



I believe that banking institutions are more dangerous to our liberties than standing armies. If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around will deprive the people of all property until their children wake-up homeless...The issuing power should be taken from the banks and restored to the people, to whom it properly belongs.

—Thomas Jefferson

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What is the finance system?

The financial system is one of the invisible components of a home, but is also one of the main drivers of housing. Money determines the options one has when it comes to housing; whether someone has a place to live or not, whether the home is rented or owned. Despite the power of the system of finances and its constant presence in daily life, it is a system that is little understood by most people, particularly the poorest of the poor. Billions of dollars are transacted daily, yet billions of people still live on less than \$2 a day (Garson, 316). These people lack access to adequate shelter, food, health care, education and opportunity. There is power in understanding the financial system; power in learning and designing how to redirect the flow of capital into areas where the economy is stagnant or nonexistent. The ability to influence how and where money goes can create meaningful change, helping to meet the housing needs of a growing population and eliminate poverty as we know it.

Historical Analysis

Traditional housing was the result of utilizing resources that could be gathered in the vicinity. Timber, earth, animal skins, and thatch, as a few examples, were resources that were readily available and appropriate for the area in which a shelter was being built. The construction was the result of local knowledge, time-tested technique and sweat equity. The occupants themselves, extended family and neighbours would be engaged to help in a home's raising. In this system, outside financing was not necessary. Every part of the process was reliant on the labour and skills of one's own self or those of family members and friends; an exchange based on necessity, relationships and barter.

Within feudal societies, housing and landownership became a matter between nobility and peasantry. Peasants worked the land held by a lord by growing crops, harvesting resources, and crafting products. As a result, peasants supplied their own food and resources, but their primary purpose was to support the lord or lords who owned or leased the land. In exchange, the lord offered the peasantry military protection and relative stability. Housing in the feudal system was not about self-reliance but instead was part of a rigid social and economic contract with the landholding nobility.

The Industrial Revolution ushered in a new era of housing and living patterns. As people left rural areas and moved to urban centers following the promise of economic prosperity from employment at new factories, housing was no longer about the connection to the land or the resources it offered. Renting was common, as was overcrowding in those areas of the cities that housed the poor working class. In reaction to the visible poverty that was exacerbated by the Great Depression, many governments of industrialized nations instigated programs that would reduce poverty through homeownership. Housing legislation was a priority in order to improve public health and safety, but was also a tool to encourage wealth accumulation.

The rise of a middle class in the mid 1900s saw an increase in the number of people who could afford to buy and build their own homes. Bank mortgages, and mortgages through government programs became common means to purchase a home. Government programs continue to be used to assist potential homeowners who fall outside of a traditional bank's criteria to buy a home. People lacking an established or positive credit history, those who are unemployed or underemployed, and those unable to afford a down payment on a house are often denied a traditional bank mortgage, but may qualify through a government backed program.

Conventional mortgages are the most common way to purchase a home today. In Canada, as in many developed economies, the percentage of the population owning their own homes correlates with income level. The Canadian Mortgage and Housing Corporation (CMHC) reports that "within the lowest income group (those earning less than \$20,000 per year), only 37 percent are owners, compared with 90 percent in the highest income group (those with household incomes over \$85,000)" (CMHC, *Canadian Housing*, 3).

The average value of the homes and the percentage of monthly income directed towards housing costs as a portion of overall income also varies with income level. "For those that do own, the average value of the dwelling varies from \$118,000 in the lowest income group to \$227,000 in the highest" (CMHC, *Canadian Housing*, 3).



Those households in the lowest income bracket can spend almost half of their monthly income on housing while those in higher income brackets spend a smaller portion of their income on housing. The result is that lower income households have far less money available for other expenses and therefore cannot “fully participate in the social and economic life of communities” (CMHC, *Canadian Housing*, 4).

One trend that does cross income levels is the level of mortgage debt to income that Canadian households are carrying. “The ratio of average mortgage debt to average aggregate after-tax income was about 30 percent in 1970. By 2005, it had reached 80 per cent, moving up from 76 percent the previous year” (CMHC, *Canadian Housing*, 28).

The average cost of housing is also on the rise. In 2006, the average cost of a home in Toronto was \$352,700. In Vancouver the average cost of housing was \$509,876 (CMHC, *Housing Market*, 24) with average monthly costs averaging \$2,322 based on a 25% down payment and 25-year amortization (Kane).

Despite the significant amount of money needed to purchase a home, homeowners are often surprised by the real costs associated with buying and maintaining a home. Understanding each piece of the homeownership process is important to determining if obtaining a mortgage is financially possible and worthwhile. The down payment is a “portion of the price of the home (usually between 5% and 25%) that buyers must pay before they can apply to a bank, trust or credit union for a loan” The mortgage is a loan that is usually repaid in monthly installments over five to 25 years. “Both the amount borrowed (principle) plus the charge for borrowing the money (interest) must be repaid” (Settlement.org).

