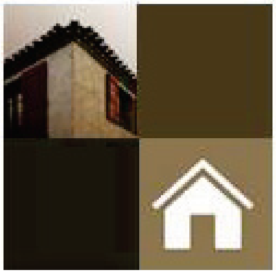

HOUSING FINANCE

Facilitate access for families to healthy and secure housing

CONTEXT [1]

OWNING YOUR OWN HOME : A UNIVERSAL DESIRE THAT MEETS A BROAD RANGE OF NEEDS

A survey conducted by the African Population and Health Research Center shows that poor city dwellers express their most important needs in the following order of priority: lack of work, housing insecurity, access to water.

In each of the countries where DID works, we have been told that owning one's own home is "everyone's priority." This dream has become increasingly uncertain due to rampant urbanization, the scarcity of land in urban areas, the resultant speculation and the hike in costs of building materials.

Thus, owning one's own home, with an indisputable property title, is the privilege reserved to only a small minority in developing nations. While in wealthy nations, mortgage loans are equivalent to as much as 100% of the GDP; in developing countries like Ghana or Algeria, the figure is less than 1%. There are many reasons for this: Without being able to resolve all of them, better adapted financing can bring about progress; the adoption of paradigms different from those applied today by both banks and the MFIs is a prerequisite—an essential contribution microfinance has already been able to make in other spheres.

Access to decent housing is in all societies a major step out of lasting poverty (i.e., that is transmitted from one generation to another), a step toward stability and pride. **Sound and lasting housing enables family wealth to be built up**, a major factor in improving living conditions, security, self-confidence and inclusion.

It is for this set of reasons that DID feels that it is imperative to become involved in it.

[1] A Position paper by DID in credit presents the principles and procedures of action advocated by DID with regard to credit management. This document is aimed at developing the specificities favored by DID and which are characteristic of housing finance. In the *DID Reference Framework for Housing Finance* document, we present an overview of this specific sector of the financial services industry. This Reference Framework serves as a support to this Position Paper.

ACCESSIBILITY FOR THE HOUSEHOLD : VIABILITY FOR THE INSTITUTION

The question is asked : How to reconcile opening up opportunities and providing access for a majority of the population with the financial institutions' profitability and viability? How to mitigate the risks—real or perceived—while the "traditional" guarantees characteristically required by banks such as mortgages and direct deposit of salaries are out of reach for the majority?

Among the main orientations advocated by DID, let us focus on the following :

1. With regard to housing finance, it should not be restricted to mortgage loans and only those individuals capable of showing a property title or else strictly to salaried borrowers. A financial institution that limits itself to lending only to those who hold a property title by recording a mortgage will overlook the vast majority of the population.
2. Ensure and accompany cross-strengthening within the institution between the formalism of mortgage loans and the inventiveness of microfinance for housing.
3. Educate and accompany the clients/members in their housing projects. Contribute to overcoming their disbelief, their insecurity[2] and their reluctance to take on debt for their housing; little by little, contribute to formalizing the ownership of their dwelling.
4. Resolutely tackle the three main constraints for these clienteles, which are:
    a. Affordability : the least expensive new home is only accessible to 15% of the population of poor countries if the monthly income required to pay for a 10- or 15-year loan at the current rate is measured. DID partner organisations clients/members are not in that group.
    b. Access to financing : traditional lenders ignore this clientele and this sector, have an exaggerated perception of the risk, are held back by the legal requirements for recording mortgages and foreclosing on them, have opportunities for a higher and less-complicated return in other sectors (consumer loans, automobile loans, etc.); and difficult access to long-term resources.
    c. The borrower's insecurity about his income and the fear of becoming assuming debt for long time periods with the possibility of having his home seized.

The following pages will introduce the major principles and lessons acquired by DID in its varied experience implementing and accompanying housing finance in financial institutions in developing nations.

[2] In India, it is observed that, since people have realized that they can take out a loan to finish building their home, which heretofore they thought was inaccessible, they increasingly begin to demand a title to their property from the authorities.

HOUSING FINANCE

Its predominant features are:

- for the client/member, it enables him to create lasting family wealth that can be passed on to the next generation;
- for the institution, it enables it to make a significant social contribution.

