

Housing Finance Issues on a Global Stage

by Dr. Mark J. Riedy

Globalization of the world economy opens incredible new opportunities, not just for world trade, but also for the exchange of ideas. No two countries are alike. Our challenge, therefore, is to learn from one another and to adapt successful programs to our own unique circumstances. In this regard, groups such as ECO-HAB International are to be commended for bringing us together, to learn from one another.

The objectives of this international forum are important. First, because we have much to learn from one another, the program is structured so as to present a great deal of information about successes achieved in many different nations. Second, it is important that the significance of housing finance issues can be conveyed convincingly to those preparing the agenda for Habitat II, the United Nations Conference on Human Settlements, which will be convened by the U.N. General Assembly in Istanbul, Turkey, in June 1996.

The Habitat II Conference, designated as "The City Summit," focuses on the demand for vision

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and solutions to the critical problems facing many cities and local governments. We who are gathered here for this forum understand the essential role of effective housing finance programs and delivery systems in addressing the overall development and revitalization needs of cities across the globe. We do not need to convince ourselves of the significance of housing finance. Instead, we need to make sure that housing finance issues achieve their rightful place in the Habitat II Conference agenda.

Despite the economic, social, political and cultural differences among nations, many common factors bind us together. Based on that premise, I hope to accomplish three objectives during my remarks. The first is to highlight our commonalities, rather than our differences, to see what we can learn from them. The second is to outline a framework for analyzing housing finance issues and opportunities, particularly within the broader context of community development needs of cities across the globe. My third and final objective is to offer specific suggestions for improving the opportunities for housing finance in a global context.

COMMONALITIES ARE IMPORTANT

A good place to begin is to focus on commonalities, both among people and among housing finance systems around the world. For example, sometimes we need to remind ourselves that one of the most basic or primal urges of all human beings is that of territoriality.

At a fundamental level, we all need our "space," a place we can claim as our own. Whether that space consists of a tin shack, a thatched hut, a brick home, a high-rise apartment or a castle, every human on this planet has a basic desire for territory. A second commonality is that most people want to be proud of their space, their housing, precisely because it is theirs.

Turning next to the commonalities in housing finance, the primary purpose of the housing finance delivery systems in each of our respective nations essentially is the same. It is to help individuals and families satisfy their needs for territoriality and pride in the housing that they call their own. In effect, our housing finance delivery systems help families gain access to money beyond their personal resources, in order to be able to acquire housing or improve it.

There are also two other commonalities to consider when we examine housing finance issues across the globe. Each arises from the broader perspective of society at large, as opposed to the needs of the individual or family. First, efficient housing finance delivery systems, which promote widespread homeownership, are important determinants of political, social and economic stability in a community and in a nation. The second commonality is that, in most nations, competing demands for government support of the private sector far exceed the resources available. This scarcity of government resources, particularly for affordable housing, is a growing problem in many nations.

A FOUR-PART FRAMEWORK

Turning to my second objective, it would be helpful if we could all approach housing finance issues in the same way, even though we each come from different backgrounds, cultures and experiences. The following framework may be helpful in this regard. It consists of four components.

First, housing and housing finance issues in reality are subsets of a broader range of issues and should be viewed as such. The broader concept is "community development." It includes, for example, public investments in infrastructure, health and education, social services, public safety, environmental issues and economic development. For reasons I will discuss later, in the future it will, I believe, become increasingly important to view housing and housing finance issues not in isolation, but in that broader context of community development.

The second element of the framework is the distinction between what one might call "mainstream housing finance" issues and those that fall outside of the mainstream. These outliers typically come under the heading of "affordable housing" finance, as opposed to mainstream financing. The distinction is significant because some countries have both systems functioning side-by-side, addressing substantially differing home financing needs, while other countries are focused almost exclusively on "affordable housing" issues.

In the mainstream of housing finance, well-established institutions exist to provide mortgage credit to large percentages of a nation's population. Savings and loan associations, savings banks, building and loan associations, mortgage banks, postal savings systems and specialized government agencies offer reasonably priced, readily accessible mortgage credit to borrowers with great efficiency. Tax advantages, loan guarantees, subsidies and mortgage-backed security

programs are well-developed sources of government support for "mainstream" borrowers. The challenges for both lenders and borrowers in the mainstream of housing finance lie in continuing to make gradual improvements in how the system works, and in retaining the governmental support they already enjoy.

To the contrary, those outside of the mainstream do not have well-developed systems for obtaining mortgage credit efficiently and at a reasonable cost; nor do they enjoy strong government support. Instead, the issues in "affordable housing" finance involve attempts to create new programs and institutions dedicated to resolving the unique problems of prospective borrowers at the lower end of the income scale. They involve fights to gain new access to government resources, which is particularly difficult because it generally involves wresting those resources away from others already receiving government support.

An important third element of the analytical framework is tied closely to the second. That is, to the extent that government bodies are responsive to housing finance issues, their sensitivity tends to increase the closer the issues get to the local or community level. At the local, community, village and/or city level, politicians are closest to their constituents. Of necessity, they must be responsive. It also is true that at the most localized levels of government it tends to be easier to structure housing finance support programs to meet the unique characteristics of the local housing markets. In contrast, federal or nationwide government mortgage assistance programs tend to be broad-brush in approach, appealing to common denominators rather than satisfying the needs of diverse constituent groups. All too often, I suspect, we tend to equate "large-scale" government programs with "successful" programs, when often they simply are "large-scale" failures in terms of their costs, risks or provision of benefits.

