

# **JOINT CONFERENCE ON REMITTANCES**

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## **Presentation**

### **SENDING MONEY HOME: Remittances and Housing in Latin America and the Caribbean**

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# Sending Money Home

## Remittances and Housing in Latin America and the Caribbean

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Inter-American Development Bank  
Multilateral Investment Fund



# The State of Housing in LAC

- Latin America and the Caribbean (LAC) face a significant housing shortage both in terms of number of units and quality.
- The housing deficit in the region in the late 1990's was 38 million units, or 40% of the regional housing stock.
- Housing finance is substandard. A sample of 19 countries done by UNHABITAT found that only 62% of housing finance was of acceptable quality.
- Affordability is a problem; over 50% of the population cannot afford any kind of mortgage finance.



# Remittances and Housing in LAC

- For many remittance receiving families, flows sent from abroad represent a significant portion of their income.
- Surveys show that a significant portion of remittances are used on housing-related expenditures. For example, in Mexico, the percentage of remittances spent on housing ranged from 5-20%.



# Remittances and Housing: Solutions

- When added to own-source income, remittances can make many families credit-worthy. In addition, remittances can make up a large part of a downpayment.
- Remittance-backed mortgages are increasingly being promoted by financial institutions in LAC to leverage the significant remittance flows. Banks are seeking to capitalize on opportunities to cross-sell to remittance recipients, and mortgages are important to this strategy.
- Remittance-financed small loans to low income households for home improvement and expansion can also reduce qualitative defects in the housing stock.



# Housing Finance and Development

In acquiring a house, the migrant turns capital flows into equity. This in turn enhances access to credit through the availability of collateral.

Remittance backed housing mortgages tend to concentrate in low-income housing social segments and rural areas.

The migrant target population increases its financial literacy due to its exposure to financial intermediaries and services.

By increasing the size of the housing market, migrant flows also help develop local capital markets.



# Remittances & Housing: Challenges

- The lack of data on payment performance by transnational families makes risk management and modeling difficult for financial institutions.
- There are logistical difficulties of signing loans, registering mortgages, and foreclosing when one of the debtors lives overseas.
- Currency mismatches between the loan and the payment currency or the loan and the collateral can complicate lending.



# MIF Solutions

MIF's projects target the following areas:

- **Financial Literacy** of transnational families;
- **Joint-ventures and partnerships** between financial institutions at both ends of the migration; and
- **Financial support**
  - (i) long-term financing to financial institutions in either US\$ or local currencies; and
  - (ii) incentives to promote innovation and/or financial inclusion



# MIF Remittance Projects

- Sociedad Hipotecaria Federal (Mexico)
  - \$3.4 million
    - Technical cooperation project to increase the efficiency of the Mexican mortgage system.
    - Promoting ways to link remittances and mortgage finance.
- Bancafé (Guatemala)
  - \$4.3 million
    - Structured finance transaction to expand credit to SMEs and mortgage loans





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