housing expenditures, the NHT has been sufficiently resourced to remain the market leader in the provision of mortgages, spending over 103 percent of its net annual collections on housing in 2013/2014.<sup>2</sup> The scale of non-housing spending along with its housing expenditures raises the question of whether the NHT has too much money. The following section will therefore look at the level of employment contributions actually required to fund the NHT’s existing level of operation.

1 Auditor General’s Department (2015).

2 National Housing Trust (2015).



## HOW MUCH MONEY DOES THE NHT NEED?

The aim of this section is to ascertain the level of employee/ employer contributions required to fund the NHT's current programme. The financial trends of the NHT are assessed between 2005 and 2015, and the sustainability of the Trust is measured by the ability of the capital and 'refundable contributions available for investments (RCAI)' to support the existing level of housing expenditure – increasing at the rate of inflation.<sup>3,4</sup> Projections resulting from the sustainability analysis are shown for 2016 to 2025 in Table 1.

A sustainable mix of employee/employer contributions, below the present rate of 5 percent of the wage bill, was found to be sustainable. The NHT's present level of housing expenditure remains feasible if employer contributions are reduced to only 2 percent, and employee contributions are discontinued entirely. This 'mix' of employer/employee contributions was found to be the lowest level of contributions necessary to sustain the Trust's present level of housing expenditure, while allowing for sufficient liquidity in the short-term. Furthermore, to cushion the effect of losing financing, the Trust's rate of investment – averaged at 21 percent of the capital stock between 2005 and 2015 – will have to be curtailed in the short-term. But the gradual recovery of the capital base indicates that investments can return to the stated average as early as 2025. Transfers of J\$11.4 billion to the Ministry of Finance are not accounted after 2015, because the addition of this transfer to the loss of financing presents too great a financial shock for the NHT to maintain short-term liquidity at the present level of housing expenditure. The capital stock will still grow because the net surplus remains positive. The analysis shows

that capital will continue to grow by 8 percent, on average, between 2016 and 2025, largely due to the continued growth of employer contributions at a rate of 15 percent over the same period. Capital is projected to reach J\$280 billion by 2025 (see Figure 2).

In this analysis, employees are not making contributions, therefore, the RCAI gradually declines. The RCAI declines from the loss of annual employee contributions and the refund of contributions at an anticipated rate of 5 percent annually.

Despite the reduction in financing, the target variable, 'Capital and RCAI' maintains a positive growth trajectory (see Figure 2). Figure 3 shows that the 'Capital and RCAI' declines by 1 percent in 2016, down from 4 percent the previous year. But the 'Capital and RCAI' recovers, achieving 4 percent growth in 2020.<sup>5</sup> An average growth rate of 5 percent between 2016 and 2025 results in the stock of 'Capital and RCAI' approaching the J\$335 billion mark in 2025. The analysis demonstrates that the loss of financing leaves the Trust sustainable. Moreover, if financing of 2 percent of salaries can sustain the Trust, then the NHT could also withstand any loss of employee/employer contributions between 2 percent and 5 percent. This conclusion raises the question of what to do with the forgone NHT contributions.

Two possibilities are (i) the diversion of contributions to the consolidated fund; and (ii) allowing employees to retain their contributions. Shifting the equivalent of the employer contributions to the consolidated fund would increase the primary surplus by at least 0.3 percent.

- 3 Employer contributions were not included in the NHT's income statements for a number of years. This study has used the restated accounts of the NHT which include the employer contributions in the income statement.
- 4 A contributor may apply for a refund of contributions during any of the 12 months of the 8th year of the contribution being paid. Since only 6 percent of employee contributions are refunded annually the RCAI and capital are seen as the disposable income of the Trust.
- 5 Employer contributions form an explicit part of the capital stock because it is non-refundable.

**TABLE 1: SUSTAINABILITY ANALYSIS (J\$, BILLIONS)**

<b>Annual Flows</b>	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>CAPITAL ACCOUNT</b>										
Annual Employee contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee Contributions refunded	-4.9	-4.8	-4.6	-4.5	-4.3	-4.2	-4.0	-3.9	-3.8	-3.7
Mortgage Repayments	11.4	12.2	13.1	14.0	15.0	16.0	17.1	18.2	19.4	20.7
<b>Total Capital Revenue</b>	6.5	7.4	8.5	9.5	10.7	11.8	13.0	14.3	15.6	17.0
Housing Expenditure	23.6	25.3	27.0	28.7	30.4	32.2	34.1	36.2	38.4	40.7
Other Capital Expenditure	1.3	1.4	1.5	1.6	1.6	1.7	1.9	2.0	2.1	2.2
<b>Total Capital Expenditure</b>	24.9	26.6	28.4	30.2	32.0	34.0	36.0	38.2	40.4	42.9
<b>INCOME AND EXPENDITURE</b>										
Interest Revenue (Loans)	9.2	10.2	11.2	12.4	13.6	15.0	16.5	18.2	20.1	22.1
Interest Revenue (Investment)	0.9	2.3	2.3	2.4	2.5	2.7	3.0	3.3	3.8	4.3
Annual Employers' Contributions	7.1	8.2	9.4	10.9	12.6	14.5	16.7	19.3	22.2	25.6
Other income	2.8	3.4	4.2	5.1	6.3	7.7	9.5	11.6	14.3	17.5
<b>Total Revenues</b>	17.8	21.8	25.0	28.7	33.0	38.0	43.8	50.6	58.6	67.9
<b>Total Expenses</b>	8.0	8.5	9.1	9.7	10.4	11.1	11.9	12.7	13.5	14.4
<b>Net Surplus (Deficit)</b>	9.0	12.2	14.6	17.4	20.8	24.7	29.4	34.9	41.4	49.1
<b>Net Surplus Adjusted for Transfers</b>	7.6	10.7	13.0	15.7	18.9	22.8	27.3	32.7	39.0	46.6
<b>Balance Sheet- Stocks</b>										
<b>ACCUMULATED FUND/CAPITAL</b>	126.7	129.5	134.1	141.3	151.7	166.0	184.9	209.4	240.6	279.9
Accumulated Surplus	123.4	134.1	147.1	162.8	181.8	204.5	231.8	264.5	303.5	350.1
Accumulated employer's contributions	121.1	129.3	138.7	149.6	162.1	176.6	193.3	212.6	234.8	260.4
<b>LIABILITIES</b>	83.6	81.3	79.2	77.1	75.1	73.1	71.3	69.6	68.0	66.4
Refundable Employee Contributions	79.0	76.4	73.8	71.4	69.1	66.8	64.6	62.5	60.4	58.4
Employee Contributions Available	74.2	71.7	69.4	67.1	64.9	62.7	60.7	58.7	56.8	54.9
Other Liabilities	4.6	5.0	5.3	5.6	6.0	6.3	6.7	7.1	7.6	8.0
<b>TOTAL ASSETS</b>	210.3	210.8	213.3	218.4	226.8	239.1	256.2	279.0	308.6	346.3
Housing Assets *	205.5	218.6	232.5	247.1	262.5	278.7	295.8	313.8	332.7	352.8
<b>Capital and RCAI</b>	200.8	201.2	203.5	208.4	216.6	228.7	245.5	268.1	297.4	334.8

\* Housing Assets include loan receivables, inventories and land purchases. Source: Author's calculations

