microNOTE #39

Housing Finance for the Poor: El Salvador

This case study is a part of a series of microNOTES addressing current issues in housing microfinance. Findings from El Salvador demonstrate the role of external factors in the development and diversification of the housing microfinance market. The study of two institutions, Integral and ACCOVI, demonstrate the growth and success of housing microfinance when the financial sector is well-capitalized and competitive, when market infrastructure is established, and when government subsidies assist the poorest to attain adequate housing. While the role of donors and government in El Salvador has been beneficial for increased access to housing finance, this success may not be broadly replicable.

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Housing finance has thrived in El Salvador, including housing microfinance for the poor, with an estimated market of 10% of GDP, according to the IFC. MFIs, NBFIs, and commercial banks offer a wide range of products to meet the housing finance needs of diverse markets. This case study explores the socio-economic, political, and environmental factors that have contributed to the growth of housing finance in El Salvador and how two of the larger microfinance institutions—Apoyo Integral (Integral) and ACCOVI—have responded to these opportunities. These factors include the influx of international aid responding to the civil war in the 1980's and the earthquakes in 2001; the easy availability of credit and the liquidity and competitiveness of the financial services sector; the modern land registry system; and government support for housing for the poor; and private sector housing initiatives. Within this context, Integral and ACCOVI initiated housing lending and currently manage housing finance portfolios totaling over $26 million.

FACTORS SUPPORTING HOUSING FINANCE FOR THE POOR

El Salvador is a small country in Central America with a population of approximately 6.9 million people in 2006. Although the per capita annual income of Salvadorans is $2,540, more than 40% of households live below the poverty line and another 16% are extremely poor. [1]

El Salvador has suffered over 20 years of civil war, and two serious earthquakes in 2001. The dollarization of the economy in the same year caused an economic shock when rising prices were not offset by similar increases in salaries and income. This trend has continued, and political and social unrest have increased. Today, over 25% of El Salvador's population lives and works outside of the country, sending home over $3.5 billion in remittances in 2007.

It is in this context of poverty, conflict, natural disasters, significant international donor aid, and outmigration of many income earners that the housing microfinance market has grown and thrived. The factors that have contributed to this success include donor aid for housing finance; a well-developed and competitive financial sector; a modern land registry; and government and private sector housing initiatives.

Donor Aid for Housing Finance

Housing finance for the poor was initiated during El Salvador's civil war (1980-1992), with international donors supporting housing finance and construction in response to the destruction of housing in the war. Many of the microfinance institutions now operating in El Salvador received their initial funding from the influx of international reconstruction money at the end of the civil war.

Although aid dropped off in the years after the civil war, it increased again following two earthquakes in early 2001, which directly affected 18% of the population. The earthquakes caused an outpouring of international aid, estimated at $54 million, much of it directed towards housing needs. Loan capital was provided to existing institutions, and new revolving loan funds and institutions were established. This led to an expansion of housing credit products.

During the 1990's, microfinance projects, such as the USAID-funded Proyecto de Fortalecimiento de las Microfinanzas Rurales (FOMIR), promoted a shift in the lending industry from subsidized interest rates dependent on continued donor funding to commercially sustainable rates. This shift demanded upgraded operational and financial management and governance, and the donor community provided significant technical assistance to many institutions. This created stronger, well managed institutions capable of growth and diversification. It also attracted the attention of the international community promoting microfinance, and fueled further increases in the loan capital and lending portfolios of microfinance and housing finance institutions.[2]

Well Developed Financial Sector

There are currently a large number of banks, for-profit finance companies, microfinance institutions, and membership-based cooperatives and credit unions offering a range of credit and savings services to Salvadorans. Enabling legislation for non-bank financial institutions was passed in 2001, and many are regulated by the Superintendent of Banks. Credit is also provided by the private sector for consumer

[1] Economic Commission for Latin America and the Caribbean (ECLAC), 2004.

