

The Brazilian Savings and Loans System

Making Reforms Work for Affordable Housing Finance

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Abstract

This article examines the structural mechanics and financial-economic implications of the Brazilian Savings and Loans System (*Sistema Brasileiro de Poupança e Empréstimo* – SBPE) under the NEW regulatory overhaul enacted by National Monetary Council (CMN) Resolution 5255/2025. Historically funded by low-cost savings deposits (*poupança*) and supported by implicit tax exemptions, the SBPE has increasingly failed to deliver on its primary social mandate—providing affordable housing finance—due to regulatory loopholes, lack of income targeting, and credit capture by high-income households.

Resolution 5255/2025 terminates a 20-year-old experiment with expanding the funding base for regulated mortgages by including capital market instruments (real estate bank bonds - LCIs/LIGs) into its ambit for earmarking. The new framework tries to stabilize liquidity through progressively liberating deposits from central bank reserve requirements. Through financial simulations, we demonstrate that this regulatory redesign while addressing profitability issues of lenders leads to a severe recession in regulated mortgages and likely an anticipated death of the system. Moreover, it does little to address the mistargeting of deposit-funded loans to higher income households.

Drawing on comparable international affordable housing lending frameworks, especially the French *Livret A-CDC circuit*, and India's Priority Sector Lending, we propose two alternative reform paths: a deposit rationing approach subject to administrative pricing that forces the scarce resources to be placed in the most effective intermediaries able to deliver affordable housing, and a reformed blended finance approach that avoids a recession in affordable housing and reduces the need to ration deposits but comes at the price of more flexible deposit and loan pricing. Our preference goes towards the latter because it permits an exit towards an asset- rather than liability-based credit direction system.

In both cases we advocate for improved incentives for lenders to generate fresh deposits. Also, we call for a more consistent and innovative framework of investment requirements, including delivery through specialized housing facilities in case of non-compliance, co-financing rules, and a much better monitoring of its targeting. We finally believe that a system designed to stabilize mortgage lending rates in the Brazilian macroeconomic context needs to retain some form of technical reserves.

Key-words: Housing Finance, Brazilian SFH, SBPE, savings and loans system, Resolution CMN 5255/2025, Central Bank of Brazil, Credit Direction, Affordable Credit.

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Introduction

This article is devoted to analyzing current regulatory reform of the Brazilian savings and loans system (SBPE). SBPE is a directed credit system created in the 1960s, under the then-established Housing Finance System (SFH), to mobilize and preserve savings for housing finance. Its basic concept still has its merits today in Brazil's macroeconomic context: channeling loanable funds at low interest rate and at much lower interest rate volatility levels than in the market into housing finance to both support affordability and protection of borrowers against market risks.

Even though it has most of the time generated sizeable liquidity - over BRL 760 billion are invested in *Poupança's* accounts still today - for most of its 60-year life span the SBPE has underperformed as part of the affordable housing finance system (SFH). During the high inflation phase, the system became illiquid as a result of interventions into the loan pricing structure. Lenient loan volume ceilings permitted deposit funding of lending to higher income segments, which crowded out the use of the new securities instruments of the *Sistema de Financiamento Imobiliário* (SFI). Brazil had put much hope into the SFI as a means to expand the funding base for housing from individual depositors to capital market institutional investors. Finally, regulators have always struggled with setting the pricing of the system's elements right to reconcile the interests of savers, capital markets investors, banks and borrowers.

In this context, pressure by banks to liberalize the system has been observed ever since the big commercial banks took over the smaller savings and loans associations in the 1980s. However, Brazil's social and financial sector development context as well as international experiences with affordable housing finance policies speak against a full liberalization. Instead, a reform path that better aligns incentives for all SBPEs stakeholders is sought for. Our working assumption is that some form of credit direction within SBPE remains necessary. To develop this argument, this article is organized into five sections after the introduction. The first section discusses the current expected trajectory of SBPE's stocks, while the second dives into the impacts of previous and current earmarking reforms. The third section briefly reviews how the high social importance of affordable housing has prompted various forms of credit direction internationally. The fourth one returns to the SBPE reform debate, reflecting upon alternative regulatory proposals that could safeguard a minimum volume of affordable mortgages while allowing the SFI more room to develop higher-income housing and commercial real estate finance. The final section presents our conclusion.

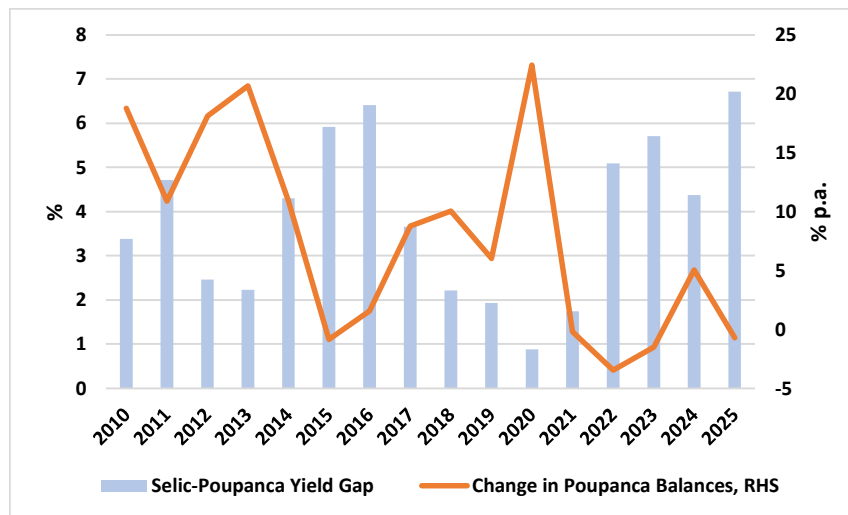
1. The Crisis of Savings Passbook Deposit Collection

Poupança savings passbook deposits have historically been very popular in Brazil. Paying almost fixed and lower than market yields, savings have been incentivized through an income tax exemption on their yield and deposit insurance protection by the *Fundo Garantidor de Crédito* (FGC).

As a result of its quasi-fixed rate nature that generates a varying gap to government bond remuneration, the stock of deposits has oscillated between 6% and 11% of GDP over the last 3 decades.¹ The interest rate index used to determine savings passbook remuneration since 1991, Taxa Referencial (TR), technically tracks a pool of zero-coupon treasury bill rates (Taxa Básica Financeira, TBF). However, the link to government funding costs is broken by two regulation measures. Through the application of a reduction factor, TR is set to zero for low levels of the TBF, and only above a level of 7% starts becoming positive. Secondly, above level of SELIC, the overnight repo rate, of 8.5% the formulation of the Poupança deposit spread over TR changes. It ceases to be formulated as 70% of the SELIC rate and becomes fixed at 6.17% p.a. (0.5% p.m.) In combination of both rules, the deposit remuneration not only remains always below the SELIC rate, but after rising with low SELIC rates in proportion it delinks from higher SELIC rates, creating a widening remuneration gap.

