

Editor's Introduction

↳ By Friedemann Roy

Despite the deepening of the global financial crisis, we could probably observe a couple of remarkable proposals of how to restore confidence in the financial sector which should allow lending to resume. Within the global economic slump, the financial sectors/systems of some countries have, to date, proven more resilient to a collapse. The Canadian financial sector appears to be a notable example in this context. According to the Financial Times, Canadian banks have remained the strongest among the G7 economies. Their strength is attributed to a conservative lending culture (including housing finance with LTV ratios not higher than 75%), a vast and stable retail branch network and a clubby working relationship.¹

This and future editions of the HFI aim to provide responses and examples of systems that have performed better in a recession. In the September 2008 edition of the HFI, the Spanish case of dynamic provisioning was presented.² In this edition, we look more closely at Thailand and Columbia. As for systems, we analyse mortgage default insurance as a potential vehicle to stabilise housing finance.

In our first article, Renu Karnard briefly summarises the causes of the financial crisis. Her contribution refers to the speech she gave during the 27th IUHF World Congress, which took place from 29 September to 3 October 2008 in South Africa. Among the most important factors, she mentions the relaxation of credit underwriting as well as the dispersion of risk being confused with the reduction of risk and capital requirements.

Our next article by Ballobh Kritayanavaj presents a view from Thailand. Before this crisis, the country was already affected by a number of regional crises. As a response, lenders introduced measures to make their loan portfolios more resilient to macro-economic shocks. In addition, research capacities have been substantially widened to better recognise imbalances in supply and demand for housing. To stabilise the global financial system, he believes that a global central bank could do the trick.

Alberto Gutierrez and Monica Ospina are the authors of our third article. They explain how the Columbian Government introduced regulatory reforms after the economic crisis of 1999. Furthermore, it created Titularizadora Colombiana, an organization specialized in the

securitization of home mortgage loans, which promoted high quality standards of mortgage loans and market transparency that paved the way for a sound upturn of the Columbian housing sector. They point out that mortgage securitization in Columbia is not comparable with securitization in the U.S.A. because of different patterns in origination of mortgage assets, development of financial structures and the macroeconomic situation. The lack of subprime loans in the country and the differences between the Colombian and the U.S.A.'s securitization schemes show that there is no risk of contagion caused by defaulting mortgages in Columbia.

Our next two articles deal with mortgage insurance. The first is presented by Roger Blood. After briefly outlining the objectives of mortgage insurance in the first part of his article, he discusses the regulatory framework of mortgage insurance and highlights critical aspects for a regulator (e.g. the case for mono-line insurers, the Basle framework and mortgage insurance, etc.). In the second part, he assesses necessary parameters of mortgage insurance programmes.

The second article is by J. Robert Joyce and Michael F. Molesky. In their article, they address the pro-cyclical concern from the perspective of residential mortgage risk – of critical importance because residential mortgages and related securities have played a central role in fuelling the current crisis, and continue to comprise a large percentage of banks' portfolios. Sound regulation in the U.S.A. that takes into consideration "lessons learnt" from as far back as the Great Depression era in the 1930s have enabled private mortgage insurers to continue to pay claims reliably during today's financial crisis. To reinforce the counter-cyclical role of mortgage insurance, they propose a public "catastrophic" guarantee, which should be organized in the form of a private-public partnership.

The authors of our next article are Michael Davies, Jacob Gyntelberg and Eric Chan, who examine the role of government-supported housing finance agencies in Asia. They estimate the size of the government subsidies received by these agencies and their distribution among households, financial institutions and the agencies themselves. They come up with three main findings: (i) the level of government support

provided to housing finance agencies in Asia varies, but is generally small relative to the economy; (ii) the housing finance agencies have transferred most of the benefit of their government support to either households or financial institutions; and (iii) agencies that participate directly in primary housing finance markets have been most successful in passing on their government support to households.

Our last article is by Vuyisani Moss. He analyses the recent trends and developments of the Financial Sector Charter (FSC). The FSC is based on a Memorandum of Understanding (MoU) signed in April 2005 by the South African Government and South African Banks, whereby the banks agreed to extend ZAR 42bn (about USD 4.2 billion) for affordable housing in the five years to end-2008. Vuyisani Moss provides a critical examination of product development and innovations with respect to FSC targets and deliverables in serving this group. Additionally, he explores how far financial institutions under the FSC have made credit more accessible and affordable for the low to middle income households in South Africa.

I hope you will enjoy reading these articles and please do not hesitate to let me have your comments and recommendations based on them. They are more than welcome!

Friedemann Roy

Corrections:

In the December 2008 edition of the HFI, the article of Mr Geoffry Payne on "Owning up: what price home ownership?" was not correctly listed in the edition's contents page.

In the September 2008 edition of the HFI, the biography of Ms Ann Jennervik contained some slight errors. The biography should have read: Ms Jennervik works as an independent consultant. She has had her own consultancy firm since 2002, which focuses on energy, environment and sustainable development, and business concepts (improving international cooperation towards a sustainable and equitable global development).

We apologise for these errors.

¹ See Financial Times, "Canada banks prove envy of the world", Friday, February 20, 2009.

² See S. F. de Lis/A. G. Herrero, "The housing boom and bust in Spain: impact of the securitization model and dynamic provisioning", Housing Finance International, September 2008.