



**Terwilliger Center for  
Innovation in Shelter**

**Housing Finance in Practice**

# The 2016-17 State of Housing Microfinance

Understanding the Business Case for Housing Microfinance



Terwilliger Center for  
Innovation in Shelter

*Building and expanding inclusive housing markets*

# Survey objectives & methods

**Key objective:** To understand the drivers of the business case for housing microfinance



Identify opportunities for housing microfinance within their markets



Develop or expand housing microfinance products to address housing gap



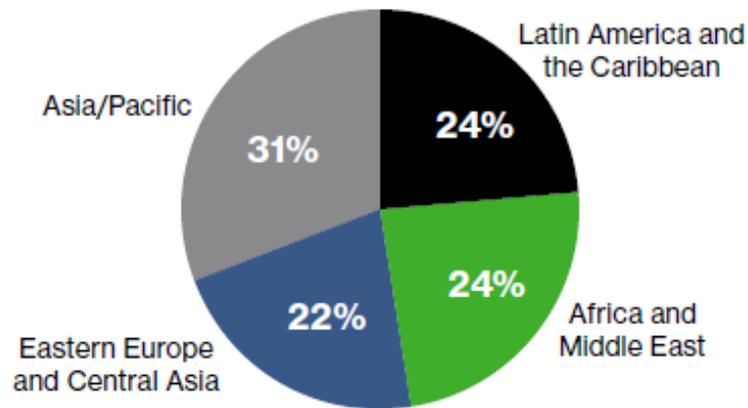
To enable investors to better understand the challenges and potential returns possible in the housing microfinance sector

## Survey Design and Methodology

- 45 base questions + logic based questions + optional commentary
- Sent directly to around 300 institutions as well as through networks
- 101 institutions completed the survey

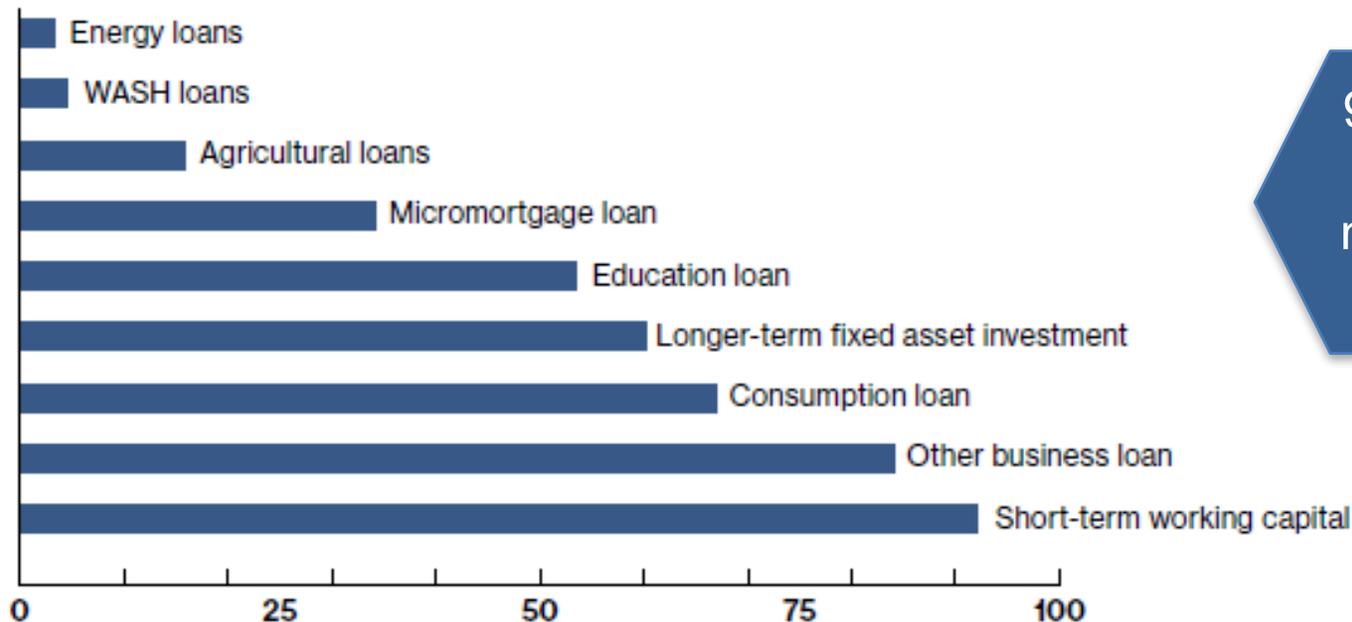
# Participant Profiles: *Diverse and multi-focused*

## Regional representation in survey



## Diversity in institutional types

- NBFIs (32.7%)
- NGOs (20.8%)
- Microfinance banks (19.8%)
- Cooperatives (9.9%)
- Foundations (8.9%)
- Housing finance companies, joint stock companies, micro-deposit organization, and commercial bank (8%)



92% offer an array of microfinance products

# What's the opportunity?

## Positive Performance

- **83,000 households or 415,000 people** benefited from improved shelter through MicroBuild Fund
- **Growth of housing microfinance sector** in response to client demand, social impact and/or portfolio diversification
- **Outperformance of housing microfinance portfolios** relative to traditional microfinance portfolios in both returns and lower delinquency

## Continued Demand

- Estimated affordable housing gap of **1.6 billion people** by 2025.<sup>1</sup>
- Housing finance remains a **luxury good** in many low-income countries.<sup>2</sup>
- Microfinance market grew to 130 million in 2014-15, only **20% of potential market** demand.<sup>3</sup>
- Housing recognized as a key motive for taking loans in developing countries.<sup>4</sup>

<sup>1</sup> Woetzel et al. McKinsey Global Institute. McKinsey & Company. 2014.

