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October 13, 2011

Linking Remittances Beyond Consumption with Housing Microfinance

Diego Rios
**Microfinance International
Corporation**



Linking Remittances to Housing Microfinance

Microfinance International Corp.

October 13th, 2011
By Diego Rios



Outline

- 1. Microfinance International Corp.**
- 2. Premise behind T-loan Program**
- 3. T-loan Program Structure**
- 4. Pilot Phase**
- 5. Project Launch and Phase II**
- 6. T-loan USAID Credit Guarantees**
- 7. T-loan Process and Key Facts**
- 8. Q&A**



Microfinance International Corp. (MFIC)

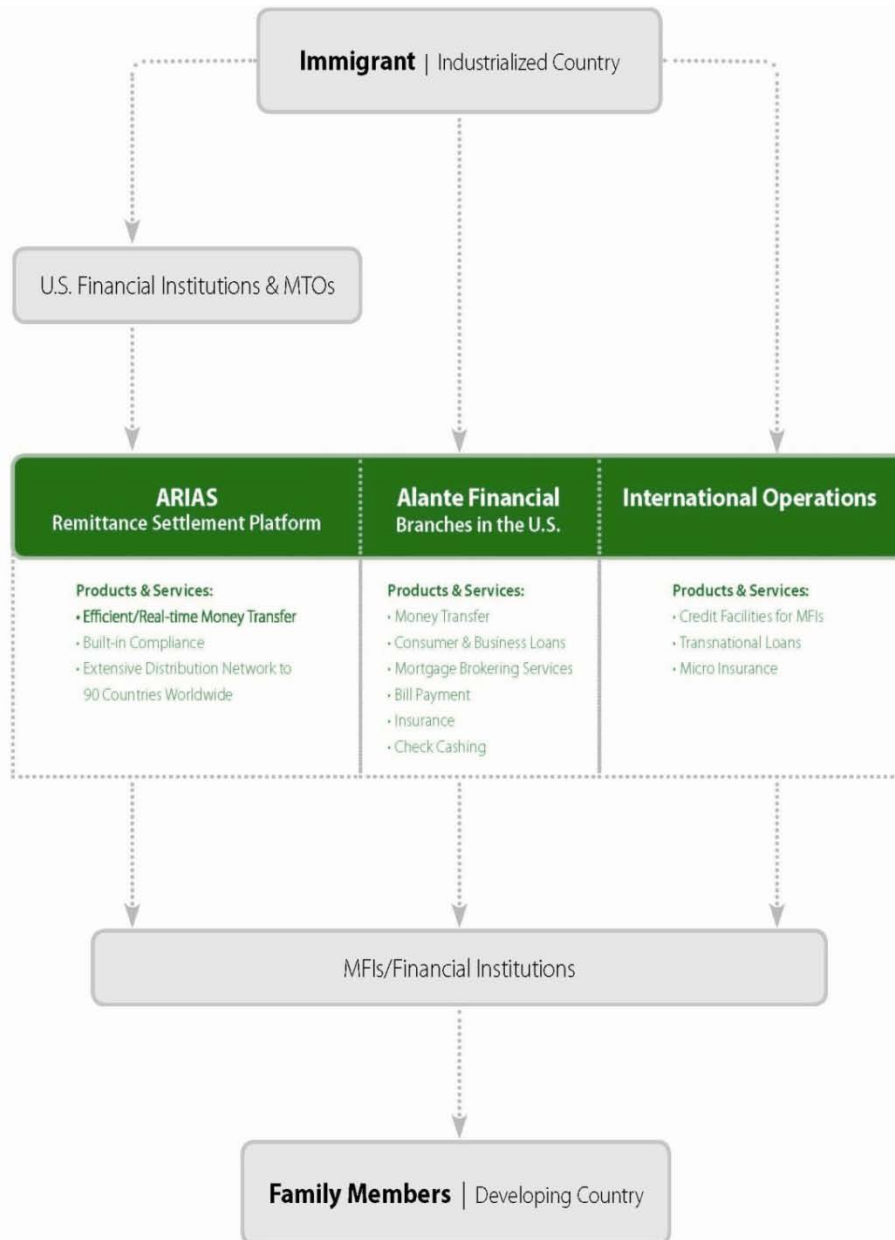
- ✓ **Founded in 2003 by Atsumasa Tochisako**
 - Assignments in Latin America
- ✓ **High impact development assistance through remittances.**
- ✓ **Leverage migrant remittances for the development of the financial sector.**
- ✓ **Business model that links microfinance for the benefit of immigrants in the United States.**