About Access to Sound Housing as a Priority Need. Housing Finance, a Priority Way for an MFI to Accomplish Its Mission.

DID recognizes that access to sound housing is a basic priority need and that mature MFIs are capable of contributing to it in a privileged way. This provides these MFIs an exceptional way of accomplishing their mission.

Several microfinance networks have already acquired significant experience enabling them to offer their clients housing finance services; thus, such an offer will enable them to better still accomplish their mission. To become convinced of this, we merely have to mention the fact that housing generally accounts for between 60 and 90% of a family's total assets. Lending for a home is to enable the members/clients to ***build up lasting wealth they can pass on to their children.***

Let's recall some of the main advantages of these networks with regard to offering a housing loan service:

- proximity of the services and a knowledge of the environment;
- effective mobilization of local savings;
- mastery of microcredit management;
- integration in the financial systems;
- monitored and supervised institutions.

WHO SHOULD RECEIVE SUCH AN OFFER ?

It's recommended that housing loans be introduced in soundly managed institutions that know their clientele well, have already shown good credit management (PAR less than 5%), with surplus liquidity, well mastered technology (transactional system and management information system) and the ability to assign staff members and have them specialize in this demanding niche. The institutions must have a solid financial position, be well capitalized, have shown a very good ability to mobilize savings and be willing to take the required measures to access medium- and long-term resources.

ADVANTAGES AND RISKS OF HOUSING LOANS

About the Advantages of Housing Loans and Their Degree of Risk

DID believes that, providing they are well-managed, housing loans are a very advantageous product for an MFI and for its clientele, inasmuch as they represent a low to moderate risk.

Experience shows us that the housing loan is a loan with a good potential for profitability and presents low risk when strictly managed. **The likelihood of default is very low** because of the very great importance attached to housing, which will be the last asset endangered, inasmuch as the borrower takes all measures necessary to protect the shelter of the entire family, as well as its image. In addition, since often the borrower has already invested a lot of his own resources, this loss would be unbearable. Over time, the borrower's equity in his home grows and very often the market value also rises, thereby reducing for the lender **the possible residual loss in the event of default**.

ADVANTAGES AND RISKS FOR THE MFI AND FOR THE BORROWER

It is essential to properly present the advantages and the demands of the housing loan both to future borrower clients and to the staff and elected leaders of the MFI to ensure a proper understanding of the imperatives related to it, as well as good support for this new range of products with the potential for immense growth.

ADVANTAGES AND RISKS

FROM THE STANDPOINT OF THE MFI

ADVANTAGES FOR THE MFI	RISKS AND DEMANDS
• Development of clientele loyalty: meets a priority need of the current clients. • Potential for attracting new members or customers. • Generally very low delinquency. • Increased effectiveness = Volume of loans versus number of necessary transactions. • Contribution to the development of individuals and their creditworthiness. • Diversification of the credit risk. • Increased expertise of the loan officers and better services for the clients and the community.	Risks • Increase in the liquidity risk. • Increase in the risk related to mismatching of funds. • Increase in the risk related to interest rate fluctuation. • Increase on the concentration of risk by member/client. • Increase in the average exposure of the loan portfolio. • Difficulties in realizing the collateral in the case of long lasting repayment defaulting. • Weakness of the secondary housing market in the event the MFI would like to resell a foreclosed property.

ADVANTAGES AND CONSTRAINTS

FROM THE STANDPOINT OF THE MEMBER OR CLIENT

ADVANTAGES FOR THE CLIENTS/MEMBERS	POTENTIAL CONSTRAINTS FOR CLIENTS/MEMBERS
• Creation of wealth and access to ownership and suitable housing that will gain value. • Conversion of rental expenses into increasing wealth. • Creation of durable assets that can be used as a financial lever in the future. • Security for retirement and higher living standards (future generations). • Better security to cope with inflation and economic problems. • Security for the family, because it will retain ownership in the event of death or illness. • Potential for additional income (rental, workshop, trade).	• Long-term commitment, reduced mobility. • Responsibility for maintenance, repairs and possible disasters. • Risk of inability to pay, possible loss of investment. • Resale on the secondary market not obvious at the present time.

About the Economic Value of the Home

DID recognizes the value represented by the potential for additional income rendered possible by the family residence and recommends taking it into account when evaluating a loan application.

