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Getting to Scale in Housing Microfinance
A Study of ACCION Partners in Latin America

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Opportunities

A vast unmet demand exists for housing finance for low-income populations in the developing world.[1] Though solutions have yet to reach significant scale, either from governmental or the private sector, the microfinance industry has recently made great strides in this area. *Housing microfinance* has shown signs of potential to reach scale.

Housing microfinance (HMF) refers to products to finance shelter that are not backed by mortgages. These loans follow the basic principles of microfinance, such as small loan amounts, relatively short loan terms, and alternative forms of collateral. Institutions interested in housing microfinance are beginning to recognize the potential of the "progressive building" activities of low income families, who finance and build their homes in an incremental fashion. Most HMF products are used for home improvement or expansion, though some may be used for home purchase or new construction. Just as microenterprise loans boost the income-generating activities of the economically active poor, the provision of HMF is increasingly seen as a method of leveraging the ingenuity and efforts of low-income families as they strive to improve their living conditions.

Seeking to better understand the potential for scale in HMF, ACCION International and Habitat for Humanity International joined efforts to conduct a study in conjunction with Cities Alliance's financial support. This study covered ten of ACCION's partners in Latin America, representing more than 90 percent of the ACCION Network's housing portfolio. The objective of this research was to understand the key success factors as well as challenges and barriers for reaching scale in housing. This *InSight* discusses the results of this research.

Challenges

Housing microfinance is gaining popularity and earning legitimacy as a recognized product of microfinance institutions (MFIs). However, its potential is bumping up against the original mandate of MFIs, many of which were designed to support the development of micro and small enterprises through the provision of working capital and fixed assets loans.

The potential of housing microfinance depends on the MFI's ability to move beyond the confines of its original product characteristics and more deeply understand and respond to the needs of its clients.

[1] See Chapter Two of *Housing Microfinance: A Guide To Practice*, edited by Bruce Ferguson and Franck Daphnis, Kumarian Press, 2004.

The potential of housing microfinance depends on the MFI's ability to move beyond the confines of its original product characteristics and more deeply understand and respond to the needs of its clients. This reorientation will determine whether housing microfinance becomes a major contributor to improved shelter for millions of people around the world.

Overview of the Market Research

The aspects considered regarding the potential for scale in HMF were:

- What can we learn about customers' needs and market potential from the performance of housing portfolios?
- What are the key supply-side factors that either facilitate or limit the scaling up of housing microfinance?
- Based on demand-side and supply-side learning, what recommendations can be made to facilitate greater scale in housing microfinance?

Scope and Methodology of the Study

This study gathered insights from institutions and managers with first hand experience in HMF. The study analyzed three types of information from ten ACCION affiliates:

1) Performance indicators from housing portfolios between 2002 to 2005;

2) Views of the field staff of ACCION International who were directly involved in the development of credit products for MFIs; and

3) Interviews with managers of six of the ten microfinance institutions listed below, including presidents, commercial managers and directors of marketing. The interviews also included two institutions which did not yet offer housing finance but were in the pilot stage.

Table 1. Institutions Included in the Study: Experience with Housing Microfinance

Institution	**Country**	**Mortgage-Backed Housing Loans**	**HMF Loans**	**Years Offering HMF Loans**
BancoSol	Bolivia	X	X	5+
Finamerica	Colombia	X		Not offering HMF
Fundacion Mario Santo Domingo	Colombia	X	X	5+
Banco Solidario	Ecuador	X	X	2
Integral	El Salvador	X	X	5+
Sogesol	Haiti		Pilot	
Compartamos	Mexico		Pilot	
FAMA	Nicaragua	X	X	5+
El Comercio	Paraguay	X	X	2
Mibanco	Peru	X	X	5+

Defining Housing Microfinance

No standard definition exists across institutions and/or countries to classify housing loans. Developing a standardized definition of housing microfinance was an important starting point in the research and would be useful to better identify housing products and their customers to promote its treatment as a distinct but core product consistent with the mission of an MFI.

