Low- and Moderate-Income Housing Finance in South Africa: Making Progress in a Troubled Environment

by Dr. Sally Roe Merrill

HISTORY AND OVERVIEW

South Africa's quest to develop housing lending for low- and moderate-income (LMI) households is probably unique in the world. Housing, along with education, was one of the new government's main promises to the black majority. In a relatively short time period, South Africa has developed a system of housing finance engaging both private and public institutions: essentially a partnership forged in the fires of dissolving apartheid, based on understandings which emerged from sometimes contentious debate over how various elements of risk should be handled.

The country has at once an extremely sophisticated financial system and a previously disenfranchised majority, which must now be brought as quickly as possible into improved housing situations. The obvious credit risks stemming from high levels of unemployment, poverty, and volatile interest rates, are exacerbated by a politicized environment, including mortgage loan boycotts and breakdown of the foreclosure process. The key features which make South Africa's system an important model, despite the unusual circumstances, include the following:

- A public/private partnership, resulting from intense negotiations which have been carried on since 1992, when the National Housing Forum—a broadly representative body—was established to develop a new national housing policy. A Record of Understanding was signed in 1994 and updated in 1998.
- An institutional structure for LMI and microlending for housing which includes traditional commercial banks as well as community development finance institutions (CDFIs) and microlenders who are dedicated to the low-income market.
- Partnerships among banks, CDFIs and nongovernmental organizations (NGOs), also seem to be increasing at present.
- Creative solutions for underwriting, including the use of provident or pension funds as collateral and payroll deducted loans.
- Creative solutions to credit enhancement for LMI lending, which are important both to the public/private partnerships and represent interesting examples of *risk sharing*.

Unlike many emerging countries, South Africa has the ability to quickly create sophisticated institutions, new mortgage products, and risk sharing and credit enhancement mechanisms in an attempt to solve its problems. South Africa's housing solutions are strongly politically driven. Bond boycotts had led to an almost blanket exit of the financial institutions from any attempt to serve the LMI market in the early 1990s.[1] Beginning in 1992, public/private partnership policies were negotiated and goal statements and a policy framework were developed by the National Housing Forum, which was established to negotiate an alternative to the then Nationalist government's racially-based housing policy. Made up of representatives of "mass-based" political groupings, labor, the business community, the building industry, the financial institutions and community-

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based organizations, this body rigorously applied itself to formulating a consensus around a new non-racial policy at a time when the policies being made by the ruling government were being widely rejected. A genuine attempt to put into play all the modern socio-political tools was made: people-centered development based on stakeholder participation and public/private partnerships.

The negotiations were characterized by fierce debates as to whether housing should be delivered by the market or the state and whether the housing provided should be a completed four-room house or a "progressive" home, so-called incremental housing. The National Housing Forum had rejected the traditional sites and services solution—dubbed "toilets in the Veld"—and fought for housing as a right. The practical definition of this "right" became a core structure on a serviced site, which may then be gradually improved by the household—so-called progressive housing. An income-targeted, direct grant subsidy policy was the basis for achieving this solution.

A Record of Understanding (ROU) was developed between the banking sector and government. The result of these debates, as reflected in the policy implemented since 1994, is a housing delivery approach whereby government "facilitates a framework in which the private sector carries out delivery." In sum, what emerged was a reasonably well-articulated system where the private sector was to deliver housing finance loans to low- and moderate-income households and the government assumed a particular share of the credit risk burden. However, going against experience already gained by some of South Africa's "alternative" lenders in the LMI markets, it was initially assumed that the commercial banks should offer traditional mortgage loans to this market. For a variety of reasons, detailed below, this policy did not meet expectations. Defaults again rose, as a result of both a serious rise in unemployment and a continued breakdown in the social and legal aspects of foreclosure—some households do not pay simply because they do not fear any sanction. Thus, the commercial banks, although they have made important inroads into the township markets, have not been fully able to service many low-income households, and have experienced high default rates on the loans that were made.

The system has continued to develop, however, and new solutions to the public/private partnership are now in place. In March 1998 an agreement was reached between government and the Banking Council to terminate the Record of Understanding and enter into a new agreement. Through this agreement, government and the banks entered into a joint venture for the realization of all loans and properties in possession over an eight-year period.

Different combinations of lenders and non-mortgage products are emerging to attempt to address low-income borrowers. CDFIs have grown and also continue to develop underwriting procedures and loan products suited to the low end of the market. New funding solutions, such as Gateway Home Loans, are attempting to bring wholesale funds into the moderate-income market. Thus, both lenders and LMI products are evolving in ways that should "re-segment" the market more favorably. Meanwhile, some commercial banks are entering into partnerships with CDFIs.

Finally, a large number of smaller lenders serve the microloan market by providing small loans for numerous purposes, including microenterprise, emergency cash, education and housing. These lenders include microlenders (registered and unregistered), other "niche" lenders, credit unions and NGOs, as well as South Africa's traditional savings clubs—the stokvels.

South Africa has made an impressive partnership effort between public bodies and the private sector to develop a system of low- and moderate-income lending for housing, which is why it is an instructive case study for transferability to other markets. Although serious problems certainly remain in this troubled environment, the achievements—both in terms of LMI lending and housing delivery—are impressive. To date, nearly one million core houses (so-called RDP housing) have been delivered, an impressive achievement for any country. South Africa is now "rethinking" a number of aspects of its strategy: the approach to subsidy delivery, the role of savings, policies for social housing and the rental sector, and the operations and funding of its parastatals. South Africa can offer numerous types of lessons learned, many of which are relevant for transferability, especially to more sophisticated markets in Asia and Latin America.

INSTITUTIONAL DELIVERY STRUCTURE

The market, which has greatly improved its ability to address LMI and microlending, is characterized by the following institutions:

1. Four large commercial banking groups:
   - ABSA Group (Allied, Trust Bank, United Bank, Volkskas, NuBank)
   - Standard Bank
   - First National Bank
   - NEDCOR Group (Nedbank, Perm Bank, People's Bank)

2. A number of smaller banks, including Saambou, NBS and Unibank.

3. CDFIs (alternative lenders), the largest being:
   - African Bank, now including the microlenders ALTFIN, King Finance and Unity Financial Services
   - CashBank
   - Rural Finance Facility

4. Microlenders, credit unions, and NGOs which support housing and which provide microlending, sometimes in partnerships with CDFIs, as well as with donors and community savings groups. Urban Sector Network (USN) is a national association of NGOs involved in housing and community development.

