International Union for Housing Finance
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NEWSLETTER *May 2006*

The World Congress promises to be an outstanding event

By Adrian Coles, Secretary General, International Union for Housing Finance

As most members of the Union will know, we are holding the 26th World Congress in Vancouver between 19 and 22 September 2006. Preparations are well under way. Here we get a sneak preview of the programme from Adrian Coles, Secretary General of the International Union.

The Venue

Vancouver is a tremendous setting for the World Congress. It was a city that was recently rated as the third best city in the world to live, just behind Zurich and Geneva. It is a built on a series of peninsulas surrounded by water and sitting on the edge of the Pacific Ocean with the Canadian Rocky Mountains as a stunning backdrop.

The Congress will be hosted by Canada Mortgage & Housing Corporation. CMHC is Canada's national housing agency. Its function is to ensure the availability of low cost financing, housing affordability and choice, and promote the well-being of the housing sector. It is active in the areas of mortgage insurance and securitisation, research and information transfer and assisted housing. It was established in 1946 and will thus be celebrating its 60th anniversary in the same year as the World Congress.

The venue for the Congress is the Pan Pacific Hotel right on the waterfront. Much more detail can be found on http://www.vancouver.panpacific.com

The Programme

Of course, the main reason to attend the Congress is not the spectacular tourist potential, but the spectacular intellectual challenge. The introductory welcoming speeches will be given by IUHF President Ted McGovern, and CMHC President Karen Kinsley. The keynote address immediately afterwards will be given by Professor Robert Shiller of Yale University on the subject of housing bubbles and bubble markets and the implications that these phenomena have for policy makers, the housing finance industry and consumers. This is followed by a session on links between housing finance and the economy that will build on the keynote. Further sessions will cover housing microfinance and affordability in developing countries, Basel II, regulatory issues for mortgage insurance, the role of government, natural disasters and housing finance, globalisation, issues confronting the secondary market (defined to include both the market for mortgage backed securities and covered bonds), lessons learned in formulating housing finance policies in developing countries and emerging economies, and innovative approaches to lending and operating housing finance institutions. The final day looks at housing finance and the consumer, examining such issues as consumer protection, over-indebtedness and how organisations identify new consumer needs. More details of the programme can be found on the inside back cover of this Newsletter.

The Delegates

Of course, it is not just the tourism potential and not only the speakers that should encourage members of the Federation to attend the World Congress; there are the equally important networking opportunities. Hundreds of delegates are expected to attend the Vancouver event. They will each have the opportunity of renewing old acquaintances, but also of making new contacts, of gaining new insights into the running of mortgage businesses and, possibly, gaining potential new business partners. Many elements of the Congress are expected to be sponsored by institutions keen to do business with mortgage lenders. (If you are interested in sponsorship opportunities please contact the IUHF Secretariat.) There will be a range of social events to ensure that everyone has a chance to talk to all their new friends!

Conclusion

Don't forget that attendance at the World Congress is open to both members and non-members of the International Union –

although it is cheaper if you are a member, and even cheaper if you register before 31 May 2006. The Union is keen to recruit you now! Details on how to become a member of the Union and how to attend the World Congress can be found on the special World Congress website http://congress.housingfinance.org or through the Union's mainstream site, www.housingfinance.org

Changes in Housing Finance – Theory and Practice

By Adrian Coles, Secretary General, International Union for Housing Finance

Those with a keen interest in the mortgage market – that is, all readers of the IUHF Newsletter – will find it valuable to study two new, but very different, publications. First, the Bank for International Settlements' Committee on the Global Financial System has recently produced a paper entitled *Housing finance in the global financial market*. The authors of the paper are representatives of 17 central banks from Australia, Belgium, Canada, France, Germany, Italy, Japan, Korea, Luxembourg, The Netherlands, Spain, Sweden, Switzerland, United Kingdom and the United States, along with the European Central Bank. The paper has a wide range of data and examples of market practice from many different countries; it puts into perspective the sometimes hysterical comment on the growth in housing debt and house prices which we sometimes see here in the UK, making it clear that the UK experience is by no means unusual.

Stephen Knight

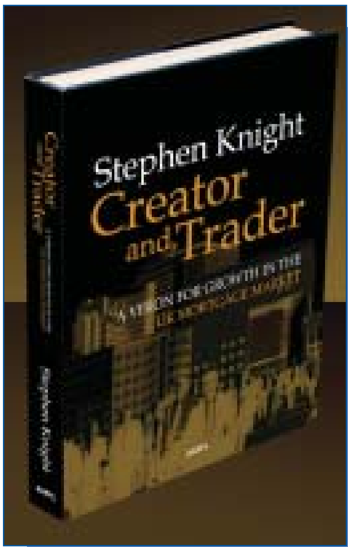
The paper examines the common trends in housing finance markets around the world and is structured in sections. Firstly, under the heading "What has Happened?", the paper makes the point that on the supply side, common developments include increased loan to value ratios, a reduction in credit restrictions, a wider array of mortgage types and a move towards greater reliance on capital market funding. These developments have made borrowing cheaper and more readily available. In many countries sub-prime lending has increased significantly. The authors say that all of these developments have been associated with a rise in household indebtedness. Also, house prices have increased in most industrialised and emerging economies and in many countries housing debt per person and house prices have reached new all time highs.

The Working Group identified, under the heading "Why has it Happened?", four major common factors that contributed to these changes. Firstly, in the macro-economy interest and inflation rates are lower and less volatile than used to be the case, and growth of GDP is higher and less volatile. Secondly, advances in information technology and financial innovation have increased the efficiency of housing finance systems. Thirdly, financial liberalisation and deregulation have relaxed or removed credit restrictions and fourthly, Government policies have affected housing finance systems. In many countries Governments have been reducing their role in housing markets. However, in several countries land use restrictions and planning policies "might have contributed to higher house price rises through any given increase in demand".

