



**Terwilliger Center for
Innovation in Shelter**

**Case study: Improving access to housing microfinance
solutions among low-income households in the Philippines**

October 2020

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The Need and the Opportunity

Considered to be one of the fastest-growing economies in South East Asia, the Philippines has shown an average annual GDP growth of 6.3 percent¹ since 2010. However, there is also an immense housing shortage, with millions of homes needing to cope with a growing population that lives in extreme poverty. The current housing backlog stands at 3.9 million households and is expected to reach 6.5 million households by 2030². Safe, secure, and adequate housing is one of the basic needs and sets up a strong foundation for families' overall health and well-being. Even during the pandemic, adequate housing acts as the first line of defense, allowing families to shelter in place with their loved ones and practice social distancing. With public health officials calling for millions of people to “stay at home”, – the home became both a prevention and a cure for COVID-19.

In 2018, a study covering 10,768 Filipino low-income households concluded that 88 percent were keen to improve their living situation, and 85 percent were interested in availing a loan. However, not having access to housing finance solutions for low-income households is a significant pain point that prevents families from undertaking home improvements or construction. Despite the burgeoning demand for affordable housing, the financial sector provides few products and services to meet low-income families' housing needs. With financial constraints, the informal nature of the employment and income, and the lack of ability to provide legal documentation of land ownership, conventional mortgage solutions are not available for low-income households. Microfinance institutions that provide collateral-free loans to low-income households have a significant role in closing this deficit. The microfinance industry's sustainability has proven that low-income families, many of which are part of the informal economy, are bankable clients as long as products suiting their cash flows and needs are offered. Housing microfinance is a subset of microfinance, designed to meet the housing needs, preferences, and capacities of low-income groups, especially those without access to the banking sector or formal mortgage loans.

Though housing microfinance is gaining momentum in the country, the gap between demand and supply is enormous. A 2020 study³ by Habitat for Humanity's Terwilliger Center for Innovation in Shelter revealed that the potential market size in the owner-driven construction sector - households that primarily follow an incremental construction process - is worth at least US\$13 billion in the country. This underserved market indeed presents a sizeable business and social impact opportunity for financial intermediaries such as MFIs. Diversification in housing-related offerings allows MFIs to respond to one of the major pain points and use-cases in low-income households' lives, make a social impact, and simultaneously realize a substantial business opportunity.

Negros Women for Tomorrow Foundation, one of the largest microfinance institutions in the Philippines, decided to expand the housing-related offerings to low-income households. The decision to introduce a housing offering was carefully made after considering the massive gap in demand and supply of housing microfinance solutions, NWTF's vision, which emphasizes improving the lives of low-income households, and its long-term business strategy. The Terwilliger Center, through a Credit Suisse APAC Foundation grant, worked closely with NWTF to develop a housing product. The partnership's objective was to introduce a client-centric housing finance solution that addresses pain points for low-income families and promotes adequate housing among low-income households.

This case study showcases the journey from product design and training to the pilot program's end, highlighting its challenges, achievements, and opportunities. This case study is useful for all market actors such as financial intermediaries, investors, regulators, business consortiums, and others interested in identifying alternative and innovative market solutions to help households build and improve their homes.

The Negros Women for Tomorrow Foundation, Inc.

Founded in 1984, NWTF is a non-government organization committed to the fight against poverty by providing Grameen-based microfinancing and developmental services to the marginalized urban and rural poor of Central Philippines. NWTF aims to help women achieve self-sufficiency and self-reliance, particularly in low-income and depressed urban and rural communities.

Project Dungganon

Dungganon – a Hiligaynon word meaning honorable - is the flagship project of NWTF that offers group-based loans utilizing the Grameen lending methodology. By providing access to collateral-free credit and training, Project Dungganon aims to assist underprivileged women from rural communities in starting and maintaining their small business ventures, thereby helping them achieve a sense of pride and, above all, self-reliance.



3,237,305,332 pesos
(US\$67,178,127)

Total Outstanding
Loan Portfolio



510,365
Active Clients



194
Branches Nationwide

Customer Insights

In 2018, the Terwilliger Center conducted a research study with The Microfinance Council of the Philippines, Inc., an association of microfinance institutions in the Philippines. With the help of MCPI's member MFIs, including NWTF, the study tried to determine the housing needs of low-income households and understand the demand and supply of affordable housing finance products. While 15 member MFIs offered a housing microfinance product, the number of clients availing those were 328,114 individuals, which amounted to only 5 percent of the total client base served by MFIs. Furthermore, the loan portfolio dedicated to housing was 2.7 billion pesos (US\$54 million), which represented a mere 6 percent of the total, with an average loan size of 8,000 pesos (US\$160). These findings, along with a potential market size of US\$13 billion for financial institutions in the Philippines as found by the Terwilliger Center in 2020, further builds a strong case for increasing access to housing microfinance solutions.