The fourth and last element of the analytical framework springs from my personal observations of what it takes to force governments to make major changes in the way they allocate resources and establish priorities. This element is particularly relevant for those involved in the "affordable housing" sector of real estate finance, where the struggle for ongoing government support is the most difficult. In my experience, one or more of these three stimuli must occur before major shifts in the allocation of government resources and priorities can be achieved: (1) strong new political leadership must emerge at the highest levels of the government, through elections or other forms of leadership change; (2) strong political pressures must be exerted from below by well-organized and powerful constituencies; or, (3) crises must arise — either real or perceived — that demand immediate responses. For example, wars are real crises that energize a nation and cause massive re-allocations of resources. Perceived crises, on the other hand, include problems that special interest groups attempt to magnify into something more threatening to the general populace than they really are.

In large part, housing finance problems, even for families at the lowest end of the income range who are most in need of assistance, are not perceived to be any type of crisis at all. Moreover, because families at the lowest end of the income range tend not to be well-organized politically, politicians can afford to ignore them. The end result is that they receive sporadic attention and hit-and-miss funding. While it may be distressing, it should come as no surprise, therefore, that at the global level the Habitat I Conference virtually ignored all housing finance issues, and that these issues are not yet receiving full attention in the preparations for the Habitat II Conference.

FIVE SUGGESTIONS FOR IMPROVEMENT

With these concerns in mind, I would like to close by offering five suggestions for

improving the opportunities for housing finance.

First, we should recognize that our opportunities for positive change are greatest at the local level of government, whether that level is the neighborhood, village, town, community or city. It is where government officials are closest to the people and have the greatest opportunity for experiencing first-hand the housing and finance problems of those most in need. To the extent that most of the potential resources are at a broader level of government — state, regional or federal — it is important to try to disaggregate them. If the programs can be broken into smaller parts, their pieces can be reshaped to address the unique needs of smaller constituent groups.

Second, housing finance issues should be identified and addressed within the broader context of community development, where it is a relevant political issue, particularly at the local government level. As I mentioned earlier, community development is a concept broader than housing or housing finance. To remind you, it also includes public investments in infrastructure, public safety, health and education, social services, environmental issues and economic development. There is an increasing awareness of the need to address all of these issues simultaneously if initiatives in any individual area are to be successful on a sustainable basis. What purpose does the provision of new affordable housing serve, for example, if a community's crime rates are high and rising, education and social services are weak, and business activity is declining? Our concern must be for a sustainable environment, which only occurs if all elements of community development are addressed in some reasonable balance within reasonably close time frames.

Moreover, once the providers of housing finance recognize that in reality they are a subset of a city's broader community development coalition, they gain political muscle because they immediately become part of a

broader political constituency. That is, as part of a broader community development coalition, they can generate stronger political pressure on behalf of their collective needs for public support. Here the challenge becomes one of coordinating the narrower self-interests of housing finance with other special interest groups, but all within the broader common interests of the community at large. The ultimate goal is mutual support of one another's needs for the long-term good of the local community.

A third general suggestion is that private and public housing finance providers, especially those outside of the mainstream, should work hard to involve their potential customers in the development of their programs. The very fact of the individuality of these people, who may never have participated in mainstream programs and perhaps mistrust both lenders and government officials, argues for a more direct, hands-on approach. Going back to some of my initial thoughts, the housing finance programs being considered here are those that tap into basic instincts for territoriality and pride in having one's own space. How can lenders and government officials truly understand the needs of their nation's or their community's lowest income families without direct communication concerning these issues? Study after study has demonstrated that the opportunity to become involved in the creation of programs and to have an influence on the outcome creates "stakeholders" who then have a vested interest in the ultimate success of the program. I would encourage everyone here to reach out and to communicate directly with potential borrowers. Get them involved and encourage them to "buy into" your programs and to care about your success.

The fourth of my five suggestions is that given the scarcity of resources at all levels of government, there will arise ever-greater opportunities for creating public/private partnerships within the whole arena of community development. For example, volunteer citizen patrols can help increase public safety.

Businesses can work with schools at all levels to provide meaningful education and training programs. Local taxes can be targeted to specific development projects so that those projects bear the added costs of the new infrastructure investments that they caused. Government loan guarantee and subsidy funds can be targeted to match private investment dollars for housing, economic development, infrastructure and other purposes. The opportunities are endless.

This leads to my final suggestion: Considering the great value of the experiences of individuals, companies, industries and government agencies in this forum, I would urge groups like ECO-HAB International and the International Union of Housing Finance Institutions to become international clearinghouses of global information on housing and housing finance. Their focus would be on housing finance programs and approaches that have been utilized successfully in various countries to achieve sustainable, balanced community development. Many international organizations exist for special purposes. Several are represented here. But ECO-HAB International and the International Union are particularly well-suited to serve as a focal point and clearinghouse for the broader type of information so critical to the participants gathered here today. Housing finance practitioners need to devote more resources to documenting successes at the local level and publicizing them on a global stage.

There is precious little time left to collect information on existing and planned public/private sector partnerships, on community development initiatives, and on housing and housing finance problems and issues, before the agenda for the Habitat II Conference is finalized. If I have provided you with food for thought today, I trust that it will nourish your work in preparing for the Habitat II Conference and strengthen the programs that you develop upon returning to your home countries at the end of the forum.