Mortgage rates in Canada have moved slightly higher and are expected to rise modestly in the second half of 2007. Rising mortgage rates, combined with higher house prices will increase mortgage-carrying costs (CMHC, *Housing Market*, 4).

Property taxes are another significant consideration for first time homebuyers. These are taxes paid to the municipal government that help finance local services such as police and fire protection, garbage and snow removal, road maintenance and public health. All property in Ontario is assessed by the Ontario Property Assessment Corporation (OPAC). If the home is a condominium, a condo fee is applied monthly for general building maintenance. Other hidden costs that should be considered are renovation costs, some of which can be quite substantial, especially if structural repairs are needed for older homes. Maintenance costs may also be significant depending on the style, size and age of the home. In addition, property appraisal fees, home inspection fees, service charges for connecting utilities, moving expenses and property insurance increase the overall cost of homeownership.

Future Trends

Though traditional bank mortgages and government programming has made homeownership a reality for many, the majority of the world’s population cannot access the capital needed to purchase their own home. The half of the world’s population – almost 3 billion people - living on less than \$2 per day cannot leverage the money needed to accumulate assets like a home (Kramer, 26). Furthermore, this statistic has been criticized by some experts as an inadequate portrayal of the full scope of poverty (Reddy, 169). In the U.S. it is estimated that a family of four living at the poverty line lives on less than \$11 per day. So what of the billions of people

who live on less than \$3, \$5 or less than \$10 per day? They too will most likely have no opportunity to own their own home. In an attempt to overcome this gap between those who can access capital and those who cannot, several innovative programs have been implemented.

The creation of microcredit was spurred by the realization that a relatively small amount of money can have a tremendous impact on a person's ability to house and feed herself and her family. Microfinance programs offer small loans, technical assistance and support to low income people to help them start businesses. The mission of programs like the Grameen Bank and ACCION, which began in some of the poorest areas and are now operating throughout the world, is to help individuals self-sufficiently create wealth and move out of poverty.

Since the 1970's, when microfinance first began to take root, other organizations and individuals have built from the original idea, founding programs intended to create economic opportunity for the world's poorest. Microinsurance programs help individuals who lack health, life and liability insurance to pool their premiums together to create a safety net for businesses, homes and families. Individual development account programs promote the accumulation of wealth by helping low income people establish savings accounts. These savings are often matched with small grants that can be used towards starting a business or buying a home.

While microfinance and savings programs have helped many individuals realize their goals of establishing credit history, owning their own homes and starting their own businesses, these programs function around a powerful banking system that institutionally excludes the poor. The next and most powerful trend in the world of global finance will be those initiatives that push dramatic changes in the banking system or create real alternatives to this handful of global banks that transact the majority of the world's capital. Alternatives include innovative cooperative ownership schemes, where people can pool their capital and lend and invest in each other, instead of paying interest and fees to a bank that is making a relatively small number of wealthy people even wealthier. While mortgages are the staple for homeowners in most developed nations, it is not the only, nor the best model. There is much room for the implementation of innovative, equitable financial tools that create opportunity but also bring real wealth to a broader range of people.

Another alternative to the current banking system is the emergence of dynamic partnerships between global business and underdeveloped areas. The incentive to develop new untapped markets will create the shift needed to forever change the Global South and inevitably, the Global North with it. There is tremendous wealth to be made by corporations who are able to unleash the capital potential in those areas of the world where money is scarce but the population is large, and growing everyday. There is swelling demand for the broad range of products and services available in developed economies. While globalization has brought the taste for commercial products and some very real negative side effects, can the inroads globalization has made also contribute to positive change? Can the increased presence and power of multi-national corporations in developing countries be capitalized on and redirected to create economic opportunity for the poorest of the poor living in the areas that need it most desperately?

What is needed are more grass-roots solutions grounded in a sound understanding of the realities faced by the world's poor and a keen eye for opportunities that can attract and sustain capital. Top-down development approaches used by governments and institutions like the World Bank and the International Monetary Fund seldom instill the changes that are intended. Bureaucratic, inflexible and out of touch with the actuality of those in dire poverty, these programs have failed and, in many cases, created additional obstacles. However,



SAMPLE HOMES

Malay House

The traditional Malay house is an example of a home constructed from available materials and built by the dwellers themselves. Constructed of wooden or bamboo walls and a thatched roof, these houses are most often set in rural areas where the main economic activities of the people are farming and fishing. As a result, during the off-season when prime fishing and farming has passed, the focus shifts to homebuilding. Additions are made to an existing shelter as a family accumulates savings or as the family's needs grow. This traditional addition system allows the house to meet the changing needs of the homeowners according to their financial resources and does not create heavy financial burden (Lim, 85).



Suburban Home

The common suburban subdivision home is an example of a popular way to build and finance a home in many developed countries. Designed, sourced and built by a team of professionals, contractors and subcontractors, the materials used are fairly standardized, often sourced from outside of the local area. Financed primarily through bank mortgages, the homeowners will pay the principal and interest on this mortgage for an average of 15 to 25 years or longer.



