

## Shelter needs and housing finance institutions' role

Eric Carlson, IUBSSA's senior consultant, looks at the challenge for housing finance institutions posed by the International Year of Shelter

**T**HE International Year of Shelter for the Homeless (IYSH) is upon us, as declared by the United Nations General Assembly, and it remains to be seen whether this project will enhance the mobilisation of resources for investment in housing. But the Year itself is meant to be the beginning of a process to help focus world attention on the issues of shelter and housing, with emphasis on the action required at national level.

There are two immediate concerns: the assessment of shelter needs and the promotion of better understanding of the role of shelter in national development. More than 130 governments have agreed to participate in the IYSH programme and have designated focal points for this purpose. Many have developed or promoted demonstration projects of various kinds, and there will be many conferences, seminars, exhibitions and discussions bringing together public and private sector interests at national, regional and international levels.

Housing finance institutions will have ample opportunities for participation, and perhaps to help in development of recommendations, policy reforms and demonstrations of commitment and responsibility. Their public relations, publicity and advertising programmes can be useful factors in the public education effort required for action to achieve an improved shelter and housing environment.



### *The shelter problem*

Though the disparities between levels of achievement of the industrialised and developing countries continue to grow, the housing sector contains much that is in common cause, and the fundamental human right to basic shelter is increasingly being asserted. Public opinion has been aroused at the alarming growth of the homeless in the cities of the Western world. Newspapers carry headlines such as "The homeless of Europe: a scourge of our time." Increasingly, searching articles appear such as that in *Harper's Magazine* on "Helping and hating the homeless — the struggle at the margins of America." Though there are sharp disputes as to the actual numbers of homeless, few observers and editors question the projections of continuing sharp increases. Daily television coverage on the homeless

and related problems make this a key story of our times.

In the developing countries, the housing and shelter position has been exacerbated by massive debt burdens, excessive urbanisation and infrastructure costs, disincentives for savings of high inflation, speculation in land, and the need for improved municipal management and financing. This gives rise to a situation where the major and ever-increasing proportion of people lack adequate shelter and live in insanitary conditions in squatter settlements and overcrowded urban slums. The informal sector which they constitute may be responsible for building more than 50% to 80% of all shelter and housing in different countries.

Most of the world's population growth of 1.5 billion more people by the year 2000 will be in the urban areas of these already overburdened countries. The scale of construction required is comparable to building 120 cities of about the size of New York during this period.

Few governments in developing countries can claim to have housing policies and programmes that cope effectively with basic shelter needs. Within their economic and resource capabilities, good examples in this direction have been set by Colombia, Sri Lanka, South Korea, Singapore, and Jordan, and many others have developed specific approaches and projects that merit special attention. But problems persist and help is

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required, especially for the support and development of savings systems which help to mobilise household resources for the improvement, construction and acquisition of shelter.

The important role of housing and shelter as a stimulus for domestic economic activity and national development can be identified from three points of view. First, investment in this field is labour intensive and improves the employment situation; second, it can stimulate the production of local building materials; third, it is an incentive to mobilise household savings by offering an attractive investment opportunity. Yet these basic factors are often completely ignored by international finance and development agencies. An example is the 1986 Report of the Inter-American Development Bank, *Economic and Social Progress in Latin America*. In this report, not a single word appears about shelter, housing or building in either rural or urban areas. Unfortunately, this "blind-side" economics is prevalent on the international scene.

For housing finance institutions in some countries this is a time of problems, difficulties, competition and transition. The justification for specialised entities in this field is being questioned as never before, and, under the competitive pressures brought about by deregulation, the trend is for these institutions to become involved in providing a full range of household financial services, rather than just offering finance for construction and mortgage loans, and related activities.

On the one hand, public opinion is being shaped by the sense of crisis exemplified in a *Bangkok Post* article on "Hard times for thrift industry," or in a *Washington Post* article, "Our S & L's are obsolete — its time to merge dying thrifts into the New World of finance."

On the other hand, the good news, such as "Thrift units reporting solid profits," based on third quarter results in the US, rarely gets much attention. Nor do articles such as

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"Local pressure bringing more lending in inner cities." But positive accomplishment, and results, on the local level, are still the major weapons to deal with the disseminators of "gloom and doom".

#### *The international capital markets and housing finance*

In the United States over the past 15 years there has been a vast growth in secondary mortgage markets, and in 1985 over \$120 billion in securities were issued — a record volume. This market growth has been facilitated by government chartered housing finance corporations, particularly the Federal National Mortgage Association (Fannie Mae), the Government National Mortgage Association (Ginnie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac). They are among the largest issuers of debt and securities in the country. They buy and package mortgages, and create different forms of mortgage securities, such as Collateralised Mortgage Obligations (CMO's) which are sold to investors including pension funds, insurance companies and others.

