Box 2
AN EXPANDED INDICATOR OF HOUSEHOLD FINANCING

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Loans awarded by lending institutions[1] for consumption and the purchase of housing, hereinafter referred to as bank loans, constitute the current measurement of household indebtedness. The indicator presented below expands the coverage of sources and types of financing. Sources include the Fondo Nacional del Ahorro (FNA, National Savings Fund) and the "solidarity" sector; the types of lending include residential lease agreements.

The FNA, created by Special Decree 3118/ 1968, manages the severance pay of public employees. Act 432/ 1998 extended this faculty to include the severance pay of private employees, as well as the capacity to receive savings deposits, which can be used to award loans for housing and education. These loans are relevant, particularly those to purchase a home, since they accounted for 15.7% of the adjusted mortgage portfolio of lending institutions by the end of 2013.[2]

The "solidarity" sector, according to Act 454/ 1998, includes the cooperatives, mutual associations and employee funds supervised by the Superintendencia de la Economía Solidaria (Supersolidaria, Office of the Colombian Superintendent of the Solidarity Economy).[3] These institutions focus on extending credit to their members as a means of development. The share of loans made by the sector on its assets increased from 45.9% to 55.3% between 2002 and 2013. During that same period, consumer loans accounted for 85.3% of all loans in the sector, with a balance at the close of 2013 equivalent to 15.1% of the consumer loans awarded by lending institutions.

Recently, with Decree 777 of Act 795/ 2003, commercial banks and commercial finance companies received permission to provide financing through residential lease agreements.[4] Although classified as commercial loans by the Office of the Colombian Superintendent of Finance (SFC), the objective of these loans is to purchase a home. In 2013, the annual increase in financing of this type was 47.3%, with a balance that represented 23.6% of the mortgage portfolio.

The expanded household financing indicator for 2013, with the aforementioned additions, showed a balance of \$ 132.1 billion (b). This represents an increase of \$ 24.1 b with respect to bank loans to households (\$ 108.0 b). \$ 12.8 b of this increase pertains to the "solidarity" sector[5] [6]and was used mainly for consumer loans (93.6%). The remaining \$ 11.3 b was awarded through leasing and by the FNA for home purchases (Graph B2.1).

With calculation of extended indicator, as shown in Graph B2.2, financing awarded to households in 2013 came to 18.69% in relation to gross domestic product (GDP), which is 3.41 percentage points (pp) above the bank indicator (15.28%). Both these indicators exhibited an upward trend between 2004 and 2013, a period when the expanded indicator rose 92.4% (up from 9.7% of GDP) and bank indicator, 102.3% (starting at 7.55% of GDP). The bank indicator is now at levels similar to those on record in 1997, close to the start of the financial crisis in the nineties. How-

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1 Banks, finance corporations, commercial finance companies and credit unions.

2 Includes the loan portfolio for home purchase and respective securitizations.

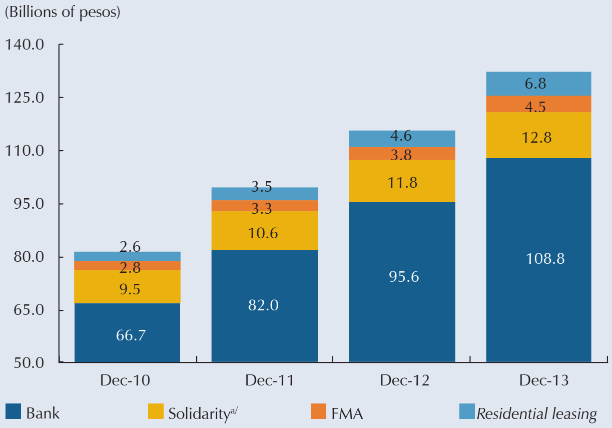
3 Therefore, "solidarity" organizations that provide services related to health, transport, private security and education are not included. They report to other supervisory bodies and their loans to households account for just under 4% of the "solidarity" sector. This is according to preliminary calculations obtained through a comparison of data with the Colombian Confederation of Cooperatives.

