

Housing Microfinance Case Study: HILP and Condominium Loans in Romania

This case study draws upon information presented by Bryan Winston, Country Director of CHF Romania, at the conference in Sarajevo, *Towards Social Stability and Economic Development*. The case study illustrates the individual and group home improvement loans that CHF Romania has designed and made available through its microfinance program.

Description

Since 1998, CHF Romania has offered home improvement finance products to individual households and groups of homeowners as an integral component of CHF International's Integrated NGO and Economic Development Program (INED). Based on an initial feasibility assessment similar to that described in Case Studies One and Two in this section, CHF Romania designed housing loans to suit the needs of low-income households that do not typically qualify for long-term housing mortgages available through commercial banks. This assessment evaluated critical factors for the success of a housing microfinance program, including market demand for housing microfinance, the institutional capacity of CHF Romania to administer such a program, and external factors with a potential effect on program implementation.

Housing loans are priced to cover operational and financial costs of the microfinance program, and technical assistance complements loans granted for complicated housing improvements. As of July 2004, CHF Romania's housing finance program has achieved the following results:

- 654 individual home improvement loans extended, totaling USD 326,718
- 746 group home improvement loans extended, totaling USD 796,264

Individual housing loan terms

Targeting low-income households, the housing microfinance program offers two stages of individual housing loans to clients with a secure monthly income and good credit history. Successful repayment of a loan for first-time borrowers qualifies a household for a larger loan. CHF Romania offers second-time borrowers two options of larger loans to choose from, one with a shorter lending period of 3-12 months with a lower interest rate, and another with a lending period of 13-18 months that bears a slightly higher interest rate. These options allow clients to choose which terms best suit their needs. Loan security is assured through the use of co-signers, who must have separate mailing addresses than applicants. Terms of the individual housing loans are listed below.

<i>Loan Characteristic</i>	<i>Loan for first-time borrowers</i>	<i>Loan for second-time borrowers, Option A</i>	<i>Loan for second-time borrowers, Option B</i>
<i>Purpose</i>	Apartment heating system or thermostatic valve installation Domestic heating and water utility meter installation Roof insulation and repair Household appliance acquisition		
<i>Maturity</i>	3-12 months	3-12 months	13-18 months
<i>Amount</i>	USD 50 – 450	USD 50 – 800	USD 50 – 800
<i>Commission and Monthly Interest Rate</i>	3% up-front commission 12.0% flat interest rate	3% up-front commission 12.0% flat interest rate	4% up-front commission 13.2% flat interest rate

<i>Repayment Capacity Estimation</i>	Monthly payment not to exceed 25% of household monthly income
<i>Security</i>	Loan security assured through co-signers, Co-signers must have separate mailing addresses than applicants

Group Housing Loan terms

The housing microfinance program offers group housing loans as well. These group loans allow securitization through the use of co-signers or through a mortgage instrument at the largest principle amount available. The maximum loan amount is USD 750/resident in a condominium homeowners group, with a maximum lending period of 36 months. The interest rate is set at a flat 16%, and the loan commission ranges from 2-4%, depending on the size of the loan.

Some constraints that have arisen with the group housing loans include the wide range of incomes and repayment capacity within the target population, the difficulty of obtaining consensus amongst condominium residents, limited available collateral options for condominium inhabitants, and the overhead costs incurred by the microfinance institution in preparing these loan packages.

Housing loan application submission and review process

Potential housing microfinance clients can begin the application process by contacting a representative of either CHF Romania or a member organization of a country-wide microfinance partnership. The representative will advise applicants whether they may qualify according to a number of preliminary conditions:

- Basic loan eligibility criteria are met
- Households are sufficiently capable of repayment
- Request for funds is realistic based on the proposed activity
- The loan agreement functions according to Romanian legal requirements
- Applicants have no present involvement in any litigation with third parties

Potential applicants that meet the preliminary conditions work with the representative to complete and submit their application to the housing microfinance program office. After meeting with a loan officer to discuss the loan underwriting services available, the loan officer passes satisfactory applications to the Credit Committee for a final lending decision.

Performance and Sustainability

As of July 2004, the housing microfinance program of CHF Romania had achieved a repayment rate of over 99%. [This section to be developed further]

Future directions for housing microfinance in Romania

The possibility of expanding the list of purposes for which loans will be granted exists. CHF Romania have identified the need for housing microfinance products that would assist low-income families in building lot acquisition and the extension of utilities infrastructure, such as gas, water, and sanitary systems to underserved areas.

Critical Success Factors and Lessons Learned

Information gathered during initial feasibility assessments largely determines the design of housing microfinance products. 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.

CHF Romania also conducted a thorough investigation of legal and institutional frameworks governing housing finance and microfinance. In addition to aiding in the creation of appropriate microfinance products, this preliminary step allowed CHF Romania to identify a number of other programmatic objectives that complimented the overall development goals of the housing microfinance program, such as mortgage market reform (an approach to be documented under *Legal and Institutional Frameworks*) and possible areas for public-private collaboration with municipal governments in pursuing housing sector and urban development.

Additional Information Resources

Organizations

CHF International, Romania Country Office
<http://www.chf.ro/>

Romanian Microfinance Coalition
www.micro-finance.ro

Reports

UNECE Housing Profile for Romania (2001)
<http://www.unece.org/env/hs/cph/romania/welcome.htm>