

Housing Microfinance: A Guide to Practice

HOUSING MICROFINANCE

- **Purpose:**

Provide an overview of emerging approaches, products, and issues for housing microfinance

Suggest areas for research, dissemination and product development

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Why Is HMF Important?

From a Microfinance Perspective:

- Reports of microenterprise loans used for housing;
- An increasingly important part of financial operations for major MFIs (Grameen, SEWA, ADEMI, Calpia)
- Obvious extension of the finance in micro**finance**
- Enough experience that best practices can begin to be documented

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DEFINITION:

- **A subset of microfinance, encompassing initiatives that:**
 - Target the habitat needs of the poor or the very poor
 - Extend Relatively small loan amounts based on estimated repayment capacity
 - Carry a Short repayment period
 - Are usually not collateralized
 - Are priced to ensure long term financial viability of the provider
 - Incorporate systematic due-diligence and follow up procedures

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DEFINITIONS

Who Are the Clients?

- Existing MFI Clientele (economically active poor working in the “informal” economy)
- In general, low income earning and poor households that do not enjoy access to traditional housing finance

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DEFINITIONS

Who Are the Providers?

- MFIs
- Home Lenders
- NGOs
- Regulated Financial Institutions (banks)

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MICROENTERPRISE LENDING and HOUSING MICROFINANCE: A COMPARISON

Typical Microenterprise Loans

Impacts borrower's income

May offer very small loan amounts

May or may not be "fungible"

Can be individual or group loans

*Repayment capacity based on
generation of future income*

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Impacts borrower's assets base
and may impact income

Relatively larger incremental loan
amounts

May not may not be. Is not in the
case of CHF's HILP

Usually individual loans

Repayment capacity based on
borrower's current income

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Table 1. Key Indicators for Organizations with Housing Microfinance Programs

Organization	Start Date for Housing	Total Outstanding Portfolio	Housing Portfolio	Average Loan Size	Repayment Rate for Housing	Maximum Repayment Period
Grameen Bank	1984	\$170,360,000	\$1,090,000	\$100-\$600	NA	120 months
SEWA Bank	1976	\$2,274,866	\$913,086	\$532	92%	60 months
Mi Banco	2000	\$45,000,000	2,676,000	\$200-\$1,500	NA	36 months
FUNHAVI	1996	\$1.2 million	\$1.2 million	\$1,400	96%	20 months
CHF Gaza Program	1995	\$5.2 million	\$5.2 million	\$5,000	98%	36 months

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Two Families of Products:

- **Linked Housing Microfinance**
- **Stand Alone Housing Microfinance**

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As Linked to Other Products Offered by MFI

- Why:**
- Fits mindset that micro-financing is incremental with income generation loans as steps towards asset building
 - Can be a powerful tool for client retention
 - Client's history with MFI (through loans or savings) offers good proxy for capacity to pay analysis
- What:**
- Provides housing loan as part of a “graduation” process after client has established a lending or savings history with the MFI
 - Can be a longer term loan financing a complete core house or a home improvement loan;

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As Linked to Other Products Offered by MFI

Table 2. Housing Microfinance As Part of Sequential Step in financing of Microentrepreneurs

Organization	Average Loan Size	Maximum Repayment Period	Security/ Collateral	Required time with Program	Savings Required	Solution Type	TA to Clients
Grameen Bank	\$100-\$600	120 months	5 co-signers +Center guarantee	Two years minimum	Yes	Fixed (incl. Latrine)	No
SEWA Bank	\$532	60 months	One year savings as lien; 2 cosigners	One year minimum	Yes	Variable	No
CARD	\$359	12 months	Five co-signers	One and a half year	Yes (\$39)	Variable	No

Source: Housing Microfinance Initiatives. USAID/DAI, June 2000

Franck Daphnis, CHF International

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As Stand Alone Incremental Product

What: - Provides housing loan based on generally accepted microfinance principles (short repayment period, relatively small amount, based on repayment capacity, market rate) and independently of prior history with MFI

Why: - Works within a vision of housing as one of many products MFIs can offer the poor alongside more established products

- Can be a tool for diversification (and retention) of clientele
- Can help with risk management by diversifying product line

Issues: - Client qualification must be rigorous as there is no prior history with MFI

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As Stand Alone Incremental Product:

■ KEY CHARACTERISTICS:

- **Purpose:** Typically Improve condition of existing structure
- **Repayment Capacity:** Periodic payment no more than 25% of income, total debt burden no more than 40%
- **Repayment Period:** Generally one to three years

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As Stand Alone Incremental Product:

■ KEY CHARACTERISTICS:

- **Loan Amount:** Based on cost, repayment capacity, repayment period, market interest rate (\$250-\$4,000);
- **Security:** Secured through collateral substitutes (mostly co-signers) or actual collateral for larger loans; no “mortgages”.
- **Product Design:** Basically an individual loan product.
- **Savings.** If capacity to pay is borderline for stand alone product, a savings requirement could be introduced.

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Key Concepts : Construction Assistance

In addition to credit analysis, housing microfinance products may require non- financial assistance.

This assistance can include:

- Evaluating the technical feasibility of the proposed improvement.
- Preparing cost estimates.
- Providing technical assistance as needed in improvement design and construction.
- Providing construction oversight.

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Key Concepts : Land Issues

Land Security vs. Land Tenure

If formal title cannot be produced, land security can be demonstrated by:

- Written agreement between buyer and seller of land
- Long term rental agreement between client and government
- Based on local laws, years on the property qualifying as *de facto* ownership
- Accepted tax payments on property

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CHALLENGES

- **Opportunity Cost:** Is this the best use for the provider's funds?
- **Liquidity:** Will longer term loans create a liquidity crunch?
- **Non Financial Services (TA) to Clients:** When should it be provided? What is the value added? Will clients pay for it?
- **Institutional Adjustments:** Can the organization handle the organizational, personnel and methodological adjustments?
- **Legal:** Land, construction permits (if applicable), and asset repossession
- **Pricing:** Will the new Product have a negative impact of organization by steering clients away from existing product line (if housing loan terms are more attractive)?