



# Terwilliger Center for Innovation in Shelter

## Understanding Housing Microfinance

*Building and expanding inclusive housing markets*

# Why work with Markets?



Nearly **25%** of the world's population lives in **substandard shelter**

negatively affecting health, livelihoods and children's education.



**Terwilliger Center for  
Innovation in Shelter**

## **Vision Statement:**

A world where everyone has a decent place to live.

## **Mission Statement:**

The Terwilliger Center for Innovation in Shelter brings **stakeholders** together to facilitate **market-based solutions** for affordable housing.

# Market Based Solutions



Icons made by Freepik and Gregor Cresnc from [www.flaticon.com](http://www.flaticon.com)



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# State of Housing Microfinance

*Building and expanding inclusive housing markets*

# Objectives of the session :

- Consider purpose and characteristics of housing microfinance
- Analyze the business opportunity of this market segment
- Discuss results from global survey of housing microfinance providers



# Philippine Housing Situation

1.4 million

housing backlog

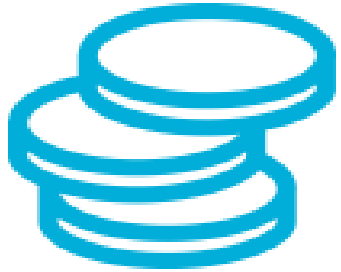
67%

accounts as unacceptable housing, or **substandard human living conditions**



\* "The Housing Industry Road Map in The Philippines : 2012-2030", SHDA Subdivision and Housing Developers Association in partnership with University of Asia and the Pacific – Center for Research and Communication

# Market Constraints



## Housing Finance

Lack of access to affordable financing for home improvements and repairs

- **Land Tenure Security:** Lack of legal documents to prove land ownership discourage MFIs to offer finance for housing



# Mortgage Financing

# Housing Microfinance

<b>Construction</b>	All at once	Incremental Stages
<b>Household Role</b>	Purchase new or existing homes	Manage construction process
<b>Lender</b>	Commercial banks and specialized housing finance companies	MFIs, Cooperatives and NGOs
<b>Land Tenure</b>	Formal land titles	Semi and informal titles
<b>Where</b>	In countries with developed mortgage lending mechanism. Limited reach	Everywhere else with focused on financial inclusion

# Product Design

Characteristics	Traditional Mortgages	Housing microfinance
Purpose	Purchase home or Land	Home improvement, incremental building
Target Borrower	Middle to high income, salaried	Low income, self-employed
Loan Term	Long term (>5 years)	6-36 months
Loan Amount	Above Php200,000	Up to Php300,000
Collateral	Land and structure	MFI accepted collateral
Interest Rate	Less than housing microfinance	Equal to or lower than micro enterprise loan

# Why housing loans are repayable?

- Repeat clients
  - Credit history
  - Bundled with income generating loans
- House is considered a psychological collateral
- Cash flow based lending
- Incremental building finance
- Product structure-longer tenor and affordable repayments



# Global Housing Microfinance Survey 2015-16



83 institutions  
with   
products

# WHY HOUSING?



# The

# Demand

Housing is one of the **top three priorities** for low-income families

**330 million** urban households live in substandard housing

Over 200 million households **live in slums**

# Why housing microfinance?



67%

are motivated to add HMF in response to client demand



66%

do so because they believe in the social impact of housing



65%

portfolio diversification



63%

added HMF to retain loyal clients

# Loan **utilization** on housing microfinance

52%



HOME  
IMPROVEMENT

30%



SMALL  
CONSTRUCTION

14%



FULL  
OR  
FORMAL  
CONSTRUCTION

4%



LAND  
PURCHASE  
OR TENURE

# Land Tenure

41

do not require a formal land title to get a housing microfinance loan

35%

require a formal land title to get a housing microfinance loan

24%

depends on the loan size



# Land Title **Alternatives**

When formal tenure documents are not available, MFIs also accept the following **informal proxies of tenure**:

- **Utility or bills** providing the area of residence
- **Consultations** with the local government
- **References** from neighbors
- **Tax payment** records

# HOUSING LOAN PERFORMANCE



**Housing microfinance** has longer loan tenors than other products.

**85%** of all surveyed institutions say that their tenors fall below the **24-month** mark.

Interest rates are **equal or lower** compared to other loan products.

