



Housing Micro Finance Sector-Wide Study

Habitat For Humanity
Housing Microfinance Workshop
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Housing Microfinance (HMF) Overview

- What constitutes low income housing?
- Supply of Finance for Low Income Housing
- Microfinance and Low Income Housing
- What is Housing Microfinance?
- How are micro housing loans different from micro enterprise loans?
- HMF Products In India
- Challenges
 - For MFIs who wish to offer HMF
 - For MFIs with existing HMF programmes
- Key Features of HMF Loans
- Features of some successful examples of HMF
- Conclusion

What constitutes Low Income Housing?

Low Income Housing

Housing as investment / asset

Home-based micro-enterprise

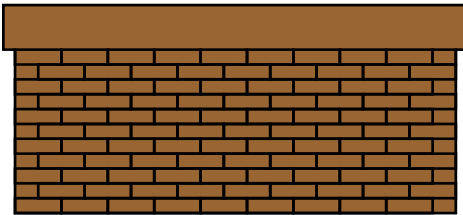
Housing as Commodity

Financial Security / Asset & social status

Housing as Shelter

Personal Safety and Health

Progressive Build



Poor people build gradually, over time \approx small, incremental loans; compatible with microfinance loans

What is Housing Microfinance?

- Small Loans to low-income and Low Middle Income households for
 - New constructions
 - Repairs or improvements of existing structure
 - Purchase of land or other permanent structures
 - Investment in infrastructure (like sewage facilities)
 - Target Income Range: Rs. 5,000 – Rs. 10,000
- Using Microfinance Principles to Traditional Housing Finance
 - Relatively smaller loan amounts and tenures
 - Leveraging existing group structures and social networks instead of formal mortgage deed
 - Transaction and Verification costs are relatively lower

High Demand: Up to 30% of micro-loans being diverted for housing needs

Supply of Finance for Low Income Housing

- Commercial banks which lend to low-income sector offer loans
 - Tenure: 20 years
 - Down payment: 10% - 30% of home value
 - Pay slips
 - Legal title to property
- Penetration of low income housing finance by banks is miniscule. Why?
 - Inability of banks to accurately assess low income credit risk
 - Lower profit margins
 - Lack of land title
 - Uncertainty of repossession

Microfinance and Low Income Housing

- Low Income Housing – built gradually over time as and when poor households have access to finance
- Microfinance Loans – small loans which can be used to upgrade houses over time

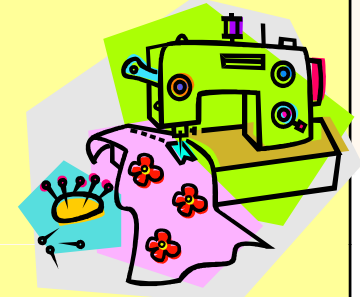
How are micro housing loans different from micro enterprise loans?

Housing Loans



- Individual Liability
- 5-10 year loans
- May or may not be secured
- Repayment based on current and future income
- Usage is better tracked – house construction is easily verified

Micro-enterprise Loans



- Joint Liability
- 1 year loan
- Unsecured
- Repayment based on future income
- Loan usage is fungible

Other Distinct Features of HMF Loans

<i>Size</i>	2-4 times larger than micro credit	<i>Target clientele</i>	Low income workers Rs.5000 –
<i>Interest rates</i>	At same rates as credit or lower	<i>Add-on services</i>	Land acquisition, regn., construction, insurance

HMF Products In India

MFI	Microenterprise Loan			Housing Loan		
	Tenure	Amount	Rate	Tenure	Amount	Rate
MFI 1	3yrs	Rs. 25,000	17%	5yrs	Upto Rs. 25,000	14%/17%
MFI 2			Less than 2% per month	10-15yrs	Rs. 30,000 - Rs. 50,000	9%
MFI 3	12-18mths (Income Generation Loans), 4mths (Vyapar Vokas Loan)	Rs. 20,000/Rs. 25,000	12%/18%	7yrs (new)/ 4yrs	Rs. 50,000 (new)/ Rs. 25,000 (house repairs)	10% (yearly diminishing)
MFI 4	3yrs	Rs. 25,000	16%	15.5yrs	Rs. 75,000	15.50%
MFI 5	1-2yrs	Rs. 60-70K to a group of 20 women	12%	3yrs	Rs. 1.5Lakhs for a group of 20 women to be restricted to 30K for 5 women	12%
MFI 6	1yr	Rs. 1,000 - Rs. 10,000	15%	5.5yrs	Rs. 35,000	15%

