

# Housing Microfinance: The Challenge of Scale

## Asia-Pacific Housing Forum

September 25, 2007

# Housing Microfinance: The Challenge of Scale

Loan Amount:	<b>US\$ 250 - 4,000</b>
Repayment Period:	<b>1 - 3 years</b>
Repayment Capacity:	<b>&lt; 25% of income; total debt burden &lt; 40%</b>
Security:	<b>collateral substitutes (mostly co- signers)</b>
Borrower Type:	<b>Individual (evidence of land tenure)</b>
Savings:	<b>Not always required</b>

# Housing Microfinance: The Challenge of Scale

## MICROENTERPRISE LENDING and HOUSING MICROFINANCE: A COMPARISON

### 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 or may not be. Not if construction assistance is required

Usually individual loans

Repayment capacity based on borrower's current income

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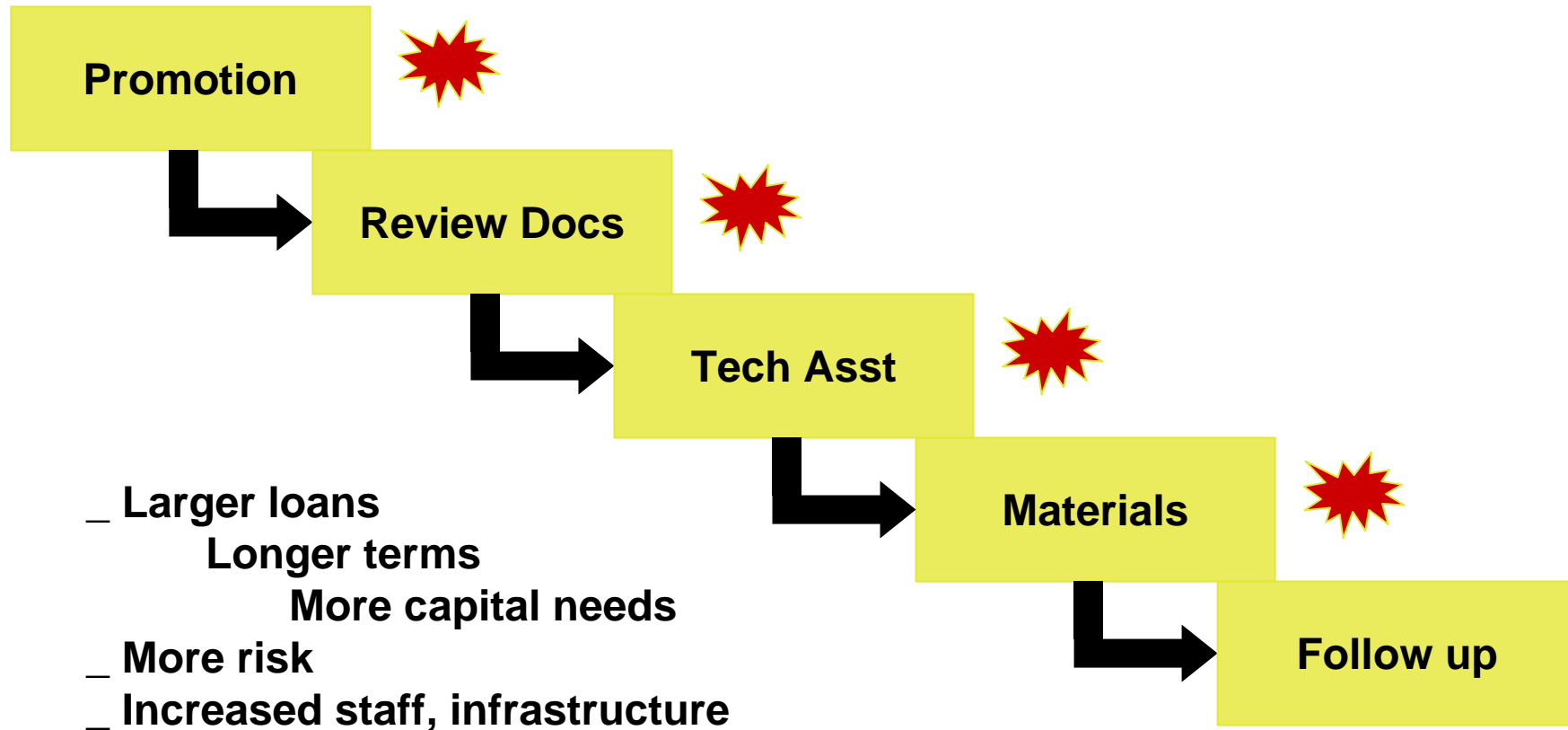
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## Internal (courtesy ACCION –Christy, Nino)

- Reluctance to lend to new clients
- Question fit with mission
- Buy in for field staff (more work)
- Modifying reporting structures/MIS
- *NGO mentality of added services to clients*

## External

- Government programs/subsidies
- Regulations (Colombia 32% ceiling)
- Funds for portfolio growth (HMF & Mort)
- Land prices, housing supply
- Market, competition