<sup>2</sup> Badev et al. "Housing Finance Across Countries: New Data and Analysis." The World Bank Development Research Group. Jan 2014.

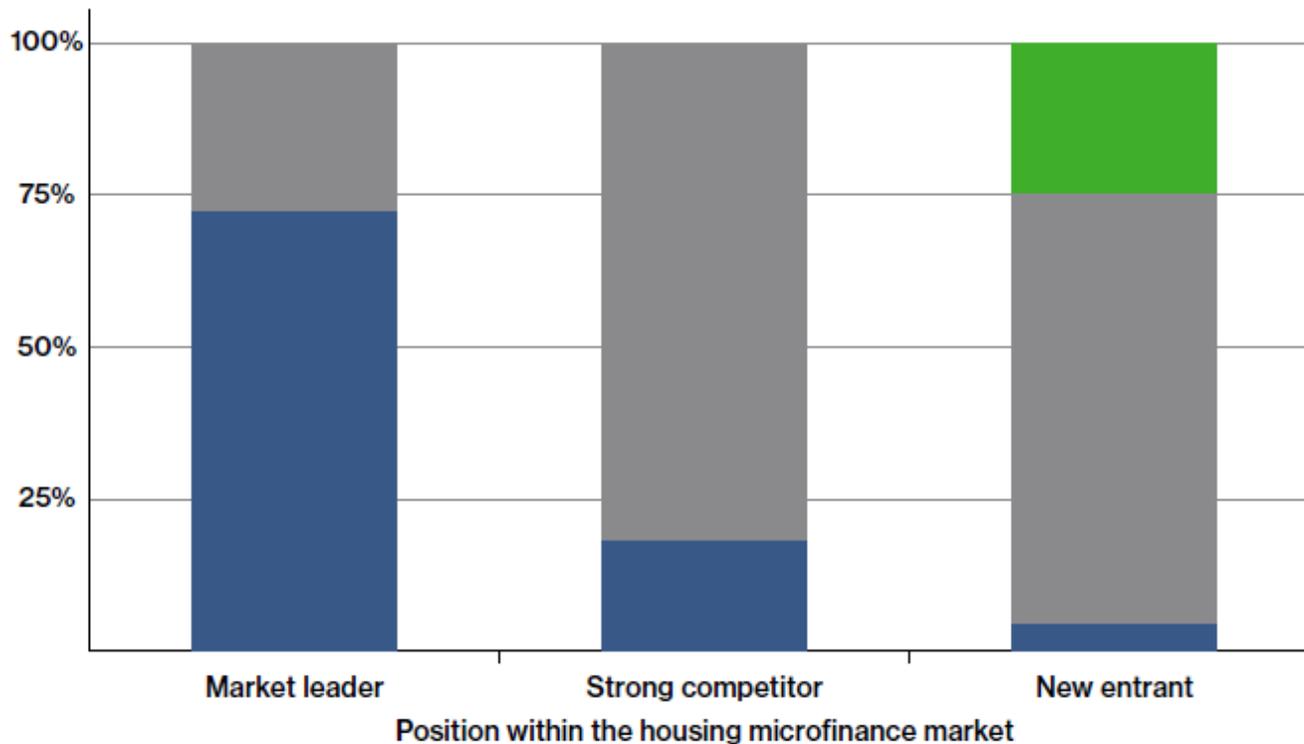
<sup>3</sup> MixMarket.

<sup>4</sup> Responsibility Investments AG. *Microfinance Market Outlook*, 2016.

# Market-level drivers: *Demographic trends & competition landscape*

**Demographic shift: Increasing urbanization** will drive demand for housing solutions; heightened in developing regions of Africa, Asia, and Latin America