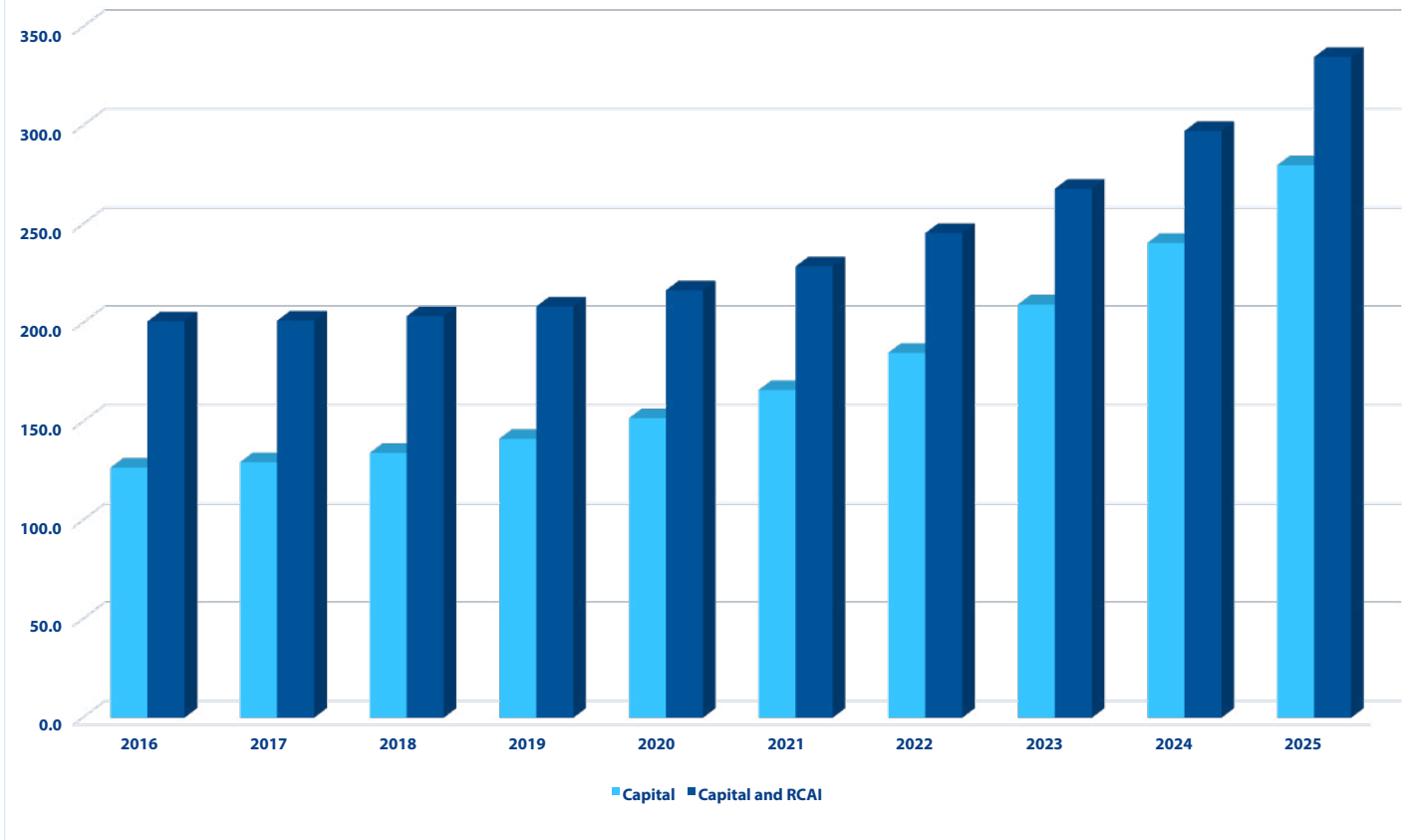
Alternatively, allowing contributors to keep their NHT contributions between 2015 and 2025 would amount to a 2 percent increase in disposable income. This would serve to boost consumption by J\$20 billion annually (See table 1).

In the scenario previously mentioned, the Trust retained its housing assets – primarily mortgages. As such, losses incurred in the capital account (due to housing expenditures exceeding annual financing from employee contributions and mortgage repayments) are written off against the surplus. However, another option is to reduce housing assets

by the amount of the capital loss. The NHT could relinquish some of its housing assets to private institutions who wish to hold these mortgage-backed securities. At present, loans receivable form 80 percent of NHT's total assets. Reducing this stock by the loss in the capital account could eliminate the need for employer contributions. Furthermore, pursuing the reduction in housing assets beyond the shortfall in the capital account would give the NHT the opportunity to hold more liquid assets and to increase housing expenditures beyond our constant projections.

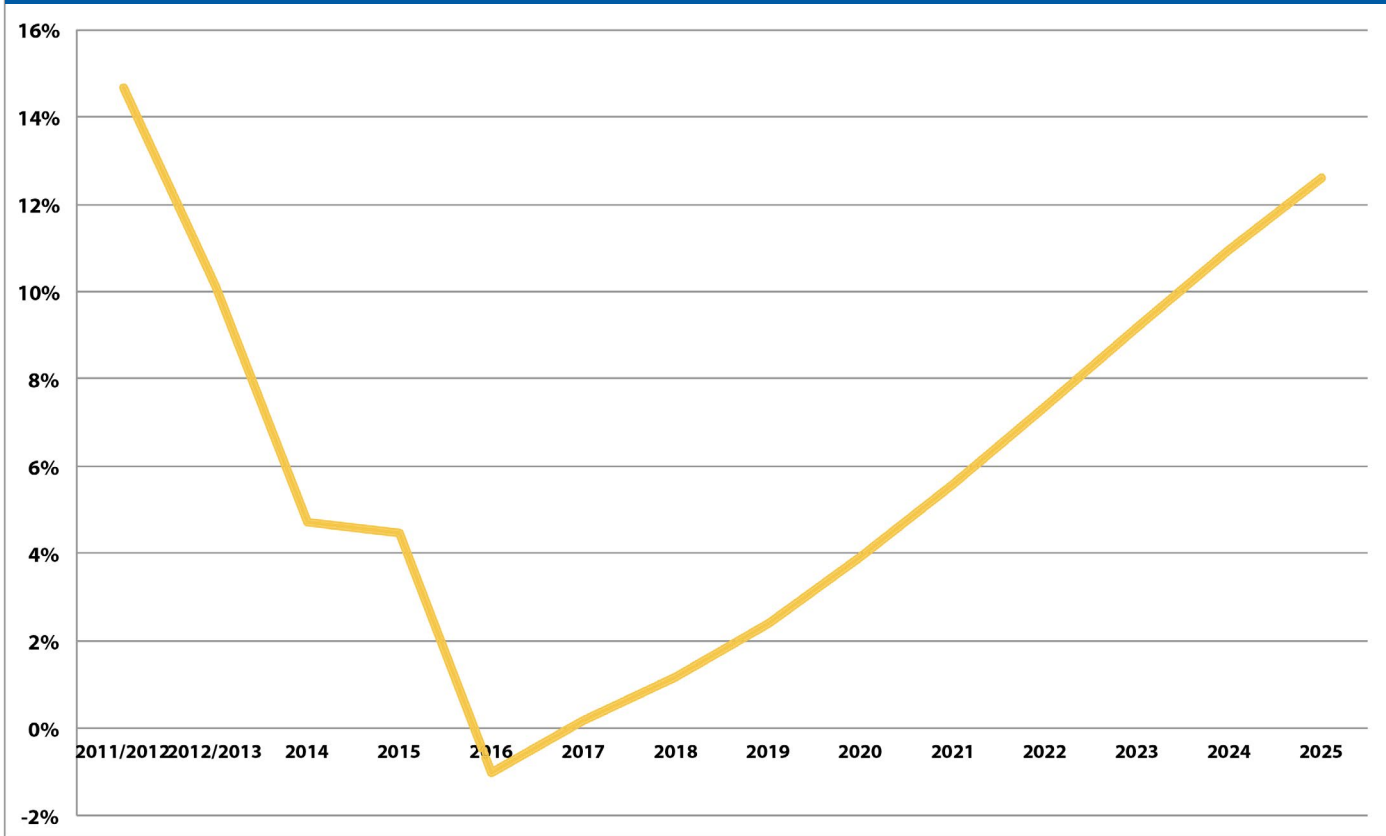


**FIGURE 2: NHT CAPITAL AND RCAI WITH 2% EMPLOYER CONTRIBUTIONS**



Source: Author's calculations

**FIGURE 3: GROWTH RATE OF CAPITAL AND RCAI**



Source: Author's calculations



## IS THE NHT ACHIEVING ITS MANDATE?

This section investigates whether the NHT has justified its reputation as an institution providing affordable housing for poorer Jamaicans. The sentiment, at establishment, was that the NHT was “the most far-reaching and fundamental policy of social change attempted by the Manley government”<sup>6</sup>. This statement was made within the context of the NHT subsidising housing for low-income households, as they would otherwise not have been able to afford houses at market rates.<sup>7</sup>

Contrary to the sentiment that the NHT would target the poor, the legislation establishing the Trust made it equally obligated to all contributors. But, given that mortgage qualification is determined by income, if mortgage allocation were to be equitable, the social surplus from the middle and upper classes would have to be redistributed to the poor.<sup>8</sup> This section investigates whether NHT’s mortgages have been

equitably distributed to all income groups, thereby serving the interests of the poor, if not only the poor.

Evidence suggesting that the NHT has marginalised its ‘targeted’ beneficiaries has been presented by other studies.<sup>9</sup> These studies revealed that, between 1976 and 1993, the richest 1 percent of contributors received 35 percent of mortgages disbursed, while the poorest 60 percent of contributors received only 33 percent of mortgages. Moreover, they show that while the average contributor earned less than the average income of the population – making them poorer than the average Jamaican – the average mortgage beneficiary earned more than the population average. The studies concluded that disbursement of NHT mortgages was skewed to higher income earners.

6 Hope (May 22, 1976, p. 10A).

7 A subsidy is an incentive provided by government to enable and persuade a certain class of producers or consumers of housing to do something they would not otherwise do, by lowering the opportunity cost or otherwise increasing the potential benefit of doing so” (US Congress, 1969).

8 Gilfillian (1978).

9 See Smith (1996) and Klak and Smith (1999).

Recent mortgage disbursement data continue to indicate that NHT mortgages are skewed toward higher income groups. To assess the inequity of mortgage distribution, we first ascertain the income distribution of the mortgagors. NHT mortgagors can be divided into three groups based on their gross income: low-income earners that receive up to J\$10,000 weekly, middle-income mortgagors that earn between J\$10,000 and J\$20,000 weekly and mortgagors earning above J\$20,000 weekly. Secondly, we will use the number and value of mortgages distributed to each income group between 2009 and 2014 to find out who are getting the benefits.

