

PROJECT SUMMARY
RENT TO OWN: ACCESS TO SOCIAL HOUSING FOR THE MAJORITY IN
NICARAGUA NI-L1065

Project Abstract

The Opportunities for the Majority Sector (OMJ) seeks to provide a senior secured loan of up to US\$5 million to *Banco de Finanzas* (BdF) Nicaragua to support an innovative Rent-to- Own Housing Program (Rental Program), whose objectives are i) to provide access to ownership of affordable social housing and ii) provide access to mortgage loans for the informal population segment in Nicaragua. The proposed Rental Program provides a targeted mechanism for low-income and informal workers in Nicaragua to gain access to a dignified, formally registered and well-constructed home. Monthly rental payments made by beneficiaries will serve to build a formal credit history in the banking system as well as build up savings that will go towards the down payment of the home; participants who successfully complete two years of on-time rental payments are virtually assured a seamless pre-qualification for a mortgage loan through BdF to purchase the property and achieve the aspiration of home ownership. The IDB loan will finance the Rental Program and the subsequent micro-mortgages, thus facilitating the purchase of the homes by low-income beneficiaries in Nicaragua.

BdF was founded in 1992, and is the fourth largest bank in Nicaragua with assets of US\$445.3 million (close to 10% of assets in the banking system) and equity of US\$42 million. It has presence in the principal regions on the country through its 30 branches and 29 ATMs and has positioned itself as a leading brand in the financial sector, experiencing solid growth in its assets, deposits, and equity, with a specific focus on mortgage and consumer banking.

The Rental Program will have a total estimated cost of US\$10 million based on monthly rental placements of 18-24 per month in the two year pilot ramp-up period and will be operated by BdF's mortgage unit in conjunction with related financial services company *Casa Rápido, Ágil y Fácil* ("RAFCASA"). RAFCASA is a Nicaraguan company that will pre-qualify all low-income and informal beneficiaries for the Rental Program and also negotiate the participation of selected pre-qualified property developers to provide the housing stock for the Rental Program, with the appropriate housing stock selected based on the Nicaraguan government's policy definitions for social housing (Law 677).

The Program will help reduce the coordination failures that have restricted the development of a healthy housing market in Nicaragua by: (i) improving the ability of low-income and unbanked beneficiaries to qualify for micro-mortgages through the rental methodology by building a payment history acceptable to BdF; (ii) increasing the efficiency of scale in the supply of social housing in Nicaragua by allowing largenumbers of low-income beneficiaries to qualify for home purchases of new social housing units after the two year rental period and (iii) allowing low-income beneficiaries to achieve the aspiration of home ownership by building up savings during the rental period which will allow them to make the initial down payment on the property; and (iv) achieving "proof of concept" for a new financing product using rental-payment based qualifications for mortgage loans; if proven successful, the product can be scaled further in the financial system in Nicaragua, and replicated elsewhere in Latin America.