Thirdly, "What Are the Implications?" The key implication for housing finance market participants is that new, more complex types of mortgage contract have increased the choice of products available to households, potentially raising household welfare, but also increasing the risks faced by some borrowers. For financial institutions the paper, fairly obviously, suggests that recent trends raise the need for "careful management of credit, operational and reputational risks".

Copies of this highly informative paper are available at http://www.bis.org/publ/cgfs26.pdf

So much for central bankers' analysis. For anyone interested in how an individual institution has benefited from the changes outlined by the bankers, a study of a new book *Creator and Trader: a Vision for Growth in the UK Mortgage Market*, by Stephen Knight, Executive Chairman of IUHF member GMAC-RFC in the UK, will be rewarding. Stephen's organisation has moved from top 60 to top ten mortgage originator status in the UK in just five years. A careful reading of Stephen's book shows that he has taken advantage of precisely the factors identified by the BIS group in its "Why has it Happened?" section. For example, he explains in some detail the advances in information technology employed by the lender. GMAC-RFC now employs a point of sale decisioning system that has reduced the time taken to give intermediaries a decision in principle on a complete application from 25 minutes to 30 seconds. These decisions are binding subject only to valuation and the non-discovery of fraud. The old paper chase for references etc has been limited by credit reference agency based decision making and intermediaries are able to give answers to their clients almost immediately.



GMAC-RFC has taken full advantage of a further BIS point - financial liberalisation - through its "mortgages for everyone" strap line. It seeks to cover the whole market and offers prime residential, sub-prime, buy-to-let and other loans, creating packages of loan books which are re-sold to other institutions keen to boost their mortgage lending.

The fourth BIS point covers the role of Government. A chapter in Stephen's book – "Influencing the Influencers" – explains how GMAC-RFC has taken a full role in the various policy debates surrounding the move, for example, towards statutory regulation of the UK mortgage market.

The book is completed by a selection of views on the future by industry experts from outside GMAC-RFC, including European Mortgage Federation President, Philip Williamson (also Chief Executive of Nationwide Building Society, an IUHF member), and the Chief Executives of IUHF members Britannia Building Society (Neville Richardson), Skipton Building Society (John Goodfellow) and the Council of Mortgage Lenders (Michael Coogan). Adrian Coles also offers a comment.

This illustrated book will be of huge relevance to those that want to understand the dynamics of a rapidly growing mortgage lender. Managers of mortgage lending institutions around the world will find the story of how this company has developed its business quite fascinating. As the dust jacket states, "this is not another boring old text book, this is a case study of a growth strategy that works spectacularly well and recently". Further details can be found at www.creatorandtrader.com

The International Union, through its link with the Building Societies Association, is delighted to be able to offer this publication well below the publisher's price of £49.95. Copies of the book are available at the following prices -

collection from 3 Savile Row, London - £35.00;
including postage to a UK address - £39.95;
including postage to a non-UK European address £45.00;
including postage to the Americas, Africa and India £55.00;
including postage to the Far East and Australasia £60.00.

If you would like to order a copy of the book, please contact Keeley Baker at kbaker@housingfinance.org . We can accept Visa or MasterCard, or payments direct into the BSA's bank account (details on request). On receipt of payment we will dispatch the book.

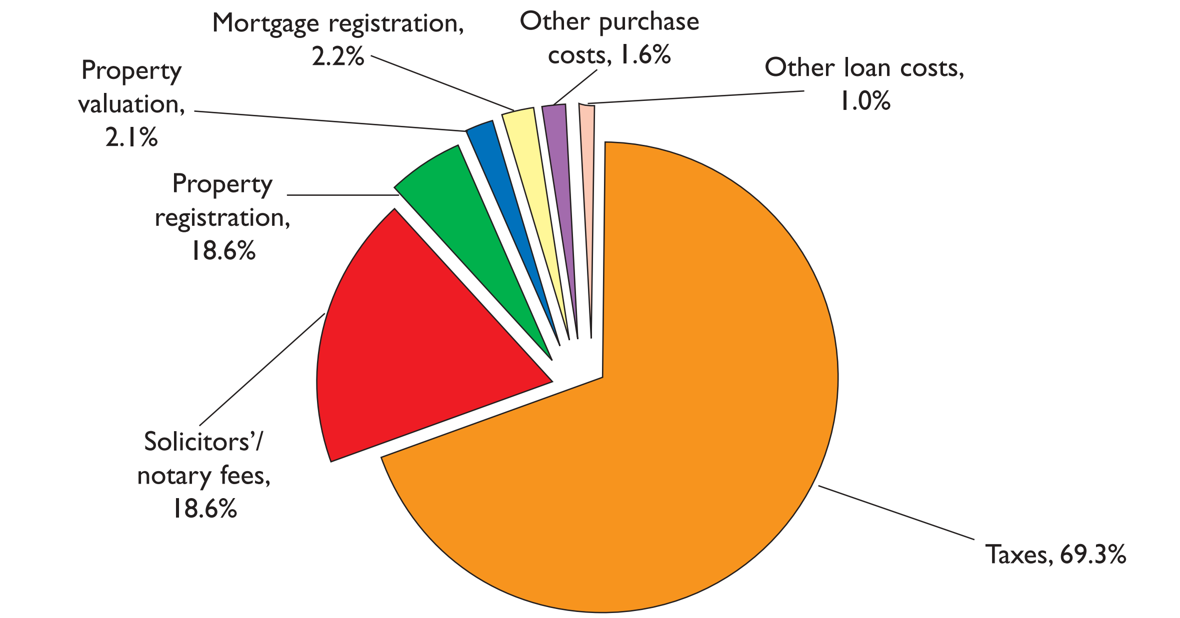
Transaction costs going through the roof in Europe?

