IUHF
www.housingfinance.org

Autumn 2015

HOUSING FINANCE INTERNATIONAL

The Quarterly Journal of the International Union for Housing Finance

- The homeownership rate: A flawed metric for making housing policy
- Latest trends in social housing finance policies in France
- Housing finance innovations in Africa
- Overview of the Ugandan housing finance sector
- The Finnish housing finance system and the role of MuniFin
- The Dutch experience post Vestia: Lessons from the Netherlands

International Union for Housing Finance

Housing Finance International

Housing Finance International is published four times a year by the International Union for Housing Finance (IUHF). The views expressed by authors are their own and do not necessarily represent those of the Editor or of the International Union.

ISSN: 2078-6328
Vol. XXX No. 1

Contents:

➔ **Subscriptions:**
Individual Regular Annual Rate €135;
Individual Three-Year Discounted Rate €360.
Institutional Regular Annual Rate €155;
Institutional Three-Year Discounted Rate €420.

For further details, please contact Mark Weinrich (weinrich@housingfinance.org)

International Union for Housing Finance
Rue Jacques de Lalaing 28, B 1040-Brussels - Belgium
Tel: +32 2 231 03 71
Fax: +32 2 230 82 45
www.housingfinance.org
Secretary General: Hartwig Hamm

Editor's introduction

Globalism, housing and the economy; striking

↳ By Andrew Heywood

When Governments threaten to impose taxes on housing or, as is the case in the UK at present, cut affordable rents and therefore the funds for housing development, housing interest groups are not slow to make the economic case for housing. The arguments almost always divide into two strands.

The first strand concerns housing's role as an economic multiplier. Housing development or refurbishment provides a market for the whole development supply-chain and employment for their workers. When households move into a new home, they usually start spending on decoration, furniture, electrical equipment and a range of other goods and services which support both local and national economies. The UK Confederation of British Industry [CBI] estimates that for every £1.00 invested in construction, £2.84 is generated in the wider economy. The National Housing Federation puts the figure at £2.42 for every pound but the theory is clear.

The second strand in the argument that housing promotes economic growth is based on the so–called productivity effect. If employers are to recruit and retain staff with the right skills in the right place then there must be an adequate supply of suitable housing nearby. If house prices are too high because of an imbalance of supply and demand then wage costs may rise, rendering business less competitive. London is notorious for its failure to develop enough new housing over a long-period with the result that there is a chronic shortage of affordable homes. The London Housing Strategy 2014, made an explicit link between a shortage of young professionals in the workforce and the failure to develop sufficient new homes.

However, housing is not just a driver of economic growth. In July 2014 rapidly rising average house prices in England and Wales reached £183,861. In doing so they finally passed their previous peak of £180,962 reached in November 2007, after which prices then fell 17% until reaching their low-point in April 2009. The extreme housing market downturn exacerbated the economic impact of the banking crisis, which was itself in part the result of over-optimism about housing and mortgage markets. This story is a strong reminder that in countries like the UK, which have a chronic problem of under-supply of new homes, market volatility is capable of rapidly undoing the economic benefits accruing from buoyant housing related activity. One remedy for house price rises that appear out of line with long term trends would be to raise interest rates. It may not be a co-incidence that July 2015 was also the occasion for a speech by the Governor of the Bank of England in which he gave his clearest signal yet that interest rates would start to rise from their record lows around the New Year.

However, by late August the growing crisis of confidence on the Chinese stock exchange had called attention to that country's deep-seated economic problems and raised fears of a global economic slowdown. Interest rate rises went on hold. In the UK we now have rapidly rising house prices and record low interest rates. Questions are beginning to be asked as to whether another housing bubble is in the making. It is interesting to note that Alex Pollock alludes to similar issues in the US in his article in this issue of HFI.

The underlying problem seems to be that while globalisation creates a range of common opportunities and problems, housing markets (and indeed other national markets also) can remain very imperfectly synchronised. Governments now perceive that they have less freedom to fine-tune national markets in the face of global pressures. We are still some way from successfully striking the balance between national stability and global competitiveness.

The state of homeownership in the US is the subject of our first article in this issue. Jay Brinkmann builds on his presentation to the IUHF Congress in Rio in September to analyse US census data on homeownership. Homeownership levels have fallen in the US but the picture is by no means a simple one. Brinkmann takes his readers through the complex interactions of race, ethnicity and homeownership, demonstrating how changing behaviours of different ethnic groups over time can create surprising outcomes. The article is a valuable reminder that headline figures can often disguise rather than illuminate.

Coming from a country like the UK where new housing supply chronically lags behind demand and where the affordable housing sector is in long-term decline, it is encouraging to read about a country like France, with a similar population to the UK (both have populations of c. 64.5 million) that builds over 300,000 new homes a year- over twice as many as the UK in recent years and which has an expanding affordable sector. It is even more interesting to read how this is achieved. Jean-Pierre Schaefer has written a fascinating article that sets out how France funds its affordable housing and promotes the homeownership and private rented sectors.

The Netherlands has a large social housing sector with around 30% of the total housing stock controlled by housing associations. These associations are subject to a regulatory framework that was thrown into sharp relief in 2012, when Vestia, the largest Dutch housing association with around 90,000 homes lost £2.5 billion in derivatives deals. The loss created a large hole in the finances of Vestia and led to intervention by the Netherlands Government. Jan van der Moolen, former CEO of the Dutch financial supervisory authority on housing associations, analyses the crisis created by Vestia and identifies some hard lessons that should be learnt by governments, regulators and housing associations themselves. This incisive article by a regulatory insider will make uncomfortable reading for some.

Only 3% of Africa's urban population is able to gain access to mortgage finance. In a valuable article James Mutero examines aspects of the housing finance systems in Africa and illustrates the changing scene. Firstly, he looks at the development of microfinance which is of particular relevance when incomes are low.

the balance?