Commercial Banks. South Africa has four major banking groups, which together hold about 85% of the mortgage loans. Although all have made some inroad into the LMI market, the members of the NEDCOR group have a particularly strong "community" mission, and hold by far the largest proportion of their mortgage assets in the low-income market—43% of the low-income market share. Perm Bank, a member of the Nedcor Group, was one of the earliest banks to become involved in LMI lending, and is the most exposed in this market. The low-income market shares of the other major banking groups are 25% for the ABSA Group, 6% for Standard Bank, and 5% for First National Bank (Tomlinson, 1999).

Alternative/Non-traditional Lenders. A number of other lenders also operate in the LMI market for housing. CashBank grew from a small microlender finance company to become a commercial bank in 2000. This move establishes CashBank as a mainstream institution, with a share structure more attractive to investors. (See below for further discussion of CashBank.) African Bank, a CDFI focusing on microenterprise and general microlending, has taken over the microlenders ALTFIN, King Finance, and Unity Financial Services, and is now the biggest microlender in South Africa. As African Bank enters the housing market, it will follow a trend worldwide for commercially-focused microlenders to include this product in their portfolios. Rural Housing Finance is another growing CDFI specializing in payroll-deducted housing loans.

South African Banks Join Forces with Microlenders. The future should see enhanced support for LMI and microlending in South Africa, as various partnerships and joint ventures are forming. In March 2000, Standard Bank and African Bank announced a joint venture whereby they have established a mass market transaction and microloan partnership. Standard 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. Saambou recently increased its stake in the Thuthukani formal microlending and credit services business, while ABSA has bought 51% of Unibank, another formal sector microlender. A trend is therefore beginning to be seen in which formal banks are finding ways to deepen their relationship with the mass market, albeit through an experienced microlender. The news is not all good, however. FBC Fidelity Bank, one of the major LMI lenders, and NGO partners, has been placed in receivership. As a result, many low-cost housing projects have been halted and developers are requesting assistance from NHFC and Gateway. FBC insists that its liquidity problems are not related to its involvement in low-cost housing.

Microlenders. The microloan market, which includes microloans for housing, is also supported by a wide variety of NGOs, credit unions, microlenders, and small housing developers. Umbrella groups, such as the Urban Services Network and the Savings and Credit Cooperative League of South Africa, assist in the effort. An alliance of an NGO, a savings collective and a public fund is noted below. Donors and international NGOs also offer support. Finally, there are a growing number of informal microlenders, some of which rely on a variety of methods, often unsavory, to collect their money. Thus, there are efforts underway to bring these lenders under the relevant regulatory authorities.

The uTshani Fund and South Africa's Homeless People's Federation. The South African Homeless Peoples' Federation is a national network of grassroots savings and credit collectives called *nsukuzonke* ("every day" in Zulu). It is supported by a small NGO, People's Dialogue on Land and Shelter. The SAHPF has approximately 110,000 member households in 1,500 savings schemes all across South Africa, primarily in urban and peri-urban areas. It membership is 85% female, with an average household income of under R850.[2]

Since 1994, the Alliance of SAHPF and People's Dialogue has jointly operated a national finance institution called uTshani Fund ("grassroots"). The uTshani Fund is presently capitalized at R75 million (US$9.6 million), mainly obtained through government and donors. Most of the funding has been used as bridge finance for member households waiting for housing subsidies, although increasingly loans are given for poverty eradication. Using uTshani Fund, the SAHPF has financed over 10,000 houses—most in the last four years—at an average cost of about one-half that of private-sector delivery mechanisms.

The main problem facing the SAHPF is the bias of the government subsidy system toward housing delivery via private contractors and the correspondingly low proportion of resources devoted to organized self-build options. This has resulted in a massive backlog of applications and a cash flow crisis for uTshani Fund. There is a growing recognition that the resulting long-term interest costs to SAHPF members are essentially unfair. This has led to a shift in strategy towards a much more aggressive pursuit of policy changes that would reward the self-help ideals of "Masakhane" in practice, by prioritizing subsidy allocations to organizations like the SAHPF.

LOAN PRODUCTS AND THEIR FEATURES

This section describes the housing loan products now being offered in South Africa. As summarized in Table 1, these products range from conventional mortgage loans in the high- and moderate-income markets to small non-mortgage loans designed to address incremental housing. The loan products included (in rough order of loan size and income group):

- Traditional mortgage loans (known as mortgage bonds in South Africa) and so-called "affordable" mortgage loans from banks.
- Nonmortgage "Gateway-eligible" loans from participating banks, secured by provident/pension and Housing Loan Guarantee Corporation (HLGC). (See below.)
- Nonmortgage low-income loans from alternative lenders/CDFIs, secured by provident/pension funds and payroll deducted.
- Nonmortgage low-income loans from alternative lenders/CDFIs, unsecured, but payroll deducted.
- Individual unsecured loans for the informally employed and group-based, unsecured, microloans from microlenders and NGOs.

Table 1 Characteristics of LMI and Micro Housing Loans in South Africa

Monthly Income and Loan Characteristics	*Very low (<R1,500)*	*Low income (R1,501 – R2,500)*	*Low-moderate (R2,501–R3,500)*	*Moderate income (R3,501–R5,000)*	*High income (>R5,000)*
Institution	NGOs, microlenders	CDFIs and microlenders	Commercial Bank and CDFIss	Commercial Banks CDFIs and Gateway	Commercial Banks
Loan Types	Microcredit, group credit	Micro: Non-mortgage and unsecured	Non-mortgage Micro	"Affordable" mortgage: up to 100% LTV and Gateway Micro	Traditional mortgage up to 80% LTV
Collateral	Generally unsecured, may include group guarantee	Provident Fund- payroll deducted + unsecured	Provident Fund/ employer guarantee and/or HLGC	Provident Fund/ employer guarantee and/or HLGC	First lien on house
Term	Very short term	Short term: 2 to 5 years	Short to medium term	Medium term to 20 years	20 to 30 years
Rate	Risk-based pricing: up to 43% (over 20 percentage points above conventional). Higher for group loans.	Risk-based pricing: 4 to 13 percentage points above conventional. Up to 40% for unsecured loans.	Risk-based pricing: 3 to 9 percentage points above conventional.	Fixed and variable: 1 to 3 percentage points above conventional mortgage loans	Variable rate
Loan Size	<R6,000, usually very small	<R6,000 R20,000	R6,000— R50,000	R10,000	>R50,000
Subsidy Eligibility	R16,000	R9,500	R5,000	None	None

The Conventional Mortgage Bond Market. The majority of outstanding and new mortgage loans, made by commercial banks to the conventional (high- and moderately high-income) market, are secured by a first lien on the house; self-amortizing over a 20- to 30-year term. They are variable interest rate; allow pre-payment at any time at a nominal or no cost; and require 20% (or less) downpayment. Different banks offer small variations around this standard design, including relatively limited fixed-rate lending.

