Habitat for Humanity®

Financing Change

Below Level Differentiation

Reading and Discussion Tips:

- While discussing "Traditional Lending vs. Microfinance," draw a Venn diagram on the board. Ask students to read the qualities of each type of loan aloud while you record the information in the Venn diagram. Continue to fill in the diagram as students ask questions and offer additional information throughout the discussion.
- Contact a loan officer from a local banking institution and ask him or her to speak to the class about loans: what they are, how they work, and why it is sometimes difficult for certain people to get them. Request that he or she bring a loan application for the students to view.

Activity Tips:

- Allow students to use note cards to aid them in their presentations.
- Spend time in class showing students examples of various types of business correspondence to help them draft their letters to Habitat for Humanity International. Select a sample letter and point out specific elements of style and tone that characterize professional correspondence (headers, signature lines, etc.).

Assessment Tips:

- While students are giving their presentations, do not grade them on eye contact or body language; focus only on the content of the presentation and on group cooperation.

Optional Extension Tips:

- Introduce students to the concept of remittances using the document found at **http://www.habitat.org/CISF/pdf/cgap_remittances.doc** as a teacher resource. Help students understand that remittances are not just occasional monetary gifts; they can be a major part of a family's income. Spend time in class discussing why it is difficult to factor remittances into traditional loan applications, and emphasize that microfinance institutions benefit families by taking this important source of income into account.

Above Level Differentiation

Reading and Discussion Tips:

- Challenge students to research the history of microfinance. Using government and nonprofit organization websites, students should investigate the first microfinance institutions in Ireland, follow the path of countries to which the idea spread, and highlight some of the most prominent microfinance institutions today. Ask students to summarize their research in a 1–2 page report.
- At the beginning of Day 2, ask the class to brainstorm five engaging discussion prompts based on questions they had about the interview. In lieu of a full-class discussion, divide students into five small groups, ensuring that one student leader is in each group. Give each group one of the questions to discuss, and ask that they form a coherent, informed response based on evidence from the interview and microfinance chart. Once sufficient time has passed, the class should reconvene and group leaders should report on their group's response.

Activity Tips:

- Allow students the option of working in pairs or individually, rather than in groups of three.
- Remind students that empirical data can be a strong aid for helping convince people to join a cause. Require that students include at least three statistics in the presentation of their country profile. These statistics can relate to the country's demographics, poverty status, or other factors. Emphasize that students must gather this information from a reliable source. Choose a citation style and require students to submit a properly-cited reference page on the day of the presentation.

Assessment Tips:

- Include the students' letters to Habitat for Humanity International in your evaluation. Assess letters based on clarity, professionalism, and style. If students included statistics in their presentations, also include accuracy of the citations and relevance of the statistics used as part of their presentation grade.

Financing Change

Grades 9–12

Objectives

Students will:

- read about microfinance and how it differs from lending in traditional banks.
- learn about how Habitat for Humanity uses housing microfinance to help impoverished families afford homes or housing repairs.
- create and present a profile of a specific country's most common housing needs.
- collaborate with their classmates to participate in a microfinancing project for Habitat for Humanity, which will help a family with housing needs in one of the profiled countries.

Educational Standards

Common Core State Standards

Literacy in Science and Technical Subjects

- Determine the central ideas or conclusions of a text; summarize complex concepts, processes, or information presented in a text by paraphrasing them in simpler but still accurate terms.

National Economics Standards

- Riskier loans command higher interest rates than safer loans because of the greater chance of default on the repayment of the risky loan. Higher interest rates reduce business investment spending and consumer spending on housing, cars, and other major purchases. Policies that raise interest rates can be used to reduce these kinds of spending, while policies that decrease interest rates can be used to increase these kinds of spending.
- Comparing the benefits and costs of different allocation methods in order to choose the method that is most appropriate for some specific problem can result in more effective allocations and a more effective overall allocation system.

National Geography Standards

- Understand the patterns and networks of economic interdependence on Earth's surface.

Scope

- 4 class periods (45 minutes each)

Materials

- access to the Internet for student use (days 2 and 3)
- **Chart:** Traditional Lending vs. Microfinance
- **Interview:** A Conversation with Brendan McBride
- **Worksheet:** Planning a Housing Microfinance Profile

Lesson Plan

In this lesson, students will discover how microfinance differs from conventional loans and how—unlike with traditional bank loans—individuals can contribute to microfinance and make a difference in the life of someone living in poverty. Students will learn how Habitat for Humanity uses housing microfinance to help people improve their homes. Using the Habitat for Humanity website and other resources, students will work in groups to choose a country and research how to help a family in that country with a housing microfinance loan. The class will then select one group project and work together to put that group's microfinance plan into action.

