# Another Brick in the Wall

Microfinance institutions, aid workers, donors, governments and private companies form a huge spinning wheel trying to extend more microcredit and reduce the region's housing deficit.

By Diego Fonseca

In June 2007, the news about the U.S. economy was grim. In California, Florida, Arizona, and Nevada, mortgages on some 400,000 homes faced foreclosure. Homeowners, unable to keep up with payments, were in debt up to their necks, stretched beyond their means, as their dreams turned upside down.

The lesson is that aiming too high can backfire. But sometimes a little aspiration is a good starting point. At least that is how it is for Latin American families, whose situation is just the opposite of that in the United States. Latin American houses may not cost a million dollars and are far from having so many features and amenities. But they have solid foundations and, more important, are paid for through long-term microloans with reasonable interest rates. No one is throwing their money around, but many families are currently realizing the dream of building their first homes. Organizations such as Habitat for Humanity, CARE, and Un Techo para mi País ("A Roof for My Country") are lending a hand, along with aid from donors like the Swedish International Development Cooperation Agency (SIDA), and help from projects that finance building materials such as the Mexican cement company CEMEX.

These activities are part of a growing phenomenon—the involvement of governments, civil society groups, and international companies working to solve the housing shortage in Latin America and the Caribbean. According to estimates by the Economic Commission for Latin America and the Caribbean (ECLAC), more than 50 million homes are needed in a population of 600 million. Every year five million new homes must be built to replace declining and lost housing.

Historically, efforts to put a roof over the heads of the lowest-income families have received support, to varying degrees, from national governments, international organizations like the Inter-American Development Bank (IDB), and international donors. These same players continue to participate, but with the surge of microfinance institutions (MFIs) and businesses that embrace corporate social responsibility as a core strategy, new winds are blowing through the region. The convergence of microcredit with the push from foreign aid workers, civil society groups, MFIs, and private businesses is a new driving force in the battle to achieve decent living conditions.

## Diverse Tendencies

Maria Victoria Saenz-Samper, an expert in microfinance and microinsurance for housing, says that there are two major schools of thought on housing and microcredit. Saenz-Samper calls the first "minimalist." This notion is based on the distribution of housing resources that families manage themselves and excludes coinciding assistance from urban, technical, or construction services. "The assumption is that the clients are known, they understand construction [microcredit applicants who belong to a group of self-builders], and they know what they want," explains Saenz-Samper.

The second school is defined by

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what the first lacks; its loan officers offer technical assistance for construction. This school has two branches: those who believe that technical support should be provided by engineers or architects, and those who believe in establishing a microfinance product for housing that includes technical assistance from a trained loan officer. "The assumption here is that [microcredit] costs can be reduced, and that clients can relate more easily to a loan officer than to an engineer."

Both schools, and other variations in between, have had noteworthy successes in the region, all under different circumstances. ACCION International and its affiliates—MiBanco in Peru, BancoSol in Bolivia, and Compartamos in Mexico, among others—subscribe to the minimalist approach. Cooperativa Salcajá in Guatemala, which uses resources from the Fideicomiso para el Desarrollo Local ("Local Development Trust Fund"), is part of the trend that supports the use of construction professionals. International organizations such as Habitat for Humanity are in the third group.

## Private Companies Arrive

In 1998, CEMEX, Latin America's largest cement company and one of the three largest in the world, launched a pilot project to supply materials in northeast Guadalajara in an area known as Mesa Colorada. Essentially, families generated savings in prepaid allocations that enabled them to acquire materials from the Mexican company's local cement distributors and receive guidance from professionals in designing additions to, remodeling, or constructing their homes.

The project was called Patrimonio

## The Swedes Come Marching In


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On the map of international cooperation, there is a leading pioneer in housing, urbanization, basic services, and infrastructure: the Swedish International Development Cooperation Agency (SIDA). SIDA has broken new ground by combining microloans for home improvements with microcredit for business activities, co-financing the introduction of basic services and infrastructure, and providing state-subsidized mortgage loans.