A variant of the mortgage bond is termed an "access bond." This bond is written to permit renewed borrowing up to the maximum amount of the initial principal. Historically house prices in South Africa have appreciated at 10% per annum. This is no longer the case, placing increased burden on the value as collateral. Finally, another mortgage bond product is the "affordable housing loan. These bonds have been written in such a way as to bridge gaps between what a household earns and what it needs for a deposit, monthly repayments, transaction costs and so on. In general, these loans are written up to the full cost of the house plus transaction costs, provided there is coverage of 20% of the total loan amount by one, or a combination of the following: pledge of provident or pension fund; guarantee by the employer; or purchase of a guarantee for up to half of the amount from the HLGC. The term of these loans is 20 years; they have a variable interest rate and a payment-to-income ratio not to exceed 35% of income.

Nonmortgage Housing Loans: New LMI Loan Products. For a variety of reasons, the mainstream banks have not proved as effective as they would like at doing business in the lower-income categories of the formal economy. One of the main reasons for their concern is that the financial returns for doing business in this sector do not compensate for the increased risk and costs involved (Tucker, 1999). Interest compensates the lender for the cost of the money, for the risk that the lender takes on, and for the cost of granting and administering the loan. The administrative cost is related to work that will have to be carried out by the lender and is not related to the amount of the loan: administrative cost and effort can be the same for a small as for a large loan, or frequently even greater.

Until recently, for loans in excess of R6,000, banks were constrained by the Usury Act, which places a ceiling on the rate of interest that can be charged. (This ceiling was changed in 1999 to R10,000 for personal loans of less than three years.) In March 1999, the Banking Council gave evidence before the Trade and Industry Portfolio Committee on bank charge increases and the provision of banking services to low-income communities. The outcome of the hearings was that the Committee accepted the logic of the commercial banks' position in determining their charges and the provision of services to the lower end of the market. The banking sector gave an undertaking to support the development of an alternative class of deposit takers and transaction handlers to provide services in those markets, which the formal banks are unwilling or unable to service. This included support for an appropriate deposit insurance scheme.

Hence, when the time came to renew the ROU in March 1998, government finally seemed to accept the point that forcing unwilling players—traditional banks with traditional loan products—had not solved the LMI access problem. This situation has resulted in a major expansion in the role of alternative lenders, a focus on nonmortgage housing loan products and, most recently, partnering by the traditional banks with the alternative lenders (CDFIs). The initial focus on mortgage bonds as the appropriate lending instrument was already going against the experience and lessons of trying to lend to this low-income market gathered over the previous years. In summary, traditional banking practices, while successful in the conventional housing market by and large, have been less successful in the low-income housing market (this market is defined as monthly income less than R3,500, about US$500, monthly income). The reasons include:

- Mortgage loans offered to the lower-income population were difficult to underwrite to bridge the affordability gap that exists between what the household earns and what it needs to have available for the traditional housing products generally on offer.

- The term of a mortgage bond is too long (20 years) for a low-income household to sustain, given the instability of South Africa's economic climate, which manifests itself in severe periodic downturns and consequent unemployment.

- Also, a variable rate mortgage bond is risky for the low-income household given the extreme volatility of interest rates, which can lead to sharp spikes in payment.

- The complicated nature of the lending product, given the limited education and experience among new borrowers, often results in misunderstanding on the part of the borrowers and consequent default.

A very small conventional house on a serviced site costs approximately R45,000 to build. A household therefore needs a monthly income of not less than R2,800 per month to cover the monthly mortgage bond installments (20-year term, 19% interest rate). However, according to official statistics, fewer than 6% of South African households fall into the low-income category of R2,500 to R3,500 per month and can therefore afford to purchase such a house using a mortgage bond and the government subsidy. Nearly, 80% of households earn less than R2,500 per month, which is too low to afford the traditional housing products.

Based on these realities, South Africa is now undergoing a major change in the landscape of lenders, loan products, and parastatal institutions that serve the LMI market. LMI finance has become big business for lower-income borrowers who are formally employed, particularly if they have a provident or pension fund that can serve as collateral. Given that competition is considered to be a major impetus to banks for going "downmarket," this is a major event and has had an impact on increasing the access of moderate- and low-income households to credit.

LMI Housing Loans. As seen in Table 1, there are now a variety of loan sizes and types. The experience of the alternative lenders, in particular, revealed that these borrowers prefer to borrow smaller amounts, for shorter periods of time and with a fixed interest rate. Hence, the banks offered a completely different type of lending product, called a "microloan."[3] These loans are small by conventional mortgage standards (generally R6,000 to R20,000), have shorter terms than standard mortgages and may or may not carry a fixed rate of interest. They are not secured by the property, but by a pledge of the borrower's pension or provident fund benefit. The loans are generally used for building core houses, or for housing improvements. In particular, government subsidy beneficiaries (see below) can combine them with their subsidy to increase the standard of the housing they access. From the borrower's perspective, the key advantage of the microloan is that it is far less complex to manage, and the costs are far more transparent than a mortgage loan, with the total cost reflected up front in the loan amount.

LMI Loans from Gateway Home Loans. While more and more LMI borrowers have been turning to microloans to finance their housing need, they are still faced with the fact that these loans are generally too small to purchase a house. The National Housing Finance Corporation (NHFC) launched a subsidiary, Gateway Home Loans, in April 1999, to assist moderate- and low-moderate income households obtain larger loans. Gateway also represents an example of creative underwriting—use of both provident funds and HLGC credit enhancement to secure the mortgage—and an attempt to access wholesale funds on the secondary market. Gateway has been set up to pilot a new model of lending for the formally employed who cannot afford a mortgage loan and need a larger microloan than has been generally available. The loans can be, in fact, almost double the size of the traditional microloan, up to a maximum of R50,000. The product, similar to the current microloans, will rely on financial security in the form of retirement fund guarantees for half the value of the loan. It will use default insurance from the HLGC for the remaining 50%. Employers will pay installments using payroll deduction.