[2] FOMIR (Rural Microfinance Project, in English) was implemented for USAID by Development Alternatives, Inc. (DAI) from 1998 to 2005.

items like computers and appliances, for housing by land developers, and by moneylenders for emergency and other needs. The commercial banking sector has grown greatly since the early 1990s, with mergers and buyouts happening frequently. Currently all banks are owned by external (foreign) entities.

The market for financial services is very competitive in El Salvador. This is partly a result of El Salvador's dollarized economy and partly as a result of years of influx of donor funds and technical assistance. Many of the market leaders in microfinance were recipients of donor aid. Banco Procredit, AMC, Apoyo Integral, ACCOVI, and FEDECREDITO were all supported by a number of donors. The biggest microfinance players are FEDECREDITO, with over $400 million in loans, and ProCredit, with $137 million in loans. There is also an array of banks which offer housing and microenterprise loans: Banco Salvadoreno, Banco de Fomento Agricola, and Banco Agricola. The amount of credit in the financial system is a cause for concern about over-indebtedness of clients, given the small population and worsening economy of El Salvador.

There are two credit bureaus serving the financial sector that collect and inform the banks and NBFIs of client credit history. Of these, one is specifically for regulated financial institutions, and is owned partly by Equifax, the US based credit bureau. The other, InfoRed, was funded by USAID specifically for microfinance institutions. Some institutions are members of both. Private credit bureaus cover an impressive 78% of the adult population in El Salvador, compared to the regional average of 27% (World Bank).

Land Registry

Most traditional definitions of housing microfinance describe non-mortgaged lending, but in El Salvador the modernization of the land registry and Central Bank regulation requiring the use of titles to secure loans for housing and land purchase have expanded the mortgage market to include housing finance for the poor.

El Salvador is unusual among developing nations because it has a reasonably modern land registry system. The El Salvadoran government, USAID and the World Bank contributed to the establishment of the Centro Nacional de Registros (CNR), in 1994. Property titles are also filed at the city registry, so that city governments can assess annual property taxes. These systems efficiently provide information on property titles and register changes in ownership. Many properties are registered, which facilitates the use of title as collateral for borrowing.

When a property changes ownership, a notary is needed to draw up the sales agreement. Transfer taxes and registration fees are paid at settlement. The mortgage is registered in the National Registry, and this information is publicly available. The cost of recording a mortgage is based on the loan amount; as an example, a mortgage for $10,000 would cost approximately $300.

Property valuations are done by independent consultants, usually architects, who must be certified by the Central Bank. This maintains a standardization of housing values and reduces the risk of speculation. All regulated institutions are required to use these certified appraisers for mortgage housing loans, and often non-regulated lenders also use them as a matter of professionalism.

Despite the modern land registry, difficulty in securing title can still be a challenge. Title disputes exist, particularly when there is a conflict between a title issued before the war and another one afterwards. Courts may not recognize indigenous rights to land. In the broad picture, displacement and migration throughout Central America resulting from war, drought, and poverty have left an estimated nine million people without title to land or housing. The land laws and land registry function well in El Salvador, but the poor often lack funds and knowledge required to pursue legal solutions.

Government Support for Housing

Even in El Salvador's well developed financial sector, gaps exist that continue to hamper access to housing and housing finance for the poor. The El Salvadoran government has three programs aimed at these ongoing challenges. The Liberty and Progress Institute provides assistance to low income families for acquiring legal title to land. FSV (Social Housing Fund) provides loans directly at subsidized rates to low-income families in the informal sector. A third, FONAVIPO (National Public Housing Fund), provides loans and subsidies directly to qualified beneficiaries as well as through partnering with financial institutions. Subsidies are available to families earning less than $700 per month. The amount of subsidy given depends on a socio-economic assessment conducted by FONAVIPO staff, with a $2000 maximum subsidy available per household. The subsidies provided by FONAVIPO are a critical factor enabling the MFIs to offer affordable mortgage loans to clients. Such a model of government assistance combined with a supportive enabling environment is a good example of how MFIs can provide mortgages to the poor. However, it is not clear what the long term impact of these subsidies will be on the housing market.

