CAPITAL-MARKET FUNDING OF AFFORDABLE HOUSING FINANCE IN EMERGING COUNTRIES: THE BUSINESS CASE

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Two-thirds of the world's emerging market population subsist with inadequate housing. India alone has an unmet housing need of 20 million units (Trevedie, 2004). This unmet demand is likely to increase as urban populations continue to grow rapidly, particularly in South Asia and Africa.

Families are moving to cities with scant resources but with an entrepreneurial spirit and a strong desire for the habitat essential for a modern life – shelter, secure tenure to property, water, drainage, sanitation, and electricity. A key challenge, then, is to connect capital markets with low-income, rapidly-urbanizing populations to improve their habitat and living standards. These families need the basic financial products and services that most households in developed markets enjoy: short-term and long-term savings vehicles, credit instruments, insurance products, and property rights. In much of the developing world, the penetration of financial services to the low and moderate-income majority remains remarkably limited. Mexico, Colombia, and Honduras have a total population of 160 million people and a share of loans plus deposits to gross domestic product (GDP) of less than 30% (ProCredit, 2007). This compares to the over-leveraged Britons with personal debt to GDP of over 100% (Grant Thornton, 2008). Mortgage debt to GDP is only 3% in Brazil, 5% in India, 10% in Mexico, against 72% in the United States (Sources: ProCredit, Boston Consulting, World Bank, Assocham, 2007*).*

Some emerging countries have made substantial progress in serving the middle class with housing finance. Founded in 1977, Housing Development Finance Corporation (HDFC), an Indian bank, was originally built on the provision of mortgages for the middle class, well before adequate property rights were available to secure for such loans. HDFC has diversified into a full-service bank with a market capitalization of over US$8 billion, the third largest in India. In Mexico, the government chartered wholesale financier Sociedad Hypotecaria Federal ("SHF") has also made serious inroads into delivering products for the middle-class in partnership with an industry of mortgage banks (housing Sofoles) that emerged after the Tequila Crisis in 1994.

Despite these public and private examples of success, the vast majority of the 4 billion persons that constitute the bottom two-thirds of the income pyramid spend more than US $400 billion annually on housing (WRI, 2007). So, given the demand, why isn't the private sector more actively involved in supplying finance to the 440 million households with incomes of $5 to $8/day (Warnholz, 2008)?

The reasons are many. However, there are two main bottlenecks: (1) the lack of viable institutional partners capable of serving this market; and (2) long-term funding in local currency. Supplying these two missing elements is a classic chicken/egg problem. Without access to the funding, the institutions cannot develop; but the money will not flow to the institutions until they have adequate capacity. Successful retail housing finance delivery requires a joint application of institutional capacity-building and funding, partly through capital-markets development. The following discusses each of these key bottlenecks and the process for overcoming them.

Institutional partners

Who currently addresses this market?

At the frontlines of delivering credit to this market are microfinance institutions (MFIs) – regulated and unregulated – non-profit foundations, credit unions, cooperatives, finance companies, banks, and home improvement retailers. Microfinance institutions have an estimated total loan portfolio of US$25 billion (Deutsche Bank, 2007), with roughly 20% in housing. Little data is publicly available on home improvement retailers' portfolios of consumer credit for building materials. However, some recent studies in Brazil (Cities Alliance, 2007; Ashoka, 2007) suggest that these retailers finance approximately 20% of housing investment in that country alone – approximately US $5 billion per year. Since building materials retailers extend consumer credit in many dynamic emerging markets (e.g. middle-income Latin American countries, India, Indonesia) to remain competitive, the total volume of affordable home lending through this mechanism most likely far exceeds others.

MFIs

Robinson has estimated that only 200 MFIs were commercially viable in 2001 worldwide. Perhaps 100 have sufficient scale, operations and experience to address housing finance now. A few MFIs are, indeed, expanding their housing finance operations rapidly. Housing portfolios (home improvement and mortgage lending) at seven MFIs in the Accion network are growing at around 50% annually (ACCION, 2007).

However, MFIs have for the most part focused on higher-margin, short-term working capital lending , more than housing. Many MFIs have introduced a home improvement product over the years, recognizing that the home is also the workplace. Some have also ventured into longer-term housing loans for new construction and purchase of new units.