Middle and upper-income contributors received more mortgages than the lowest paid contributors between 2009 and 2014 (See Table 2). Contributors in the highest income group were twice as likely to gain mortgages as contributors in the lowest income group. The poorest contributors received only 23 percent of the mortgages disbursed, on average, in the same period. This corroborates the point that the poorest Jamaicans are not the main beneficiaries of the Trust, and have not benefited, even proportionately, compared to the other income groups.

Social equity can also be measured using the value, instead of the number, of mortgages disbursed. Although there seemed to be a steady increase in the value of the NHT's mortgages between 2009 and 2014, the real value of mortgages (the value adjusted for inflation) has remained constant, except for noticeable increases in 2011 and 2012 (See Table 3). Despite total mortgage disbursements remaining constant, using the same income groups identified earlier, the real value of mortgages issued to the lowest earning contributors declined in the five years between 2008 and 2013, increasing only marginally in 2014.

Further evidence that the NHT's efforts are mostly benefiting those who are better off is the fact that the median value of mortgages disbursed lies in the wealthiest of the three income groups. Over the past six years, the poorest income group has never received more than 19 percent of the value of mortgages distributed. For example, in 2014, of the J\$21 billion disbursed, the poorest group of contributors received only J\$4 billion in mortgages. Even when there was a real (inflation-adjusted) increase in the value of mortgages disbursed between 2011 and 2012, the increase was allocated mostly to the highest income earners, with mortgages to the low-income contributors remaining stagnant.

Former NHT Chairman, Easton Douglas, conceded that low-income groups are marginalised in the disbursement of NHT benefits. The former Chairman noted that, of the 530,000 contributors, almost 60 percent were low-income earners receiving between J\$5,000 and J\$10,000 per week, but, the NHT is only able to satisfy 20-25 percent of this category.<sup>10</sup> This leaves the richest contributors to receive the bulk of the NHT's subsidised mortgages.

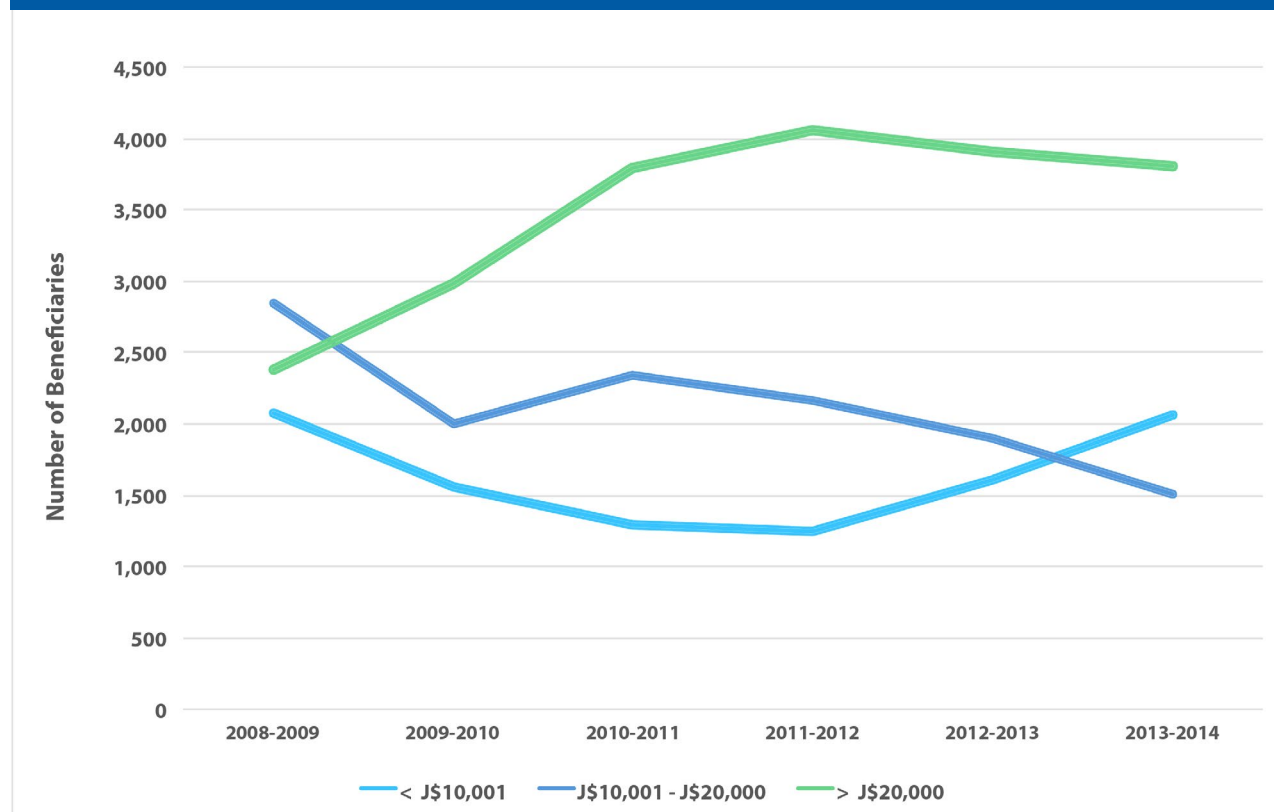
This analysis reveals that the NHT, a public agency perceived as providing an income transfer to benefit the poor, is doing precisely the opposite. The poorest income segment are net contributors and the majority of beneficiaries are not in the poorest income group. It is a perverse social transfer from the poorest contributors to wealthier ones. In addition, the possibility of home-ownership for low-income contributors is thwarted by the NHT's inability to build houses for this income group. The analysis and conclusion of this section calls into question the *raison d'être* of the public housing agency.

**TABLE 2: INCOME DISTRIBUTION OF MORTGAGE BENEFICIARIES**

WEEKLY INCOME (J\$)	TOTAL	2008 - 2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
< 10,001	9845 (23)	2,077 (28)	1,552 (21)	1,293 (17)	1,247 (17)	1,607 (22)	2,069 (28)
10,001- 20,000	12760 (29)	2,852 (39)	2,004 (33)	2,339 (32)	2,166 (29)	1,893 (25)	1,506 (20)
> 20,000	20,938 (48)	2,380 (33)	2,991(46)	3,788 (51)	4,064 (54)	3,906 (53)	3,809 (52)
<b>TOTAL</b>	<b>43,543</b>	<b>7,309</b>	<b>6,547</b>	<b>7,420</b>	<b>7,477</b>	<b>7,406</b>	<b>7,384</b>

\* Number in parentheses is the percentage share of total mortgages. Source: NHT (2015)

**FIGURE 4: INCOME DISTRIBUTION OF NHT BENEFICIARIES (2009 - 2014)**



Source: National Housing Trust (2015)

**TABLE 3: MORTGAGE DISBURSEMENT BY INCOME (J\$, BILLIONS)**

WEEKLY INCOME (J\$)	TOTAL	2008 - 2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
< 10,001	16 (15)	3 (19)	2 (16)	2 (11)	2 (11)	3 (13)	4 (19)
10,000 - 20000	30 (27)	6 (40)	4 (29)	6 (30)	6 (26)	5 (23)	4 (21)
> 20,000	65 (58)	6 (41)	8 (55)	12 (59)	14 (63)	13 (64)	13 (60)
<b>TOTAL</b>	<b>111</b>	<b>14</b>	<b>14</b>	<b>20</b>	<b>22</b>	<b>20</b>	<b>21</b>

VALUE OF MORTGAGES IN 2014							
WEEKLY INCOME (J\$)	TOTAL	2008 - 2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
< 10,001	19.60	4.21	2.93	2.84	2.83	2.75	4.02
10,001- 20,000	37.32	8.59	5.45	7.30	6.51	5.13	4.34
> 20,000	76.86	8.99	10.23	14.80	16.16	13.94	12.74
<b>TOTAL</b>	<b>133.78</b>	<b>21.80</b>	<b>18.62</b>	<b>24.94</b>	<b>25.51</b>	<b>21.82</b>	<b>21.10</b>

\* Number in parentheses is the percentage share of total mortgages. Source: NHT (2015)



# HOW CAN THE NHT IMPROVE ITS OPERATION?

The analysis above suggests that the NHT has not used its resources in a way that increases social equity. How, then, can the NHT better provide for the housing needs of the poor in the future? This section explores ways in which the NHT can increase the share of low-income earners that access benefits by tackling, in turn, the issues of housing finance, the rental market, land titling, and subsidies.

