Innovations in Microfinance for Housing in the United States and Emerging Markets: Can We Transfer Methodologies ?

by Dr. Sally Roe Merrill

INTRODUCTION

This collection of articles provides a first step in assessing the techniques of low- and moderate-income (LMI) lending for housing in the United States and in selected countries abroad. Our aim is to assess the potential for transference of innovative methodologies, transference from the U.S. to other countries, from abroad to the U.S., or from one emerging market to another. We have placed major attention on the roles of community development finance institutions (CDFIs), non-governmental organizations (NGOs) and community-based organizations, and innovative techniques in operations, such as flexible underwriting, alternative loan products, homeowner counseling, and other transactions that assist in lending to LMI households.

Case studies are presented for the United States, South Africa, Chile and India, describing the housing finance systems of each of these countries, with emphasis on their unique approaches to LMI lending.[1] These countries were selected because they represent a wide diversity in financial system structure, in public and private sector roles in housing finance, and in barriers which LMI methodologies are striving to overcome. In addition, each has made a unique contribution to innovative processes and/or institutions involved in LMI lending. LMI examples from other countries—from Bangladesh to Brazil—are also noted. Finally, we provide a brief discussion of microlending for housing, which together with LMI lending provides our definition of microfinance for housing.

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In the developing world, microfinance for housing is a newly emerging financial discipline, having gained considerable momentum in just the past decade. While it draws from both microenterprise finance and traditional mortgage finance, it should be viewed as a unique methodology for assisting low- and moderate-income households to obtain housing. In many developing markets, in particular, microfinance for housing is no longer seen as merely an extension of formal mortgage finance, but as a financial tool with unique characteristics to help overcome the numerous barriers to LMI lending. Simply attempting to go "downmarket" with traditional mortgage finance institutions and techniques has not been successful in emerging markets. Low-income households can afford only small core, or starter houses, or must proceed on an incremental basis. Government-directed, heavily subsidized approaches to low-income housing have not been nearly able to keep up with need. In addition, while traditional NGO project-based efforts at land acquisition and housing production have served a crucial role, they have tended to retain a "project" focus, and have generally not reached scale in financing. Given that most emerging markets lack both a rental sector and a resale market of any size, especially for low-income households, the effective demand for realistic homeownership solutions is very considerable. New market-based approaches, whereby microfinance has been tailored to household needs, abilities, and preferences, are proving more successful.

The U.S. profile of low-income borrowers differs considerably from those in most emerging markets. Neither "starter" housing (which does not meet code), nor an incremental approach (to meeting standards) is an option. In addition, households which may ultimately be "bankable"—that is, able to be underwritten according to at least some of the conventional standards—may face a variety of barriers in obtaining mortgage finance, such as racial discrimination, geographic discrimination (either from "redlining" or lack of access), and financial barriers. These include lack of credit history, poor credit history, variable income, or lack of experience with the financial sector. In sum, there are numerous would-be homeowners who cannot afford most existing formal sector housing solutions. These households are "bankable" only if the traditional rules are changed: they may not have an adequate downpayment, may require subsidy assistance to supplement a housing loan, and would also benefit from a greater supply of affordable units.

Despite these differences, U.S. low-income lending shares at least some of the features of microfinance for housing in the developing world, although it would appear that their development followed separate channels, at least until recently. At present, the sophistication and size of the U.S. market provides low-income lending tools, which are available only to a handful of emerging markets. In the long run, however, the U.S. housing finance system can offer numerous efficiencies and best practice examples for emerging systems. In addition, there is very ample room for transference of methodologies across emerging economies, and also for lessons learned abroad to be developed as features of U.S. LMI lending.

What Do We Mean by Microfinance for Housing in Emerging Nations?

Our definition of microfinance for housing has combined aspects of two separate paths of development in housing finance: low- and moderate-income housing finance and microlending for housing. LMI housing finance had its origins largely in the formal financial sector, while microlending for housing has stemmed more directly from microenterprise lending. Together these comprise microfinance for housing, broadly defined, which tries to accommodate households of moderate income to the very poor with financially sustainable methodologies adapted to their specific needs.

LMI lending for housing has its roots in traditional formal sector housing finance, and may involve formal sector institutions and regulations. However, whether LMI lending is carried out by traditional banks or by CDFIs, it has a specific focus on households who lack access to formal sector housing loans. LMI lending is defined by some or all of the following characteristics:

- It has a stated mission to focus on lower-income households, but has not been intended to address very poor households.
- It stems from formal sector housing finance systems, practices, and regulatory structures which have been specifically adapted to low-income households.
- It may involve community-based partnerships (CDCs, NGOs, CBOs, etc.) in impact outreach, underwriting, and servicing.
- Loans may or may not depend on mortgage-based collateral.
- It also uses flexible underwriting, alternative loan products and shorter duration loans.
- Like microlending, it poses higher transaction costs than traditional mortgage credit. Extensive outreach, homeowner counseling and aggressive servicing are common features.
- It may be mandated via legislation or public-private partnerships agreed to by government and private stakeholders and may be combined with government subsidies (the U.S., South Africa, and Chile are all examples).

Microenterprise lending for income generation is a well-developed and increasingly commercialized field in emerging nations worldwide. In contrast, microlending for housing is a much more recent and less widespread aspect of microfinance, but one that is increasing. It has appeared in several guises:

1. As microenterprise loans which have been used, in fact, for upgrading and expanding dwellings, especially when the home is used for income-generating activities.
2. As an explicit subset of microlending undertaken by a few micro-lenders, especially those dedicated to housing and community development.
3. As an offshoot of NGO activities in housing, especially NGOs which have developed "sister" financial institutions, or other financial partnerships, to add housing finance to their shelter programs.[2]

Microlending for housing can be characterized as follows:

- It is guided, in part, by microenterprise lending experience.
- It may extend to the poorest of the poor—such as squatters and pavement dwellers in developing countries.
- It has a strong community-based focus, sometimes including group lending and group guarantees. It is often part of a multifaceted community/urban development project, including land and infrastructure acquisition.
- It features alternative underwriting, including an extremely important emphasis on

savings; it also features alternative origination and servicing, most often involving counseling and personal outreach.

- It provides small, short-term loans, often with rollover or repeat features.
- The loans use nonmortgage collateral or are unsecured.
- The funding may be designed for incremental housing, rehabilitation, expansion, and/or core housing or infrastructure connections.
- It may be combined with government or charitable subsidies, often together with the savings program.