The Poupança yield computed in this way currently stands at around 8%, while the Selic rate quotes at just under 14% p.a. The gap has widened between 2021 and today, with Selic reaching 15%, the average growth rate of aggregated stocks became negative, of -0.53% per month (2021-2025). This contrasts with the 2005–2020 period, when deposit growth was positive at 0.52% per month (Magalhaes Eloy & Leite, 2026)² Figure 1 below presents the long time series from 2010 to 2025. It suggests that that with a closing gap, deposit stocks could potentially rise again in the future.

Figure 1 Selic-Poupança Rate Gap and Change in Poupança Balances, 2010 - 2025



Source: Author's elaboration based on BCB statistical series data.

¹ SBPE savings deposit balances currently stand at BRL 764 billion (Jun/26), matching 2022 levels in real terms and BRL 37 billion below the peak of BRL 801 billion in 2020.

² According to the authors, signaling an important structural trend shift and reinforcing the hypothesis that this time the decline constitutes a persistent characteristic of the series.

However, beyond the predictable correlation with the return gap, the current recession in Poupança stock could be particularly severe for structural reasons.

- Because the spread to the underlying interest rate index is capped by regulation across all depository institutions, there is no competition among deposits on price, which compromises higher saving incentives and greater deposit collection by banks.
- The rise of digital banks in Brazil that offer interest-bearing checking accounts and investment platforms with increasingly lower initial investment tickets increasingly attracts financially astute savers. In a parallel to developments in the U.S. in the late 1970s where this was a driver of the following Savings and Loan crisis aggressive campaigns are run by the digital banks in both traditional and social media that portray savings passbooks as an outdated funding and financial product.
- The government has finally just launched a new type of bond for emergency savings (Tesouro Reserva), through public banks, that carries higher yield than Poupança while offering a daily withdrawal option, directly cannibalizing Poupança.

2. The Current Reform Project – Rationing a Declining Poupança Base

2.1 Failure of the Blended Finance Reform Project

SBPE savings' stocks have been subject to credit direction into housing lending since the system's creation in the 1960s, a time period characterized by extreme scarcity of long-term finance. During the high inflation period, which lasted in Brazil until the 1990s, the system became politically mismanaged. Political interventions that kept the debt service of borrowers low resulted in excess debt levels that had to be canceled by government. The Brazilian government then turned around to force lenders to finance the excess debt, in the process crowding out new lending. New lending restarted from 2006 onwards.

It was the introduction of real estate bonds (LCIs) in Brazil in 2004 that prompted regulators to launch the first major reform project in nearly 40 years: bonds were included in the credit direction system³ in the hope of expanding the funding base for regulated mortgage lending.

The expectation at the time was that real estate bonds and savings deposits would not price too far apart, so that a blended finance approach would be feasible and enable lenders to still offer relatively low-cost loan pricing. Also, issuing real estate bonds promised lenders (and their concerned regulators) the additional liquidity risk protection of legally defined long funding maturities, compared to the high risks associated with the daily termination option that Poupança savers enjoy.

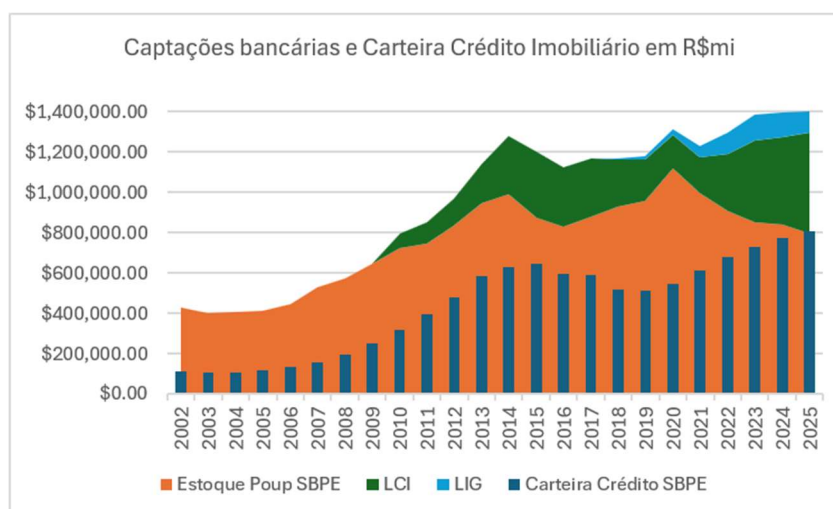
The historic earmarking model required that lenders maintain real estate loan portfolios equivalent to at least 65% of their savings deposit base. Of this amount, at least 80% had to be allocated to residential mortgages (52% of total savings), until 2018 at regulated lending rates and subject to property valuation price ceilings. The remaining real estate loan portfolio (13%) could fund

³ Resolution CMN 3347/2006

commercial and more expensive residential real estate investments at market rates. Additionally, 20% had to be held as reserve requirement in the BCB, and 15% could be freely invested by the lenders.

Since 2006 regulations have required the banks to add so-called “eligible” LCI to the 65% of Poupança deposits in order to calibrate the volume of mortgages required to be invested. By December 2024, while real estate bonds (LCIs) reached BRL 435 billion, estimations indicated that 62% of mortgage bonds issued could be considered as eligible, so the credit direction ratios between real estate bonds and deposits became roughly similar. In 2025, the outstanding stock of those bonds surpassed 500 billion BRL for the first time.

Figure 2 Tax-incentivized Bank Funding Sources and Regulated Mortgage Portfolio, 2002 - 2025



Source: Author's elaboration based on BCB statistical series data, values in real terms.

As Figure 2 shows, the reforms indeed succeeded in expanding the funding base for regulated mortgages amidst a stagnating deposit base. However, macroeconomic conditions and poorly calibrated lender incentives undermined the original intention of the reforms:

- The pricing gap between real estate bonds and deposits instead of narrowing widened in the 2020s (see Figure 1 above). This was the result of bonds being priced roughly at around government bond yields, adjusted for issuer credit and tax effects, while deposits as explained above remained delinked in the case of elevated government bond yields through regulation, with remuneration capped at 6%+TR.
- Depending on their individual access to the deposit base, and compounded by the inability to compete among each other via differentiated deposit pricing, SPBE lenders ended up with greatly varying funding structures for regulated mortgages. The ratio of real estate bonds to Poupança deposits among the 6 largest lenders in Brazil by 2025 varied between 0.7 and 7.0.