Private Sector Housing Initiatives

The private sector plays a large role in El Salvador's housing market. Numerous private developers purchase large tracts of land to subdivide and sell as smaller lots to individuals. They also build homes and sell them on credit. The biggest developer in El Salvador, ARGOZ, has sold plots to over 300,000 clients during its 23 years of operation (World Bank, 2000). The terms (five years) and rates of interest on private developer loans are comparable to the loans provided by the financial institutions. Developers will sell either land or housing to the poor – those making one or two minimum salaries per month. However, there is a common perception that clients prefer to buy the land and to build progressively themselves, to ensure quality control of construction.

ACCOVI AND INTEGRAL: TWO APPROACHES TO HOUSING FINANCE IN EL SALVADOR

Unlike many international institutions offering housing finance, both ACCOVI and Integral began as housing finance providers, before developing microenterprise loan products. Both institutions offer direct lending to individual borrowers for their housing needs and neither provides housing construction technical assistance for borrowers.

ACCOVI and Integral, however, differ in their institutional structures and in their target markets. ACCOVI is a regulated cooperative with members, and Integral is an unregulated for-profit company with shareholders. Their respective average loan sizes reflect their different target markets. ACCOVI's average loan amount is $5,500 while Integral's is $1,200.

ACCOVI

In El Salvador's competitive market, ACCOVI specializes in personalized attention to the client, as well as flexibility in loan conditions and the speed of disbursement. ACCOVI is a credit union (savings and lending cooperative) that was formed in 1965 by teachers in the town of San Vicente. It has evolved from serving only teachers to serving a broad range of clients throughout the nation. Using loan size as a proxy for client poverty, ACCOVI's average loan balance as a percent of GNI is 212%, compared to the average for all Salvadoran MFIs of 38%.[3]

ACCOVI currently has 125 employees and manages branch offices in eight of the fourteen departments in El Salvador. ACCOVI serves a membership of 6,000 with a lending portfolio of $32 million and a savings portfolio of $40 million. ACCOVI also conducts events of interest for its members, such as campaigns providing free or discounted medical treatment.

Table One: ACCOVI Loan Products

	ACCOVI ME Loan	ACCOVI Mortgage Loan	ACCOVI Consumer Loan
Minimum/Maximum Amounts	$57/$6,000	$500/$250,000	$1,000/$250,000
Maximum Loan Term	5 years	25 years	5 years
Collateral	Guarantor and/or fixed asset	Mortgage of land or house (Central Bank regulatory requirement)	Salaried guarantor
Commission	0	$8 - $10 per month	$8 - $10 per month
Interest Rate	30%	10–16% depending on borrower qualifications; for qualified low-income clients there is the possibility of a subsidy from a government entity	10–16% depending on borrower qualifications
Minimum Disbursement time	1 day	3-5 days	3-5 days
Relevance to housing needs	May be used partially for housing improvements	May be used for lot purchase, installation of basic services, construction, or improvement	In the absence of registered title, may be used for housing needs

ACCOVI was the first credit union to be licensed and regulated by the Superintendent of Banks. Subsidized technical assistance and the rigorous standards of regulatory compliance have improved ACCOVI's portfolio quality and customer service. The PAR (30) has improved from 42% over five years ago, to 9.7% in 2003, to 6.6% in December 2006.[4]

As a member-based cooperative, ACCOVI's product line responded to the demands of its members by providing consumer and housing loans since its early years. The consumer and housing loans remain the largest parts of the portfolio, representing 44% ($16 million) and 42% ($15 million) of the total portfolio respectively. Microenterprise loans were added five years ago, and now represent approximately $2 million in the portfolio. ACCOVI captures remittances from abroad, by working with international remittance companies such as Credomatic and Vigo.