Preparation:

Before beginning the lesson:

- Make copies of the chart, interview, and worksheet for students.
- Arrange for students to use the computer lab for two class periods.

Procedure:

Day 1 **Read and discuss the "Traditional Lending vs. Microfinance" chart. Assign students to read and respond to the interview.**

1. Allow students time to review the chart and the two hypothetical lending profiles.

2. Spend the majority of class time discussing the chart.

- Explain terms such as *interest, loan term, collateral,* and *credit* if students are unfamiliar with them.
- Ask students the following questions:
  - What is the goal of microfinance? Why is it significant that microfinance loans are financed by nonprofit organizations rather than banking institutions?
  - How can individual citizens contribute to microfinance? How is this different from traditional lending?

- Why might a person be ineligible for a bank loan but qualified for a microfinance loan?
- How can microfinance loans help people improve their lives?

3. Emphasize to students that microfinance loans are not given to just anyone; MFIs give loans only to people who demonstrate that they are capable of paying them back. Nonprofits like Habitat for Humanity simply have a different set of criteria for what constitutes an eligible candidate for a loan. Traditional banks are moneymaking institutions, and a bank is more likely to make money if they give large loans to people who are well off; they make less money if they provide smaller loans to less prosperous people. Nonprofit organizations are different; their goal is not to make money but to help individuals attain better lives. They are willing to provide modest loans and trust responsible people to pay them back.

4. For homework, ask students to read the interview with Brendan McBride to learn how housing microfinance can help families attain proper shelter. After reading the interview, have students write a paragraph in response to the following question: How can housing microfinance loans make a difference in the effort to end poverty worldwide?

Day 2 Discuss the interview. Assign groups for the presentation project and allow students to begin their research.

1. Briefly discuss the interview in class. Ask students to share their responses to the assigned question and address any notable similarities or differences in their answers.

- Encourage students to consider the deeper implications of Habitat for Humanity's housing microfinancing projects. People experiencing financial hardship may feel helpless or unable to control their circumstances. How does a housing microfinance loan enable feelings of empowerment in the person who receives it? Would a gift or grant have the same effect? How can stories like those that Brendan McBride told help inspire both people living in poverty as well as middle and upper class individuals to help eliminate substandard housing?

2. Introduce the Microfinance Profile presentation.

- Split students up into groups of three. Inform students that Habitat for Humanity works in dozens of countries all over the world to attain better housing using a grass roots approach because each country has specific housing problems and needs. Each group will pick one country and create a profile about that country's housing needs. Groups will then present their profiles to convince the rest of the class that the citizens of their group's country deserve housing microfinance loans. Direct students to **http://www.habitat.org/intl/maps/default.aspx;** this is the resource that they should use to view their options and choose a country.
- The profile should be in the form of a short report that each group will present to the class. Each microfinance profile presentation should be 3–5 minutes long and should cover all the subject areas listed in the "Planning a Housing Microfinance Profile" worksheet:
  - the name and location of the country
  - a brief description of an average home in that country
  - a description of the primary housing problem(s) in that country
  - a defense for why this is a worthy cause (i.e., how would lives be improved?)
  - a proposed amount for a microfinance loan
- Inform students that as a second part of the project, each group should also draft a professional letter to Habitat for Humanity International explaining that they would like to support a housing microfinance loan for a family in that country.
  - Explain to students that after the groups present their microfinance profiles, the class will take a vote to choose the profile they find most compelling. The class will then make a plan to fundraise and donate the proposed amount to Habitat for Humanity for the purpose of microfinancing a loan for a family in that country. The chosen group's letter will be sent along with the donation.
  - In their letters, students should include information explaining why this country was chosen and what specific housing repairs the donation is intended to cover.

3. **Distribute the "Planning a Housing Microfinance Profile" worksheet to students. Have them fill out the worksheet as they research the housing problems in their chosen country. Allow students the rest of the class period to choose their countries and begin collecting their profile information.**

Day 3 Students continue to design, practice, and refine their presentations.

