



INTERNATIONAL FINANCE CORPORATION  
WORLD BANK GROUP

# **SBP's Seminar on Housing Microfinance**

## **Low Income Housing and Housing Finance**

Syed Farhan Fasihuddin  
[sfasihuddin@ifc.org](mailto:sfasihuddin@ifc.org)

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# Terminology

# Low Income Housing/Affordable Housing

Generically, any housing that is limited to occupancy by persons whose family income does not exceed certain **preset maximum levels** or where the housing price does not exceed certain preset maximum levels. This is not the same as **Social Housing** but includes **Subsidized Housing**

*Preset maximum levels can be different for urban versus rural areas or based on some other geographical or other criteria.*

*Social Housing – housing for those with no ability to pay for housing*

*Subsidized Housing - housing for those with limited incomes who are unable to afford market priced. This type of housing includes some form of direct or indirect subsidy that lowers the cost of the housing*

# Low Income Housing Finance

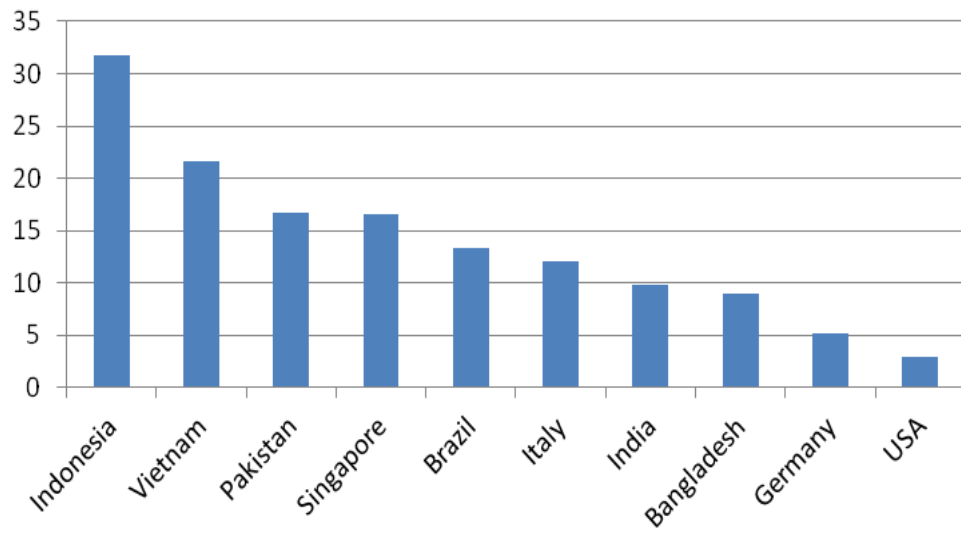
**Loans** provided to individuals to help them purchase, construct, re-construct, renovate, expand or improve low income housing/affordable housing.

*The loan can be a “mortgage loan” i.e. secured by a registered mortgage/lien on a property or a “micro loan” which is unsecured or a “housing microfinance loan”. The loan can also be subsidized.*

<b>Collateral Example</b>	Land/house			Mortgage Loan
	Other		Housing Microfinance Loan	
	None	Micro Loan		
		<=\$200	>\$200; <\$10,000	=>\$10,000
		<b>Loan Size Example</b>		
		<6 months	>6 months; <3 years	>3 years
		<b>Loan Maturity Example</b>		