An estimated 20–30% of ACCOVI's clients have registered land titles, which qualifies these clients for mortgage housing loans. For those clients without registered title but with clear rights to the land, ACCOVI provides consumer loans that these clients can use for housing needs. The consumer loans for housing use have smaller amounts and shorter terms than housing loans secured by a mortgage. A reflection of the easy availability of credit in El Salvador is the fact that clients are permitted to have three simultaneous loans. ACCOVI loan officers encourage high performing clients to continuously refinance existing loans, and cross market the housing, consumer, and microenterprise loans. This has proven to be the most successful way to increase its portfolio, and is common among many institutions in El Salvador. This may be risky in the long run, but ACCOVI's improving portfolio quality

[3] Data average for Salvadoran MFIs reporting to the MIX in 2006.

[4] The General Manager reported the PAR of 42% over five years ago, other data from the MIX.

does not reflect any increased risk.

ACCOVI'S HOUSING FINANCE PRODUCTS

The terms and conditions for ACCOVI's various loan products are presented in Table One. Since, as noted above, ACCOVI is required by the Central Bank to secure its loans for home or land purchases through a mortgage, both consumer and microenterprise loans may be used for housing improvements by clients who do not have formal title to their property.

ACCOVI markets its housing finance products through loan officers and the media. Loan officers also encourage existing clients with positive repayment histories to consider taking a mortgage loan, or to take a consumer loan for housing improvements.

ACCOVI does not customize training for loan officers to offer housing loans. All loans, for housing or any other purpose, are analyzed in the same way and using the same criteria: willingness to pay, ability to pay, and quality of the guarantee. In the case of a housing loan, the guarantee is the mortgage.

In approving housing loans, the most important criteria for ACCOVI, after the mortgage, is the repayment capacity of the borrower. This analysis is done by the credit officers in the loan approval process, and takes into account salaries, income from self-employment, and remittances. According to ACCOVI staff, only a small percentage of ACCOVI clients pay with remittances. ACCOVI prefers that its clients have an adequate local source of income even if they receive remittances.[5]

Housing Loans Secured by Mortgages

20–30% of all of ACCOVI's loans are housing loans secured by mortgages. The profile of ACCOVI clients with mortgage housing loans are self-employed entrepreneurs or salaried employees, with employees having the greater number of loans in the portfolio. Lower income clients benefit from ACCOVI's partnership with FONAVIPO, the government institution providing housing subsidies described above.

ACCOVI calculates the interest rate for mortgages based on the client's credit rating and credit history, as well as by other factors that determine risk, such as the quality of the guarantee. Risk is calculated objectively by ACCOVI's management information system. ACCOVI's interest rates.are comparable to market rates offered by commercial banks, in the range of 7 – 9%.

In terms of portfolio quality, ACCOVI's mortgage loans are among the best performing of ACCOVI's loan products. ACCOVI has foreclosed on only ten houses in the last two years. ACCOVI also uses its membership in the Equifax credit bureau to screen clients for bad debts with other regulated institutions. This information is taken into account when approving loans and determining interest rates.

ACCOVI reduces transaction costs to the borrower by providing services such as independent appraisers, and by bundling costs such as notary, valuation and recording services into the loan amount. The special requisites of the mortgage housing loan are not provided by credit officers. These are provided by departments within ACCOVI, such as the legal department and the audit department. This increases efficiency and allows mortgage loans to be approved and disbursed within one week, which compares favorably to other mortgage loan approvals in the market.

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[5] The UN (2005) estimates that only 0.7% of Salvadorans use remittances to pay for housing.

Housing Loans Secured by Salaries, Guarantors, or Physical Assets

For clients that lack property title, ACCOVI offers a variety of products. Consumer loans can be used entirely for housing purposes, while microenterprise loans must be used partially for productive purposes but may be used partially for housing improvements also. Consumer loans must be secured by a salary of either the borrower or a guarantor. Microenterprise loans can be secured by either a salary or by physical assets such as machinery or appliances. Although salaries may be used as guarantees, the law prohibits creditors from automatically seizing salaries of bank or government employees in case of non-payment of loans.

Microenterprise loans are sometimes preferred by borrowers because the loans are approved and disbursed more rapidly, and because they are less costly in terms of transaction costs and upfront fees when compared to mortgage or consumer loans. They are, however, more expensive in terms of interest rates, and they have shorter loan terms. These smaller loans are more often used for house improvements, such as adding amenities or space, rather than for purchase of land or house. In all other respects, such as analysis, approval, monitoring, client profile, and marketing, these products are the same as the mortgage housing loan product.

