

# Tackling the Qualitative Housing Deficit in Costa Rica



## CLIENT

Mutual Cartago de Ahorro y Préstamo (Mucap) is a Costa Rican non-profit financial institution founded in 1970 that promotes savings and national and foreign investment to solve the country's housing deficit. Mucap takes its services directly to clients through a network of 23 agencies nationwide and 13 credit stands in stores such as Walmart, Maxi Pali, and Maxi Bodega.



## IDB SUPPORT

The Inter-American Development Bank's Opportunities for the Majority (OMJ) approved a loan of up to US\$5 million to Mucap to expand its credit program for home improvements, repairs, and expansion. An estimated 1,250 families will benefit from this project.



## THE CHALLENGE

An estimated 42 percent of homes in Costa Rica are in need of repair, expansion, or some other improvement, and nearly a quarter of those deficient dwellings are so dilapidated as to represent an immediate danger to those who live in them. The poorer the family, the more serious the problem: an estimated 83 percent of deficient housing is occupied by families living at the base of the pyramid (BOP). Although there is demand for home improvement loans, nearly 40 percent of the BOP is completely excluded from the formal financial system because loan rates, amounts, and terms are not tailored to their needs and because banks doubt their repayment capacity.

Many of the poor "self-exclude" themselves: a survey found that 73 percent of BOP families do not even bother applying for credit because they are intimidated by the paperwork involved or don't believe the loan will be approved. Government subsidies historically have focused on helping borrowers purchase new homes, leaving those who do not qualify or prefer to improve existing housing with no other option than to turn to usurious informal lenders.



## THE SOLUTION

Extending credit to poor households means not only designing accessible loans but also convincing families that, after years of financial exclusion, they are eligible borrowers. With 44 years of experience providing mortgages to low-income populations, Mucap is well placed to carry out this operation to provide 1,250 home improvement loans to families living at the base of the pyramid (BOP). To combat perceptions among the poor that loan applications are too time-consuming and complicated, Mucap makes a "10-day promise" to complete the credit process, including home visits by specialists to review the proposed improvements and budget and complete the paperwork. Mucap's close ties to the BOP market – which include designing certain credit programs in cooperation with community groups in targeted poor neighborhoods – allows it to reach a maximum number of clients with loans below its portfolio average without affecting the efficiency of its operations. Average loan amounts are \$8,000, with long-term monthly payment plans that are accessible to low-income households.



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## INNOVATION MAKES THE DIFFERENCE

Mucap is taking the lead in the BOP housing market in Costa Rica by tackling self-exclusion among borrowers. Mucap offers a competitive and attractive credit product that includes shorter approval times, higher financing amounts, and technical assistance during the home repair and improvement process. Mucap's marketing strategy plays an important role in its clients' acceptance of the credit product: the financial institution targets entire communities through a direct origination channel that gives it a broad reach. In addition, Mucap's experience as one of the first financial institutions to offer the government's family housing bonds (*Bono Familiar de Vivienda – BFV*) will allow the institution to better identify potential beneficiaries for housing financing. Mucap has pre-identified 5,000 families that benefited from a BFV but have not yet accessed housing finance.

OMJ 2014 Portfolio



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