

FUNHAVI's Housing Microfinance Program

Series Introduction

From shacks in the shantytowns of Lima, Peru, to tin-roofed mud huts in the slums of Gujarat, India, insecurity of tenure and uneven income streams force the poor to build their homes tentatively, one wall at a time. Yet the poor lack access to financial institutions and financial products tailored to the way they build. This, despite the fact that in so many developing cities around the world a majority of the population lives in slums—60 percent of Nairobi's population, 82 percent of Lima's population—and that most housing is built informally and progressively.

The Cities Alliance launched the Shelter Finance for the Poor Initiative to focus on the still nascent practice of financial institutions providing housing finance to poor clients on commercially viable terms. These loans are distinct from mortgages in that they are typically not for the purchase or construction of new units, but rather for home improvement and progressive building. They are being offered as a new product line largely by a generation of financial institutions that built their success on providing working

capital loans to the urban poor, and are now looking to expand and diversify their products. To date, few of these experiences had been viewed through the prism of scale and sustainability. This is the framework applied to five case studies examined under this Series: Mibanco in Peru, SEWA in India, FUNHAVI in Mexico; a wholesale fund facility in Ecuador, and the enabling environment for shelter finance in Kenya. A synthesis paper identifies emerging policy recommendations on taking housing finance for the poor to scale.

The objective of the Series is to look at shelter financing in practice through the prism of scale, sustainability, and outreach to the poor, and learn about best ways to encourage and promote this emerging practice.

Introduction

In 1996, the Fundación Habitat y Vivienda, A.C. (FUNHAVI), a Mexican nongovernmental organization, emerged as a home improvement financing facility in the city of Juárez, Mexico. FUNHAVI targets the working poor who earn between two and eight times the minimum wage. Three-quarters of FUNHAVI clients work in *maquiladoras* (foreign-owned manufacturing plants that produce for export), and 38 percent are women. As of October 31, 2001, FUNHAVI had 1,300 active clients, and an outstanding portfolio of just over \$1 million. FUNHAVI has not as yet been able to achieve profitability (its financial self-sufficiency is 75 percent), but expects to reach financial self-sufficiency by the end of 2003.

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Funhavi is a relatively young institution still refining its methodology of service delivery. It provides a combined package of financial and construction assistance to poor clients. It has forged an arrangement with construction materials suppliers, buying materials at wholesale prices, while requiring its clients to buy these materials at retail prices. Funhavi earns 11 percent of its operating revenues from this arrangement, and also views this as a way to ensure that clients use quality construction materials. FUNHAVI has also tapped an existing network of local S-MART grocery stores, which collect clients’ payments; this is convenient for clients and cost-effective for FUNHAVI.

Background

With 80 percent of Mexico’s exports going to the United States, the city of Juárez, Mexico, located just across the border from El Paso, Texas, is home to a plethora of *maquiladoras*—foreign-owned manufacturing plants whose product is intended for export to the United States. Although the average wage for Juárez’ maquiladora workers is above the national average, most of these workers are nevertheless poor, and as a result, many of their needs tend to be underserved, specifically in housing

Many governmental and some nongovernmental housing programs have targeted economically active poor families in Juárez and in the State of Chihuahua (of which Juárez is the capital). Few, however, have managed to do so in a manner that is economically viable for the provider, or affordable for poor working families. Social housing programs have not typically provided housing solutions that are suited to the incremental way in which poor households tend to finance their housing needs. This gap in the supply of

economically viable and affordable incremental housing financing to poor people helps explain why FUNHAVI has been able to develop a strong presence in such a short period of time.

Founded in 1996, FUNHAVI is the brainchild of Cooperative Housing Foundation International (CHF), itself a nonprofit organization that pioneered home improvement lending in the early 1980s. With startup funding from the Ford Foundation, CHF used its technical expertise to establish FUNHAVI with a mission to “contribute to improving quality of life, especially for low-income households, by providing access to housing that is dignified, healthy, and environmentally sound.” FUNHAVI’s relationship with CHF and the Ford Foundation is continuing, and the organization also receives lesser funding from local businesses and maquiladoras, and from the Inter-American Foundation.

Despite the fact that FUNHAVI’s financing is exclusively intended for housing improvements, a surprising 30 percent of clients are actually able to use the home improvement loans to build a new home—constructing a single, basic room with FUNHAVI financing, and making additions thereafter.

How FUNHAVI Works

Target Market

The target market for FUNHAVI is primarily maquiladora workers, who make up about three-quarters of its clientele. FUNHAVI’s clients earn between two and eight times the minimum wage of \$125, a range in which 62 percent of Juárez’ population falls. The average monthly salary of FUNHAVI clients is \$504, or about four times the minimum wage.

Despite earning a wage that is above the national average, most FUNHAVI clients have not had access to commercial banks and credit unions, and before receiving FUNHAVI credit, have generally financed home improvements out of savings. Only 7 percent of FUNHAVI clients have used any other sort of financing, and of those surveyed, none had previous access to credit from materials providers, other nongovernmental organizations (NGOs), or maquiladora savings funds.

All of FUNHAVI's clients have the legal right to their property, although they do not necessarily possess the title to their property. More than half of FUNHAVI clients have a complete home they intend to improve, and approximately 38 percent are in the process of building a new home. Three-fifths of FUNHAVI loans go toward room additions, while 30 percent are intended for the rebuilding of homes originally constructed from cardboard, wooden pallets, and other scrap material.

