

Private sector backs micro-mortgages for the poor

UN-HABITAT, the Global Housing Foundation (GHF) and Merrill Lynch signed a Memorandum of Understanding on 25 October 2007 to explore ways of meeting the Millennium Development Goals for improving the lives of the world's slum dwellers. Here **Axumite Gebre-Egziabher**, the Director of UN-HABITAT's New York Office, **Tim Wilkens**, President, The Global Housing Foundation, and **Laurence Schreiber**, Managing Director Merrill Lynch, explain how it will work.

The partners set to work by launching a micro-mortgage financing initiative for low income housing in Latin American cities for which Merrill Lynch is expected to provide initial financing of USD250 million.

It is important to recognize that the three way partnership is based on the framework of social responsibility and accountability. The main objective is to reach the working poor segment of the world's 1 billion urban slum dwellers and offer them the opportunity to own a quality home that can be financed on a long term basis with a micro-mortgage, and in the process, help develop or revive the local economy.

Local developers build the homes on an agreed profit basis and local banks provide the loans. The homes are designed to meet a minimum standard for housing in each locality and contain a bathroom, kitchen, individual rooms, clean running water, a septic system and electricity. Families currently living in slum areas will be selected based upon their qualifications to repay the micro-mortgage. Priority will be given to women-headed households. Those getting the mortgages can be teachers, nurses, taxi drivers, or others who until now have not had a source of long-term financing to purchase a basic house and rise out of the slums. The initiative is focused on this segment of the slum dwellers, those who live in overcrowded temporary shelters and lack security of tenure, safe drinking water and adequate sanitation.

UN-HABITAT and the Global Housing Foundation will execute the initiative in close cooperation with the communities, local authorities and the government ministries in the pro-

vision of land and infrastructure at an affordable cost. The initiative includes community development work and financial literacy for the selected families. It will be governed by and operate on the basis of respect for private property rights, the creation of secure lending practices, and wherever possible, the promotion of gender equality and the empowerment of women by requiring title to the homes to be in the woman's name. Work has already started in Nicaragua, Panama and El Salvador. It is hoped that about 1,000 homes will be completed by the end of the year. Talks on taking the initiative elsewhere in Latin America, as well as Africa and Eastern Europe have also begun.

The initiative can transform the lives of many slum dwellers into proud home owners in a relatively short period of time. It incorporates water treatment systems to provide clean and inexpensive drinking water. The qualifying families then have a home with all the benefits of safety, security, elevated social status, and the uniting of the family members in their household. State-of-the-art site planning is also offered to give the developments a strong cosmetic appeal.

The initiative brings together local developers, banks, and municipal governments while developing minimal housing standards for families making the transition from the slums to their first affordable home. The estimated cost of a home for this initiative may vary from USD6,000 to USD18,000 depending on the country. The local banks qualify the home purchasers, originate the micro-mortgage and service the loan even after it is sold. Most of the local banks that originate the

loans also provide the developer with the construction financing for the development. Once the originating bank pools USD 1,000,000 of loans and seasons them for one year, they are eligible to participate in the Merrill Lynch financing programme. Merrill Lynch will then use its global distribution platform to syndicate that risk into the market for investors who want to own socially responsible investments.

As indicated in the MOU, "to reduce the costs of this loan syndication, UN-HABITAT within the framework of its experimental reimbursable seeding operations will mobilise grant resources to provide credit guarantees on the portfolios. These credit guarantee terms will be agreed upon by Merrill Lynch, the Foundation and UN-HABITAT on terms that are mutually agreeable by all parties. It is envisioned that a given level of credit guarantee would allow four times that amount of financing to occur (i.e a USD50mm guarantee would facilitate up to USD200mm of financing)."

The initiative is designed to be self-sufficient without relying on subsidies after the initial start up period. Progress reports of the initiative, including audit reports, will be issued to ensure transparency and programme compliance with the established standards.

The initiative is expected to revitalize the local economy involving the construction of houses, creating local jobs, producing building materials and the circulation of money with the local banks. It is hoped that the initiative will become the premier global programme which transforms the lives of slum dwellers into proud home owners.

The Global Housing Foundation was founded in 1999 by Rene Frank and enjoys Special Consultative Status with the UN. It was established as an independent, U.S. and European based not-for-profit organization that leverages the expertise and resources of the private real estate community to build new affordable housing in inner-city slums around the world. Merrill Lynch is one of the world's leading wealth management, capital markets and advisory companies, with offices in 38 countries and territories and total client assets of approximately USD1.8 trillion.