## Competitive landscape



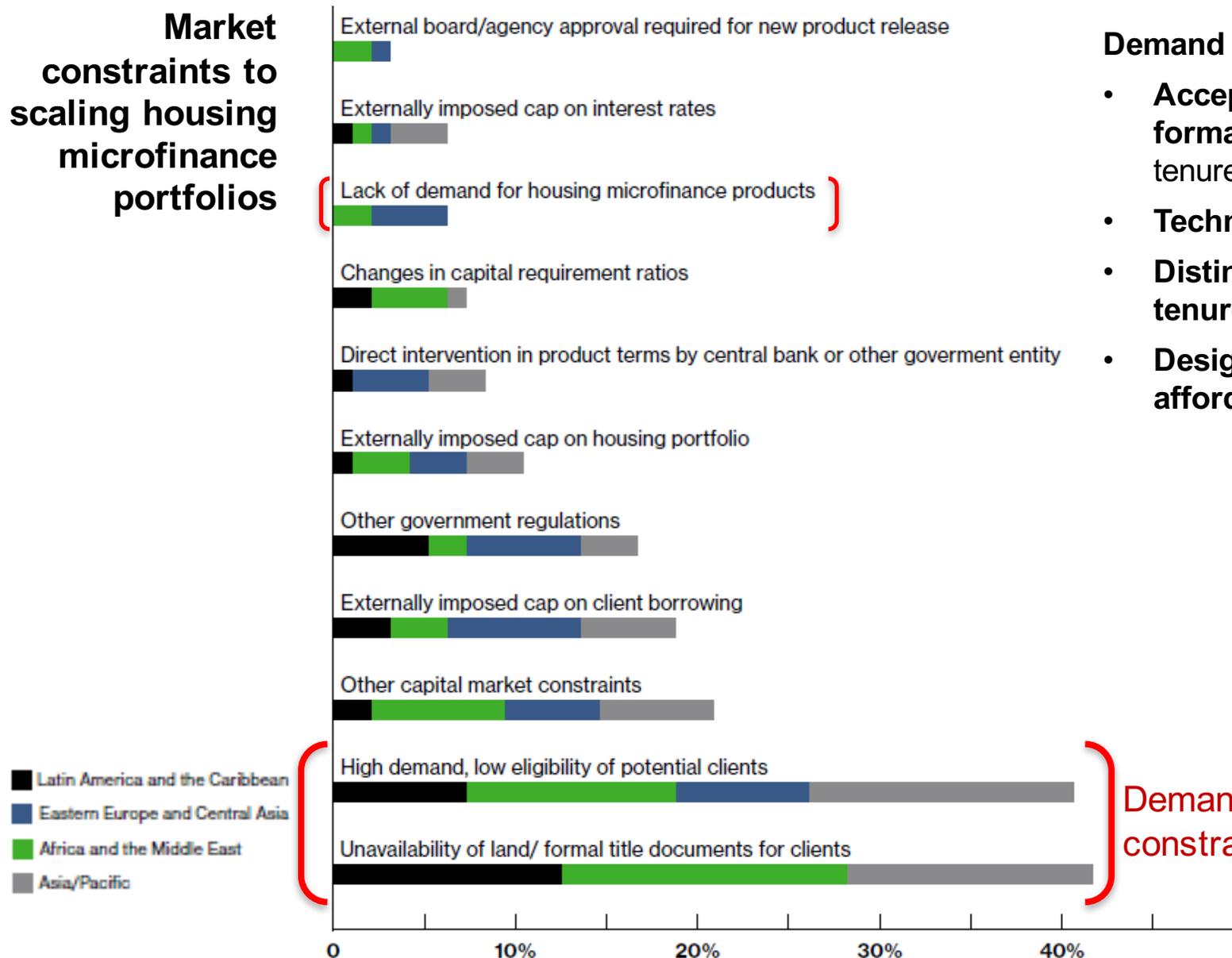
**72%** of housing microfinance market leaders were also **market leaders in the general microfinance market**

**75%** confirm general **housing microfinance products are commonly available** in their region

General microfinance market position: ■ New entrant ■ Strong competitor ■ Market leader

# Market-level drivers: *Regulatory and policy environment*

## Market constraints to scaling housing microfinance portfolios



## Demand side solutions

- **Accepting range of formal/informal land tenure documentation**
- **Technical assistance**
- **Distinct products for tenure**
- **Designing products with affordability in mind**

Demand side constraints

# Market-level drivers: *Regulatory and policy environment*

## Market constraints to scaling housing microfinance portfolios

External board/agency approval required for new product release

Externally imposed cap on interest rates

Lack of demand for housing microfinance products

Changes in capital requirement ratios

Direct intervention in product terms by central bank or other government entity

Externally imposed cap on housing portfolio

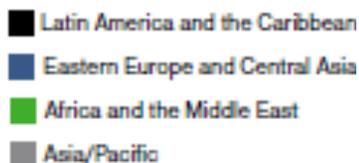
Other government regulations

Externally imposed cap on client borrowing

Other capital market constraints

High demand, low eligibility of potential clients

Unavailability of land/ formal title documents for clients



0 10% 20% 30% 40%

## Supply side

- 2 of top 3 are broad indicators of burdensome regulation/oversight
- Top specific regulation: externally imposed cap on client borrowing