The home also constitutes an **economic value**; i.e. it represents a real potential for contribution to household income.

In developing nations, the income from renting a room or the use of a home as the basis for a small enterprise (store, office, storage, nursery or cottage industry) represents an appreciable source of income for the family. To do so, the owner has to invest, organize, equip or expand.

This reality should be taken into account in evaluating a housing finance application; therefore, the effective demand of the rental market should be estimated in order to evaluate the real potential for income. This will no longer be a matter of financing a business project indirectly through a long-term housing loan but rather considering the sometimes significant inflow of income that will make possible the investment in the improvements or additions contemplated by a loan applicant. In this way, the loan can be more substantial and respond not only to the improvement of the one's housing but also allow a general improvement of the family situation.

As far as rental income is concerned, it is worthwhile to lend to a client to encourage the construction and then the rental of an additional room, to the extent that once again the potential offered by the rental market will have been specifically appreciated. On the other hand, if in the case of loan to an individual for the construction or purchase of a rental property in which the entire loan is used to purchase or renovate this property for this purpose, it will then instead be a loan in the entrepreneur financing sector.

WHAT PRODUCTS CAN BE OFFERED TO WHICH CLIENTELE ?

WHO IS THE TARGET CLIENTELE ?

Popular belief has it that housing loans are only for the well-off and particularly to salaried individuals who can prove regular income. Another tenacious belief would have it that microfinance loans intended for those with the lowest incomes are only available in small amounts and for short periods of time. DID believes that, by means of a good knowledge of the population and their needs, fine-tuned products and an examination of the clientele's capacity for repayment already known by the institution, it is realistic to be able to offer microfinance products for quality housing in amounts and for a term adequate to improve the quality of life and the wealth of this clientele.

PRODUCT DEFINITION: A CRITICAL STEP

For DID, the market study, surveys and interviews leading to the definition of the products and their terms and conditions are central steps. This is where it is easiest for one to go off course. Once these studies have been seriously conducted, the assumptions drawn and the profitability calculations made, the offer has to be validated with the target clients before finally adopting the product.

About the Types of Clientele, Approaches and Housing Products

DID believes that it is prudent for a financial institution to offer on a priority basis a product or products in line with its mission and its traditional clientele—in short, to offer new products to a known clientele and, within this clientele, to known clients. In the first phase, these loans will be used for self-help construction, additions or renovations of the existing home.

PURPOSE OF THE HOUSING LOAN

The reasons for borrowing encountered are distributed among four major types:

- improvement of and additions to an existing home;
- progressive self-help construction;
- purchase of a new or existing home;
- purchase of land.

Experience shows that, on the one hand, in view of the cost of a complete housing solution (example: purchase of land with a new turnkey home or purchase of an existing home on the secondary market) and, on the other hand, the limited income of the great majority of the population groups in developing nations, for the most part the demand will be found in the first two credit categories presented here, taking the following forms:

- Self-help construction of a first significant phase of a home; it will be completed later as funds flow in, which may be saved funds or a new loan in time and place. Often, this is a middle-class salaried borrower who already owns a piece of land.
- The addition of a room in an existing debt-free house already owned by the client to be rented out or to house a business or a workshop. This addition will be partly built by the owner and partly by hired help. The same scenario will be encountered for the improvement of an existing house (example: addition of a bathroom facility).

In these scenarios, the land and the house will serve as the capital outlay and security, the loan-to-value ratio (LTV) will generally be low, as will be the sums borrowed. Although these properties are rarely supported by a firm mortgage guarantee (i.e., associated costs, recording expenses, etc.), these loans represent a low risk.

About the Advantages in Progressively Expanding Its Clientele Base

Diversity of Clienteles = Diversity of Products = Diversity of Resources

DID believes that an MFI has a lot to gain by progressively serving both non-salaried clients and salaried clients and, to do so, it must also offer both housing microcredit (for additions, improvements) and mortgage loans (new construction, purchasing of an existing home). It will then proceed with different resources (human and financial).

As already stated, an MFI will have a lot to gain by starting with the offer of new products to a known clientele. Later, once the basics have been mastered and the loan officers have gained confidence, it can think about progressively expanding the range of products which will increasingly stand out from one another.