We define HMF products as follows: a HMF loan follows the basic principles of microfinance, such as small loan amounts, short loan terms and alternative forms of collateral and is used by the customer solely in a housing project, usually home improvement or progressive building.

HMF loans have some distinct characteristics:

1) **Loan evaluation** examines the customer's construction proposal. The credit officer evaluates the housing project budget to verify that the customer has an accurate estimate of the amount required to "complete" the project so it will not be left unfinished, thus putting the repayment at risk. This is particularly important, given that the loan proceeds might not generate additional income, as is expected for other microfinance loans. The loan officer also makes a technical sketch of proposed housing modifications, which allows for future verification that the loan has not been used for a different purpose such as a microcredit loan since the interest rates for HMF are typically lower.
2) **Loan terms** are generally longer and loan sizes greater than a typical working capital loan for microenterprise. This usually allows MFIs to offer slightly lower effective interest rates relative to working capital loans.
3) **Tenure security** is critical. As part of the loan origination process, clients are generally required to present some type of document confirming de facto claim to the land or the property, such as a purchase deed, property tax payment or in certain cases a utility bill. Lack of legal title to the home is not a critical obstacle to MFIs providing affordable housing solutions to low-income segments, as they already have methods to underwrite credit with non-traditional forms of collateral.

One practice that is *not* common in most microfinance institutions is the provision of formal construction advice. Most MFIs view construction advice to loan recipients as costly to the institution and unnecessary to the customer.[2] Experience has shows that clients have their own trusted sources of technical assistance in the community and are apprehensive of having support "imposed" by the institution. In addition, such assistance by the MFI may also have a negative effect on repayment if customers face problems during or after the construction. Further study may be required to continue to account for issues such as ensuring quality standards of construction.

Housing Microfinance and Other Loan Products

We compare HMF loans to other loan products:

Housing Microfinance vs. Mortgage Loans: Microfinance institutions may offer both traditional mortgages (generally to a better-off tier of clientele) and housing microfinance. Although it is traditional to think of housing finance as synonymous with mortgage loans, HMF products have different characteristics, as summarized in Table 2, shown on the following page. The majority of housing portfolios at the surveyed MFIs consist of home improvement (rather than mortgaged-back) loans.

[2] See ACCION *InSight* 12 "Developing Housing Microfinance Products in Central America" by Richard Shumann which discusses a controlled study which demonstrates the lack of difference in housing quality between homes built with technical assistance and those built without external assistance.

Table 2. Features of HMF and Mortgages Loans

Characteristics	Housing Microfinance	Mortgage-Backed Loans
Target market	Low income clients	Middle to high income clients
Loan term	Short & medium term (< 5 years)	Long term (Over 5 years)
Loan amounts	Small to medium	Large
Loan Use	Home improvement Progressive building	New house construction House purchase
Type of Guarantee	Co-guarantor, collateral required for typical microenterprise loans*	Formal mortgage

***** Some MFIs require proof of ownership/possession of property, not as collateral, but to prove that the project will occur in the home of the person asking for the loan.

Housing vs. Other Microfinance Loans: HMF products are frequently combined in reporting with other loan products, such as consumer loans or working capital loans. The following table outlines the prevailing general characteristics of the HMF loan products compared to the ten MFIs studied as compared to the MFIs' standard working capital loans. This comparison is useful for three reasons:
1) MFIs apply similar credit evaluation methodologies for HMF and working capital loans;
2) Customers use working capital loans as the first and most relevant reference when evaluating the product and price characteristics of a HMF loan.
3) The differences between the two products illustrates why MFIs develop customized HMF products instead of offering only working capital loans that customers divert for housing.

