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# Home Asset Loan Financing: HALF an emerging concept

HALF-way between microfinance and  
mortgage finance

Presented at the South Asia Housing Forum: Delhi, India, January, 2010

David A. Smith ♦ Founder ♦ Affordable Housing Institute

[dsmith@affordablehousinginstitute.org](mailto:dsmith@affordablehousinginstitute.org)

# People who live in informal housing access formal and informal financing systems



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## Self-Employed Women's Bank (SEWA)

Ahmadabad, India

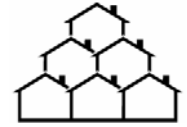


## Savings cooperative passbook, Mumbai



If the informally employed and informally housed can formally save, why can't they formally borrow against their informal home?

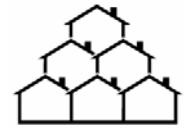
# When a space is empty, there's a reason ... because a new actor/ product is needed



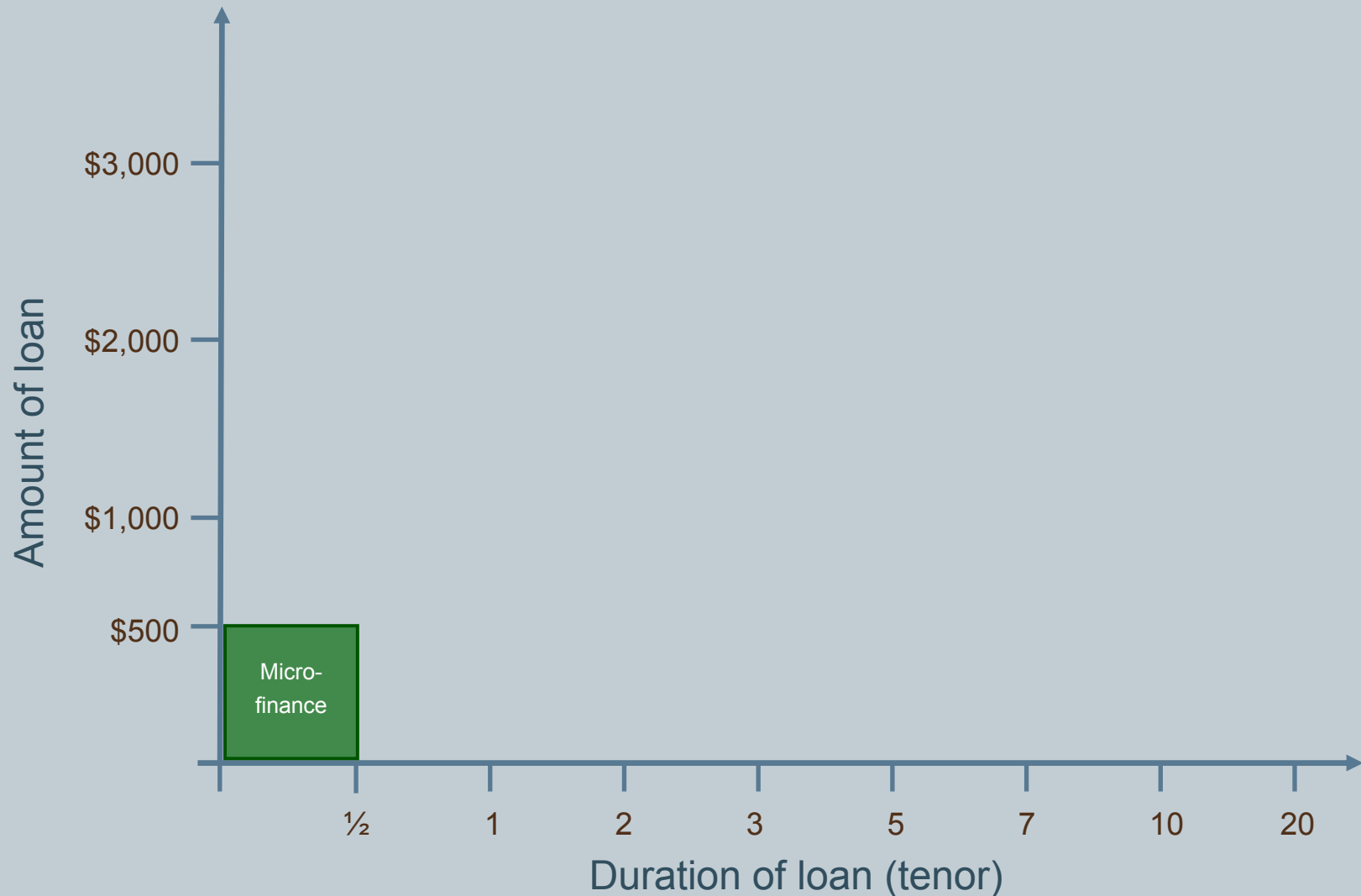
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- Why a gap between mortgage finance and microfinance?
  - Not coincidence; will not correct itself naturally
- To a mortgage lender, microfinance looks risky
  - Tiny amounts; short tenors; high rates; no collateral
- To a microfinancier, mortgage finance looks risky
  - Large sums at risk; term beyond foreseeable horizon; thin margins; little touch on customer
  - Challenge of assessing technical need/ feasibility
- We need something halfway in between: whole new entity
  - New financial product
  - New credit decision/ underwriting approach
  - New risk mitigation/ management profile
- Recognize the home's use value even if it is not classical mortgage finance collateral