Secondly, he examines the way in which mortgage refinancing has been used to increase the capacity of mortgage institutions and to overcome difficulties for lenders in accessing the capital markets on acceptable terms.

Africa is the theme of our next article, which is by Duncan Kayiira, an established writer for the journal. Mr. Kayiira offers an excellent overview of the Ugandan housing finance sector. Uganda has experienced economic growth that is rapid by European standards and is working to facilitate an expansion in the middle income group within the country. While over 50% of bank lending goes to residential and commercial mortgages and provision has expanded markedly, the housing market continues to display volatility with rapid price rises following earlier falls.

There has not been an article on Finland in the journal for a considerable time, so we are particularly pleased to round off the autumn issue with a valuable and succinct overview of the Finnish housing finance system. Finland has a small population at only 5.5 million but has a relatively high per capita income. Homeownership is the dominant tenure at 66.4%. Nevertheless, the state has to intervene to secure affordability for those on lower incomes. This helpful article outlines the types of state intervention and also highlights the work of MuniFin, which is owned by Finnish municipalities and which is the most important credit institution for financing state-subsidized housing projects.

Contributors' biographies

Pekka Averio is the President and CEO of Municipality Finance Plc and a member of the Executive Committee of the International Union for Housing Finance. He has held his current role at MuniFin since 2001. Prior to that he was Managing Director of Municipal Housing Finance Plc from 1993 to 2001. Mr. Averio has also previously held different positions within private finance corporations. [3.15]

Jay Brinkmann was Chief Economist of the Mortgage Bankers Association. His previous experience includes Fannie Mae's portfolio strategy group, the Finance faculty at the University of Houston, and deputy chief of staff to the governor of Louisiana. He holds a Ph.D. in finance from Purdue University and an MBA from Tulane University.

Duncan Kayiira holds a Certificate of Housing Finance from Wharton School, University of Pennsylvania, USA. He has up-to-date knowledge of Uganda's housing finance sector and has led and co-ordinated several studies on how the sector has functioned/failed to function among low income earners. Duncan has also advsied on technical issues related to improving and expanding the country's housing industry.

Masahiro Kobayashi is the Director General at Japan Housing Finance Agency. He graduated from University of Tokyo in 1988 with bachelor of law and joined Government Housing Loan Corporation. He worked with Overseas Economic Cooperation Fund, Japan Bank for International Cooperation and seconded to Fannie Mae. He Serves as Advisory Board Member for Asia Pacific Union for Housing Finance. He can be contacted at *kobayashi.orh@ihf.go.jp*

Jan van der Moolen was the former CEO of the Dutch financial supervisory authority on housing associations up to 2013 and has a long career in the social housing domain. He now is a consultant, chairman of several non-executive boards and still considered as an expert on social housing.

James Mutero obtained his doctorate degree in 1992 from the University of Cambridge where his research focused on housing economics. During the last 20 years, as a consultant, Dr Mutero has acquired wide international experience, advising governments in Africa on housing finance and urban development.

Alex J. Pollock is a resident fellow at the American Enterprise Institute, Washington DC, USA. He was President and CEO of the Federal Home Loan Bank of Chicago 1991-2004, and President of the IUHF 1999-2001.

Zaigham M. Rizvi is currently serving as Secretary General of the Asia-Pacific Union of Housing Finance and is an expert consultant on housing and housing finance to international agencies including the World Bank/IFC. He is a career development finance banker with extensive experience in the field of housing and housing finance spread over more than 25 countries in Africa, the Middle-East, South-Asia, East-Asia and the Pacific. He has a passion for low-cost affordable housing for economically weaker sections of society, with a regional focus on Asia-Pacific and MENA. Email: *zaigham2r@yahoo.com*

Kecia Rust is the Executive Director of the Centre for Affordable Housing Finance in Africa, and manages the Secretariat of the African Union for Housing Finance. She is a housing policy specialist and is particularly interested in access to housing finance and the functioning of affordable property markets. Kecia holds a Masters of Management degree (1998), earned from the Graduate School of Public and Development Management, University of the Witwatersrand. She lives in Johannesburg, South Africa.

Jean-Pierre Schaefer, is a graduate engineer of Centrale Lille, with Master's degrees in Economic Science (Lille) and Urban Planning (IUP-PARIS), and is project manager at the National Council for Urban Policies (France). An expert on housing markets, he has worked within the Town Planning Agency, housing companies (commercial and non-profit companies) and Caisse des Dépôts (Social Housing Finance Department). He is a lecturer at the Universities (Panthéon Sorbonne, Orléans) and Conservatoire des arts et Métiers (CNAM).

Mark Weinrich holds graduate degrees in political science and economics from the University of Freiburg, Germany. He is the General Secretary of the International Union for Housing Finance and the manager for international public affairs at the Association of Private German Bausparkassen.

News of the IUHF

IUHF President Andreas Zehnder welcomes the delegates at the IUHF World Congress in Rio de Janeiro 2015.

Andreas Zehnder re-elected as president

Andreas Zehnder, President of the Association of Private Bausparkassen (Germany) and Managing Director of the European Federation of Building Societies (Belgium) was unanimously re-elected President of the International Union for Housing Finance [IUHF] for a second term by the Council of Members at its meeting in Rio de Janeiro on September 4. He has served as President since 2013. Cas Coovadia, Managing Director of the Banking Association of South Africa, was re-elected Vice-President.

Furthermore, the members of the Executive Committee were appointed by the Council of Members: Pekka Averio (Municipality Finance, Finland), Jay Brinkmann (Mortgage Bankers Association, United States of America), Johann Ertl (Raiffeisen Bausparkasse, Austria), Renu Sud Karnad (Housing Development Finance Corporation, India), Oscar Mgaya (African Union for Housing Finance, Tanzania), Herbert Pfeiffer (PSS Building Society, Slovakia), Jiří Šedivý (Association of Czech Building Savings Banks, Czech Republic), Ramón Santelices (Uniapravi, Chile), Chatchai Sirilai (Government Housing Bank, Thailand), and Kapil Wadhawan (Dewan Housing Finance Corporation, India).