Table 3. Comparison between Housing Microfinance and Working Capital Loans

Factor	Housing Microfinance	Working Capital Loan	Differences between Products
Average Loan Sizes	Average for individual MFIs ranged between $915 and $3,312, Overall average among ACCION partners is $2,280.	Individual MFIs had average loan sizes between $300 and $900.	HMF typically three times larger than the average working capital loan.
Collateral	Guarantor (co-signer). "Guarantees" such as proof of "possession of land/house" that are not legally enforceable are used even if the home is not legally owned. Generally, extended family members actually hold title to the property	Guarantor (co-signer), inventory or a household asset	Legally, the collateral is the same. Both use "psychological" inducements such as taking a copy of documents for land/ house ownership/ possession.
Loan Terms	Up to 36 months; however, generally between 12-18 months	3 to 12 months	HMF has longer terms, in some cases up to 3 times longer.
Payment Frequency	Generally monthly	Generally monthly. In some cases bi-weekly	None
Interest Rate	Between 24% and 35% (sometimes higher)	Between 25% and 90% (average 48%)	Typically slightly lower for HMF than for working capital loans

Source: ACCION Network partners, 2005

On average, housing loans are larger and have much longer terms than working capital loans (see Table 3). For example, over the past four years the average outstanding loan size of the entire housing microfinance portfolio of ACCION partners studied ranged between $2,000 and $2,500 versus less than $800 for working capital loans.

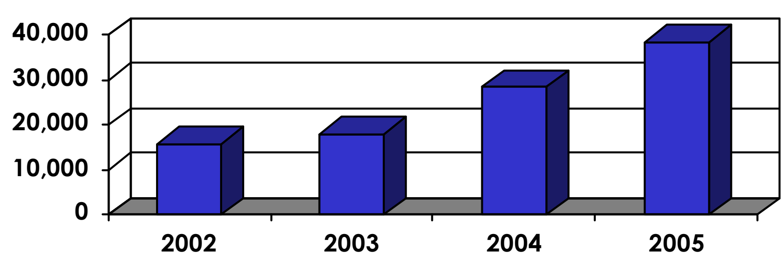
Performance of Housing Finance Portfolios

An analysis of the evolution of HMF within ACCION's Latin American partners shows impressive overall growth over the last four years, in both, absolute and relative terms. The following graph shows results for the seven institutions offering HMF:

Outreach in Number of Customers

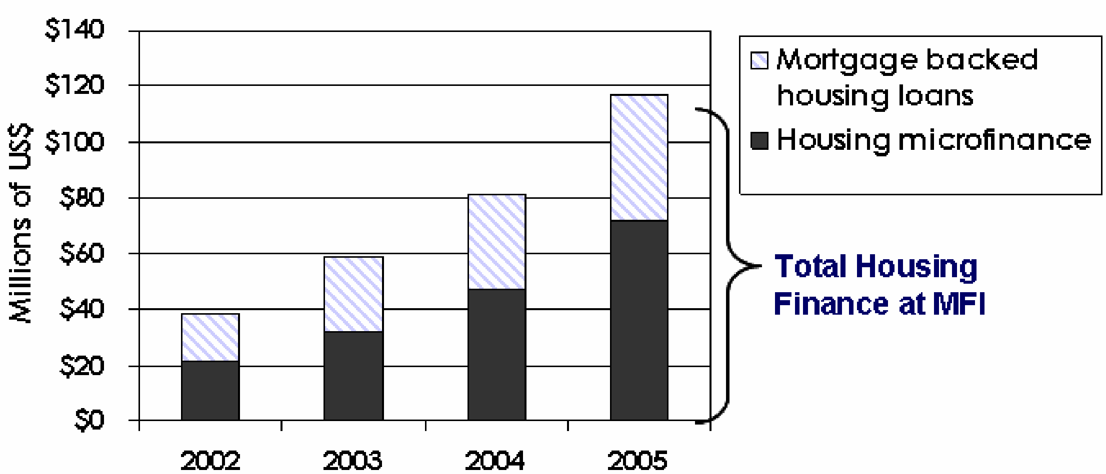
The total number of clients with outstanding housing microfinance loans has grown from 15,000 in 2002 to about 38,000 at the end of 2005. This represents an average annual growth rate of approximately 36 percent, as shown in Figure 1.