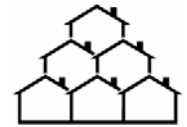
# Microfinance: small loans for short periods = a small financing box



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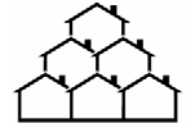
# For a bigger 'financing box,' the home becomes part of the credit decision



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- Homes are why people need to borrow larger sums
  - Improving homes usually means adding a whole room
  - Or adding plumbing (in-home toilets) or electricity
  - Costs range from US \$1,500 to \$5,000
  - Much more than microfinance typically lends
- Home improvements take longer to repay
  - Typically 3-5 years instead of 6-12 months
- Homes have asset value (even if not mortgaged)
  - People won't lightly walk away from their home
  - 'Use value' versus 'exchange value'
- So if the home is an asset, we ought to be able to lend more money for a longer interval – a bigger box

# What makes an informal home a HALF candidate?

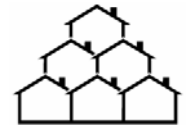


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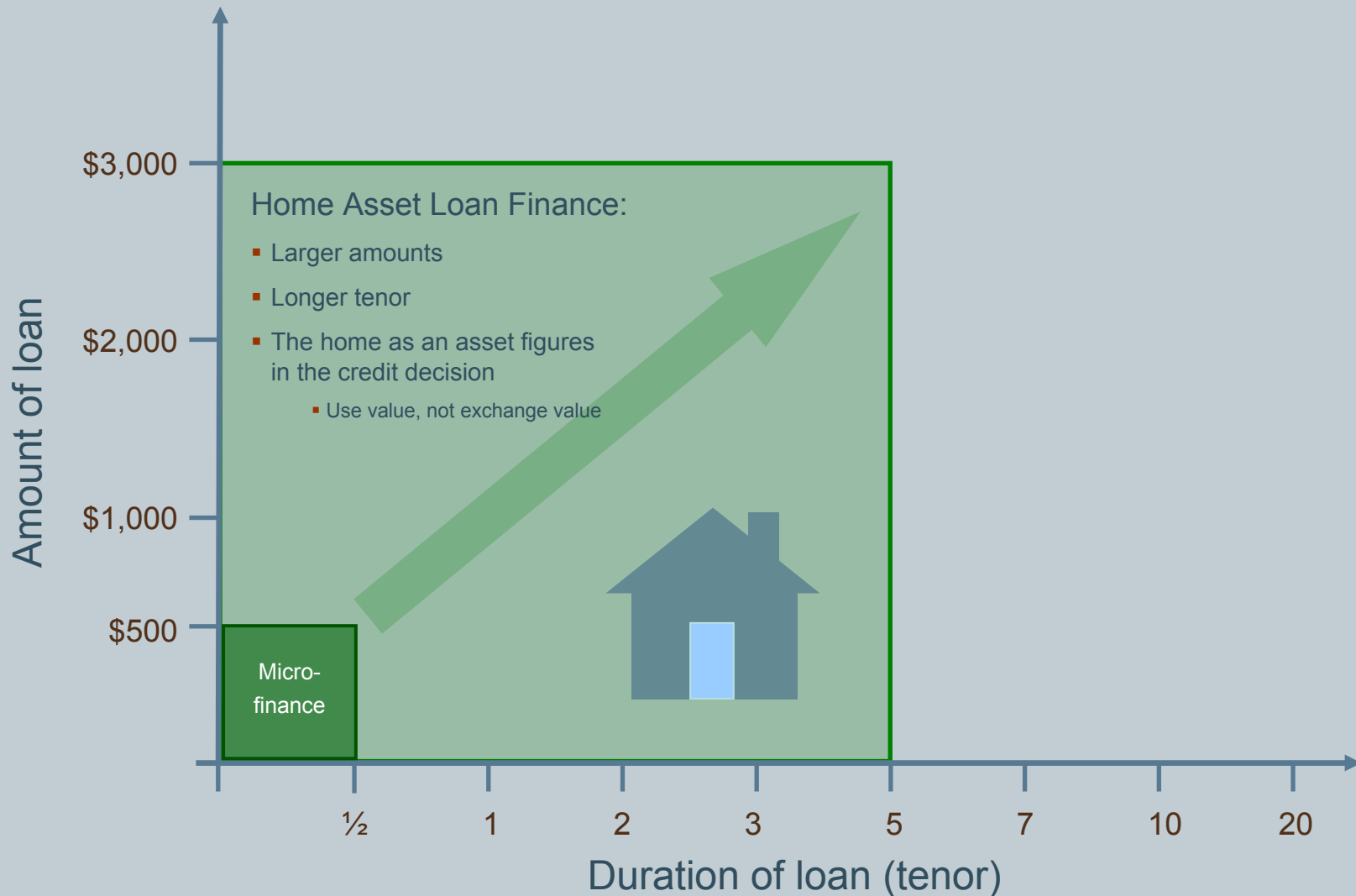
- Physical durability
  - Good: it holds its value over time
  - Bad: it can deteriorate or fall apart
- Demonstrable occupancy/ use value
  - Good: rentable or informally resell-able
  - Bad: occupant will not be motivated to protect
- Longevity of tenure
  - Good: family has history of residency, savings
  - Bad: transients, absentee landlords
- City services
  - Good: Delivery of mail, water, sanitation, electric meters
  - Bad: “Off the grid”