From the point of view of DID, the addition of these two approaches will then contribute a very beneficial force of synergy to the entire institution. Offering formal housing loans requires a lot of discipline and an in-depth knowledge of the legal, regulatory and other aspects. Accountability is very demanding and requires an elaborate management information system. Doing business with formal institutions (credit bureaus, mortgage insurance, tax authorities, recording office, land register, refinancing institutions, etc.) would impose this discipline.

Housing "microfinancing," for its part, requires an open-minded culture, flexibility and inventiveness to reach out to the masses with affordable terms. The combination of these two sets of conditions will prove greatly beneficial for whoever knows how to do it. It is likely that different staff members in the institution will manage either one or the other of these product lines then offered.

HOW TO GO ABOUT IT?

DID believes that the microfinance rules applying to housing loans are numerous but, however, explanations and supplements need to be added to them: in short, specialization.

DID has produced a generic policy statement in lending matters. We are showing here its main elements that fully apply to housing loans:

- the principle of progressiveness expressed above (introductory products, accompaniment, integration and formalization) according to which the clients can benefit from the MFI's services gradually both in amounts and terms;
- the measures to be taken to avoid debt overload;
- the loan granting process should be clear, sound, independent, coordinated, controlled and overseen by the central structure;
- lending should be entrusted to staff dedicated to housing loans and it would be important to centralize the management of this specialized staff;
- loans to elected leaders and employees must be subjected to stricter procedures with regard to analysis, follow-up and dissemination;
- the analysis and the decision to lend should rely on the five C's (capacity to repay, character, capital, conditions (terms) and collateral (guarantees); added to these is taking into consideration a steady job, place of residence, etc.);
- the requirement of frozen savings at all times;
- the importance tied to the diversification of the portfolio (by type of loan, size, maturity, borrower category and geography).

DID advocates having housing loans processed in a different way from other products, because they are more complex to analyze, evaluate and disburse: a higher amount, a longer term, heavily influenced by the nation's economic context (real estate bubble, abrupt fall in value, etc.). Devoting specialized staff to them and managing them in a centralized fashion is recommended.

These are more demanding loans, requiring more time devoted to capture and analysis, necessitating several checks (real value of the planned work; analysis of the value of the home and the existing land, analysis of the repayment capacity; progressive disbursements normally linked to the progress of the work, etc.). As for any important change, the introduction of housing loans requires strong change accompaniment, enhancement by the superiors and possibly a revision of the related incentives.

Even seasoned loan officers experienced in best practices (analysis of repayment capacity, legal aspects, etc.) will have to specialize in order to be familiar with the building market and have a basic knowledge of construction in order to be able to judge the feasibility of the project financed within the submitted budget, to know the value of the market of the houses sold in the neighbourhoods, as well as the disposable value.

In addition, the institution will do well to have permanent access to a notary or legal counsel and close collaboration with an architect, a property appraiser, a general superintendent or general contractor able to make estimates of the progress of the work and a second valuation of the estimates of costs associated with major projects.

Lastly, DID advocates the use of a decision-support tool (credit rating system). A tool like this facilitates the professionalization of the offer by a more objective evaluation of the borrowers, standardization of the analysis and granting process, a standardized process that will make it possible to identify the level of risk of the individual and the portfolio as a whole. Such a tool makes it possible to do finer targeting of products and clienteles conferring upon the MFI increased impact and reach with a better controlled level of risk.

About the Management Information Supporting Decision-Making

DID recommends a high level of discipline and standardization in putting together housing loan account files. The regular collection and use of data is essential to a good performance of the portfolio (this practice will, in addition, facilitate possible recourse to outside financing).

Collecting data will make possible proper management of the financial institution's portfolio, knowing its level of risk and even knowing the level of risk by borrower category, by loan type and by loan purpose. At the present time, in many networks, it is difficult to evaluate which socio-professional group contributes the most to the level of savings, loans, payment defaults, etc. Very few institutions can answer, for example, the question "are the largest loans over-weighted in terms of delinquency?" This information is intuitively cited by the managers since this information is not compiled. This information is very useful for managing credit risk and for commercial purposes. A compilation of these data will make it possible to progressively become a support for loan decisions.