The organization has made a difference by supporting activities that have later been scaled up to multilateral banks, such as the IDB and the World Bank. An example is their project in Honduras with Fundevi, co-financed with the German development bank KfW. Their strategy? Being there, hands on, pushing the limits. "Donors should not expect a complete change in the regulatory environment before starting pilot projects that can show how things can be done in a different way," says SIDA's Per Fröberg. "SIDA has shown others that change is possible on a practical level that can be sustained by changes at the policy level."

SIDA's history is long and marked with successes. In 1995, it began a five-year program to train 1,000 engineers, architects, and decision-makers in Central America, Bolivia, Ecuador, and Peru. Upon completion in 2000, it joined with the IDB to co-finance access to basic services and infrastructure for poor families in Honduras, Nicaragua, El Salvador, and Guatemala.

Two years later, together with the Fundación para la Promoción del Desarrollo Local ("Foundation to Promote Local Development," or PRODEL), SIDA launched a microfinance program for housing in Nicaragua that has subsequently won international awards. Families receive US$700 in credit and have an advisor who visits their homes to help them determine a realistic budget, select practical uses for the money, and devise a spending plan.

By 2006, PRODEL, with SIDA's assistance, had helped some 20,000 families improve their homes, a figure equal to 6% of the housing deficit in the country. Something similar occurred in Costa Rica between 1988 and 2007, where the assistance given to 27,000 families in the Fuprovi program helped reduce the country's housing needs by 11%.

PRODEL and Fuprovi were a platform for expansion in Guatemala, Honduras, and El Salvador, providing solutions for more than 90,000 families in the first 10 years. Since 2005, SIDA has expanded its co-financing programs based on experiences in Nicaragua, Guatemala, Honduras, El Salvador, and Costa Rica.

Link:
**www.sida.org**

# Mexican Equity

This year marks Patrimonio Hoy's 10th anniversary since it established its presence in Mexico, where it was founded, and later expanded to Colombia, Venezuela, Nicaragua, and Costa Rica. Patrimonio Hoy ("Equity Today," or PH) is an emblem of corporate social responsibility and the star program of the global cement giant CEMEX, based in Mexico.

PH was formed to address the needs of low-income Mexican self-builders and those of the Monterrey company, which sought to enter more decisively into the bottom of the pyramid. The conditions for both were ripe. "Mexico has some 20 million homeless people and almost half of its population lives in ramshackle dwellings, poorly assembled over decades with their own hands," says Israel Moreno Barcelo, PH's founder and general manager. These people consume 35% of the total cement used in the country. But they are not big customers. They buy when they have money, sporadically, and in small quantities. They are scattered and fragmented, and providing them with materials is costly and inefficient. This situation persisted until 1998, when CEMEX decided to invest in an interdisciplinary research project to determine first-hand the behavior of this sector of consumers. Researchers were stationed in Mesa Colorada, a community of 90,000 people in eastern Guadalajara, where the pilot project began.

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There they studied the sector in detail: A house with five rooms can take an average of 20 to 25 years to build under conditions with scant access to technical know-how; supplies were based on the prices of various providers (unwanted result: low volumes raise costs and delay delivery); single-family constructions had no community collaboration.

Those families who received their pay every week or two lacked a strong culture of savings or credit needed to pay stores or be accepted by local storekeepers.

CEMEX took note and designed PH accordingly, explaining each step to the community. Finally, they assembled groups of 10 to 12 neighbors to save money together for 70 weeks. Each community chose an organizer to collect and deliver the money. In 18 months the pilot working groups were operating.

Over time, PH turned into a progressive savings program for housing in low-income communities. PH provides technical assistance to meet the particular needs of each family and designs a modular construction plan. The materials, which are ordered sequentially based on need, are paid for with family micro savings. Each family must save the first 20% of the capital needed to buy materials for the entire project, then CEMEX will guarantee funds for the remaining 80%. Every week, families pay around US$15 for materials and another US$2 for the services of consultants. Prices are frozen for the duration of the project's 70 weeks, including one year of storage for materials, home delivery, and CEMEX's financing cost.