Challenges

– For MFIs who wish to offer HMF

- Demand Assessment
- Funding
- Land Title and Collateral Issues
- Make changes in existing lending and organizational methodology

– For MFIs with existing HMF Programs

- Technical Assistance
- Subsidies, grants, free land
- Achieving Scale and Sustainability

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Challenges – Is there demand?

- Assess potential market size and composition, client preferences, competition and affordability
- Demand for HMF is a function of demand for housing + capacity to pay for it
- Product Design according to target clientele
- Partners for non-financial services

Challenge:

Need expertise and time to do demand assessments

Existing Solution:

Informal assessments

Need:

More rigorous demand assessments

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Challenges – Is Financing HMF a problem?

- Supply includes: Banks, Government Housing Programs, Donor agencies, Housing Finance institutions (HDFC etc)
- Financial Institutions are reluctant to lend for long-term consumption loans
- Asset/Liability mismatch: short term loans and long term lending
- Loan Recovery / Default

Challenge:

MFIs need long term capital / loans to provide HMF.

Existing Response:

Long term relationships with Banks, financial institutions, donor funding

Need:

Build relation and reputation, concerted efforts to highlight successful HMF examples, rigorous demand assessments

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Challenges – Transition in existing methodologies

- May Require Collateral
- Transition to Individual Lending
- Change in Target Clientele
- Training for staff/clients – need to develop a longer term view of financing

Challenge: Can MFIs make the transition? Yes

Need: A tool kit for MFIs that want to start offering HMF

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Challenges – Land Title and Collateral Issues

- Lack of clear, legal land titles
- ‘Para-legal rights’, rights that exist separately from but are as strong as land titles
- Particularly true for home-based entrepreneurs
- Is legal land title sufficient for lending? Not always.
 - *Foreclosure - onerous, time-consuming, morally problematic*

Challenge:

How to lend despite lack of clear land titles

Existing Solution:

MFI's accept *pattas* and other para-legal rights in lieu of clear land title

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Challenges – Technical Assistance

- Technical assistance increases administrative costs
- MFIs are not trained to provide technical assistance
- Does not seem to impact repayment performance

Challenge:

To provide Technical Assistance or not?

Existing Solution:

No technical assistance beyond cost effective means

Need:

clients,
disbursal

- Targeted technical and construction assistance courses for MFIs and perhaps at the time of loan
- Bulk buying of raw materials by MFIs on behalf of clients. Eg: FUNHAVI
- Can mean partnering with a non-financial intermediary

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Challenges – Subsidies

- Govt Subsidies, grants, free land
- Discount opportunities for MFIs and discourages credit discipline
- Govt schemes for low income housing: subsidy + default = 80% - 90% of unit cost

Challenge: How to make HMF loans competitive and how to ensure repayment in the face of government subsidies

Need:

- To separate subsidies from financial services;
- Explore opportunities to leverage subsidies.
Eg: Toilet subsidy incorporated into Parivartan slum redevelopment effort

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Achieving Scale and Sustainability

- Lack of knowledge regarding low income housing
- Low levels of engagement with construction of low income housing or with banking
- **Challenge:** How to scale up HMF programmes so that they are financially sustainable
- **Need:**
 - Innovative products and mutually beneficial partnerships
 - Research into product design, uptake and impact to build knowledge base
 - Toolkit to guide MFIs through the process of building successful HMF initiatives

Product Features

- **Linked Product**
 - Only for 'star'/graduated borrowers; completed more than 1 loan cycle
 - May be linked to savings eg: SEWA
- **New Construction vs. Housing Upgrade**
 - HMF has tended to work better with housing upgrades rather than with new construction, partly because principal amounts are lower
 - Beneficiaries tend to borrow formally (say from an MFI) and informally (say from moneylenders) to build a full unit. Eg: surveys show that some homebuilders borrow from more than 2 sources
- **Principal Amount**
 - Not always large enough to build a complete unit
 - How to overcome this
 - Technical Assistance regarding low-cost methods
 - Awareness building on progressive growth
 - Leveraging available subsidies eg. Toilet subsidy
 - Even the two largest principal amounts fall short of the amount needed to build a full unit
- **Moratorium and Term of loan**
 - Term of loan is longer
 - Moratorium varies – Some have no moratorium other have moratorium periods as long as one year.