This article is based on work undertaken by the Statistical Working Party of the European Mortgage Federation

Buying a property virtually anywhere in Europe currently involves a substantial outlay of money for any household. However in addition to the cost of the property, there can also be substantial costs associated with the transaction in many countries. In Belgium, for instance, the typical purchase of a house worth €100,000 could result in costs for the prospective home owner of €17,100. What is possibly even more surprising is the wide differences which exist between one country and another. A typical UK or Scandinavian homebuyer would not expect transaction costs to exceed 3 or 4% of the property price.

The EMF statistical group has recently produced a comparative study looking at some of the underlying differences which explain the divergences in costs between countries. The table opposite shows data for the 11 countries which took part in the study. It compares the various costs associated with making a house purchase ranging from legal fees

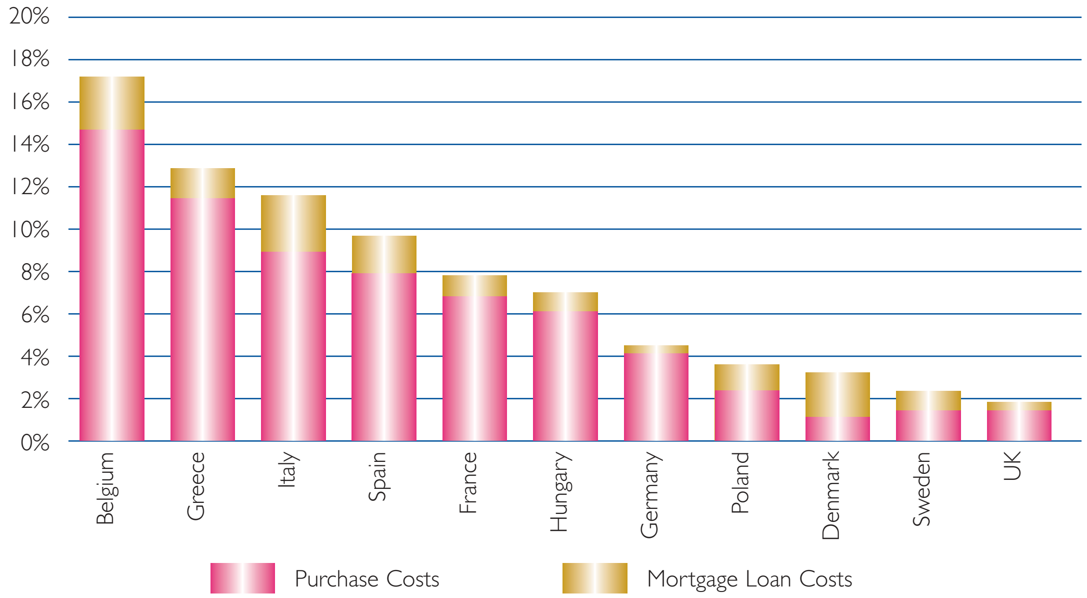
Chart 1: Breakdown of Property Transaction Costs – % of total cost (EU average)



Source: European Mortgage Federation, Study on Cost of Housing in Europe 2005

Chart 2: Total transaction costs as a percentage of total house purchase costs – 2005

- Transaction costs vary considerably from one country to another
- The costs range from 17.1% in Belgium to 1.9% in the UK.
- In general the costs of purchasing a dwelling are higher in Southern Europe, while they are very low in the Scandinavian countries and the UK.



Source: European Mortgage Federation, Study on Cost of Housing in Europe 2005 to stamp duty, property registration, etc. It does not include some costs which are optional such as a detailed property survey, or mortgage broker fees.

From the data collected, it is clear that the largest proportion of costs are those related to the property transaction directly rather than those incurred when taking out a mortgage. The costs associated with taking out a mortgage loan are typically only around 1% of the property value assuming a typical loan to value ratio. Looking more closely at the breakdown of these costs in the chart (page 4) it becomes clear that the main reason for the differences in costs lies with the taxation systems. Over 2/3 of property transaction costs are accounted for by taxes, which together with solicitor/notary fees accounts for almost 90% of total costs.

From a market efficiency point of view it is clear that high transaction costs can act as a barrier to the efficient functioning of the housing market and also act to distort the choices which consumers make regarding how they choose to spend their money. Furthermore from a European integration point of view, the wide variances in transaction costs do not necessarily act as a barrier to a single market but equally they do little to foster it. The European Central Bank in particular has often commented that high property transactions costs act as a barrier to labour mobility. They argue that if it was easier and cheaper to move houses, the flexibility of the labour market would improve with the supply of workers better responding to demand.

As with so many other aspects of Europe's housing market transaction costs also reflect different cultural and historic traditions. Although Belgians may pay the most for the privilege of owning their home, they also typically will only do this once in their lifetime. The concept of the property ladder which is so engrained in the UK mentality would soon have some missing rungs if a 12.5% tax was imposed on property transactions as is the case in much of Belgium.

For further information or to order a copy of *Study on the cost of housing – 2005, European Mortgage Federation*, see www.hypo.org

Croatia: Housing Finance Models

By Mladen Mirko Tepuš

Mladen Mirko Tepuš has been a leading writer and thinker about housing and housing finance issues in Croatia, and has published articles in the Union's journal *Housing Finance International*. Mladen is currently the Director of Economics Research and Analysis at the Croatian Post Bank. He has recently completed a book on developments in his country, and a summary is shown below. He writes that

> "I have been specially honoured that the Lord Mayor of the City of London Alderman Michael Savory wrote a foreword for the book."

In general the book presents different housing finance models while the part on Croatia presents the national model and hints on possible improvements. The book is summarized in the remainder of this article.