- As students finish researching their profiles and writing their letters and begin to practice their presentations, remind them of proper presentation etiquette:
  - Maintain eye contact with your audience; do not read from a sheet.
  - Speak clearly and slowly.
  - Make sure each group member has equal time to speak.

Day 4 Students give their presentations.

1. **At the start of class, have each group submit to you their letter to Habitat for Humanity. Then, each group should present their housing microfinance profile. Encourage listening students to take notes about each profile to help them decide which one to vote for.**

2. **After each group has presented, have students vote on the country profile with the most persuasive case. Inform students that they cannot vote for their own group. Encourage students to consider the following when making their decision:**

- Who is most affected by the housing problem in each country (women, children, large families, those living in certain areas, etc.)?
- What are the consequences if this problem goes unsolved?
- What is the amount of the microfinance loan? Is this a feasible amount for your class to fundraise?

3. **Announce the country that received the most votes. Spend the rest of the class period brainstorming about how to execute the microfinance plan. Students should determine how they should raise the money, the deadline for collecting the money, and the exact name and address of the Habitat for Humanity International department where the donation should be sent.**

Assessment:

When evaluating student presentations, consider:

- were all required elements present?
- was the information accurate and thorough?
- did the group demonstrate an understanding of microfinance?
- did the group make a convincing case for why the class should support a microfinance loan in this country?
- did the group follow proper presentation etiquette?

Optional Extension:

Help students understand the role of remittances in housing microfinance loans and in the lives of the families aided by Habitat for Humanity. Explain that an individual might receive remittances from a family member who immigrates to another country. A remittance is an amount of money that a family member (or other supportive individual) regularly sends to family members in his or her home country to help support them.

Direct students to the microfinance/homeowner profiles listed below, featured on the Habitat for Humanity website. For each profile, ask students to write down answers to the following questions: Who in the family sends remittances? To what country did this person immigrate? How did remittances contribute to attaining a microfinance loan or helping to fund housing improvements in the home country? Is there a downside to remittances?

http://www.habitat.org/lac_eng/newsroom/2010/03_15_2010_casestudy2_eng.aspx
http://www.habitat.org/lac_eng/newsroom/2010/03_15_2010_casestudy3_eng.aspx
http://www.habitat.org/lac_eng/newsroom/2010/03_15_2010_casestudy6_eng.aspx

Traditional Lending vs. Microfinance

Banking institutions have been providing loans to individuals for hundreds of years. *Traditional lending* is a well-established practice: a qualified individual is given a loan, which provides that person with the money he or she needs for a large-scale purchase, like a home. In recent years, however, a new practice called *microfinance* has emerged and presented a different perspective on lending. Unlike traditional lending, which helps established individuals grow their estate, the goal of microfinance is to provide struggling individuals the opportunity to better their circumstances. To understand the difference between traditional lending and microfinance, take a look at the following information:

Traditional Lending	Microfinance
• Qualified people receive loans from a bank, using the resources of the banking institution. • Before giving a loan, banks assess that an individual has a certain amount of income, credit, and employment stability. If not, the loan request will be denied. • Before approving a loan, banks usually ask for *collateral*. Collateral is a certain amount of money (in the form of actual money or the worth of a person's possessions) that a person pledges to a bank as a security measure. The bank can take the collateral if a person fails to repay the loan. • Loan recipients are typically middle or upper class individuals with stable incomes and good credit. • Loans are typically used for financing homes, cars, or college educations. Loan amounts are usually tens or hundreds of thousands of dollars. • Loans can be short- or long-term. Mortgages (loans for purchasing a house) are typically long-term loans, spread over ten, twenty, or thirty years. • The people who receive loans from American banks are usually individuals from the surrounding community.	• Qualified people receive loans from microfinancing institutions (MFIs)—which are often nonprofit organizations—using money provided by individual donors or investors. • The level of income, credit, and employment stability an individual needs to qualify for a loan is much lower than traditional loans. • MFIs do not typically ask for collateral, or they ask for a very small amount. • Loan recipients are typically individuals with financial hardship who cannot qualify for traditional loans. • Loans are typically used for fulfilling basic needs or allowing an individual to start a small business. Loan amounts are usually less than $5,000. • Loans are typically short-term; even home loans often have a term of five years or less. • The people who receive loans from American MFIs are usually individuals from other countries who are experiencing financial hardship.