It took about six years before PH's collaborative network in Mexico quickly spread to other countries in the region. Now the company wants to replicate it in other international markets (Asia, Oceania and Europe) that have needs similar to those in Latin America. The strategy has enabled networks to integrate the strong bonds between families, local CEMEX distributors, and the company itself.

By late May 2008, when it reached its 10-year mark on the scene, PH had already helped 205,000 Mexican families build 105,000 square meters of housing, which corresponds to the lavish sum of US$94 million in financing, repaid by 99% of the borrowers of PH.

Link:
**www.CEMEXmexico.com/se/se_ph.html**

Hoy (“Equity Today”—see p. 41) and is now considered a world-renowned case that illustrates how a private company addressed the needs of its customers at the bottom of the pyramid. CEMEX’s ability to adapt new business models to its value chain enables it to fill certain gaps in the quality and quantity of housing for low-income families.

CEMEX created one of the most well-established projects in microloans for housing, although the company prefers to categorize them as “advance payments for materials.” And while private-sector participation is the last big step in efforts to understand how business transactions at the bottom of the pyramid can be a mechanism for economic sustainability, the delay does not mean they have little to contribute.

In fact, quite the opposite. Experts in the field have determined that the participation of private sector providers contributes significantly to the value chain. Microinsurance, for example, has already demonstrated that companies can design products for which civil society organizations can function as distribution channels. This approach has generated new products in housing and increased the institutional capacities of NGOs as they learn to use private capital to negotiate, purchase, sell,

## ACCION and Habitat: Welcome to the Big House

Habitat for Humanity, a Christian organization that has built more than 250,000 houses around the world in just over 30 years, is also stepping into microfinance. Recently the organization launched a microcredit program in Panama for homeowners who want to expand and/or build. Habitat is active in 22 countries throughout Latin America and the Caribbean. In Guatemala and Honduras, for example, the organization has helped build more than 25,000 and 6,500 homes, respectively. In Bolivia, it has been building approximately 600 houses per year.

In 2007, Habitat took a more concrete step with microcredit, linking with the largest investor in Latin American microfinance, ACCION International, to conduct a study of 10 institutions affiliated with ACCION in the region. The objective? To examine in depth the scope of microfinance for housing in order to take further action.

The involvement of both Habitat and ACCION coincides with the development of housing microfinance in the region. The 10 Central and South American ACCION affiliates account for 90% of the network’s investment in remodeling, additions, and construction. The network has been actively seeking to analyze its approach to the business.

The behind-the-scenes reality of housing was and is obscure. In Nicaragua 62% of the 1.3 million homes are makeshift. In countries like El Salvador, 200,000 new houses are needed and 400,000 homes urgently need repair. But the Central American financial markets do not have products for those living in basic housing.

Companies linked with ACCION, however, do have such products. When the ACCION-Habitat study began, half of the MFIs in the group (BancoSol in Bolivia, Mario Santo Domingo Foundation in Colombia, Integral in El Salvador, FAMA in Nicaragua, and MiBanco in Peru) had been providing housing microcredit for more than five years, and the others were studying whether to begin as well.

ACCION focuses the business of microfinance credit away from the subsidies of government agencies, and adapts to the needs of low-income families. The network finances microloans of US$1,000–$1,500 that build progressively with 18–24-month terms. The terms are somewhat higher than for productive microloans but less than for mortgages, which are never less than 10 or 15 years. The ACCION MFIs ask for the same guarantees required for working capital microloans.


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The organization represents a philosophy for microfinance in housing that provides long-term financing without technical assistance in construction. ACCION is inclined more toward this option after testing different pilots with its affiliates Financiera FAMA in Nicaragua and Integral in El Salvador.

or transfer services, products and knowledge.