# What does Affordability Mean? Two Measures

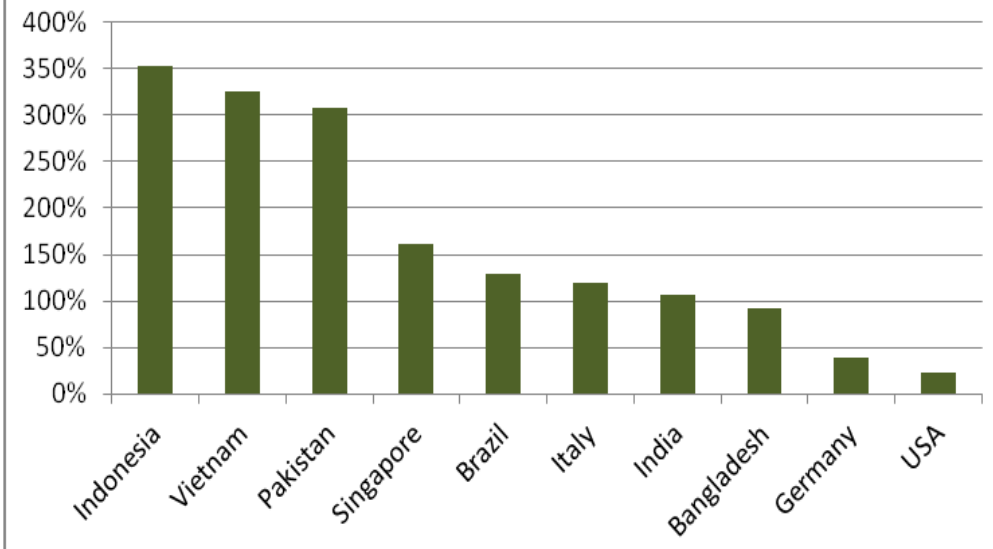
House price to income ratio (2012)



Source: numbeo

**Ratio of median house price to median disposal family income (per year)**

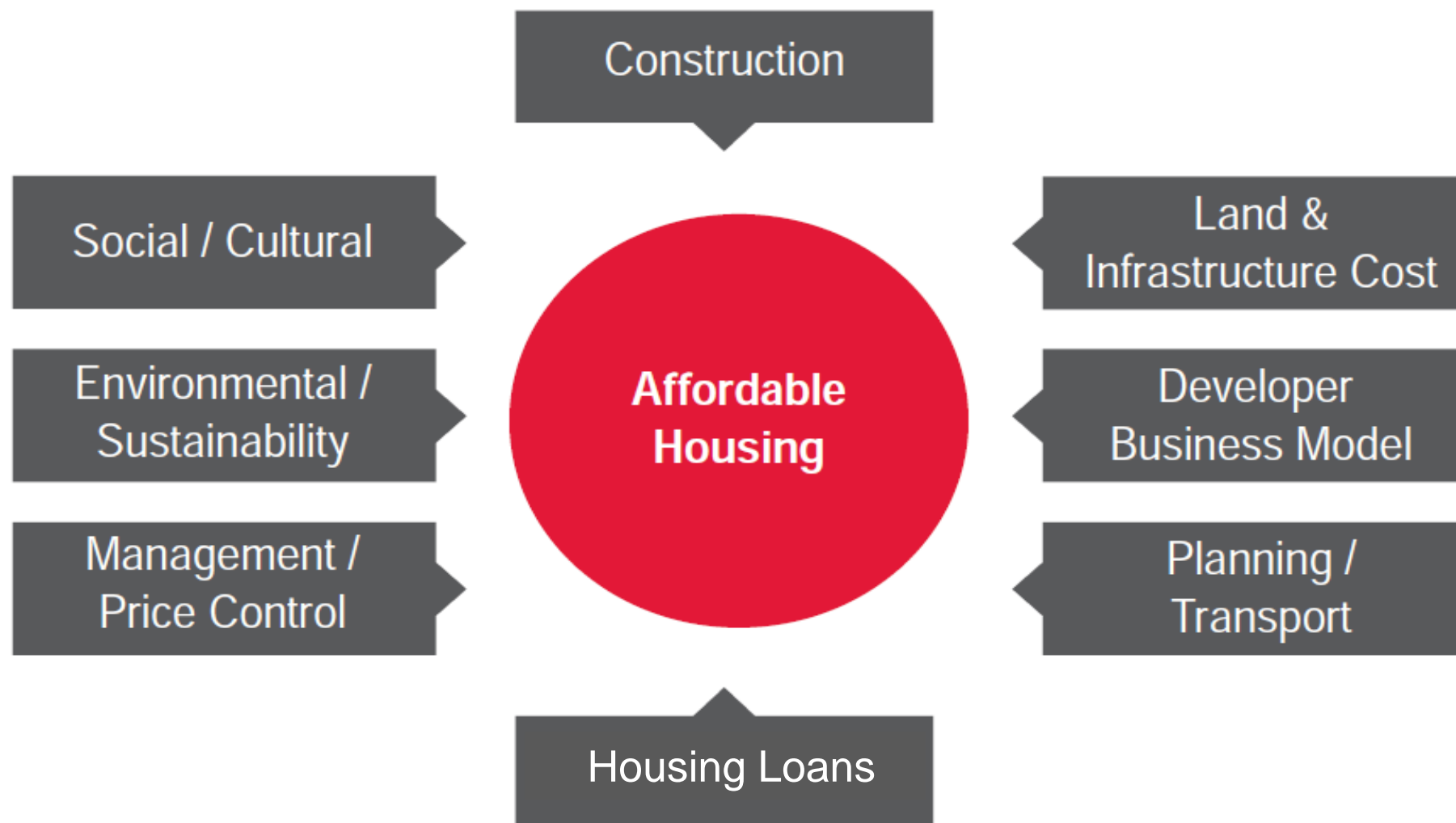
Mortgage as % of income (2012)



