

Editor's Introduction

↳ By Friedemann Roy

Is the crisis bottoming out? If we believe in the recent economic data, it appears that we can at least observe a slowing-down of the contraction. In the US, lending for housing has increased, although most of it is linked to refinancing existing debt thanks to interest rates of about five percent for 30-year fixed rate mortgages.¹

This edition of the HFI looks at various topics. On the one hand, it provides further insight into the reasons for the global financial crisis and on studies concerning the housing finance systems that appear to have performed better during the last 18 months. On the other hand, it analyses the regulatory regimes of 42 nations and evaluates the still un-tapped potential of housing microfinance in many countries.

Our first article is by William B. Gwinner and Anthony Sanders. In their article, they discuss some of the key characteristics of the US' subprime mortgage boom and bust, and contrast them with the characteristics of emerging mortgage markets, and make recommendations for emerging market policy makers. The current crisis has raised questions in the minds of many as to the wisdom of extending mortgage lending to low- and moderate-income households. According to the authors, it is important to note that prior to the growth of subprime lending in the 1990s, US mortgage markets already reached low- and moderate-income households without taking large risks or suffering large losses. In contrast, in most emerging markets, mortgage finance is a luxury product, restricted to upper-income households. As policy makers in emerging markets seek to move lenders downmarket, they should adopt policies that include a variety of financing methods and should allow for rental or purchase as a function of the financial capacity of the household. In this context, they believe that securitisation remains a useful tool when developed in the context of well-aligned incentives and oversight. It is possible to extend mortgage lending downmarket without repeating the mistakes of the subprime boom and bust.

The authors of the second article are Wolfgang Amann, Julie Lawson and Alexis Mundt. They analyse the social and economic outcomes of Austria's long-term commitment to the supply of affordable rental housing. In their view, the Austrian policy differs from many other European countries that have increasingly come to rely

on demand assistance and home ownership to address their housing concerns. In their article, they outline the key characteristics of Austria's housing policy, with its focus on regulated limited profit cost rent housing and its layered financing arrangements. They identify core features of what is often referred to as structured financing in commercial markets and explore the various instruments that are being applied in raising financial sources for social housing construction in Austria. They conclude that the efficiency of social housing finance in Austria may serve as a role model for countries seeking to reform, reinvigorate or establish new social housing systems, such as those in transition with a deficit of affordable rental housing.

Our third article by Stephen Butler, Mariya Kravkova and Mehnaz Safavian benchmarks regulatory efficiency in the registration of a mortgage and title transfer, and in foreclosure in 42 countries. Using a methodology modelled on the World Bank Doing Business indicators that allow for comparisons across countries and over time, the study investigates the time and cost required to comply with regulation. It creates indices on the efficiency of the registration system and the degree to which notaries are involved in the process of registering a mortgage and title transfer. To identify features of registration and foreclosure systems that may foster housing finance, the study links these indicators to the size of mortgage markets. It also documents and analyses recent reforms in order to highlight the benefits of regulatory improvements for developing home ownership.

Brendan Ahern is the author of our fourth article. He assesses the potential of housing microfinance in emerging markets. With nearly a seventh of the world's population currently living in slum conditions and an even greater number of people unable to afford conventional housing finance, the demand for alternative housing finance is enormous. Housing microfinance represents a market-based solution capable of expanding beyond its current scale. The purpose of Mr. Ahern's article is therefore to determine which developing countries exhibit both strong demand for housing microfinance and the proper conditions for the expansion of the housing microfinance sector.

Our next article is written by Zaigham Mahmood Rizvi. He evaluates the potential of solar energy

to provide low- and middle-income households with electricity, thereby helping to improve their living conditions. High energy prices are often due to a lack of supply from the national grid and/or rising fuel prices (that is of the fuel used to generate electricity in cases where no traditional electricity provider is accessible). In his article, Mr. Rizvi refers to the situation and experiences in Pakistan, even though such scenarios are similar in other developing and under-developed countries.

The author of our last article is Tumellano Sebehela. He analyses the impact of the global financial crisis on the South African housing finance market in view of studies focussing on property price crisis. His review of such literature has a major focus on Asian markets.

As always, I hope that you will enjoy reading these articles. Please do not hesitate to let me have your comments on them or recommendations for future articles - they are more than welcome!

Friedemann Roy

¹ See Financial Times, "Lower rates fuel mortgage boom", Thursday, May 14, 2009.