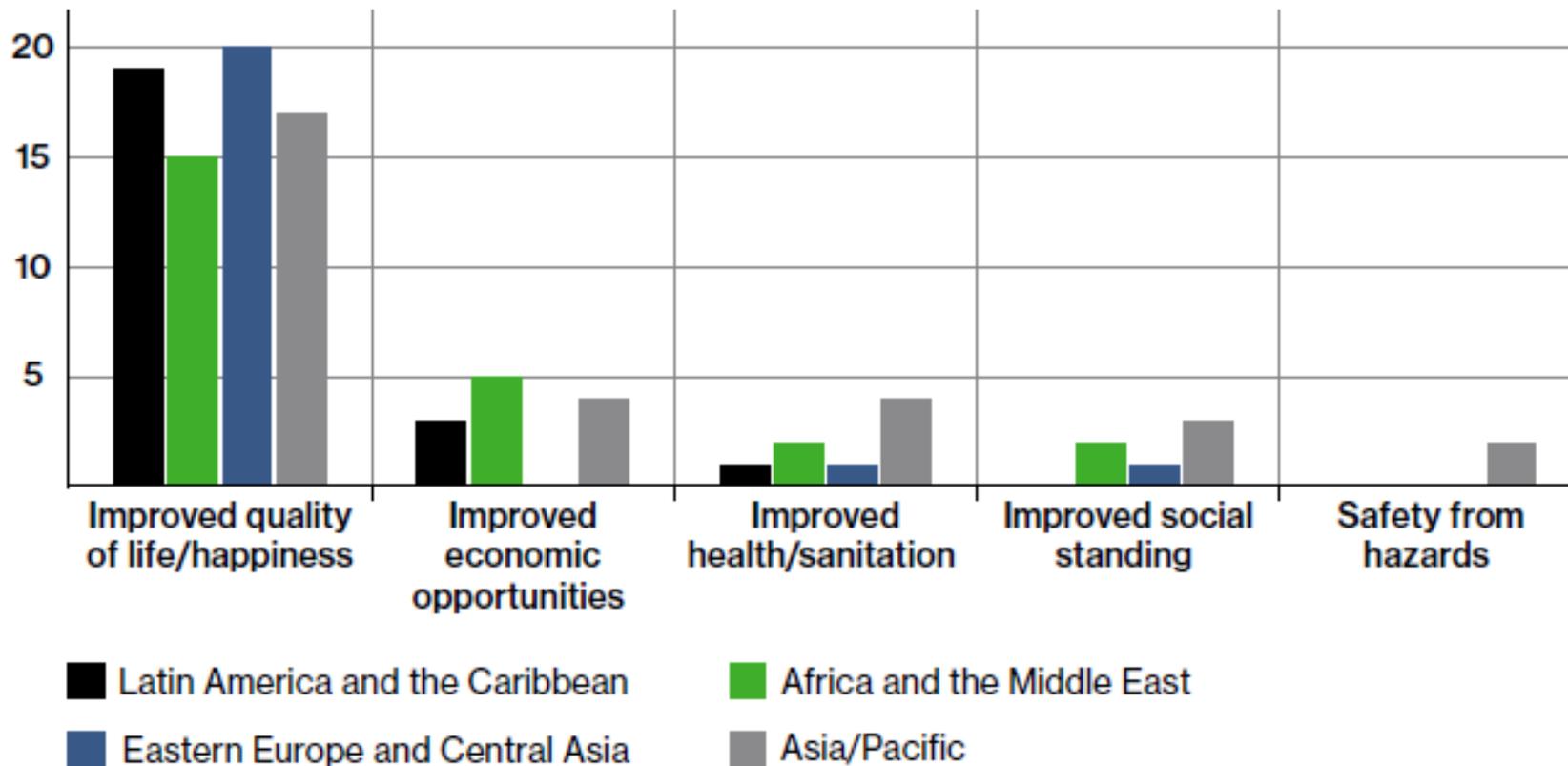
## Supply side constraints

# Institutional-level drivers: *Strategic fit*

## Alignment with **social mission**

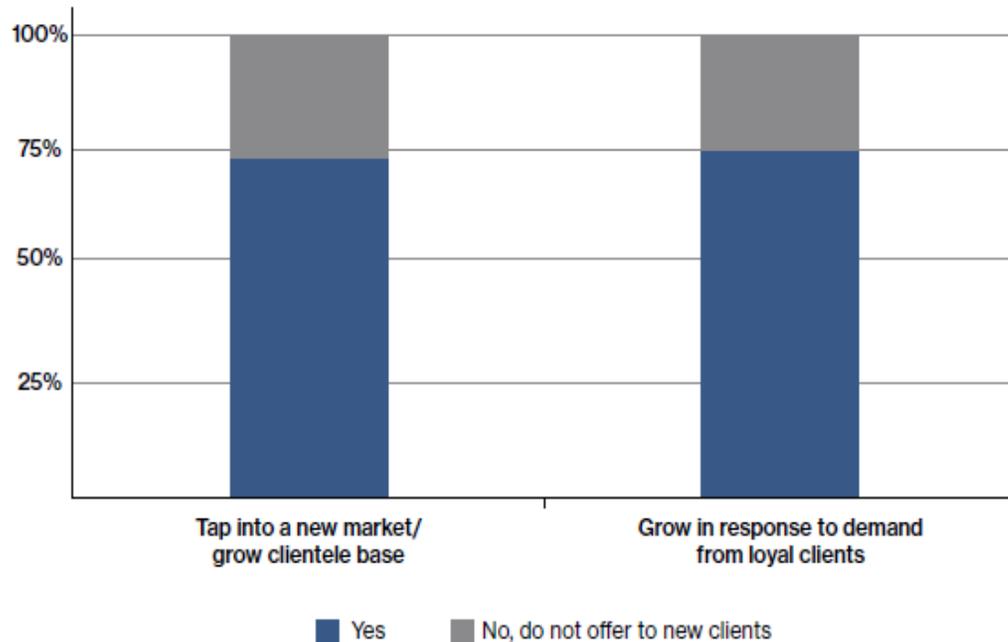
90%

List as a key motive for launching housing microfinance product



# Institutional-level drivers: *Strategic fit*

## Alignment with **business strategy**



Respond to demand from loyal clients as a key motive

56%

Portfolio diversification as a key motive

40%

Driven by pursuit of new market/ clientele base

39%

Motivated by attractive incentives from funders

8%

73-75%