Thus, our definition of microfinance for housing spans both of these sets of descriptors. Housing loans may be of short (or very short) duration, and the loan is often followed by repeat borrowing in emerging markets. Loans are highly transaction-based (extensive outreach, counseling, flexible underwriting, aggressive servicing), and are generally priced to cover risk profiles and transaction costs. In emerging markets, loans usually have links to savings programs. In the U.S., the LMI lending approach (rather than microfinance) is a more relevant definition of the types of low-income lending for housing that are taking place on a growing scale.

INNOVATIVE LOW-INCOME LENDING IN THE U.S. AND ABROAD

This section briefly summarizes our findings for LMI and microlending and innovative methodologies developed by its practitioners. We first discuss the institutional roles of banks, CDFIs and partnerships with NGOs. Innovative practices in underwriting, funding and other transactions are then described, followed by a brief discussion of microlending in emerging nations. The closing section addresses the potential for transferability of methodologies.

The U.S. Institutional Structure for LMI Lending

U.S. Commercial Banks. In the U.S., the major portion of LMI lending is carried out by mortgage companies and depository lenders. The advent of the Community Reinvestment Act (CRA) and other legislation may have launched further down-market activity on the part of federally regulated depository banks, which are subject to the CRA. However, as it proved to be good business, it may now be a market-driven phenomenon (at least partially). The U.S. examples include Countrywide Home Loans' "We House America" program and BankAmerica Mortgage's low- and medium-income program.

Countrywide's program features community-targeted outreach, including community branches, partnerships with local NGOs, and community fairs; flexible underwriting, including high loan-to-value ratio loans, more liberal credit underwriting, and higher front- and back-end ratios; home buyer counseling; and aggressive servicing. Countrywide's program has been successful in reaching LMI and minority households. It is also interesting to note that Countrywide, as a mortgage bank, is not subject to CRA.

BankAmerica, the largest bank in the U.S., in 1998 committed $350 billion over 10 years to community development lending, including $115 billion for affordable housing. The unique features of its LMI program include bank staff training for LMI lending, establishment of NGO partners to help conduct outreach and counseling, and underwriting which includes 100% LTV loans and use of rental receipts in lieu of credit scores.

The Impact of CRA. Although there is not full agreement on its successes and problems, the Community Reinvestment Act has undoubtedly had a major impact, whether directly or through voluntary programs undertaken by banks to respond to challenges by local groups. Case studies of the impact of CRA suggest that the mode of implementation of the community programs is also important. Does CRA create an undue burden on lenders subject to its provisions? This is a difficult question to answer in a complete and definitive manner.

In the most extensive attempt to assess the impact of CRA on banks, the Board of Governors of the Federal Reserve System surveyed 500 large commercial lenders. Each respondent was asked to estimate the costs associated with CRA lending, as well as the performance of targeted affordable loan programs offered to eligible home buyers. After analyzing the results from 143 respondents, the Federal Reserve concluded that home purchase and refinance CRA lending, "is either profitable or at least marginally profitable for 82% of survey respondents."[3] However, CRA lending, especially for larger banks, is less profitable than non-CRA home purchase and refinance lending, due to higher credit losses and lower loan prices associated with mortgages originated to low- and moderate-income home buyers.

CDFIs and NGO Partnerships in the U.S. Despite the inroads of some traditional lenders in the U.S., there are still very important roles for CDFIs in underserved markets as community development champions and as "niche" lenders. (Note that we define CDFIs as financial institutions—bank or nonbank—which have a stated mission to serve lower-income borrowers and/or particular communities, especially if the residents include groups who have had limited access to traditional finance.) In addition, various types of partnerships between CDFIs on one hand, and community-based organizations—NGOs and CDCs—on the other, offer perhaps the most effective institutional structure and best models for transferability to emerging markets. Basically, in order to address underserved households, there is often a need for counseling for persons who have trouble accessing the formal sector through lack of geographic access, common language or general familiarity with banking.

There is also a need for an institutional mix that can undertake a holistic, multi-faceted approach to assisting housing for low-income persons in a variety of contexts that banks have trouble dealing with: urban renewal, urban development, and income-generating activities. This is the natural milieu of the CDCs. In summary, whatever their origins, and whatever their "legal" status (that is, as banks, nonbank financial institutions, etc.) CDFIs have their roots in the community to a much greater extent than most formal banks and have traditionally championed the cause of LMI lending. Thus, whether they are in the U.S. or abroad, CDFIs exhibit certain common characteristics, including:

- A stated mission to focus on moderate- and lower-income households and/or specific communities.
- Operating structures which are based on formal sector housing finance systems, practices, and regulatory structures, but which generally include more intensive outreach, counseling, and servicing.
- Flexible underwriting and, in some cases, alternative mortgage products and non-mortgage collateral (generally outside the U.S.).
- The necessity, in general, of addressing higher credit risks and/or higher transaction costs, and seeking sustainable lines of funding at the desired scale.

The CDFI/CDC/NGO partner case studies include South Shore Bank in Chicago, the Self Help Credit Union in Durham, the Delaware Valley Mortgage Plan, the Little Haiti Housing Association in Miami, and Chattanooga Neighborhood Enterprises Consortium.

South Shore Bank, now regarded as "a model for investment in economically distressed communities across the nation," was developed by the Illinois Neighborhood Development Corporation, which bought the bank in 1971. Through the personal commitment and a loan guarantee by the INDC director, and immediate entry into the community to attract depositors, South Shore began its life as an LMI lender.

The Self Help Credit Union also has a neighborhood focus on seeking deposits as well as lending; its flexible underwriting, together with a unique use of a grant as a credit enhancement (see below) yield very transferable methodologies.

The Delaware Valley Mortgage Plan is a collaborative effort by its members, a large Philadelphia NGO and participating lenders, to serve LMI borrowers using targeted outreach, underwriting flexibility, peer review of loan processing, and home buyer counseling to achieve its goals.

The Chattanooga Neighborhood Enterprises, Inc.: Home Purchase Program is a private, nonprofit organization with a home purchase program funded by city and state governments. Its origination of LMI loans outpaces other lenders in the area, as 72% of its loans were to households with incomes less than 80% of the area median. Mandatory home buyer counseling is tailored to the degree of credit problems, an idea, which also should be transferable abroad.

Little Haiti Housing Association (LHHA). As a final example, LHHA is an ethnically and linguistically specialized NGO, which intercedes in the mortgage market to counsel would-be home buyers and helps organize "layers" of finance and subsidy to enable purchase. LHHA itself does not originate mortgages, but uses traditional bank partners who have incorporated the unique underwriting, including acceptance of "sous-sous"—traditional savings associations.