As a result of these imbalances, lenders with a high stock of deposits were able to outcompete lenders with a low stock of deposits, which nevertheless had to observe the same regulations. The lifting of the interest rate cap on regulated loans from 2019 onwards (Resolution CMN 4676/2018) intended to facilitate the use of bonds was therefore ineffective. Price leadership was exercised by the lenders with the best access to deposits, leaving disadvantaged lenders relying on bond finance in need of exemptions.

2.2 The New Regime: Back to the Historic Market Split, and Accepting a Recession

By 2025, a new regime was conceptualized that is fully effective from 2027 onwards. It can be characterized as giving up the blended finance approach and returning to the original earmarking centered solely on Poupança deposits while maximizing its available liquidity.

- The real estate bond earmarking will be eliminated altogether.
- The directed allocation of Savings deposits will be progressively raised from 65% to 100% by 2036 through two measures:
 - Incorporation of the 15% share of previously free resources into the mandatory requirement, at a pace of 1.5 pp per year between 2027 and 2036;
 - Progressive release of reserve requirements held at the BCB, immediately cut in October 2025 from 20% to 15% to offset the declining stock of deposits and, starting in 2027, also reduced in stages of 1.5% per year until full extinction in 2036.
- Finally, the interest rate ceiling on regulated mortgages was reintroduced at the historic level of 12% + TR, as well as the price ceiling (raised to 2.25 mi BRL, for the directed 80% under the SFH).

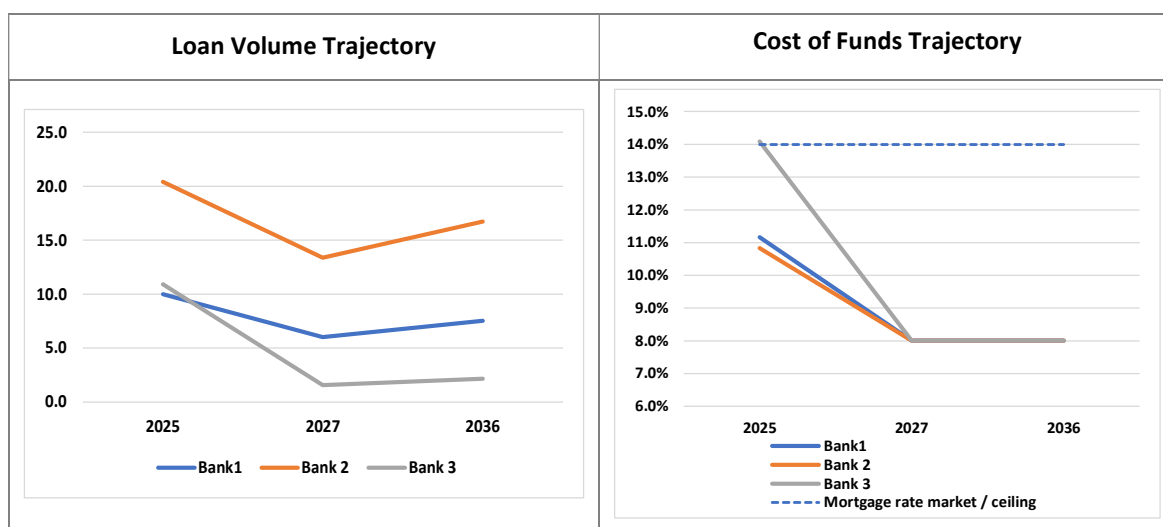
We assess the impact of this reform program on regulated mortgage lending volumes and pricing with a simple financial simulation. Since it is important to consider banks with different funding structures and deposit volumes, so we select three prototypes of banks.

We assume that between 2025 and 2036 these three prototypical banks will strive to keep the sum of deposits (including liberated reserves) and real estate bonds as a share of total liabilities constant. This permits us to conduct a comparative statics analysis of the impact of regulations under the same targeted funding structure. We assume for all lenders the same slight decline of Poupança deposits over the period, consistent with current structural headwinds, which will be more than compensated for by the release of the mandatory reserves from BCB.

- Bank 1 has a moderate deposit franchise and issued almost the same amount of eligible real estate bonds. In 2025, forced to apply 62% of bonds issued, the bank was required to invest 10% of her overall portfolio into regulated mortgages. When switching to partial and later full Poupança financing, this ratio drops to 6% by 2027 and will not recover to more than 8% by 2036, i.e., reach only 75% of the level of 2025.
- Bank 2 has attracted a large deposit base which is 30% larger than her real estate bond portfolio issued. Here the fall in mortgage volume as a share of the balance sheet will be not quite as steep, from just over 20% by 2025 to under 17% by 2036, i.e., 82%.
- Bank 3 is the most disfavored one under the old regulations. It exhibits a tiny savings deposit stock but a large stock of real estate bonds issued, essentially a capital-markets funded bank trying to enter the mortgage market.

Since bank 3 was barred by the regulations from competing on price over deposits she was so far priced out of the market by bank 1 and bank 2. Bank 3 will receive the largest relief from the new investment requirements, which will fall from over 11% of her balance sheet in 2025 to just over 2% by 2036. This is a reduction of the regulated mortgage portfolio down to less than 20%.

Figure 3: SBPE 2025 Reform Impact - Simulation Results for the Regulated Mortgage Portfolio of 3 Banks



Source: author's financial simulation model.

Notes: LHS - % of total bank assets, RHS – cost of funds earmarked for housing, dotted line represents market lending rate of 2025 and rate ceiling trajectory for 2027 and 2036.

The new framework allows all observed banks, even the deposit-rich ones, to improve their mortgage lending margins compared to the forced inclusion of expensive real estate bonds. However, henceforth the market will be bifurcated – into regulated mortgages funded by savings deposits and unregulated mortgages funded by real estate bonds.

The margin improvement in regulated mortgages over the 2025 situation will depend on the share of bonds to deposits and thus will be greatest for Bank 3. Figure 3 above on the right-hand side compares 2025 and future cost of funds, which will of course be those for Poupança deposits.

In order to compensate for the declining costs of regulated mortgage funding, regulators set the interest rate ceiling on lending to the previous 12% + TR maximum. As the dotted line in Figure 3 on the right-hand side above shows, profitability no longer depends on a banks' funding menu but on its operational and distributive efficiency.

