

# Housing Microfinance: An Alternative to traditional housing finance mechanisms

## **Purpose of Presentation:**

Provide a comprehensive and practical overview of emerging approaches, methodologies, and products for housing microfinance.

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## Why Is HMF Important?

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### 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 microfinance
- Enough experience that best practices can begin to be documented

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## Why Is HMF Important?

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### From a Housing Finance Perspective:

Points to an innovative approach to solving the Housing Finance Problem:

“The Need to reconcile three partially conflicting objectives: affordability for the households, viability for the financial institutions, and resource mobilization for the expansion of the sector and the national economy.” (Renaud, 1984)

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## DEFINITION:

- The Application of microfinance principles to the delivery of housing microfinance
- 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

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### Who Are the Clients?

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

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## DEFINITIONS

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### Who Are the Providers?

1. MFIs
2. Home Lenders
3. NGOs
4. 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*

### Housing Microfinance

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

# Housing Microfinance: An Alternative to traditional housing finance mechanisms

## Two Families of Products:

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

# Housing Microfinance: An Alternative to traditional housing finance mechanisms 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;

# Housing Microfinance: An Alternative to traditional housing finance mechanisms 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

# Housing Microfinance: An Alternative to traditional housing finance mechanisms 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

# Housing Microfinance: An Alternative to traditional housing finance mechanisms

## 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

# Housing Microfinance: An Alternative to traditional housing finance mechanisms

## As Stand Alone Incremental Product:

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### ■ 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.

# Housing Microfinance: An Alternative to traditional housing finance mechanisms As Stand Alone Incremental Product:

**Table 3. Housing Microfinance As Incremental “Stand Alone” Product**

Organization	Average Loan Size	Maximum Repayment Period	Security/ Collateral	Required time with Program	Savings Required	Solution Type	TA to Clients
ADEMI	\$4000	36 months	Loan is collateralized	None	No	Variable	No
FUNHAVI	\$3000	20 months	2 co-signers	None	No	Variable	Yes
CHF/Gaza	\$4,800	36 months	2 co-signers with salary transfer	None	No	Variable	Yes

Source: Daphnis/CHF UB-B Housing Microfinance Survey, July 2000

# Housing Microfinance: An Alternative to traditional housing finance mechanisms

## Key Concepts:

- “Market” Interest Rate: Priced to include administrative expenses (AE), Loan Losses (LL), Cost of Funds (CF), Desired Capitalization Rate (K) and investment income (II).  $R = [(AE+LL+CF+K)/(1-LL)] - II$  †; or priced using the Microfin Loan Projection Model
- Land Security (vs. land tenure)
- Construction Assistance

† Rosenberg. CGAP, 1998

# **Housing Microfinance: An Alternative to traditional housing finance mechanisms**

## **Branching Out: Applications beyond MFIs and housing finance**

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### **Slum Upgrading In Ahmedabad As Example:**

- **City of Ahmedabad one of first in a true developing context to float bonds**
- **Idea (not new) to combine household level finance and Public Funds to achieve slum upgrading**
- **SEWA Bank innovates and uses combination of savings and HMF methodologies to raise households contribution**

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## The Agenda

- Keep examples and best practices documented and up to date with practitioners and donor staff
- Work with microfinance training programs and academic development finance programs to highlight innovations and applications
- Further articulate the nexus between development finance and other fields of practice