**Ratio of actual monthly mortgage rate in relation to monthly income**

# Low Income Housing

# Constraints on Supply of Affordable Housing



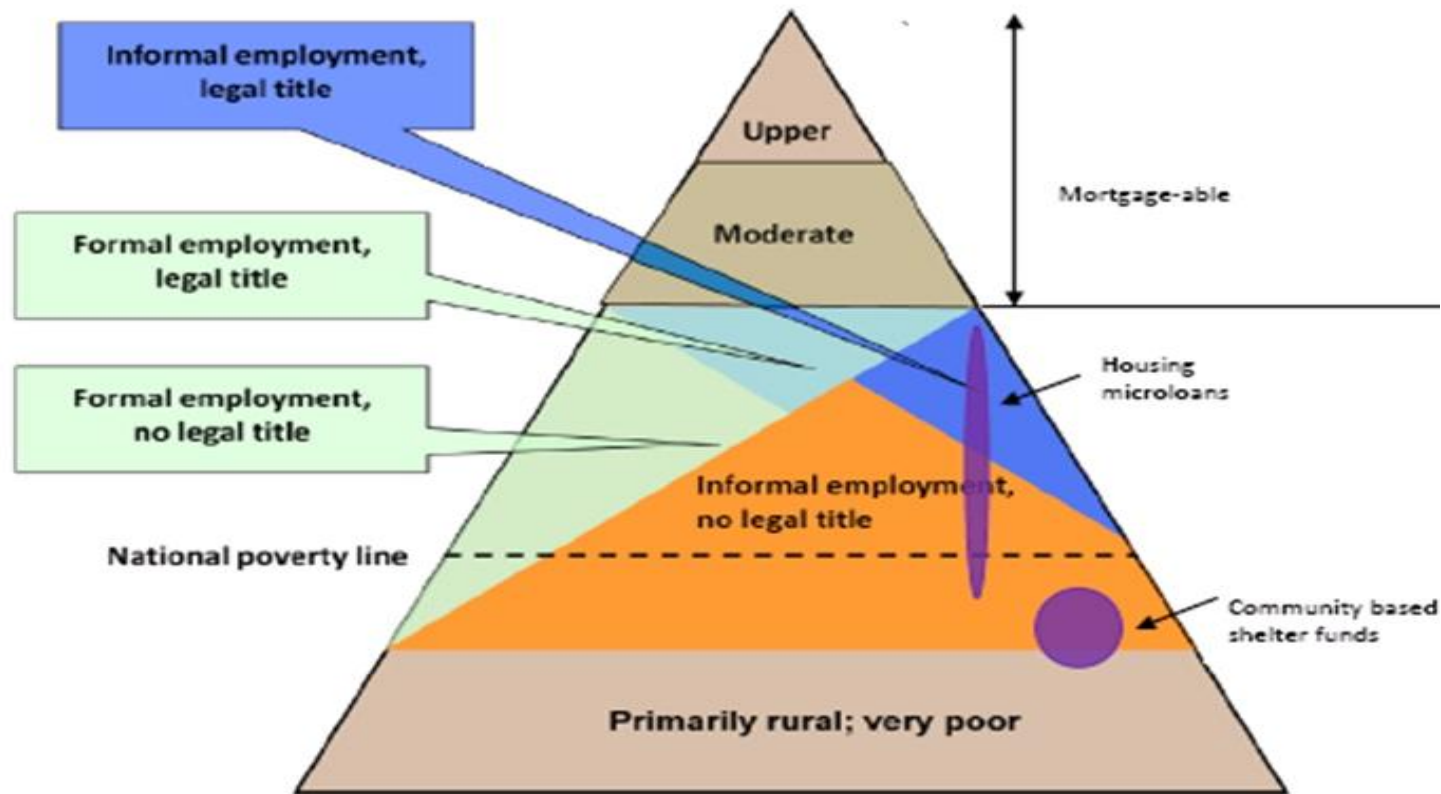


# Potential Solutions for Increasing Supply of Affordable Housing

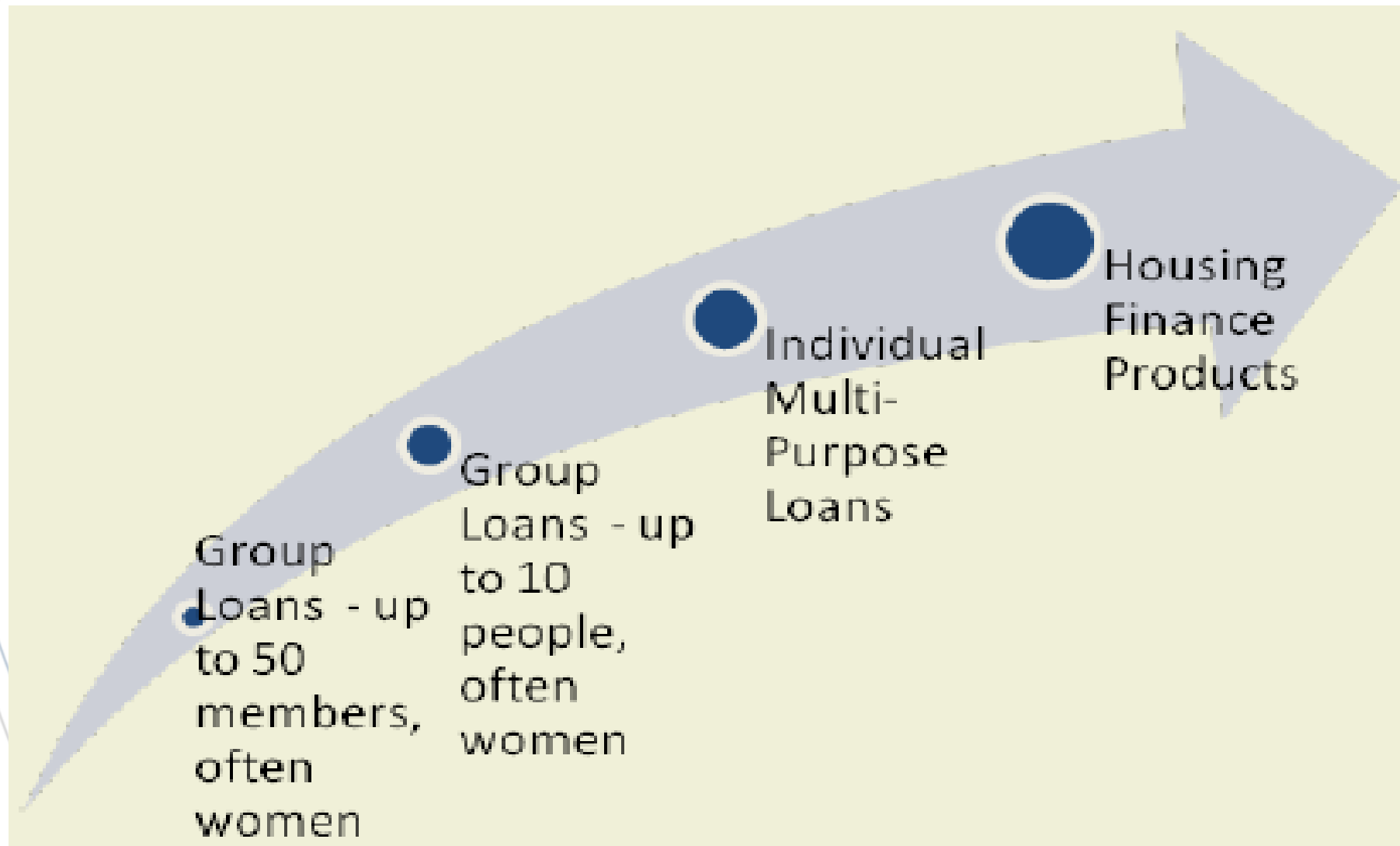
- ❖ Public Private Partnerships (PPPs)
- ❖ Design and Planning Strategies
- ❖ Reduced Block Size
- ❖ Low Cost Units Through System Building Solutions
- ❖ More Central Locations
- ❖ Community Building
- ❖ Increased Access to Housing Finance
- ❖ Control Access and Prices in the Secondary Market
- ❖ Delivering Sustainable Affordable Housing