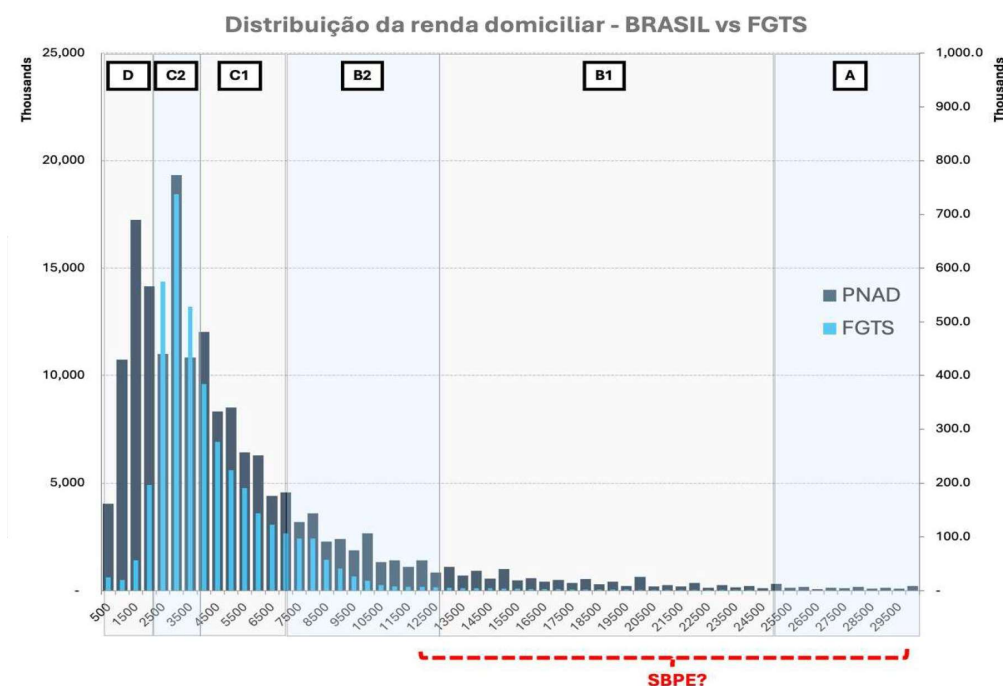
Another observation is that the funding mix will likely change. The release of deposits by BCB indeed expands lending volumes, if only deposits are taken into consideration as a funding base. However, if a bank targets the same size of the mortgage portfolio in the future as today – after all even unregulated mortgages are no high-margin business in the Brazilian context compared to many other loan segments -, everything else being equal it will have less need to issue real estate bonds going forward.

Our diagnosis of the current reform path is thus one of a recession of both regulated mortgages and bonds issued while improving lender margins. We hasten to add that a rising Poupança stock scenario related to a falling pricing gap to Selic could lift the volume of regulated mortgage market under the new regulations in a cyclical manner again. However, a reversal of the structural decline factors would require a change in the current deposit pricing formula, which then also implies a change in the pricing formula for loans.

2.3 The neglected credit dimension

However dramatic the liquidity situation may evolve, the true Achilles heel of the SPBE system has been mistargeting. The data situation on who exactly receives SBPE credit is extremely poor, so the authors can only present a speculative assessment in Figure 4.

Figure 4 Locus of SBPE Credit Allocation Across the Brazilian Household Income Distribution



Sources: PNAD, FGTS.

Notes: the graph only shows FGTS' origination volumes and our best estimate of the current SPBE target group. Based on the current house price ceiling, a household income level that is even higher than the maximum shown in the chart would be eligible.

Our main data point is that the new SFH house price ceiling of BRL 2.25 million is extremely high. This has been the result of historic regulations that forced lenders to accept a cap on deposit-loan spreads. The 6% historic gross spread between TR plus 6% for deposits and TR plus 12% for loans is far lower than what the Brazilian banking system can obtain in other loan market segments. Larger house price ceilings permit lenders to amortize origination and servicing costs on the associated loans at a higher rate of return under the fixed spread model when compared to smaller loans.

To give an example, a lender incurring 5,000 BRL in loan origination costs and 300 BRL in loan administration costs per month under the 6% spread cap will generate a 40% higher return on equity on a 1.4 million BRL loan compared to a 350,000 BRL loan. And this calculation assumes the same credit risk. So while there is no public data regarding the distribution of SBPE loans per property price, loan ticket or by borrowers' incomes, it is reasonable to affirm that banks tend to favor larger loans for profitability reasons.

Another central failure of SBPE to deliver in the credit dimension is that non-mortgage lending, e.g., modernization and refurbishment loans, micro-mortgages and rental housing finance lending that could serve lower-income strata are essentially absent.

The biased incentives towards high-income mortgages have resulted not only in a failure of SPBE to deliver on the affordable housing promise, but also in a crowding out of the use of real estate bonds for housing, which could have been afforded by the higher income echelons that are currently still eligible for Poupança deposit funding.

The current reform program does very little to address the credit dimension. While the introduction of maturity multipliers favors residential properties priced under BRL 1 million with longer tenors, the tangible benefits for lower-income borrowers dependent on extended repayment schedules remain limited. Furthermore, because the new multipliers generate "eligible values" for compliance that can be frontloaded, their penetration impact on middle-market segments (properties valued around BRL 500,000 to BRL 700,000) is likely to be insignificant.

Therefore, these steps fall short of addressing the mistargeting problem in a more comprehensive manner, which obviously requires a closer look at lender profitability profiles. Moreover, it might be exacerbated by the reintroduction of the tight loan price ceiling, which as explained indirectly favor higher loan tickets and incomes.

3. Is Directed Credit Benefiting Affordable Housing an Anachronism? Some International Examples

Before proceeding to modifications or alternatives to the current reform concept, we propose to pause and discuss a more fundamental question: is credit direction for affordable housing a model that Brazil should continue to pursue within the SBPE system?

A common misconception is that financial deepening through the rise of capital market instruments naturally eliminates the case for credit direction. In fact, the practice of channeling banking sector resources—specifically retail savings deposits—into affordable housing remains a prominent fixture of many highly developed housing finance systems. The wave of financial liberalization of the 1980s resulted in altering the mechanisms of this direction from direct balance-sheet mandates to more complex, indirect capital market pathways.

While direct cross-country institutional translations are structurally flawed, this set of diverse international examples presented here, yield a fundamental policy insight for the Brazilian debate. Whatever the path chosen, credit direction remains an essential tool for aligning banking sector liquidity with social objectives. When regulatory parameters—such as asset-based targeting, risk-based pricing flexibility, and robust non-compliance penalties—are designed correctly, commercial banking sectors can operate profitably and sustainably while safeguarding access to affordable housing finance.