The Executive Committee also appointed Mark Weinrich as the new Secretary General. He has previously served as Head of the Department of Economic Affairs for the IUHF and is the Manager for International Public Affairs at the Association of Private German Bausparkassen.

Housing finance news from Africa: Growing Africa's economies through residential investment

↳ By Kecia Rust, Secretariat, African Union for Housing Finance

The African Union for Housing Finance's conference, coming up at the end of October 2015 in Durban, South Africa, promises to focus on making housing finance markets work[1]. The line-up is impressive, with speakers from across the continent and the globe, focusing on financing the housing value chain, growing the capacity of housing microfinance, responding to demand, and working housing finance markets in Africa. The keynote address will be offered by the African Development Bank, and will set out the findings from their recent study into housing market dynamics across the continent. Following this, the African Union's Housing and Urban Development Coordinating Committee will make a presentation on the Draft Africa Common Position – Africa's input into the Habitat III process which will culminate in Ecuador in April, next year. The AUHF conference will produce a "Windhoek Declaration", a statement on housing finance in Africa and the key issues that practitioners in the private sector will commit themselves to in the coming years.

The African Development Bank work into housing markets is important, because it signals that institution's interest in focusing on housing and working with both governments and the private sector to develop and implement solutions to address the various problems undermining functioning housing markets in the continent. It comes at a good time, offering recommendations into the Habitat III process, which hopefully will pull together the public and private sectors into a coordinated effort. Of course, a key set of constraints sit at the macro-economic level: average mortgage interest rates across the continent range from 9.25% in South Africa through to 42% in Madagascar. This is what makes the participation of the AU at the AUHF meeting so significant, as that body offers the opportunity to engage with governments through the AU structures.

A further component of the AUHF conference is a series of one-on-one meetings between investors, DFIs and housing practitioners – projects, programmes and initiatives – towards sealing new deals to promote investment in affordable housing across the continent. In its recent directory of investors, the Global Impact Investment Network identified a number of investors already active in housing across Africa, including Rockefeller Foundation, Echoing Green, Credit Suisse, LoK Capital, Ludin Foundation, Oikocredit, CDC Group, Blue Haven, MicroVest, Acumen, TH Investments LLC, AdobeCapital, AlphaMundi Group, Cordaid Investments. Just within East Africa, twenty-three impact investors were identified as having an interest in housing. Among them, just under ten deals involving collectively about US$150 million worth of investment in housing were identified. Interest notwithstanding, housing was low on the list of priorities, trailing investments in other sectors, namely financial services and agriculture, and the number of deals realized was fewer than the number of interested investors. Why is this? Clearly there are factors in the housing sector in Africa that are stopping the market from working as effectively as it could. This is one of the issues that the AUHF conference will address.

Within this environment, one area that has been receiving increasing attention by investors, DFIs, financiers, as well as local banks and developers, is rental housing. In June, Shelter Afrique hosted a symposium in Ghana, on developing affordable housing for rent. This followed a conference on rental housing held by Shelter Afrique in December 2014, and supported by the French Development Agency. Over the course of these events, key motivations for investing in the sector were highlighted: given urbanization rates and demographics, demand for rental housing was clearly evident and growing; with a regular cashflow and increasing rentals, the sector offered strong synergies with pension fund liabilities, and opportunities for diversification and hedging; and the growing track record of the sector showed impressive yields. As with the broader housing sector, key factors undermining investment had to do with institutional and regulatory capacity.[2] Clearly, investment in these broader, macro-level issues is required if investor interest is to be translated into effective deals. A number of recommendations towards supporting the rental sector were offered. As a first priority, it was noted that governments at all spheres, national to local, should identify and support, in policy and administrative terms, the opportunities to be found in the "build-to-let" market. This could be achieved, in part, through the release of public sector land for rental housing. A further recommendation emphasized the importance of scale interventions and the need for new business models (possibly the establishment of public sector supported funds to gear private sector investment) to entice investor participation in the market. The establishment of a body of best practice was also necessary, both to demonstrate successes and create a framework for ongoing learning. Shelter Afrique has promised in this regard to publish a Rental Housing Development Manual, setting out rental housing transaction structures, financial modelling options, management experience and best practice, design standards, model leases, and so on. Pilot initiatives to demonstrate viability would also be identified and pursued.

Certainly, the rental housing sector offers opportunities for a wider array of practitioners to participate in Africa's housing challenge. Through this, investors may also become more familiar with the dynamics of residential investment, while local authorities become familiar with addressing the implications of scale. The emergence of REIT-friendly legislation in many countries was offering opportunities to build this broader capacity. All of these issues will be considered at the upcoming AUHF conference. The "Windhoek Declaration", arising from the conference, will offer opportunities for all role players to play their part and participate in the exciting growth of African cities.

[1] For more information on the AUHF Conference, visit: http://www.sbs.co.za/auhf2015/index.php

[2] For a very useful summary of the issues surrounding rental housing in Africa, see the White Paper produced for the December 2014 conference: http://www.shelterafrique.org/wp-content/uploads/2014/12/Rental-Housing-Conference_White-Paper_ENGLISH-FINAL.pdf

News update from the Asia-Pacific Region:

↳ By Zaigham Mahmood Rizvi

Bangladesh

Bangladesh has seen a slump in the financial markets because of the political unrest at the beginning of this year, alongside the fall in the stock market and economic slowdown. The real estate sector was no exception. The Real Estate Housing Association of Bangladesh [REHAB] is now expecting to have a turnaround in the sector. REHAB has demanded a TK 20,000 crore fund from the Government for the housing sector, to overcome this recession. In this regard, the Government has reduced the registration fee for small and medium size flats. This reduction in the registration fee announced in the Budget 2015-2016 makes it an apt opportunity for middle-income people to invest in the housing sector. Lower middle class and middle class people will be encouraged to buy small and medium sized flats as the large flats are unaffordable by a large section of the population.