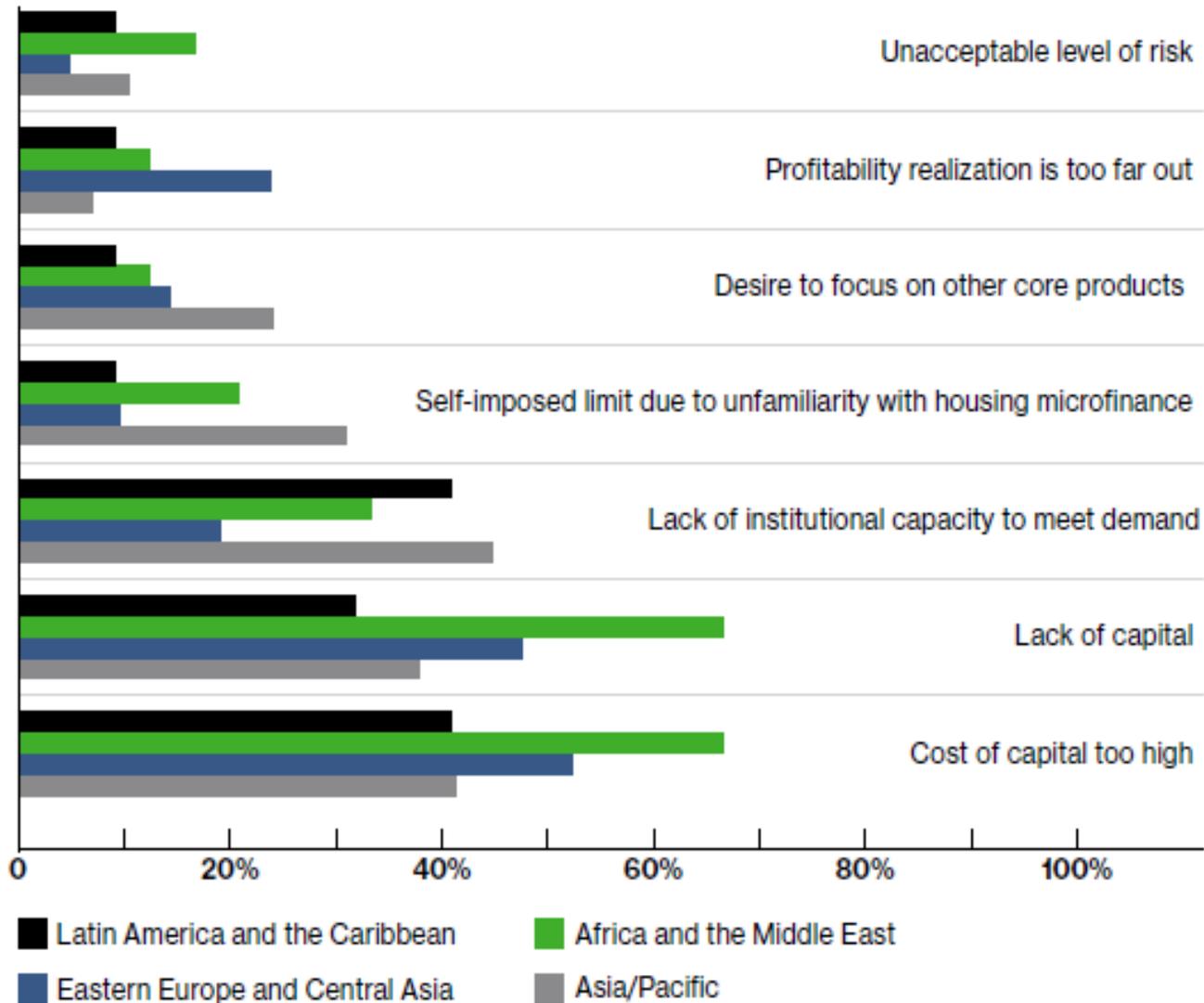
Offer housing microfinance products to new clients

64%

Attribute expected financial return to interest rate margins

# Institutional-level drivers: *Organizational capacity & resources*

## Operational constraints to scaling up housing microfinance



Technical capacity constraints prominent in Latin America and the Caribbean and Asia-Pacific

Capital constraints prohibitive in Africa, the Middle East, and Eastern Europe and Central Asia

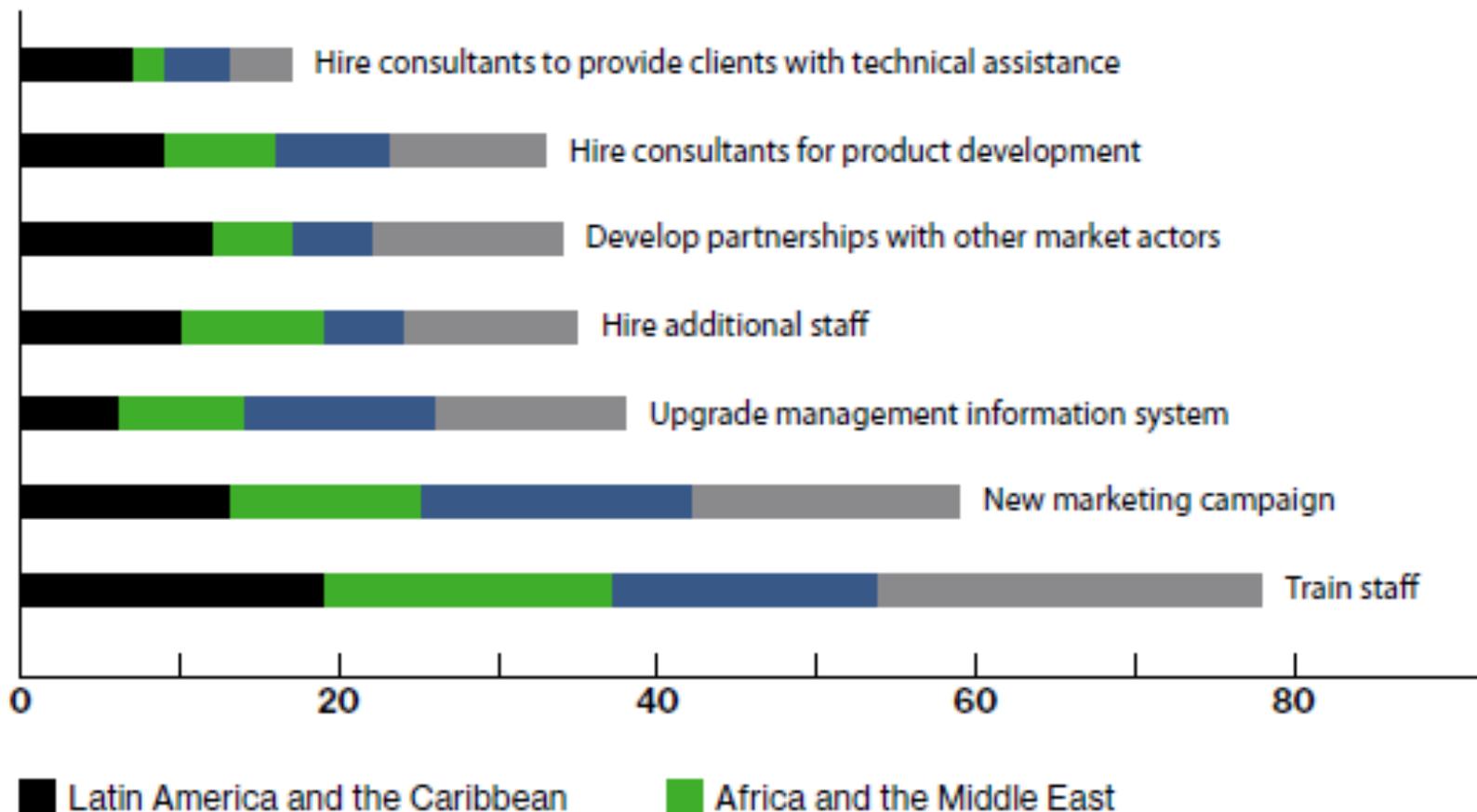
# Institutional-level drivers: *Institutional capacity*