In addition, standardized processing of the housing loan files is an essential quality from the point of view of investors or lenders who might be called upon to provide additional funds to the lending institution (refinancing, securitization or other aspects).

UPFRONT SAVINGS: AN IMPERATIVE FOR HOUSING ACCESS[3]

About Upfront Savings and a Personal Contribution to One's Housing Project

The upfront savings required from housing loan applicants is currently perceived as an irritant by the member/client who wants his housing loan "now." DID totally supports this requirement by the lending institutions. Likewise, DID recognizes the relevance of assigning value to the previous investments made in the property by the borrower.

The pledged savings will be required throughout the term of the loan in preference to even the upfront contribution to the financing of the project; often the funds for such an upfront contribution are borrowed by the client/member from a close relative to satisfy the lender's initial requirement and have to be quickly repaid, thereby creating strong additional pressure on the borrower, weakening his position. Frozen savings by definition are stable and remain as security in

[3] DID has produced a Position paper on Savings that provides additional factors about this important aspect.

addition to providing the MFI a source of long-term funds; also, it's less common to borrow it from a third-party since it has to be left in place for several years.

DID believes that, in the absence of information about the value of the properties, the credit rating of the borrowers and the regularity of their income, it is right to require the creation of savings prior to granting the loan and accomplishing the client's projects and to facilitate it by setting up a homeownership savings plan.

Homeownership savings target two of the most annoying problems faced in transitional economies today: the lack of adequate information about the borrowers and about the properties in order to evaluate and manage the low-related risk, as well as the lack of long-term financing for housing. By regularly saving over a long period of time, a household proves its financial responsibility by thus showing less credit-related risk. In addition, this type of savings provides a source of long-term financing for long-term loans. In certain cases, a portion of the savings could even be released at the start of a project to cover possible construction cost overruns.

In addition to being a strong illustration of the regularity and the discipline to meet the household's commitments over a long period, the demonstrated ability to save is a means of reducing their insecurity. Let's note that even if the clients are more sensitive to the safety of deposits than the interest rate, experience shows that savings increase if they earn a return and that the return takes on greater importance for high levels deposited for longer terms, which is the case here.

DID observes that targeted savings aimed at an important project, such as the improvement of his home, are easily mobilized.

In the course of implementing specific financial products for housing by DID, three of its partner networks have at the outset encountered reluctance on the part of their loan officers, in particular to require future borrowers to deposit upfront savings. Savings tied to the housing loan in these networks today total 13% of the sums lent for housing; average housing savings are ten (10) times higher than the average savings by member or client in the network as a whole. Lastly, the clients surveyed say that they appreciate the homeownership savings product.

PREVIOUS INVESTMENTS

DID is in favor of taking into account and valuing the investment already made by a borrower, whether land already purchased or the already-built home the borrower wants to make improvements on or additions to. The MFI will have to appraise it at its fair market value and consider it for a fraction of the contribution normally required from a borrower.

For example, land and prior work, free of any debt, could represent from 75 to 80% of the required savings, with the balance to be contributed in cash.

INSURANCE

In view of the relative importance of the loan and its term, DID recommends that any borrower take out a loan life insurance policy, adding real protection for him and his family and for the institution in addition to offering a feeling of security. We recommend that the payment of such insurance be done in tandem with the repayment of the loan.

It will likewise be appropriate to progressively require insurance on the financed dwelling.

ENVIRONMENTAL ASPECT

At this stage, it appears difficult to require housing loan applicants to make "green" choices, since the availability and the cost of such materials may cause problems. Nevertheless, DID recommends that partner institutions introduce this concern a) by questioning every time whether or not there will be an environmental risk linked to the project, thus introducing at the very least a concern about worrying about it and b) by encouraging as much as possible the search for locally produced materials and, when a new homebuilder comes into play, promoting his use of green and local materials.

A STRONG ISSUE : SUPPORTING THE DEMAND

The housing loan offer is currently almost non-existent. Accordingly, so is demand. Not only does the offer have to be created but the demand will also have to be created, i.e., inform and educate potential applicants that it is possible to accelerate their acquisition of a quality home by means of a loan. To create the demand, the insecurity of the families has to be reduced; they have to be supported and shown that they can have access to a housing loan and access to "affordable" homes has to be promoted.

