SURVEY OF HOUSING POLICY INDICATORS

Summary of Results – Honduras
By Daniel Cruz

This Survey of Housing Policy Indicators is organized into five broad categories: (I) The property rights situation, (II) the home lending situation, (III) the housing subsidies situation, (IV) residential infrastructure, and (V) the regulatory system. Each of these five categories is subdivided into seven to ten sections with two to six questions per section.

I. Property Rights in Honduras
This section of the survey deals with the level of individual property rights that exists in Honduras. The questions are organized into six sections that touch on such topics as obstacles to property ownership; the issuance of deeds to residential properties; the legalization of long-term illegal settlements; eviction procedures; the treatment of low-income communities; and the privatization of public housing.

From the legal point of view, there are no major barriers to property ownership in Honduras. All Honduran citizens have the same access to land ownership. Currently, there are no legal barriers to ownership based on gender, and husbands and wives can own land either individually or jointly. The law respects the property rights of indigenous peoples. Foreign nationals can own land, with the exception of coastal land and islands, in accordance with current constitutional provisions. However, it is not common for residents to hold property through long-term rental arrangements.

The formalization of property rights is a priority in Honduras. Although property rights are currently in a precarious state, Honduras has the Property Institute and solid programs aimed at the regularization of real estate.

Illegal urban settlements are growing at a faster pace than efforts aimed at their legalization. The spontaneous occupation of public land (common land, low-risk zones, etc.) is tacitly allowed, but at the same time its regularization is being encouraged as long as there are no conflicts with private property owners. However, regularization is being implemented at a slower pace, since financial resources for this are limited.
Evictions tend to be minimal and the legal system supports property owners filing complaints. Evictions occasionally occur if there is a conflict between illegal occupants of a piece of property and its alleged owner. The largest mass eviction occurring in the last 3 years affected 8,400 people. Generally, the legal system supports property owners who file complaints and evictions are achieved in a timely manner, but they do not necessarily involve compensation for those who are evicted.

There is no policy on replacing low-income communities with more profitable developments. It is not an official policy, but local real estate market mechanisms are enabling the eradication of marginal neighborhoods for higher-value residential areas.

II. The Home Lending Situation
This section of the survey evaluates Honduras’s policies in relation to the home lending market and availability and access to home loans. The questions in this section are organized around eight themes, which are the environmental conditions supporting home loans, access to home loans, housing subsidies, the management of financial risk, mortgage guarantees, the functioning of the secondary mortgage market, the availability of microloans for housing, and general [availability] of mortgages in the country.

The current economic environment is favorable toward home loans. The rate of inflation in 2010 was 6.5%, less than the rate of inflation for prior years, while the rate of devaluation of the country’s currency with respect to the U.S. dollar (the main currency of reference) held steady, and the national banking system has high liquidity, encouraging a reduction in the price of home loans nationwide. The mortgage market is experiencing a high degree of openness to promoting real estate development, although its growth has slowed due to the international economic crisis.

Mortgages enjoy subsidized rates thanks to funds from Honduras’s state-owned bank. The state-owned bank BANHPROVI functions as a second tier bank, allocating national resources and international cooperation through the private banking system. Loans are issued at a subsidized interest rate targeting low- and middle-income populations. The difference between this subsidized rate and the market rate is 9%. The typical term for a subsidized or social program loan is 20 years.
The country’s mortgage loan portfolio has normal measures of protection against undue risk. These measures include the following: Banks check the borrower’s credit and the value of the guarantee through trained, independent agents; the maximum legal limit between the loan and the value of the mortgage guarantee is around 60%, while the ratio of debt to borrower’s monthly income must not exceed 30%. The government guarantees its lines of credit in that private banks must be audited annually and are required to report on their portfolios periodically. The percentage of mortgages that are 60 or more days past due is around 4.6%.

Mortgages are not protected from unnecessary risks. Instead of using private institutions to check borrowers’ credit histories, lenders [rely on] the support of a central organization. Banks are required to evaluate the value of the guarantee with professional services. Mortgage loans range from 60-80% of the mortgage. The maximum limit for mortgage payments is 33% of family income. Annual audits are not necessary [for] mortgage loans. The distribution of volume and the size of loans are reported annually to the national regulatory agency.

The mortgage guarantee generally protects the creditor. This protection is in place mainly because all mortgages must be backed by property deeds duly certified by the Property Institute. While the time it takes to record a lien on a property used as a guarantee is usually short (1.5 months as a general rule), this is not so for foreclosure proceedings, in which case it takes around 10 months.