In line with this REHAB has organized a four day housing fair to focus on affordable housing in June 2015 at the Bangabandhu International Conference Centre in Dhaka. According to REHAB, affordable small and medium sized flats are highlighted in the fair because most customers in the capital have limited income. While REHAB is counting it as a positive sign, the National Board of Revenue [NBR] is aiming to bring these new entrants into the tax net. That might frustrate the objective of REHAB initiative. (Contributed by BHBFC)

India

According to the Housing Micro Housing Finance Corporation of India [MHFC], there are some interesting developments in the housing microfinance sector.

The Ministry of Housing and Urban Poverty Alleviation released guidelines for the Pradhan Mantri Awas Yojana (Housing for All) Scheme effective 17 June 2015. The scheme has four pillars – the Credit-Linked Subsidy Scheme [CLSS] pillar is applicable to housing finance companies. Under CLSS, people in the EWS and LIG category applying for a housing loan are eligible for an interest subsidy of 6.5% for a tenure of 15 years[3]. MHFC has signed a Memorandum of Understanding with the National Housing Bank [NHB] to channel the subsidy to borrowers under the CLSS. MHFC will submit claims to NHB for the subsidy.

MHFC continues to actively finance buyers in government affordable housing projects. This quarter the company has signed Memoranda of Understanding with Ahmedabad Municipal Corporation, Surat Municipal Corporation and Madhya Pradesh Housing Board [MPHIDB]. (Contributed by Shefali Saldanha Micro Housing Finance Corporation)

Pakistan

During current quarter, an increase of PRs 4.7 billion was witnessed in the amount of gross outstanding housing finance (8.62%). Overall, the housing finance portfolio stood at Rs. 59.2 Billion as of June 30, 2015. The continued growth in the housing finance portfolio is an encouraging sign. The state-owned housing finance institution [HBFC] remained the largest shareholder, in terms of gross outstanding, with the share of 24%. However, based on category, private banks remained the largest players with a 36% share in gross outstanding. Fresh disbursement for the quarter was Rs. 4.12 billion with 1161 borrowers. Islamic banks disbursed Rs. 2.21 billion. NPLs have shown a declining trend. Furthermore, a major chunk of total outstanding remained directed towards the "Outright Purchase" category as 63.29% of gross outstanding was used to finance this category of housing loans. It was followed by "Construction" and "Renovation" products with 26.03 and 10.68% respectively.

It is expected that the central bank [SBP] stance of reducing the policy rate will further help in enhancing affordability and demand for housing finance in Pakistan.

The construction sector is critically important for the development of the housing sector. Realizing this, the Government of Pakistan in the Federal Budget 2015-16 has approved tax relaxations for this sector. According to the budget document, builders will be exempted from the minimum tax levied on the business of construction and sale of residential and other buildings until June 30, 2018. Moreover, the mark-up on housing loans obtained by individuals from banks and other institutional lenders for construction or buying a house is allowed as a deduction against income up to 50% of taxable income or Rs 1 million. Some tax relief has also been provided to reduce the cost of construction materials and equipment.

The Government has also approved income tax exemptions on capital gains to anyone who sells the property to a REIT development scheme formed for the development of the housing sector. Additionally, for REIT schemes established for the development of the housing sector by June 30, 2018, for the first three years, the rate of income tax chargeable on dividend income of such a REIT may be reduced by 50%. Pakistan's first commercial REIT, the Dolmen REIT, has successfully been launched and fully subscribed. That marks the beginning of the REITs in Pakistan. Other entrepreneurs are also considering launching of REITs in the near future.

Addressing the concluding session of the two-day international conference on Affordable Housing and Mortgage Finance on May 29, 2015, Prime Minister Nawaz Sharif said the Government wants to launch housing schemes at mass scale to provide affordable housing facilities to the people. He said that Pakistan has to fulfill the housing needs of 40 million families. He suggested that the private sector should give their suggestions and coordinate with the Government to launch housing schemes.

Thailand

Top developers building $US3 billion in housing projects during the second-half of 2015
Five of Thailand's top 10 listed property firms plan new residential developments of more than Bt100 billion ($US3 billion) for the second half of 2015 because of low interest rates, decreasing energy costs and strong demand, especially for homes valued at more than Bt10 million.

Despite a sluggish economy that has only been buoyed up by a resurging tourism market, Thailand's top developers recorded net profit growth in the first half of 2015.

[3] Link to the guidelines: http://www.nhb.org.in/Urban_Housing/01_PMAY_Guidelines_English.pdf

Pruksa Real Estate president and CEO Thongma Vijitpongpun told the Bangkok Post that the overall value of the housing sector this year would increases 15% to Bt337 billion ($US10 billion). He predicted that the Thai housing sector would grow between 5-7% during the next decade because of population increases and despite land prices increasing 10 to 20% per year. Sansiri president Srettha Thavisin told the Bangkok Post that homes priced over Bt5 million ($US151,000) were particularly attractive.

Housing units down but volume up 2015
The Agency for Real Estate affairs recently reported that the number of new housing units launched in 2015 will decline by about 1% but the total value will increase by 30%. Sopon Pornchokchai, AREA's president estimated that 112,776 new housing units will be offered in 2015 compared with 114,094 in 2014.

GH Bank participates in 2015 "Specialized Financial Institutions Expo [SFIs Expo]"
Angkana Pilun-Owad Chaimanat, GH Bank's President participated in the Ministry of Finance sponsored "Specialized Financial Institutions Expo (SFIs Expo)" on June 2015.

GH Bank offered some special promotions including: GH Bank maintains happiness home loan project.

The Bank allocated special loans totaling Bt5,000 million ($US151 million) for people that wished to purchase homes.

The Bank charged 0% interest for the first six months, 2.90% interest for the 7th-12th month, 4.90% in the second year. From the third year until the loan-term end, interest rates of MRR-0.50% per annum (general retail customers) and MRR-1.00% per annum (welfare retail customers).