Businesses are adapting and changing quickly, which in turn allows for an increase in the supply of value beyond the initial minimum needs of any construction project. For example, after construction or expansion of a house is completed, Patrimonio Hoy helps self-builders move into a second phase: design improvement. CEMEX (along with the irrigation system manufacturer Amanco, the Brazilian cosmetic company Natura, the Spanish bank BBVA, and a long line of traditional financial institutions, among other private companies) has been inspired to cross-market other products (see p. 41). “Private entrepreneurs know that the market is huge and they have found a way to promote their products,” says Saenz-Samper. “Their profits will be based on volume, not cost, which is a win-win situation.”

## Sustaining the Bet

The crucial issue now is that these kinds of initiatives, both public and private, comply with mandates for sustainability: They need to succeed as independent business entities, and do so over time. The demand for housing is so great that there is a market for whoever wants to enter.

But sustainability requires a clear and stable game plan: a strong commitment among governments to create

In 2004, the first offered technical assistance in construction; the second followed the traditional model, limited to reviewing budgets. The difference at year-end was that FAMA placed more credit (at a ratio of 3 to 1), ensuring a more profitable product. In terms of quality of construction, there was no difference in home improvements financed by one or the other.

What finally reinforced ACCION’s “minimalist” approach was that the need for technical assistance—drawing up plans, calculating construction costs, or supervising labor—varied from one person to the next, and to include it or not made the difference in costs. In the case of El Salvador, Integral would take two years to turn a profit on a product that FAMA optimized in less than half that time. “The assistance in construction included with an MFI’s housing credit, if there is one, should be customized depending on each borrower,” says Richard Shumman in the study, “The Development of Microfinance Products for Housing in Central America,” published by ACCION International.

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Habitat’s study recently shed light on how beneficial housing microfinance can be for MFIs. For example, the portfolios of seven ACCION affiliates showed enormous surges in the number of customers in a short time, from 15,000 in 2002 to 38,000 in 2005. In terms of market share, housing microfinance also grew more rapidly than other options. With US$117 million placed in 2005, housing microfinance accounted for 11.5% of the total loan portfolio. Three years earlier, the figure was just above 6%. Moreover, the repayment rate was even better than that for productive credit. In other words: good business.

Now housing microfinance is quickly becoming a leading product of ACCION’s MFIs, which are drawing on lessons learned from Integral and FAMA. Finamérica in Colombia and Banco Solidario in Ecuador, for example, followed the lead of their Nicaraguan partner. And when ACCION applied the experience internationally in Africa, Uganda Microfinance Union adopted Integral’s model. These lessons have also been applied to new undertakings in Haiti, Paraguay, Ecuador, and other African countries.

“The appeal of housing microfinance as a business opportunity has to do both with the size of the potential market and with the fact that it is a relatively low-risk product that creates a stronger bond with the customer than a typical microenterprise loan,” write Nino Mesarina and Christy Stickney in a study for ACCION examining housing microfinance. “It could be attributed to the emotional and practical ties clients have with their home and its priority as one of their most valuable assets.”

Links:
**www.habitat.org/lac**
**www.accion.org**

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an environment that facilitates partnerships between different players, along with effective decentralized administration that can shift decision-making back to the municipality and community levels. "We have proactively promoted a dialogue between government and civil society to change housing policies for low-income communities and involve the private sector, NGOs, local and central governments, and international donors," explains Per Fröberg, Senior Advisor for Latin America in SIDA's Department of Urban Development, in Sweden. "Involving MFIs in the development of new products [is also necessary], especially for small rotating home improvement loans accompanied by technical assistance."

In general, these projects are sustainable. It is noteworthy that the CEMEX project has been running for 10 years, international cooperation more than 30 years, and MFIs for almost a decade. The pioneering MFIs and their followers have had the sensitivity to understand that, on occasion, the working capital solicited by their clients was an investment for needs such as improvements to workspaces. A handful of MFIs have redesigned their products to address these needs, which they in fact already covered, by creating well-designed instruments available to clients they already know.