MFIC Business Model



Microfinance International Corporation



ARIAS | Financial Solutions



Premise Behind T-loan Program

Problem

- ✓ Lack of access to financial services
- ✓ Remittances used on consumption
- ✓ Lack of control over remittances

MFIC's unique position

- ✓ Relationship with MFIs
- ✓ Customer base at retail level
- ✓ Expertise and experience in consumer lending



Benefits of T-loan Program

1. **Formal channel** for use of remittance beyond consumption
2. **Facilitate purchase** of property/investment
3. Rapid growth and added mix of **secured loan portfolio**
4. Enhancement of **customer loyalty**
5. **Cross-selling** of other financial products and services to immigrants and family members
6. Increase in **remittance volume**

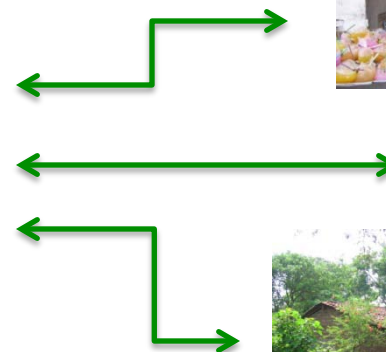


What is the T-loan Program?

- ✓ Set up a mechanism for immigrant families to access financing for income-generating and asset-building activities in their country of origin.
- ✓ **Purpose of loans:**
 - Home/Land purchase (Costruction or home improvement)
 - Business loans (Working capital)
 - Education expenses and other immediate needs



Transnational Loan Program Structure



MFIC – Alante Financial
(in the U.S.)

1. Loan interview & credit analysis
2. Verifications and processing documentation
3. Loan collection

Financial Institution
(in Home Country)

1. Property Appraisal/ Business evaluation
2. Evaluation of co-borrower (if applicable)
3. Loan underwriting and administration





Pilot T-loan Project

- ✓ **Launched in 2006 (Two MFIs) for a 9-month period**
 - 1. Risk Sharing:** MFIC and MFI partner share 50% of all risk and revenue for each t-loan.
 - 2. Loan Underwriting:** Pre-approval process by MFIC but ultimate loan decision made by financial institution.
 - 3. Marketing Strategy:** Underbanked immigrants in the Washington metropolitan area.
 - 4. Loan Administration and Collection:** Shared between MFIC and MFI's.
- ✓ **Results: 7 Loans brokered with outstanding loan portfolio \$132,300.**

T-loan Project Launch

- ✓ **Launched in late 2007 for a 15-month period**
 - 1. Brokering Agreement:** MFIC would earn a commission based on loan disbursed.
 - 2. Risk Sharing:** MFI would take 100% risk and revenue.
 - 3. Loan Underwriting:** MFIC would verify client's requirements but MFI would approve and make final decision.
 - 4. Loan Administration and Collection:** MFI would be ultimate responsible and MFIC would only assist.



T-loan Project Phase II

- ✓ **2008 Economic Crisis**
 - Liquidity among financial institutions
 - Economic uncertainty in U.S. market
 - Collapse of U.S. housing market
 - Unemployment among immigrant population

- ✓ **Risk Management**
 - Tighten risk management policies
 - Increasing requirements for t-loan applications
 - Job and income emphasize



Phase II Business Strategy

- ✓ **Focus** on mortgage loans
- ✓ **Complimentary service:** Sales of properties
- ✓ **Marketing Strategy:** Locally at home countries