ACCOVI does not track the profitability of its various products separately. Microenterprise loans require more continuous monitoring, but housing loans have higher upfront costs due to the legal, title, notary and recording services.

INTEGRAL

Apoyo Integral, or Integral, began as the housing credit program of a Salvadoran NGO, FUSAI, in 1992. Integral grew rapidly and spun off as a separate, for-profit entity in 2002. Integral currently has a $32 million portfolio in consumer, housing, and microfinance loans, with 30–35% dedicated to housing loans. Its shareholders are FUSAI (63%), the Duenas-Herrera Foundation (20%), and Acción International (17%) through Acción's Gateway Fund.

Integral has branches in all 14 departments of El Salvador, with more than 200 employees, and over 22,000 active loans (2006 figures). In June 2004, Integral began channeling remittances from abroad using remittance companies such as Vigo, Credomatic, and Alante. Integral is now in the process of transforming into a regulated institution and will soon be able to capture savings.

Integral has evolved from a housing credit provider to a lending institution offering individual housing, community housing, microenterprise, consumption, agriculture/livestock, and SME loans.

Integral has a well developed housing product. The individual housing loan product has a maximum term of 25 years, at an interest rate of 16% (vs. 24-45% for consumer or microenterprise loans). Amounts range from $500-$50,000. For clients that cannot afford a mortgage or have land title, Integral offers community housing loans, associated with FUSAI projects and supported by donor funding.. FUSAI builds the community infrastructure, putting in water and sewage connections, and each family is given a plot of land on which to build, and a loan from Integral accompanied by a subsidy from a donor to use for construction. More information on the individual product and the community product can be found in ACCION Insight No. 12 and No. 17.[6] A very recent addition to Integral's offerings is the Transnational Credit. This new product encourages families to invest their remittances in assets, either

[6] http://publications.accion.org/insight/

by buying a house or by investing in a business.

INTEGRAL'S TRANSNATIONAL CREDIT PRODUCT

Civil war and poverty have led to the migration of large numbers of Salvadorans. It is estimated that approximately 25% of the El Salvadoran population, or 1.7 million people, lives outside the country. Over 600 Salvadorans leave each day, paying on average $6,000 each to their "coyotes", their guides. In 2007, over $3.5 billion of remittances were sent into El Salvador, representing 17% of the country's GDP.

Approximately one-third of all Salvadoran families receive remittances, but not the poorest families, as they lack the resources to send family members abroad.[7] Most remittance money is used for basic daily needs (84%), with the remainder invested in education, savings, business, housing and other needs.

Integral has developed a transnational housing loan product with Microfinance International Corporation (MFIC), which includes remittances sent by family members based in the U.S. in the loan underwriting. This product is in a pilot stage with seven loans as of December 2007, with plans to develop additional remittance-based products with other brokers based in the U.S.

MFIC is a financial service company and licensed mortgage broker offering a range of products and services, including the transfer of remittances from immigrants in the US to El Salvador. Alante Financial is the retail subsidiary of MFIC providing financial services to clients in the Washington, DC and Delaware areas.

Through its money transfer business, MFIC identifies clients with interest in purchasing a house in El Salvador. The clients apply for the transnational loan directly with Integral. MFIC conducts the due diligence on the applicant in the US, including evaluating character, employment history, and remittance history. Integral conducts the due diligence on the family members in El Salvador, relating especially to remittance history, and handles the review of the title and the valuation of the property. Legal documents related to the loan contract and house purchase are signed on both sides of the border. Payments are received by an Alante network member and remitted to Integral. Integral monitors loan use and performance, and sends reports to MFIC on the portfolio.

The minimum loan amount is $8,000. Other conditions regarding maximum amounts, terms, interest rates, commissions, and loan insurance, are the same as for Integral's non-remittance based credit products.