# Low Income Housing Finance

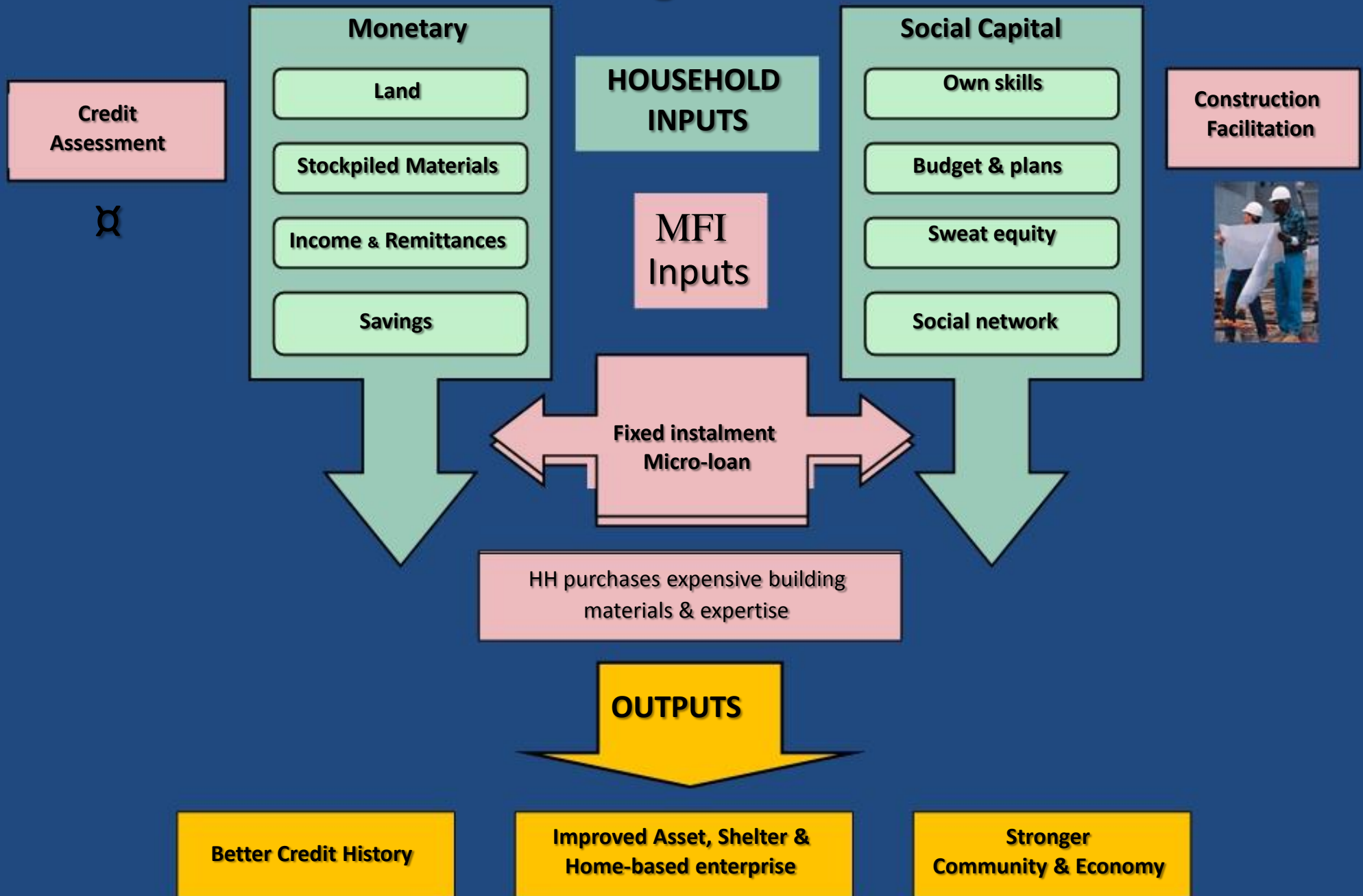
# Potentially, HMF Can Meet the Needs of Several Low Income Household Segments