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## DIG – Dev Finance, Urban & Comm'ty Svcs, Fund Mgmt Market Assessment

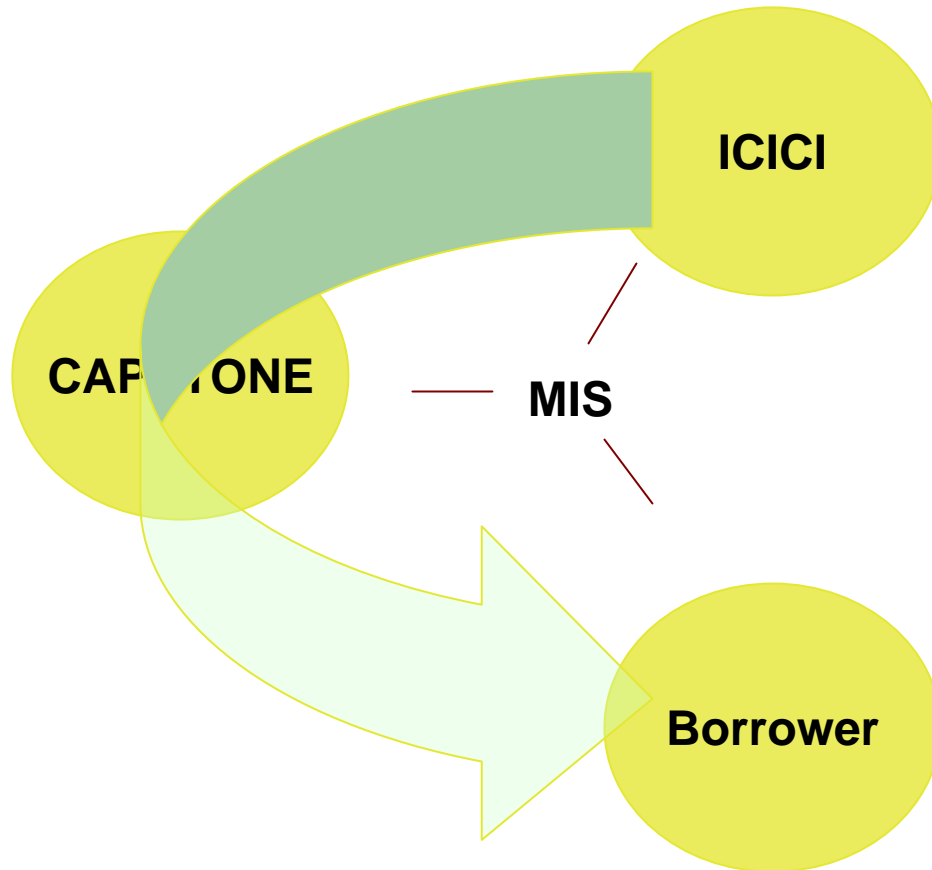
- Mumbai, Delhi, Chennai, Bangalore, Jaipur, Vijayawada (6,500)
- 76% had title to property or sales contract, 15% had agreement b/t parties
- 64% expressed an interest in taking a loan
  - 27% home improvement
  - 52% Business
  - 21% Personal
- 55% had undertaken home improvements in last five years, 82% used savings
- 98% had used informal loans, 95% never accessed a formal loan
- Avg. monthly repayment capacity US\$ 45, 35% US\$50-100, 15% US\$100+
- “Since 1985, more than 400m have risen out of relative poverty-to \$5 per day- and another 300m will follow over the next two decades...”
- Competition (Citifinancial, GE Money, Fullerton charging 40% flat)

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## Products

	<b>Microfinance</b>	<b>Mortgage (R&amp;D phase)</b>
<b>Amount</b>	<b>US\$ 200 – 3,000</b>	<b>US\$ 3,750 – 12,500</b>
<b>Term</b>	<b>4-24 months</b>	<b>4-12 years</b>
<b>Security</b>	<b>co-signer</b>	<b>mortgage (land or prop)</b>
<b>Client</b>	<b>sal./self empl</b>	<b>salaried</b>
<b>Interest</b>	<b>21.6% flat</b>	<b>15-18% d.b.</b>
	<b>Repmt cap \$40-100/month</b>	<b>Inc. of ~\$160 – 400/mo</b>

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## Partnership Model

- \_ Priority Sector Lending
- \_ CapStone identifies & assesses client, gets docs, disb, take repmt
- \_ ICICI covers all capital needs if loan quality is good
  
- \_ FLDG
- \_ Guarantee mechanism
- \_ Process requirements per RBI
- \_ Product parameters

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CAPSTONE  
THE CAPITAL TO BUILD YOUR FUTURE



Standardization

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“Everything and its opposite is true in India.”

### Need to wake up to the realities

The global success of “brand India” and continuous reinforcement of successes cloud many perceptions of reality. The Hindu 9/22/07

HR

Bureaucracy drift