Housing issues are a part of economic, financial and social policies of every country, as well as the Republic of Croatia. Legal conditions for the implementation of various housing finance models have been created in order to find accessible solutions that would enable average citizens to solve their housing problem. Four housing finance models currently existing in Croatia are separately analyzed in this book (banking finance, contract savings for housing, the Fund for the Long-Term Financing of Residential Construction with Government Subsidy and the Publicly Subsidized Residential Construction Program – PSRC). The most important home loan lenders are universal banks, whereas more intense lending activities of housing savings banks are still expected. The Fund for the Long-Term Financing of Residential Construction with Government Subsidy has never become established, and the most recent government model – PSRC – has raised strong interest in citizens. However, existing models have not provided an adequate solution to the housing finance problem. This book offers a comparative analysis and evaluation of present housing finance models in chosen developed and transition countries, including Croatia and, on the basis of the results and conclusions of the research, hints at solutions that may improve the present situation and foster the development of the national housing finance market.

Mladen Mirko Tepuš

A web site has been designed giving further details on the book
http://www.modelistambenogfinanciranja.com

Financing a Society of Property Owners: Risks, Instruments, Institutions

By Alex J. Pollock

Alex J. Pollock

The particular emphasis of this essay is on developing mortgage markets and bond markets together, so they can potentially reinforce each other.

There are only two fundamental choices for financing mortgages: deposits or bonds. Of course there is also some combination of the two, which is probably what you want, so that you do have a bond-based alternative as part of the housing finance system.

There have been many experiments in establishing various forms of bond-based housing finance around the world (I include mortgage-backed securities as a kind of bond). Loïc Chiquier, Olivier Hassler and Michael Lea in an excellent paper, *Mortgage Securities in Emerging Markets*, (World Bank Policy Research Working Paper 3370, August 2004) summarize these experiments and the subsequent results.

They conclude that there have been a few clear successes, some promising cases still in early stages, and a number of disappointments. One of their most important conclusions is that simpler instruments and structures have a better chance of success, based on numerous specific cases in a wide variety of countries.

My purpose is explore the principles which I believe underlie all the cases, using as illustrations the American experience.

Property Ownership as a Goal

Let us consider the United States when it was an emerging economy and a new country during the 1790s.

The two intellectual giants of the American founding period were Alexander Hamilton and Thomas Jefferson. Hamilton and Jefferson agreed on the centrality of property ownership, although they disagreed on most things. For Hamilton, secure property rights were essential for the development of the future commercial and economic power he envisioned: his views were confirmed by subsequent history.

Hamilton also believed in a robust bond market. He was the architect of the US national debt and thus in time of the huge American fixed income market.

US housing finance is well known for the role of Government-Sponsored Enterprises or "GSEs" – Fannie Mae and Freddie Mac, of course. Hamilton was the father of the first American GSE: the First Bank of the United States. This was established in 1791 with a 20-year, limited life charter. We will return later to the topic of GSE charters.

The American founding fathers generally agreed upon property ownership as a goal. While Jefferson famously wrote into the *Declaration of Independence*, "Life, Liberty, and the Pursuit of Happiness," the others more typically wrote of "Life, Liberty and Property," or of "the means of acquiring, possessing and protecting property".

Although Jefferson changed "Property" into the "Pursuit of Happiness" in the *Declaration*, he firmly believed in widespread property ownership as essential to a republican form of government and to the republican virtue of the citizens. Of course he was personally picturing an agrarian society.

The current form of property in our urbanized societies is home ownership. And to have home ownership at a relatively young age, say as couples are having children, requires an effective housing finance system.

As is often pointed out, housing finance will be more widely available and work more efficiently if there are clear and enforceable procedures for foreclosure of mortgaged property. This is usually discussed as a necessary right of the mortgage lender. But I consider it more importantly a right of the property owner: the right of the owner to hypothecate property and thereby to obtain credit.

With this basis in political philosophy, let us turn to finance.

Risks, Instruments, Institutions

In considering housing finance systems, we need to think in three dimensions: risks, instruments, and institutions.

It is easiest to think in terms of institutions. I am put in mind of an ancient Roman who observed, "Whenever we were faced by a problem, the answer was to reorganize." As we will all have experienced, that tendency has continued from that day to this, for corporations and governments alike. Of course, institutions are very important.

As are financial instruments. In this context, we want to think especially of bonds which are designed to provide a long-term funding base for mortgage loans.

But most fundamental is to consider the risks of housing finance, specifically how the risks are distributed among the various parties, how they are moved around by the financial system. Once a house has been financed by debt, the risks are always there – they do not go away. The question is where are they – who is bearing them? And who is most competent to bear the various risks?

One of the terms I find irritating is "off-balance sheet" finance. It is obvious that there is no such thing. If there is a financial asset, it is on somebody's balance sheet. If it went off yours, it went on to somebody else's. The only question is: whose? From a systemic point of view, which balance sheets are best for which assets?

Similarly, housing finance discussions often speak of "freeing up capital." But if I have securitized assets or unbundled risks to free up my capital, I have moved the risks to somebody else's capital. Whose? Or did I "free up capital" by moving risks to the government?

The Savings and Loans as a Risk Structure

Let us consider the well-known story of American savings and loan institutions from a risk distribution perspective.

When American savings and loans were reorganized in the 1930s in the wake of the disasters of the Great Depression, careful study led to the design of the least credit risk mortgage loan. This was the long-term, fixed rate, fully amortizing mortgage. From the borrower's point of view, if you simply keep paying the same amount every month, you will in 20 or 30 years retire the loan and own the house free and clear.

The designers of this kind of loan were correct: it is an exceptionally high credit quality instrument. The credit performance of fixed rate loans is systematically better, with lower delinquencies and losses, than that of variable or adjustable rate loans.

The 1930s reforms were also addressing a liquidity issue. A common mortgage had been a five year loan. Obviously the average family would not have the cash to repay the mortgage after five years and was entirely dependent on the ability to refinance it. This put a tremendous liquidity risk on the borrowing household. In the financial panic and depression, loans could not be refinanced and defaulted instead, house prices fell, and mortgages played their part in the overall debt deflation of those years.