Beyond working capital, another mutual need is better housing for families and an expansion of MFI products. Without a doubt, this has led to the design of more housing products and relevant market research to better meet demands. Currently, microfinance housing products are a consolidated branch of the sector. They primarily aim at housing improvements, incremental upgrading, and in some cases, new construction. According to experts, the demand is generally based on the need to separate business from personal activities.

In general, the terms are longer than those for other microloans. They can be up to three years, compared to the one-year maximum for working capital loans. These longer terms are due to the fact that the loans do not have a productive activity to leverage them.

In addition, the amounts are significantly larger. If a productive microcredit borrower averages US$1,000, a family seeking housing funds can average US$5,000, and there are cases of loans up to US$15,000. What about the interest rates? "Nothing is in writing," says Saenz-Samper. "In some cases rates are lower than for working capital, and in other cases not."

At higher volume per loan, the housing microfinance products also need a different scale for financing. Regulated MFIs do not have major problems in setting terms, but non-regulated MFIs tend to run into difficulties with matching terms between the short-term funds and those with terms greater than three years. So, not all MFIs have turned to housing financing. And that is why many have turned to longer-term financing sources from governments, such as the Sociedad Hipotecaria Federal ("Federal Mortgage Society") in Mexico, the Fondo MiVivienda ("MyHousing Fund") in Peru, or PRODEL in Nicaragua.

At the end of the day, sustainability depends on products being clearly defined in financial terms and in the market, along with strict control of arrears. Although not all guarantees have been perfected, a good number of MFIs require some real collateral in housing loans. "Perhaps this is why delinquency is under control," says Saenz-Samper. "When I have spoken with loan agents and program managers, they tell me that clients don't play around with their houses—after all, it is the main and only asset of value they have."

Links:
**www.habitat.org/lac**
**www.care.org**
**www.untechoparamipais.org**
**www.sida.se**
**www.accion.org**
**www.mibanco.com.pe**
**www.bancosol.com.bo**
**www.compartamos.com**
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# A Boom in Homeownership

## Who said that you have to be rich to own a home?

By Lucy Conger

Last year, Isabel López moved into a spacious apartment with three bedrooms and three baths in a new building on Avenida República, in the northern part of downtown Quito. The apartment was offered and sold in New York at a local office of Mutualista Pichincha, one of Ecuador's two largest mortgage lenders. The buyer, Raúl López, a successful stylist and beauty salon owner based in the New York metropolitan area, made the purchase without ever seeing the apartment. He did not even travel back to his home country to sign the papers. "They offered the house on the Internet, my relatives saw it, I liked it, and I bought it," says López. After the sale closed, the only son of Isabel López had his mother move into the apartment. "I came to this country [the United States] to get ahead, and you want to see your relatives in a good situation," he says. In fact, his own business has done so well that he has prepaid much of the loan and reduced his balance to US$20,000.

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Mutualista Pichincha, a pioneer in the field, sells mortgages like this through brokers that publicize the financing in the United States and Spain, the leading destinations for migrant workers from Ecuador. Its branches are located in the Queens borough of New York, and Madrid, Murcia and Lorca in Spain.

The savings and loan enterprise began 10 years ago and today manages a portfolio of US$29 million in mortgages for migrants. The loans are in dollars and euros, and are paid by depositing remittances in branches of financial companies, or through transfers from other banks abroad or at home.

"The key to success in selling housing to migrants is to identify two people: the migrant and his relative here," says Patricio Maldonado, risk manager for the housing division of Mutualista Pichincha. Telephone booths and video conferencing equipment are available at Mutualista's offices abroad so that families in both countries can discuss their choice of housing. "The final decision is made jointly," says Maldonado. Migrant borrowers typically sign over power of attorney to relatives so the transaction can be completed in their home country.