3.1 From Direct to Indirect Earmarking and Back: The U.S. and European Experiences

The emergence of modern mortgage bond markets in the 1980s in the U.S. and Europe did not render credit direction obsolete; rather, it simply shifted to indirect channels. This dynamic is clearly illustrated by the structural transformation of the United States housing finance framework following the Savings and Loan (S&L) crisis of the early 1980s. Prior to the crisis, deposit-taking S&Ls operated under a traditional, direct mandate to invest retail deposits into local mortgages.

Following the deregulation of the sector, these direct balance-sheet requirements were dismantled. However, they were not replaced by unconstrained market allocation. Instead, the framework transitioned to an indirect credit direction mechanism managed by Government-Sponsored Enterprises (GSEs)—Fannie Mae and Freddie Mac. S&Ls effectively swapped ownership of whole housing loans for mortgage-backed securities (MBS) issued or guaranteed by the GSEs. This de facto asset swap was aggressively incentivized by regulatory design, including minimized capital requirements for GSE and exemptions from large-exposure limits for investors in GSE-backed paper. In exchange for these regulatory privileges, the GSEs continue to be bound by statutory affordable housing mandates, in particular maximum loan volumes.

While the ultimate buyers of GSE securities have diversified over the decades to include institutional investors, mutual funds, shadow banks, as well as the Federal Reserve, the banking sector's deposit base remains structurally tied to the affordable mortgage market through multiple channels. Today, commercial banks still absorb roughly 30% of U.S. affordable housing GSE MBS. The massive expansion of the Federal Reserve's balance sheet into mortgage-backed securities, holding another third of GSE MBS, can be seen as a direct credit direction mechanism of bank excess reserves, backed by bank deposits, and currency held by the public. Finally, the shadow banking entities that currently dominate GSE securities purchases rely extensively on warehouse lines of credit and wholesale financing provided by deposit-funded commercial banks.

In Western Europe, retail bank deposits never lost their foundational role as the primary, direct funding mechanism for residential mortgages. Even in the wake of the 2008 European mortgage market crisis in the 'periphery', from Ireland via Spain to Cyprus,, mortgages continued to enjoy preferential regulatory capital treatment, which channeled deposits into the segment. Because retail deposits offer a distinct cost advantage over wholesale funding, they remain the first line of funding on bank balance sheets. Covered bonds and securitization structures are typically reserved as secondary funding tools, often deployed to expand balance sheet space for higher-yielding commercial real estate portfolios. For example, in Germany—the historical originator of the covered bond (Pfandbrief)—the vast majority of affordable housing loans continue to be funded directly via stable, lower-cost savings deposits rather than capital market issuances.

Crucially, this structural linkage is finding a new, institutionalized anchor through modern global regulatory trends: the rise of Environmental, Social, and Governance (ESG) investment mandates and disclosure rules. Affordable housing has emerged as a dominant asset class within these new frameworks. Excluding traditional covered bonds, the unsecured social, sustainable, and green bond segments—predominantly issued by sovereign and multilateral promotional agencies—are backed by affordable housing assets to an extent of 20% to 30%.

3.2 A Strong Direct Intervention: French Livret A Deposit Channeling to Public Finance Agency CDC

For countries operating in complex social contexts like Brazil, the international landscape also demonstrates that far more aggressive, centralized mechanisms of credit direction are viable and highly successful. The preeminent example is the French Livret A system. The Livret A is a highly popular, tax-exempt retail savings deposit product distributed across the country's commercial banking networks.

Rather than allowing banks to allocate these funds autonomously, French regulation requires that 60% of all Livret A proceeds be centralized and transferred directly to the state-owned promotional bank, Caisse des Dépôts (CDC). The CDC manages these centralized funds through a dedicated fund, the Fonds d'Épargne (Savings Fund), which is strictly earmarked for long-term lending to social housing investors and municipal urban infrastructure projects.

To optimize the fund's financial sustainability, a portion of the reserves is invested in liquid market securities. The returns from these market investments are used to cross-subsidize highly targeted, below-market-rate lending to vulnerable demographic groups. The remuneration rate paid to Livret A depositors is actively managed by the Ministry of Finance, which adjusts it with French treasury bond conditions to ensure liquidity stability. This has historically pre-empted the large liquidity swings in Livret A deposits that Brazilian Poupança deposits have experienced. It also implies that the social housing loans extended by the CDC are priced directly over the 'reviewable' Livret A interest rate benchmark rate, a situation that may require a gap to government bonds to arise.⁴

Supported by this ring-fenced, highly reliable liquidity pool, the CDC has become the by far largest social housing financier in Europe. The French model proves that national promotional bank investment can be an alternative to directing banks to invest savings down-market, and also that credit direction is not just historical relic, but an engine of modern social policy.

3.3 Funding Structure Neutrality of Directed Credit: The Case of India

While the French model represents a centralized model, the Indian framework offers an instructive parallel for a decentralized, more market-conforming directed credit system. India's approach is particularly relevant to the ongoing SBPE debate in Brazil, as its regulatory architecture relies on a mandatory asset quota rather than liabilities, and also introduces critical structural flexibilities.

The Reserve Bank of India (RBI) enforces a Priority Sector Lending (PSL) mandate. However, unlike the SBPE framework—which calculates housing targets as a fixed percentage of total savings deposits—the Indian quota is formulated as a percentage of a bank's total net credit exposure (Adjusted Net Bank Credit). Commercial banks must direct 40% of their net lending to priority sectors, while regional, rural, and small finance banks face a strict 75% mandate. Because these banks are heavily funded by retail deposits (ranging from 40% to 60%), the system effectively channels retail liquidity into underserved segments without structurally locking the liability side of the balance sheet.

Crucially, India does not enforce a statutory sub-quota specifically for housing within the PSL framework, given the competing demands of agricultural and income-generating credit. Instead, the RBI relies on rigorous targeting parameters to ensure capital reaches affordable segments naturally, while maintaining market-based pricing mechanisms:

⁴ In order to moderate loan rates, the French finance ministry has since 2025 permitted a gap between French treasury bond rates and Livret A rates. The price paid for the resulting moderation of loan rates has been a modest reduction of the stock of deposits until mid-2026. Both the ministry and CDC can afford this policy against the background of the Fonds d'Épargne's ability to mobilize additional liquidity needed from its securities investments. This is a form of technical reserve.

