



# Bangko Sentral ng Pilipinas: Opening Doors for Housing Microfinance

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# Presentation Outline

- Background Information
  - Microfinance in the Philippines
  - Housing Needs in the Philippines
- Lessons Learned from Microfinance Applicable to Housing Finance
- Possible Convergence of Microfinance and Housing Finance
- Initial Approach of the BSP
- Challenges and Opportunities Moving Forward



# Microfinance in the Philippines

- Enabling policy and regulatory environment has been established supportive of a National Strategy for Microfinance
- Shift from directed credit to market approach
- Microfinance is seen as a range of financial services offered to the entrepreneurial poor who are clients and not beneficiaries



# Microfinance in the Philippines

- BSP Policies have set the rules and regulations for microfinance operations within the banking sector
- Microfinance fully mainstreamed in the formal financial system (Institutionalized means of transformation of NGOs to become formal financial institutions)
- Increased interest of commercial players/ investors (local and international) in microfinance
- Professionalization of the industry through performance standards and greater transparency
- Use of ICT to increase scale and other innovations



# Microfinance Today

- There are now 220 banks (from around 30 in 2000) with microfinance operations reaching nearly 900,000 clients with an outstanding loan portfolio of more than PhP 6B (USD 129M) and savings of over PhP 1.7B (USD 35M)
- Some measurable results:
  - Increased access to formal credit - For first time borrowers, microfinance was their first formal bank loan
  - Impact on Savings - 6 out of 10 borrowers given the opportunity to save for the first time and overall, clients increased savings balances by 13% since taking their first loan



# Housing Needs in the Philippines

- Based on Medium Term Development Plan (2004 - 2010)

**Table 4-3 Housing Need, 2005-2010**

Category	Total
<b>Housing Backlog</b>	<b>984,466</b>
- Doubled-Up Housing	387,315
- Replacement/Informal Settlers	588,853
- Homeless	8,298
<b>Substandard (Upgrading)</b>	<b>186,334</b>
<b>New Households</b>	<b>2,585,272</b>
<b>Total</b>	<b>3,756,072</b>

*Source: HUDCC*



# Housing Needs in the Philippines

- Actual Figures of Accomplishments and Backlog

**Table 4-1 Housing Targets and Accomplishments**

Housing Package	Target Households	Actual Accomplishments				
	2001-2004	2001	2002	2003	2004*	2001-2004
Socialized (below PhP 225,000)	880,000	207,940	118,987	84,716	81,853	493,496
Low Cost (PhP225,000-PhP2 M)	320,000	54,447	74,306	114,507	146,067	389,327
<b>Total</b>	<b>1,200,000</b>	<b>262,387</b>	<b>193,293</b>	<b>199,223</b>	<b>227,920</b>	<b>882,823</b>

*Source: Housing and Urban Development Coordinating Council (HUDCC)*

*\* Figures as of June 2004*



# Challenges to Meeting Housing Needs

- Rapidly growing housing need as population continues to grow
- Lack of private sector participation in socialized housing finance and construction
- Barriers to access to housing finance by those requiring socialized/ low cost housing (i.e. lack of proof of security/ ownership, financial track record, etc.)



## Lessons Learned from Microfinance

- Microfinance means building financial systems for the poor (They need a variety of financial services)
- The economically active poor have the capacity to pay their loans and save
- Market rates can ensure viability of financial institutions
- Only viable financial institutions can provide sustained services to more people
- Government's role is as an enabler, not a direct provider of loans



# Possible Convergence of Microfinance and Housing Finance

- Incremental nature of microfinance is fit to typical incremental building of socialized/ low cost housing
- While primarily for financing microenterprises or small livelihood activities, microfinance clients also use their access to credit for their homes.
- It is therefore important to design flexible housing loan products for the microentrepreneurs who have shown a track record/ capacity to pay
- Increases the value of services received by microfinance clients



# Possible Convergence of Microfinance and Housing Finance

- Proven microfinance credit technologies and methodologies (i.e. cash flow/ character loans, strict monitoring and internal controls, etc.) can address poor cost recovery efforts in past government housing programs and corrects market distortions caused by interest rate subsidies
- This will also allow the bank to reduce the risk from business loans being applied to housing, maintain low delinquency rates and diversify their portfolios
- Non-subsidized, viable and sustainable approaches will attract private sector participants



