

# Better Access to Low-Income Homes through Innovative Lending in Antioquia, Colombia



## CLIENT

The Caja de Compensación Familiar de Antioquia, Comfama, is part of a national Colombian network of private, non-profit entities funded by a 4% public and private sector payroll contribution with a mandate to provide its affiliated employees with social benefits like healthcare, housing, and financial services. It has the largest membership of Colombia's 43 *cajas*, with 700,000 employee affiliates and over 3 million beneficiaries through 47,000 affiliated companies.



## IDB SUPPORT

The Inter-American Development Bank's Opportunities for the Majority (OMJ) initiative approved a loan to Comfama of up to US\$6 million. The first US\$3 million will allow the *caja* to buy social housing units for its Lease-to-Own Program (LTO) and to scale its home improvement lending scheme that serves the base of the pyramid (BOP) in Antioquia. The second half will expand both housing initiatives but depends on whether Comfama wants to activate it and on IDB approval.



## THE CHALLENGE

The housing deficit in Colombia is particularly worrisome for the BOP in Antioquia, where Comfama operates. In this region, 41% of families rent properties, and 90% require financing in order to acquire a housing unit. There's demand for 180,000 new homes, and 170,000 are in dire need of repair.

Most BOP consumers do not have the credit record or assets pledged as security to qualify for a mortgage or home improvement loan. For their part, financial institutions don't have the methodologies to assess the repayment capacity of BOP consumers. A minimum 30% down payment is required by law to underwrite a mortgage, a huge bottleneck because Colombians at the BOP have trouble saving enough for it. Difficult access to mortgages is one of the main reasons why the government is unable to disburse existing housing subsidies to low-income Colombians who want to buy social housing units.

Several other factors make it difficult for the BOP to own or improve their homes. These include the high cost of urban lots and developers who aren't confident there will be enough pre-construction sales with qualified BOP mortgage holders.



## THE SOLUTION

Comfama designed and will sponsor a pilot of the LTO program, an innovative financing mechanism to help overcome the identified obstacles that prevent BOP families from purchasing social housing units. As part of the pilot, Comfama will buy up to 400 low-income housing units in Antioquia and lease them to member families for three years. This way BOP families will build a credit history through on-time rent payments and qualify more easily for a mortgage from a commercial lender in order to buy the unit at the end of the period. A small amount set aside in each monthly rent payment will allow beneficiaries to save enough for the down payment.

In addition, Comfama will expand its existing micro-loan Home Improvement Program to ensure its BOP affiliates in Antioquia can get loans to make home improvements with affordable high-quality materials from qualified suppliers at discounted prices. This will be complemented with construction expertise provided by Comfama technicians. Given the average home improvement loan size of US\$3,000, the expansion of the program will benefit almost 3,500 people.



Comfama's Lease-to-Own pilot program will benefit approximately 1,400 people, and its House Improvement Program will provide loans to an estimated 1,150 persons in the Antioquia department.



## INNOVATION MAKES THE DIFFERENCE

The first of its kind in Colombia, Comfama's Lease-to-Own program overcomes both major hurdles to BOP homeownership: the need for a down payment and the difficulty in qualifying for a mortgage.

By partnering with Colombia's largest private bank, Bancolombia, Comfama will help ensure that families complying with the Lease-to-Own program qualify for a Bancolombia mortgage.

The project constitutes an innovative housing finance model that could be further scaled by Comfama itself, or replicated through other *cajas*. This project will provide several lessons that will contribute to knowledge about rent-to-own business models in the region.



OMJ 2013 Portfolio



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