Traditional Lending: Meet Henry

Henry approaches his banking institution to ask for a loan so that he can purchase a new car. Henry must fill out an application and provide details about his bank accounts, employment information, income, assets, and other personal information. The bank takes his application and calculates that Henry will be able to afford a down payment on the loan, plus the monthly payments to pay off the loan, including interest. But then the bank takes a look at Henry's employment and credit history. Henry has missed loan payments in the past, and his employment history shows that he has a hard time keeping a steady job. The bank decides to deny Henry the loan for these reasons.

Henry decides to try going to a different bank. This bank agrees to give Henry the loan even though Henry's financial history is not very good. To compensate for the risk, the bank asks Henry to make a large down payment and charges him a high interest rate.

Microfinance Lending: Meet Paulina

Paulina lives with her two children a house with a roof that is caving in. To protect her children's safety and give them a proper home, Paulina wants to get a loan to repair the roof. Paulina has a steady job, but she has very little money saved up and does not have a bank account. Traditional banks have denied her loan applications, so Paulina approaches an MFI to ask for a microfinance loan. The MFI asks her to fill out an application providing details about her employment, income, bank accounts, assets, and other personal information. The MFI takes the application and determines that given Paulina's weekly earnings, she will be able to afford the monthly payments to pay off the loan, including interest. The MFI does not require that Paulina make a down payment. After interviewing Paulina, the MFI decides that she is a responsible individual committed to repaying her debts and improving the station of her family. Her loan is approved.

A Conversation with Brendan McBride

Brendan McBride has worked with numerous nonprofit organizations, striving to help individuals living in poverty improve their condition. Recently, Brendan had the opportunity to visit with families in Latin America who received microfinance loans and talk with them about how the loans helped them achieve better housing.

How would you describe the average family who received a microfinance loan?

While there is no typical family, many of the families that I have come across who sought loans for housing improvements were large compared to the average American family; they often had three generations living under one roof. They rarely had any formal financial tools, like a bank account. Households did whatever they could to create a home for themselves, but having only limited resources to invest in the improvement of their homes meant that families sometimes spent years living in substandard or overcrowded conditions.

From your observations, how did the average family feel about microfinance?

In general people had a positive experience with the MFIs, since for many it was the first time that they had had access to any kind of formalized finance. Many clients had previously taken informal loans from a moneylender in the community, oftentimes at very high interest rates, so the MFI was a welcome alternative to this.

What are some improvements to homes that were possible due to microfinance loans?

The uses of loans range widely. Some families bought the land to build their home; others used it to dig a septic pit; others installed a tile floor over a dirt floor for the first time; others added a room to the house; still others put security bars in to make their homes safer. Households typically used the loan to carry out whatever work they saw as most urgent at that moment—work that they often could not carry out without the assistance of the loan.

From what you observed, how can microfinance loans improve a family's wellbeing?

One example that comes to mind is a family who took on a series of loans to build a home—a couple with three young children. They started, literally, with nothing—only the land to build on and their own willingness to work. They built a very basic home out of found materials, and then slowly built walls, windows, and rooms, growing their home as their family grew. This process would have been much slower without housing microloans. Another example: I came across a family that had added a room for a girl who was entering high school. The father said that having her own space made an enormous difference in her ability to study, which she previously had to do while in the living room space that the entire family occupied.

Can microfinance have a major impact on the lives of those living in poverty worldwide?

Microloans can have a positive impact on the lives of people across the world. The danger is in thinking that they are the only solution to poverty. There are many reasons that people are poor—lack of opportunities for work, lack of governmental support, a history of certain communities being so isolated that it is difficult to satisfy basic needs. The more that families have access to better government, better paying livelihoods, and opportunities for education and healthcare, for instance, the better the chances are that poverty will be reduced. Microfinance is an important tool in addressing poverty, but it is not the only one.

Planning a Housing Microfinance Profile

Name of country:

Location (region, surrounding countries):

Describe the average home in this country:

Building material: ____________________
Average home size: ____________________
Average household family size: ____________________
Other notable features: ____________________

Describe the primary housing challenge facing residents of this country:

This may be a physical problem, like collapsing roofs or flooding, or an issue like homelessness.

Did any specific factors lead to this widespread challenge (such as a natural disaster or political conflict)?

How would addressing this challenge improve quality of life for a family?

Will family members' lives be more comfortable? Safe? Sanitary?

What should the microfinance loan amount be?

State the amount in both local currency and U.S. dollars. Focus your loan on the primary housing challenge in your country. This amount should represent the average cost for a single family to address that problem.