4 Through a residential lease agreement, the lending institution turns over the possession of residential real estate to a user in exchange for the regular payment of a rental fee for an agreed term. Upon the expiration of that period, the user may exercise the option to purchase the home, if he so desires, for which the payments made would be recognized and the user assumes a commitment to pay the remaining value (see http: //www.construdata. com / BancoConocimiento / L / leasingabc / leasingabc.asp).

5 The amount of "solidarity" sector loans between 2012 and 2013 approximated the growth of a population of entities that represented 94.44% of the loans to the total population in 2011.

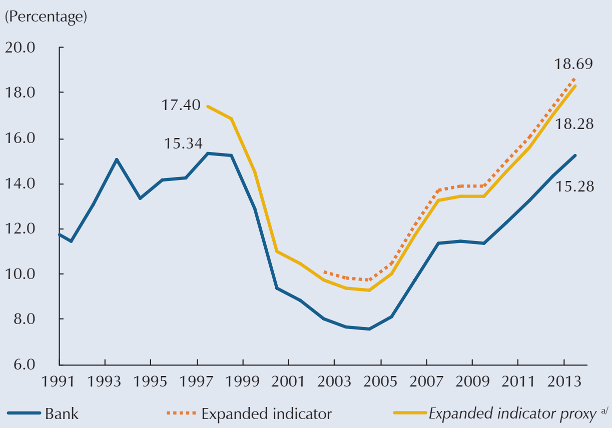
6 The amount of loans from the "solidarity" sector totaled \$ 14.3 b in 2013, including \$ 1.6 b for commercial micro-loans.

Graph B2.1
Household Financing



a/ Cooperatives, mutual associations and employee funds supervised by the Office of the Superintendent of the Solidarity Economy
Sources: Office of the Superintendent of the Solidarity Economy (financial statements) and the Office of the Colombian Superintendent of Finance (financial statements); Calculations by Banco de la República

Graph B2.2
Household Financing as a Share of GDP



a/ Does not include employee funds (See note 7.)
Sources: Office of the Superintendent of the Solidarity Economy (financial statements) and the Office of the Colombian Superintendent of Finance (financial statements); Calculations by Banco de la República

ever, if a proxy of the expanded indicator is used,[7] the current level exceeds that of 1997 by 88 basis points (bp) (18.28% vs. 17.40%).[8]

In terms of the momentum in household financing, both indicators follow a similar path, as illustrated in Graph B2.3, with bank credit displaying a bit more volatility. The increase in these two indicators as of 2008, with respect to the consumption component, is very much alike, but one sees an earlier gap in favor of bank lending. This is because several financial cooperatives converted from closed[9] to open[10] institutions, prompting entities in the "solidarity" sector to reorganize as lending institutions (Graph B2.4).

In the home purchase component, the path of growth was similar as well, the difference being that the expanded indicator always outperformed the bank loan indicator. Moreover, the gap between the two has widened since 2009. Specifically, in 2013, the annual rate of growth in the expanded indicator reached 19.9%, compared to 15.5% in the bank loan indicator, as a reflection of the annual increase in residential leasing (47.4%) and mortgages from the FNA (18.2%) (Graph B2.5).

According to analysts in the sector, the important increase in the residential leasing, with an annual growth rate of 34.8% in the last four years, can be explained by several factors. Namely, a) these contracts allow for a higher percentage of financing (80%) in excess of the limit on ordinary mortgages

7 Since there is no information on employee funds during 1997-2001, or a breakdown of households for the rest of the "solidarity" sector, the indicator was reconstructed as the aggregate of bank credit, FNA, residential leasing and total lending by the "solidarity" sector. This approximation is reasonable when considering that 92.2% of "solidarity" sector loans between 2002 and 2012, on average, went to households, while employee funds destined more than 98% for households during the same period.