The financing that allowed López to buy the apartment is an example of a niche lending product called "transnational mortgage loans," or mortgages granted to migrant workers living outside their country for the purchase of a residence in their home country. Over the past 10 years, banks and financial businesses specializing in mortgages in Latin America have built up portfolios of transnational mortgages that exceed US$50 million for some institutions.

The main drivers of this rapidly expanding loan product are two major financial trends in Latin America and the Caribbean: the continued growth of remittances and the development of affordable housing for middle- and low-income households,

says Takatoshi Kamezawa, Investment Officer at the IDB's Multilateral Investment Fund (MIF). During the past two years, financial institutions in the region have intensified their efforts to connect these two trends by offering mortgage loans to migrants who send money back home to purchase housing in their country of origin. The MIF helped boost transnational mortgage loans by working with financial institutions in the region. Since 2005 it has been granting loans for technical assistance and the development of transnational mortgages.

Remittances to Latin America and the Caribbean now total at least US$60 billion a year, and projections show that the flow of remittances to the region during this decade will increase to about US$500 billion. The vast majority of these resources are spent on consumption of staple foods and household goods. Only a small portion of the funds are directed to investments such as education or housing. "The transnational mortgage loans will help leverage remittance flows to investments that have productive outcomes," says Kamezawa. The strong earning capacity of migrant workers makes them financially solvent, and therefore good credit risks.

Transnational mortgages also help stimulate construction, which not only generates a multitude of jobs, but ultimately stimulates the development of capital markets, making more money available for mortgage lending. Construction now accounts for an investment of US$100 billion a year in the region, and is growing at double digit rates in Peru and other countries and accounts for as much as 5% of GDP in Mexico. This dynamic industry creates employment for many low-skilled, low-income workers.

The main objective of the MIF is to stimulate private sector development in Latin America and the Caribbean in the form of grants, loans and targeted investments in innovative pilot projects. The expansion of the housing market is an integral part of this strategy. In the past four years, the MIF has vigorously promoted the development of inclusive housing markets in the region. Accordingly, the MIF is also actively promoting other segments of the housing market, providing technical assistance, loans for mortgage finance associations, and home improvement loans run by microfinance institutions (MFIs) (see story p. 51).

MIF loans for inclusive housing markets totaling US$23.3 million have been granted to nine financial institutions in the region to help them expand their lending aimed at remodeling or buying houses and apartments.

The loan program is not focused exclusively on low-income housing. "Many immigrants become very successful by working hard in another country, and we should support them so they can buy houses in their home country, and that includes providing funding to local lenders that can offer mortgages over US$50,000," says Kamezawa.

By a wide margin, Mexico receives the largest amount of remittances in the region. As a result, transnational mortgages there are expected to grow considerably. Su Casita, Mexico's first specialized mortgage finance company, has established a solid base—107 offices in 28 of Mexico's 32 states—to develop a product aimed at this niche. Since its founding in 1994, Su Casita has grown so much that it currently manages a portfolio of over US$1.6 billion in mortgage loans.

Four years ago, Su Casita entered into the business of transnational mortgages with the launch of a pilot program backed by a US$5 million loan and technical assistance from the MIF. Su Casita has worked with Mexican consular authorities to facilitate cross-border transactions by simplifying procedures and reducing the costs of assigning power of attorney necessary for family members to carry out home purchases, says Gonzalo Palafox Rebollar, business development director at the mortgage company.

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On average, a transnational mortgage amounts to US$41,000. Clients make a down payment of between 10% and 20% and pay an interest rate of 11% with a repayment period of 20 to 25 years. Su Casita introduced a new product, transnational mortgages in dollars, which has been well received in the market, Palafox Rebol-

lar confirms. The interest charged on mortgages in dollars is 9.5%.