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#### *'Vast growth in secondary market'*

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In this business of packaging and selling mortgage securities, the investment houses are playing a leading role, and all the large Wall Street firms now have large and profitable divisions dealing with mortgage securities, with some of these issues of remarkable size and complexity. Beginning with 1983, there has been a growing development of international markets for these securities. In February 1984 the Alaska Housing Finance Corporation issued the first Eurobond collateralised with mortgage securities, and several Eurobond issues by US thrift

institutions soon followed. Freddie Mac and Fannie Mae have together sold in excess of \$20 billion of debt in Japan and Europe, and US thrift institutions have issued approximately \$5.7 billion in collateralised floating rate notes abroad.

As reported in some detail in the August issue of *Housing Finance International*, the UK building societies entered the Euromarket for the first time in October 1985, with four societies raising £600 million between them from the issue of Floating Rate Notes. Since that time more societies have raised funds in this way, totalling £3.1 billion pounds at June 1986.

The Crédit Foncier of France also decided to use the international capital markets, to help meet the demand for funds for house purchase, particularly through Government assisted programmes, and to help stabilise France's balance of payments following the negative effects of the two oil crises.

Japanese banks and financial institutions have become major factors in most international capital markets. Just five years ago, only one Japanese bank ranked among the top 10 internationally. Today, seven of the world's 10 largest commercial banks, and the top four, are Japanese. The managers of pension funds and insurance companies are increasingly dominating the capital markets, and the big new Japanese players — the trust banks and the insurers — have enormous funds to invest.

It is generally believed that recent experience with the development of markets for mortgage securities, both nationally and internationally, will lead to the interest of other countries in establishing similar types of instruments and markets. Each country will, of course, have to develop its own mortgage finance solution. One recent example is that of Canada, where the Canada Mortgage and Housing Corporation (CMHC) has now introduced its mortgage-backed securities programme, dubbed "Cannie Mae."

The major Canadian mortgage lenders — chartered banks and trust companies — fund their mortgage originations with savings deposits, but most Canadian mortgages have a maximum term of five years or less, with a balloon payment due at the end of the term. This leaves borrowers vulnerable if interest rates rise, and the development of a mortgage backed security is a response. It is expected to alleviate lenders' dependence on deposits by bringing different investor types into the mortgage market. Initially, the securities will be issued in the form of paper certificates, and any CMHC approved institution will be able to issue the

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*'Privatisation may  
have run  
its course'*

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securities. The CMHC certificates will be sold in multiples of \$5,000 and up, putting them within reach of individuals as well as institutional investors. Canada therefore seems well on its way to joining the larger capital market scenario for mortgage securities.

Thus far, only a few savings and thrift institutions, the larger ones, have benefited from the sale of mortgage securities on the international markets. In the United States, three institutions are responsible for nearly one-third of the deals realised to date. Four firms, Paribas Capital Markets, Salomon Brothers, Credit Suisse First Boston and Merrill Lynch Capital Markets are responsible for the vast majority of Eurofinancings for US savings institutions.

But the relatively favourable experience to date, the receptive market and cost-effectiveness factors, indicates that in future more housing finance institutions will size up the overseas capital markets, and there will be efforts to interest investors in other forms of issues than collateralised notes and convertibles.

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To what extent housing finance and thrift institutions in different countries will benefit from this increased flow of global capital will depend on many factors, particularly the economic situation and perspectives of the areas they serve. For example, the debt crisis in some Latin American countries inhibits their capabilities for providing the necessary guarantees and instruments for participation in the international markets for mortgage securities. The African countries have these and other problems, though in a few, perhaps, such as Kenya, Zimbabwe, Ivory Coast, Tunisia and Cameroon, there may be possibilities for securitisation of mortgages, and some eventual entry into the global capital market. It is the Asian countries, generally speaking, that seem particularly well-placed to foster securitisation of mortgages through their existing structures of housing banks and mortgage finance institutions.

*Housing initiatives by housing  
finance institutions*

Getting back to the basics, what are housing finance institutions doing to provide support and resources for the improvement of shelter and housing conditions of the poor and homeless?

The Committee on Economic Affairs of the US League of Savings Institutions has recognised the problem. In its new statement on "Strategic objectives for savings institutions" there is included the point that, "Savings institutions further support the judicious use of direct and indirect subsidies to assist low-income families to obtain decent shelter but seek to eliminate subsidies provided by governments and government sponsored agencies that distort or impair the functioning of the private mortgage market."

Some US housing finance entities have become involved in public-private sector partnerships to assist with provision of shelter for the homeless and housing for low income people.