Integral uses the MFI credit bureau InfoRed, but it does not have access to the larger financial institution database, Equifax. When the loan is for buying a property, the maximum amount financed is 80% of the value of the property, and Integral, in its due diligence, ensures that the family has the remaining 20% down payment.

Integral is fully committed to rolling this product out to greater numbers of families in El Salvador, and early results from two feasibility studies commissioned by Integral demonstrate that there is sufficient demand among El Salvador remitters in the US, and an adequate supply of housing for purchase in El Salvador, for this to be a viable large scale product. MFIC is now in discussion with other MFIs in El Salvador to roll out a similar product based on remittance flows.

[7] Terry, Donald and Steven Wilson, ed. Beyond Small Change: Making Migrant Remittances Count. IDB Publication. 2005. p. 200.

SUCCESS AND INNOVATION: HOUSING LOAN PRODUCTS IN EL SALVADOR

Numerous factors have contributed to El Salvador's success in providing housing finance for the poor. Consistent donor funding for loan capital and technical support has helped to create strong regulated and unregulated financial institutions with professional staff, sophisticated management information systems, and adequate liquidity. Strong competition to utilize this liquidity has led to diversification of financial products in the market, including housing finance. Housing focused institutions such as FUSAI and FUNDASAL have maintained strong commitments to their social missions to address the housing needs of the Salvadoran population, and used housing finance as a tool to meet this objective. Additionally, government efforts have addressed housing needs with subsidies for low income families and loan capital for financial institutions for housing needs. A well functioning land registry also enables many people to use land and housing as collateral for credit, so that even the poor have access to mortgage financing.

Many housing microfinance markets are limited by the lack of a property registry or a weak regulatory framework that prevents institutions from offering a full array of home loans. The factors cited above have created a supportive environment for multiple institutions, including ACCOVI and Integral, to develop innovative housing products, not just for home improvement but also for construction and purchase.

Housing finance institutions in El Salvador have found solutions to enabling environment challenges and met customer demand for housing finance. The Central Bank requires all lending for housing to be backed by a mortgage. Despite the efficient land registry, this creates barriers for some poor borrowers. In response, the institutions have built the capacity to provide services such as independent appraisers, and by bundling costs such as notary, valuation and recording services into the loan amount to enable poor borrowers with title to access credit. For poor borrowers that do not have title, the institutions have created flexible products that can be used to meet the housing needs of clients without formal title. Both consumer finance and microenterprise loans have been used for progressive housing improvements.

Repayment capacity has been found to be the key

FUNDASAL–Creating a Market-Oriented Approach to Housing Finance

FUNDASAL (Salvadoran Foundation for Development and Basic Housing) is an NGO that was formed after the 1968 earthquakes and is dedicated to providing housing and infrastructure to low income populations in the 14 departments of El Salvador, in addition to providing other services related to community development. FUNDASAL receives funds from international donors as well as from the Salvadoran government to implement its programs.

Since the beginning, FUNDASAL's traditional housing product was based on self-help construction, with FUNDASAL supplying credit at subsidized rates of interest (2%), and community members contributing with their labor. FUNDASAL has built over 40,000 houses and benefited over 250,000 people using this methodology. FUNDASAL also works with FONAVIPO to offer cost subsidies to beneficiaries.

Since 2004, FUNDASAL has been pursuing a market-oriented housing credit policy, charging 15% for its housing credits. It calls this new product "Popular Credit". FUNDASAL views its current beneficiaries as its "captive" market, and offers good clients new and larger loans for house improvements at the higher interest rate. Approximately 80% of its current 1,600 active borrowers under the new credit line have come from the "captive" market. The portfolio is approximately $2 million, giving an average loan size of $1,250.

FUNDASAL is dealing with its image as a NGO that offers subsidies and flexible repayments, which has led to late payments or nonpayment. Their idea is to market the product in a way that separates it from FUNDASAL, and brochures have been created with this in mind. Eventually FUNDASAL would like to spin off the credit arm into a separate entity.