In Honduras, the secondary mortgage market is still not functional. There is legislation for a secondary mortgage market, but it still does not function as such. However, private banks are now including a contractual clause authorizing them to negotiate the sale of the mortgage to third parties.

Microloans for housing are still an incipient activity. Microloans for housing are a recent development that are starting to become popular, but are still not comparable to existing traditional and informal sources of microloans.

III. The Housing Subsidies Situation
This section of the survey will help readers understand housing subsidies and how effective they have been in benefiting those who need them. The questions in this section are organized into seven themes, including subsidies in the government’s budget, the
beneficiaries of subsidies, other forms of housing assistance, tax incentives for housing and the transparency of subsidies.

**Housing subsidies are not a priority of the Honduran government.** Housing is not one of the new administration’s top 10 priorities. It is managed through various public and private institutions. Formally, its management is coordinated through the Office of Housing and Urban Development within the corresponding ministry. The housing budget made up 4.4% of the government’s total budget in 2010, with up to 87% of the housing budget being channeled toward funding construction projects or the improvement of housing developments. However, only 14% of the national housing budget was invested in supplemental subsidies, taking into consideration the frequent option of housing subsidies through social programs.

**Housing subsidies are focused on low-income families.** Subsidies in the form of funds to supplement soft financing are aimed at satisfying demand from low-income families mainly, but they are also offered to middle-income families. Beneficiaries are eligible in accordance with their income level.

**Subsidies provide an incentive to the construction industry.** Supplemental subsidies have begun to serve as premiums or an initial “hook” that allow urban developers to build new housing for more low- and middle-income families. Housing subsidies are channeled through a wide range of local NGOs and commercial banks. However, there are no other forms of support to poor families, such as providing subsidies to offset title processing costs or to increase access to vacant lots. There are, however, specific projects funded by international organizations that are aimed at improving community infrastructure in impoverished neighborhoods.

**Tax incentives for housing concentrate on lowering costs for the construction industry.** For example, tax relief is offered for the importation of construction materials, which lowers the operating costs of housing developers. However, there are no mechanisms for deducting the financial costs of mortgages on tax returns, which would directly benefit many middle-income families.

**IV. Residential infrastructure**
This section of the survey evaluates whether homes have adequate access to infrastructure services. The questions in this section are organized into 11 themes, including infrastructure services in informal settlements, adequate urban development plans, availability and access to basic services like water, streets, electrical power, garbage collection, transportation, etc.,
Infrastructure services in informal settlements have improved. Community infrastructure has improved through specific projects that rely to a great extent on international donations, but their size is clearly not up to the demand. Despite this gap, Tegucigalpa’s municipal government has managed to position itself publicly with assistance programs like the so-called “Primero los Pobres” (“The Poor Come First”). A notable program on the national level is the the Neighborhood-City Urban Development Program executed by the FHIS in the informal settlements of the cities and in 298 municipalities.

Urban planning is not prospering, so urban growth in Tegucigalpa is disorganized. Municipal leaders in Tegucigalpa actively support the preparation of urban expansion programs like “Plan 450: la ciudad que queremos” (“Plan 450: the city we love”), which has not yet had any success. This plan is expected to last until 2028. There is also an urban development plan in place in Tegucigalpa to accommodate populational growth. However, there are no plans for investing capital in urban expansion and there is no active program to acquire rights-of-way for the construction of major highways.

The water supply remains insufficient in most of Tegucigalpa. Beginning in 2006, 95% of the urban population of Honduras has had a better water supply. Water is available for an average of 4 hours a day in low-income settlements in Tegucigalpa. The price of water sold by tank trucks is approximately 9 times greater than the price of water in neighborhoods supplied by the city’s public water system.

Access to sanitation services is insufficient in Honduras. Beginning in 2008, 80% of the country’s urban population has had access to improved sanitation. However, only 27% of dwellings in the Central District (Tegucigalpa and Comayagüela) have access to the city’s wastewater treatment network.

Highway infrastructure is inadequate. With the negative impact of weather-related phenomena in recent years (tropical storms and hurricanes), the quality of the nation’s highways and urban streets has declined. Currently, 20% of Honduras’s highways are paved. Last year, Tegucigalpa’s city streets were flooded or out of service for 28 days. Travel time for a resident of Tegucigalpa to commute to work was an average of 48 minutes for all existing methods of transportation.