## Institutional capacity constraints

Lack of institutional capacity to meet demand

Self-imposed limit due to unfamiliarity with housing microfinance

## Steps to prepare for launch of housing microfinance product



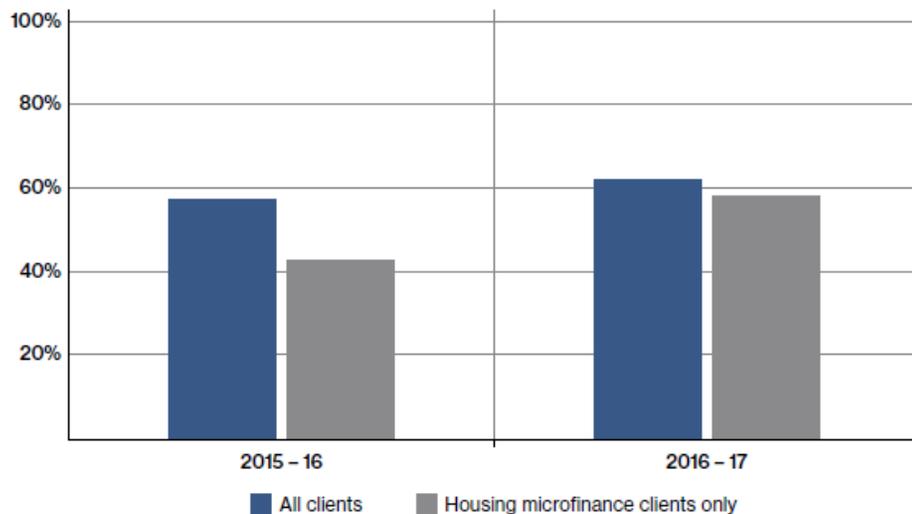
# Product-level drivers: *Segmenting for success*

## Segmenting by **Client Demographics**

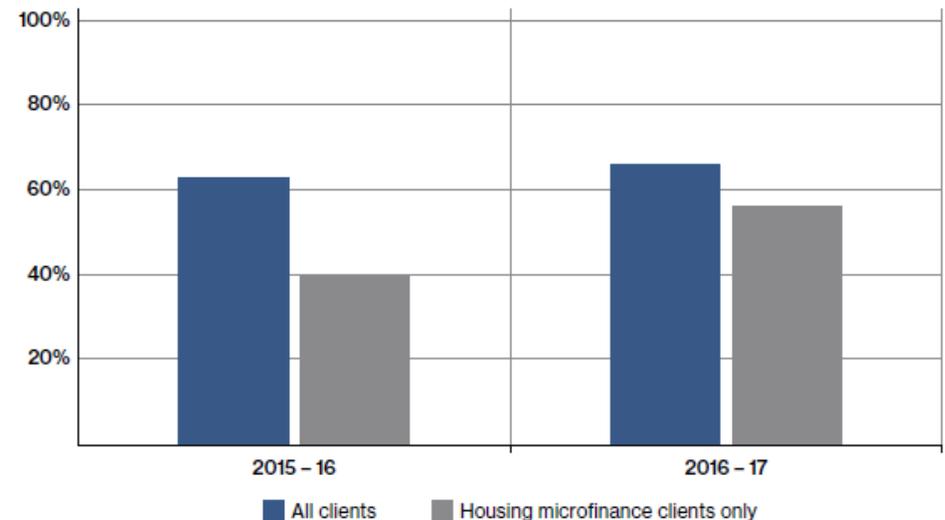


- **78%** report targeting housing microfinance **clients of equal or similar income levels** as their general microfinance products
- **Inclusive of salaried workers**, unlike traditional microfinance