# General Approach of the BSP

- Open to the idea that housing microfinance is a non-subsidized, sustainable approach tailored to meet the housing needs of the entrepreneurial and working poor
- Careful review and evaluation of Housing Microfinance product application
- Adoption of applicable rules and regulations of microfinance loans
- Additional risk management features identified
- Ensured capacity of banks that will provide the new Housing Microfinance product (i.e through accreditation)
- Once approved, the housing microfinance product is considered another type of microfinance product
- General guidelines and regulations to be issued for more flexible and general application



# Specific Approach of the BSP

Subject	Particulars
Purpose	<ul style="list-style-type: none"> <li>✓ House construction</li> <li>✓ House and/or lot acquisition</li> <li>✓ Home improvement/repairs</li> </ul>
Eligibility	<ul style="list-style-type: none"> <li>✓ Existing microfinance clients</li> <li>✓ New clients without access to formal housing finance institutions (but with verifiable proof of income)</li> </ul>
Loan Amount	<ul style="list-style-type: none"> <li>✓ Up to P300,000 for house construction and/or lot acquisition (must show tenure security)</li> <li>✓ Up to P150,000 for home improvement/repairs</li> </ul>
Loan Value	<ul style="list-style-type: none"> <li>✓ Up to 90% of the appraised value in case of REM</li> <li>✓ Acceptable valuation in cases of usufruct, leases, etc.</li> <li>✓ Capacity to pay based on cash flow analysis</li> </ul>
Payment	<ul style="list-style-type: none"> <li>✓ Frequent amortization</li> <li>✓ With savings component</li> <li>✓ Loan payments should not exceed 60% of clients income as determined by cash flow analysis</li> </ul>
Terms	<ul style="list-style-type: none"> <li>✓ Up to 10 years for house construction and house and/or lot acquisition</li> <li>✓ Up to 5 years for home improvement/repairs</li> </ul>



## Specific Approach of the BSP

The product shares the characteristics of the microfinance loan except for the following:

- The maximum loan amount is PhP 300,000 (microfinance loans have a maximum of PhP 150,000)
- The loans have longer terms with a maximum of five years for home improvement/repairs and ten years for house construction and house/lot acquisition.
- While most clients for housing microfinance are existing microfinance clients who have demonstrated a track record with the financial institution, new clients may also be accepted subject to cash flow analysis and affordability



## Specific Approach of the BSP

- For House construction and house/lot acquisition loans, secure tenure instruments will be recognized as collateral. I.e.:
  - Usufruct
  - Lease
  - Freehold Agreement
  - Right to Occupy



## Specific Approach of the BSP

Due to the risk characteristics that are different from the typical short-term microfinance loan, the following reinforced risk management features are embedded in the product:

- Clients ability to repay based on cash flow analysis and affordability
- Opening a savings account is required
- Secure Tenure instruments as collateral/ collateral substitutes
- Adequate loan monitoring, collection, control, provisioning
- Accreditation/ Qualification of bank that will provide the product subject to certain standards



# Specific Approach of the BSP

- Provision of Incentives to Banks - Housing microfinance should ultimately be a business decision of the financial institution, but certain regulatory incentives may be provided by the BSP to support this undertaking. The following incentives are being considered in addition to existing incentives available for microfinance:
  - Housing microfinance loans shall be eligible as alternative compliance to mandatory credit allocation to agrarian reform and other agricultural credit. At present, credit for socialized housing is considered an alternative compliance to this mandatory credit requirement.
  - The loans shall have an assigned risk-weight of 50% risk when not guaranteed and as low as 0% when guaranteed by government guarantee program particularly with the Home Guarantee Corporation (HGC)



## Specific Approach of the BSP

- Allowing the 90% loan value for those secured by REM  
- Manual of Regulations for Banks requires a maximum valuation of 70% of appraised value of REM (Sec X311, MORB) but allows for a higher valuation (i.e. 80% of appraised value of REM) for loans for home building and subdivision development for low and middle income families. In this regard, the BSP may further accommodate housing microfinance by allowing 90% loan valuation, taking into account the guarantee component.
- Recognition of secure tenure instruments as collateral/ collateral substitute



# Lessons Learned and Opportunities Moving Forward

- Initial product approval was made in 2008 with limited take up so far
- After observing the experience of pioneers/innovators, a more general application of policy and fine-tuning of regulation is necessary
- Housing microfinance should be effectively mainstreamed as one product of the banks' microfinance operations



**End of presentation.**

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