Shack/Slum Dwellers International

Shack/Slum Dwellers International (SDI), an organization of individuals, primarily women, who live in some of the world's most prominent slums, have created saving and credit circles. The members of these circles make daily deposits into a shared savings pool. From this, small loans are made for income generating activities. In some areas, the accumulated savings were enough to allow the participating women to obtain land and build housing for themselves and others in the community.

Frustrated by shelters that are designed and built by governments, international NGOs and other outside parties for those living in slum areas, members of SDI have begun to design and build housing for themselves. With a clear understanding of the needs and wants of people living in these areas, they are creating homes using available materials, financed through pooled savings programs, and built by local contractors and by the home's new owners. Thousands of homes throughout the slum areas in Africa, India and Southeast Asia have been built through this community design/build process (Shack).



initiatives that come from those living and working with and within the areas needing change are more likely to get to the heart of problem if given the resources and the opportunity. Financial mechanisms that emerge as a result of opportunities in the marketplace are those that can be sustained and have the most meaningful impact.

Examples of such initiatives impacting both the Global North and South are peer-to-peer lending models such as Kiva (www.kiva.org), which connects potential lenders with small business owners from the developing world. Using the Internet as a means of communication and a transparent lending platform, Kiva is able to facilitate one-on-one lending schemes that would otherwise be impossible. Other peer lending sites can be found online linking would be lenders with those looking for loans ranging in size and purpose – from small to large, from college tuition to the cost of a home. These models emerged from the failure of the current banking system to meet the credit needs of many varied lenders and borrowers. In doing so they are creating wealth and opportunity outside of the regulation and transaction costs of the traditional system.

The increasing economic and social interconnectedness of the Global North and South cannot be ignored. The changes that occur and the needed change that does not take place will impact both the developed and developing economies of the world. There is tremendous wealth held by a relatively few powerful corporations and individuals. The test of society's ability to find a more equitable circulation of this wealth between rich and poor will not be a forced redistribution but will be the innovative use of the marketplace to redirect the flow of capital. Using the same understanding of the power of the markets and the pull of capital that has created a great of deal of wealth for the wealthy can be used to create prosperity for the poor.

The need for this kind of thinking is evident in the Global South, in areas where there is insufficient capital to obtain the resources required to build a safe, functional home. It shows itself in another context in the Global North where an over consumption of resources produce monster houses that, in turn, strain its owners financially. In this scenario, banks own the homes and control the homeowners' ability to manage the rest of their wealth. What is needed is an alternative that falls somewhere in between these two extremes. The answer lies in the innovative design of homes that offer a new financial model. A home built with renewable materials that uses alternative energy sources is not truly sustainable if its cost leaves the homeowner financially strained over the next 25 years. Worse still, the cost of this 'sustainable' home often precludes those making anything less than \$100,000 from owning it. Likewise a mobile, prefabricated shelter that is built in North America and shipped for use in a slum area of Africa may provide better housing than what is locally available, but what of the environmental costs of its transport and lost opportunities for local labour and materials?

Housing design and the economic mechanism that make a structure a reality must be fundamentally intertwined. This can happen using the best of old building knowledge like the Malay House and those of other traditional cultures in combination with new technology like rapid prototyping, nanotechnology and those not yet discovered. Old and new knowledge combined with an understanding of the economic realities of the global community will allow for the development of a new breed of housing. Housing that is affordable, healthy, scalable, expandable, universal and financially dynamic whether it is on a site in a North American suburb or an informal settlement in Africa. The current prevailing financial model is too exclusive and is often a great burden even to those it does include, stifling the potential for greater wealth for a greater number of people. In the meantime, tremendous economic and social potential is being wasted away.

The home is the base from which advancements in health, education, entrepreneurialism, social consciousness and all things good can grow. Without adequate shelter there is economic and social stagnation. A redesign of the whole system of housing could be the beginning of a more equitable, healthier, wealthier world.

GLOSSARY TERMS

ACCION – “The mission of ACCION International is to give people the tools they need to work their way out of poverty. By providing “micro” loans and business training to poor women and men who start their own businesses, ACCION’s partner lending organizations help people work their own way up the economic ladder, with dignity and pride. With capital, people can grow their own businesses. They can earn enough to afford basics like running water, better food and schooling for their children” (ACCION).

Microfinance - is a term for the practice of providing financial services, such as microcredit, microsavings or microinsurance to poor people. By helping them to accumulate useably large sums of money, this expands their choices and reduces

the risks they face. Suggested by the name, most transactions involve small amounts of money, frequently less than 100 USD.

Grameen Bank - is a microfinance organization and community development bank started in Bangladesh that makes small loans (known as microcredit) to the impoverished without requiring collateral. The system is based on the idea that the poor have skills that are under-utilized. The bank also accepts deposits, provides other services, and runs several development-oriented businesses including fabric, telephone and energy companies. The organization and its founder, Muhammad Yunus, were jointly awarded the Nobel Peace Prize in 2006.

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