### Avg % of rural clients



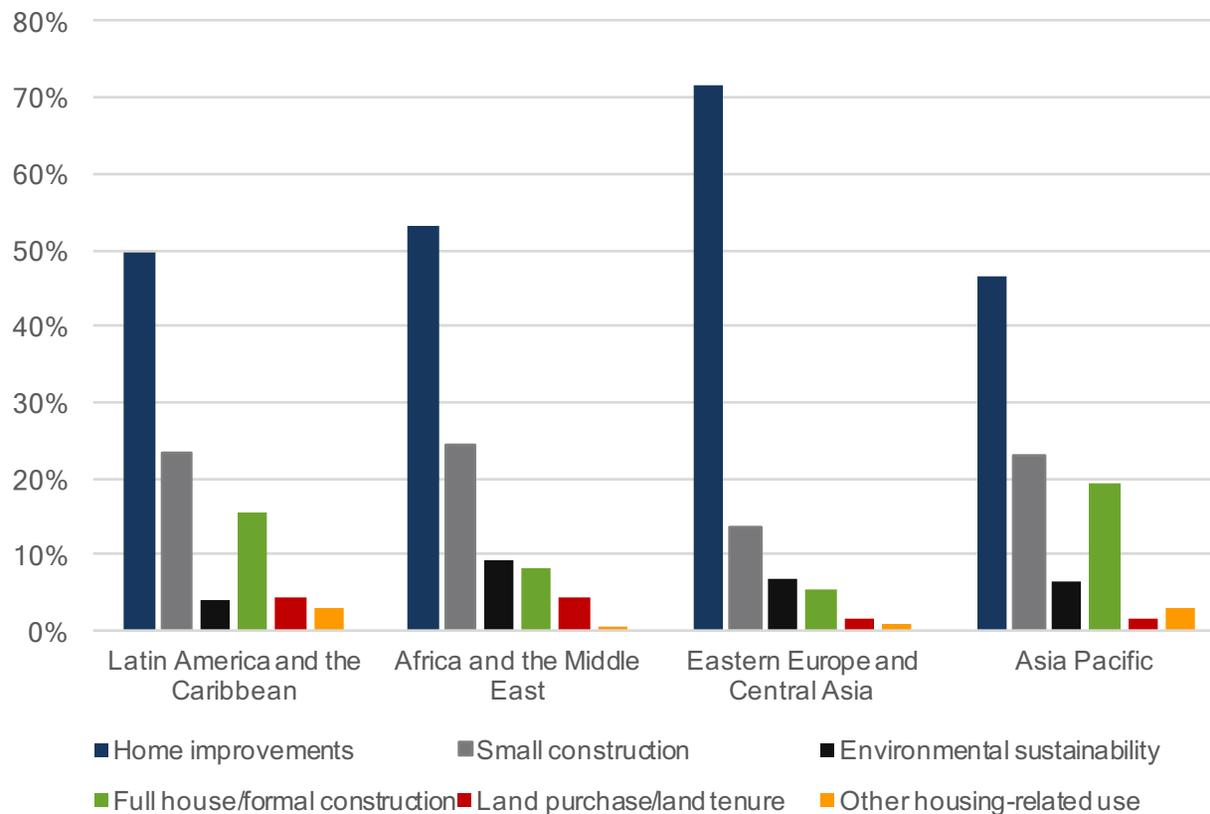
### Avg % of female clients



# Product-level drivers: *Segmenting for success*

## Segmenting by **Loan Use**

### Global use of housing microfinance loans (average percentage of loans)



Use over past three years relatively stable.

Home improvements continues to lead.

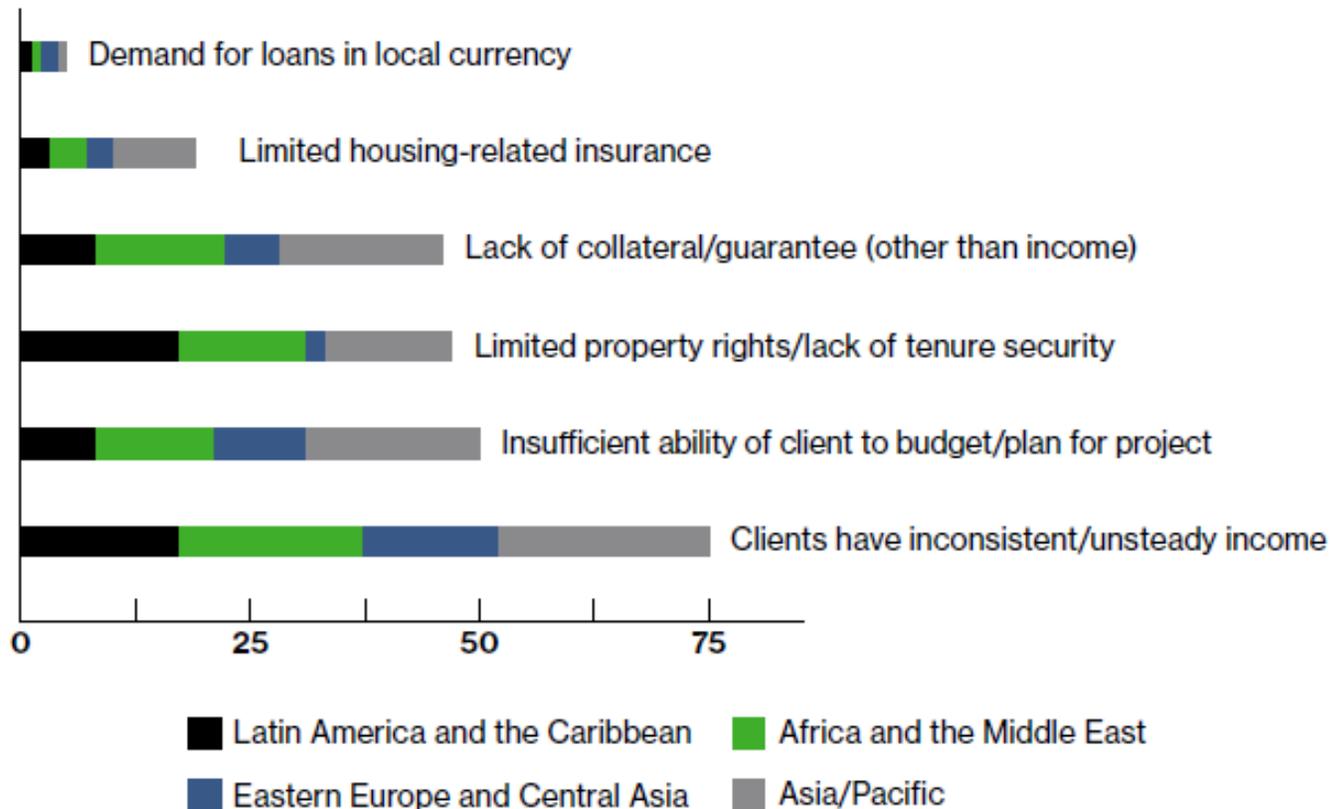
Less small construction in Eastern Europe and Central Asia.