The primary products of Gateway are an eight-year fixed-rate loan and a variable-rate loan, the term of which would be set for eight years at the time of grant but may be extended to 10 years should interest rates rise above the rate at which the loan was granted. The repayments would remain unchanged which would effectively mean that should the interest rate drop below the rate at which the loan was granted, the borrower would have the advantage of repaying the loan in a shorter period. The loans are for between R10,000 and R50,000; are secured by a retirement fund guarantee that covers at least 30% of loan exposure, or are secured by any mixture of: an accredited retirement fund, approved bank account, approved life insurance policy, employer guarantee, or insurer or bank guarantee. The balance of the exposure up to a maximum of R25,000 is covered by insurance underwritten by HLGC at 9%. Monthly loan repayments may not exceed 25% of gross monthly salary where the gross monthly salary is between R1,000 and R3,500; 27.5% of gross monthly salary where the gross monthly salary is more than R3,500. Repayment is by payroll deduction. Finally, the housing quality must be guaranteed by the National Home Builders Registration Council (NHBRC), (see below). In addition, the borrower eligibility criteria include: income between R1,000 and R6,000 per month; employed for at least two years by a single accredited employer or a minimum of three years by two accredited employers, and a member of a Gateway-accredited retirement fund.

Microcredit Lending. A significant number of households, over 40%, can afford only a much smaller loan, defined as loans in amount between R500 and R6,000. Interest rates are generally high on these loans. Terms range from one month to two to three years. These small loans are used for a variety of purposes, including bridging the gap between the government's housing subsidy and the final cost of a house. In order to qualify for some of the microcredit loans, the borrower must be formally employed so that the repayments can be collected through a payroll deduction facility, and must secure the loan with his/her pension or provident fund. Finally, a few microcredit loans are unsecured and offered to the informally employed. However, although there are no data to substantiate this, there is undoubtedly a huge gap between the demand for such loans and their availability.

Subsidies and Housing Delivery. Key to the delivery of housing to poor households has been the Housing Subsidy Scheme launched in March 1994. The subsidies are paid to acquire affordable "housing options" with secure tenure and defined health and safety standards. All households earning less than R3,500 per month are eligible, but the subsidy levels are linked to actual income so that the poorest households receive the greatest subsidy benefit. (Subsidies range from R5,000 to R16,000; see Table 1.) Although detailed data on total housing delivery has yet to be made available, as noted, nearly 1 million dwelling units have been delivered since the subsidy scheme began. This impressive accomplishment has not ever before been undertaken in a poor economy at such a rapid rate.

A range of housing delivery options was accommodated in this effort. The major approach was direct delivery by a developer; other more limited schemes channeled funds through various NGOs into self-help programs, such as those undertaken by the People's Housing Dialogue (see above under uTshani Fund). As further discussed below, South Africa's policy makers have now begun a process of evaluating the overall low-income housing sector, including the approach to the subsidy program, the role of the rental sector, and the options for savings initiatives and greater opportunities for self initiative, sweat equity, and credit in the low-income housing delivery process. While this rethinking will hopefully make the process more effective (and ultimately satisfying to the beneficiary), the housing delivery accomplishment, nevertheless, deserves praise.

SUPPORTING INSTITUTIONS

As noted, South Africa has developed an array of government-sponsored institutions intended to work together with the private sector in providing incentives to develop and finance low-income housing. These institutions undertake risk sharing, credit enhancement and financing activities designed to overcome problems of affordability, excessive risk and insufficient funding. Before describing each institution, however, we note the important role of the Banking Council.

The Banking Council, SA (formerly the Council of South African Banks). The Banking Council – the primary focal point of understandings reached between the banks and the government - has been instrumental in forging LMI housing finance policy. As noted, a Record of Understanding was reached by the Council and the government in 1994, and updated in 1998. The Council continues to research and analyze activities in LMI lending, to develop position papers on key topics, and to engage in debate with government over the appropriate roles for the banks in LMI lending. In addition, the banks have recognized their own limitations in dealing with the LMI market, and this is at least one impetus for bank/CDFI/microlender partnerships.

Mortgage Indemnity Fund. In June 1995, the Mortgage Indemnity Fund (MIF) was launched, as a wholly government-owned company. It was viewed as an "interim" measure. The expectation was that it would only be necessary for three years until the repayment situation in the country was normalized. The MIF would be used to determine whether a previously redlined area was now safe. If the MIF determined that the area was sufficiently rehabilitated to resume lending there, then the MIF would extend its cover against any "political" risk the lender might experience. Under the MIF cover, the financial institutions were expected to provide 50,000 mortgage loans to low-income borrowers in the first year of the agreement.

By the time of the scheduled shut down of the MIF in 1998, more than 90,000 mortgage loans valued at R7 billion had been covered. While on the one hand this reflects significant lending in the township market, the expectation was that a much larger amount of lending would occur. Moreover, in examining the lending figures, only 30% of it can be considered subsidy-linked lending. The rest is for households that would not be considered low income (the income is above R3,500 per month). Hence, any disappointment in the lending figures reflects the fact that mortgage lending has not penetrated the subsidy-linked market as much as hoped for. On the other hand, there is no doubt that this lending simply would not have occurred without the MIF.

The National Housing Finance Corporation (NHFC). The difficulties of providing finance to the LMI and micro market necessitated the creation of a government-backed institution that could make funds available to lenders and guarantee a lender's risk. The NHFC was established by government in May 1996 as a development finance institution aimed at seeking ways to mobilize housing finance to create housing opportunities for LMI households. The NHFC functions essentially as a wholesale financier. It provides funds and other assistance to bank and non-bank lenders servicing the low-income housing market (although it does not guarantee lender risk). The NHFC has received commitments by the South African government of approximately R1.2 billion. In addition, R100 million was raised from 24 institutional investors through a convertible debenture issue and a funding line of approximately R150 million for rural housing finance initiatives secured by the German government. The corporation operates on market principles, pricing its money at market rates.