Loans will not exceed Bt 2.5 million/person ($US76,000) and installment terms can be up to 30 years. These loans are for purchasing land/condominium or homes (first and second-hand homes), as well as constructing and renovating homes and buildings.

GH Bank NPAs
The Bank is offering more than 400 good quality and great location second-hand homes across the country for sale at special loan terms from its own NPA portfolio.

The special terms include a "Down payment with installment" program that allows purchasers that make 10% cash down payments at closing to pay zero per cent interest on the balance owing for 12 months.

Campaign to reduce loan payments – this helps existing customers who want to extend loan terms to reduce installment payments. The Bank waived all fees (normal fees for changing installment period is Bt1,000).Interested customers could request installment period extensions at all GH Bank branch es across the country by July 30, 2015.

GH Bank's overseas-Thai housing-loan program
GH Bank and Sun Assets International Co Ltd (Sun Assets), the Bank's agent recently announced an overseas-Thai housing loan program. This program provides Thais working overseas with loans to purchase homes in Thailand. The Loans can be used for the following – for constructing buildings or buying land to construct buildings, to enlarge and renovate buildings, to purchase land with buildings/condominiums, to purchase land with buildings and extensions, purchasing raw land, repaying loans used for buying land with buildings, building/constructing/enlarging/renovating buildings and buying or constructing rental flats.

Philippine

The National Home Mortgage Finance Corporation, is in the midst of preparation for the hosting of the 2nd ASEAN Fixed Income Summit [AFIS] which will be held on September 28, 2015. The following day, NHMFC will host the Asian Secondary Mortgage Market Association [ASMMA] to discuss relevant topics on housing finance. NHMFC's counterparts from Indonesia, Malaysia, Thailand, Japan and Korea are attending these twin events.

The AFIS event can also be viewed at this website: www.2ndafis.ph

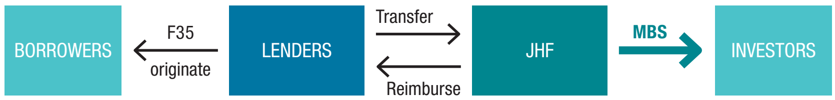
Japan

↳ By Masahiro Kobayashi[1]

The Japan Housing Finance Agency [JHF] marked the 100th monthly issuance of mortgage-backed securities [MBS]. Since its establishment in April 2007, JHF has been leading the development of MBS market in Japan. JHF issues 2 types of MBS. One is what we call “S-series” to liquidate the legacy mortgage portfolio inherited from the former GHLC[2] which was abolished simultaneously with the establishment of JHF. The other is what we call “Monthly-series” to purchase newly originated mortgages from private financial institutions, as Fannie Mae or Freddie Mac does in the US under their MBS Credit Guarantee Business [Figure 1].

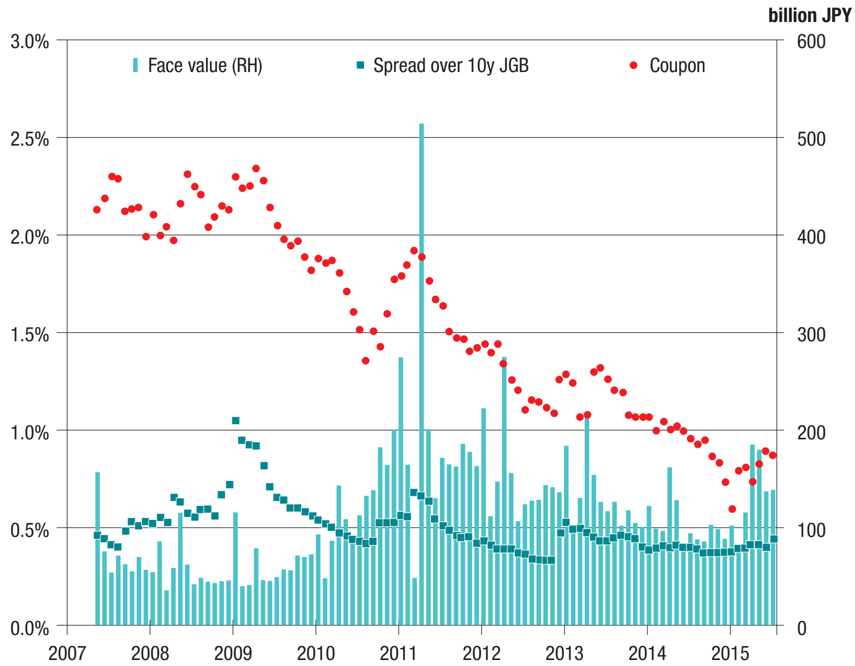
Figure 1 Business model of JHF (Purchase Program)

F35 represents 35 year fixed rate mortgages that conform with JHF underwriting criteria.



On August 21, JHF issued the 100th issue of such “Monthly-series” MBS. Unlike Agency MBS in the US, JHF MBS has no TBA [to be announced] market and JHF submits pool data every month to receive an AAA rating from Standard and Poor’s with a certain level of over-collateralization. In order to create a diversified and granular mortgage pool, the size of each pool is larger than US Agency MBS. The average size of JHF monthly MBS is 117.3 billion JPY, with the largest amount 514.3 billion JPY for 48th series [Figure 2].

Figure 2 Issue amount and pricing of JHF MBS



Source: JHF

The coupon of JHF MBS backed by 35 year fixed rate mortgages now stands below 1%. The nominal spread over 10 year JGB[3] [Japanese Government Bond] is below 0.5% and remains stable after a significant rise in late 2008 in the midst of the global financial crisis.

In order to support the Japanese people to acquire houses, JHF will continue to provide liquidity to the mortgage market with due attention to investor relations.

1 The views and opinions are author’s own and do not represent those of JHF or the Government of Japan. This article has been prepared for the sole purpose of providing information only and not as an offer, sale or inducement to buy or sell bonds.