## HOUSING FINANCE

Few low-income households access mortgage financing because the loan prerequisites are unsuitable to circumstances. Mortgages require regular payments over long time periods while many of the poor do not have the steady, reliable income stream that comes from a formal sector, career-oriented job. The long-term debt obligation therefore creates a financial risk for poor contributors. From the perspective of these households, a long-term mortgage represents a dangerous, unwanted burden in the presence of an uncertain and volatile income stream.<sup>11</sup> Mortgage payments for low-income households can be as much as one-third of the household's income (See Appendix II). This is a hurdle for poor contributors as they already have limited ability to cope with emergencies and other unexpected expenditures.<sup>12</sup>

The financial exposure experienced by the poor during the process of homeownership, can be demonstrated using a sample of 22,000 mortgages disbursed by the NHT between 2009 and 2014.<sup>13,14</sup> The average house price used in the sample was J\$6.8 million.<sup>15</sup> This is 34 percent above the NHT loan ceiling of J\$4.5 million. But contributors do not automatically qualify for the maximum allotment. A key variable for determining the actual loan to be received is the contributor's income. Therefore, using the actual mortgages disbursed from the sample, the average NHT loan covered 52 percent of the mortgage required for an NHT house, while NHT loans could only offset 45 percent of houses sold on the open market. Contributors

earning below J\$10,000 weekly received an average loan of J\$2.8 million and purchased a house valued at J\$6.6 million. Therefore, NHT mortgages could only offset 42 percent of the price of their house. As such, NHT contributors who are unable to find a co-applicant require substantial assistance from private mortgagees or personal assets in order to be able to afford a house. The reality, however, is that the majority of NHT contributors earn too little to qualify for the additional, private mortgage and are unlikely to have substantial financial assets. Therefore, the inadequacy of NHT mortgage loans to finance the purchase a house, coupled with the lack of other housing alternatives, is a huge deterrent to low income earners.

The financial exposure that poor contributors experience by taking on a mortgage can be mitigated by an approach to housing utilised by many other low and middle income countries. Most low-income families build their own houses incrementally over a period of 5 to 15 years, either from savings or with successive small, short-term loans from micro-finance institutions.<sup>16</sup> This is quite different from the norm for middle and upper income households, who are able to purchase a complete contractor-built house using a mortgage. This distinction exposes a limitation in the way the NHT has sought to meet its mandate through the provision of traditional mortgages.

To create a credit environment suited to the poor, other countries are increasingly using micro-financial institutions.<sup>17</sup> Best practices in housing microfinance involve loans at unsubsidized interest rates and shorter terms relative to traditional mortgage financing. Short-term, smaller loans will assist the NHT to reach the poorer contributors who are mindful of the irregularity and unreliability of their incomes, but who can still afford to provide most of the capital cost of a basic house.

11 Ferguson (2014).

12 Ferguson (2014).

13 Due to the unavailability of house price information from the NHT, collateral values were used as proxies for house prices.

14 Two types of houses were considered: NHT constructed units and houses bought from the private sector using open market loans (OMLs) from the NHT.

15 The mean price for NHT houses was J\$6.1 million, while the mean price for houses in the private sector was \$7.4 million.

16 Ferguson (2001).

17 "Microfinance of housing refers to small loans to low-/moderate-income households, typically for self-help home improvement and expansion, but also for new construction of basic core units" (Ferguson, 2001).

## RENTAL MARKET

For some contributors, owning a house is not the best option. The greatest need for these households is housing, not home ownership. Therefore, the key to providing housing for low-income earners is recognising that the concept of 'housing' is more than just providing a house. "What is important about housing is not so much what it is as what it does for people's lives."<sup>18</sup> Housing is a combination of services, which involves the choice of where to live (size and quality of property, neighbourhood, proximity, quality of financial investment) and available resources. There is no universally accepted type of housing; rather, the 'ideal' house/home is dependent on preferences, household income, family composition and needs. The definition of housing as home ownership can therefore "reduce the flexibility of the market in meeting the actual housing demands"<sup>19</sup> as well as exceed the needs of the householders. To increase the number of low-income beneficiaries, the NHT should further diversify its "housing mix" to facilitate non-ownership, housing solutions.

To facilitate non-ownership solutions, one matter that must be addressed is the importance attributed to home ownership. Poorly developed rental housing markets, coupled with the value placed on home ownership, increases the rate of owner-occupancy in developing countries. In Jamaica, 62 percent of households own their own home, but the house may not be adequate for dwelling.<sup>20</sup> Households in developing countries, in general, find it extremely difficult to acquire quality housing as they have limited access to the components of the housing process, such as land, subsidies, and credit.<sup>21</sup> "Home ownership may be a good choice for many people, but it is not necessarily the best for all... [Therefore] a well-functioning rental-housing market is a critical part of a sustainable, integral, and healthy housing system."<sup>22</sup> Rental housing is one mechanism that is recommended to broaden the choice of housing and assist in reducing the so-called shortfall in housing.

Although, the NHT has diversified its mix of housing solutions by including serviced lots and starter plus homes (one room units with basic amenities targeted to the poor), the former does not include a house, and the latter requires the contributor to own their own land and possess formal documentation. Therefore, the present housing strategy requires the poor to have adequate access to land. But low- and moderate-income families seeking homeownership usually start with acquiring land through one of a variety of means, including squatting or the purchase of a lot in an informal subdivision. This makes formal land ownership and titling a major problem for low-income earners (a point addressed in the next section). Rental housing is a good solution for low-income earners as it averts the need for land-ownership, and allows households to make other investments such as in education, healthcare etc. Evidence of the success of

using rental housing to provide adequate solutions for lower and middle income groups can be seen in neighbouring Latin American countries, such as El Salvador. The benefits of renting include the efficient use of urban space, the ability to house the labour force closer to areas of employment, and averting the upfront costs and financial exposure associated with acquiring one's own home and a mortgage; something which is often impossible for lower income groups. "For most homeowners, especially the poor, their housing unit is an undiversified investment. With all their eggs in one pot"<sup>23</sup>

Why are housing policies biased toward home ownership for everyone, if renting offers credible solutions to housing the poorest? "The policy bias is based on the belief that home ownership in itself leads to better financial and social outcomes including greater life satisfaction, better physical health, more community and political engagement, increased neighbourhood stability, higher property values, and better education for children. However, the empirical evidence is not as conclusive."<sup>24</sup> At the core of this indecisiveness – the benefits of owning versus renting – is the recognition that homeownership, by itself, does not guarantee quality housing, but it is the quality of the housing that contributes to the quality of the occupants' life. The role of government, then, should be to enhance the conditions whereby the poor are able to express effective demand for their own home, and/or, to improve alternative housing solutions for the poor, such as the rental market. What policy priority should be accorded to the provision of decent and affordable housing, compared to the provision of clean water, educational opportunities, and healthcare? This decision must lie with the consumer and not the government.

In consideration of the above, low-income earners should not be forced to choose (as is the case today) between either a commitment to long-term mortgage payments for ownership of an inappropriately sized and located home, or, receiving no help whatsoever, when intermediate options such as renting may be the best choice for them. The implication, therefore, is that the NHT should increase benefits to its low-income contributors by thinking of the institution as providing housing rather than houses.

## LAND OWNERSHIP

The fact that most low-income contributors do not legally own land has been a major impediment to this group accessing a mortgage from the NHT. The maximum mortgage entitlement for low-income earners is not enough to pay for both the land and the construction of a house. Therefore, while the NHT has been championing its starter plus homes for J\$1.5 million, poor contributors cannot access this unit without showing legal title for the land they occupy.

18 Turner (1976, p. 5).

19 Blanco, Cibils, and Munoz (2014).

20 PIOJ (2010).

21 Angel (2000).

22 Inter-American Development Bank (2011, p. 6).

23 Inter-American Development Bank (2011, p. 6).

24 Inter-American Development Bank (2011, p. 7).

The NHT can lend up to J\$100,000 to contributors who are pursuing titles through the Land Administration and Management Programme (LAMP)<sup>25</sup>; however, the NHT could reach more low-income earners by assisting them with land ownership. Given the resources of the Trust, and the accumulated contributions of many poor Jamaicans, the NHT can easily afford to play a more proactive role in identifying contributors who may need titling assistance. The strict terms of the NHTs present partnership with the LAMP – the NHT lends to contributors referred by LAMP and cannot exceed the loan limit – may exclude the particular needs of some contributors. Thus, an effective titling initiative by the NHT must start with an internal initiative to identify contributors with titling constraints, and to investigate the needs of these contributors.

The successful implementation of a similar solution can be seen in El Salvador. A new law governing urban development and construction, and a new regulation for subdivisions, eased the standards for land development in El Salvador. This allowed for the progressive development of infrastructure, rather than requiring the construction of all basic services (road, water, sanitation, drainage, electricity) before official approval is given for sale/ownership and house construction. And an oversight body was created to expedite the legalization of low-income settlements at affordable rates.

Improvements in land ownership in El Salvador have facilitated low-income housing development on one-third of all new lots and housing solutions. The number of lots where incremental building is taking place is greater than the number of houses being constructed. Increasing access to land also resulted in a fall in land prices, as improved land regulations incentivised the private sector to enter the low-income land development industry. The policies that improved access to land also served to increase the chances of homeownership in El Salvador by facilitating progressive building, increasing eligibility for mortgages, and creating an incentive for the private sector to provide housing services for the poor.

## **PUBLIC HOUSING AND SUBSIDIES**

Where the housing market fails to cater to a segment of the population that needs housing, there is a social, perhaps even a moral, justification for the government to intervene in the market. In the case where low-income earners cannot express effective demand – desire backed by the ability to pay – for housing, there is even an economic justification. Intervention comes by way of public housing agencies producing housing directly and subsidising mortgages at below market interest rates.