Figure 1: Total Number of Active Housing Clients



Portfolio Volume and Growth

Rapid portfolio growth has occurred for the MFIs offering housing microfinance, typically at a pace much higher than the expansion of the core microcredit portfolio. As shown in Figure 2, between 2002 and 2005 the total housing finance (including mortgage-backed housing loans) portfolio of the seven institutions offering HMF grew from US$38 million to $117 million. This represents a compounded average annual growth rate of over 49 percent.



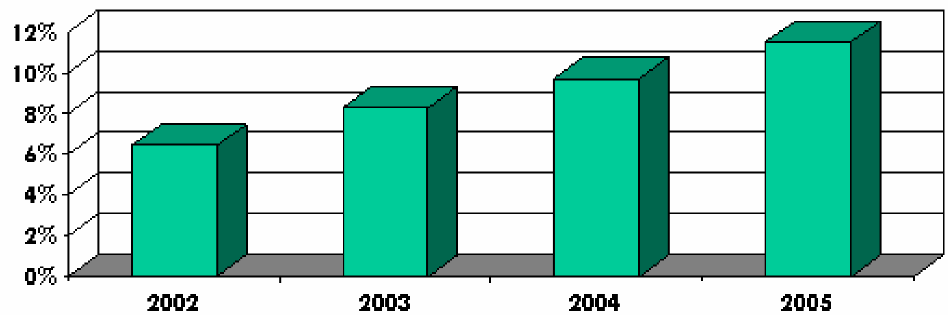
The total housing microfinance portfolio grew from $20 million in 2002 to $72 million in 2005, displaying an average annual growth rate of greater than 51 percent. In comparison, the average annual growth rate of total portfolio at the MFIs in the study was 25 percent during this same period. This growth represented an increase in housing microfinance as a portion of the total housing finance portfolio from 58 percent in 2002 to 62 percent in 2005.

Housing Loans as a Share of Total Microfinance Portfolio

This disproportionate growth of the HMF portfolio relative to the core working capital product has resulted in an increase in the proportion of total assets represented by housing loan products.

- The total housing finance portfolio as a percentage of the entire MFI loan portfolio grew from an average of 12 percent in 2002 to 19 percent in 2005.
- The housing microfinance loan portfolio grew from an average of 6.4 percent total portfolio representation in 2002 to 11.5 percent in 2005 (see Figure 3).

Figure 3: Housing microfinance loans as a percentage of Total MFI Portfolio



In spite of this growth, existing housing activity in 2005 accounted for only 5.7 percent of the total portfolio and only 2.3 percent of the active clients for the partner institutions surveyed.

HMF Portfolio Quality

The repayment performance of the housing microfinance portfolios was superior to that of loan products for businesses among all seven of the MFIs in the ACCION network that had existing microfinance portfolios. The delinquency index for HMF ranged from 0.5 percent to 2 percent, with one exception. Moreover, in most cases the portfolio quality was better than the already good portfolio for working capital loans.

Critical Success Factors and Barriers to Scale: The Perceptions of Managers

While HMF is a successful product among the MFIs surveyed in this study, it is not growing as fast as might be expected and is not yet reaching massive scale. This section examines the factors that either contribute to or detract from the growth of housing microfinance. The findings described here are drawn from interviews with managers directly involved with HMF. The perceptions these managers have about the market, the role of MFIs in HMF, and the housing microfinance loan product play a major role in determining how MFIs pursue scale in HMF. A key change that may lead to greater scale is a new way of thinking about HMF inside MFIs.

Customer Demand

The general perception of managers surveyed is that the demand for housing finance among the microfinance target market is vast and that competition on the supply side is still minimal. There was further consensus that housing microfinance has much greater growth potential than mortgage financing among the low-income sectors that MFIs target.