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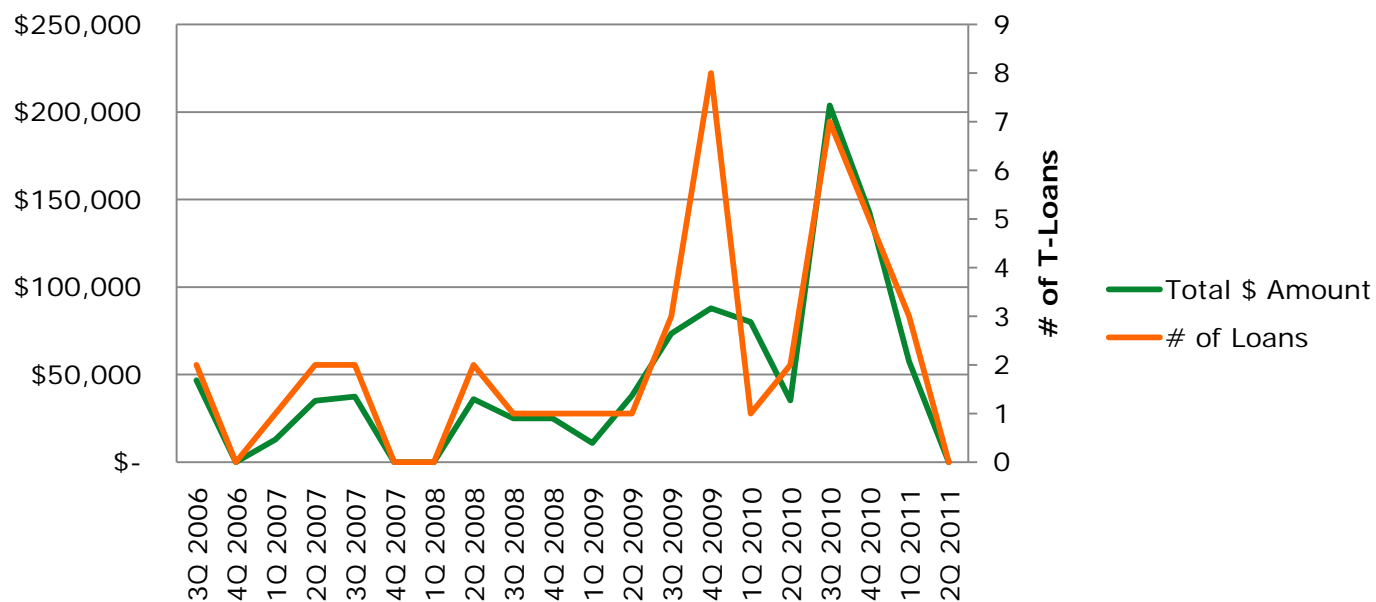
T-loan Credit Guarantee

- Mitigate risk associated with MFI's credit underwriting for t-loans
 - ✓ **USAID Credit Guarantee (\$450,000 for each institution)**
 - 45% of net losses of principal with respect to Qualifying Loans
 - **Coverage Date:** Ten (10) years
 - ✓ **MFIC Credit Guarantee**
 - 5% of net losses of principal
- Minimize on-going costs associated with continuing operations
 - ✓ MFIC receives **USAID Grant** (\$171,450.00)