FUNDASAL's other challenges are the very competitive financial markets in El Salvador, a deteriorating economy, and growing political unrest. While these are challenges that all the financial institutions face, FUNDASAL also lacks long term capital, and its current clientele, which is very low income, presents a riskier market than other institutions have. FUNDASAL is not a member of the national network of microfinance institutions; however, it does use the MFI credit bureau. As a new entrant into this market, FUNDASAL faces an uphill battle to find its niche.

factor in determining creditworthiness, whether a loan is secured by a mortgage or not. The challenges in offering housing finance products were similar to those of any other microfinance product: identifying appropriate clients with the capacity to repay, training loan officers, establishing incentives for maintaining portfolio quality, and developing adequate back office operations. Donor technical assistance has built strong institutions with the credit analysis and risk management skills necessary to offer sustainable housing microfinance.

Are mortgage backed loans being used to access medium term finance for other purposes? Respondents at ACCOVI and Integral reported that their borrowers are using the housing loans for the intended purposes. Both institutions have put in place loan use verification procedures. Loan officers visit borrowers 60 days after loan disbursement and record the type and amount of housing work in progress, and risk management officers make random visits. According to the legal documents signed by the borrowers, if the use of the loan is different from the one stipulated in the agreement, the interest rate is raised to its maximum, or the loan is cancelled and due immediately.

QUESTIONS FOR FURTHER RESEARCH

The current success of the housing finance and microfinance market in El Salvador is impressive. Several areas deserve additional attention and research. Among these are:

- The impact of the easy availability of credit, the relatively supportive enabling environment, and government subsidies on the housing market in the long term.
- The challenges posed by natural disasters including earthquakes. Is there adequate government regulation and enforcement of building standards? Is there access to insurance? Are housing lenders too vulnerable to the potential impacts of a natural disaster?
- The level of financial literacy and client capacity to make good choices around credit, and potential for overindebtedness.
- Potential leakage of housing funds to meet other medium-term finance needs.

CONCLUSIONS

El Salvador's abundant credit market as well as crucial donor and government support has stimulated the development of a variety of housing finance products offered by MFIs and NGOs. The institutions featured in this case study have different institutional structures and operate in different markets. However, both began providing home loans before offering microfinance. Their progress in developing innovative products and channeling remittances will serve as an example for many other similar institutions in Latin America that face similar customer demand for longer-term loans for housing.

Although the market infrastructure and level of donor and government support may not be replicable, key lessons for success for other institutions include:

- Offer shorter term, sequential finance options, so that housing needs can be addressed progressively.
- Provide in-house services for meeting the legal requirements for mortgage loans, or develop trusted network of service providers.
- Construction assistance may not be important in all markets – none of the institutions studies included this assistance in their services.
- Loan officers do not have to specialize in housing lending, but are key to

identifying new clients and marketing the loans.

- MIS used for microcredit may be easily adapted to service housing loans.[8]
- Long-term financing is essential, since mortgage housing loans have terms of up to 25 years, and even housing improvement loans have 5-year terms.
- Liquidity is required for the institution to cover upfront costs associated with title and mortgage processing.
- A stable macroeconomic environment is needed to reduce interest rate risk on long term loans.
- A stable housing market is important so that homes maintain market value as collateral.

The success of a range of financial institutions offering housing finance in El Salvador points to key benefits for the lenders:

- Housing finance is medium to long term and not seasonally dependent, and increases portfolio stability.
- Risk has been shown to be lower for mortgage loans, which are secured by the property.
- Housing loans require less regular monitoring than microenterprise loans, and can rapidly increase portfolios without commensurate increase in loan officer workload.
- Housing lending can build customer loyalty and improve an institution's competitiveness.
- Housing loans and microenterprise loans can be cross-marketed. A new client in either line of business can be readily converted to a client for both products.

Having a home of one's own is a dream for many Salvadorans, and this will continue to drive demand for housing finance products provided by El Salvador's diverse financial institutions.

[8] ACCOVI uses a system called bytesw.com, JTeller Integral uses Topaz. Both report equal ease of use for either microcredit or housing loans.