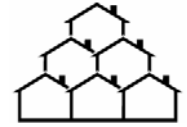
# Home asset loan financing: Requires creating new financial products



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# HALF in the spectrum: Product and risk characteristics

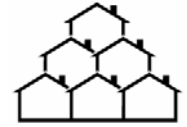


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<u>Product features</u>	<u>Microfinance</u>	<u>HALF</u>	<u>Mortgage</u>
Loan (average)	\$500	\$2,500	\$10,000
Tenor	0.25-1.0 year	2-5 years	5-30 years
Purpose	Improve income	Improve housing	Buy formal
Credit decision	Personal	Personal + use	Resale value
Collateral?	None	Partial	Yes; home
 <u>Risk features</u>			
P = Odds default	Low	Medium	Higher
L = Loss default	Nearly 100%	Unknown	Under 10%
Risk manage	Deny repeat	Assess use val	Underwrite prop
Risk mitigation	Repossess?	Pursue evict	Foreclose



# A new entity = (product + business model) x (concept + reality) = simultaneously

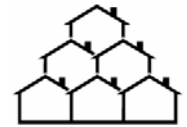


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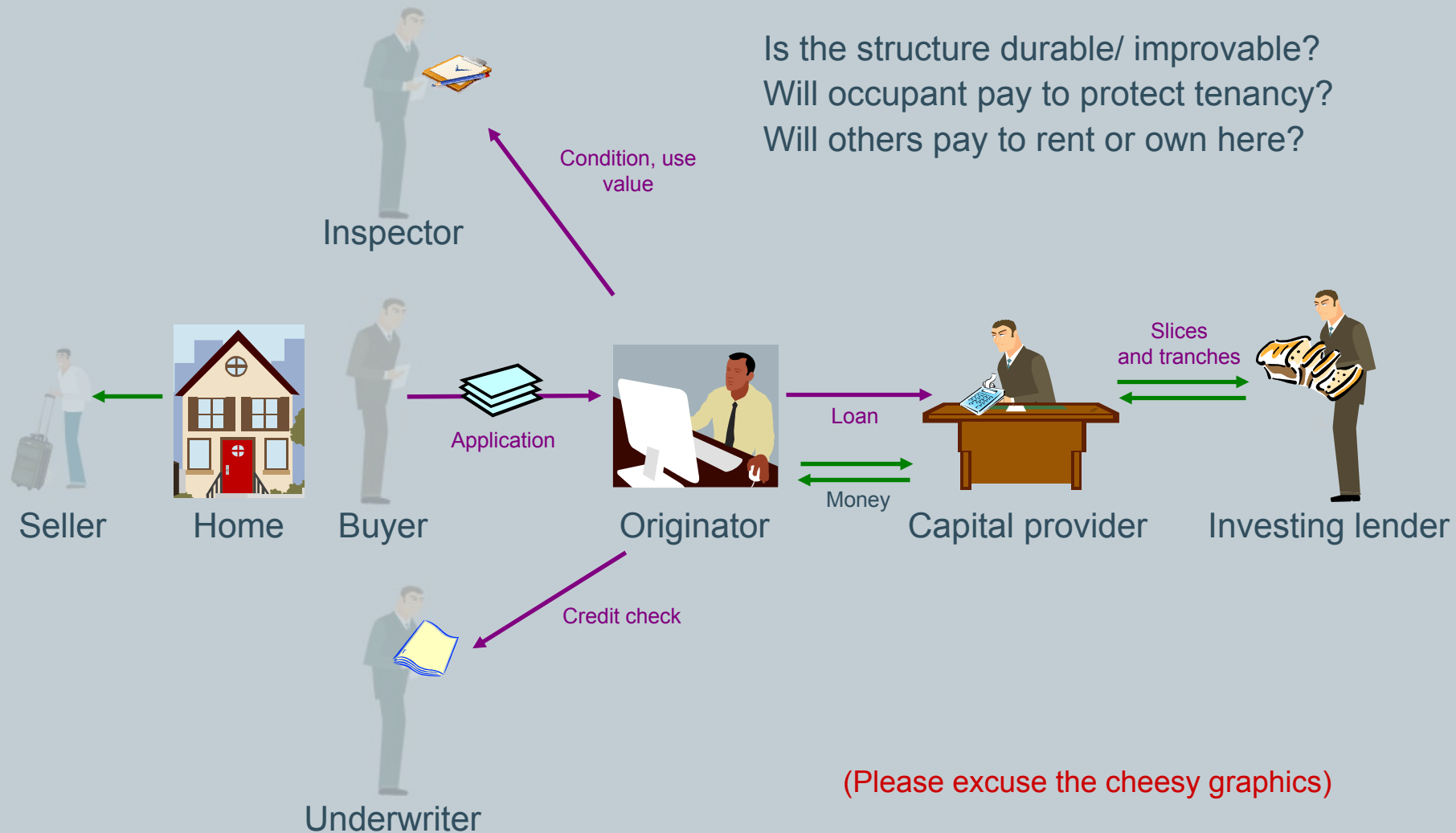
	<i>Product</i>	<i>Business model</i>
Concepts and governance	HALF loan term sheet, including pricing/ risk	Business plan, growth, cash flow projections
Reality and administration	HALF entity, with capitalization and value chain links	People, systems, offices, networks

To implement HALF, one must create both the fledgling enterprise and its market-making product ... and do both simultaneously

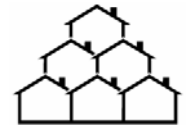