Many MFIs view longer-term housing loans, in particular, as a defensive product, aware that commercial banks will otherwise poach their best customers in highly competitive markets. MFIs that seek to offer a full suite of financial products and services to their clients believe that housing is an essential credit product. Properly managed, housing's long term asset/liability financial structure should increase stability, enhance overall revenues, and reduce risk. To understand this, MFIs must fully study the costs and benefits of housing finance from a complete lifetime customer value perspective.

Increasingly, larger MFIs have converted into regulated, deposit-taking banks – a process that requires improving their governance, transparency, and operational capabilities – the preconditions to MFI success in housing finance. Uniquely suited to address informal low-income workers, large, regulated MFIs are becoming excellent potential channel for housing finance.

Cooperatives

Cooperatives have strengths similar to those of MFIs, with the added benefit that they have achieved substantial scale in many markets. They have also been able to mobilize low-cost savings and are typically regulated. Housing is very important to their membership. In certain markets such as Peru and Bolivia, cooperatives are among the strongest financial institutions in the market. In Mexico, they are large, but not as operationally efficient. Due to the non-profit associative structure of cooperatives, risk management and governance quality varies greatly.

Credit Unions

Credit unions have traditionally served salaried workers with slightly higher incomes than MFIs. They offer many of the benefits of MFIs and, as cooperatives, have the ability to take deposits. While credit unions are usually regulated by their central banks, their nonprofit ownership status can create challenges in managing a housing finance product. For example, in attempting to pursue recovery of a loss in the event of a default on a housing loan, the credit union might face legal obstacles as the recipients of these loans are also their members/shareholders. When credit unions have a high exposure to one cyclical industry or company, their reliance on salaried workers can also increase credit risk.

Consumer Finance Companies

Some large-scale consumer finance companies have entered the home improvement finance marketplace in large economies such as Brazil, Mexico, India, and Indonesia. Financiera Independencia in Mexico recently expanded its offerings to include a housing microfinance product that joins low-cost funding and a subsidy to households from

SHF (see the paper by Bruce Ferguson, “Housing Microfinance: Is the Glass Half-Full or Half-Empty?”, in this issue of *Global Urban Development Magazine* for details on this case). The results have been an astonishing growth in clients.

Consumer finance companies spend much less time evaluating the creditworthiness of their borrowers, and generally have higher arrears rates than MFIs. Depending on the strength of their underwriting, they could face substantial trouble in a recession. Although consumer finance companies offer short-term home improvement loans, they usually avoid longer-term, larger housing loans for other purposes.

Home Supply Retailers and Home Builders

In dynamic economies with limited sources of institutional housing finance, large homebuilders frequently supply purchasers with home credit in some form. In Brazil, large homebuilders often require that purchasers commit around half the purchase price in advance of building and accept the remaining half in the form of a few installments over a period of time after occupancy.

Homebuilding materials manufacturers and retailers have also realized that they are leaving large segments of the population without the credit necessary to purchase their products. In Peru, Maestro Home Center, the country’s largest home improvement retailer, has partnered with a bank to issue credit cards to the informal market. Corona, a large home retailer in Colombia, has an internally-managed home improvement credit product that is marketed through a network of low-income, neighborhood female sales representatives (see the case study by Gutierrez in this issue of *Global Urban Development Magazine* for details). The company has plans to expand this popular product from a pilot phase.

Long-term funding in local currency

Competitive interest rates and longer terms in local currency are essential to funding housing credit.

Structuring capital markets issues for housing finance in emerging economies

Achieving such competitive funding on capital-market debt for housing occurs through structuring issues properly. Capital-market debt issues typically have “senior” tranches that offer priority in payment in return for a lower investor interest rate. In turn, “junior” tranches subordinate payment to the senior tranches in exchange for higher investor returns. The greater security of senior tranches (called the level of subordination) and the credit rating of the institutions and the countries where lending occurs (called the “sovereign risk”, which generally is also the ceiling for the nations’ corporations) are key factors in attaining “investment grade” ratings from credit rating agencies (e.g. Standard & Poor's, Fitch etc.). Due to the emerging nature of investment, institutional investors generally have required AA or AAA ratings for senior tranches. Higher-risk junior tranches are typically held by development finance institutions (DFIs) such as the private-sector arms of multilateral donors, non-profit foundations, or other socially minded investors.

