

## Lending for Cambodia's future

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For many people in Cambodia, the idea of owning their own home is a distant dream. To save the amounts needed for a deposit can be almost unimaginably difficult. But there are organisations that are dedicated to changing that, using the principles of the microfinance institution (MFI), to provide mortgages to lower-income Cambodians.



*The staff of First Finance, with Kevin Lim (L)*

As Kevin Lim, CEO of First Finance, the country's first low-income mortgage lender, says, "we have people who work in factories, and when you talk to them about owning a home they say 'oh, maybe in the next life,' so then we get them to sit down and discuss the possibilities, and then they end up borrowing, say \$5,000, and they end up owing their own home, and they're very happy."

First Finance originally started operating in 2009, with two distinct aims: to return a profit to its investors, and to help families in Cambodia "live in dignity, security, happiness and stability through home ownership."

The company was founded by Talmage Payne, an entrepreneur with a strong ethical drive. "I've been here since 1992" he says: "I was doing humanitarian relief work originally – the country was still in conflict. It was a very different kind of time to be here – it's a very different country today." With a background in the non-profit sector, Payne was well placed to see how business could advance ethical causes. "My first MFI experience was starting VisionFund, with World Vision – out of that context I began to understand the business world better and the role of markets in driving development."

Payne believes that home ownership is crucial for the future health of Cambodian society: "It is important for the future prosperity of the country that as many people as possible be helped to get a foot on the property ladder: in any society where more people own homes, when you own the house in your neighbourhood, you care more about garbage collection, you care more about who gets elected to be village chief, commune chief, you care more about democracy; you have an invested interest in your neighbourhood, in good security, in everything," he says.

But achieving positive social change isn't the only aim for First Finance: the company has to make money. "We're here to return money to our investors, we have our own money in it too, because of our social ambitions we probably don't always look for the most profitable markets, but we are going to provide a return to our investors."

When he was working with MFIs, Payne says he became aware of the need for affordable mortgage finance, and that things needed to be done slightly differently: "There were very few options for financing homes years ago - it's definitely changing – and because more and more Cambodians were moving to the city, we had this post Khmer Rouge population boom, overcrowding houses, and there just wasn't access to capital to buy a house. The kind of risks that you take with a mortgage loan are very different than with MFI, so it seemed wiser to try this new idea in a different company."

Payne says it wasn't all plain sailing: "It took a while to get the regulators on board because it's a very different thing to loan for a house, and this was the time when mortgages globally had a bad name, so to be starting a mortgage company during 2009 was politically very difficult, in terms of what kind of risks you're taking, and the risk of titles not always being that clear here."

But Payne says things are working out well. "We've achieved sustainability, and more and more people are entering this market, and I think we've shown that there is a market." Currently the company has nearly \$5 million out on loan, and expects to double that within months. The average loan is for \$10,000, and the loan can be for up to 15 years.

Payne says that First Finance occupies a unique position in the Cambodian financial and mortgage market. "I believe that we've helped to demonstrate that there is a mortgage market further down, and because of our experience and skills we're able to take some risks that might not be prudent for a big bank - I don't see the big banks as doing evil, or anything like that - they're just not going to take the same risks as we would take."

However he believes that as his company leads, others will follow. "As in any sector, when the market leader goes out there, other businesses will take a look, and see, and say 'well they're doing it, we should join in' and there are definitely more established banks looking at this market. We have plenty of customers, but it's all good for the country, when someone comes in and shows what's possible. From a social perspective it's a good thing that others are coming in."

CEO Kevin Lim says the company also has a role to play in making Cambodians more financially literate. "Often planning financially over the longer term can be quite new for our customers. They have been so used to hoarding money under the mattress, that using the banking system is very difficult for them. It's a new thing for them, and they haven't been exposed to it, so for us as a lender, we are a lender and an educator at the same time."

The company says that at present, default rates on mortgages are under 2 per cent. But for Payne, defaults aren't always a bad thing: "From our defaults we learn how to make better loans - if it's a really low income loan, you can't just look at how much money they make, you have to look at the whole social context, so that if something goes wrong in the family, or someone loses an income, what's the resilience of that group of people to maintain their loan? So in addition to looking at money, we look for character references and referrals."

Payne and Lim both stress that they take a wider look at the background of the loans they make. "When the social context that you're lending into is strong, with a good family, popular with their neighbours, then if somebody loses a job or something they can maintain payments, or they're confident enough to come in to the office and say 'I need to reschedule a payment, I can't do it right now,' we'd much rather a person who'd had a serious illness or lost their job come in and we work it out." Payne and Lim are both bullish about the future of Cambodia, and plan to open more offices around the country, to follow their recently opened ones in Battambang and Siem Reap. However they would like a little more support from the government in the future. "As Cambodia develops, and gets a growing middle class, the government should look at pro-housing policies that maybe reduce the transaction costs for titles and help to get more money into the sector - and then having more affordable houses - recognising that many people will have lower incomes," Payne says. Payne says the job is very fulfilling: "It's a very rewarding and life-changing product to sell. A person that owns a home, they get very emotional about it, they cry about it," he says.

Lim echoes him: "There's very few products in the world that when you get it right the person is deeply moved and emotional. Maybe if you win the lottery. Helping a wealthy person get a third house is OK, but it's not what we're about; helping a low-income person get their first house has a huge emotional and social impact."