However, empirical analysis conducted by the World Bank concluded that Governments must first try to improve the legislation and regulations that impact the housing sector – such

as regularizing insecure tenure, improving access to market-rate housing finance, removing barriers to the production of rental housing, or improving housing supply markets to reduce prices – to improve the performance of the sector before directly engaging in the production of houses or subsidisation.<sup>26</sup> This is so because governments' direct participation in the housing market creates inefficiencies and can crowd out private sector investment.

Despite calls to focus housing policy on improving the performance of housing market first, many countries like Jamaica use public housing agencies such as the NHT to construct houses, either directly, or with the aid of third party developers. Either way, the first concern with publicly built housing is the lack of an incentive for efficiency. Whereas the drive for profits increases the likelihood of efficiency in the private sector, there is no such motive for the public housing institution, especially when its financial viability is not dependent on its efficiency but on overly generous payroll taxes.

The second concern is that while the supply of housing may seem to increase when public agencies produce houses, government expenditure on housing may simply crowd out equivalent, or even greater, production by the private sector.<sup>27</sup> "Households occupying government-sponsored housing are diminishing the incentive for private developers to be in the market."<sup>28</sup> But decreased incentives may not just crowd out equivalent private housing. The lack of incentive for the private sector, may serve to stymie the construction of even more houses than the government is able to produce. Furthermore, to the extent that the NHT's presence in the housing market raises demand (and discourages private sector suppliers), it will raise housing prices. This may cause housing prices to increase for the approximately 96 percent of Jamaicans that are not beneficiaries of the Trust, and push housing further out of the reach of poor non-beneficiaries.<sup>29</sup> It is therefore important that the NHT's model of providing housing be reassessed, especially given that many publicly built houses go to middle and high income earners, who could qualify for private housing solutions.

Another intervention, one that can augment a government's construction of housing, is subsidising mortgage rates independently of the housing provided by the NHT, as the NHT actually does. But, subsidies, like government constructed housing, should either be transitional or used as a last resort. If subsidies are necessary, they must be targeted, transparent and measurable, and should avoid distorting housing markets. Poor subsidisation policies can worsen the distribution of houses rather than correct it. This is demonstrated by the inequitable distribution of NHT mortgages discussed in the preceding section.

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25 LAMP is a division of the Ministry of Water, Land, Environment and Climate Change. It is a Government initiative to help landowners to obtain Certificates of Title and to update existing land titles.

26 Mayo and Angel (1993).

27 Evidence of this was found in United States, Greece and Netherlands (Mayo and Angel, 1993).

28 Mayo and Angel (1993).

29 This approximation is calculated using data from the NHT and a study completed by the University of Technology and Salises. Analysis of the NHT distribution of mortgages shows that up to January 2015, 66 percent of contributors have not received benefits. Study by U-Tech/Salises study states that 12 percent of Jamaicans do not contribute to the Trust.

Tying the mortgage subsidy to the publicly provided housing is not ideal because it adversely affects both recipients and non-recipients of the subsidy. Housing subsidies that provide mortgages below market rates can force contributors to accept housing that is not ideal for their particular circumstances. For example, contributors who may require flexibility in mortgage payments, or who would prefer to build incrementally, to facilitate concomitant social expenditures, may accept an NHT house to take advantage of the subsidised mortgage.

Likewise, non-recipients of the NHT's subsidised mortgages may also face adverse housing market conditions because of public housing subsidies. Since all contributors are mandated to pay taxes to the Trust, whether they receive a benefit or not, this tax serves to decrease their income, and subsequently decreases their effective demand for housing. Moreover, the offering of below market interest rates, facilitated by the taxes, lowers the price of housing only for beneficiaries. "If the housing supply system is largely unresponsive to increases in demand from subsidy recipients, housing prices will climb, lowering demand among non-recipients."<sup>30</sup> Therefore, when subsidisation is necessary, more efficient models, that target market competition to reduce housing costs, and increase private sector participation, are used. Subsidies that seem to work are those that give the target group the most say in how the subsidies are used.

To avert the pitfalls of subsidisation, demand subsidies have become a staple of many countries. A direct demand subsidy gives households a grant that affords them the maximum choice of housing solutions. Ferguson (2001) posits that well-designed direct demand subsidy programmes have three key features for sustainability: (i) the private sector (developers, NGOs and households), rather than the government, is encouraged to build; (ii) low- and moderate-income households can be targeted; and (iii) subsidies are portable, giving households the freedom to select the type of housing more suited for them, including the choice of the location, developer or contractor etc.

Portability is important because it facilitates competition among suppliers, and satisfies the need of the recipient, with the least disruption/total cost. This lowers the price of the housing solution, increasing the share of the subsidy received by the household by reducing the share absorbed by suppliers such as developers and financial institutions. Any remaining reluctance of the private sector to serve the poor, even with this additional income, may require an expansion of the types of housing solutions eligible for these programmes. Demand subsidies should be available for new core or starter units, as well as a wide range of solutions suited to incremental housing (for example, serviced sites, rehabilitation of existing houses, and replacement of a unit on a lot already owned by the family etc.)

What is certain is that the private sector will be incentivised to capture the additional income of low-income earners. This would

give the NHT the fiscal space to focus on contributors whose housing needs are not served at all by the private market, which is indigent housing.

To correct the inequity of the present subsidisation scheme, the NHT has resorted to supply-side subsidies, through its interim financing loans, rather than demand-side subsidies. The NHT's practice of lending to developers for construction has been around since inception. Under the Interim Finance Programme, the NHT provides developers with funding up to 100 percent of construction costs, at concessionary interest rates. NHT stipulates a maximum housing price that reflects the concession (see Table 4), targeting low-income earners.<sup>31</sup> Interest rates on loans range from 5 percent to 10 percent. An interest rate of 5 percent per annum applies to projects where the selling prices for the houses are equal to, or less than, the NHT recommended selling price; and a 9 percent per annum interest rate applies if developers decide to exceed the recommended price ceiling.<sup>32</sup> The NHT disbursed J\$15 billion in developer loans between 2009 and 2013 to nine developers.

Supply side subsidisation, however, tends to become inefficient and further contributes to housing inequality when the subsidies are given to developers. Inequality arises because the developer gains a wider profit margin by selling to the higher income groups. Thus low-income earners will never access the benefits of interim financing, because higher income groups are always able to pay more for houses. Former NHT Chairman, Howard Mitchell, noted that developers shy away from borrowing at the lowest interest rate, because they do not want to serve low-income groups. Mitchell stated that "in speaking to some developers it is that there is a natural fear of low-income housing. We now stay in completely safe harbour. We don't take any risks and low-income housing by its nature has to be very managed, very precise because the margins are very low".<sup>33</sup>

Countries such as the Philippines have reaped some success from supply-side financing, but they have done this through the use of community based mortgage facilities. The community mortgage facilities are a coalition of community residents who regulate and monitor housing loans at the subsidised rate. It's important to note that the housing supply is facilitated by the community members themselves, making "self-help" a critical success factor. This model averts some of the loopholes of traditional mortgages, as homeowners are able to draw on the collective bargaining power and the labour of the collective. Most importantly, the collective assumes the risk of default.

Therefore, while acute models of interim financing have worked, interim financing only works when the developer is the target group itself. As such, demand side subsidisation has been heralded as the superior model, and requires a reassessment of the subsidisation policies of the NHT.

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30 Mayo and Angel (1993, p. 126).

31 Housing prices may exceed the ceiling if the NHT certifies that costs have escalated above the base rate due to external circumstances.

32 A special interest rate of 3 percent per annum was introduced in 2013 and was slated to last for three (3) years to induce developers to build within the specified ceiling.

33 Roache (2012).



## IMPROVING THE HOUSING MARKET

The previous suggestions focus on making direct changes to how the NHT operates, but another way to satisfy the mandate of the NHT is to improve the operation of the housing market. Government can help to improve the private sector's ability to satisfy the middle and high-income earners who will be displaced if the NHT's housing agenda is refocused on the poor Jamaicans it was established to serve. The NHT should see its role as one of managing the housing sector, rather than providing and financing houses.<sup>34</sup>

The transition of the housing market in many Latin American countries, from public sector to private sector driven, can provide some guidance for Jamaica. Latin American governments first responded to rapid urbanisation and expanding slums by developing expensively-funded government agencies that directly financed and constructed houses, through mandatory taxes on the salary of formal employees – a model similar to that of the NHT. These public housing programmes mostly failed, if they are measured by the quantity of housing that was provided for lower income groups in their respective countries.<sup>35</sup>

Furthermore, the presence of the housing agencies had a detrimental effect on the housing markets, as the cost of housing increased more than expected, due to a lack of competition in markets that had come to have too few housing providers. Competitiveness was weakened by the preferential treatment given to contractors of public housing agencies, including through patronage and political affiliation. As a result, public housing institutes failed to provide adequate social housing for the low-income and vulnerable members of society, who were the central motivation for the creation of these agencies.

Acknowledging the failure to provide housing for low-income earners, Latin American Governments turned to less expensive options such as upgrading slums, and site-and-services projects. This approach to housing assistance can also be seen in Jamaica, as public housing agencies embarked on numerous poor housing initiatives, such as Operation Pride. But these projects have also failed to generate widespread housing benefits for poor citizens.