- **Granular Structural Targeting:** Eligibility under the housing PSL quota is strictly gated by house price caps and unit size ceilings, which scale dynamically across three distinct tier-sizes based on urban population (cities under 100,000; between 100,000 and 500,000; and over 500,000 inhabitants).
- **Self-Targeting Mechanisms:** Loans explicitly allocated for home modernization, repairs, and slum upgrading are fully eligible under the quota, serving as an organic self-targeting mechanism for low-income and informal households.
- **Deregulation of Interest Rate Margins:** In stark contrast to rigid interest rate caps, the RBI does not legally constrain loan pricing or lender margins. Banks are permitted to practice full risk-based pricing, utilizing credit scores, debt-service coverage ratios (DSCR), and loan-to-value (LTV) metrics. To cater to informal or self-employed borrowers who lack traditional documentation, the market developed specialized credit bureaus.

The absence of interest rate caps has yielded highly favorable structural outcomes. It grants commercial banks the financial cushion necessary to underwrite smaller loan sizes, relax rigid collateral requirements (especially for modernization loans), and absorb higher operational costs. Interestingly, despite the freedom to charge higher risk premiums, competitive pressures to fulfill the mandatory PSL quota frequently drive banks to offer affordable housing loans at interest rates below standard market home loans.

To support system-wide compliance, the Indian framework leverages institutional partnerships and secondary market mechanisms. The National Housing Bank (NHB), a state promotional entity, provides credit-linked subsidies and acts as a central liquidity facility. Recognizing that commercial banks possess different cost structures and geographic reaches than specialized institutions, the regulations permit banks to fulfill their mandates via non-bank Housing Finance Companies (HFCs). Banks can refinance HFC portfolios up to a regulatory cap or enter into formalized co-lending arrangements, enabling whole-loan or portfolio transactions between large commercial entities and regional or small banks. Nevertheless, direct bank lending still accounts for 80% to 95% of quota fulfillment.

Finally, mandate compliance is strictly policed through quarterly monitoring by the RBI. Institutions that fall short of their targets face immediate financial penalties: they are forced to deposit the shortfall amount into public investment funds at sub-market, penalty interest rates. This ensures that deposits are invested in the priority sectors rather than sitting on the central bank's balance sheet. The severity of the interest rate penalty increases linearly with the size of the compliance shortfall, ensuring that banks have a powerful economic incentive to actively seek out and fund target segments.

4. Alternative Reform Paths for the SBPE

Our analysis of the failure of the historic SBPE regulations and the proposed new regulation as well as the international cases presented above indicate two alternative paths for reform:

- If the current path of splitting the market again between Poupança and bond-financed segments is pursued further, the pricing mechanism of Poupança deposits and loans and the allocation of scarce savings deposits to affordable housing should become the focus of regulations. The guiding principles would be stabilization of liquidity, limitations of margin of

deposit-rich lenders, and in particular priority allocation of deposits to those banks that push lending farthest down-market. The French CDC conduit is the extreme case where a single bank whose mandate is by law to provide low-income housing finance is entrusted with investing the lion's share of the deposits.

- If an attempt were made to rescue the historic blended finance approach through regulatory modifications, a market split and some of the implied rationing measures for deposit allocation could be avoided. The guiding principles should be a level playing field across different banks, which would suggest enabling price competition over deposits, a stabilization of margins by correcting mistakes made by previous regulations that disfavored primarily bond-financed lenders, and going forward an asset- rather than liability-based approach to credit direction. This reform path would then be akin to adopting the Indian approach of defining priority investments while liberalizing pricing, and indirectly pick up the ESG-based regulations

To avoid misunderstandings, considering the development context of the Brazilian housing finance system with its likely large gaps in down-market penetration we oppose further watering down the direct credit mandates of the SBPE or abolishing it altogether. This would neither favor housing policy and affordability, nor achieve a full, stable liberalization sought after by many banks. Instead, once its market effects materialize, it is highly likely to risk a political backlash and drive the system into inefficient, indirect forms of credit direction with unforeseen systemic consequences.

We provide a – necessarily cursory – discussion of what it would take to make either the deposit rationing or the blended finance approach work, and close with discussing mechanisms to incentivize down-market penetration.

4.1 Making the Rationing of Poupança Deposits Work

In the closed financing world for affordable housing tied solely to Poupança deposits the stabilization of liquidity has regulatory priority. This requires a combination of a pricing mechanism with greater proximity to government funding costs and the creation of technical reserves to cushion pricing shocks.

i) Introduction of a managed pricing mechanism

The French approach of managed pricing through review by a state administrator, in their case the finance ministry, seems heavy-handed at first sight. However, it is the logical consequence of the imperative to manage the pricing gap in order to stabilize liquidity. A more suitable interpretation would be the one of a system asset-liability manager.

The TR indexation concept could be even maintained while the administrator varies the spread of the deposit remuneration over TR to steer liquidity. The reviewable deposit rate would most likely be passed through to loan rates, which affects both new loan conditions and interest rate adjustments within existing contracts where such clauses have been agreed on.

ii) Maintenance of a minimum (technical) reserve level

A reviewable rate concept in the Brazilian context of macro instability would require support through a minimum level of technical reserves. Again, the system asset liability manager would be put in control. Technical reserves could be modeled after the German *Bauspar* system, where they were

introduced in the high inflation phase of the 1970s in order to preserve fixed rates for deposits and loans. In times of severe liquidity shortfalls, the reserves, built from excess profits, would be deployed to buy down the elevated interest costs of attracting alternative bank funding. This is the less costly alternative to the current liberation of reserves for ongoing mortgage origination. The need to keep some reserves to stabilize liquidity raises the question of whether the current path of eliminating Poupança reserve requirements altogether by 2036 should not be revised. A level of 5%-10%, rather than the current 15%, would provide a substantial buffer for the system. Once the currently proposed level of 0% will be reached in 2036, it will be likely too late for building an internal stabilizer, and the system might need an external bailout to serve existing low-cost fixed-rate loans.

iii) Fostering institutional specialization

If scarce low-cost Poupança resources need to be rationed, the improvement in targeting becomes the imperative. The key is either developing or using those housing finance institutions that are able to deliver affordable housing, i.e., small loan volumes, unsecured housing loans, microfinance etc.

One avenue for the banks is developing specialized third-party distribution and servicing within the affordable housing segment. Lenders should be incentivized to forming shared, industry-wide servicing platforms that reduce costs in affordable housing finance delivery, as they are characteristic for the United States.