The Emerging Market Institutional Structure for LMI Lending

A wide variety of institutions are now involved in microfinance for housing. Interestingly perhaps, this lending relies far less on the traditional commercial or savings banks that dominate the high-income market for housing finance in emerging nations. Instead, the key institutions include CDFIs, microfinance enterprises and NGOs dedicated to housing lending, many of which have developed financial "sisters" and/or entered into a variety of partnerships. Examples of a number of the options are discussed below.

Commercial banks play a limited role in microfinance for housing in emerging markets. Worldwide, there has been increasing commercialization of microenterprise finance.[4] There are recent examples of banks entering into partnerships with NGOs and/or establishing separate divisions for microenterprise lending. Currently, however, this tends to be focused more on income generation than on housing. Traditional banking practices do not easily support the housing finance needs of low-income households. The housing finance sectors of many emerging nations are relatively undeveloped. In low-income countries, housing-finance lending by commercial banks (or any financial institution) may be extremely limited. In higher-income nations, while lending to upper-income groups is common, lack of competition, combined with lack of advocacy (or "moral suasion") and little experience with the types of outreach and transactions necessary to conduct microfinance for housing successfully, greatly limit the "downmarket" horizons of traditional banks. Also, lack of information on risk factors, and more profitable uses for limited capital (as well as "requirements" to hold government paper) keep this status quo in place. Among our case study countries, South Africa and Chile are exceptions, as traditional banks do play a role in LMI lending. To our knowledge, only South Africa has considered CRA-type legislation. But, in any event, the banks in South Africa operate on the basis of a public/private understanding with the government, together with considerable support through various credit enhancements. In Chile, the government's strong political commitment to housing the LMI sector, together with very large public subsidies and several avenues of secondary market funding, have made a substantial dent in funding the LMI housing deficit.

CDFIs, MFIs, and NGOs dominate microfinance for housing. Thus, in contrast to the U.S., in emerging markets CDFIs, microfinance institutions (MFIs), and NGOs are – and will be for some time — the driving force in low-income finance for housing. The origins of these institutions are quite varied. CDFIs may be formalized from NGOs, such as the evolution of PRODEM to BancoSol in Bolivia. They may have formed as "sister" institutions to NGOs, such as SEWA BANK, which undertakes the lending activities for the urban NGO SEWA. Banco del Desarrollo, a CDFI in Chile, begun as an initiative of the Catholic Church to focus on social housing, has taken advantage of the sophistication of Chile's market and is able to fund its LMI lending through issuance of bonds and securitized mortgage pools. Finally, in poor countries such as Ghana and Bangladesh, CDFIs supply nearly the only housing finance available to moderate-income households. The Home Finance Corporation (HFC), a key CFDI in Ghana, has sought to develop an overall housing finance system in Ghana, as well as promote lower-income lending. A new joint venture in Bangladesh between an NGO and the Delta Insurance Group—Delta BRAC—is the first housing CDFI in that country.[5]

African Bank, a major CDFI in South Africa has recently absorbed three other microlenders in order to enhance its reach in the lower-income end of this credit gap, and it is now South Africa's largest microlender. CashBank, a CDFI in South Africa, evolved from a small "alternative" lender—the brainchild of a sophisticated NGO, the Urban Foundation—and has since undergone two transitions: first to a mutual bank and just recently to a commercial bank.

> **Case Study: CashBank** is dedicated to lending for housing to LMI households, and positions itself in a niche below the market that the traditional commercial banks see as their primary target, but above that of small microlenders. CashBank has employed a highly analytical approach to its evolution over the past decade, based first on ideas of a major NGO, the Urban Foundation, and secondly its experience as a very low-income lender. CashBank has recently proceeded "up market"; this was done to reduce its risk profile and thus be better able to expand its capital base with international and domestic funds in order to serve at a greater scale the huge "credit gap" in the LMI market. CashBank pioneered the pension-backed housing loan; because mortgage collateral is not realizable in large segments of the South Africa LMI market, these loans are backed by the borrower's pension funds. Rigorous testing of alternative underwriting and loan products has provided a series of market-relevant products and efficient pricing. CashBank offers several nonmortgage housing loan products and hybrid mortgage-pension loans products (see the article on South Africa on page 51 for more detail).

Finally, the traditional NGO approach to low-income housing development focused less on finance and credit than on sites and services projects and incremental housing, and a host of related issues: mutual self-help building techniques, slum clearance, group purchase of construction materials and so forth. Thus, generally, NGOs involved in housing and community development have had a "project" focus. However, just as traditional microfinance has strengthened its financial functions, NGO microfinance for housing has done the same. Also, many MFIs that had previously focused only on in-

> **Case Study: SEWA Bank** is an excellent example of a decision made by an NGO to facilitate finance in a formal manner—both lending and deposit taking— as a crucial adjunct to the other activities carried out by the NGO, SEWA, and its other sister organizations. SEWA Bank is a registered bank, permitted to make loans, accept deposits, and perform all normal banking services. SEWA Bank was established in 1974 at the initiative of 4,000 SEWA members who each contributed Rs.10 (about $1 at the time) as share capital. (Share capital had grown to Rs.9.5 million as of 1999.) SEWA Bank is financially self-sustaining given its large number of depositors, and has not felt pressure to seek outside finance. SEWA Bank provides secured and unsecured loans to women for housing, home repairs, microenterprise, education, and health. SEWA Bank puts great emphasis on savings.

Case Study: SPARC (Society for the Promotion of Area Resource Centers) has in recent years become one of the best known NGOs working on housing issues for the poorest of the poor in India. Its path has differed from that of SEWA and SEWA Bank in that it did not create a sister financial institution but rather has sought credit and savings facilities in a wide variety of approaches, beginning with small savings groups. SPARC works within an association of NGOs and it has pioneered philosophies regarding communities as stakeholders, the core importance of savings groups, women as borrowers, and group lending and guarantees. SPARC has been focused on moving beyond a project-by-project focus and is reaching out for more innovative means of attaining "scale" in funding.[1] Its line of credit from Citibank, India and guarantee fund from the NGO Homeless International are noted below.

come generation, now recognize housing as an important part of the portfolio. SEWA Bank discovered in a survey of its lending about a decade ago, that many of its loans were in fact housing related. Currently, one half of its portfolio is housing loans. Similarly, 7% of Grameen Bank's (Bangladesh) lending is for housing, about 10% of that for CARD (Center or Agricultural Development in the Philippines), and 18% of that of Genesis in Guatemala.[6] Others, like SPARC in India, Casa Melhor in Brazil, and People's Dialogue/uTshanti Fund in South Africa have always focused on financing housing.

In summary, a number of trends are apparent in our case studies of LMI and microlending for housing:

- The increased role of CDFIs in microfinance for housing.
- The transformation of NGOs wishing to finance microenterprise through the establishment of sister organizations, either CDFIs or some type of nonbank financial institution.
- The pronounced entry of MFIs/microenterprise lenders into housing lending.