With the realization that direct government intervention had failed, many Latin American governments withdrew from directly participating in the housing market. Instead, they turned to creating housing policies, supported by the requisite legislation and regulation, to facilitate and encourage competition in the housing markets. This allowed for greater efficiency in the market, resulting in lower housing prices. This

policy shift included a move from subsidised mortgage rates to direct demand subsidies for households, as articulated earlier. In addition, pursuing development goals in tandem with housing policy expedited the development of the housing market in Latin American countries. Rising real household incomes from development initiatives, and direct demand subsidies, induced the private sector to broaden their service base to include lower income groups. This is the desired outcome as “housing conditions should systematically improve with economic growth and development.”<sup>36</sup>

The housing markets in these countries have now expanded to meet the needs of a wider array of income groups. Creating housing solutions for these varied groups was a result of the public sector working to facilitate, rather than replace, the private sector.<sup>37</sup> Increased demand for housing has started to attract investments from large corporations as “corporate building-materials manufacturers, retail chains and the new breed of affordable-housing developers offer the most powerful institutional platform with the greatest ability to reach mass markets.”<sup>38</sup>

The case of Latin America is representative of many other countries around the world, and highlights an important evolution in housing policy. Firstly, housing policy involved governments actively engaging in the housing market. But the ultimate failure of public bodies to adequately supply housing resulted in the need for policy initiatives that facilitate an increase in private sector participation. This increased competition, due to private sector involvement, results in a wider cross-section of the housing market being served and at lower prices.

This section has suggested ways that the NHT can improve on fulfilment of its mandate. The facilitation of incremental building has the potential to increase low-income earners' access to housing. For those who cannot afford a home, markets that facilitate adequate shelter without ownership – such as the rental market – should be developed. Access to the cheapest houses often requires land ownership as a condition of mortgage eligibility, and, as such, the issue of land ownership and distribution must also be addressed. Furthermore, the Government should relinquish the construction of housing to the private sector, so that all Jamaicans can benefit from lower housing prices driven by competition. Subsidisation should be reserved for the poorest contributors with a focus on demand-side subsidies. By limiting access to subsidies from the NHT, it is important that the market be able to cater adequately for middle and high-income earners. The successful operation of the NHT, therefore, also depends on the successful operation of the housing market as a whole.

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34 The Inter-American Development Bank (2011).

35 Ferguson (2014).

36 Mayo and Angel (1993, p. 2).

37 Ferguson (2014).

38 Ferguson (2014, p. 24).



## CONCLUSION AND RECOMMENDATIONS

The analysis above has shown that the NHT can operate with far less financing than it now receives from employees and employers. With the present level of capital, and the return that can be earned on that capital, the NHT can cut employer contributions to 2 percent of wages and discontinue the collection of contributions from employees entirely, and yet still be able to afford its current level of housing activity. However, the continued collection of even the reduced employer contributions can only be justified if the NHT pursues a policy of redistributing benefits to low-income contributors.

The way forward involves finding new strategies to divert NHT financing to benefits for low-income earners. The use of direct-demand subsidies must be explored, within a wider policy framework of reducing poverty. Also, financing from the mortgage market needs to facilitate incremental building, which is compatible with the earning pattern of the poor. To aid in this process, the adoption of micro-financing principles is important.

Much still needs to be done to improve the supply of land to the landless, and to improve access to the formal titling process. These steps are important in improving the service provided by the NHT and must be coupled with enticing greater participation by the private sector in the housing market. The following recommendations are aimed at making government intervention in the housing market effective:

- **Lower the NHT payroll contributions:** Employer contributions should be reduced to 2 percent and employee contributions should no longer be required all. However, employees, while not contributing directly, should still be required to register, in the same manner as they do now, to be eligible for benefits. Currently, lower income workers are incentivized to be informally employed since the NHT contribution serves as a net cost – a tax on income for which they are unlikely to receive the benefit of a house. Requiring registration without the obligation to contribute reverses the incentive. An employee will view NHT registration as a net benefit, attracting employees away from the informal sector. Moreover, the capital stock may increase at an even faster rate than projected in this study since the base of contributors will widen.
- **Curtail non-housing expenditures:** The NHT legislation must be strengthened by limiting the circumstances under which non-housing expenditures can be made under the NHT Act. The NHT Act should also incorporate a “Purchasing Regulation” which outlines the requirements for land purchases that meet the criteria for housing construction.

#### TO REVERSE THE INEQUITABLE DISTRIBUTION OF BENEFITS:

- **Facilitate incremental building more efficiently:** Design lending schemes that allow contributors to access mortgages in small disbursements over shorter terms. This would allow low-income contributors to substitute their loan entitlements with other means of financing (personal/community labour, personal income etc.) as they become available, while having the flexibility to allow for other important expenses such as education and healthcare.
- **Intervene in the rental market with subsidies:** The NHT should broaden its housing market interventions to include housing rental, which can benefit even its poorest contributors, now without access to the Trust’s products. Rental housing can be facilitated by the issuing of rental vouchers, to subsidise housing for those who are unable to purchase.
- **Improve access to land:** The NHT should play a more active role in assisting contributors with titling. This would

increase the contributors’ chances of home ownership, because having a title facilitates progressive building and increases eligibility for mortgages. While a national land-ownership strategy falls outside the legal obligations of the NHT at present, refocusing the Trust’s legislation to cater to the poor will see the NHT’s efforts in this area reaching the most needy Jamaicans.

- **Reserve subsidies only for the poor:** The NHT’s legislation should stipulate that subsidised funds should only be made available to the poorest contributors, determined by contributors being below either, a certain percentile of the income distribution, or below a specified income threshold. This should come through a gradual replacement of subsidised interest rates with market rates.
- **Subsidise the demand side:** For low-income contributors who require subsidisation, demand-side subsidies must be pursued. This is in an effort to allow the target group to have a greater input into the type of housing acquired. By doing so, competition will be spurred on the supply-side. Implicit in this recommendation is the cessation of the NHT’s foundation practice of making loans to developers; a practice that has failed to reduce housing prices.
- **Relinquish construction of houses to private sector:** The building of houses by the NHT crowds out private investment in the housing market. This reduces the number of suppliers in the housing market and reduces competition. A gradual withdrawal of the NHT from the direct construction of houses will facilitate competition, forcing suppliers to become more efficient. This will have the effect of driving housing prices downwards, and diversifying housing offerings, as the private sector tries to satisfy a wider customer base. The poor will benefit from increased private participation as, armed with demand subsidies, the private sector will exhaust all profitable options to capture the additional incomes, in the form of subsidy vouchers, from the poor.
- **Improve the legislative and regulatory framework of the housing market:** Efforts to target NHT subsidies to low-income earners require a concomitant strategy to ensure that there are no obstacles to the private sector filling the void. Housing policy should seek to make the housing market more efficient, by targeting the processing time for construction approval, the reform of building codes, and making the land titling process less onerous. The long-term goal of the government should be to withdraw the NHT from directly engaging in the housing market. The NHT should act as a facilitator of the housing market, particularly as it relates to meeting the needs of the poorest, rather than as an active participant.

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## APPENDIX I: KEY PERFORMANCE

This section shows how the NHT has been performing on some of its key performance indicators. The NHT's interpretation of its functions is expressed in its mission statement: "to be effective stewards, caring for our contributors as we deliver housing solutions, build communities, refund contributions, and influence the market to make housing more affordable." Key performance indicators (KPIs) that can be identified from the NHT's mission statement include: (i) the number of houses built (ii) the number and value of mortgages created (iii) amount of contributions refunded (iv) the affordability of houses. The purpose of this section is to assess the performance of the NHT on the KPIs identified, to ascertain whether the Trust is achieving its objectives, and, by so doing, improving the lives of Jamaicans.

