



OPPORTUNITIES *for the* MAJORITY

Affordable Homes and Mortgages for Nicaraguans

Rent to Own

Low-income and self-employed Nicaraguans face two serious obstacles when looking to buy a home: a shortage of affordable housing, and difficulty in obtaining a mortgage.

An innovative model is bringing both homeownership and financing within reach of Nicaraguans at the base of the pyramid. The Rent-to-Own Housing Program allows prospective buyers to rent the newly built housing unit they'd like to buy, and to use their track record of monthly rent payments to build a formal credit history and qualify for a mortgage.

The Inter-American Development Bank's Opportunities for the Majority Initiative (OMJ) is offering a senior secured loan for up to \$5 million to Banco de Finanzas S.A (BDF) Nicaragua to support the pilot rental and mortgage loan program. If successful, IDB will lend another \$5 million to scale up the model.

One Solution for Two Problems

Three quarters of low-income Nicaraguans are self-employed or work outside the formal economy. A majority—more than in most Latin American countries—either has no access to banking services or does not use them. They have no formal credit history and no collateral to qualify for a mortgage.

Yet, formal housing solutions—where buyers obtain legal title to their home and access to power, safe drinking water and sewage—are almost always financed by commercial banks.

With little prospect of homeownership, most low-income Nicaraguan families live either in substandard or overcrowded housing, or pay high rents. Most low-income housing is informal, built by families, often without adherence to building codes, access to public utilities, or title to land.

BDF's Rental Program changes that. The bank, the fourth largest in Nicaragua, will buy from property developers housing stock valued at \$20,000 and under, which it will rent to low-income families interested in buying. The program will qualify participants by checking income, references and other sources. It will use their rental payment history over two years to help qualify them for a mortgage at market-based interest rates.

Saving on Rent

BDF's Rental Program removes a big hurdle for low-income families—the down payment—by lowering the amount of the initial up front cash payment, and by setting up a way for families to afford the lump sum.

Program participants open a savings account with BDF. Every month, a small portion of their rent payment is set aside towards the down payment and accumulates over two years. The monthly payments also include a sum for liability and life insurance.

BDF's mortgage unit will operate the Rental Program in tandem with RAFCASA, a related private financial services company with a niche business providing financial solutions for lower income and unbanked populations in Nicaragua.

With a friendly image and an accessible door-to-door sales force, RAFCASA plays a key role in reaching would be homeowners, explaining the model and assuring the smooth operation of the program. As well as qualifying program beneficiaries and negotiating with developers to build housing, RAFCASA's officers visit beneficiaries every month to check on compliance and satisfaction. They provide training in financial literacy, and assist with applying for a mortgage.

More Demand, More Supply

IDB's support makes possible the implementation of this innovative business model in Nicaragua. If the pilot generates an increase in demand for low-income housing, it's expected that more Nicaraguan real estate developers will enter this market and increase supply while reducing costs to benefit consumers. Once proven, the model could be expanded to bring affordable housing to others in Nicaragua and beyond to low-income and informally employed aspiring homeowners in other Latin American countries.



For more information about the program, contact: OM-IDB@iadb.org
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