About the Insecurity of the Families: Support Demand by Educating the Client

DID recommends that the lending institutions provide accompaniment, support and education for the borrowers with regard to the most important borrowing and investing of their life. Also, DID recognizes for some the relevance of a sequence of smaller loans for shorter terms to fall in line with the pace of the applicants.

It has been observed that numerous are the low-income families that show little or no interest in a five- or seven-year loan because of the risk perceived and their insecurity with regard to their sometimes weak and irregular sources of income. They prefer to take out smaller loans for shorter periods.

The feeling of income uncertainty often explains a client's fear of borrowing. Several members will think twice about it before borrowing and putting at risk a home that they have sometimes spent years to build and in which they have invested all of their savings.

In all parts of the world, borrower education has proven relevant; this is even truer for the most vulnerable borrowers who possess a weak culture with regard to financing or credit. Simple explanations about the amount to devote to a housing project, the precautions to be taken with the suppliers, the benefits of a budget to exceed cost overruns, the different titles related to a plot of land and their respective cost, the repayment obligations and the consequences of a payment default, the possible recourses are some of the subjects to be approached.

Let's recall that the insistence on upfront savings is another component aimed at making the applicants feel secure.

PROGRESSIVE SMALL LOANS

This approach is based on a reality observed almost everywhere : low-income families build and improve their dwelling little by little when they have funds available.

About Affordability

Affordability is a core dimension of housing finance. To make housing affordable, measures have to be taken to act on both access to financing on affordable terms and housing and land at affordable prices.

Affordability depends on several factors: home prices, loan term and interest rate, down payment, the borrower's (or the family's income) and the share of income available in the light of the family's other needs. At a rate of between 11 and 14% and a term of 10 years, a borrower cannot contemplate borrowing more than twice his gross annual income. A higher interest rate and/or a shorter term will give a still lower amount. Considering the distribution of income in developing nations, very few people can dream of borrowing for a new home or else a complete home. For a majority of them, the loan will enable them to improve or make an addition to an existing dwelling.

Also any measure that makes it possible to reduce the cost of housing will be welcomed. The housing cooperative, thanks to the multiple economies of scale it allows, appears to us in this connection as something worthwhile exploring. The identification of reliable, quality and affordable suppliers and builders is a very tangible contribution to propose to the applicants.

FINANCIAL MANAGEMENT

In the first phases of development of housing finance, the lenders can finance their lending business using their internal resources. The situation quickly reaches a limit, taking into account, in particular, the regulatory restrictions with regard to asset/liability matching.

In addition, the central banks have strict requirements with regard to covering long-term commitments with stable resources, which the institutions are bound to comply with.

About Asset/Liability Matching (Maturities and Rates)

From a perspective of risk management, DID advocates strict monitoring and management of its partners' asset/liability matching with regard to their respective maturities (short, medium and long term), interest rates (fixed and variable) and currencies (local versus foreign).

The lack of access to long-term financial resources is spontaneously cited as the greatest constraint by financial institutions. In fact, since housing loans are larger and, accordingly, their term is longer, they quickly become a major drain of liquid assets. To this is added to the problem of the term of the sources of funds, since most of the savers' deposits are demand deposits or for a term of less than one year.

Here is where we take full stock of the maturity required of a financial institution to start offering housing loans on a good basis: having a sound and balanced balance sheet, liquid assets, a quality portfolio to which will be added sound diversification and internal capacity (human resources and systems) to process more complexes loan accounts. Each of these conditions will be required as soon as the MFI wants to access external funds.

About Long-Term Resources and the Secondary Financial Market

Before turning to these sources of external funds, an MFI must be sure of having achieved excellent mastery of this line of business and holding a solid balance sheet. A very large leverage effect (debt ratio) unduly places an institution at risk. The authorities and the sector's stakeholders should make sure of the soundness of the primary housing lending market before opening the doors too wide to the secondary market.

There is a good range of means to provide long-term resources to the issuers of housing loans. Not all are accessible to the MFI or even to the financial markets of their respective countries.