According to MFI managers, the opportunity for home improvement lending responds to the following market situations:

- Most low-income customers already have a house, regardless of whether they have title or legal proof of ownership and that their need was to improve or expand the house.
- Before HMF loans were offered by institutions, managers knew that customers often diverted some or all microenterprise working capital loans for home improvement. But the market opportunity became much more obvious when MFIs started to offer specific HMF products that truly addressed customer's needs.
- Many customers, even if they had the credit capacity to support a loan for home purchase or full construction, would prioritize other family and business needs rather than devoting all their repayment capacity to a new home.
- There exists a perceived cultural barrier to long-term loans. The managers felt that customers view and manage their finances within a typical time horizon of no longer than 18 to 24 months.

The attractiveness of HMF as a business opportunity has to do not only with the size of the potential market, but the fact that it is a relatively low-risk product that creates a stronger attachment to the client than the typical microenterprise loan. Managers repeatedly noted that the historically higher repayment rate of HMF portfolios relative to traditional microcredit portfolios could be attributed to clients' emotional (and practical) attachment to their homes and the priority they put on their housing stock as one of the household's most valuable assets.

Use of Housing Finance Loans

The MFI managers surveyed ranked clients' uses of housing finance in order of priority. Managers perceived that these priorities trend towards "progressive building" projects as opposed to home purchase or whole house construction.

Table 4. Perceived Customer Priorities for Use of Housing Finance Loans

Priority	**Type of Project**
1	Basic home repair (utilities, basic structures, foundations, walls, roof)
2	Progressive build/ expansion (added space or rooms)
3	Home additions or modifications to accommodate business needs
4	Construction of an additional floor or level
5	Full house construction on existing property
6	Land purchase
7	Whole house purchase

Accordingly, the first four priorities listed make up most of the HMF portfolios, as they fall within the category of home improvement loans characterized by short to medium-terms and smaller loan amounts. While the list in Table 4 reflects a summary of perceived priorities, managers recognize that this order of priority varies by sub-segments of the microfinance market.

Market Segmentation

MFIs with successful experience in HMF call attention to the importance of maintaining market focus to maintain a high quality portfolio and ensure that the institution does not deviate from its core business and target market.

Specifically, they avoid segments that are too far from the microfinance market such as:

a) Recipients of government-linked subsidies (often featuring non-market interest rates)
b) Most salaried workers, even though many people in this group lack access to mainstream banks.
c) Higher-income individuals such as middle class customers needing mortgage loans for home purchase who are targeted by traditional banks. MFIs expressed a preference towards extending housing microfinance to existing micro-enterprise clients with established credit histories, thereby increasing overall revenue from the client, and building client loyalty towards the institution.

The reluctance to lend to clients new to the institution appears to be one of the critical barriers to scale. This reluctance reflects the newness of HMF, as MFIs are tapping what they perceive as the safest segment of a big potential market – existing and/or more established clients. This observation was reiterated in a number of interviews and evidenced by the fact that the average loan size (which is correlated with client income level at many MFIs[3]) for HMF is almost twice that of working capital credit.[4]

> *The reluctance to lend to clients new to the microfinance institution appears to be one of the critical barriers to scale.*

Nonetheless, the results of these interviews suggest that increased competition and later stages of market development will widen the market base by penetrating lower income segments. This process is already prompting MFIs that set more aggressive growth targets in HMF to allow the MFIs expand beyond the higher tier market segments.

Higher repayment rates demonstrated by housing portfolios may be attributable to the current risk-adverse client selection practices. As MFIs consider expanding their housing microfinance client base to segments currently not served, they will need to proceed carefully to adapt their client screening processes to the characteristics of the new clients.