From the perspective of capital markets, long-term transactions in countries with marginal credit ratings become very expensive, and require very high levels of expensive subordination to achieve investment grade senior tranches of a transaction. Assembling a portfolio of housing loans from various MFIs, credit unions, and home retailers in emerging countries with a wide range of sovereign risks might produce an overall credit rating of BB – significantly short of investment grade. To achieve an AA rating on the most senior tranche might require 40 to 60% of the transaction structured with subordinate debt. As the subordinate debt carries much higher pay rates, this can quickly escalate the cost of overall blended cost of a structured debt transaction.

A central issue in structuring issues is to remind rating agencies that defaults have been rare in microfinance, and that commercial loans (most housing transactions would be structured as secured commercial loans to international financial institutions) in emerging markets have quite high recovery rates. Fortunately, considerable empirical evidence exists to back up this conclusion. A 27 year study conducted by Citibank, showed an average loss in the event of default (“LIED”) of only 31.8%. In other words, investors should expect to recover 68.2% of the default amount for commercial and industrial loans (Citibank, 1998). There is far less data on losses and recoveries for low income borrowers in emerging markets. However, the risks of home lending in emerging economies display some considerable differences with those in high-income countries that require explanation to investors, rating agencies, and others involved in the investment process:

Risk

Secured versus unsecured lending

In high-income countries with solid legal systems, loans secured by mortgages carry much lower risk than those without. Correspondingly, the ratio of the loan amount to the appraised value of the property holds crucial importance for mortgage portfolios in advanced economies.

For many reasons, securing housing loans with mortgages increases security and reduces risk much less in emerging countries. Homeownership in emerging countries is much more crucial to families' economic and social security then in affluent countries. A survey conducted by the Inter-American Development Bank in 2007 indicated that the two most important needs for emerging market consumers were housing construction finance (47%) and health/life insurance (47%).

The importance of housing shows up in the housing portfolio statistics of microfinance institutions. A survey conducted by ACCION International (2007) shows that delinquency rates at seven MFIs in Latin America and the Caribbean ranged from 0.5% and 2%, consistently better than portfolios of working capital loans at the same institutions. At BancoSol in Bolivia, the portfolio at risk ("PAR") greater than 30 days, in effect those paying more than 30 days late, for housing loans that are secured or unsecured both average less than 1%. Compare this to a PAR greater than 90 days of more than 6% in the United States today!

Most homeowners in emerging markets lack full legal title to their homes, but still have security of tenure. As Hernando de Soto likes to say, the dogs know the boundaries between properties in most emerging markets. With the exception of the Newly Independent States and Eastern European countries – which have well-established real property records – there are only a few emerging countries (such as Peru and El Salvador) where governments have instituted reliable, low-cost property registries that can conduct a title search or record a mortgage quickly. In federal countries such as Brazil and Mexico, state governments make real property laws, operate real property registries, and often employ the police and other agents involved in executing foreclosures and other processes related to real property. Not surprisingly, the performance and the accuracy of real property registries vary tremendously among states. When loans do go into foreclosure, the experience is usually slow and expensive; a three-year foreclosure period is a reasonable estimate for a majority of emerging markets.

Once the property is finally foreclosed, the financial institution may have great difficulty selling the home to recoup their cost because of thin real estate markets. Many households buy and occupy a home for life, and then pass the property to their heirs. Thus, resale markets are spotty.

In summary, foreclosing on mortgages is so difficult and costly that it is impractical in many contexts. As the portfolio qualities of secured property loans are so high, experiences with delinquencies are rare. Where there is a willingness to pay, the vast majority of loan officers will make every effort to re-negotiate the loan terms. As a result, microfinance institutions and other low/moderate income home lenders focus great effort and attention on underwriting informal borrowers so that they can avoid foreclosure in the first place.

Non-mortgage forms of security and lending practices hold more importance to reducing risk. Some MFIs have been able to reduce risk by using very conservative cash flow-based underwriting techniques. Where property rights are difficult to manage, MFIs may require co-signers, group or solidarity guarantees, and/or assignments of non-fixed, personal assets to underwrite loans.

Credit Underwriting

Especially in low-income markets, prudent lenders extend credit based almost exclusively on capacity to pay. Non-salaried workers are often a safer bet than salaried workers – the reverse of high-income countries, where lenders prefer salaried workers over the self-employed. Independent entrepreneurs do not rely on employers for their livelihoods, and cannot be fired. They offer goods and services less tied to the global economy and may be more resistant to the frequent fluctuations of emerging economies.