Banks could also choose to fulfill their affordable housing quotas by indirectly financing lending operations by specialized low-income lenders through the *Depósitos Interfinanceiros Imobiliários* (DII) already operating in the proposed framework. This would enable non-bank housing finance originators along the lines of the Indian model.

An alternative for regulators could be to mandate the partial transfer of deposits to specialist banks or funds in low-income housing finance, a quasi-licensing system following the French model.

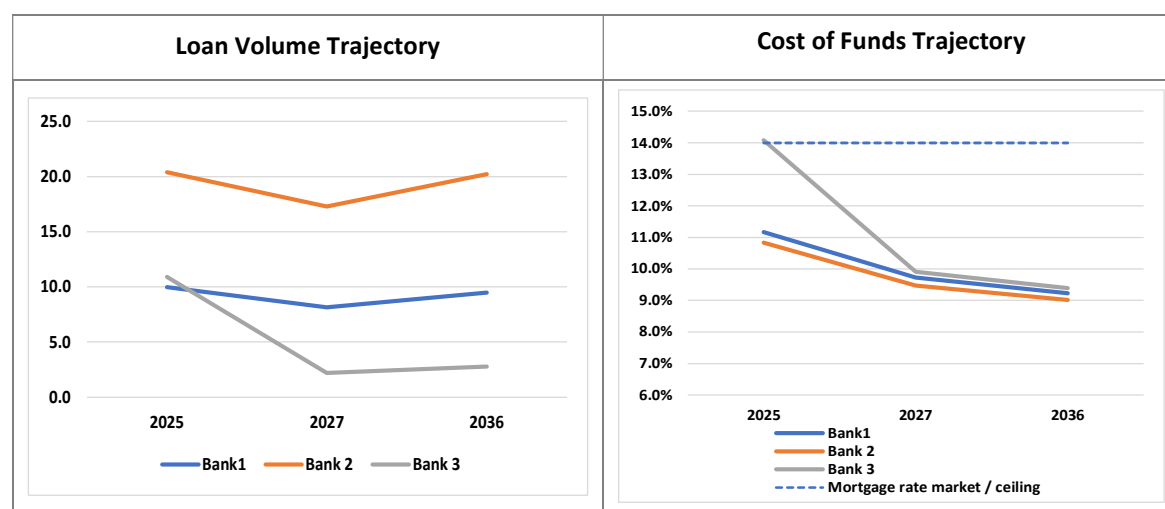
4.2 Protecting the Blended Finance Approach Rather Than Eliminating It

Given the paltry outlook for a deposit-only approach that could even defeat the imperative of institutional specialization, we raise the question whether the blended finance approach adopted by the previous reforms could be rescued. We propose the following set of measures:

- Rather than eliminating the direction of real estate bonds, reduce the current effective direction level, from around 62% in 2024, to ca 30%. This is a level that is roughly representative of the European mortgage bond issuance backed by residential mortgages, e.g., in France or Germany. At the same time, Poupança investment would be pushed towards a higher ratio as is the intention of the reform, with the caveat that some level of technical reserves may still be beneficial even under a blended finance approach to manage large cost of funds swings.
- Introduce a maximum ratio of real estate bonds to deposits applicable to the regulation in order to protect banks that have issued large volumes of bonds and a weak deposit franchise. For example, according to our simulation Bank 3 had issued 700% of her deposit base in bonds. If the regulatory recognition of bonds would be reduced to 100% of deposits, and the aforementioned 30% ceiling were applied to bonds, the cost of funds of Bank 3 would no longer differ fundamentally from those of Bank 1 and Bank 2.

Figure 55 below highlights the impact of the continued blended finance approach under this constellation with a scaled down weight of real estate bonds on both loan volumes and cost of funds trajectories.

Figure 5: Alternative SBPE Reform Proposal with Reduced Rather Than Eliminated Credit Direction of Real Estate Bonds



Source: author's financial simulation model.

Notes: LHS - % of total bank assets, RHS – cost of funds earmarked for housing, dotted line represents market lending rate of 2025 and rate ceiling trajectory for 2027 and 2036..

Clearly, the loan recession would be far less pronounced and in fact only temporary, when the new bond direction ratio is applied by 2027. Graduation of the reduction of the ratio could avoid even that dent. By 2036 Bank 1 and Bank 2 would have preserved the regulated mortgage loan investment ratios of 2025 of 10 and 20% of total assets, respectively while Bank 3's loan investments would be cut back to the level that the bank can actually afford from a profitability perspective. Deposit-poor Bank 3 would now by 2036 invest 2.8% of total assets in regulated mortgages vs. 2.2% of total assets estimated under the current reform path.

The cost of fund trajectories suggest that all three banks would be now competitive with each other as far as funding costs are concerned. This means that a central flaw of the historic regulation under the blended finance approach is being corrected without reducing liquidity for the regulated mortgage market (compare Figure 3 with **Figure 5**).

An open question is whether under our modified version of bond direction the mortgage rate ceiling should be abolished again, as it was under previous regulations, or modified. If the latter is the case, the ceiling should be at a higher level or in some form attached to Selic since cost of funds do not fall as rapidly as under the Poupança-only credit direction path charted currently by SPBE (compare Figure 3 and **Figure 5** on the right-hand side). A different batch of lending rate regulations would be required if lenders were permitted to depart from the fixed-rate to reviewable-rate pricing within the life of the loans.

From our analysis of the failure of the historic reform it follows that introducing an option for banks to compete over deposit prices would be particularly important in a blended finance scenario, which suggests to widen the deposit spread permissible over TR, e.g., by 1 to 2%

In the case of a blended finance scenario, the case for a system asset-liability manager would be far less pronounced, in particular if banks were able to bid up deposit rates to some extent. However, regulators should still be able define corridors of deposit, and by implication lending, rates that are consistent with both greater competition and stabilization of liquidity.

In the long-run, the blended finance liability-based credit direction approach would be replaced by an asset-based credit direction approach along the lines of India. A full liberalization of lending rates would require a certain level of macroeconomic stabilization.

4.3 Targeting Measures Needed Under Either Reform Path

Under either reform path it will be paramount to ensure a significantly improved down-market penetration of regulated mortgage lending under the SBPE, both in order to create space for the unregulated, mainly bond-financed market and fulfill the purpose of credit direction.