Understanding of Financial Performance

The MFIs that have seriously undertaken housing microfinance have experienced clear benefits to overall stability and profitability. Managers mentioned the following benefits:

- Added stability to the overall portfolio, given the seasonal fluctuations in business lending.
- Diversification of risk for a portfolio dedicated primarily to working capital loans.
- Increased revenue from existing (business loan) clients without incurring significant, additional operating costs.
- High portfolio quality, which in turn implies lower costs in pursuing delinquent loans.
- Lower administrative costs per amount lent, due to longer HMF loan terms

[3] ACCION International Poverty Team, *Measuring Poverty at MFIs: Lessons and Results from the ACCION Network,* ACCION Monograph 16, *2006.*
[4] Income alone typically does not provide sufficient information to identify a market segment.

- Increased loyalty and relationships between the customer and MFI. Customers and their families hold strong emotional attachments to their homes.

Clear information regarding profitability is important for increasing institutional support for the HMF product. The combination of higher repayment rates, higher loan amounts and longer loan terms with less frequent origination costs signal the possibility of greater returns on housing microfinance products and portfolios. However, MFIs charging lower interest rates on HMF loans may be reducing these margins. Longer loan terms lessen opportunities to generate origination fees/commissions.

Given that the majority of housing loans are currently extended to existing business clients, MFI managers perceive that HMF as a linked product increases the overall "profitability" of the client to the institution. However, since most of the MFIs surveyed were not able to segregate financial information by loan product, true profitability of the housing portfolio itself is presently difficult to evaluate.

Institutional Business Priorities

In spite of the attractiveness of the housing market opportunity, MFIs' responses were uncertain when asked about the strategic or business fit of housing finance within their organization's mission, and specifically about the future growth of housing in their overall portfolio. While some managers speculated that potential demand for HMF might actually surpass that for microenterprise lending, they were not willing to place such lending as a core component of their strategic plans. In fact, several managers felt that self-imposed limits should be set to avoid a too-rapid growth. The reasons for this resistance have to do with definition of the core business, perception and categorization of housing within the commercial area, as well as regulatory constraints.

The most important argument managers made to explain their reluctance to grow housing too rapidly is that this product is not explicitly part of their business or social mission. The institution's core business and mission is defined around the concept of financial services for microenterprises whereas HMF is defined not as a loan for productive microenterprise purposes, but as a consumer loan. This point of view generates two different but linked questions:
1) Who are MFIs truly serving? Only microbusinesses? Or microentrepreneurial families?
2) Is HMF solely a consumer loan? Or is the house a key component of the family's economic worth and productive capacity?

The first of these questions speaks to the heart of microfinance self-definition. While most of the microfinance professionals interviewed acknowledge that their target clients are microentrepreneurs *and their families*, many are not yet prepared to consider a product range that does not place working capital microenterprise credit at the core of microfinance. The second question is a more empirical question, and has been addressed through research over many years showing that a large portion of investments in housing are "productive" in that they contribute to a household's income-earning ability. In either case, a re-definition or re-interpretation of institutional missions that are more inclusive of a wider range of financial products is a necessary step if HMF is to reach scale.

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Reporting Systems

HMF is not yet established as a distinct product, and as such it is treated differently in the reporting systems of various MFIs. Some MFIs track all housing loans under one umbrella (including HMF and mortgage lending). At one MFI, the full range of housing loans is classified under a single housing heading. Another MFI divides housing into two different business units, one named "Housing" which refers only to mortgage-backed loans, and another under "Microenterprise" which includes home improvement loans not backed by mortgage. Other institutions use no classification at all, usually registering the housing portfolio under microenterprise loans. In some cases, HMF loans are registered as consumer credit.

This lack of distinct classification can have negative implications toward getting to scale, such as limiting product planning, keeping HMF as a "second class product" within the institution, discouraging specialization for product development and marketing, as well as restraining the allocation of resources for growth. Lack of distinct tracking also discourages detailed assessment of product performance. The trend in recent years is towards more accurate classification of product lines so that institutions can better manage their portfolios by product and target market.

This lack of distinct classification can have negative implications toward getting to scale, such as limiting product planning, keeping HMF as a "second class product" within the institution, discouraging specialization for product development and marketing, as well as restraining the allocation of resources for growth.