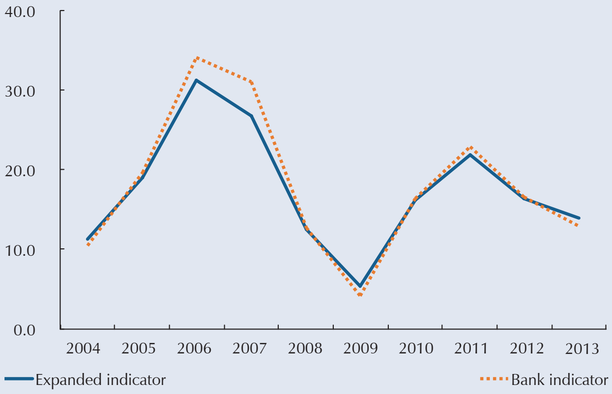
8 It is important to note that the current macroeconomic context is very different from the late nineties. The financial, external, public and real sectors were highly vulnerable at that time, and the economy was more likely to be affected by an adverse external shock. In that context, the extent of borrowing was just one of the factors that explained the presence of the crisis.

9 Deposit-taking and lending operations are authorized only for members; namely, those who make capital contributions. These entities are supervised by Supersolidaria.

10 Entities that, in compliance with the requirements of the SFC, were subject to its surveillance, and were authorized to take deposits from and grant loans to non-members.

Graph B2.3
Household Financing

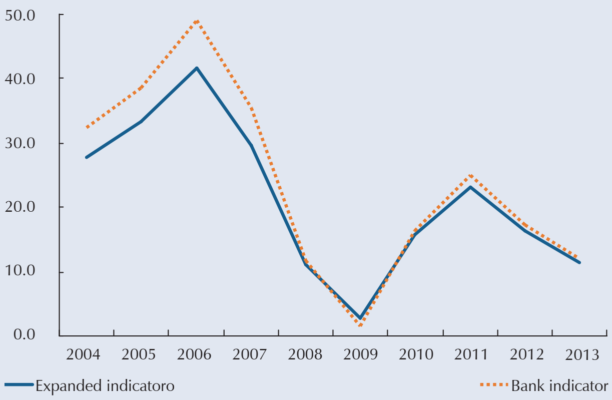
(Annual growth)



Sources: Office of the Superintendent of the Solidarity Economy (financial statements) and the Office of the Colombian Superintendent of Finance (financial statements); Calculations by Banco de la República

Graph B2.4
Consumer Financing

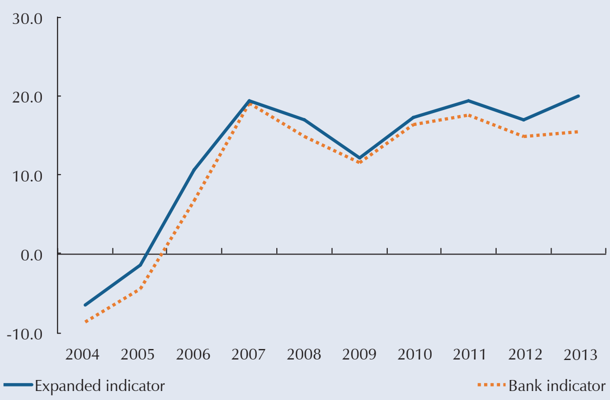
(Percentage)



Sources: Office of the Superintendent of the Solidarity Economy, Office of the Colombian Superintendent of Finance, and the Colombian Confederation of Cooperatives; Calculations by Banco de la República

Graph B2.5
Mortgages

(Annual growth)



Sources: Office of the Superintendent of the Solidarity Economy, Office of the Colombian Superintendent of Finance and the Colombian Confederation of Cooperatives; Calculations by Banco de la República

(70%); b) intermediaries offer lower interest rates, partly because the income from these agreements is exempt; c) in 2013, according to Decree 0701 and Resolution 1263, residential leasing also was included in the interest rate coverage initially applicable only to home mortgages; and d), unlike mortgages, no stamp tax is charged to authenticate a lease agreement.

In conclusion, the expanded indicator of financing achieves an approximation that could be useful as a reference to estimate how the financial burden of households has evolved. The calculation proposed for financing to purchase a home shows higher growth, which could explain the increase in demand, as opposed to looking only at the bank loan indicator.