Mortgages are promoted in the United States through four subsidiaries of Su Casita, one in Denver, one in Dallas, and two in Chicago. They are also marketed through a nationwide call center and by agents who promote transnational mortgages in other states with a large Mexican population such as New York and California. The portfolio has grown to encompass 2,000 mortgages valued at US$95 million.

Transnational mortgages constitute "one of the fastest growing programs we have, and we will continue supporting it," says Palafox Rebollar. Despite the current recession in the United States, "there is an enormous market potential and no similar products," he adds.

The growth of transnational mortgages is part of an increasingly pronounced trend in Latin America: boom in homeownership. In countries like Mexico and Peru, regulations that help establish housing loan associations and government support for low-income housing have made mortgages more available to millions. Throughout the region, economic stabilization has brought lower interest rates, while pension funds have invested in mortgage financing, and ensured that the reserve of loans be extended. Home ownership is now within reach for many who had never dreamed of buying an apartment or house.

Oscar Pacheco was about to turn 32, and had always lived with his parents. In fact, Pacheco and his wife, Mayre Zulueta, had lived all five years of their marriage in his parents' home. Last year their son, Oscar Alonso, was born and the family became a three-generation household.

But all that changed last November. Today the young Pacheco family lives in an apartment with three bedrooms and two bathrooms in a housing complex in Chorrillos, a residential community at the southern edge of Lima. The Pachecos became homeowners with a loan from Mi Casita, Peru's first financial agency dedicated exclusively to mortgage lending.

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"The paperwork for the loan, from when I first contacted them, took 20 days. It was very efficient, and I moved in less than a month," says Pacheco. He put up US$3,000 as a down payment, and Mi Casita lent him US$27,000 backed by his property deed as collateral. His salary as a civil engineer in a mining company qualified him for mortgage payments of US$270 per month. "Before we had to be millionaires to buy," says Pacheco.

Mi Casita distributes mortgages backed by the Peruvian government's Fondo Mivivienda, a fund for lower middle class housing that offers subsidized rates to borrowers and a reduction in payments for those with good credit history. So far, no borrower has made a late payment or defaulted, says Roberto Baba, general manager of Mi Casita. With an investment of US$300,000, the MIF is a founding shareholder of the agency.

Mi Casita's impeccable lending record can be attributed to the careful screening of loan applicants seeking to buy homes, says Baba. Mi Casita's methodology is to conduct home visits, a strategy successfully developed by MFIs to reduce portfolio risk. "We send loan officers into the field and they put together a monthly cash flow that realistically reflects the applicant's capacity to pay," says Baba.

In just one year of operation, Mi Casita has built a mortgage portfolio totaling US$3 million. This year the company expects to triple its mortgage loans to a total of US$9 million.

Growth rates in mortgage lending can soar because of the huge backlog in housing throughout Latin America and the Caribbean, along with improving economies that make it possible for investors to develop housing. The enormous market for homes and apartments, both domestically and abroad, will be financed not only by mortgage lenders but also by selling mortgage-backed securities to the large pools of capital held by pension funds and insurance companies.

Links:
**www.mutualistapichincha.com**
**www.sucasita.com.mx**
**www.micasita.com.pe**

Credit, Technical Assistance and Self-Building

# "The Combo, Please!"

By Lucy Conger

Most homes in Latin America and the Caribbean are not bought ready-made. Owners acquire a property and gradually build a livable space. The hard-earned savings of families in low-income neighborhoods and rural areas are visible in the form of bricks, lumps of cement or iron rods stacked up outside of homes under construction.

Over the years, financial institutions have created products and programs in response to the needs and prospects of families that take on this common form of construction. A growing number of microfinance institutions (MFIs) are granting home improvement loans tailored to these low-income self-builders. According to María Victoria Sáenz, senior project specialist in housing programs in the MIF, "They get loans for progressive building; that is the essence of microfinance for housing."