The NHFC has a variety of focused programs. It supports microlenders through its Niche Market Lender Fund. Rural finance lenders are supported through the Rural Housing Loan Fund. Rental housing institutions receive support through the Housing Institutions Development Fund. The Housing Equity Fund provides higher risk equity and/or debt funding to new and emerging lenders. Niche Market Lenders is NHFC's on-balance-sheet debt funding program. The NHFC also established Gateway Home Loans in 1999 to access funding for LMI lending via secondary market mechanisms. From its inception until the end of its financial year in March 2000, NHFC had approved R966 million in credit to 36 institutional clients, of which R741 million had been disbursed; this represents a 54% increase over fiscal year 1999. This has resulted in 144,936 (end user) housing loans, averaging R,5000. During fiscal 2000, over 80% of disbursements flowed to Niche Market Lenders, while the Housing Institutions Development Fund and the Rural Housing Loan Fund received 7% and 8%, respectively.

In the face of the very large need to enhance lending to the lower end of the LMI market and the housing microfinance market, NHFC's ability to assist is ultimately constrained by its current resources. First, its overall capital base is limited, especially as compared with potential need. Second, it is difficult for NHFC not to run into increasingly risky situations, as many of the niche lenders are new and inexperienced. As part of the rethinking strategy now underway, it may be purposeful to help NHFC capture increased private sector funding.

Niche Market Lenders. As noted, Niche Market Lenders provide balance sheet debt to retail lending institutions that target the affordable housing market, and NHFC has channeled the majority of its funds to this program. The primary recipients of the program include small mutual banks, nonbank housing lenders, and provincial development corporations. Finance is offered as structured loans disbursed in line with end user loan disbursement, and credit enhancement to improve the risk profile of intermediaries who will then be better able to attract other sources of finance. Clients include institutions such as Home Build Finance, Southfin and Unibank.

Home Loan Guarantee Company (HLGC). As part of the revised ROU, the banks have undertaken to work with NHFC and the Department of Housing to explore ways in which risk can be shared, leading to increased lending. A key part of this risk-sharing effort is the Home Loan Guarantee Company (HLGC), which was incorporated in March 1990. The main purpose of HLGC is the facilitation of access to finance for low-income housing by providing guarantees of last resort for mortgage-backed and non-mortgage-backed finance, and providing, mobilizing and managing mortgage insurance. The company, registered as a short-term insurer, has a capital base of R172 million, which is geared through a re-insurance arrangement with Centre Solutions, London. The total amount of loans guaranteed is now over R1.8 billion. Its funding sources include a guarantee fee, which is invested to provide reserves against future loss. The second source of funds is a pool of sponsor funds, which consists of grants and interest-free loans.

HLGC prices its insurance in a market-based, actuarially sound manner—no subsidy is involved. For traditional mortgage loans it provides coverage up to 20% of the purchase price of the mortgage properties. For pension-secured loans it provides coverage not exceeding twice the cessionable portion of the pension fund. HLGC estimates the potential loss experience from providing the loan guarantees to the lender and charges a fee to the borrower to maintain sufficient reserve to fully cover expected losses. As an important adjunct to its business, HLGC specializes in borrower, tenant and homeowner education, and has a special division set up to undertake this counseling.

SERVCON Housing Solutions. In addition to the MIF, a range of related institutions were established during this period. SERVCON Housing Solutions was launched in June 1995 as a joint venture between government and the Banking Council to address the problem of properties on which bond repayments had ceased. SERVCON was set up to deal with the properties that had been repossessed by the banks after a sale in execution, but which the banks were unable to repossess due to the breakdown of the due process of law. In situations where bondholders have defaulted on their loans but have remained in the property, they frequently also default on their local authority service payments or fail to carry out necessary maintenance on the property. Banks, therefore, have been forced to carry the costs of the former—in some cases for more than eight years—which amounts to hundreds of millions of rand per year. SERVCON staff visit the households to offer various options, such as restructuring their loan or moving to homes more in line with what they can afford: so-called "right-sizing."

Whether due to economic problems, dissatisfaction with the home, or for political reasons, by March 2000, South Africa's financial institutions had some 49,296 properties in possession and non-performing loans on their books. Moreover, the total mortgage book of the banks in the affected areas (amounting to more than R12 billion) is increasingly at risk of being contaminated, that is, there is a danger of systemic risk. Given the optimism that followed the signing of the ROU of October 1994, after which the Department of Housing undertook to create a "stable public environment" conducive to LMI lending, the fact that this problem has not been resolved, but is growing, is a cause of grave concern. By the end of March 2000, SERVCON had completed two years of its mandate in terms of the Rehabilitation Program. Through this period it has put enormous effort into realizing its mandate. Under the Rehabilitation Program, SERVCON offers mortgage defaulters the following options:

- Subsidized rental
- Buy-back or loan rescheduling
- Special assistance to the aged and disabled

Of the 33,000 properties that SERVCON has been handling, 19,240 (64%) have signed agreements to enter into one of the above options. However, only 33% of these clients are paying regularly. In other words, agreements are broken as quickly as they are made, either because the borrowers cannot afford to pay, or simply will not pay. The Banking Council, after re-assessing the situation with SERVCON, is of the view that it is time for a fundamental reappraisal of the agreement; and proposals have been put to government.

Home Builders Registration Council (NHBRC). In addition to the need to deal with the default situation, banks felt it necessary to address the problems of shoddy workmanship that had been part and parcel of the low-income housing market. In the minds of many low-income mortgage bondholders, it was the banks, rather than the developers who were responsible for repairing the poorly constructed houses they had purchased. Until such time as repairs were carried out, householders would simply stop paying their mortgage bond installments.

NHBRC, therefore, was launched in June 1995 to register the builders operating in the low-income housing market. Builders are to register with the Council and then build houses in line with standards it sets down. In the case of shoddy workmanship, and where builders do not honor their warranty, homeowners are able to approach the NHBRC for assistance. Builders pay a warranty levy of 1.3% of the total contract price to the NHBRC for this purpose. Due to the difficulty with cash flow experienced by emerging builders, the banks have agreed to pay this levy up front on their behalf to the NHBRC. The levy is then deducted from the first tranche of payments made to the builder. A Housing Consumer Protection Measures Act was passed in 1998. Prior to the passage of this legislation, only credit-linked (conventional mortgage bond) houses were protected with a warranty. Shortly, the warranty system will be extended to include the subsidy-only market as well.