Some lenders limit principal and interest on debt service payments to 50% of self- or informally-employed borrowers' free cash flow after deducting all debt service and living costs. Because there usually aren't tax returns or pay stubs to validate, MFIs must go to elaborate steps to create cash-flow statements and balance sheets for their micro- and small-scale borrowers. Mortgages lenders, banks and credit unions in the same markets may use the more familiar maximum ratio of 30% of housing debt to after tax income for underwriting home loans to salaried workers. Loan-to-value ratios of up to 80% are common.

Political risk

In addition to the conventional risks of lending, political risk is always a reality with housing. After the credit crisis in Colombia in 2000, the government capped real interest rates at 11% for low-income borrowers and 13% for all other secured home loans of greater than five years' duration. These interest-rate caps have greatly restricted the use of government housing subsidies because they must be joined with home credit, which interest rate caps has made unavailable to most low-income households, in order to complete the amount necessary for the housing improvement or purchase. In Nicaragua, the government has recently intervened in state-run microfinance operations. Political risk insurance from entities such as the Overseas Private Investment Corporation (OPIC) may be warranted in selected emerging markets. Efforts should be made to lift interest-rates caps in order to attract more capital sufficient to develop large-scale efficient operations and, eventually, lower interest rates.

Currency Risk

Any properly structured global housing transaction should facilitate lending in local currency, or the expected final borrower's primary income currency (some emerging countries operate mainly with or have officially converted to the US dollar). Investors, on the other hand, don't usually want to take the currency risk and seek to hedge this hazard. Until recently, private investors have been unable to obtain hedging solutions for some currencies (e.g. Nicaraguan Cordobas) for periods greater than three years. Long-term local currency hedging issues can often be resolved by new currency exchanges offered by the World Bank and TCX, the currency exchange. TCX absorbs the currency risk by swapping hard currency (Euro/Dollar/Yen) positions with local positions for up to 15 year periods on a floating or fixed basis.

Return

Real interest rates on funding to intermediary financial institutions (which are called "wholesale" interest rates) must be positive to attract investors, both local and international. The expectations for return of international investors vary depending upon institution – foundation, donor, socially-motivated investor, and others. Depending on the transaction, institutional investors will invest in various pieces or "tranches" of transaction. There is generally one or more junior or subordinate tranches in a structured deal. Given the current risk environment, conservative institutional investors will typically focus on senior, highly-rated AAA and AA tranches at small yields over the 10-year LIBOR (the London Interbank Offered Rate is the rate at which banks lend to one another) swap rates. The 10-year LIBOR swap rate converts a local floating rate to a fixed 10 year loan, usually at a small premium over the US dollar or Euro treasury bond rate. DFIs and non-profit foundations have been willing to invest in this area at concessionary rates to help develop long-term capital markets and to support housing finance for low and moderate- income borrowers. The DFIs are also willing to invest in the technical capacity of the local financial institutions (called here "intermediary financial institutions", (IFIs)) that lend these funds to the final household borrower.

The local intermediary financial institutions must also earn a margin high enough to cover their costs, earn a profit, and capitalize their organization so that they can grow. MFIs and others that extend credit to low-income borrowers typically must charge real rates (that is, the nominal rate minus the inflation rate) of 8% to 15% per annum for long-term mortgage finance (known as “retail” interest rates) to build or purchase a new home in order to be profitable.

In turn, low and moderate-income households typically can afford to borrow smaller amounts in the form of unsecured credit at higher rates for key housing improvements. In Latin America, households accept paying 3%-5% per month as the cost of doing business for credit for the purchase of building materials to replace a dirt floor with tile or cement, or to add a room. While these rates seem high, they reflect the small loan balances ($500 - $5000) and high underwriting and servicing costs as well as the lack of competition. Competition among lenders joined with stable macro- financial conditions does eventually push rates down. For example, these factors have forced rates for small home improvement credit down from well over 60% per annum to around 30% to 40% per annum in Peru and Colombia over the last five years.

In practice, balancing risk and return to arrive at appropriate interest rates for funding affordable housing finance is an art more than a science. Windows of opportunity open and close with changes in global and local financial conditions. In early October 2008 (as of the writing of this paper), the rate at which banks lent to each other reached over 4.5% above the corresponding US Treasury rate because of the credit crunch, making capital-markets funding of affordable housing in emerging countries unfeasible. This compares to a premium of 0.50% in early 2007 – a level that would permit capital to flow locally and to emerging markets.