# Even in HALF, origination value chain must encompass property “use value”



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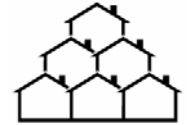
# Why don't banks go down-market? ("Your mileage may vary")



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- “They don’t know their customer as a person”
- They don’t think they can make money on it
  - Particularly in ‘brick bank’ origination protocols
- They have high ‘opportunity costs’
  - Other uses of capital, investment-banking expertise
- They have mental blocks about micro-operations
- They cannot envision risk mitigation
- It doesn’t fit in their executives’ career path

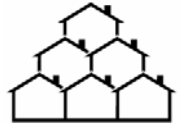
# HALF in practice, and AHI's work: An emergent financing model?



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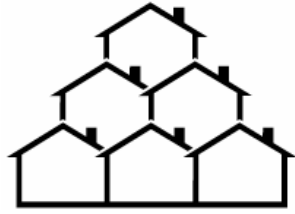
- Peru – Mi Banco, Mi Casa
- Mexico – Patrimonio Hoy
  - Synthesized financial product
- Colombia – Ashoka Foundation initiative
  - Jointly owned/ controlled entity
  - Home improvement vendors (ceramics, cement, fixtures)
  - Microfinanciers
  - Government: Banco de Oportunidade, Viviendas Saludables
- AHI/ Ashoka, targeting Mexico, Brazil, South Africa
- South Africa – Kuyasa Fund pursuing HALF
- India?
  - SEWA Housing Finance (SHF)
  - Business plan completed
  - Now in fundraising stages (Rs 2.0 crore)

# Questions?



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