The Product

Guarantees: FUNHAVI relies on co-signers—as opposed to tangible collateral—to secure its loans. The co-signer must meet most of the same repayment-capacity standards and eligibility requirements as the borrower. And although co-signers may be related to the borrowers, they may not be part of the borrowers' immediate household.

Terms and Conditions:

FUNHAVI **loan amounts** are based on the estimated cost of improvements and the borrower's repayment capacity. They range between \$500 and \$2,500, and

average \$1,623. Applicants' monthly loan payments may not exceed one-third of their net monthly household income, and average about one-quarter of net monthly income. **Interest rates** for borrowers with net monthly household incomes between two and five times the minimum wage are 2.5 percent per month, while those between six and eight times pay 3 percent. FUNHAVI also charges a 2 percent commission on the total amount of the loan, and a \$20 fee for a mandatory assessment of the upgrade by a contracted architect. The result is an average annual interest rate of 54 percent—in line with (but slightly lower than) what most microfinance institutions charge in Mexico. **Loan terms** average 20 months, although they vary from 6 to 36 months. Because loans are paid monthly at local S-MART grocery stores (see below) it is administratively burdensome to control for specific loan repayment dates, and clients are therefore allowed to pay between the 1st and the 15th of the month without penalty.

Delivery Methodology

On average, 10 days separates a client's initial visit to FUNHAVI and the actual dispersal of the loan. During this time, clients meet with a credit advisor at FUNHAVI's office where, assuming the applicant is eligible and all documentation is in order, she deposits the \$20 architect fee. Working on a contractual basis with FUNHAVI, it is the architect who, in due course, pays a visit to the applicant and assesses architectural needs, designs the improvements, and uses a software program to determine the necessary budget. It is also the architect, not a loan officer, who assesses the ability of the

applicant to pay and the consequent loan terms.

Once a loan appropriate to the client's needs and ability to pay is worked out, FUNHAVI provides the new client with vouchers to be used to purchase construction materials from specific suppliers. (As a loan-promotion incentive, suppliers who had originally referred the client to FUNHAVI are awarded by being the exclusive seller of materials to that client.) FUNHAVI has an arrangement with suppliers whereby FUNHAVI purchases in bulk at low wholesale prices, but these materials are sold to FUNHAVI's clients at retail market prices. By requiring that clients purchase from specific suppliers, FUNHAVI is able to generate additional, non-interest income that accounts for 11 percent of its total revenue, and have some assurance that clients are using quality building materials.

Clients must make payments on their loans every month. For this purpose, FUNHAVI has established a special relationship with S-MART, a retail chain, wherein S-MART accepts payments from FUNHAVI clients. S-MART is already set up to receive payments for utilities, so the addition of FUNHAVI was simple. On the one hand, this relieves the clients from the need to travel all the way to FUNHAVI's offices to make payments, and it also releases FUNHAVI from the responsibility of securing large amounts of cash at its offices. For its part, S-MART provides the service free-of-charge since it benefits from increased store traffic.

Follow-up Methodology

If the client is late in paying, FUNHAVI notifies the client by certified mail that he must go to FUNHAVI's offices to pay, rather than the S-MART stores. After the account is 90 days in arrears and the client has proven unresponsive, an official letter is delivered by a lawyer to the client. This has proven very effective. However, if after 120 days the client is still in arrears, FUNHAVI takes legal action.

Sustainability and Outlook

FUNHAVI's prospects for long-term growth and continued financial viability appear strong. Whereas FUNHAVI experienced a slow start during its first three years, it grew by more than 70 percent in 1999. Its growth stabilized over the past two years, however, because of capital constraints. With projected additional capital resources, the organization expects to double its outstanding portfolio size by mid-2003, and achieve financial sustainability.

However, an assessment of FUNHAVI suggests that several aspects of FUNHAVI's implementation strategy deserve to be revisited. Although FUNHAVI's overall repayment rate is high (over 97 percent historically), the institution's on-time repayment rate has decreased in recent years, and the overall arrears are quite high at 17 percent. While FUNHAVI's management blames worsening economic conditions in Juárez as a partial cause for the increase in

delinquency, the organization's staffing structure, loan follow-up methodology and loan disbursement and collection incentive structure should be reexamined. Another reason for FUNHAVI's high arrearage is that it has not written off loans regularly. The only loans that have been written off are cases in which the client has died. Once loans over 180 days are written off, FUNHAVI expects that approximately 7 percent of its portfolio will be more than 30 days in arrears.

Outstanding Issues and Conclusion

This assessment does bring to light several lessons that may be useful to the emerging field of housing microfinance:

- Once an institution has fine-tuned its lending methodology, single-product housing microfinance institutions can potentially find a viable niche in the market;
- Linkages with bulk suppliers of construction materials can provide some quality assurance to the lender on housing materials used by clients, in addition to providing it an additional source of revenue. Ideally, an institution can negotiate favourable wholesale prices that it can pass on to its poor clients.

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Reference: this article is a synopsis of a full case study on FUNHAVI ("Assessment of FUNHAVI's Housing Microfinance Program in Mexico"), and is available, as are all the Series' products, from www.citiesalliance.org

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