The classification dilemma is complicated by the treatment of HMF by supervisory authorities. When HMF is classified by authorities as consumer rather than microenterprise credit, this classification has practical implications for volume objectives within a given institution. For example, a key practical implication of this regulatory classification (which discourages HMF expansion) is that consumer loan classification usually requires higher loan loss provisioning, reducing the product's profitability. Classification as a consumer credit sometimes implies other regulatory burdens, like higher interest rate ceilings as seen in Colombia.

Buy-In by Field Staff

At most MFIs, loan officers are responsible for marketing and evaluating both working capital microenterprise loans and housing microfinance, given that the general characteristics and delivery methods of the loan products are quite similar. However, the two additional steps of the credit evaluation unique to the HMF product (evaluation of project budget and sketch of proposed housing improvements) have discouraged active selling of HMF by loan officers concerned with meeting productivity goals.

Managers expressed concern that the technical evaluation be completed properly to help ensure high repayment performance. However, they worried about increasing costs by adding steps to the loan process.

At some MFIs, this concern leads managers to set ceilings on volume or on the share of HMF in the overall portfolio, with the intent to protect productivity levels of the sales force. Concerns about cannibalization of credit officers' time are common across most MFIs. Even without such internal policies, loan officers tend to prioritize working capital over HMF loans, because they have greater mastery in the more familiar product. This challenge is applicable not only for HMF products but for any new product within a sales organization structured for multi-product selling.

Regulatory Framework

Few of the MFIs surveyed mention regulatory framework as a constraint. Most of the countries involved, in Central America and the Andean region of South America, have favorable environments for offering housing microfinance products.

An exception is Colombia, where loans explicitly promoted or classified as "housing loans" fall under interest rate ceilings that make the product financially unattractive. This unfavorable ruling greatly limits Colombian initiative to develop microfinance loans for housing, thus forcing institutions and customers to use working capital microenterprise loans for home improvement projects. This regulatory avoidance tactic creates disadvantages for both the institution (by constraining the income potential needed to make the product financially sustainable) and the customer (by limiting the terms and amounts needed for home improvement lending) thereby forcing them to seek additional sources of financing.

Funding

Funding was not mentioned as a key factor affecting the scale of housing microfinance. Many donor agencies have hypothesized that the mismatch in terms between assets and liabilities would be a limiting factor; as MFI capital sources are traditionally short term while HMF portfolios average 12-36 months.

Nonetheless, this barrier was not found to be as great a constraint as initially considered because:

a) HMF portfolios have been limited in growth
b) Alternative medium-term funding sources are available for many of the MFIs surveyed for this study. All of the MFIs are established, leading MFIs, and most of them are structured as regulated financial institutions, enabling them to access sources of capital. Several, for example, have raised funds through bond offerings.

Several of the MFIs did note funding constraints for medium and long-term housing loans. However this does not seem to be critical, because many institutions believe that the size of the market for shorter-term home improvement loans is so vast that long-term financing for home acquisition is not yet a priority for either the institution or their customers.

Recommendations to MFIs

Based upon our research findings, we have developed the following recommendations for microfinance institutions to promote the achievement of scale of HMF:

1) Embrace HMF as a core product.

The primary supply-side barrier to MFIs reaching scale in housing microfinance is self-imposed. Even more important than funding barriers, MFIs are constrained in scaling up HMF when they perceive housing to be outside the scope of their institutional mission. Senior leaders and stakeholders of MFIs should address this issue by re-thinking or redefining both the strategic role of housing microfinance and of the organization's mission, based on new perspectives about the link between housing, microenterprise and the family economy.

2) Increase scope of HMF to include new market segments.

MFIs should seek to target new market segments through appropriate product design and promotion strategies. Low-income wage earners, salaried employees and other economic sectors are generally untapped by MFIs and could be well served by housing microfinance.

3) Understand the housing needs of their clients.