The long term fully amortizing mortgage removed the liquidity risk from the households, but moved it to the savings and loans. At the same time, it moved a tremendous interest rate risk to the savings and loans, since the long term fixed rate assets were financed with short term deposits.

As part of this 1930s program, a GSE – the Federal Home Loan Bank System – was set up to issue bonds implicitly guaranteed by the government and provide liquidity support to mortgage lenders. This did work, but did as well transfer risk to the government. Savings and loans were also provided with deposit insurance, a much more direct and ultimately extremely costly transfer of risk to the government.

As is well known, the inflationary interest rate run-up of the 1970s caused this risk structure to collapse. By 1980, the savings and loan industry was insolvent. The loans made by the Federal Home Loan Banks to savings and loans were fully protected by their collateral, although this increased the loss to the deposit insurer. The deposit insurance corporation was itself massively insolvent and passed on its losses to the government, that is, to the citizens who pay taxes.

A little-known last chapter of this story is that to keep part of the costs of the collapse off the formal budget, the government set up two shell borrowing corporations, which sold 30 and 40 year bonds at a yield of about 9.5%. These bonds were made non-callable, apparently upon the advice of Wall Street, a big financial mistake in retrospect. Since inflation subsequently fell to 1 to 2%, on an ex post basis, these bonds cost the United States Treasury about 8 % real. This was expensive financing!

An interesting alternative structure to consider, in contrast to savings and loans, is to have mortgage loans financed by the issuance of long term bonds, which are bought by the government's social security program, which is funded by required contributions from employees' wages. This is definitely a sounder mortgage finance structure, but where does its improved liquidity come from? Instead of voluntary savings which can be withdrawn, you now have mandatory savings. I am prone to think that mandatory savings may be a good idea, but this structure has taken savings liquidity away from the households to reduce the risk of the lenders.

The main point is that you have to think about how things are moving around in the risk dimension.

The American GSE Era

Let us turn to instruments, to bond-based mortgage finance in particular, and institutional change. 1980 ended the savings and loan era in US housing finance and began the era of the GSEs, Fannie Mae and Freddie Mac.

Fannie and Freddie are always associated in housing finance discussions with mortgage-backed securities or MBS which move the interest rate, liquidity and prepayment risk of fixed-rate mortgages to the MBS investors.

However, about half of Fannie and Freddie's business and two-thirds of their profits come not from issuing MBS, but from owning mortgage assets on their own balance sheets and financing them by issuing much simpler bonds and notes, both callable and non-callable. Add to this the Federal Home Loan Banks, which also issue bonds and notes, not MBS, to fund their operations. The outstanding stock of this more basic debt of the GSEs together totals well over $ 2 trillion.

In this sense the GSEs can be thought of as specialized bond-based housing finance institutions. The functional effect of their bond issuance is not too different from European mortgage bonds or "Pfandbriefe."

Issuing such simpler bonds allows more uniform instruments, with potentially larger, more liquid issues and repo financing for dealers or investors. Tying them closely to mortgage loans through specialized issuers or explicit collateral pools can create high credit quality. Of course, you can in addition increase their credit quality by moving risk to the government, as the American GSEs do.

In short, it seems to me that there is a sort of natural combination: bonds are a good funding base for mortgage loans; and mortgage loans are a good credit quality base for bonds.

Recursiveness and Financial Laws

What makes financial markets endlessly interesting is their recursiveness. They are full of feedback loops, of past expectations already priced in, and of constant adjustments to changing expectations and new information. Financial markets turn subsidies into increased prices of the subsidized asset, risk support into increased risk taking, and GSEs into what no one ever intended or imagined.

I propose two laws and two corollaries for consideration:

Kindleberger's Law, from Charles Kindleberger, the economic historian: No matter how any government tries to control money, financial markets will create however much near-money they want.

Pollock's Corollary to Kindleberger's Law: No matter what any government or regulator does, in optimistic times financial markets will create however much risk they want.

Stanton's Law, after Tom Stanton, an expert in government credit programs: Risk always migrates to the hands least competent to manage it.

Pollock's Corollary to Stanton's Law: Clever insiders capture the subsidy, while transferring risk to the less competent and less informed.

I further would like to suggest four lessons from housing finance experience:

1. Pit the clever in competition against the clever: this is market discipline.

2. Make sure originators of mortgage loans keep meaningful credit exposure to their loans, as new financing structures are developed.

3. Keep new instruments relatively simple as you introduce change.

4. Never, <u>never</u> give a GSE a perpetual charter.

Alexander Hamilton's First Bank of the United States was given a 20-year charter, but this traditional wisdom was forgotten, and Fannie, Freddie and the Federal Home Loan Banks were given perpetual charters. Over the decades, all of them grew and changed beyond recognition. All GSE-like entities, if you do decide to create them, should have a sunset, or a required reauthorization, so they can be reconsidered in the light of experience.

I'll mention one more law, Pollock's Seventh Law: In any complex, recursive situation, you never know what you're really doing.

There will always be change, surprises, learning, and never a final answer in designing the movement of risks, introducing new financial instruments, and developing institutions.

Alex J. Pollock is a Resident Fellow at the American Enterprise Institute in Washington, D.C. and a Past President of the International Union for Housing Finance. This article is a revised version of a speech originally given at a Conference on Secondary Mortgage Markets in Emerging Economies in Paris, France, on 8 March, 2006.

Helping After the Tsunami

By Pat Turner, General Manager – Human Resources, Norwich and Peterborough Building Society

For the past 20 years building societies in the UK have been working with Y Care International - the international development and relief agency of the YMCA in the UK and Ireland – to help young people escape a future of poverty and disadvantage, *writes Adrian Coles*. Y Care international works with YMCAs across the developing world, funding and supporting grass roots development programmes in Africa, Asia, Latin America and eastern Europe. Y Care's emergency appeal for those affected by the South Asian Tsunami raised £4.7 million, over £3.1 million of which was generated with building societies' support, when societies promoted the appeal, and made it possible for members to make donations at their branches. One of the leading building societies working with Y Care is IUHF member Norwich & Peterborough Building Society (N&P). This article, by Pat Turner of N&P, describes how the funds raised were actually used.