National Urban Reconstruction and Housing Agency (NURCHA). The National Urban Reconstruction and Housing Agency is a not-for-profit (section 21) company, established in May 1995 as a Presidential Lead Project to facilitate access to finance for subsidy-linked housing projects. It shares financial risk—as opposed to guaranteeing political risk like the MIF—with financial institutions and housing developers in order to encourage low-income housing development. NURCHA's task, therefore, is to identify and eradicate obstacles to the viable delivery of low-income housing, for example, through the provision of capacity-building grants, bridging finance and loan guarantees. By November 2000, NURCHA had provided R168 million in bridging finance guarantees, which have facilitated 61,000 houses valued over R1 billion.

More recently, NURCHA has moved into providing equity-type funding for developments and guarantees on end user finance. NURCHA has also been piloting a savings-linked program through which it intends linking up with a retail bank. NURCHA's operational needs were secured by an initial grant of R20 million by the South African government and R18 million from the Open Society Institute (OSI) of New York, bringing its grant funding to R38 million to be used solely for operational expenses. Also based on an OSI guarantee, NURCHA has raised guarantees of R180 million from the private sector, the South African government and international donors.

Gateway Home Loans. Numerous developing countries have initiated efforts to develop secondary mortgage markets; South Africa is among them. Uniquely, however, the explicit goal in South Africa is to broaden access to LMI housing finance to address the "credit gap" between the smaller pension-fund secured loans and conventional mortgage loans (Porteous, 2000). Thus, as noted, NHFC launched Gateway Home Loans, in April 1999, to pilot a new model of lending for the formally employed who cannot afford a traditional mortgage loan but need a larger microloan than is currently available. The loans can be almost double the size of a microloan, up to a maximum of R50,000. The product—the so-called Makhulong loan—relies on financial security in the form of retirement fund guarantees for half the value of the loan and default insurance from the HLGC for the remaining 50%. Installments will be paid by employers using a payroll deduction facility. Gateway purchases these loans from accredited lenders, both commercial banks and CDFIs. The purchases will be without recourse, allowing lenders to achieve off-balance-sheet treatment. Gateway will pool the loans into a portfolio that it then securitizes through a debt issue sold to institutional investors in South Africa.

The Gateway loan is intended to open the way to ownership of modest homes. At an illustrative rate of 21%, or example, an eligible borrower would be able to purchase a R30,000 house with a repayment of R650 monthly for eight years. If the buyer qualifies for a government subsidy of R9,500, the installment drops to about R450. Gateway is actively identifying housing projects that offer homes in the range of R20,000 to R50,000. A standardized loan format has been developed, which is an important aspect of the packaging for the securitization. In addition, a counseling system has been prepared to help employers, primary lenders or developers screen applicants for eligibility. Credit enhancement includes not only the HLGC, but also the guarantee by the NHBRC.

At the moment, however, the Gateway process has been much slower than expected, and Gateway has been offered few Makhulong loans for purchase. A critical review is now underway, which may offer a number of lessons for rethinking Gateway's operations, as well as being of assistance to similar secondary market efforts elsewhere. For one thing, the credit strength of the Gateway loans carries the operational weakness of greatly adding to the complexity in primary market relationships, since the employer, the retirement fund trustees, the fund administrator and the unions must all agree up front. To date, three large banks, a smaller bank and four nonbank lenders have been accredited, which has absorbed a great deal of time. Second, in trying to better tap pockets of demand for LMI loan, Gateway is developing new loan products, more actively disseminating information to the market and developing an origination process in which smaller lenders will deal directly with potential borrowers. Gateway is also widening its focus to small mortgage loans, since the originators of these loans are generally strapped for liquidity, and thus wish to see the development of a secondary market.

In summary, Gateway finds itself at a crossroads: Is the choice to abandon the secondary market in favor of greater primary market facilitation, or abandon the LMI focus in favor of building a secondary market in the upper income class where the primary market in South Africa is more active? Given the difficulties worldwide in providing liquidity to CDFIs focusing on affordable loan products, it is hoped that some variant of the initial LMI strategy will prove viable. *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-based LMI funding model* (Porteous, 2000).

CASHBANK: CASE STUDY OF AN INNOVATIVE LMI LENDER

CashBank has evolved from a small regional finance company offering micro/group loans to a commercial bank able to provide much larger scale intermediation for low-income groups. CashBank has became a commercial bank, representing another step in a well-researched journey to serve the LMI market in a responsible manner at increased scale. We include a brief case study here because CashBank is representative of the many innovative institutional developments in South Africa, both private and public.

CashBank is dedicated to lending for housing to moderate- and low-income households, and positions itself in a niche just below the market that the traditional commercial banks see as their primary target but above that of the microcredit lenders. CashBank's origins and evolution are unique. As a brainchild of one of South Africa's major NGOs, it evolved through market testing of its products and establishment of effective market niches. This journey provides lessons learned about both LMI lending and the "process" of institutional growth which can be transferred widely throughout developing markets. In summary, CashBank left the microcredit/group loan market to focus on the LMI "credit gap." It has effectively formalized its structure, thus securing the capital—both local and international—to lend at greatly expanded scale. Satisfaction with CashBank's performance is proved by IFC's continued investments in the bank, which began in 1997 and continued with a $10 million loan in October 1998.

Many CDFIs in emerging markets have origins as an NGO, or as the financial arm of an NGO. CashBank's roots relied on the centuries-old tradition of the stokvels, South Africa's version of community savings societies. Its odyssey to become a major lender in the LMI housing market led CashBank to the forefront of the development of pension-backed housing loans in South Africa. CashBank was initially established in 1989 as a finance company—The Group Credit Company—the brainchild of a think tank, the Urban Foundation, then the largest NGO in South Africa. CashBank's development and ultimate transformation to a mutual bank in 1995 was based on five previous "phases," each of which was studied and analyzed before the next step was taken. The evolution involved a research and feasibility study (largely concerned with how to assist group lending via the stokvels), through three pilot and expansion phases as Group Credit Corporation, to its re-direction and transformation to a bank. The transformation was made largely in order to offer products better able to assist with housing production and be able to raise adequate funds through both deposit taking and raising cash on the capital market (Glover, 1995).