Financial Institution Partnerships in Emerging Nations. There are clear advantages to partnerships between NGOs and financial institutions, both CDFIs and traditional banks, with each following their comparative advantage. The "community-based" partner most often assists with outreach, counseling, underwriting, and, sometimes, origination and servicing; the financial institutions provide structure and guidance, credit, savings facilities, and most importantly, a larger source of sustainable funding. For example, African Bank and Standard Bank, a major commercial bank in South Africa, have just partnered to undertake LMI lending in the traditionally underserved markets. Both will contribute capital to the venture. Standard Bank will promote and originate African Bank products in its AutoBank E centers and branch network; African Bank will be primarily responsible for credit approval, collections, and arrears management. There are also other recent partnerships in South Africa: Saambou Bank recently increased its stake in Thuthukani microlending and credit services business. ABSA, South Africa's largest bank, has recently bought 51% of Unifer, another microlender. Finally, the NGO/private sector joint venture, Delta BRAC, in Bangladesh will provide Dhaka's first moderate-income housing finance, taking advantage of the capital from its financial sector partners and the long-standing microenterprise experience of the NGO BRAC.

Innovative Underwriting, Loan Products and Funding in the U.S.

Although the details and the circumstances differ, there is some similarity in the methodologies developed in the U.S. and emerging markets with regard to outreach, underwriting, counseling, and servicing. A summary of methodologies follows, first for the U.S., and then for emerging markets.

Flexible Underwriting. One of the most important changes in the U.S. mortgage market is the increased availability of loans with low downpayment requirements, higher front- and back-end ratios, and other features that make it easier for low-income borrowers to access mortgage financing. Most conventional mortgages, as recently as the late 1980s, required borrowers to have an initial equity stake of 20% in a property. This is no longer the case; borrowers can now finance the full amount of a purchase (sometimes even the closing costs). It should be noted that the Federal Housing

Case Study: Fannie Mae's Navajo Pilot. This pilot may be of particular interest to international lenders. It was established in response to a major legal obstacle that limited lending on properties in Native American reservations. Individuals cannot use such properties as collateral—tribal land is held in a trust and is inalienable.[1] Fannie Mae, under its Native American Conventional Lending Initiative, purchases mortgages originated on properties located on tribal lands. Generally, the mortgages are originated with resale restrictions: only tribal members can purchase homes once the mortgage is originated. In addition, the mortgage loan is based on a ground lease on tribal land.

Administration (FHA) pioneered high LTV mortgages to assist affordability. This change has also been made possible, in part, by more flexible secondary market guidelines, which were introduced to allow Fannie Mae and Freddie Mac to improve their service to previously underserved markets. Now, many portfolio lenders offer loans with guidelines even more flexible than the government-sponsored entities allow.

GSE Underwriting Experiments. Fannie Mae conducts three types of underwriting experiments: national, community-based, and lender-based. As an example, the largest national underwriting experiment was Fannie Mae's Flexible 97 product. This experiment was designed to assess whether or not a borrower with an excellent credit history could act as a compensating factor for the risk of little or no downpayment from the borrower. Thus, the Flexible 97 experiment offered mortgages with a loan-to-value ratio of 97% to borrowers who had demonstrated an ability to manage their money in the past. The Flexible 97 product also allowed the borrower to make the downpayment using funds from a gift, grant or borrowed from another source. Fannie Mae, in April 1998, announced that the Flexible 97 experiment was a success and would offer the product to all borrowers starting in the summer of 1998.

Case Study: Freddie Mac. Freddie Mac's affordable lending programs include three affordable lending programs: Affordable Gold 5, Affordable Gold 3/2, and Affordable Gold 97. Affordable Gold 97, the newest of the three products, allows 97% LTV ratio. The entire 3% down payment must come from the borrower's personal resources. Like Fannie Mae's Community Home Buyers Program, borrowers must be income eligible for Affordable Gold 97 mortgages. Qualifying borrowers cannot have an income above 100% of area median income. Affordable Gold has no maximum PITI-expense-to-income ratio and the monthly debt-to-income ratio is 38% to 40%. Lenders are required to use automated underwriting and consider credit scores.

GSE Affordable Lending Products. In addition to making changes to standard guidelines, and conducting underwriting experiments, Fannie Mae and Freddie Mac have developed a number of affordable loan products with more relaxed underwriting criteria. These products have been designed to overcome barriers faced by lower-income borrowers, and allow the GSEs to purchase mortgages with higher LTV and payment-to-income ratios.[7]

Case Study: Fannie Mae. Fannie Mae has two community lending models—the Community Home Buyers Program and Fannie Neighbors—to increase homeownership opportunities for low- and moderate-income households. The Community Home Buyers Program uses borrower income as qualifying criteria for program participation. Fannie Neighbors uses the location of the subject property as the qualifying criteria. Loans originated under the Community Home Buyers Program are generally available to borrowers with median incomes that do not exceed 100% of the HUD-published median income for the area where the subject property is located.[1] Fannie Neighbors mortgages generally do not use income as a qualifying criteria and are available for properties located in central cities and underserved areas outside central cities and low- and moderate-income census tracts in neighborhood boundaries defined by Fannie Mae guidelines.

Assistance in Transactions from NGO Partners. Lenders and the GSEs understand the importance of working with organizations that have access to, and credibility with, residents of underserved communities. This is especially true for lenders that want to penetrate markets in which people are unfamiliar with the formal banking sector, or are unaware of the steps an individual must take in order to buy a home. Neighborhood-based organizations can help publicize programs offered by lenders to under-served markets, provide home buyer counseling, and pre-qualify participants for targeted affordable lending programs.

Foundation Grant Funds Used as a Guarantee Fund. As noted above, the Self Help Venture Fund uses $50 million of equity donated by the Ford Foundation as a loan loss reserve for mortgages originated with flexible underwriting guidelines. These loans are sold to Fannie Mae, which packages them as mortgage-backed securities held by Self Help. These loans, by allowing lower downpayments and more liberal credit underwriting, allow lower-income families to qualify for mortgages. The Venture Fund, as a credit enhancement for the LMI portfolios purchased by the secondary market, provides Self Help with much higher leverage.

Secondary Market Funding and Credit Enhancement. Many depository lenders are unable to sell loans to the secondary market that have underwriting features, which do not conform to the GSEs' standards. This reduces the amount of liquidity available for targeted affordable lending beyond the level provided for GSE conforming mortgages. Under certain interest rate environments, however, these loans can be sold to the secondary market. Conduits can structure internal credit enhancements using a senior-subordinate bond structure.

