

FINDEX NOTES

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The Global Findex Database

New Data on Borrowing to Purchase, Renovate, or Construct a Home

New data from the Global Financial Inclusion (Global Findex) database show that 7 percent of adults worldwide have an outstanding loan for the purchase of a home. The data also show great variation across economies and income groups: while 24 percent of adults in high-income economies report having a home loan, only 3 percent do in developing economies. The database can be used to track the effects of financial inclusion policies globally and develop a deeper and more nuanced understanding of how people around the world save, borrow, make payments, and manage risk.

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For most adults, buying a home is the largest and most significant purchase they will ever make. These transactions are often made possible by mortgage loan products that amortize the cost of the purchase over many years while allowing immediate access to better housing. Without financing, households must rely on rental housing or construct a new home incrementally over time.

Beyond the direct benefits for home owners, housing finance contributes to the growth and stability of financial systems—and housing investment leads to important development outcomes. The value of widely available and internationally comparable indicators on mortgage markets therefore has long been recognized. But such indicators have been elusive. Data on mortgage markets in the developing world are nearly nonexistent. And while such data are often available in high-income economies, global indicators to support benchmarking and comparative analysis have been lacking.

The Global Findex database provides such indicators along with others measuring how people in 148 economies save, borrow, make payments, and manage risk. These new indicators are constructed with survey data from interviews with more than 150,000 nationally representative and randomly selected adults age 15 and above. The survey was carried out over the 2011 calendar year by Gallup, Inc. as part of its Gallup World Poll. This note highlights Global Findex data on borrowing for the purchase of a home or apartment as well as data for developing countries only on borrowing for the self-construction, renovation, or extension of a home.

Home Loan Penetration

Globally, 7 percent of adults report having an outstanding loan (formal or informal) to purchase a home.¹ Yet this average masks a highly skewed distribution. The home loan penetration rate averages 24 percent in high-income economies—and exceeds 50 percent in some, such as Sweden. In low-income economies the penetration rate averages just 2 percent.

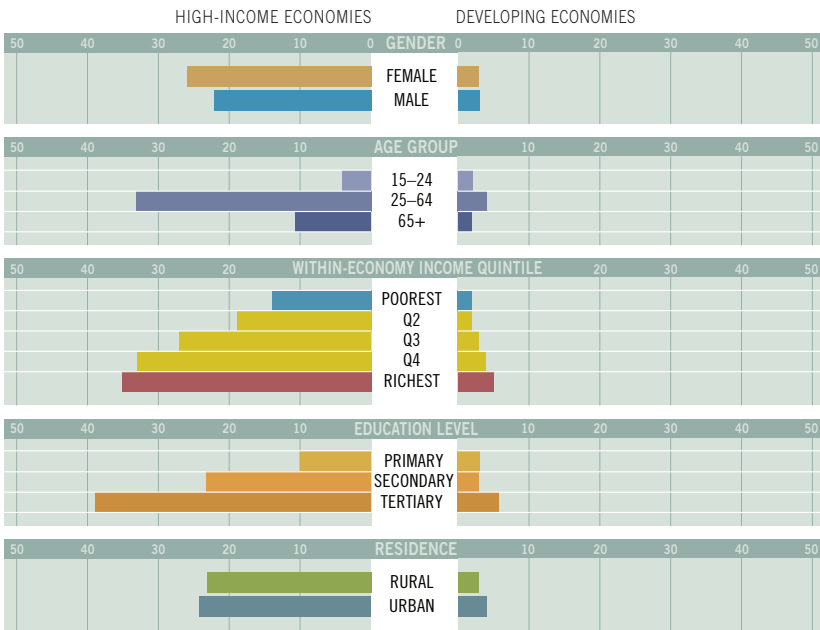
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Home loan penetration by individual characteristics

Adults with an outstanding loan to purchase a home or apartment (%)



Note: Primary includes those with less than a primary education; tertiary includes those with more than a tertiary education.
 Source: Demircuc-Kunt and Klapper 2012.

There is also enormous variation in home loan penetration within economies (figure 1). There are large differences across income and education levels. Adults in the richest income quintile within an economy are on average twice as likely to have a home loan as those in the poorest quintile. In many economies these differences are even more extreme. In Finland, for example, 48 percent of adults in the richest income quintile have an outstanding home loan, while just 5 percent do in the poorest. In high-income economies adults with a tertiary or higher education are almost four times as likely as those with only a primary education to have a home loan.