Electrical power is a public service that is almost always available in Tegucigalpa. Beginning in 2009, 98% of urban housing had an electrical power connection. Electrical
power is normally available 23 hours a day in Tegucigalpa’s low-income settlements, taking into consideration some unexpected or scheduled outages that have occurred recently.

**Police protection is insufficient in neighborhoods.** The police patrol 20% of Tegucigalpa on a regular basis, as a result of changing their patrolling strategy and a greater incidence of urban crime. The homicide rate has risen to 69 deaths for every 100,000 persons in Tegucigalpa, one of Latin America’s highest rates. Home values in safe neighborhoods can be three times greater than in dangerous areas.

**Public transportation is available in most of Tegucigalpa.** 77% of the city of Tegucigalpa lives within 10 minutes’ walking distance from a public transportation stop. Approximately 11% get around by walking to their destinations, while 60% use some type of public transportation.

**Garbage collection is nearly sufficient.** Around 76% of the city of Tegucigalpa has a regular trash collection service provided twice weekly by two different private companies. The rest of the city is not covered by garbage collection due to the high cost. Garbage is not disposed of in a high-tech landfill, but is deposited in a municipal dump that employs partial, mechanized burial of garbage. The municipalities are not able to mobilize funds for investing in infrastructure.

**Municipalities can use funds for investing in infrastructure.** Municipal budgets and the expenditures of all municipalities are subject to accounting standards, reports and auditing. Only the large municipalities have the cash flow and assets that can be used as guarantees in paying debts. Legally, municipal assets, especially land, can be sold or used as collateral for funding loans.

**V. The regulatory system**
This section refers to how housing policies facilitate or hinder majority access to housing. The questions in this section are organized around 11 themes, including the formalization of a housing policy, restrictions on mobility, exclusion practices, the accessibility of building permits, the simplification of the process of regulating urban developments, the availability of residential land for development, and rent controls in urban housing.
An official housing policy document has not been formalized. The law has mandated the preparation of an official housing policy document by at least one level of government. The Honduran government has committed to international resolutions on housing rights. The right to adequate housing is guaranteed in both international and domestic laws in an effort to protect human rights. It has been a commonly accepted practice of representatives of the private sector, civil society and residential communities to participate in the formulation of housing policy, but an official document has not yet been formalized.

There are few restrictions on mobility and residential exclusion. Officially there is no policy or legislation that affects residential mobility, and it is not necessary to hold some form of residency permit. However, in recent years restrictions have been imposed on moving in some residential areas due to a lack of security.

Regulations on land and housing use are accessible. Municipal leaders support the action establishing the land use regulations and building codes for construction that is accessible to the poor. These regulations were updated in 2010. The minimum lot size for low-income dwellings in Tegucigalpa is 50 square meters. There is no regulation for the maximum height of residential buildings in the urban periphery of Tegucigalpa, but recently the construction of 27-floor buildings has been allowed. The minimum width for streets in new developments of Tegucigalpa is 3.5 meters.

The procedures for complying with housing and land regulations are not onerous or complicated. Processes have been simplified recently. It takes only 23 days to record a property, when it used to take many weeks. It takes even less time to obtain building permits: 8 days. While the costs of these processes are not onerous to the middle class, they can be a problem for poorer families. The building code states that homes must be finished before they can be occupied. Illegal, informal subdivisions of land are tolerated if they are not on private property.

Environmentally threatened land is protected against residential development. Municipal governments have a legal framework to ensure that protected areas are not used by legal and illegal developers. Plan 450 designates areas to be protected against development. However, the illegal construction of Ciudad Mateo, one of the largest urban developments illegally authorized to take place in a protected area, has not been demolished.

There is some land available for residential development. Population projections for metropolitan Tegucigalpa are available to 2028, but they were done in 2004. It is estimated
that it would take 15 years for rural land around the perimeter of the city to become urban developments, but at an increasingly greater cost of construction, given the topographical limitations of this land and the decreasing availability of water.

**Honduras allows combined use of land and home-based businesses.** There is a great laxness in municipal regulations in that they allow businesses to operate in homes in residential areas. Municipal zoning regulations allow the mixed use of residential areas, commercial areas, and industrial sites. Mixed land use is strong in cities.

**The regulation of condominiums and housing cooperatives is underway.** Building legislation includes regulations for condominiums. There is also a law on housing cooperatives. The current legal framework imposes certain restrictions on residential communities and encourages the creation of formal community organizations.

**There is a law that regulates rentals.** There is a tenancy law that deals with the protection of tenants and equalizes the relationship between tenants and landlords, but it has lost its applicability in recent years.