

# 27<sup>th</sup> IUHF World Congress

## Demand-Side Stimuli in Housing Finance – Experience from Developing Economies



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## Outline of the presentation:

- Demand for housing finance products in emerging markets
- Case studies:
  - Kosovo – offering small scale loans
  - Armenia – helping capital market development
  - Georgia – improving product range and customer service
- Conclusions

## Demand for Housing Finance in Emerging Markets (I)

- Potential
  - Increasing urbanization tendency
  - Low starting base
  - Young and dynamic populations
  - Economic growth and income rise
  
- Driving forces
  - Incentives to credit growth
  - Entrance of foreign banks

# Kosovo



## Kosovo: offering small scale loans (I)

### Objectives:

- Make a significant and long-term contribution to improvement of housing conditions in Kosovo through putting in place sustainable credit-based mechanisms and the development of a housing finance market
- Facilitate through an initial round of loans the upgrading, repair or reconstruction of some 500-800 houses (with revolving of loan funds subsequently extending the number of direct/indirect beneficiaries)
- Stimulate the injection of complementary banking and homeowners' private funds for the replenishment of Kosovo's depleted housing stock

## Kosovo: offering small scale loans (II)

### Characteristics of the approach:

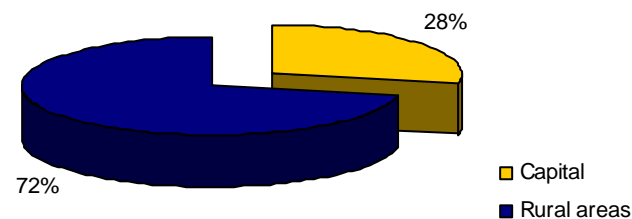
- Cooperation with 2 banks and one microfinance institution in offering home improvement loans
- Loans offered to salaried households and/or small entrepreneurs
- Loan characteristics:
  - Max. maturity 60 months
  - Max. amount 25,000 EUR
  - 20% self contribution of investment
  - Pledge and co-borrower guarantee accepted. Loans above 10,000 EUR to be secured by mortgages

## Kosovo: offering small scale loans (III)

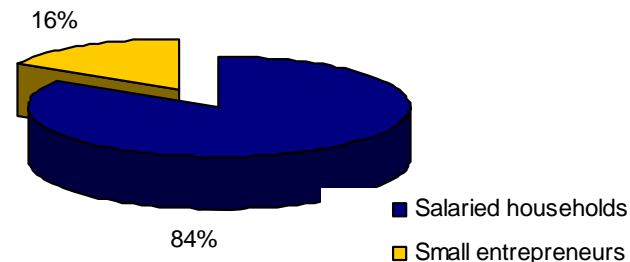
### Some figures:

- High demand resulting in 14.5 million EUR outstanding portfolio within 2 years
- Average loan amount at 5,107 EUR
- High repayment quality, PAR 30 days below 2%

Regional distribution of loans



Income type distribution



# Armenia





## Armenia: helping capital market development (I)

### Economy and banking sector:

- Strong economic growth during the last years with inflation at moderate levels
- Strengthening of banking sector and entrance of foreign players
- Improved risk management

### Housing sector:

- Vibrant construction sector in the capital
- Large demand for improvements of old housing stock
- Strong price increase, thus declining affordability (150-200% during the last two years)
- Decreasing interest margins

## Armenia: helping capital market development (II)

### Product features and underwriting:

- Loan amount set at a maximum of app. 30.000 USD
- LTV ratio at 70%
- PTI ratio at 40%
- Property and disability insurance
- Maturity > 10 years
- Collateral in form of mortgage
- Local currency lending

## Armenia: helping capital market development (III)

### Standardization and market development:

- Refinancing of home improvement loans and purchase loans for 11 partner financial institutions. Average loan at 17,000 USD
- All loans adhere to strict underwriting criteria thus creating standard portfolios
- Creation of a liquidity facility in local currency
- Creation of a cadre of trained people in mortgage lending area
- Implementation of gained knowledge into the daily lending practices
- Application of learning in loan origination, servicing and risk management

# Georgia



## Georgia: improving product range and customer service (I)

### Economy and banking sector:

- Strong economic growth during the last years with inflation at moderate levels
- Strong lending growth (households and corporate)

### Housing sector:

- Vibrant construction sector in the capital and at Black Sea coast
- Large demand for new housing stock
- Strong price increase, thus declining affordability
- Increasing competition among banks

## Georgia: improving product range and customer service (II)

### Project features:

- Only 4 banks offer mortgage loans in Georgia
- Frankfurt School assisted two banks in:
  - Creating/Reshaping marketing strategy
  - Redesign mortgage products (in line with increasing demand)
  - Define and attract new target groups (people from Diaspora investing in their home country)
  - Introduce simplified savings linked loans
  - Develop credit policy and manuals
  - Intensive training to loan officers on customer service

## Georgia: improving product range and customer service (III)

### Achievements of the project:

- Volume of mortgage lending grew to 237 million USD in 2007
- Product range has been enlarged

### Challenges ahead:

- High interest rates (14-18%)
- Rising house prices
  - Large prices increase 2003-2007
  - From 400 USD per sqm. to 1.200 USD per sqm. in the capital
  - From 200 USD per sqm. to 800 USD per sqm. in other cities
- Macroeconomic and political stability

## Conclusions

### Market potential

- Growing demand for housing finance (new purchases and home improvements) in Southeastern Europe and Caucasus

### Critical factors

- Strong price increase evidenced in almost all countries, thus reduced affordability
- Strong underwriting criteria are needed to avoid later bad loan portfolios
- Economy under growing pressure from inflation and interest rates



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