In the days leading up to Christmas, life at N&P was fairly hectic with a number of projects and initiatives high on the agenda. The call requesting me to call in to see Matthew Bullock, our Chief Executive, was, I had thought, likely to focus on our plans for 2006, the new management development programme, the pay review or even pensions. An opportunity to join Y Care on a project visit to India was certainly not on my list!

Having had the good fortune to visit India some 25 years previously (I was, at that time, a Tea Buyer with Twinings) the opportunity to make another visit to India and see the work being undertaken following the tsunami disaster was a "chance in a lifetime". Injections sorted, visa acquired and malaria tablets in hand, I found myself flying out on 20 January 2006.

Y Care's Project visit took us to the heart of the tsunami-affected areas in South India and came shortly after the first anniversary of the disaster. This visit provided me with a great opportunity to see how the funds raised through the Society were being used to restore the lives of those affected from the small and remote fishing villages skirting India's southern coastline.

Some of the facts:

- As a result of the tsunami some 300,000 lives were lost across all the affected countries. Millions of people were affected as a result of the loss of family, property and livelihoods.
- In India around 11,000 have been declared dead with 6,000 still "missing".
- Around 2.7 million people, in India, were affected by the tsunami. That's the same as the population of Norwich 15 times over!
- India has had to cope with 150,000 homes that were either destroyed or needed repair across 900 villages, often in remote and hard to get to locations.
- The funds raised by N&P amounted to around £150k (including a £10k donation by N&P) and are equivalent to the cost of building around 70 homes in India! That's about half a village.

The scale of the devastation is, of course, still apparent and many of those directly affected are still living in temporary shelters with fairly basic facilities. However, family and working lives have re-established themselves within what is still a period of transition towards a more secure, settled and sustainable future. Children are attending schools (with uniforms and equipment supplied by the government) and the men of the villages are returning to the seas in

Pat Turner in one of the villages affected by the Tsunami

their new fishing boats. Interestingly, in some of the villages we visited the men were actively engaged in the building of their new homes and were being paid as workers. This activity was clearly of value and importance to the village and also replaced the temporary loss of income that the workers would have received from fishing.

Fishing villages in India are typically remote, not easy to get to and the local people tended to keep themselves to themselves. Women of the village tend to take a more family-oriented role. As a result of the tsunami and the development programmes now underway new avenues have opened up, with the women alongside the leaders of the villages often leading discussions with the authorities and the local project officers on future developments. In addition, some of the projects now underway include opportunities for vocational training (as not all fishermen want to return to the sea) and these have also been taken up by many of the women who are actively acquiring new skills in tailoring, horticulture and bee keeping.

The scale of the rebuilding and economic recovery programmes that are now in full swing, are enormous and are part of a four year plan (with just the 1st year completed). Activities are being progressed with energy and enthusiasm by the Non Governmental Organisations (NGOs) in association with the various government bodies. In the event of a disaster, Y Care works closely with local YMCA partners. In India, they are working closely with YMCA India, an NGO that has significant representation and organisation in the areas most affected. I was particularly impressed by the professionalism of those involved in co-ordinating the various activities, many of whom hold down full time jobs and are unpaid officials of YMCA India.

The new homes that are now actively under construction are a significant improvement on the average level of accommodation prior to the tsunami. What we take for granted – a front door, electricity, a kitchen sink and a private toilet – will become the norm. The new homes offer 350 sq ft of accommodation (that's just 35 ft by 10 ft) and will house 4-5 people in a typical family. Each home will have a flat roof to help with drying fish that would otherwise be dried on sand alongside their dogs and cattle.

My lasting memories of the recent trip will gravitate towards the generous receptions we received from the fishing villages and communities that we visited, the energy and commitments being made by the villagers to rebuild their lives and the beaming smiles of the children, who have seen more tragedy than we can only imagine. I left India knowing the funds donated by our members and the Society were being used to great effect and had already contributed to tangible improvements in the post-tsunami era.

More on Norwich & Peterborough Building Society at www.npbs.co.uk

More on Y Care international at www.ycare.org.uk

The Role of Specialised Housing Lenders: Thailand

By Khun Khan Prachuabmoh, President of the Government Housing Bank of Thailand

This article is the presentation made by Khun Khan Prachuabmoh, President of the Government Housing Bank of Thailand (and member of the IUHF Executive Committee) to the World Bank Group's Global Conference on "Housing Finance in Emerging Markets", March 15 to 17, 2006, Washington DC USA.

Ladies and Gentlemen:

I would first like to thank the World Bank Group for inviting the Government Housing of Bank of Thailand to attend this most prestigious Global Conference and in particular to specifically address "The Role of Specialized Housing Lenders" issue.

Before I attempt to provide you with details on the Government Housing Bank of Thailand's housing-finance role in our country, let me present you with a bit of history of our institution's development.

Historical Background

The Government Housing Bank (GHB) was established in 1953 and during its first two decades it acted both as

Left to right: Adrian Coles (IUHF), Khun Khan Prachuabmoh, Chompunute Sumanaseni (GHB), Andreas Zehnder (European Federation of Building Societies), Herbert Pfeiffer (First Building Savings Bank Slovakia).

a developer and as a housing finance institution. However, it relinquished its developer's role in 1973 when Thailand established its National Housing Authority (NHA).

During the past five decades, the GHB has developed into one of Thailand's leading financial institutions competing as one bank in the Thai banking system. GHB is a special-purpose financial institution that is 100 per cent owned by the country's Ministry of Finance (MoF).