Longer terms

The term of loans is a crucial factor in balancing risk and return. Currently, most housing finance institutions in emerging countries depend upon very short-term liabilities – such as demand deposits – to fund housing loans with substantially longer terms. This mismatch creates substantial interest-rate risk for the institution. Banks face four types of interest rate risk: *basis risk* arises from lending and borrowing based on different reference sources (i.e. prime rate vs. libor rates in the US); *yield curve risk* comes from borrowing short and lending long; *repricing risk* occurs with mismatches between the assets and liabilities (i.e. borrowing at a fixed rate and lending at a variable rate); and *option risk* arises when loans can be pre-paid or extended beyond expected maturities.

Terms for housing finance funds must be long, but how long?

Of course, increasing the term of housing loans reduces monthly payments and increases affordability. Extending the term of a loan with a 15% interest rate from five to 10 years reduces the monthly payment by 32%, and yet extending from 10 to 15 years only reduces the payment by an additional 13%. In a high interest-rate environment, 10 years seems to be an optimal risk/benefit point for a loan term to household borrowers.

However, families as well as financial institutions often resist increasing the term of housing credit. Low and moderate income households in emerging countries live in a much more volatile economic environment, where incomes and employment fluctuate widely over periods typical of mortgage finance in high-income countries (20 to 40 years). As a result, families avoid taking long-term credit that would put their home at risk and often pay off housing loans as soon as they can, frequently in as little as two years for smaller home improvement loans. To reduce risk, low/moderate home lenders sometimes require participation in a prior savings program and a lengthy payment history before they grant longer-term loans.

The terms offered by the Peruvian commercial microfinance bank MiBanco – the premiere affordable housing lender of Latin America (see Ferguson's paper “Housing Microfinance: Is the Glass Half Full or Half Empty?” in this issue of in this issue of *Global Urban Development Magazine* for more details) illustrate how these factors play out in practice. MiBanco’s MiCasa program offers home improvement loans of up to $10,000 for up to five years without a mortgage guarantee. The requirements include an actual remodeling or home improvement plan, income verification, and a valid title (but not necessarily official recordation in real property registries). Payments are made on weekly, biweekly or monthly basis depending on underwriting criteria. Effective interest rates range from 33% to 55% per annum.

MiBanco's Mihipoteca product offers a local currency loan secured by a mortgage of up to 15 years at an effective annual rate as low at 17.17% on amounts of $10,000 to $96,000. For independent workers, this bank requires multi-risk insurance, mortgage of a valid registered title, a business or association license, and at least six months of operating history.

Thus, setting an appropriate term for funding is an alchemical process. In the current context, terms of 10 years for the wholesale funding extended to local intermediary financial institutions for affordable home finance appear reasonable. On the retail side, terms of 10 to 25 years for mortgage finance to purchase or construct a new home often suit moderate and middle-income households. The term of small home-improvement credits to low-income households usually ranges from one to five years. Frequently, lenders will set the term of small home improvement credits within this range at the shortest period that makes the monthly payment affordable to the household.

Process

Funding

Long-term local currency funds are essential to build an affordable housing finance market. Up until now, such funding has been provided mainly through DFIs lending directly to local institutions, typically through second-tier housing liquidity facilities (see below). But there is a case to make for private-sector actors who can listen to the market and design products quickly and efficiently, and also reach a broader number of smaller first-tier institutions as well.

Privately managed global, regional and national wholesale financial vehicles can do this job. At the start, global structures may make the most sense as they offer investors the chance to diverse risk across countries. Private global transactions can help local intermediary financial institutions reach the minimum efficient scale for affordable housing lending – at least $100 million.

Private sector issuers of debt can partner with IFIs to jump start the market. For example, the Alsis Funds has launched a fund to acquire mortgage assets in Latin America with funding from U.S. Overseas Private Investment Coporation (OPIC), International Finance Corporation (IFC), and private investors.

Standardization

Regardless of the source of funding, establishment of norms for local affordable home lending (call "loan covenants") can help develop the market (standardization of underwriting and servicing procedures, lower rates for mortgage collateral).

Until the recent credit crisis, microfinance investment vehicles (MIVs) have delivered several billion dollars in funding over the past four years (but very little of it earmarked for housing). While the MIVs have helped bring sophisticated debt instruments to emerging-market borrowers, the MIVs have generally refrained from standardizing underwriting and documentation. However, such underwriting covenants not only help to ensure that the transaction is safe for investors, but also stimulate local markets to develop.