This is in the context of increasing discussion about the need for new housing and urban policies at local, state and national levels. There are strong views that "privatisation" may have run its course and the time has come to preserve and maintain the small public housing stock that still remains as well as to devise new programmes in this field.

In the UK the Nationwide Building Society has adopted the theme, "Putting the building back into society" as indicative of its efforts to give special attention to projects for the elderly, the disabled and first-time buyers. It set up a Housing Trust in 1982 which has made innovative loans to housing associations (of which there are over 1,000 in the UK). It has assisted in urban regeneration schemes which may include new council housing for rent and shared ownership, new housing and converted and refurbished council properties for sale. Nationwide and Halifax Building Society teamed up with a large builder to launch PROBE (Partnership Renewal of the Build Environment)

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*'US involvement  
in shelter  
for the homeless'*

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with a substantial three year budget, to find and prepare partnership schemes for local governments that lack the imagination, skill or staff to carry them out on their own. Other societies are also developing new methods to help low income families.

In Australia, the Co-operative Building Society in Adelaide embarked on several new areas of service and still shouldered important civic responsibilities. In 1986, for example, it was a principal sponsor of the World Housing and Planning Congress, held in Adelaide, which brought together 1,200 professionals from different countries, and produced a wide range of stimulating reports and presentations, including

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considerable attention to the IYSH and problems of the homeless. In 1981 the society established and endowed the Co-op Foundation, independent of the society and with its own board of directors. The Foundation has assisted projects for the handicapped, invalid and disabled, and the furnishing of homes and hostels for the underprivileged, intellectually disabled and the aged.

Housing finance institutions in the developing countries are in a quite different situation. Zimbabwe is one country where the concepts of public-private partnership for housing have made some headway, and the building societies, with guarantees from the government, have taken an active role in several projects for housing low-income groups. At the African Housing Conference held in Harare in February 1985, the Prime Minister praised the efforts of the private sector to provide resources for these projects, and expressed the hope that they were an example of new directions. "In some countries of Africa," he said, "the home finance entities or building societies have the reputation of taking the savings of the poor and investing them in housing for the rich."

In Latin America and the Caribbean the role of home financing entities with respect to the informal market requires special attention and new programmes. This was a main theme of the annual conference of the Inter-American Housing Union held in Mexico City last May. Thrift institutions were urged to promote and develop new customers and services in the informal market, both for savings and for lending. It was pointed out that this is likely to be a major growth area for home finance entities, perhaps essential for their survival and viability as instruments for resource mobilisation.

An entry point to the informal markets can be secured by providing assistance to credit unions, co-operatives, housing associations and other organised groupings at the grass-roots level. Co-operatives are impor-

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tant vehicles because they can organise low-income households, pool the resources of the members, and provide security for loans. They can produce building materials, construct houses, and manage properties. Local governments can help such ventures by making land and services available, as can the utility systems.

#### *The IYSH challenge*

The IYSH will undoubtedly produce heightened awareness of basic shelter problems. Housing finance and thrift institutions can be important components of the programmes which emerge. The meeting of the Habitat International Council in Nairobi this April, to be followed by

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### *'Challenge of new investment proposals'*

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the 10th session of the UN Commission for Human Settlements, will provide much information from both governmental and private sector organisations about their progress with demonstration projects and housing reform and policy measures, including those dealing with shelter finance.

Housing finance institutions have a most valid international cause in promoting savings to invest and build for home ownership. This is an important step in helping developing countries to mobilise and to retain domestic savings, and to reduce capital flight. Inducing or attracting such savings from the informal sector deserves high priority consideration. The provision of financing for housing and related urban investment is an important key toward accelerating economic growth and development, and thus to permit further expansion of international trade and the capital markets.

The globalisation of capital flows

through private investment, including a housing finance component represented by mortgage securities, is already in full swing among industrialised market economies. This will sharply expand in the future, in part because of the continuing accumulation of capital through pension fund and insurance systems as well as the banking system generally. It can be expected that direct investment in real estate and equities in housing finance institutions will also expand, given current trends and funding indications. There is no question that international capital can be an important catalytic factor for helping to establish and to support thrift institutions and sound savings programmes in the developing countries.

Economic stagnation is a marked characteristic of much of the world's economy in spite of the fantastic development of financial technology. In some countries there is a favourable conjuncture of lower interest rates, decline of inflation and greater monetary stability. Yet there is urgent need for more housing at reasonable cost in many places. The IYSH may provide the opportunity to seek new international funding in this field, from both public and private sources. The challenge is there, to develop new investment proposals and initiatives, and to assist in a major new promotion of the future. ■

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