While these types of arrangements provide additional liquidity, they are only feasible when the weighted average coupon of nonconforming affordable loans is higher than prevailing interest rates.

Innovative Underwriting and Loan Products in Emerging Markets

Flexible Underwriting. Flexible underwriting is one of the hallmarks of LMI lending in emerging nations, especially given the widespread absence of credit bureaus, credit information, and even documentation of income. LMI lenders rely on a wide range of tools, including alternative collateral, demonstrated savings ability, women as borrowers, payroll deductions, and in some cases, group guarantors.

Alternative Collateral. Mortgage collateral is not readily realizable under numerous circumstances in emerging markets, including lack of title, lack of ability to evict or foreclose, or lack of a completed dwelling in the case of progressive housing. Alternatives include pension funds and mandatory savings accounts. For many LMI lenders, loans may simply be unsecured, and offered at higher rates.

Lease-to-Buy. Chile is practicing a lease-to-buy approach to underwriting, which can be useful when borrower income is low or variable, the credit history is impaired, or when foreclosure is ineffective or time-consuming. In Chile, there is also a contractual savings component that allows households to place deposits into specially designed mutual funds.

The Importance of Savings. Traditional microlenders learned long ago that the poor save. Savings groups are a crucial part of both microenterprise lending and microfinance for housing. Savings are a key aspect of underwriting—savings as proof of ability to pay—and as alternative collateral. The savings requirement is ubiquitous across continents and lender types, for example SEWA Bank and SPARC in India, CARD in the Philippines, Casa Melhor in Brazil, Grameen Bank, the Homeless People's Federation/uTshanti Fund in South Africa, UCDO in Thailand, ZIMBABWE, KENYA. The terms vary: SEWA Bank requires a minimum savings period of one year and CARD requires a minimum of 18 months. Most groups require regular payments, monthly or weekly, with minimum amounts established. Savings groups have also been an integral part of the development of CDFI/NGO partnerships.

Savings Federations and Asset Mapping. Savings groups have also been an integral part of, or the impetus for, the development of CDFI/NGO partnerships for microenterprise. SPARC has taken this concept one step farther and helped create a Federation of Savings Groups, which not only has more assets, but more bargaining power in seeking institutional partners to provide credit. Asset mapping is a concept being developed by Homeless International and SPARC, among others. Successful NGO-cum-financial partners, with dedicated institutional structures, a history of successful savings efforts, and relatively low default rates, may have limited capital (and other collateral), but have demonstrated performance records and substantial "goodwill." When these (unconventional) assets are effectively mapped, it is hoped that mainstream lenders will be more able to understand and underwrite various innovative loan products.

Group Lending. The issue of group versus individual loans is complex and experience presents a mixed picture. In dealing with the poorest of the poor, and in microenterprise lending, group loans have proved a good approach. SEWA, SPARC, CARD, Grameen, and Genesis, for example, all utilize group loans for microenterprise lending. For housing lending, however, group loans are less popular. Since housing loans are generally of longer duration and larger, the group approach becomes less tenable. The housing loans for Grameen and SEWA are individual, rather than group-based. Both Cash-Bank and PROA concluded that group loans were not viable for housing, as they found the failure rates for group loans often too high. Group loan products exhibited a major sensitivity to term; while those of a year's duration or less had a very good recovery rate, the level of defaults rose extremely rapidly thereafter, increasing to 69% of the five-year group loans. One reason for this was that *individual* repayment ratios in the group environment could quickly become overextended. On the other hand, SPARC and CARD will still utilize the group approach for housing. SPARC has found that groups "swapped" repayments for individual loans, to cover the 20% to 30% of households who, in any given month, could not meet their repayments.

Women as Borrowers. As noted, the poor can and do repay loans. In some cases, repayment rates of the poor are generally as good as—or better than—the repayment rates of wealthier, traditional borrowers. It is also the case that many microlenders (for example Grameen, SEWA, and SPARC) focus on women who have established themselves as particularly good credit risks.

Successful Completion of a Microenterprise Loan. Many microlenders that have expanded their loan products to include housing loans rely on successful completion of a microenterprise loan as a cornerstone of underwriting the housing loans. As noted, housing loans are frequently larger and of longer duration than microenterprise loans; and thus, knowledge of previous loan behavior is important. There are numerous examples, including Grameen Bank and the Women's Thrift and Savings Society in Sri Lanka.

Payroll Deduction. Payroll deduction is now common in LMI lending in South Africa. While it offers benefits for underwriting and reduced transaction costs, it clearly limits the participation of those with informal income. In many of the poorer emerging markets, this is the main form of livelihood for most lower-income households, and thus, payroll deduction does not appear to be a widespread practice.

Indexed Mortgage Instruments. Poland, Hungary, Mexico, and Chile have all developed indexed mortgage instruments, which improve affordability in circumstances of moderate inflation. Poland has had excellent success with DIMs (dual-index mortgages); Hungary has utilized a DPM (deferred payment mortgage) but on a more limited basis; and Chile uses inflation-indexed mortgages widely. In contrast, Mexico's financial crisis caused many of its DIMs to fail.

Innovative Funding in Emerging Markets

Risk-Based Pricing. Credit risk and transaction costs are generally higher in LMI lending than in conventional lending. While market-based pricing is prevalent in microenterprise lending, it has been more difficult in microfinance for housing, especially for the very poor. Many governments continue to utilize interest rate subsidies and/or cross-subsidization in low-income housing, which has led to an "expectation" of a low-interest-rate environment in lending for the poor. As a result, in some countries (India is a good example), setting housing interest rates at sustainable levels has faced greater "psychological" barriers than microenterprise lending. However, increasingly, following from microenterprise finance, the market-based approach has dominated. The large spread between LMI rates and street lender rates (and even those of traditional rotating savings groups) creates a lot of room for competitive pricing. In MFIs, housing loans are generally priced at roughly the same levels as those for microenterprise. Practices vary, however. While some microlenders charge a full mark-up over their cost of funds adequate to cover costs, others seek donor and grant funds in order to keep rates lower. SEWA Bank, for example, charges a market rate for its own funds, but lends government/donor funds at a slightly lower rate.

Direct Targeted Subsidies Combined with Loans and Savings Programs. Pioneered by Chile, the tripartite approach of targeted subsidies, household savings and bank loans is being utilized in many countries, especially in the Americas. Interest in this approach is spreading. Poland's government has proposed it. South Africa, which initially debated the role of savings when their subsidy program was developed in 1994, has now renewed the discussion of how to include savings. The tripartite approach clearly shares the responsibility for financing housing across the household, the government, and the financial sector, and is more compatible with market-based housing finance than either interest rate subsidies or cross-subsidization.