As part of its new initiative to grant housing loans, MIF has earmarked US$1.7 million as a technical cooperation grant to two organizations: Habitat for Humanity and the Nicaraguan MFI, Foundation for the Promotion of Local Development (PRODEL). Both will open financial markets for housing loans in MFIs. Habitat for Humanity has successfully built low-income housing in almost 100 countries around the world and works in partnership with MFIs to assure that loans are available for housing. "Habitat's specific mission in housing microfinance is to ensure that products reach the lowest income sectors," says Christy Stickney, Habitat's director of housing finance.

In Central America, Habitat aims to create home improvement products appropriate for households that have a family income of one to three minimum wage salaries, or a monthly income between US$150 and US$450. With a grant from the MIF, Habitat will develop home improvement loan products ranging from US$300 to US$1,500, repayable in three to five years. Habitat will work with seven MFIs in Honduras and Peru to design small housing loans, test the products and train the participating MFIs in market research, product design and planning for product launch.

An important feature of this project is that it develops both a financial product and provides customized building assistance to help borrowers achieve the best possible results. Assistance is simple and straightforward, and the project ensures that credit agents in the targeted MFIs get the training necessary to work with their clients to build solid structures that are cost-effective without requiring the added assistance of engineers or architects.

In Nicaragua, PRODEL is poised to take its successful pilot program

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for housing loans and basic services to rural areas nationwide. Municipal governments will get loans from PRODEL to install infrastructure for electricity, water and sewage. In a typical rural community, the cost of installing municipal utilities ranges from US$20,000 to US$70,000, and a family can borrow between US$500 and US$2,500 to pay for connecting their home to these services, says Marlon Olivas, Executive Director of PRODEL.

With a loan of US$2 million from the MIF and US$3 million in investment from PRODEL, Habitat will expand its rural housing and services program to 30 municipalities. The organization will work with 11 institutions located in three different regions: the food crop areas in the north, the central livestock region, and the southern Atlantic coast fishing region. The product is considered a sure sell. "In the pilot program we had higher demand than expected," says Olivas. PRODEL expects to make a total of 3,000 housing loans valued at US$3.5 million, supplemented by US$1.5 million in credit for rural housing infrastructure.

PRODEL's loans for rural housing offer flexible payment plans to meet the income level and earning cycle of customers. The monthly payment will not exceed 25% of the monthly income of borrowers. On average, PRODEL's loans to rural households total US$1,400 and are repayable over 36 months, although the repayment period may stretch to 72 months. The payment schedule is adjustable to agricultural production cycles. Farmers who grow basic grains make one payment each year after the harvest, while vegetable producers pay every four months, and ranchers pay monthly, says Olivas. PRODEL's loans also include customized technical assistance from architects and engineers who help borrowers plan projects for progressive self-building and home improvements. This technical assistance is fully paid for by PRODEL clients, who are charged a fee of 2%–3% of the value of their monthly loan disbursement to cover costs. PRODEL has developed methodologies to maximize the efficiency of the architects and engineers with special software that generates budgets for building projects.

Housing loans are expanding and will continue to grow because they are good business, as demonstrated by ACCION International, a network of 23 MFIs. They are an exceptionally "safe" product because customers will not risk losing their main asset. That is why most institutions that have implemented this product so far, have focused on clients with proven creditworthiness and solid credit history. The repayment record

PRODEL NICARAGUA

During

After

PRODEL NICARAGUA

**Housing loans are a "safe" product because customers will not risk losing their main asset.**


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for housing loans is somewhat better than for loans for small business and microenterprise, says Mery Solares, home improvement product developer for ACCION International. "There is a high degree of commitment when a customer acquires a property and is satisfied with the loan," says Solares. For MFIs offering these loans there is another benefit. "Housing loans work as a strategy to build client loyalty," Solares says.

The boom is just beginning. The number of institutions that want to enter this new niche is growing. MFIs need to advance their search for new products and offer their clients a wider range of financial services. And housing is one of crucial importance.

Links:
**www.prodel.org.ni**
**www.accion.org**