The penetration rate also varies by age group, being much lower among younger and older adults than among those ages 25–64. The lower rate among older adults may be due to the difficulty of extending home loans—with their long repayment periods—to those in this age group who may in any case have

already taken a loan and repaid it. Younger adults often want to retain some mobility and may not have had time to build up savings for the down payment on a home.

In developing economies 5 percent of adults report having an outstanding loan to purchase materials or services to build, extend, or renovate their home.² In a few economies, such as Armenia and Cambodia, this share exceeds 15 percent.

Housing Demand—and Challenges in Housing Finance

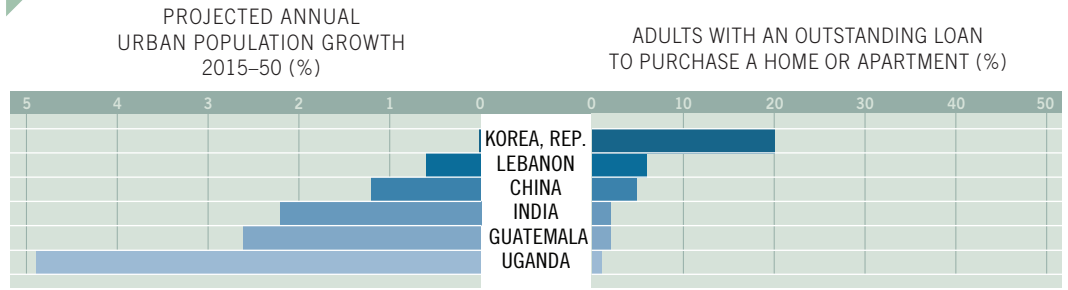
Today, according to data from the United Nations Population Division, half the world’s population lives in urban areas. By 2050 this share will rise to 70 percent, with much of the growth taking place in cities in South Asia and Sub-Saharan Africa. To prevent the unsustainable and often dangerous proliferation of slums and informal settlements, millions of new homes will have to be added to existing housing stocks. But underdeveloped housing finance systems pose a serious obstacle. The challenges for policy makers trying to manage the rapid urbanization are reflected in the marked mismatch between urban growth projections and the use of housing finance in many economies (figure 2).

What Is Needed to Expand Housing Finance?

A sound and widely accessible housing finance system depends on a range of factors, including strong property rights, a source of long-term funding, a supply of affordable housing, and an efficient property market. A simple exercise combining data from the World Bank’s Doing Business project with Global Findex data shows the importance of an efficient property registration system (figure 3). Even when controlling for national income using GDP per capita, there is a strong negative correlation between the number

2
FIGURE

Urban growth projections and home loan penetration in selected economies



Source: United Nations Population Division, World Urbanization Prospects: The 2009 Revision (database); Demircuc-Kunt and Klapper 2012.

of steps required to register property and the depth of the mortgage market. Developing efficient property registration—along with other elements that contribute to the strength and stability of a housing finance system—can take time.

What Is the Role of Informal Housing Finance?

Where the formal mortgage market is underdeveloped, many people may rely on informal housing finance. Global Findex data show that most adults in the developing world manage their finances and plan for the future outside the formal financial system. Just 41 percent of adults in developing economies have a formal account. And while 25 percent of adults in the developing world report having borrowed from friends or family in the past 12 months, fewer than 10 percent report having borrowed from a formal financial institution during the same period.

Although the data do not include information on the source of home loans, more than half of adults in low- and lower-middle-income economies who report having an outstanding home loan do not use the most basic of bank services, a formal account (figure 4). So it is unlikely that these unbanked adults are using a complex, long-term mortgage