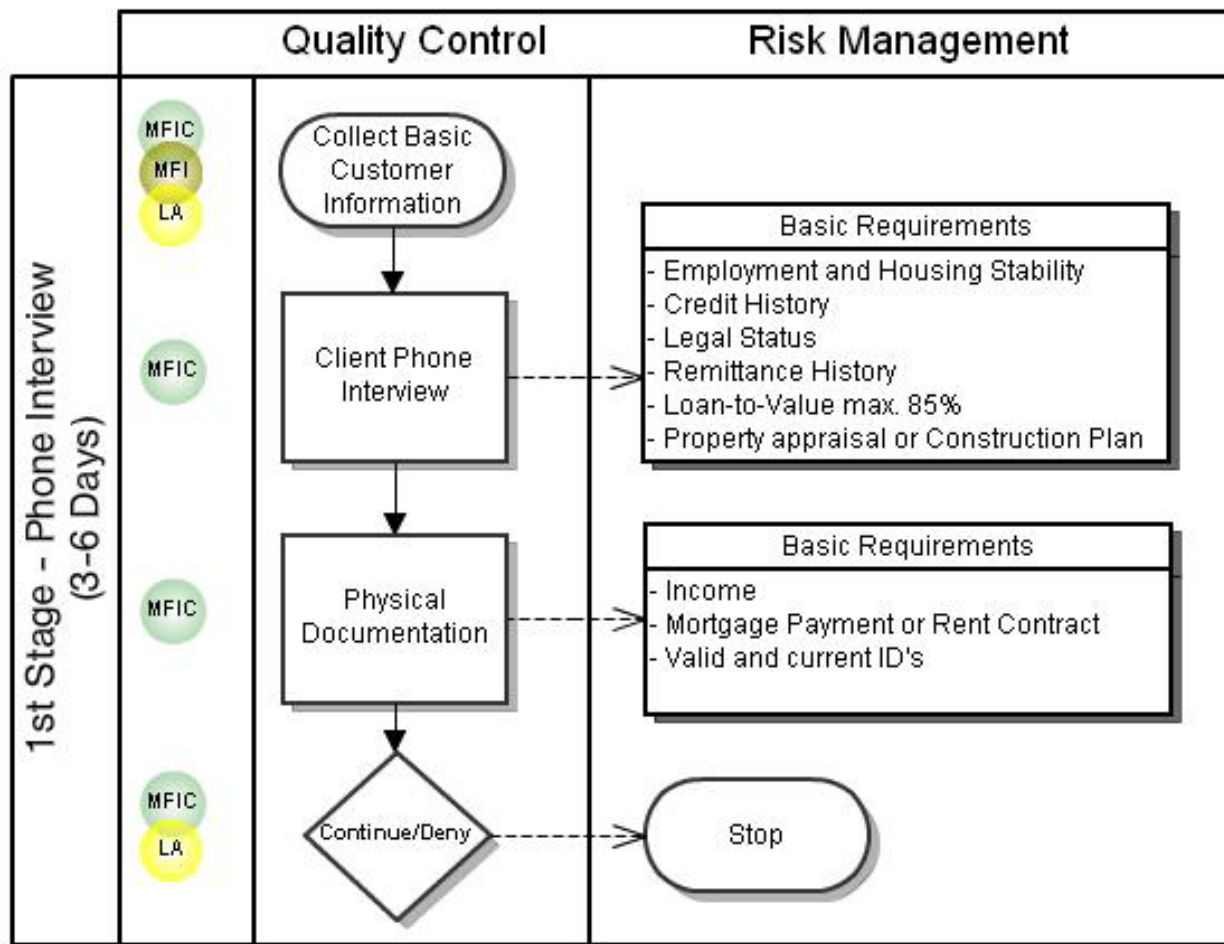


T-loan Portfolio

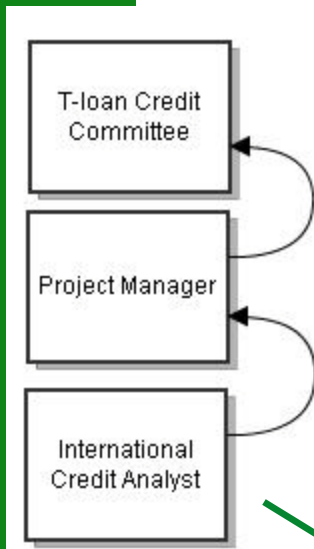
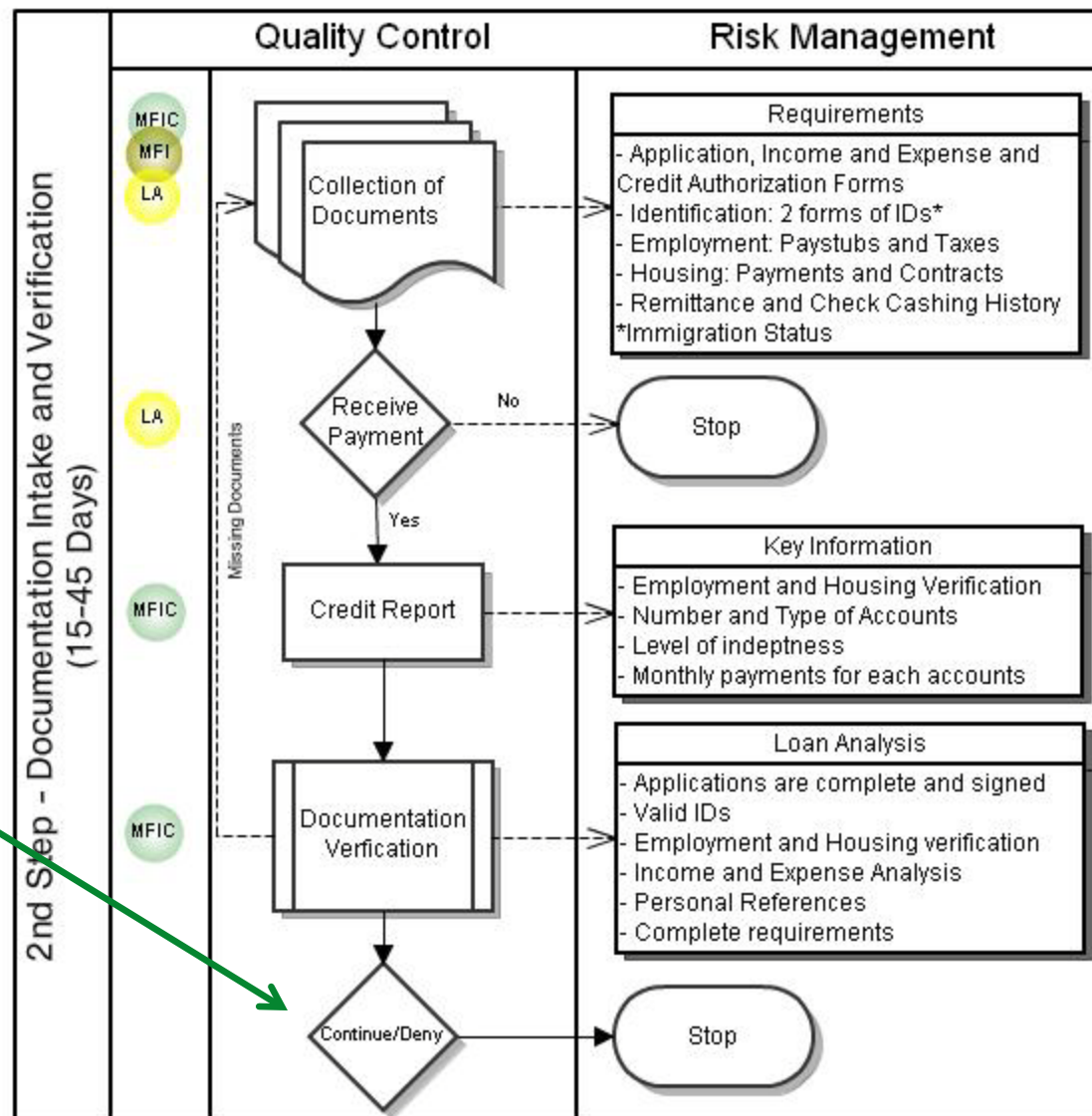
Total # of t-loans	42
Total \$ Amount of t-loans	\$ 948,107.50
Avg. \$ Amount t-loan	\$ 22,573.99
Avg. Interest Rate	1386%
Avg. Time (Years)	10
Avg. Monthly Payment	\$ 417.87