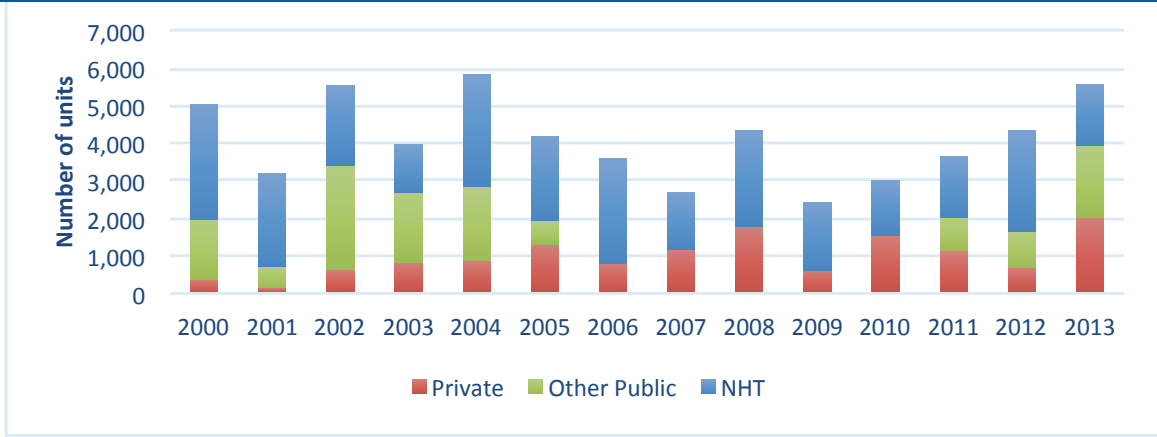
### HOUSES BUILT

One of the main objectives of the NHT is to increase the supply of houses. Engaging in the construction of houses assists in fulfilling this goal. The NHT has built over 94,000 houses and

the NHT remains the majority contributor of houses to the formal sector (see Figure 4).<sup>39</sup>

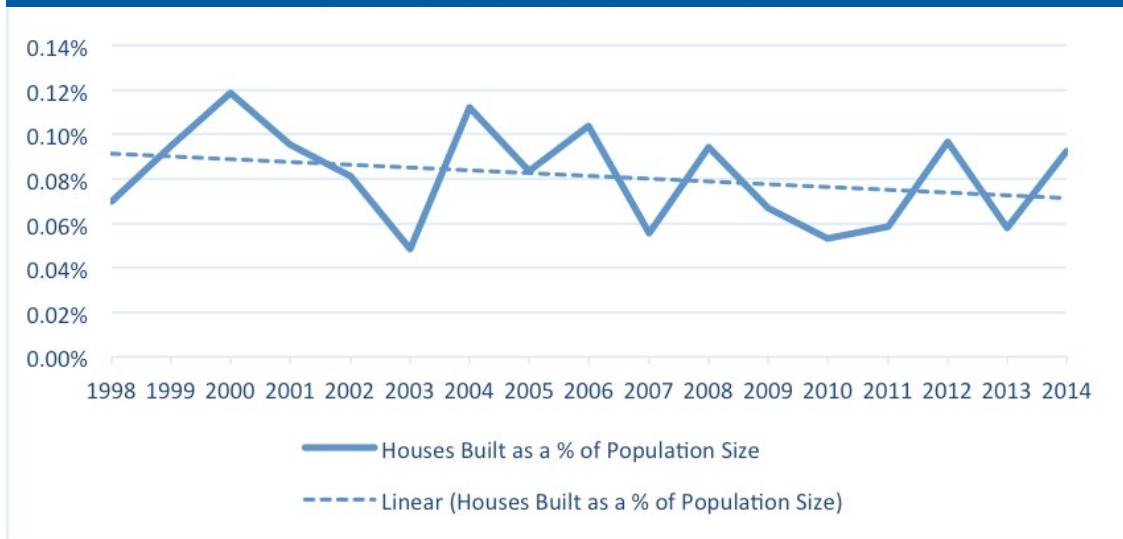
The NHT's performance can also be assessed in terms of its coverage of the population (i.e. the percentage of the population that acquires a NHT house). The ratio of "houses built to population size" is used to assess the population coverage of NHT houses. This analysis shows that the NHT has not increased its housing coverage of the Jamaican population significantly, as house completions fluctuated around 0.1 percent of the population between 1998 and 2014. The analysis also shows a decreasing trend over the period (Figure 5).

**FIGURE 5. CREATION OF HOUSING UNITS BY SECTOR (1998-2013)**



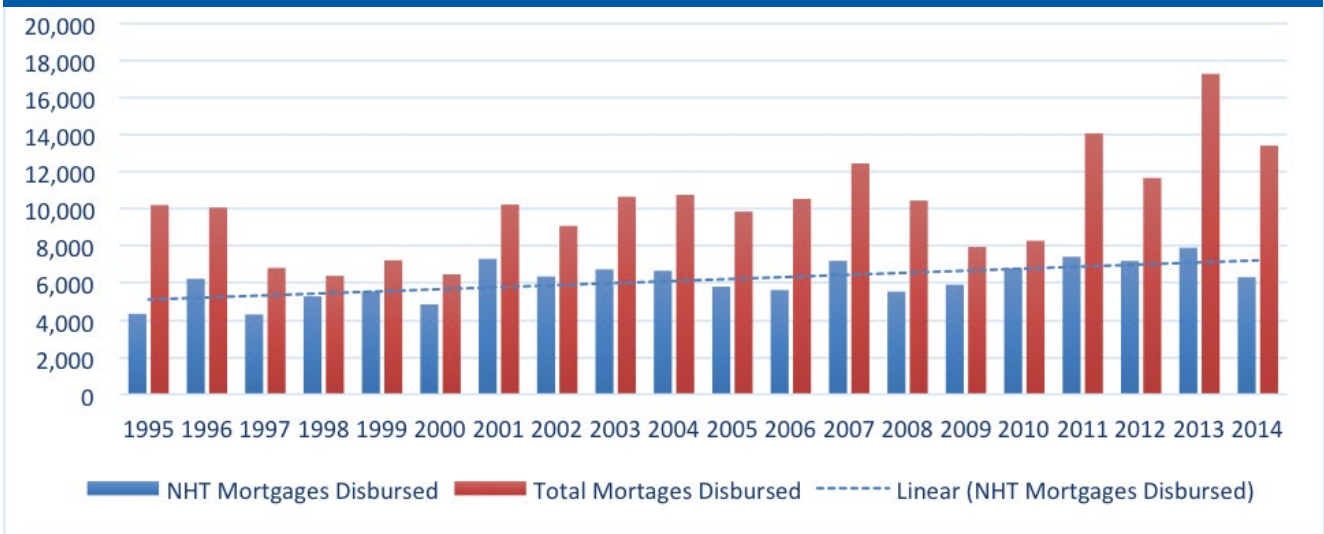
Source(s): Planning Institute of Jamaica (numerous years)

**FIGURE 6: NHT HOUSES BUILT AS A PERCENT OF POPULATION SIZE**



Source(s): Planning Institute of Jamaica (numerous years) and International Monetary Fund (2015)

**FIGURE 7: NUMBER OF MORTGAGES DISBURSED**



Source(s): Planning Institute of Jamaica (numerous years)

## MORTGAGES DISBURSED

Another objective of the NHT is to lend mortgages to its contributors. Therefore the number of mortgages disbursed, and the value of these mortgages, is relevant. As at January 8, 2015, the NHT had 446,595 contributors. However, only 31 percent of contributors had received benefits from the Trust (see Table 2). The number of mortgages disbursed grew between 1995 and 2000, but has hovered around 6600 since 2001 (see Figure 6). Given the stagnation in mortgage provision, a similar exercise can be used to ascertain the reach of NHT mortgage loans.

The performance of the NHT, in terms of mortgage disbursement, is first assessed using the ratio of “mortgages to population size”. Figure 7 shows that mortgages disbursed by the NHT, annually, fluctuated between 2 percent and 3 percent from 2000 to 2014, showing no increase in the share of the population that accesses mortgages. Analogous to the “number of mortgages created” is the “value of mortgages disbursed”. The “total value of mortgages disbursed as a percentage of GDP” is an internationally used benchmark. In comparing Jamaica with other countries in the Caribbean, the value of Jamaica’s mortgage disbursement drastically lags behind other CARICOM countries. Jamaica ranks last in the region with the value of mortgages created (see Figure 8). In fact, Jamaica was ranked 9 percentage points behind the

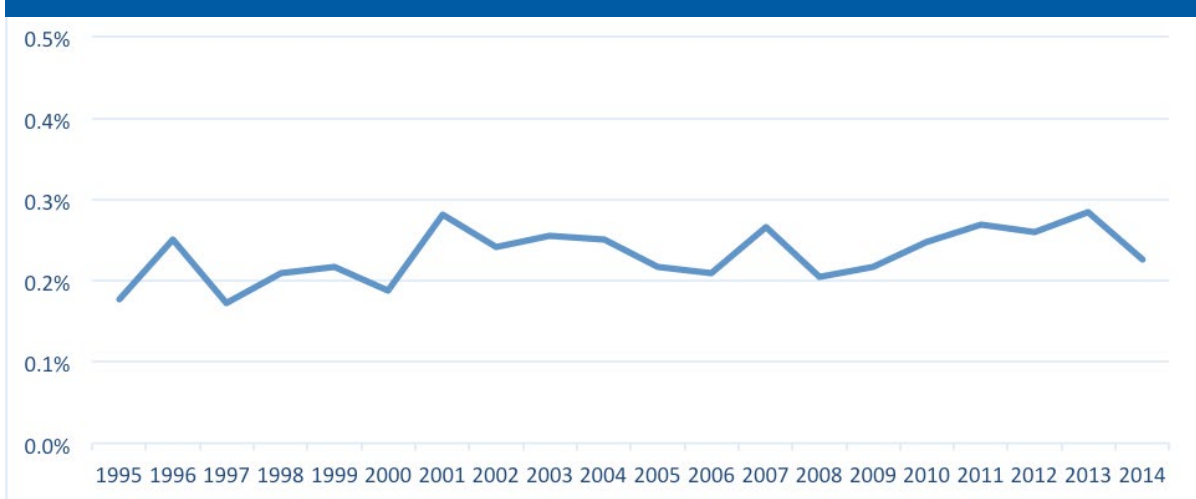
country ranked second to last, Trinidad and Tobago, in 2012. The regional average for mortgages to GDP was 22 percent in 2012, and Jamaica fell woefully below the average by 20 percentage points. In addition, a comparison of Jamaica to Barbados and Trinidad and Tobago in 2013, showed that Jamaica lagged 30 percentage points behind Barbados, and 8 percentage points behind Trinidad and Tobago.