The most accessible are :

- *Synchronization of maturities (most appropriate method as long as the housing loan volume and its proportion in relation to the institution's entire portfolio are not high)*

  This practice will be made possible by offering five-year savings products and resetting the term of its housing loans at a similar frequency. Thus, a housing loan may have, for example, a 10-year term, but the interest rate will be renegotiated after five years, thereby falling more in line with the rates at which the financial institution has to reward savings or repay the loans it has taken out.

- *Issuing of bonds or long-term borrowing (5 to 7 years)*

  A financial institution can issue financial securities or borrow on the basis of its balance sheet and its reputation.

- *Refinancing Mechanisms*

  A financial institution can also turn to an investor or investors interested in buying mortgage debt for an adequate rate of return. To do so, it has to have a substantial volume to offer or else join other financial institutions also interested in this mechanism. In this latter case, this is rather a matter of mortgage-backed loans.

About the Profitability of Housing Loans

An amount of a larger loan (4 to 5 times) and a longer-term (3 to 5 years) contribute to making housing loan a profitable product. The income is more stable and the operating expenses are lower, once distributed over the term. Likewise, the probability of default and loss in the event of default is generally less. All of these aspects exceed the potentially higher costs linked to longer-term sources of funds. Of course, a detailed calculation of the costs of the sources and uses of funds and operating expenses should be done specifically for each institution in order to determine the opportunity cost of the housing products.

About the Diversification of the Loan Portfolio

The concentration of a loan portfolio in a sector of activity or in a geographical area in particular may represent an important risk for an institution. The risk can be shared by diversifying by sector of activity, by product type, by geographic sector or by market segment. The use of an effective dashboard will be decisive to this end. It is recommended not to exceed the threshold of 30% of the total housing-loan portfolio.

About Resorting to Guarantee Funds

DID considers that distributing the risks by access to guarantee funds makes it possible to serve certain target clientele groups otherwise ignored by lenders and encourages resorting to them under certain conditions.

Access to guarantee funds will have a significant impact on reaching a clientele perceived as involving a greater risk, while guaranteeing an acceptable level of risk for the lender. However, the guarantee funds only make up for a deficiency in the level of the down payment and collateral from the borrowers. In no case should they be used to fill the deficiency of the other fundamental criteria of the credit analysis. Thus, an inadequate repayment capacity or a serious doubt about the morality of the borrower could not be compensated for by the partial protection a guarantee fund would offer.

DID recommends that the guarantee funds set up (by the institution itself at the central level, for example, or by an outside entity) only cover part of the losses, in order to make the institution accountable for the management of its credit risk.

About Women *as Housing Loan Clients*

DID observes that access to housing loans is still more difficult for women borrowers for whom additional constraints (legal, cultural, etc.) are added. In this connection, special attention to reach them would do well to be enforced.

The percentage of women holding housing loans is smaller than for other types of credit. One of our partners grants a lower interest rate when the loan applicant or holder of the property title is a woman. Other similar practices better adapted to local usages and customs can be adopted.

CONCLUSION

Housing finance is a delicate but natural activity for a financial institution desirous of maximizing its service to its clients and its members while providing sound profitability of its operations. This enables it to accomplish its mission.

Because of the size of the sums attached to it, housing loans can appear risky as could be observed during the 2008 international financial crisis. Numerous abuses may arise; no country is safe, for example, from a sudden abrupt drop in the value of real estate, especially in a climate of a real estate bubble. This is why it is recommended to limit housing loans at first to 30% of the total portfolio.

In view, on the one hand, of the significant contribution housing finance it is capable of playing in improving the population's living conditions and, on the other hand, the multiple changes required by the introduction of housing products and the certain level of difficulty in developing this market, DID suggests there be a greater commitment on the part of senior management to setting up a specialized sales force equipped for this type of lending.

The social performance of an MFI will be accentuated in the light of the major place occupied by sound housing for families around the world.

For more than 40 years, Développement international Desjardins (DID) has worked to improve access by communities in developing countries to quality financial services that meet their needs. In order to do this DID supports the creation, development and strengthening of sustainable financial institutions that are rooted in the community. DID's activities are backed by the 110 years of experience of the Desjardins Group, the largest cooperative financial group in Canada and the sixth largest in the world.

To consult DID's other Position papers, or for any other information about our organization, you may visit our website at www.did.qc.ca.

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TOOLS - EMPOWERMENT - GROWTH

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