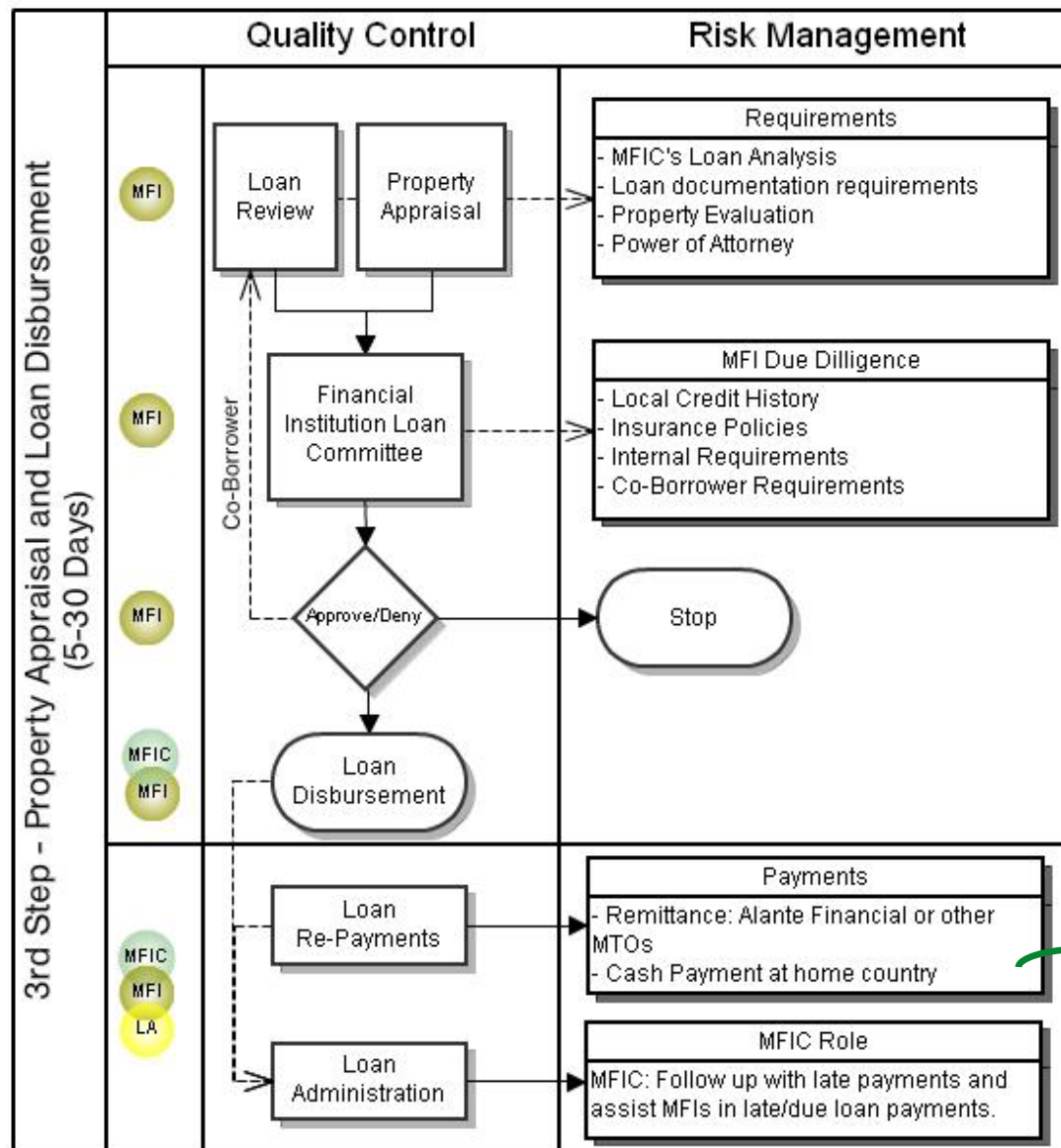
T-loan Process 1st Step



T-loan Process 2nd Step



T-loan Process 3rd Step



T-loan Key Facts

✓ Main Characteristics

- **Loan Size:** \$35,000 (Mortgage loan) and \$8,000 (Home improvement loan)
- **Loan Term:** 10 yrs. (Mortgage loan) and 5yrs. (Home improvement loan)
- **Collateral:** Property in home country
- **Interest:** 14% - 16% (Mortgage loan) and 16%-18% (Home improvement loan)



T-loan Customer Profile



- ✓ **Client Profile**
 - 40 yrs. old
- ✓ **Financial Standing**
 - Income: \$24K a year
- ✓ **Monthly Remittance**
 - \$150.00
- ✓ **Purpose of Loan**
 - Purchase of land
- ✓ **Loan**
 - \$13,000 Loan Amount
 - \$316 Monthly Payment
 - 5 Years



T-loan Challenges

- ✓ **Operations Challenges**
 - Streamline operations

- ✓ **Communications Challenges**
 - Among all parties involved (Customer, family member, MFIC's personnel, MFI's personnel, etc.)

- ✓ **Demographics**
 - Immigrant communities' demographics
 - Match consumer's risk profile with MFI's risk appetite
 - U.S. wide geographic area

- ✓ **Resource Allocation**
 - Financial and human resources
 - MFIC internal support for scalability





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