Relatively more environmental sustainability loans in Africa/Middle East.

More full house/formal construction use in Latin America/Caribbean and Asia-Pacific

# Profitability drivers: *Risk considerations*

## Perceived risks in issuing housing microfinance loans



Inconsistent income:  
limited demonstration  
of the real risk

Cost structure of  
HSS doesn't support  
its expansion as add-  
on, but rather  
embedded.

~ 80% assess land  
security within loan  
application

<50% have loan  
threshold requiring  
formal title

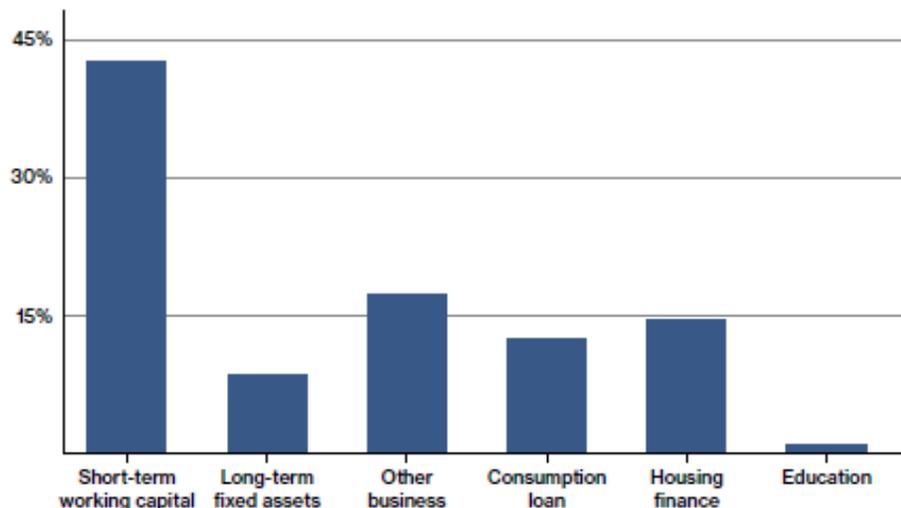
Additional cost  
considerations:

individual lending, loan duration (avg. 32.7 months),  
loan size (US\$1000-2000), interest rates and monitoring

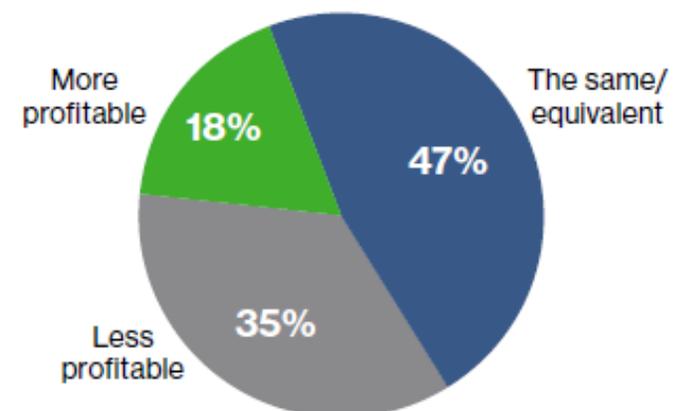
# Profitability drivers: *Reviewing returns*

- **47%** of institutions report **profitability to be relatively equal** to profitability of others products. **18%** report housing microfinance **profitability to be higher**.
- Globally **PAR30** for housing microfinance portfolio averages **85 basis points lower than** general microfinance. Global avg is **5.6% for HMF** and **6.4% for general microfinance**.
- **64%** of housing microfinance portfolios reported **growing** as percent of overall portfolio

## Average contributions to profits



## HMF profitability relative to other microfinance products



# Business case: Key takeaways

## Challenges Remain

Inadequate capital remains a leading constraint

## Opportunity

Respond to needs of low-income households

Deepen existing markets and unlock new ones

Contribute positive financial returns

Potential to comprise a larger portion of microfinance portfolios



**Potential to provide double bottom-line returns and to become a relevant subsector supporting low-income households**

**What role will you  
play in addressing  
the affordable  
housing gap?**



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