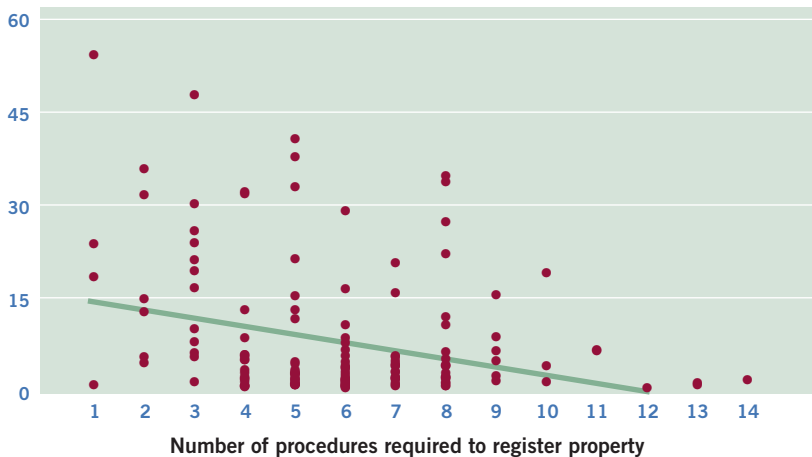
product to finance their home purchase. This suggests that in many economies reliance on informal methods to finance a home purchase is widespread. Yet informal saving and borrowing are unlikely to be sufficient to sustainably support a rapid expansion of urban housing stock in the coming decades.

The data also suggest that in some economies where there is a limited supply of affordable housing, borrowers are taking loans to build new homes or to upgrade existing properties. Informal finance appears to play an even larger role in these investments: in low-income economies 70 percent of adults with a home construction loan have no formal account.

3
FIGURE

Complexity of property registration and home loan penetration

Adults with an outstanding loan to purchase a home or apartment (%)

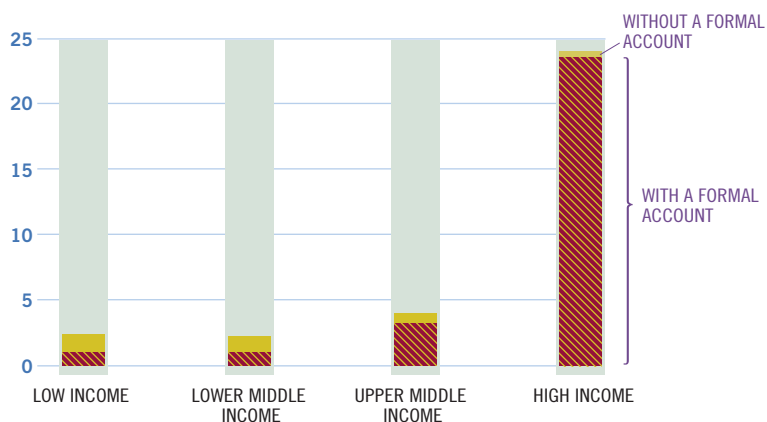


Note: Data on property registration procedures are for 2011. The sample includes 145 economies.
Source: Demircuc-Kunt and Klapper 2012; World Bank, *Doing Business* database.

A
FIGURE

Home loan penetration by use of formal accounts

Adults with an outstanding loan to purchase a home or apartment (%)



Source: Demircug-Kunt and Klapper 2012.

Conclusion

As the first public database of indicators that consistently measure people’s use of financial products across economies and over time, the Global Findex database fills a big gap in the financial inclusion data landscape. The data on housing loans can help track the results of policy measures taken in such areas as property rights, secondary mortgage market solutions, and mortgage subsidies. These data also allow countries to benchmark themselves against peers and to better understand and prioritize reforms. Over time, as the survey is repeated, the data will grow in value and, combined with other sources, provide a useful tool for studying the development of housing finance.

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1. The regional and worldwide aggregates omit economies for which Gallup excludes more than 20 percent of the population in the sampling either because of security risks or because the population includes non-Arab expatriates. These excluded economies are Algeria, Bahrain, the Central African Republic, Madagascar, Qatar, Somalia, and the United Arab Emirates. The Islamic Republic of Iran is also excluded because the data were collected in that country using a methodology inconsistent with that used for other economies.
2. Some data on the main purpose of outstanding loans were gathered only in developing economies because Gallup enforces a time limit for phone interviews conducted in high-income economies, limiting the number of questions that can be added to the core questionnaire.

The reference citation for the Global Findex data is as follows:

Demircug-Kunt, A., and L. Klapper. 2012. “Measuring Financial Inclusion: The Global Findex Database.” Policy Research Working Paper 6025, World Bank, Washington, DC.