Covenants by the funding source appear particularly important for affordable home lending. For example, SHF's conditions for lending have, in effect, regulated the successful operation of the housing Sofoles in Mexico.

If local investors know that all of the IFIs within a market must adhere to a common set of standards in underwriting and documentation, they should be more likely to have confidence in purchasing those assets at a future date.

Second-tier Liquidity Facility and Private-Sector Investment

One way to provide long-term competitive funding in local currency is to create a local second-tier housing liquidity facility. This facility typically takes equity capital from central government and, sometimes, multi-lateral donors.

These liquidity facilities then raise debt from multilateral donors as well as the private market – first domestic and then international – and on-lend these funds to local IFIs. In turn, these IFIs extend home credit to the final household borrower.

Donors and governments have joined to create such second-tier housing liquidity facilities in many of the larger, more-developed emerging economies, including India, Malaysia, Mexico, Peru, and Colombia.

Such second-tier housing liquidity facilities have definite advantages and disadvantages. On the positive side, they help to get markets moving by providing liquidity. If home lenders know they have a well capitalized buyer in place, they may be more likely to lend to homeowners in the first place. On the other hand, the financial debacle in 2008 of Freddie Mac and Fannie Mae – the enormous second-tier housing finance institutions of the US (jointly owning or guaranteeing 70% of the $12 trillion in home mortgages outstanding in the US) shows that mistakes in structure and regulating second-tier liquidity facilities can have dire consequences for the market.

Alternatively, the private sector can invest in first-tier home lenders. Successful private-sector investment in middle-income emerging market housing finance include SA Home Loans in South Africa, Su Casita in Mexico and HDFC in India. SA Home Loans was formed as a partnership between management, Standard Bank, JP Morgan and IFC. Su Casita received $14 million in initial capital from IFC and the US homebuilder, Pulte Homes, in 1994. Su Casita built up a $5 billion servicing business and was sold in 2008 to a Spanish Bank. HDFC is now the third largest bank in India. These successes serve as examples of the market potential in responding to the home ownership desires of the middle class in emerging countries.

Private and Public Investment in Technical Capacity

Technical assistance funding by the public sector and non-governmental organizations (NGOs) can enhance and speed this process of private investment Such technical assistance funding can help build risk, market, and treasury capacities at MFIs, finance companies, and home improvement retailers that provide affordable housing finance.

The technical assistance should cover areas such as: (i) conducting and monitoring market information; (ii) developing mortgage, home improvement, and other home related loan products; (iii) processing and tracking forms; (iv) mortgage lending operating manuals (operating procedures and lending documents), including: regulatory, title, security instruments; accessing subsidies for final beneficiaries, developing mortgage guarantee programs; selection of service providers (i.e. insurance, appraisers, inspectors, bankruptcy repossession); creating underwriting standards; compliance with building standards and codes; (v) sample loan files and tracking reports, (vi) risk management, vii) servicing, and (viii) refinancing, work-outs, and repossession. A high level of standardization can be achieved through an action plan to ensure that each IFI puts in place the procedures and controls to ensure that they reach the required levels.

This no or low-cost technical assistance “equity” should be invested where financial incentives are greatest or encourage development of smaller markets. Examples of technical assistance funds for housing include funds from GTZ (German Agency for Technical Cooperation) in Africa, SIDA (Swedish International Development Cooperation Agency) in Central America (see article by Irene Vance “Putting the ‘Housing’ Back into Housing Finance for the Poor: The Case of Guatemala” in this issue of in this issue of *Global Urban Development Magazine*), and the IFC’s Housing Toolkit for Africa.

Conclusion

With a major increase in appropriate long-term funding, investments in technical capacity and second-tier liquidity facilities, private capital should have a substantial role to play in developing the markets and institutions to serve the bottom two-thirds of the income pyramid with housing finance services across the emerging world.

Experience will be certainly different by country and region. The strongest prospects for immediate growth may not necessarily come from commercial banks alone, despite their financial and management strengths. Business alliances among a range of financial institutions (commercial banks, MFIs, housing cooperatives, and credit unions) and home suppliers (homebuilders, land developers, building materials manufacturers, and retailers) are essential to reach these markets at massive scale.

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