 *The children often get sick during the rainy season; this is why it is important that there are no leaks in the roof*

Half of our house is still in stilts, since we are living in a coastal area. That part of the house is always infested by termites 

Out of 10,768 Filipino households interviewed, 85 percent were keen to obtain a loan through an MFI, and 88 percent were interested in renovations to their homes. The critical demand attributes highlighted in the study included a preference for higher loan amounts in cash (up to 48,000 pesos) with longer terms (up to 24 months), allowing them more flexibility to choose the material themselves.

Further analysis into NWTF's clients in the Luzon and Visayas regions revealed that 100 percent of the households interviewed had availed of a microfinance loan, but only 16 percent were allotted to housing. However, a staggering 85 percent of these households were interested in availing a housing microfinance loan, a clear opportunity for NWTF to introduce a housing product that could tackle this demand and achieve their mission of providing sustainable developmental services to disadvantaged communities. As a result, NWTF worked to develop a new housing product with technical and advisory support from Habitat's Terwilliger Center.

In addition to the social impact and business opportunity, NWTF's previous experience in housing finance solutions also played a crucial role in partnering with the Terwilliger Center to reimagine their housing finance offerings. In 2014, as a response to Typhoon Haiyan that brought massive devastation to the country, NWTF developed a temporary Housing Reconstruction Loan product to provide financial support to low-income households for rebuilding homes. Later, NWTF also partnered with one of the country's leading cement manufacturers to simultaneously offer both access to high-quality materials and credit solutions. Though both initiatives provided a good experience of meeting the housing needs of low-income households, the portfolio's growth was still lagging and dependent on several factors beyond the organization's control. For example, in the partnership with the cement company, the product could be offered only in locations where the cement company has physical distribution points. Another challenge was that families needed flexibility in the choice of material provider. These limitations, along with the massive untapped market housing microfinance opportunity and the need for a genuinely client-centric solution, resulted in NWTF embarking on this product development journey with the Terwilliger Center's support.

Methodology

Habitat’s Terwilliger Center for Innovation in Shelter pioneered housing microfinance from end to end, working with financial institutions, primarily in the microfinance segment, to understand the business case for their respective markets and introduce financially viable offerings. The product development process employed by the Terwilliger Center incorporates human-centered design approaches. It is a systematic, step-by-step approach to developing new products or refining existing ones, as summarized in the figure.



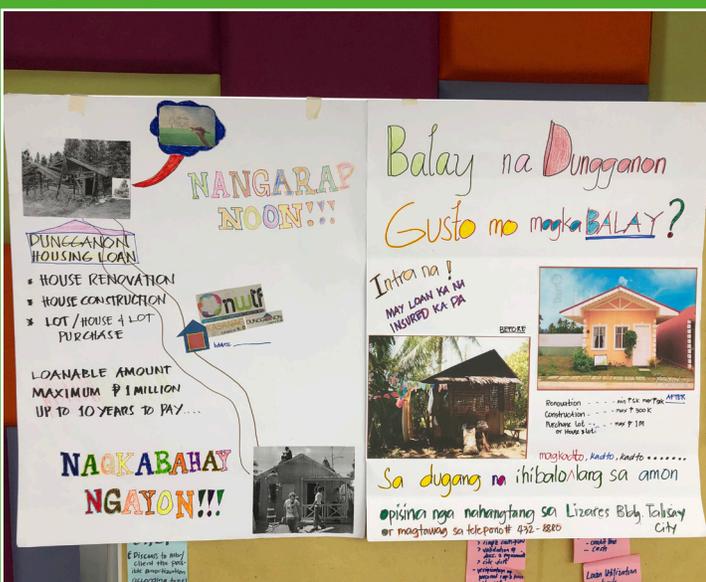
Product Design Phase

Understanding the target households was a vital stage of the product design process. Based on extensive market research and assisted discussions conducted via focus groups, essential information was extracted to give a more in-depth and broader analysis of the current housing situation of low-income families served by NWTf. The Terwilliger Center facilitated a two-day intensive product design workshop, incorporating human-centered design approaches. A cross-functional team from NWTf's head office and regional offices, together with the front-facing staff, such as branch managers and loan officers, came together and co-ideated solutions for addressing their clients' housing gaps. The Terwilliger Center used a persona profile tool (using CGAP's customer experience toolkit) that allowed workshop participants to develop an "archetype" of a typical low-income person served by NWTf. The participants produced a uniform understanding of low-income households' characteristics, including their housing needs, motivations, dreams, pain points, and financial behavior.

A customer journey mapping exercise followed up the persona profile. This tool captured a typical household's journey when they undergo home improvement or construction and seek appropriate financing mechanisms for meeting their requirements. Within each stage of the customer journey, participants identified: 1) touchpoints through which a low-income household is interacting with NWTf and its staff; 2) customer's thinking pattern and experience at each stage; 3) gaps where the organization could provide more value to customers, or ease their pain points, and contribute to positive customer experience. Coupled with market research findings and participants' field experience, both the persona profile and customer journey tools enabled a deep understanding of low-income households' needs, aspirations, and pain points.