Thus, CashBank's evolution offers various types of lessons learned, including the pros and cons of group versus individual loan products; how to establish risk-based rate structures; analyzing the components of risk-based pricing; analyzing default rates by product size and duration; and training staff to effectively underwrite and service in the low-income market.

THE SALIENT FEATURES OF CASHBANK'S DEVELOPMENT

1986–1987	Research by the Urban Foundation identified housing loan products to be tested: micro and mirco/groups loans.
1989	The Group Credit Company established a finance company.
1991	Capitalized by the Independent Development Trust and U.S.A.I.D.
1991	Pioneered the pension/ provident-funding-backed housing loan.
1992	Successful and efficient business with accpetable risk profile.
1995	CashBank registered as a mutual bank.
1997–1998	IFC investments in Gateway.
December 1999	Conversion from a mutual bank to a commercial bank.

CashBank's Goals, Products, and Market. CashBank's goal statement could well serve as a model for CDFIs wishing to make an impact in low-income housing. Its objectives include:

- To become a viable, national institution offering effective and efficient intermediation to the low-income market for housing finance.
- To innovate with regard to low-income product development.
- To sustain the asset base and profit growth.
- To develop an institution in which both clients and staff have a stake.
- To develop staff who are respected by clients for their competence, efficiency and integrity.

CashBank's loan products are primarily designed to address employees of large and small companies, with and without provident funds, but having payroll deduction facilities. The bank also continues to provide individuals with short-term unsecured loans in the high-risk markets. Group loans, however, are no longer offered; the long-term group loan product proved a failure because default rates and transaction costs were both very high. The default profile for individual, unsecured loans of shorter duration is very acceptable. The loan types are the following:

- Pension/provident-fund-backed home loans, with three variations: fully secured by the pension fund (Foundation Home Loan); pension/provident-fund-backed home loan with diminishing security over time (Escalator Home Loan); and a combination education and home loan (Eduhome Loan). These are all variable rate products, with a maximum term of 15 years, and a minimum loan size of R2,000.
- Hybrid housing product secured half by the pension/provident fund benefits and half by a notarized lease over the property (Home Launch).
- Mortgage loans (Foundation Bond). The mortgage loan has a minimum size of R65,000, a term up to 20 years, a variable rate, and an LTV ratio of no more than 70%.

The loans are priced based on analyses of both risk and administrative cost. Thus, there is a fairly large spread in the rates between the mortgage loans, the pension-secured, payroll-deducted loans. An analysis of loan use indicates that about 85% of the loan volume is for housing, with a 15% "leakage" into other areas, primarily consumer goods. Of the loans dedicated to housing, it is interesting to note an emphasis on renovation, extensions and improvements, as well as new housing. This profile supports the concept of incremental housing development which has proved relevant to the low-income market and clearly reflects the approach to housing development sustainable by CashBank's target income groups. The portfolio of housing loans (pension-backed) and, more recently, mortgage loans, has grown nearly threefold between 1996 and 2000, standing at R438 million in April 2000. It should be noted that CashBank's arrears and delinquencies are low—especially relative to the South African environment: arrears stand at 1.93% of the portfolio and defaults at 1.53%.

Table 2 illustrates the pricing scheme for the pension-backed loans. The pricing is highly fine-tuned and geared to both transaction costs and credit risk. Thus, pricing varies by: (a) type of collateral—mortgage, pension, or mixed; (b)whether the application process is automatic or manual; (c) whether collection is manual or conducted by electronic payment (ePD); and (d) whether consumer education accompanies the loan.

Lessons Learned for other CDFIs in LMI Housing Finance. In the original tradition of the research staff of the founding NGO, CashBank's managing director, Christine Glover, has always taken a very analytical approach to the next steps of development for Group Credit Corporation and CashBank. Thus, the lessons learned are well-documented and well-analyzed, and offer useful advice for community-based financial institutions in emerging markets where the financial and banking sectors overall are reasonably well developed.

- **Group Loan Products.** As noted, group loans were abandoned as CashBank sought to establish a more formal sector profile in order to increase its capital. 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.
- **Sustainability and Scale.** In order to achieve its goals of becoming a significant force in intermediation for low-income households, GCC realized it had to raise additional funds via deposit taking and better access to larger funding from the capital market.
- **Risk-Based Pricing.** Risk-based pricing is an absolutely essential tool for being able to offer higher risk products in higher risk markets and at the same time cover costs and spread risk across a variety of clientele and markets with different risk profiles. Legal constraints to risk-based pricing—in this case the Usury Law —offer complex challenges as policy makers, government regulators, and CDFI managers must together struggle with covering "true" risk and

Table 2 CashBank Loan Pricing Matrix (Rates are variable and prime linked. A prime rate of 14.5% is assumed here.)

	Foundation Home Loan	*Escalating Home Loan*	*Eduhome Loan*
Auto-App – completed by client/employer and ePD	13.5%	16.5%	16.0%
Auto-App – completed by client/employer and manual collection method	14.5%	17.5%	17.0%
Auto-App and education—completed by CashBank and ePD	14.5%	17.5%	17.0%
Auto-App and education—completed by CashBank and manual collection method	15.5%	18.5%	18.0%
Manual loan application—completed by client/employer and ePD	15.0%	18.0%	17.5%
Manual loan application—completed by client/employer and manual collection method	16.0%	19.0%	18.5%
Manual loan application and education—completed by CashBank and ePD	16.0%	19.0%	18.5%
Manual loan application and education—completed by CashBank and manual collection method	17.0%	20.0%	19.5%

avoiding the hazards of inefficiency and/or "gouging."

- **Credit Risk and Operational Risk.** To the extent that the portfolio consists of nonmortgage loans, the risk on this part of the portfolio includes both conventional credit risk involving the individual borrower and a new type of corporate "operational" and credit risk. Lenders are essentially also underwriting the health of the company and its pension policies, as well as its ability to provide payroll deduction.

- **CDFI Staffing.** Training staff to conduct underwriting for nonmortgage loans, especially to distinguish "real" and "promised" affordability, has proved difficult. An apprenticeship method of pairing a trained staff member with a new recruit proved very useful.