2 GHLC [Government Housing Loan Corporation] was established in 1950 to provide liquidity to the mortgage market and enhance the quality of houses in Japan. GHLC depended on borrowing and subsidies from the Government of Japan; the business model of GHLC was regarded as not sustainable in the late 20th century, and the Government of Japan decided to wind down GHLC to be replaced by JHF.

3 The vast majority of mortgage assets backing the JHF MBS have 35 year maturity, but taking account of the prepayment, the weighted average life of the loans is considered to be somewhere around 10 years and pricing of JHF MBS is measured as the spread over the benchmark JGB with a 10 year remaining period.

IUHF World Congress

↳ By Mark Weinrich, Secretary General of the International Union for Housing Finance

This September, over 190 delegates from 31 different countries came together in Rio de Janeiro, Brazil, to participate in a joint event organised by the International Union for Housing Finance [IUHF] and the Inter-American Housing Union [Uniapravi]. It was the 29th World Congress of the International Union for Housing Finance and the 50th Inter-American Housing Conference of Uniapravi. The International Union had already held its World Congress here in 1974 and again in 1999, but this was the first time that the IUHF and Uniapravi had jointly presented an international conference intended to highlight and encourage the study and dissemination of knowledge in the field of housing finance. The theme of the joint event was "Demand and Demographics: challenges and opportunities for housing and housing finance markets." This theme reflects the need of the housing and housing finance industry to find answers to the major demographic changes that will arise over the next decades.

The congress was opened by **Andreas J. Zehnder, President of IUHF, Ramón Santelices, President of UNIAPRAVI and Octavio de Lazari Junior, President of ABECIP**. In his speech, Mr. Zehnder stated that today people aged 60 or over comprise 12 per cent of the global population, but that this proportion will increase to nearly a quarter by 2050. He called on the delegates to regard the challenges arising from this demographic shift not as obstacles, but as chances to create and deliver value to society and to the customers for housing and mortgage products.

It was an honour that the opening speech was delivered by **Gilberto Kassab, the Brazilian Minister for Cities**. Mr. Kassab spoke of the importance of housing and housing finance for the social and economic progress of the country. The Brazilian government focusses its support on low-income households with several projects to improve their housing conditions. Mr. Kassab pointed to the fact that Rio de Janeiro has many opportunities as a result of its status as the venue for the Olympic Games in 2016.

Ricardo Jordan, Head of the Unit for Human Settlements, Economic Commission for Latin America and the Caribbean (ECLAC) from Chile, stated in his speech that Latin America is the most urbanized of the developing regions of the world. Social and economic progress in Latin America has improved the housing situation but there are still many issues (including the challenge of informal settlements) that have to be resolved. Mr. Ricardo recommended the strengthening and improvement of inter-sectoral and social housing policies and also that cities should be regarded as a macro public good.

Claudia Magalhães Eloy, Researcher for the Housing Lab, School of Architecture and Urban Planning, University of São Paulo in Brazil, stated that the housing finance system in Brazil is dominated by the Sistema Financeiro da Habitação (SFH) which consists of the FGTS (mandatory deposits to be made by employees) and the SBPE (a system of voluntary deposits). Despite the SFH offering interest rates for housing loans below the market rate, the housing finance market is still not accessible for many Brazilian families. It is therefore of strategic importance for SFH to increase access in order to provide loans to households in need.

Octavio de Barros, Director and Chief Economist of Banco Bradesco, Brazil used his presentation to give a brief overview of the global economic situation and of the most important regions and countries. In spite of the impact on Brazil of weak international trade and the worsened global economic situation, Mr Barros believes that the situation looks brighter than the collective catharsis in Brazil implies. He believes that the Brazilian economy will recover by the end of 2016.

Ana Maria Castelo, Project Coordinator at Fundação Getulio Vargas Projetos, Brazil stated in her presentation that the construction sector has been hit more heavily by the economic slowdown than the overall economy in Brazil. Ms. Castelo noted that it is of the utmost importance for the construction sector to recover in order to fulfil the estimated housing needs over the next decade. Furthermore, investment in Brazilian infrastructure has to be increased. According to Ms. Castelo, the recovery of the construction sector requires restored confidence in the economy above all, but also requires reforms in housing policy, a productivity boost for the industry and capacity building within the municipalities.

João Paulo Rio Tinto de Matos, President of Ademi Rio, Brazil noted that the city of Rio de Janeiro profits from being the venue for the Olympic Summer Games in 2016 as there is much investment in infrastructure and urban development. However, Rio de Janeiro is not immune to the economic downturn in Brazil: sales and the construction of houses have contracted, despite a large housing backlog in the city. Mr. Rio Tinto de Matos pointed out that the construction sector is key for generating work as well as social and urban development. In order for the sector to return to a growth path, he wants greater macroeconomic and political stability as well as increased legal certainty.

Jie Chen, Director of Real Estate Research Institute of the Faculty of Economics and Public Administration University of Finance and Economics Shanghai, China used his presentation to explore the slowdown of China's economy and real estate market. He stated that the downturn in the housing market is not due to the economic challenges in China but due to excessive oversupply. Mr. Chen recommended that the market corrections should be left to market forces and the price mechanism in order to deal with the excessive supply. Furthermore, he suggests reforms in the land and fiscal system as well as a modernization of the housing finance system.

Melhim Chalhub, owner of Melhim Chalhub Advogados Associados, Brazil, gave an introduction to legal security for real estate investments in Brazil. Lenders can secure their loans by a mortgage or through fiduciary alienation. In the latter case, the lender holds ownership of the property, while the loan is being repaid. Housing loans secured through fiduciary alienation have much lower default rates. Mr. Chalhub also described the features of two funding instruments in Brazil: the already established mortgage-backed securities (Certificados de Recebíveis Imobiliários) as well as the new framework for covered bonds (Letras Imobiliárias Garantidas).