Current Role

Although the GHB's market share is 39 per cent of home-mortgages outstanding and is the single largest housing mortgage provider in Thailand, the 17 other commercial banks, with their large deposit bases, together have more than a 50 per cent market share.

GHB is a niche market player providing innovative mortgage financing for individual buyers, especially middle and lower-middle income purchasers so that they can access their "Dream Homes". In Thailand, a "Dream Home" for many people can still be purchased for about Bt1 million or $US25,000. The average loan-balance of GHB loans is about Bt700,000 or about $US17,500.

To service Thailand's more than 65 million citizens, the GHB operates more than 122 branches nationwide and employs 2,150 people. We currently have more than one million mortgage accounts. In addition to having more than 39 per cent of all mortgages outstanding, the GHB in 2005 initiated more than 48 per cent of all residential loan originations.

The Government Housing Bank has been deemed by many banking industry officials as a "Hidden Gem" because of its consistent financial performance. GHB's total assets as of December 31, 2005 were Bt531 billion or $US13.3 billion and its net profit for the year ending December 31, 2005 was Bt4.37 billion ($US109 million). Our return on equity was 22.8 per cent in 2004 and 17.3 per cent in 2005, consistently among the highest in Thailand.

Perhaps most importantly, the GHB is one of Thailand's most efficient financial institutions with assets per employee of Bt214 million per employee in 2004 and Bt246 million per employee in 2005. (First among all Thai commercial banks)

For its outstanding performance, GHB has received numerous honors. In 2005, the Bank was the first State Enterprise to receive all three Best Performance Awards in a single year. GHB itself was named as the Best Performing Organization, its Board of Directors and its Management team also received similar awards.

The GHB has been successful because it has a large client base with excellent payment histories, and a mortgage portfolio that is supported by loans with substantial equity positions. The Bank has also ridden the crest of the latest automation and IT developments. A large percentage of all mortgage payments are paid via automatic monthly withdrawals from Bank accounts.

In addition, GHB has stayed ahead of its many competitors by constantly developing innovative new programs for the market. We have been our country's industry market driver.

Housing Policy Issues

Housing has been a major policy issue for every Thai government in the past three decades because of population growth and rapid urbanization.

Thailand's population, which was 53.9 million in 1987 is now more than 65 million. Urban residents now total more than 20 million people or about 30 per cent of our population.

Rapid population growth and continuous urbanization have created numerous demands for housing over a wide range of income levels. Upper-middle and higher-income-level housing and housing-finance needs are however, well-served by the private sector and commercial banking sectors .

Each successive Thai Government's major challenge has been developing enough appropriate housing for low to middle-income purchasers. The GHB has played a major role in developing innovative new financing models to support the policy agenda and initiatives.

In the past several years, the Thai Government has also been addressing the housing needs of a large informal sector that is still a significant part of the Thai economy. The most recent published statistics indicate that in our capital city of Bangkok alone, more than 243,000 households live in slums and squatters settlement, while another 250,000 households live in similar circumstances in other parts of the country.

GHB and Housing Policy

The GHB plays a major role in assisting the Government achieve its policy initiatives. In addition to developing innovative financing options, the GHB plays a major role in helping develop an appropriate legal infrastructure and mechanisms for converting slums and squatters right into legal rights that satisfy a wide-variety of stakeholders.

One of GHB's most innovative financing initiatives was undertaken with the National Housing Authority (NHA) that allowed low-income individuals with no prior credit-histories to purchase homes. These homes were initially purchased via Hire-Purchase contracts from the NHA which holds title on these properties for three-to-five year periods, while the "purchasers" make "loan" payments. After proving their ability to pay on these hire-purchase contracts, title is transferred and the GHB issues the purchaser with a home mortgage.

In addition, the GHB has also participated in the Government's Slum- Upgrading Baan Mankong project and Low-income Housing Baan Eur-Atorn project both of which extend home ownership into a deeper part of the community.

During the 1997-1998 Asian financial crisis, the GHB also played a major role in helping the economy recover by participating with the Government Pension Fund in a program that encouraged civil servants to purchase homes. More than 50,000 homes were sold under the program's initial phase.

Infrastructure Investment

The Government Housing Bank, in executing its specific role as a specialized housing lender, is much more than just a lending institution. It has been a catalyst for creating an infrastructure that is capable of sustaining long-term real estate sector-growth.

We nurtured and developed the country's first credit bureau that has now been spun off into a successful separate institution. It has been a critical element in the development of Thailand's consumer credit and housing industry. Today, the GHB is a major participant in the Government's policy initiative to develop a viable secondary resale home market. To ensure that more people at all income-levels can own homes, we want to provide more entry points to the housing ladder by providing additional types of financing that will unlock real estate wealth in our country.

To this end, the GHB is developing a Real Estate Information Center (REIC) under the auspices of the Ministry of Finance that will provide accurate and reliable up-to-date real estate information for the country. In addition, we are also major instigators and proponents of initiatives to develop Real Estate Broker and Sales Agents Licensing Laws for Thailand.

We also believe that our 2006 initiative to develop Mortgage Insurance that will allow borrowers to receive higher-ratio mortgage loans will even further Government's initiatives to further develop the country's primary and secondary housing markets.

Current Issues

Lastly, the GHB is addressing operational challenges that have arisen from unprecedented economic growth. Last year, we issued new home loan mortgages of more than Bt130 billion ($US3.25 billion). Because we are a wholly-owned Ministry of Finance financial institution, we have had to look to additional sources of external funding.

Traditionally, more than 60 per cent of the GHB's funding has emanated from deposits and government bonds. We must compete with the other country's financial institutions for these deposits.

In the past several years, we have begun developing overseas funding sources. As of December 31, 2005, we have issued Bt22.5 billion ($US564million) of FRCDs and Bt19.42 billion ($US486 million) of R/Ds.

This coming year we intend to securitize about Bt40 billion ($US1 billion) of our mortgage portfolio. These will be the first real-estate backed securities issued by a Thai financial institution.

