

Building up credit



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CEO of Caixa Econômica Federal

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Caixa Econômica Federal, the largest federal government savings bank, has been instrumental both in stimulating the Brazilian economy in the most severe hours of the crisis and in maintaining the momentum of the stimulus. In the 12 months up to July 2009, the institution has expanded its total credit portfolio by 60% — almost triple the average credit growth in the national financial system (20.8%) in the same period. “We anticipate a new record in real estate credit, from R\$23.3 billion [US\$13.7 billion] in 2008 to approximately R\$38.8 billion [US\$22.8 billion] in 2009 — a 66.5% rise. As for the My House, My Life program,¹ the target is 400,000 units before the end of 2009,” says Maria Fernanda Ramos Coelho, Caixa’s CEO. She foresees that Caixa will need to increase its capital in the medium term, and the recent R\$6 billion (US\$3.5 billion) transfer from the National Treasury suggests it is doing just that. Caixa has cut interest rates by a third and does not fear default: The credit expansion, according to Ramos Coelho, has been “responsible,” as demonstrated by the minimal 2% default rate on Caixa’s home loans.

The Brazilian Economy — The expansion of credit by Caixa Econômica Federal has been exceptional, and the results have been good — R\$1.2 billion [US\$700 million] in profits in the first half of the year. What is the strategy?

Maria Fernanda Ramos Coelho — Caixa has undergone a process of repositioning itself in the market and society to reinforce its functions as a financial institution and as an agent of public policy based on principles of economic, social, and environmental sustainability. In 2004 we carried out strategic planning to establish a long-term horizon. Its clear objective was to consolidate the position of Caixa as a strategic partner of the state, particularly in executing certain public policies, such as the PAC (Program for Economic Acceleration) and the My House, My Life program. That was achieved through a new management model, introduced in 2007, that was directed to the needs of clients and to enhanced integration of management into the various areas of the institution. I believe the results achieved so far indicate that we are pursuing a sustainable course, which is the result of transparent policies and Caixa’s greater assertiveness as a financial institution dedicated to promoting development in Brazil. The conscientious growth of the total credit

portfolio — about 60% in the 12 months ending in June — in a market scenario of crisis and liquidity restrictions makes it clear that we have made the correct choices.

What increases in Caixa lending are projected for the My House, My Life Program and other types of home purchase loans?

We estimate a new record for home loans, which should increase by 66.5%, from R\$23.3 billion [US\$13.7 billion] in 2008 to nearly R\$38.8 billion [US\$22.8 billion] in 2009. Regarding the My House, My Life program, in a decisive meeting with all our managers we set a target of 400,000 units before the end of 2009.

Regarding the results for the first half of the year, what is Caixa's risk-weighted asset-to-capital ratio with regard to the central bank's 11% requirement based on the Basel agreements? Does the institution have room to expand lending without increasing its capital?

By the end of June 2009 Caixa's asset-to-capital ratio, responding to the Basel rules, was 18.8% — far above the 11% requirement. Currently, then, Caixa can continue to expand its credit portfolio. In the medium term, however, the capital of the institution needs to be increased to allow for expanded lending, at the same rate as has been seen in the past couple of years, so that we can contribute to the expansion of the Brazilian economy.

What is Caixa's default rate on home loans and other types of credit?

Caixa has an individual credit and business loan default rate lower than the market — this is very important. It is mainly due to the sound decision we

made to keep credit lines unchanged during the height of the international financial crisis. Our assessment that the effects of the crisis on the Brazilian economy would be less pronounced than in other countries proved to be correct. Thus, a severe restriction of credit was not justified. By adopting the federal government's guidelines for maintenance of employment and income, Caixa has experienced significant success. This is particularly true because low-risk businesses and households found in Caixa the credit that was otherwise absent in the market. Thus, we expanded our credit portfolio and at the same time enhanced its quality. The rate of nonperforming real estate loans is the lowest in the Caixa lending portfolio — close to 2%. For individual loans the nonperforming rate is 5.4% and for business loans 2.4%.

What has Caixa been doing to close the court cases related to home loans contracted during economic packages before the Real Plan?²

Many of those contracts, based on the Salary Equivalency Plan, were transferred to the EMGEA (Asset Management Company) in July 2001. Today, those contracts represent an insignificant share of our real estate credit portfolio, less than 1% of a total of 2.1 million contracts. At any rate Caixa has for some time adopted a conciliatory stance in court cases, with the objective of reducing costs and closing the cases. This conciliatory stance, which, incidentally, EMGEA has also adopted, has been commended by the judiciary.

In the first half of the year, of the Caixa home

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loans granted, a greater share of resources originated in savings accounts [R\$9.1 billion, US\$5.4 billion] and a smaller share of FGTS (the Severance Compensation Fund for Employees) resources [R\$ 6.7 billion, US\$3.9 billion]. According to the government proposal, still to be made official, interest on savings deposits over R\$50,000 (US\$29,400) will be subject to a 22.5% income tax from 2010 on. How will this affect Caixa's funding?

The issue is no longer being discussed. The responsibility with which the administration has handled it has meant that we have seen no large fluctuations in our funding. To give you an idea, Caixa exceeded its historical balance of R\$100 billion [US\$58.8 billion] and will assign R\$17 billion [US\$10 billion] of its savings deposits to home loans. According to the Central Bank, since May this year the entire financial system has shown positive net funding in savings accounts. So at least for the time being, funding difficulties are unlikely.

With regard to the FGTS, Congress is still debating whether part of the resources that workers in the past were able to invest in shares may now be invested in the projected capital expansion of Petrobras (the state oil company). What is your opinion?