56.7

believe that housing loans are as profitable as their other loan products

% 16.7

believe that housing loans are more profitable compared to their other loan products

%

microfinance institutions are considering complementing their HMF products with



microinsurance



microsavings



micromortgage



water and  
sanitation

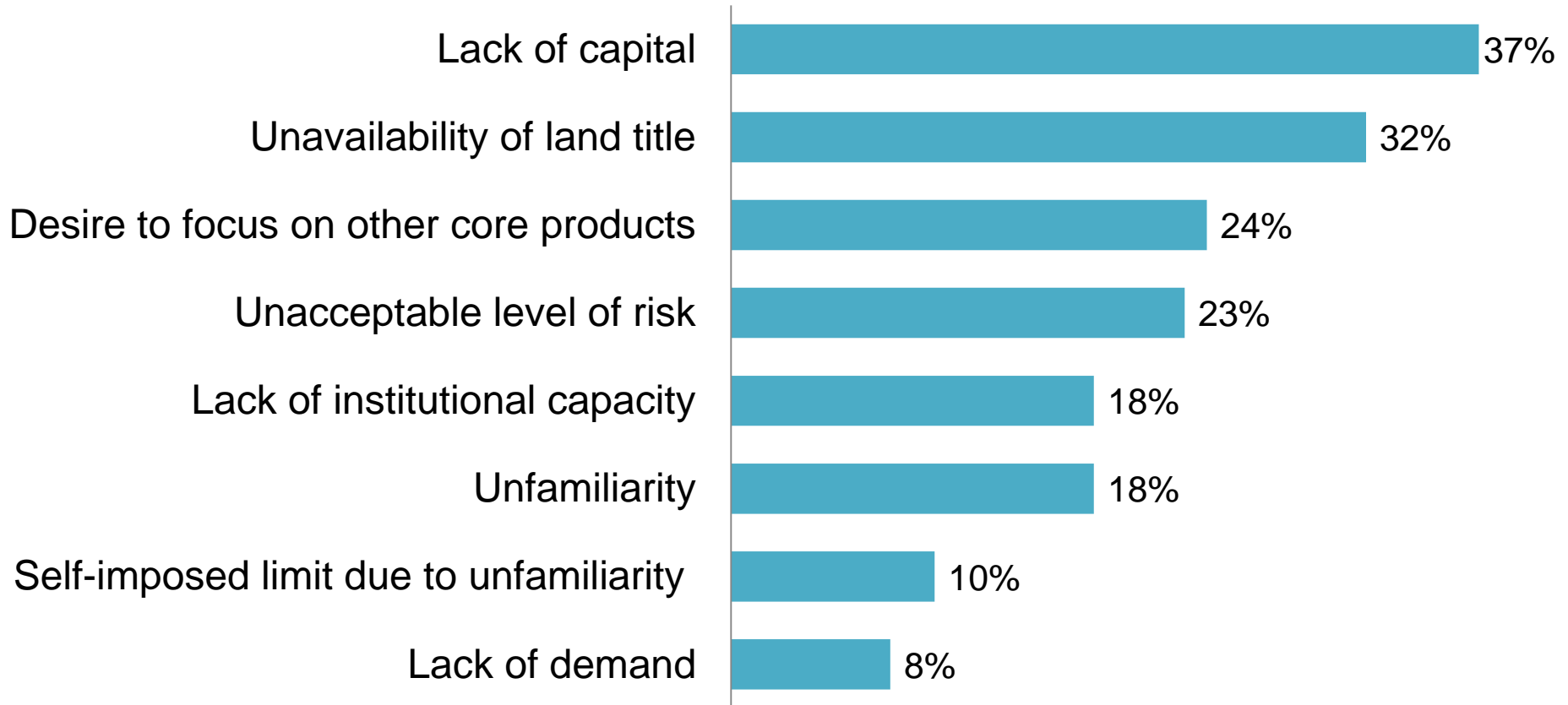


health



education

# the challenges of scaling up



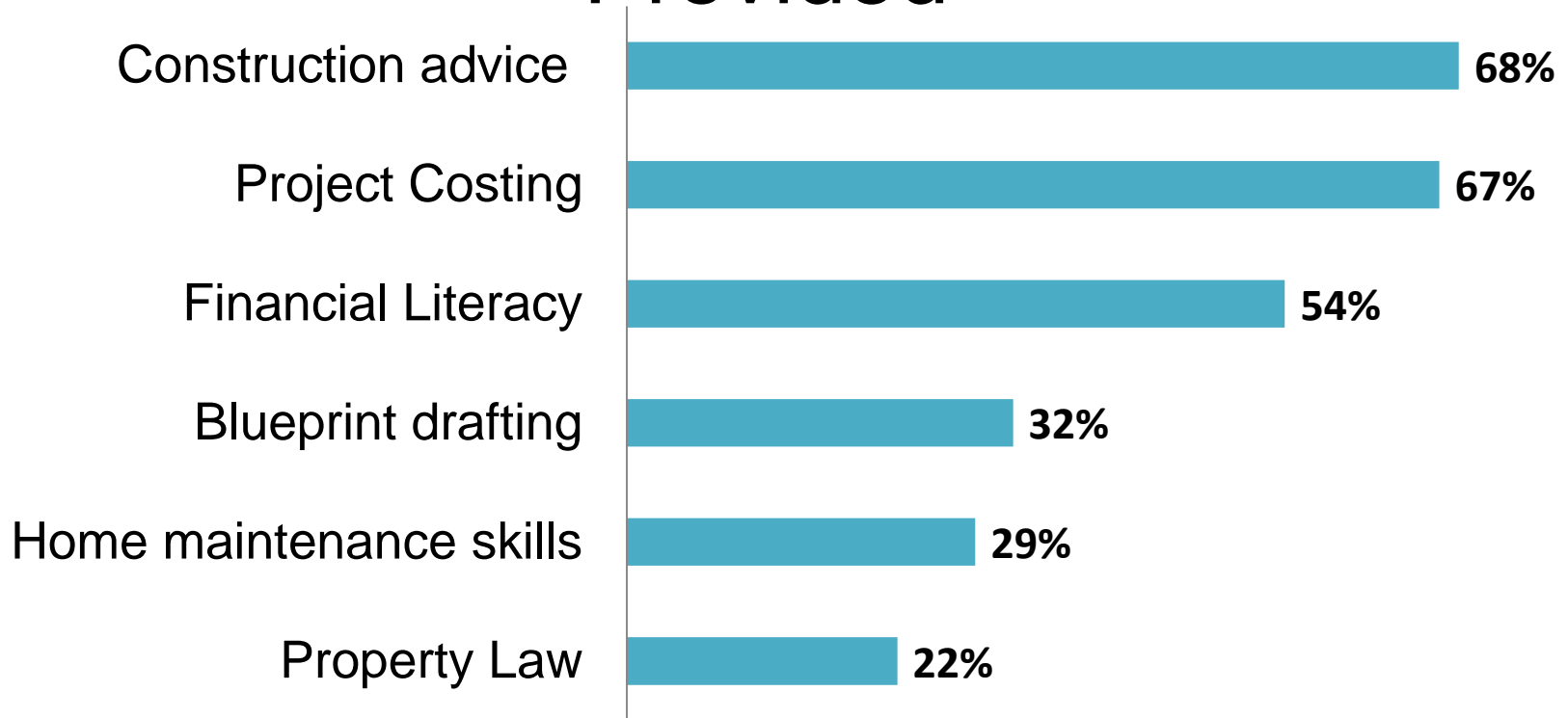
# TECHNICAL ASSISTANCE

**32%** of microfinance institutions provide technical assistance to housing clients in the form of **construction advice, budgeting support, personal finance education, and blueprint drafting**

**35%** of microfinance institutions do not, mainly due to the institution's **lack of technical and financial capacity** to deliver these support services



# Types of Technical Assistance Provided



# QUESTIONS?

# THANK YOU.

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