A Guarantee Fund to Leverage Lending. With the same goal in mind as the Ford Foundation grant obtained by the Self Help Credit Union in the U.S., SPARC has recently forged a new financing structure, involving both grant funds and a guarantee fund from Homeless International, and a local currency "loan" from Citibank, India. Homeless International, of which SPARC is a member, is a United Kingdom-based NGO association, with over 30 members in Asia, Africa, and Latin America. First, SPARC has joined together the numerous savings groups that work with the NGO partners into a Federation of Savings Groups, which is thereby able to leverage much greater credit. Second, Citibank, India has provided a loan to SPARC at the prime rate. Clearly, this rate is too low to cover the necessary risks and costs. SPARC and Citibank note that the loan is partially philanthropic. Third, SPARC's guarantee fund from Homeless International takes the top slice of the risk on Citibank's loan—20%.

> **Case Study: Secondary Market Funding for LMI Lending: Gateway Home Loans.** Gateway Home Loans, a subsidiary of the national Housing Finance Corporation in South Africa, was designed to fund LMI loans through a secondary market process. Gateway incorporates both creative underwriting—use of provident funds and credit enhancement of the Home Loan Guarantee Corporation—and an attempt to access wholesale funds on the secondary market. Eligible loans combine pension-backed collateral and accreditation of lenders to develop a standardized product for the capital market. Gateway is the only example known to us of an explicit attempt to set up a secondary market for LMI funding in an emerging market in a country without an already functioning secondary market. It is arguably difficult to set up true secondary markets even to fund high-income loans in emerging markets. To date, Gateway has met with more obstacles than successes, underscoring the difficulty of establishing a secondary-market based LMI funding model. (See David Porteous, *Housing Finance International,* September 2000.)

TRANSFERABILITY OF INNOVATIVE PRACTICES: IS IT RELEVANT?

The potential for transferability of methodologies in LMI lending in "all directions"—that is, from the U.S. to emerging markets, from emerging markets to the U.S., and from one emerging market to another—is an issue which deserves more attention. Clearly, the issue of transferability is complex. The countries discussed in this report demonstrate immense variation in income level, the minimum standards for housing, the sophistication of the financial and banking sectors, and the relative development of housing finance systems. Despite these differences, however, we have identified a number of issues that are common to both the U.S. and emerging nations. Some of the key constructs in transference of best practices include the following:

- How to assist—or to develop—CDFI-type institutions which are focused on the LMI market or the microcredit for housing market.
- How to encourage traditional financial institutions to take (managed) risks in LMI lending.
- How to create incentives for successful partnerships among community institutions and lenders for both LMI and microlending for housing.
- How to process available underwriting information to develop better profiles of who can and will pay.
- How to create improved incentives to repay via risk sharing and innovative collateral.
- How to adapt successful processes of outreach, origination, counseling, and servicing, and address defaults stemming from income variability.
- How to create sustainable sources of funding at scale through a variety of means, including partnerships, lines of credit or guarantee funds.

Transference of LMI Methodologies from the U.S. to Emerging Markets

Arguably, the U.S. has one of the most sophisticated housing finance systems in the world. Many of the LMI lending techniques in the U.S. depend on institutions and systems which are simply not in place in most emerging markets, such as secondary markets, highly influential GSEs, fine-tuned underwriting methodologies, or a wide variety of credit enhancement mechanisms.

Thus, in considering transference from the U.S. abroad, major aspects of both the primary and secondary systems, as well as institutions such as Fannie Mae, Freddie Mac and the Federal Home Loan Bank System are generally only a long-term answer in all but a limited number of emerging markets. This is also the case—although perhaps less so—for mortgage insurance, credit bureaus, standardization methodologies, government programs such as FHA and Ginnie Mae, and legislation such as CRA. *Note that we think it important for the U.S. to provide guidance in systems development—that is, efficient systems of primary lending, intermediation, risk management, and so forth. However, these remain long-term goals. Furthermore, it is not appropriate to simply consider exporting U.S. systems abroad; they must be institutionalized in the country's own context.*

Secondly, the situations of high-income emerging and transition countries versus low-income countries are likely to differ significantly with regard to adapting U.S. approaches to LMI lending. For example, the more sophisticated emerging markets are already assembling the infrastructure required by many LMI solutions in the U.S., such as credit bureaus, secondary markets or liquidity facilities. Thus, in the medium term, many U.S. practices would potentially be transferable to the higher-income emerging markets.

In contrast, for low-income emerging nations, the transference potential is more limited. It is likely to be focused on adaptations of methodologies in underwriting, counseling, servicing, CDFI management, NGO outreach and so forth. Thus, in some cases, the ability of a low-income versus a high-income emerging nation to utilize the transferred methodology is only a matter of degree; in other cases, for example secondary markets or fine-tuned credit enhancements, it is not yet feasible in low-income markets.

Finally, we must emphasize that many of the key LMI methodologies are already being utilized in some emerging markets: flexible underwriting, outreach, counseling, and aggressive servicing are prime examples. Thus, again, it is often a matter of whether some of the details of the LMI schemes developed in the U.S. can offer some value-added. This would have to be investigated on a case-by-case basis (as would any of these ideas, in fact).

Given these caveats, however, the key areas for transference from U.S. LMI practice might include the following:

Credit bureaus, information systems, and analysis of delinquencies and defaults. In the U.S., rigorous statistical modeling has been carried out regarding the associations among (1) delinquencies and defaults, (2) loan characteristics, and (3) borrower characteristics. Thus, the feasible "exceptions" to the rules are better understood and the concept of flexible underwriting is grounded in the analysis done for traditional underwriting. U.S. methodologies on information gathering (indeed, the need to do so) and analysis used in LMI underwriting could help fine-tune the LMI flexible approaches used elsewhere.

Guarantee funds as credit enhancements. Variants of this approach are already in play in several other countries, including India and South Africa, as well as in the U.S. It offers excellent promise as a means of using foundation and donor funds (and also government funds) to leverage existing funds in a variety of settings, including guarantees on a line of credit for the primary market or transferring loans to a secondary institution. In low-income countries, such credit enhancements can facilitate effective partnerships for LMI or microlending. In addition, as the high-income emerging nations continue to develop their secondary market transactions, this type of credit enhancement could be of utility in increasing funding for LMI lending.

Layered finance. The Little Haiti program offers layered finance through second, and even third mortgages. Borrowers receive a first mortgage from a traditional lender, usually with an LTV of 50%. Almost all Little Haiti clients receive second mortgages from Dade County or from the federal government. In some cases, the "silent second" is forgiven if the borrower remains in the home for five years. Some borrowers require a third mortgage; these loans are small and forgiven if the buyer remains in his home for 10 years. This structure might provide some emerging nations with another approach to public/private partnerships in LMI lending, although it is potentially fraught with moral hazard problems.