In the future, as the Thai economy expands, we face the challenge of how best to maintain our capital adequacy ratios particularly as our loan-growth continues expanding commensurately.

Thank you for your kind attention.

More information on GHB at http://www.ghb.co.th/eng/
More speeches from the World Bank event at
http://info.worldbank.org/etools/library/list_p.asp?topicID=2047

New Members

A very warm welcome to 11 new members of the International Union. Due to lack of space in our December 2005 Newsletter we were unable to announce our new members. The following members have joined since publishing the August edition of the Newsletter –

1. Filogix Inc., Canada – **www.filogix.com**
2. PT Sarana Multigriya Finansial (Persero), Indonesia
3. CJSC International Mortgage Bank, Ukraine – **www.ipoteka.com.ua**
4. Freedom Funding Ltd (T/A Freedom Lending), UK – **www.freedomlending.co.uk**
5. National Savings Bank, Sri Lanka – **www.nsb.lk**
6. Kent Reliance Building Society, UK – **www.krbs.com**
7. The National Housing Credit Guarantee Board, Sweden – **www.bkn.se**
8. Korea Housing Guarantee Co. Ltd, Korea – **www.khgc.co.kr**
9. Standard Chartered Bank, Singapore – **www.standardchartered.com.sg**
10. Saffron Walden Herts & Essex Building Society, UK – **www.swhebs.co.uk**
11. Overseas Private Investment Corporation, USA – **www.opic.gov**

IUHF Financial Results – 2005

The IUHF has recently released its audited financial statements for 2005. They show that during the year the Union had total income of around £118,000 and total expenditure of around £92,000, leaving a surplus of £25,000. At the end of 2005 the Union had cash reserves of around £160,000.

At its meeting in Vancouver the Executive Committee of the Union will be considering the nature of the Union's financial targets and the appropriate level of reserves and surplus.

The results have been made available to Executive Committee members. Any other member requiring a copy of the results is invited to contact Keeley Baker on kbaker@housingfinance.org

Owner Occupation Fact Sheet

The IUHF website – www.housingfinance.org – has a new Fact Sheet recording owner occupation rates around the world.

The ownership of property is often taken as an indication, not only of the efficiency of a nation's housing finance market, but also of its general prosperity. However, owner occupation rates vary hugely both within the developed world and within the developing world.

This Fact Sheet explains the difficulties of comparing owner occupation ratios between countries, but also gives the raw material for a wide variety of nations. Just click on Information on the left hand side of the home page of www.housingfinance.org and then go to Fact Sheets.

EVENT SUMMARY IUHF WORLD CONGRESS

HOUSING FINANCE IN TODAY'S WORLD: CHALLENGES, OPPORTUNITIES AND CRISES

Welcome Reception (18:00) Pan Pacific Atrium

DAY 1 - Wednesday, September 20, 2006
HOUSING FINANCE FROM A NATIONAL PERSPECTIVE

Opening Ceremony (8:30 – 9:00)

Keynote Address (9:00 – 10:30) - Housing Bubbles and Bubble Markets –Implications for Policy Makers, and the Housing Finance Industry and Consumers

Session 1 (10:45 – 12:30) - Housing Finance and the Economy – Trends and Issues in Selected Regions
Session 2 (14:00 – 15:30) Concurrent Sessions
Session 2A: Housing Microfinance & Affordability in Developing Countries & Emerging Economies
Session 2B: Basel 2: Practical Implications for Housing Finance Institutions
Session 3 (15:45 – 17:00) Concurrent Sessions
Session 3A: Regulatory Framework for Mortgage Insurance in New Markets – Best Practices and Lessons Learned
Session 3B: Role of Government

Evening (18:00) Sunset Dinner Cruise

DAY 2 - Thursday, September 21, 2006
HOUSING FINANCE FROM A BUSINESS PERSPECTIVE

Keynote Address (8:30 – 9:30) - Natural Disasters and Housing Finance: Case Studies
Session 4 (9:30 – 10:45) - Primary Market: Going Global
Session 5 (11:00 – 12:30) - Secondary Market: Issues and Challenge
Session 6 (14:00 – 16:00 Concurrent Sessions
Session 6A: Multilateral and Bilateral Donors - Lessons Learned in Housing Finance
Session 6B: Innovation / Alternative Housing Finance
IUHF General Council Meeting (16:00 – 17:00)

Evening (18:00) Vancouver Experience

DAY 3 - September 22, 2006
HOUSING FINANCE FROM A CONSUMER PERSPECTIVE

Session 7 (08:30 – 10:00) - Housing Finance and the Consumer
Session 8 (10:00 – 11:00) - How Organizations Adapt to New Consumer Needs
Session 9 (11:15 – 12:15) - Lessons Learned and Best Practices

Closing Speech (12:15 – 12:30) - Incoming President, International Union for Housing Finance

Closing Lunch (12:30)

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Hosted by Canada Mortgage and Housing Corporation (CMHC), the 26th World Congress of the International Union for Housing Finance (IUHF) will take place for the first time ever in Canada - September 2006.

The Congress will bring to Vancouver hundreds of decision-makers in the field of mortgage finance from around the world. Delegates will include top level officials from housing finance and mortgage banking institutions, the public sector, and international financial institutions (IFI's).

PHOTOS COURTESY OF VANCOUVER TOURISM

Discover the different perspectives on Housing Bubbles and Bubble Markets and their implications for policy makers, the housing finance industry and consumers.

Listen to some of the world's leading experts share their vision of Housing Finance and Affordability.

Participate in discussions on topics such as the repercussions of Global Warming and Natural Disasters on Housing Finance.

For more information

and for regular updates visit our website at • http://congress.housingfinance.org

CMHC SCHL

Register now!

Pan Pacific Hotel, Vancouver, British Columbia

www.housingfinance.org