This issue has been the subject of intense discussion because it involves tools that will make it possible to sustain the economic growth we have experienced in the past few years. In practice, as workers are able to invest in shares, companies will have more

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resources for investment. On the other hand, there will be fewer resources for funding housing and infrastructure. Therefore, any decision should take place in a quiet way and reflect a transparent debate; Caixa, as the institution managing this fund, will have to guarantee sound investment of the resources for consolidation of a new development cycle.

Since 2008, what has been the average reduction in Caixa's lending rate?

The weighted average interest rate for Caixa loans, using free resources, has dropped from 41.1% in July 2008 to 27.4% in August 2009. It must be added, however, that this has only been possible after a period of preparation, introduction of improved processes, and speedier credit concessions, together with a definite political decision to keep Caixa a public bank.

With FGTS earnings extremely low (3% a year plus the central bank's reference rate), would it be possible to cut interest rates for home loans further?

It is important to be aware that the cost of funding for the FGTS is not restricted to the 3% yearly rate paid to investors. There are also operational and administrative costs associated with the individual accounts of millions of workers. On the other hand, for households earning up to six times the minimum wage, over 65% of all the investment in FGTS resources, there is a heavy upfront subsidy paid to complement their payment capacity. The subsidies to this bracket make the real

interest rate lower than the nominal 5.5% to 6% yearly rate. Because of the peculiarities of the FGTS and regulations, the margins between funding and investment are already quite reduced.

Is it correct to say that both Caixa Econômica Federal and Banco do Brasil, the federal commercial bank, have offset the reduction of the spreads with an increase in the fees imposed on clients?

No. It is not true that Caixa has offset its interest rate reduction policy with increased fees. On the contrary, consumer rights agencies acknowledge us as the institution offering some of the most advantageous fees in the market.

How has Caixa worked with state and local governments to fight problems like slums and to help in natural disasters, such as floods?

In 2004, when we defined the Strategic Plan with a horizon up to 2015, we sought to consolidate Caixa as a strategic partner of states and municipalities. PAC has further enhanced this perspective, as has the My House, My Life program, in which Caixa can play this role to its full extent, particularly in the area of urban development. In these two Caixa programs management is responsible for investments of over R\$200 billion (US\$118 billion). For many cities, those investments represent a significant improvement in their urban infrastructure. In Porto Velho, for instance, half the population is not currently served with running water; after PAC program investments, coverage will be extended to the entire population. In Rio

de Janeiro, the projects in the Manguinhos and Alemão neighborhoods, besides providing sewage services to the communities, will also revitalize the region by enhancing public services and the presence of the state, thus ensuring the rights of citizenship for a large proportion of the urban population that until now has been excluded. To implement those programs, it is necessary to reshape federal, state, and local technical staff to restore their planning and public management capacity. In partnership with local and state authorities, Caixa provides technical assistance to overcome possible deficiencies and obstacles as these projects are executed. A concrete result of this partnership is the Municipal Contract and Agreement Manager Program, whereby local authorities assign a representative to be trained by Caixa, with direct contact with the institution to allow for management of contracts and agreements and to expedite implementation of projects and payment of funds. For natural catastrophes like the ones seen in Santa Catarina and Maranhão, Caixa has set up special operations to reach the affected population, releasing FGTS funds, paying social benefits, and renegotiating loans and financing contracts.

What has Caixa done in the cultural field?

Caixa has a very significant history in the cultural area. We support projects to restore cultural and historical sites, as well as handicrafts in communities and theater and dance festivals. We also promote cultural institutions that sponsor artistic performances. Caixa itself owns and operates cultural

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centers that offer an intensive year-round calendar of events, and we are building three more centers to democratize access to resources and to add cultural value in other regions of the country. Over the past few years, we have issued public tenders to make the project selection process more transparent and democratic. In 2008 the first selection process was launched to sponsor theater and dance festivals, cultural centers, and support for handicrafts. The 2,445 applications we received from all over the country were assessed and the finalists selected by an expert jury on the basis of widely published technical criteria. This year applications following the call for tender increased by 43%, to 3,506. Before the end of the year close to R\$40 million (US\$23.5 million) will be invested in culture. That makes Caixa one of the major cultural sponsors.

What about the environment?

Caixa has worked intensely on environmental issues. An important milestone came in August 2008, when Caixa signed the Banks' Protocol of Intentions for Social and Environmental Responsibility, later known as the New Green Protocol. For instance, Caixa finances MDL

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(Clean Development Mechanism) projects in landfill sites with FGTS funds and is the financial institution representing Brazil in projects involving carbon credits that will be traded with the World Bank. Recently, we signed the Ecuador Principles, in which we agreed to adopt within one year internal policies and procedures to guarantee that credits to large infrastructure projects take into account an analysis of social responsibility and environmental parameters.

Caixa's engagement, translated into public commitments, aims to put into practice the institution's concern to do business within a sustainable framework. Some of these initiatives are particularly worth mentioning. Through the Legal Timber Action we have introduced the requirement in financing housing projects that a DOF (Statement on Forest Origin) be submitted for all native timber used in the project, along with a declaration on the volumes and destination of this raw material. Furthermore, we have set up the Sustainable Construction Program, covering initiatives like Blue Seal Home, which was created to stimulate rational use of natural resources in home construction, reduce building maintenance costs and monthly expenditure by tenants, and promote awareness among builders and residents of the advantages of sustainable construction. The Blue Seal establishes criteria that must be met to qualify as a sustainable project submitted for Caixa funding. We also carry out social and environmental assessments for medium and large companies that borrow more than R\$10 million (US\$6 million). 

¹ A federal government program for low-income families.

² Plano Real introduced a new currency and fiscal measures in 1994 that successfully ended hyperinflation.