Counseling tailored to the degree of credit risk. Numerous examples of home buyer counseling as an integral part of LMI lending exist in both the U.S. and emerging markets. An innovative idea is provided by the Chattanooga Neighborhood Enterprises' (CNE) Home Purchase Program, however, where the amount and type of counseling is tailored to the degree of perceived credit risk for a would-be borrower. CNE provides short-term counseling sessions, a FasTrak Program, and a referral to the Urban League for those whose credit problems suggest more intensive counseling.

Bank staff training for LMI markets. Bank of America, as one example, provides training for staff involved in LMI lending. Interestingly, one of the findings of research into the impact of CRA regards staff implementation: when a dedicated unit of a bank takes charge of LMI lending, the staff are generally trained and motivated. In contrast, when LMI is a general responsibility of all loan officers, the focus may be diffuse and the results less successful.

Staff training is already an element of LMI lending in some emerging markets. CashBank, for example, noted that replicating the on-the-job skills of its initially small staff to meet the needs of its transition to lending on a larger scale was one of its key difficulties. Training to provide the perspicacity and judgment needed for flexible underwriting—as CashBank notes, the ability to determine who will pay and who won't—may have more elements of an art than a science. U.S. training programs could be re-structured and adapted for new circumstances in emerging markets

CRA-type legislation? Finally, the utility of CRA-type legislation defining lending benchmarks is not clear. Although not easily quantifiable, CRA has clearly had an impact on the role of traditional banks in the LMI market in the U.S. It is doubtful whether this would be the case elsewhere. For lenders just beginning their efforts in housing finance in low-income environments, it is probably the case that their methodologies should be developed first and not involve excessive constraints. On the other hand, traditional banks in some emerging markets—especially when not faced with much competition—seem content to limit their lending to the rich, and hold the rest of their funds in government paper. *Thus, in many developing nations, competition in the primary market, as well as greater efficiency on the part of lenders, is the crucial—and prior—step for helping push traditional banks downmarket.*

Transference from Emerging Markets to the U.S.

As noted, similar LMI methodologies are already used in both the U.S. and abroad, although the context and details differ. With regard to transference from emerging markets to the U.S., there are several types of general possibilities:

- Introducing LMI techniques that are more widely used abroad than in the U.S.
- Expanding the modes in which LMI housing is financed.
- Adapting an innovative technique to a new use, relevant to the U.S. market.

The following types of innovations may be relevant to LMI lending in the U.S.:

- The use of savings schemes in underwriting, including the use of traditional rotating savings groups in those cultures in which these groups are still prominent.
- Greater use of the "tripartite" approach: direct subsidies combined with savings and credit.
- Greater use of "lease-to-buy."
- A more finely-tuned approach to pricing for risk and transaction costs.

Savings. Various types of savings schemes, serving as both underwriting techniques and collateral, are successfully used in emerging markets. These could be adapted in the U.S. to assist those with no credit records, poor credit histories, or with high payment-to-income levels. However, to the extent that high LTV loans are utilized in LMI lending in the U.S. because households lack downpayments, there may be less relevance to the savings approach. On the other hand, showing a successful savings record over a year or more might serve as an underwriting criterion, depending on a household's circumstances. It is worth an assessment, in any event.

The Tripartite Approach. Similarly, a tripartite LMI financing approach might be of use in the U.S. This would involve a state or national level direct grant subsidy program, combined with mandatory savings, and a private sector loan. Examples already exist of the grant and loan combination, especially in state housing programs. Adding a savings component provides an underwriting tool and anchors the household's stake in the transactions.

Lease-to-Buy. In cases where lenders are concerned about the ability of the household to make payments on the mortgage, a lease-to-buy approach, such as that used in Chile, might be useful. Also, it could be adapted to apply to just an early period of the loan.

Pricing Based on the Costs of Transactions and Risk. CashBank's detailed pricing methodology (see the article on page 7) reflects extensive analysis of its own lending experience. There would appear to be some risk that the pricing approach is too finely delineated to be sustainable in the long run. Nevertheless, since higher transaction costs, as well as relative credit risk, are an important aspect of LMI lending, more attention to the individual causal factors could assist pricing decisions and/or the dimensions of support sought from NGOs or other sources. It should be noted, however, that in the sub-prime market in the U.S.—an important example of risk-based pricing—questions of morality and fairness have arisen, especially with regard to vulnerable populations, which have led to calls for regulation of this approach.

Transference Across Emerging Markets

Finally, it is our opinion that transference across different emerging markets may be the most fruitful of all. It is most useful to consider transference for countries with financial systems at similar levels of development; thus, in the discussion below, higher-income emerging and transition nations are considered separately from lower-income emerging nations.

Transferability across emerging markets for higher-income countries: In higher-income countries like Chile and South Africa, for example, LMI goals are more like those in the U.S.: to push the envelope of an already functioning housing finance system at the margin in order to increase competition, to go further down in the income distribution, to better understand situations of variable income, to provide greater flexibility regarding collateral or affordability, and so forth. Some specific examples, which generally apply in many, or most higher-income emerging markets include:

Promotion of CDFIs and partnerships between NGOs and CDFIs: Replicate effective partnership examples to enhance the utility of partnerships between financial institutions as lenders and NGOs and CBOs to address transaction issues. NGOs have several options: they can reformulate themselves as CDFIs, establish sister-institution CDFIs, or seek partnerships with existing formal sector institutions. However, having a financial institution in the partnership is, we believe, necessary to achieve sustainability and scale. These institutions must act as the financial arm, taking deposits and offering credit. In addition, CDFIs can help upgrade NGO evaluations of creditworthiness, help structure lending arrangements, and help undertake the loan recovery process. The exact "legal" structure of the CDFI in a given country is a difficult issue, however, with trade-offs between conformance with banking acts, etc., versus flexibility and less onerous capital requirements.

Flexible underwriting and alternative mortgage products, including non-mortgage based loans: Alternative underwriting processes, including rent receipts, savings records, payroll deductions or, in some cases, group guarantees and community interviews; nonmortgage-based lending for housing (nonmortgage collateral, loans with characteristics more similar to consumer finance and microlending), use of nonmortgage collateral, such as savings deposits or pension funds, employer guarantees. For example, use of pension funds as just a part of the required collateral provides some compromise between borrower and lender in cases where title and/or foreclosure are problems. Also, the potential for deferring all or part of the inflation premium in mortgage rates through the use of indexed mortgage products.