CONCLUSIONS: RETHINKING LMI LENDING

While South Africa has made a very impressive start in increasing the potential for LMI lending, much remains to be done. In South Africa's difficult context, tensions still exist; the banks are criticized for failing to offer sufficient credit to the LMI market and the government is similarly charged with not doing enough to normalize the lending environment. The Banking Council admits that some traditional banks are less able to lend in the LMI market for housing than the alternative lenders. Although commercial banks have made legitimate inroads into the LMI market, it is difficult to get banks to behave significantly differently from the way they operate in higher-income markets. The withdrawal of commercial banks from branch activity is another factor that may negatively impact LMI lending. The return on capital in branch activities is not adequate, and may be negative. The response of the banks has been to increase automation and close branches. Given the geographical concentration of minority communities, and the need for counseling that most require in order to undertake a loan, this is an unfortunate trend. Partnerships among banks, CDFIs and NGOs may prove a more viable approach.

There is near "public" acceptance of the fact that traditional mortgage loans are not suitable products for low-income communities in South Africa (at least not at this time). The government, however, remains under considerable political pressure from its main constituency to do something about their access to credit. Nonmortgage, provident fund backed loans may prove viable in the long run. However, this still excludes those without provident funds and those informally employed with only limited access to credit. There are moral issues to be addressed in this approach, however, especially as households reach retirement.

Thus, after six years of effort, South Africa has now reached the point where it is reflecting on what has happened to date, in order to determine where it wants to go. Both government and the private sector are engaged in this rethinking. Some of the major issues to be addressed include:

An Assessment of the LMI Sector. South Africa is in urgent need of more facts and figures to get a handle on "where to go from here." Who is getting credit? How much and why? What is the potential effective demand for LMI and microcredit for housing? How much has been supplied to date? Where are the major credit gaps by income group and geography? What additional conventional wisdoms need to be exploded?

- **The Tripartite Approach: Savings, Credit, and Subsidies.** One key issue is how to integrate subsidy with credit and savings. This tripartite approach was the blueprint set forth by the National Housing Forum from the beginning, but for a variety of reasons has not materialized. The subsidy needs to be tied to some sort of personal investment (including sweat equity and cash savings). A serious investment by the household in its dwelling is–worldwide–a key approach to low-income underwriting. Also, until South Africa experiences significant economic growth, the policy needs to be tailored to the affordability constraints of the population. This suggests more emphasis on the so-called "peoples' housing process," such as that assisted by the SAHPF, where sweat equity can apply, and microcredit supplements the subsidy and savings.

- **Community Reinvestment Legislation.** Debates have begun surfacing about the need for legislation, along the lines of the U.S. Community Reinvestment Act (CRA), to ensure that funds are available to the communities that require them. Significant differences exist between the U.S. and South Africa such that the legislation in its U.S. form is probably not appropriate to the South African situation. For example, those in need of resources form a minority in the U.S., while in South Africa, they form an overwhelming majority. Nevertheless, the principles underpinning such legislation as well as how best to apply it is currently being thoroughly examined by government and the banking community.

- **Partnerships.** Related to the CRA debate is the contention that the banks should not be forced to do unprofitable business. However, they could support low-income lending through a variety of other means, for example, funding community-based lenders. In other words, banks should not be compelled, but rather provided incentives to develop mechanisms to move finance downward. Banks could also fund LMI lending through buying debt instruments issued by NHFC, in order to support its wholesale lending and equity positions in CDFIs and niche lenders. Credit for informally and self-employed people needs to be stimulated, and this is one approach. These approaches would require an appropriate regulatory environment.

- **Whither the Secondary Market?** The development of secondary market funding activity in emerging markets is a lengthy process under most any circumstances. Expectations regarding its development primarily to support LMI lending–the Gateway initiative—were perhaps optimistic. However, a push toward a secondary or liquidity facility is indeed important to LMI lending. The CDFIs dedicated to this market want and need increased funds; many have publicly stated that their lending could increase with improved access to wholesale funding.

Table 3 Transferability of LMI Lending From South Africa

Innovation or Best Practice	*Barriers Being Addressed*	*Countries for Transference*
Public/private partnerships and solutions	Lack of private sector and government cooperation limits market	Most emerging or transition nations
Risk-based pricing	The need to cover costs and remain viable	The U.S. and most emerging nations; however, some controls may be needed
Underwriting through nonmortgage products and payroll deductions	Lack of foreclosure; lack of title; lack of credit information	Some advanced emerging and transition nations
Dedicated CDFIs, microlenders and NGOs	Lack of penetration and scale in the LMI and microlending markets	Any emerging or transition nation; banking sector competition a prerequisite
Risk sharing: NURCHA and HLGC	High credit risk and operations risk (political)	More advanced emerging and transition nations
Partnerships and joint ventures between banks, CDFIs and microlenders	Failure of banks to go downmarket; failure to exercise comparative advantage	More advanced emerging and transition nations, but banking sector competition usually a prerequisite
Secondary market start-up targeted to the LMI market	Lack of adequate funding for LMI loans	May prove difficult in countries without already established secondary markets

- **The Rental Sector.** Finally, should a greater role be placed on rental housing, among other reasons to relieve the pressure on homeownership for various segments of the population? Rental housing is essential to labor mobility, especially in a transforming economy. Rental housing is also suitable for newly formed households who may be saving for a downpayment, and or those too indigent to afford a home under most any circumstances. Note that some low-income households, who are not sure where they want to locate, or wish to relocate, have sold their serviced sites at less than the value of the subsidy, another reason to reconsider the rental housing role.

- **Transferability.** Finally, South Africa's progress in a number of areas of LMI lending, including underwriting, risk management and credit enhancement, are good candidates for transference to other emerging LMI markets. The lessons learned that were specific to CashBank were noted above. There are other lessons which are obviously important for finding the way forward in South Africa, but which also speak to transferability. Some of the key methodologies in transferability–the barriers that South Africa was trying to overcome and the relevance of the LMI methodology to other emerging markets–are summarized in Table 3.

NOTES

[1] Politically-inspired bond boycotts (mortgage loans are referred to as mortgage bonds) have joined utility payment boycotts and various home-related acts of vandalism, including refusal to vacate foreclosed properties, in seriously destabilizing the housing market in some areas.

[2] The exchange rate has fluctuated between about 7.0 and 7.8 Rand per $1.00 in late 2000 and early 2001.

[3] Please note that in South Africa these "smaller than traditional" loans are referred to as microloans; this is not the same as the microcredit lending for housing, as "micro" loans are much larger than microcredits.

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