## CONTRIBUTIONS REFUNDED

Despite the provision of housing being the central goal of the NHT, contributors are entitled to a refund of their contributions if they do not receive a benefit. While this activity is specifically mentioned in the NHT’s mission, only 5 percent of employee contributions were refunded on average annually, between the 2004/2005 and the 2013/2014 fiscal years. There seems to be a declining trend in the amount of contributions refunded annually (see Figure 9).

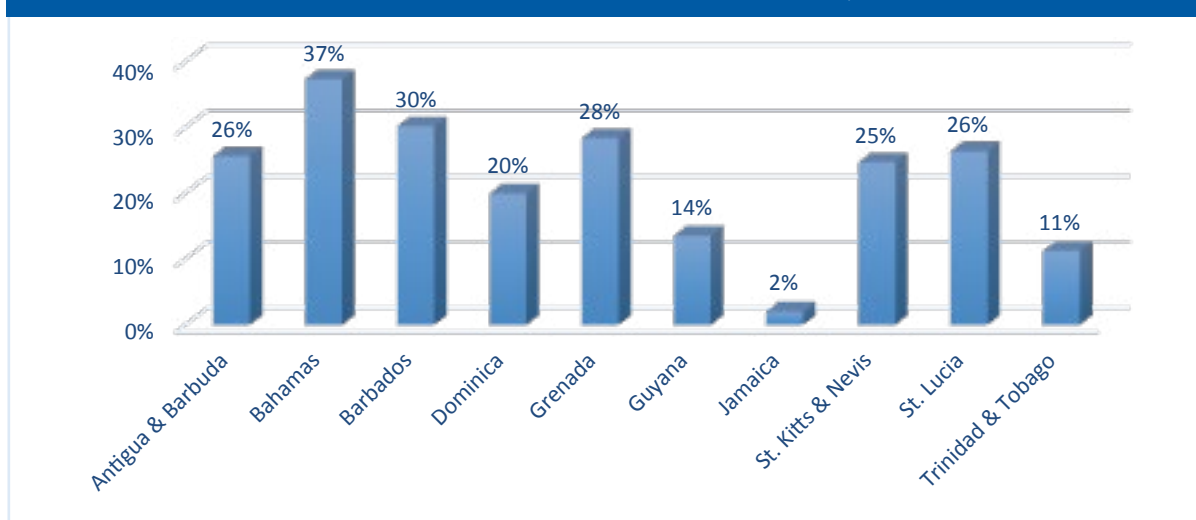
The low rate of refunds, coupled with the small percentage of contributors who have accessed benefits from the NHT, results in the Trust merely absorbing contributions while failing to help contributors. Therefore, both bottlenecks (low refund and low disbursement) result in the over capitalisation of the NHT, and the large stock of refundable contributions.

FIGURE 8: NUMBER OF MORTGAGES AS A PERCENT OF POPULATION SIZE



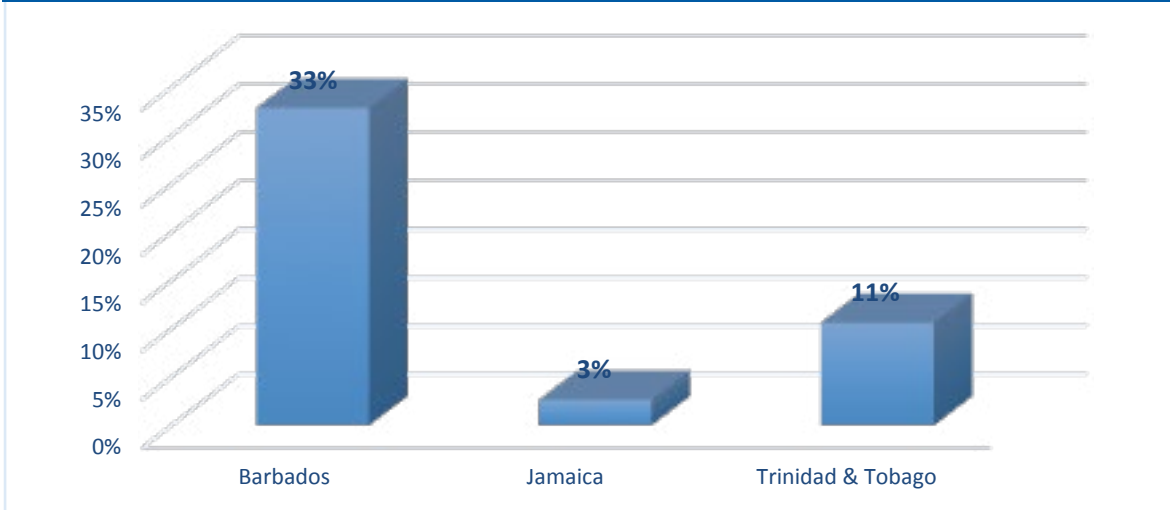
Source(s): Planning Institute of Jamaica (numerous years) and International Monetary Fund (2015)

FIGURE 9: MORTGAGE LOANS AS A PERCENT OF GDP, 2012



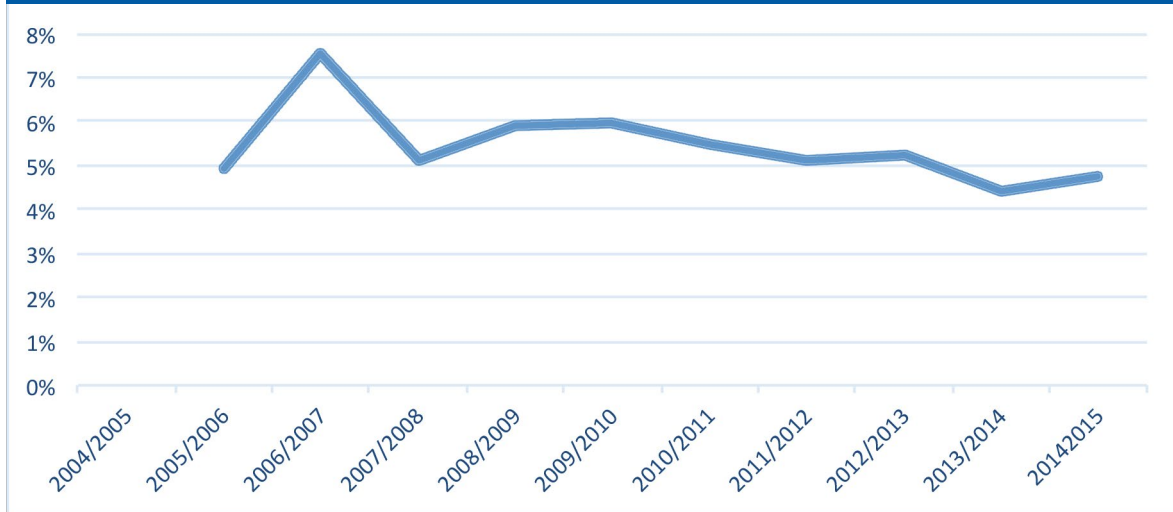
Source(s): HOFINET (2015), Central Bank Barbados (2015) and Central Bank of Trinidad and Tobago (2015)

**FIGURE 10: MORTGAGE LOANS AS A PERCENT OF GDP, 2012**



Source(s): Bank of Jamaica (2015), Central Bank of Barbados (2015) and Central Bank of Trinidad (2015)

**FIGURE 10: NUMBER OF MORTGAGES AS A PERCENT OF POPULATION SIZE**



Source(s): National Housing Trust (various years)

## APPENDIX II: NHT LOAN LIMITS AND MONTHLY REPAYMENT PER INCOME GROUP

**TABLE 4: NHT LOAN LIMITS AND MONTHLY REPAYMENTS**

WEEKLY INCOME (J\$)	LOAN TYPES (J\$, MILLIONS)					MONTHLY REPAYMENT (J\$)	
	BUILD ON OWN LAND	OPEN MARKET	SCHEME UNIT	SERVICED LOT	HOUSE LOT	BOL/OM/SU	SL/HL
Minimum wage (\$5600)	2.2	2.2	2.2	1.5	1.5	7464	7462
\$5601-\$7500.99	2.9	2.9	2.9	1.5	1.5	9999	7507
\$7,501-\$10,000.99	3.7	2.9	2.9	1.5	1.5	13233	7728
\$10,001-\$20,000.99	4.5	4.5	4.5	1.5	1.5	26663	9251
over \$20,000.99	4.5	4.5	4.5	1.5	1.5	35340	12826

Source: NHT (2015)



## ABOUT CAPRI

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The Caribbean Policy Research Institute (CaPRI) is a not-for-profit, public policy think tank based at the University of the West Indies, dedicated to the provision of impartial, evidence-based knowledge to inform economic and social policy decision-making in Jamaica and the wider Caribbean.

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