Jay Brinkmann, former Chief Economist of the Mortgage Bankers Association [MBA], United States of America analysed the demographic drivers of the U.S. homeownership rate. While demographic factors such as age and the changing composition of the population impact on the overall homeownership rate, the effects largely offset each other in the US over the next 20 years. Changes in the rates for the individual subgroups will drive any changes in the homeownership rate. Mr. Brinkmann concluded that while policies aimed at supporting homeownership have some effect, the overall rate will be driven by age demographics, immigration policies and economic growth.

Masahiro Kobayashi, Director General for International Affairs of the Japan Housing Finance Agency, Japan explored the demographic impact on demand for housing and housing finance in Japan. Mr. Kobayashi showed the strong correlation between demographics and housing starts and property prices. After the collapse of the housing market, the Japanese economy fell into the "lost decades" – a scenario which the United States avoided due to aggressive monetary accommodation. Furthermore, US house prices recovered more quickly due also to a drastic decline in the supply of houses. Japan still struggles with a large oversupply of houses: 13.5% of the total housing stock is vacant. The economic depression in Japan can be not explained by demographic factors as they account for only in small part for the economic change.

Patricio Donoso, Vice-President of the Chilean Chamber of Construction, Chile used his presentation to describe the Chilean socio-economic progress over the last 25 years: tripling of GDP per capita, a considerable reduction of the poverty rate and housing backlog, increasing urbanization and decreasing household size. He noted that despite these successes, challenges remain, in particular for urban areas. Residential segregation has led to a high concentration of problematic issues in certain parts of the cities. Mr. Donoso recommended tackling these challenges by providing a holistic policy and institutional backbone for housing and urban development.

Sebastián Fernández, Director for North America of UNIAPRAVI and Director of the Business Sector of Infonavit, Mexico explored the global challenges brought about by rapid urbanization and climate change which affect Mexico. Infonavit is a publicly-backed housing agency in Mexico tasked with providing finance for formal housing and which is financed by a 5% payroll tax collected from all formal workers. Infonavit provides around 70% of all mortgages in Mexico making it one of the largest mortgage banks in the world. Although Infonavit enabled low-income families to become property owners and had some success in fighting informal settlements, the misuse of urban land and illegal housing remains a major issue. Mr. Fernández suggested structural and institutional reform in order to improve housing and urban planning and also outlined some potential contributions of Infonavit.

Alessandra D'Avila, Director of the Department for Precarious Settlements, Brazilian Ministry of Cities presented the speech of Inês Magalhães, National Secretary of Housing, Ministry of Cities, Brazil. The presentation described the socio-economic progress Brazil has made during the last decade. The considerable decline in the Brazilian housing deficit over this period is also due to the significant growth in mortgage lending. Another important factor is the government programme "Minha Casa, minha vida" (My house, my life) which offers subsidies for low-income households but particularly encourages the private sector to produce adequate housing for the low-income segment. The presentation offered an outlook on demographic changes as well as the patterns of demand and supply for housing for the next decades in Brazil and stated that there are still a number of challenges that have to be overcome.

Mark Weinrich, Secretary General of IUHF presented the speech of Andrew Heywood, Editor of the journal Housing Finance International, United Kingdom. The presentation examined how the policy known as "right to buy" [RTB] changed the affordable housing sector in England. 17% of all English households are social renters – down from 31% in 1980. The biggest factor in the decline has been the RTB, which gives social renters the right to buy their properties at a considerable discount with respect to the market price. As there was no effective mechanism to ensure that stock which was sold was replaced, the total social housing stock declined drastically. The effect of the reduced social housing stock is that the housing needs of the poorest are increasingly unmet or met inadequately. The plans of the current government to extend the RTB to housing associations tenants are likely to increase the negative effects.

José María Ezquiaga Domínguez, Architect, Ezquiaga Arquitectura, Sociedad y Territorio, Spain stated in his presentation that Latin America is already a highly urbanized continent with 80% of the population living in urban areas. The growth of cities has therefore slowed down and stabilized, but several challenges remain: fragmentation and social inequality, housing shortages, increased costs associated with territorial dispersion, decline of traditional city centers as well as institutional weaknesses which make it more difficult to solve these problems. Mr. Ezquiaga recommended improving infrastructure, services and public transport systems as well as achieving higher densification. He suggested implementing a joint policy for the construction of housing and for urban planning.

Adelaide Steedley, Director for the Centre for Affordable Housing Finance in Africa, South Africa demonstrated that Africa is the fastest growing continent with the fastest urbanization rate. However, the housing sector contributes only a meager 3% to GDP and mortgage lending remains less than 1% of all bank assets. This is also due to the fact that according to a World Bank estimate only 3% of the population of Africa has an income sufficient to support a mortgage. The result is a huge backlog in infrastructure and housing and a high level of informality. Ms. Steedley stressed that better planning is a key step towards a solution as planning creates value through permission to build, as well as mobilising resources and political will. It is therefore important to provide decision makers with the intelligence, information and tools necessary for better planning.

Alessandra D'Avila Vieira, Director of the Department for Precarious Settlements, Ministry of Cities, Brazil reminded the audience that despite the significant improvement in household income, as well as massive investment in housing and urban infrastructure, informal settlements remain a challenge in Brazil; more than 3 million families live in slums. The federal government runs several programs (for slums in particular the Growth Acceleration Programme [PAC]) targeted at construction and improvement to millions of homes. The programmes follow an integrated and comprehensive concept so that the informal settlements are incorporated into the formal city and have access to all necessary public services. The programmes have been largely successful also because of the large volume of investments, but further challenges remain.

Pekka Averio, is CEO of Municipality Finance [MuniFin], Finland, which is the third largest credit institution in Finland and is owned by the public sector. Mr. Averio stated that the Finnish municipalities are endowed with comprehensive rights and responsibilities with regard to taxation, public services and housing, but the Finnish central government supports both private and social housing, e.g. by tax reliefs or subsidies. Mr. Averio gave a description of the various subsidies and the role of MuniFin in this context. MuniFin grants housing loans for municipal housing companies and not-for-profit housing companies as well as for infrastructure and other public investments. The MuniFin model reduces direct government borrowing, provides access to international capital markets and safeguards the funding under all market conditions.