## Typical HMF Evolution at a MFI



# “Co-Financing the Process”



# Some Global Trends

# Recent Developments are Positive

- ❖ Consolidation, downscaling and up-scaling and the benefits of supervision and regulation
- ❖ Improvements in core banking systems and MIS means greater potential of Branchless Banking
- ❖ Smarter use of subsidies to support capacity- building along with equity
- ❖ Specialized rating agencies reduce risk for domestic investors
- ❖ More focus on savings and not just lending
- ❖ Convergence of HMF and mortgage finance to serve both informal and formal sectors

# MNOs and Banks can Potentially Boost HMF: Savings Led and Through Agents

Mobile banking platforms may be reaching scale:

Country	MNO	Users	Relevant Services
Philippines	Globe, Smart, and BankKO	3 million combined	Bill Pay; P2P
Kenya	M-Pesa and Equity Bank	7 million	Same



In addition, handhelds are in use for door-to-door savings collection:

- ❖ **Banca Azteca (Mexico):** handhelds have lowered transaction costs for customers to save and have allowed bank to mobilize deposits equivalent to 2X its loan book
- ❖ **Rural banks (Philippines):** credit officers have begun piloting their usage for remote savings collection & experimenting with building suppliers as agents
- ❖ **Microbanks (India):** mobile phone technology used by KBS (Basix) to transact in the field



# Market Makers are Essential for the Growth of Housing Finance



**1. Strong Regulatory Framework**

**2. Supply Side Government Housing Finance Institutions**

**Are crucial in development of....**

**Housing Microfinance  
And  
Mortgage Markets**

# Supply Matters: Some Wholesale Lending Products for HMF

Institution	Country	Product	Interest rate	Max term	Portfolio
	Mexico	Home improvement loans	3.6%-5.8% (to end-users)	24 months (to end-users)	\$1.4b MXP
	Philippines	General loans to MFIs via PCFC	10.5% or 91 day T-bill + 4% (higher of)	5 Years	NA
National Housing Bank 	India	Wholesale financing			\$25 million

# IFC's Advisory Support

# IFC Advisory Services

## ❖ **Legal and regulatory environment, PPP**

- Prudential supervision of lenders – capital allocation, ALM, reporting
- Responsible finance – disclosure, automatic restructuring, servicing practices
- Coordination with authorities and regulator in development projects

## ❖ **Lender practices and capacity**

- Internal organization guidelines
- Underwriting and servicing, credit policy
- ALM, portfolio analytics, reporting

## ❖ **Lender and Borrower housing specific expertise**

- Home improvement/construction projects standardization:
  - docs, prices, materials
  - Project supervision, monitoring
  - Energy efficiency materials/techniques

# IFC Tools and Experience

## ❖ IFC Low Income and home improvement projects

- Asia – India, Bangladesh, Kyrgyz Republic
- Europe – Albania
- Middle East – Afghanistan, Egypt
- Latin America - Haiti

## ❖ IFC internal tools and materials

- IFC HMF Toolkit + lender training course
- IFC Housing Energy Calculator
- IFC Global Mortgage Toolkit with specific modules + lender training course

## ❖ IFC internal expertise

- 4 senior housing experts – available worldwide
- Large EE team in Europe (Russia, Albania, Ukraine)