We already raised the importance of institutional specialization which is particularly relevant under the rationing approach for Poupança deposits. Additional measures could be:

I) Incentivizing loan size diversification and risk-taking

The already adopted new matrix of weights for credit direction compliance should be more finely differentiated, in particular in the dimension of credit risk taking. The proposed rules use the multiplier system primarily to reward greater liquidity risk taken in longer loan maturities. The framework could be extended to systematically reward bank exposure to greater credit risk, structurally underserved categories—such as incomes between BRL 10k and 20k, loans to informal workers, non-mortgage housing loans, or going forward low-cost housing developers, multi-family rental development or back-yard (buy-to-let) rentals. Ideally this policy menu would be accompanied by expanding the role of Brazil's government-owned housing loan insurer Fundo Garantidor da Habitação Popular (FGHab).

II) Targeting bond co-financing to larger loans

As shown, due to cost degression, small-sized loans – closer to FGTS limits – are less profitable for banks. By establishing mandatory bond co-financing requirements only for higher tickets and thus incomes, the average cost of funds would rise for those segments while they would be kept lower for middle- and low-income segments. Graduating the cost of funds would counterbalance the cost degression effect and thus balance internal rates of return for lenders across the portfolio.

This concept is in principle applicable under both the Poupança rationing and the blended finance reform path. In fact, in a rationing scenario without deposit pricing reforms, as currently envisaged, demanding co-financing with non-Poupança funding for larger loans becomes a necessary complement. In other words, even as under this reform path deposit pricing might remain unchanged, loan pricing should be permitted some flexibility.

The bond co-financing requirements would be evaluated on an aggregate portfolio level rather than loan-by-loan, preserving balance-sheet flexibility. This introduces an elegant regulatory incentive with a more progressive pricing structure that helps expanding the use of market-rate SFI securities, while preserving more affordable loans to ensure both overall credit expansion and complementarity to FGTS.

4.4 Focusing Tax Incentives on Mitigating Deposit Termination Risk

Although Poupança has functioned de facto as long-term funding, due to aggregate stickiness, savings deposits remain legally demand deposits that can be withdrawn instantly. The maturity mismatch inherent by lending those funds out for 20 years or longer could be addressed by federal tax incentives redesigned in a way as to mitigate the risk that depositors withdraw their savings earlier than expected.

For example, tax incentives should be focused on long-term deposits that savers either cannot terminate or only terminate subject to interest rate penalties. In this way, government would reward savers for macroeconomic risk-taking, which should be a general guiding principle in the Brazilian macro context. Again, at least a differentiation of the deposit rate ceilings between long-term and short-term should be enabled.

4.5 Clearly Stated Objectives and Monitoring Create Space for Future Liberalization

To ensure that any SBPE reform concept remains adaptive and data-driven, the framework must establish formal, mandatory evaluation milestones in regular intervals, e.g., every 3 years, governed by clear, objective key performance indicators.

We think in particular about far better targeting information, e.g., regular reporting of property prices, loan volume distributions, socio-economic and regional profiles of both the portfolio and new lending operations. A detailed monitoring system based on anonymized, cohort-level information is the backbone of both the Indian priority sector lending regime and the equivalent U.S.s Home Mortgage Disclosure Act information system.

Moreover, particularly in a system that will still require some asset-liability management responding to the market situation, all rules should be subjected to sunseting and / or periodic review. The expectation is that once the system performs as intended in both credit and asset-liability management dimensions and greater pricing flexibility reduces adverse incentives, rules can be increasingly discarded. This will be particularly likely when a blended finance reform path is adopted.

4.6 Adopting Value-generating Enforcement Policies

Finally, penalties for non-compliance should not be lessened as the new framework does but scaled progressively to the depth of the shortfall. Moreover, innovation could be introduced regarding the destination of these funds by adopting the Indian recycling model. Instead of leaving penalty reserves sterile on the Central Bank's balance sheet, these funds should be automatically recycled into dedicated, low-cost credit lines specifically earmarked to affordable housing portfolios at lenders willing to increase such portfolios. This ensures that a bank's failure to meet its social mandate directly funds specialized institutional channels that can thereby turn regulatory penalties into productive social outcomes.

5. Conclusion

This article has examined the structural mechanics and policy implications of the Brazilian Savings and Loans System (SBPE) following the regulatory overhaul enacted by the recent National Monetary Council (CMN) Resolution 5,255/2025. The adopted measures claw back an earlier blended finance approach to regulated mortgage lending as a result the increasing pricing gaps between bonds and deposits that emerged since 2021, and the inability of lenders to compete for additional deposits over their pricing. The reform strategists compensate for the declining deposit base that resulted from the price distortions through offering BCB reserve releases.

This approach necessarily leads to rationing of the remaining low-cost deposits, which however is not consequently thought through as banks remain permitted to lend them to higher income groups, in line with financial incentives of banks. Also, without at least a reviewable pricing approach to deposits that reduces gaps to bond prices and addresses the competition by alternative investment products, the deposit base is likely to further decline. Releasing deposits in BCB reserve in that context is a band aid that does not cure the underlying disease.

Our preferred alternative would be to address the mistakes of the current blended finance approach and partially keep bond financing in the credit direction envelope while rendering the pricing of deposits and loans more flexible. Bands of deposit rates will permit smaller lenders to acquire more deposits and expand the overall deposit base again. Limiting bond direction into mortgages will create a level playing field of cost of funds between deposit-rich and deposit-poor lenders. Both measures combined will avoid a pronounced recession in regulated mortgages which is implied by the current approach.

Obviously, in the Brazilian macro context flexible, and potentially variable, mortgage pricing remains a credit risk issue, so under both approaches there will have to be some form of regulation of lending rates. Such a managed interest rate approach speaks against driving down BCB reserves to zero, rather technical reserves should be built that help absorb pricing or liquidity shocks.

Crucially, even a recovering or stabilizing deposit base resulting from better pricing management should be invested with priority into affordable housing credit to improve affordability and take burden away from FGTS. In that regard, our comparative international benchmark analysis refutes the premise that capital market development renders credit direction obsolete. From the 'government-sponsored' capital market agency models of the United States whose investors extensively deploy deposits, via deposit-reliant mortgage market frameworks in Western Europe, to the centralized state-mediated architecture of the French *Livret A* and India's flexible Priority Sector Lending (PSL) asset quotas, directed credit remains an important tool worldwide for aligning financial sector liquidity with social policy objectives.

The challenge is to define parameters and instruments that permit the commercial banking sector to operate profitably and under higher competition levels while safeguarding credit access for low- and middle-income households. This requires a fine-tuned system of asset investment and co-financing parameters that reflects bank costs as well as instruments to trade investment requirements to those banks best placed to invest at the frontier of the credit market. When the new credit segments are firmly established and incentives for lenders aligned with housing policy intention, further steps of reducing the body of regulations can be straightforward and only then should be taken.