The market research done so far by MFIs has evidenced that most housing needs are for home improvement and progressive building as opposed to home purchase. Further segmentation beyond traditional demographics is needed to deeply understand customers' values regarding how and where they want to live. Increased analysis will lead to greater understanding of how customers perceive their housing options and how these compare with other family and business priorities, and the role that the "house" plays within the overall family's economic and financial management. Such customer values-based segmentation will help greatly to create more tailored, "winning" HMF products appropriate for each segment.

4) Make housing microfinance products attractive for branch personnel.

Because housing loans are seen as more complicated due to extra steps needed during credit evaluation, MFIs need to mitigate loan officer resistance to the new product. Solutions to this constraint can be worked out from different angles, such as streamlining the credit evaluation process. For example, MFIs can identify market sub-segments to streamline credit evaluation for lower risk loans. Some institutions have begun "fast tracking"[5] loans up to certain loan limits to reduce operating costs for lower risk loans, improving sales force productivity.

MFIs can also increase buy-in by adjusting monetary incentives to favor HMF until the product has achieved satisfactory growth and acceptance by the field staff. The survey's responses also highlighted the importance of educating loan officers so they understand the benefits of portfolio diversification to strengthen client satisfaction and retention. Setting clear growth objectives in business plans is also critical, so that the entire staff (especially the sales force) is aware that the commitment to growth in housing lending comes from the top. This vision requires explicit communication that housing products are part of the core product line of the institution.

Finally, another possibility that has not yet been deeply explored is the idea of changing sales organization structures and distribution channels. Existing options include employing specialists (rather than multi-product loan officers) and building alternative distribution channels that free time for the credit evaluation process. For example, loans could be offered through construction materials suppliers.

5) Obtain more accurate financial information about HMF.

To more accurately assess housing portfolios, MFIs need to adjust financial systems to track segregated information by product. Until this happens, perceptions of HMF profitability will remain limited to speculation.

Financial models to understand and calculate costs and profitability of HMF products should be designed to ensure a successful product diversification strategy and to address HMF's particular cost drivers that impact productivity and profitability. We recommended that the international community of MFI networks and donors encourage and support the collection, dissemination and use of such benchmarks.

To more accurately assess housing portfolios, MFIs need to adjust financial systems to track segregated information by product. Until this happens, perceptions of HMF profitability will remain limited to speculation.

[5] "Fast tracking" is a process whereby some of the typical HMF underwriting requirements are waived or streamlined.

Recommendation for Regulators

HMF should be recognized by regulators and given the freedom to develop. HMF based on progressive building fills a critical need for the non-indigent poor and is commercially viable. HMF is particularly effective under regulatory frameworks that allow free decisions about credit methodology and loan product features and terms, particularly product pricing.

The survey revealed some concerns of managers regarding potential backward trends on financial liberalization, given the recent resurgence of price controls and other heavy-handed regulatory regimes that could dampen microfinance growth.

Conclusion

The scale of HMF is increasing. Regulated microfinance institutions are proving their ability to deliver tailored HMF products at significant scale relative to their total portfolios, for certain economically active poor segments. Successful housing finance programs exist that do not rely on government subsidies and come from true private sector innovations growing out of an institution's deep understanding of their customers. The fact that housing microfinance portfolios are consistently growing at high rates shows the potential of HMF, especially considering that these MFIs achieved these results without treating HMF as a core product and without aggressive marketing.

Qualitative studies about the deficit of housing finance in Latin American countries are matched by the perceptions of MFI managers that the HMF market is vast and underserved. MFIs are entering eagerly and growing quickly to serve a market where demand is great, competition is minimal and HMF is proving to be an effective solution to satisfy the housing needs of clients. Serious demand assessment and planning for scaling up HMF requires further analysis of the market sub-segments among the economically active poor so that the scope and nature of potential demand is better understood.

Nevertheless, even as MFIs embrace HMF and realize its potential demand, its ultimate growth is limited to the overall outreach of the MFI industry. The scale challenge is not just a matter of increasing the share of HMF within institutional portfolios, but also depends on the overall growth of the industry as a whole.

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