

## Housing Microfinance Case Study: REZ-FOND Home Improvement Loan Program in Bosnia and Herzegovina

This case study draws upon information presented by Cristian Jurma, Deputy Director of Credit Operations of CHF International's Bosnia and Herzegovina country office (CHF/BiH), at the conference in Sarajevo, *Towards Social Stability and Economic Development*. The case study illustrates the Home Improvement Loan Program (HILP) that CHF/BiH developed and implemented in Bosnia and Herzegovina through the microfinance institution Mikro REZ-FOND and its predecessor, CHF MKO.

### Description

Since the launch of CHF International's Municipal and Economic Development Initiative (MEDI) Program in Bosnia and Herzegovina in late 2001, the provision of microfinance has played an integral role in fulfilling the program's multi-sector development objectives. After conducting a comprehensive credit survey in central Bosnia and Herzegovina, CHF International's Bosnia and Herzegovina country office established *CHF MKO* in March 2002, a micro-credit institution with the following mandate:

*"[To] use micro-credit to increase the capacity of local organizations to serve business and neighborhood development needs, to inject needed capital into the local economy in order to generate economic growth and to create/sustain local jobs, to improve the living conditions and build local means to conduct grassroots economic development activity on a sustainable basis."*<sup>†</sup>

In addition to identifying the microenterprise finance needs of entrepreneurs, the credit survey indicated that homeowners had little or no access to credit that would enable them to repair or modernize their homes. CHF MKO conducted a Home Improvement Loan Program (HILP) feasibility assessment according to the guidelines described in Case Study One. With funding from the Swedish International Development Cooperation Agency, CHF MKO developed a home improvement loan, the first of which was disbursed in June 2002. As of May 2004, the housing microfinance program has disbursed over 680 loans, totaling more than 1,040,000€.

### **HILP feasibility assessment results**

A crucial component of HILP methodology, the feasibility assessment provided analysis of factors necessary for the design of an appropriate housing microfinance product, including market demand for housing microfinance, the institutional capacity of CHF-MKO to administer such a program, and external factors with a potential effect on program implementation. The findings of the assessment, some of which are presented in the following table, correlate directly to the standard loan terms adopted for CHF MKO's housing loans.

#### *HILP Feasibility Assessment Results*

<b>Assesment Category</b>	<b>Results</b>
Survey Locations	Sarajevo, Travnik, Zenica, and Maglaj
Number of households surveyed	1,100
Proportion inhabited	82.5%
Proportion private/public	94.6% privately owned, 3.6% owned by municipality
Proportion owner-occupied	88.8% owner-occupied, 8.9% inhabited by sub-tenants
Monthly income/HH member	68.9% with income per household member between 50 - 150€
Proportion willing to accept	70% willing to take a loan with a monthly payment of 1 - 50€

<sup>†</sup> CHF International, Bosnia and Herzegovina Country Office website, <http://www.chfbh.org/home.htm>.

loan/repayment amount	
Proportion of households already carrying debt	18%
Proportion currently paying for building maintenance	85.5%
Types of regular maintenance	Hall painting, interphone, roof repair, elevator, water supply, heating

### **HILP Individual loan terms**

Targeting low-income households, REZ-FOND offers household HILP loans in three separate cycles of increasing principle amounts to clients with a secure monthly income and good credit history. Successful repayment of a first cycle loan qualifies a household for a second cycle loan. Flexibility of loan amounts and securitization allows clients to choose terms most well suited to their needs. Terms of HILP Individual Loans are listed below.

<b>Loan Characteristic</b>	<b>Cycle One</b>	<b>Cycle Two</b>	<b>Cycle Three</b>
<i>Purpose</i>	Housing construction, renovation, or upgrading		
<i>Maturity</i>	3-24 months	Up to 30 months	Up to 36 months
<i>Amount</i>	500 - 5,000 KM (USD 307 – 3075)	500-6,000 KM (USD 307 – 3690)	500-7,000 KM (USD 307 – 4305)
<i>Commission and Monthly Interest Rate</i>	2% up-front commission 0.75% monthly interest rate		
<i>Repayment Capacity Estimation</i>	Monthly payment not to exceed 25% of household monthly income		
<i>Security</i>	Loan principle < 3000 KM – one guarantor minimum Loan principle > 3000 KM – two guarantors minimum Cumulative income from guarantors to be three times higher than monthly payment		

### **HILP Group Housing loan terms**

REZ-FOND has also recently launched a new pilot loan product targeting homeowners associations in multi-unit condominium buildings. These loans are substantially larger, with amounts based on the number of members in an association. Total amounts can be as large as 15,000€, with a maximum of 1,000€. Monthly payments are no more than 10€/household for a maximum of 36 months. Loans carry a flat 1% monthly interest, and REZ-FOND charges an up-front 2% commission on the loan principle. Members of the association provide loan security; there is no requirement for additional co-signers. Significantly, as many inhabitants of multi-unit condominium buildings often wish to build their capacity to administer and perform building maintenance, lending groups are eligible for technical assistance and training services included in the loan contract.

Further stipulations for qualification for HILP Group Housing Loans include:

- A minimum of four households in a homeowners association from the same building
- 80% consensus amongst private owners within the building

- Funds can be used only for repairs and improvements of building common spaces and systems

### **Performance and Sustainability**

With an initial capital investment of 500,000€, CHF MKO and its successor Mikro REZ-FOND<sup>††</sup> had achieved the following results as of May 2004:

- Over 99% repayment rate
- 0.89% principal at risk > 30 days
- 0% write-off
- 25% of clientele are women
- 17% of clientele are returnees
- Representation of all ethnic groups among clientele

### **Critical Success Factors and Lessons Learned**

One preliminary step that CHF BiH took in establishing the microfinance institution CHF MKO was to register the organization at the Ministry of Social Welfare of the Federation of Bosnia and Herzegovina. Institutions wishing to implement similar programs should investigate the legal and bureaucratic steps necessary to register housing microfinance programs with the appropriate authorities.

As described above, the design and implementation of HILP is largely determined by findings from the initial feasibility assessment. Readers should refer to the previous Fundamental Guidelines of the Housing Microfinance Approach section for further description of factors to be considered when conducting a HILP feasibility assessment.

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<sup>††</sup> CHF MKO changed its name to Mikro REZ-FOND in July 2003 to reflect affiliation with Regional Development Agencies, regional social and economic development advocacy associations established with assistance from CHF-BiH through the MEDI program.