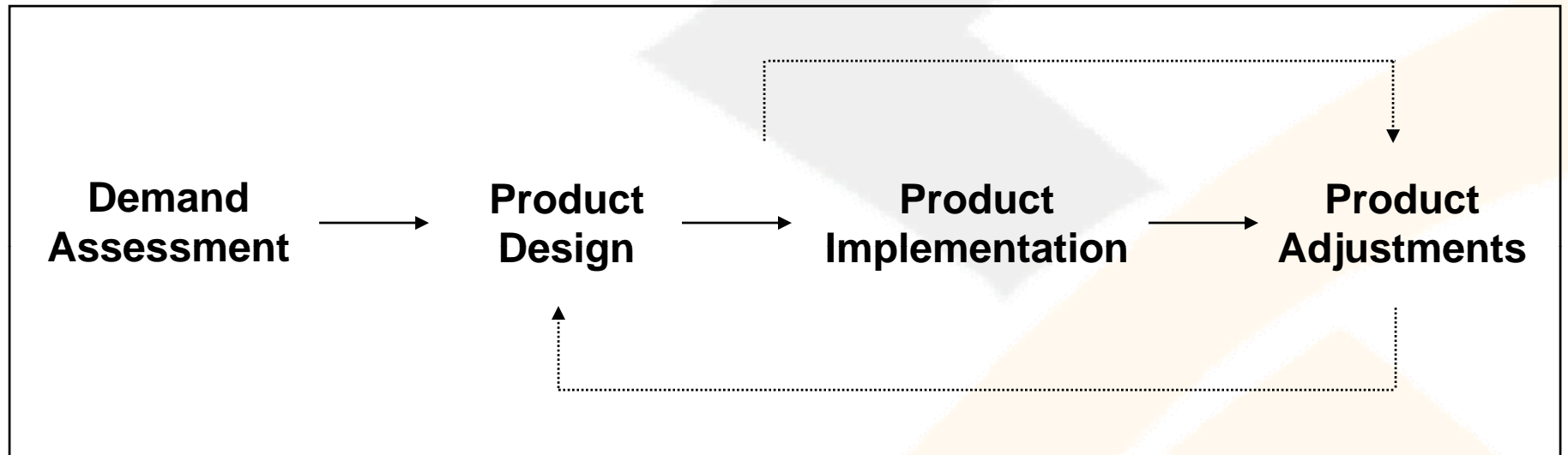
Product Features

- **Interest Rate**
 - Determined by largely cost of funds and administrative costs
 - Some part of this controlled by MFI: Administrative Costs
 - Market interest rate environment matters
 - Dependent on availability of subsidy and/or collateral
 - Tend to be lower or the same as interest rates for micro-loans
- **Collateral**
 - Usually uncollateralized. But collateralized loans exist as well
 - Co-signers, guarantors
- **Eligibility Criteria**
 - Rural: some ownership of land, completion of loan cycles successfully, recommendation of group
 - Urban: more advocacy and land rights focused. Moving into new areas like renting and leasing
- **Construction Assistance and other services**
 - Restricted to cost-effective means, if at all offered
 - Eg: Course on cost-effective methods in one MFI discontinued due to lack of interest
 - Insurance

Conclusion

- Generalised principles are hard to draw due to paucity of HMF programmes
- **Major Challenges remain**
 - Transitioning to a new lending methodology
 - Funding
 - Technical Assistance
 - Subsidies
 - Achieving Scale and Sustainability
- **Product Design**
 - Linked Product
 - Principal Amount
 - Interest Rate
 - Collateral
 - Eligibility Criteria
 - Construction Assistance

Conclusion



- Mutually beneficial partnerships are key
- Programme evaluations are necessary



Thank You

- Questions?
- Please contact

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