Later, participants engaged in intensive brainstorming discussions, where they ideated a new housing microfinance offering. A challenge that arose from conversations was how NWTf could further obtain the target segment's feedback on the product concept and finetune the prototype. This was a critical question that had to be answered to demonstrate the product-market fit better and develop the feasibility and viability analysis for NWTf's board approval.

Storyboarding



Brainstorming Discussion

Participants engaged in a storyboarding exercise to provide more tangibility to the financial offering. The storyboarding exercise helped NWTF illustrate the product concept and create a minimum viable product, including messaging that could be used to introduce the product to low-income households. Through storyboarding, the organization conducted a product validation exercise in the field and gained insights on clients' interests, behavior, and feedback on the product before developing a full prototype. Inputs from the product validation exercise further informed the fine-tuning of the product concept, the messaging for product marketing and helped design a final offering.

Product Launch

Both the Terwilliger Center and NWTF worked together to develop internal systems necessary to launch and maintain product delivery. A process mapping exercise enabled a nuanced understanding of NWTF's operational and credit delivery model. Both NWTF and the Terwilliger Center teams discussed the internal workflows and refined lending processes to successfully deliver the newly designed product. The new processes also required additional changes in NWTF's management information systems and core banking solutions, to effectively monitor and track product performance. Similarly, to build staff capacity in successfully delivering the new product, a training module was developed that clearly outlined product details, all processes in the lending cycle, and the staff roles and responsibilities. Employees from pilot branches and operations and product development teams received a detailed orientation on the new product before the launch. The product was named Dungannon Housing Loan and launched successfully in May 2019 in four branches across Negros and Panay Islands.



Training Sessions

Results from Pilot Testing and Product Rollout

NWTF experienced an overwhelming response to the Dungganon Housing Loan in the pilot branches. The product consistently showed good performance throughout the pilot and maintained zero percent delinquency. Overall, 848 families benefitted from the housing product and improved their living conditions during the seven month's pilot-testing phase.

After the successful pilot-testing phase, NWTF decided to roll out the product gradually in all of its branches. As of June 2020, the product is offered in more than 30 branches. The housing product is now part of NWTF's business plan, and the MFI has developed a dedicated product strategy to expand its housing portfolio. NWTF has also planned a phase 2 and phase 3 expansion of their housing portfolio in the coming years, by developing a product for new house construction involving much higher loan sizes and longer maturity, and a mortgage solution supporting the purchase of new homes and lots, respectively.

Dungganon Housing Loan's pilot-testing phase provided several useful lessons, such as 1) a more agile management information system that can be easily re-engineered to suit the product requirements, 2) the need to educate customers on material selection, budgeting, and construction basic do's and don'ts, that can be complemented with the financial product for improved resiliency of housing structures, and 3) continuously build the capacity of front-end staff about the new product. After the pilot-testing phase, as NWTF was gearing to gradually roll-out the product in other branches, the pandemic started. During the significant COVID-19 disruption phase, NWTF had to halt housing loans' disbursements temporarily. The focus was on providing emergency and income-generation loans to low-income families to restore their livelihoods. The "shelter in place" directions from the local government also reiterated how adequate and safe housing could act as the first line of defense in public health crises. NWTF reinstated housing loans from July 2020.



STRATEGY STATEMENT

"Leverage the successful pilot testing of Dungganon Housing Loan and offer and expand the client-centric product in other branches and regions. Aim to target 5 percent of the portfolio in housing by 2023".



848

Families Served



0%

Delinquency



28,500 pesos
(US\$570)

Average Loan Size



24,162,000 pesos
(US\$483,000)

Total Loan Disbursement



"Our house was in a bad condition, and that motivated me to apply for the Dungannon Housing loan. I wanted a home that could protect and secure my family during heavy rainfall or typhoon." - Berlisa

With NWTF's housing loan, Berlisa managed to renovate her house by replacing the roof, windows and creating a cement base. She has plans to take another loan to continue renovating her home.



"Whenever it rained, we had to find a place inside our home without water leaks. It was a challenging period in my life. I am delighted to see my dream turn into reality." - Lory

Lagrimas (Lory) lives with her spouse and four children in La Carlota City, and has been associated with NWTf for more than 19 years. Lory applied for the Dungganon Housing Loan because she wanted a safe and sound house for living, allowing her children to learn and concentrate on studies.

She started to rebuild her home with the housing loan, beginning with cementing the foundation and walls, new windows, and flooring. She feels grateful that they can now live a comfortable life as there are no more roof leaks, and her home is now strong enough to withstand typhoons.

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