Pricing: The use of risk-based pricing enhances the "commercialization" of LMI lending, which ensures its sustainability. The pricing schedule should consider both transaction costs and risk elements.

Transferability in lower-income emerging markets: In many poorer emerging countries, even middle-class lending is still quite problematic, and LMI and microlending face numerous barriers. Thus, dealing with poor households may require more than the actions above, and more than subsidizing them to the chosen standard (if the country is able to do even that much). Thus, in our suggestions for low-income markets there is a relative emphasis on issues that concern microlending for housing. Thus, transference from innovative lower-income emerging markets to other low-income countries, may include:

Holistic approach to housing development: The use of models with an integrated focus on housing in the context of a "holistic" or multifaceted approach to community development, including housing finance, income-generating activities and urban development.

CDFI development: Development of CDFI-type institutions that are more adept with the "financial" aspects of the transactions, able to take deposits, able to provide a conduit for intermediation of the communities' own savings, and more likely to be able to garner lines of credit and, thus, lend at scale. As a related issue, development by already active and successful NGOs of "sister," commercially-based lending institutions. As noted, the financial "sisters" are better able to introduce sustainability and scale into funding, while the NGO can retain its mission. Together, these two institutions can sustain urban development efforts by making the all-important transition from a "project" focus into an ongoing credit model.

Flexible underwriting and pricing: Adoption of underwriting and servicing procedures which have known implications regarding transaction cost and risk, and are consistent with the pricing philosophy.

THE FUTURE OF LMI AND MICROLENDING FOR HOUSING: HOW CAN SCALE BE ENHANCED WHILE STILL MAINTAINING PURPOSE?

Our assessment of LMI and micropractitioners and the potential for transferability has raised interesting questions about how to support LMI lending in the future, a topic that deserves considerably more discussion. However, important caveats to this study must be clearly set forth:

1. Worldwide, the scale of LMI and microlending for housing—as compared with either the level of effective demand or the level of need—is not known. In other words, we do not know the extent to which inroads have been made in underserved markets, especially abroad. We can only present (seemingly) successful models without good knowledge of the greater context of need nor the extent to which progress has been made in ameliorating housing deprivation.

2. Formal (controlled) analyses of the effectiveness of the "best practices" we have presented have generally not been done. For example, there is not yet an overall quantitative assessment of CRA, although the Federal Reserve has begun the process. Also, information about the GSEs, high LTV and income- and community-targeted programs has not been made public. So we are unable to provide information about origination volumes and loan performance for mortgages issued under each experiment.

3. There is almost no information for emerging markets. In the emerging world, while considerable analysis has been done with regard to microenterprise credit, this has not yet extended to microcredit for housing.[8] However, for those LMI and microlending institutions which have been in existence for some time, and especially those which analyze their past successes and continue to evolve, (CashBank is notable in this regard) we can only assume that the LMI and microlending techniques have been well honed through "trial by fire."

4. Many other innovative examples exist around the world, which have not been addressed in this report. Similarly, we have not offered extensive critiques of some of the LMI lending aspects of the countries that have been featured. Generally, problems occur when government policies in housing finance are too heavy-handed, do not encourage the private sector, or lead to issues of moral hazard.

These caveats notwithstanding, we offer the following issues as areas for research:

- How far "downmarket" can most traditional commercial banks be expected to lend without various incentives—or legal requirements—to do so? Should "inducements" be put in place?

- Is lending by CDFIs, microlenders, NGOs—which, as we have seen, comes in many shapes and sizes—the preferred approach? And partnerships with traditional banks?

- What is the most viable institutional structure—and approach to regulation and supervision—for CDFIs and other microlending institutions that wish to expand their scale, but still maintain community roots and operate with a low capital requirement structure?

- And a related question: To what extent is larger scale compatible with maintaining "community purpose?" With lending to the poorest of the poor?

- Finally, in the case of housing, microlending is often part of a multifaceted approach to land, infrastructure and, in some cases, construction of large multifamily dwellings rather than more expensive (and land using) single-family units. Obviously, this approach is "transactions heavy," and the availability of credit only one part of a complex planning endeavor. The holistic aspects of this approach deserve far more study.

In conclusion, LMI efforts in the U.S., and especially the serious entry of some commercial banks to assist underserved markets, may provide some assurance as far as this country is concerned. The emerging markets face far more serious problems, not the least of which is the mismatch between the housing problem and the scale of funding. As indicated by Sheela Patel of SPARC, the ultimate need for most emerging nations is to shed the "project-by-project" focus and address sustainable funding:

"Conventional approaches to housing development may provide the individual loans for fifty or one hundred or even one thousand houses to be built. What will not necessarily be there is any significant capacity, institutionalized within the communities themselves, that allows for replications without repeating the same exercise in the same form again and again. So scaling up is limited."

CDFIs, NGOs, and microlenders can reap most benefit from methodologies—whether from the U.S. or other emerging nations—that help with commercialization and entry into the market in a manner that allows them to compete for funds, assure sustainability, and maximize the leverage obtained from donor, government and charitable funds.

NOTES

[1] Much of the material for these articles is drawn from a study prepared for the U.S. Department of Housing and Urban Development (HUD). See Sally Merrill, Ken Temkin, Claudio Pardo, Douglas Diamond, Ritu Nayyar-Stone, and Michael Lea *Housing Finance for Low- and Moderate-Income Households: Innovations in the United States and around the World.* Other countries providing examples of innovative approaches in particular aspects of LMI lending include Bolivia, Malaysia, Thailand, Bangladesh, Ghana, Mexico, Poland, and Hungary. This group of countries is by no means inclusive of best practices, and many other examples exist around the world. However, the report attempted to draw from across the Americas, Asia, and Africa to provide a range of problems facing LMI lending, and a range in the sophistication with which the financial sector and housing finance system are able to deal with them.

[2] See "Housing Microfinance Initiatives," Harvard Graduate School of Design, where an explicit differentiation is made in the origins of microlending for housing between shelter advocacy groups and microenterprise lenders.

[3] See Board of Governors of the Federal Reserve System, 2000.

[4] See Mayada Baydas, et. al., *Commercial Banks in Microfinance,* 1997.

[5] See Sally Merrill, et. al., 2000, for examples of microfinance for housing in Bangladesh and elsewhere.

[6] See Seragledin et. al, May 2000. These data are for 1999.

[7] See the U.S. case study for more detail.

[8] One exception is a formal assessment of SEWA Bank in India, using a control group and questionnaire technique. See Martha Chen and Donald Snodgrass, "An Assessment of the Impact of SEWA Bank in India: Baseline Findings," Microenterprise Impact Project, USAID, 1999.