Claudio Frischtak, President of Inter B. – Consultoria Internacional de Negócios, Brazil described how infrastructure investments in Brazil are so low that they do not even offset per capita depreciation. The sectors of urban infrastructure are basically financed by the government, but it will be necessary to attract more private resources in order to close the gap with advanced emerging economies. In addition, the private sector is likely to enhance the quality of, and return on the investments as well as their timely execution. However, attracting private capital implies – according to Mr. Frischtak, firstly macroeconomic stability that enables lower real interest rates and risk premiums, the increased availability of long-term security and an extended duration of bank liabilities. Mr. Frischtak indicated that Brazil is still someway off given the current situation.

Christian König, Chief Counsel of the Association of Private German Bausparkassen, gave a survey of long-term housing finance in Europe. He pointed out that the funding and financing of housing loans in Europe is “as diverse as Europe itself”, although deposits account for 60% of all mortgage funding as a European average. There are also various specific savings products or systems which are intended to fund housing loans, of which the most widespread is the Bausparen system. Mr. König pointed out the negative effects of the worldwide financial crisis on different funding models in Europe and the reaction by European law makers such as the creation of the Banking Union, the harmonization of deposit guarantee schemes within the EU, and also the regulation of mortgage credit and measures to protect consumers with foreign currency loans. Mr. König also stated that the extremely accommodative policy of the European Central Banks is a threat to all funding instruments but damages in particular the savings culture.

Lina Ghbeish, General Manager at the Mortgage & Leasing Directorate of the Palestine Capital Markets Authority, explained about the specific situation in relation to housing construction, urban infrastructure and long-term housing finance in Palestine. After providing background information and key economic data for Palestine, Ms. Ghbeish gave a brief description of the Palestinian housing market, which is characterized, among other things, by a mismatch between demand and supply with a surplus in the luxury segment and a considerable need for housing for the middle to low income groups. She also drew attention to the lack of urban infrastructure. She pointed out that the Palestinian housing sector is governed by an incomplete policy and coordination between government players is lacking, so that effective development of the market is hindered. After listing the various constraints on the housing sector, Lina Ghbeish illustrated the current situation by various case studies and ended up with recommendations for an improved approach to the challenges facing the sector.

Mr. Elkin Velasquez, Director of the Regional Office for Latin America and the Caribbean/ UN-Habitat, Columbia, informed the audience about Habitat III, the United Nations conference on Housing and Sustainable Urban Development, to take place in Quito, Ecuador, from 17-20 October, 2016. He gave an overview of what a new urban agenda could look like that focusses on policies and strategies that can harness the power and forces behind urbanization.

During the closing ceremony, Andreas Zehnder, president of the IUHF, Ramón Santelices, outgoing president of Uniapravi, Nylton Velloso, the new president of Uniapravi, Filipe Pontual, managing director of Abecip, as well as Carlos Marun and Manoel Alves da Silva Junior, both deputies of the Brazilian House of Representatives, thanked the speakers, the delegates and the organizing team for the excellent and interesting conference.

All presentations can be found on ***www.housingfinance2015.org***

Central banks are central to housing finance:

Can we understand what the world's most important central bank is doing?

By Alex J. Pollock

The actions of central banks can have huge effects on housing finance, from inducing and feeding a housing bubble, as the Federal Reserve did in the early 2000s, to crushing the housing finance sector, as it did with the U.S. savings and loans in the 1980s.

Where are we now with the world's most important central bank? In response to the 21st century collapse of the American housing finance system, the Fed lowered its benchmark interest rate to near zero in 2008. It has kept it there for seven years, long after the crisis and recession ended. It is three years since U.S. house prices started their recovery – they are now once again over their long-term trend line and climbing.

For some time we have been inundated with endless, dull discussions about whether the Fed is going to raise interest rates in September (they dind't), in December, or when.

That so much effort goes into trying to guess what the Fed is going to do, instead of having interest rates depend on market-clearing prices, is an unfortunate effect of having a national price fixing committee for interest rates. It is perverse that economic actors, instead of making investment and borrowing decisions, based on the opportunities and risks of the enterprising U.S. economy, instead are trying to divine what a committee of economists will do.

William McChesney Martin, the long-serving Fed chairman from 1951 to 1970, who was not an economist, made the same critique half a century ago. "Instead of making market judgments for themselves," he complained about the "Fed watchers" of his day, "they are chiefly interested in trying to find out what the Federal Reserve plans to do." As the Fed has grown vastly more adventurous, this problem gets worse.

The theories and ideologies of central banks change over time. The Federal Reserve is dominated by the Chairman of the Board of Governors in Washington DC, now Janet Yellen. She is very focused on employment and unemployment, and on enforcing the 2% inflation target that the Fed made up. She does seem to be committed to the remarkably extended period of negative real interest rates, which is crushing savers in order to benefit borrowers and leverage.

With nominal short-term interest rates of about 1/8%, and a "target" inflation of 2%, you get a very significant negative real interest rate. Negative real interest rates from time to time are not unusual, but to have them for so long is highly so.

The Fed, along with many other central banks, set out to increase asset prices, and has succeeded, for better or, more likely in the end, for worse. Of course, if you keep interest rates very low, you can make asset prices go up. We now have extremely high bond prices, high stock prices and rapidly increasing house prices. When discount rates are low, present values and thus asset prices rise. But we all know how unpleasant asset price bubbles are when they end.

The theory is that increasing asset prices will spur more economic growth. But while the U.S. has had moderate growth, it has not been the kind of rapid growth that often has happened after deep recessions. In this context, some people point to Japan, which has had effectively zero interest rates for a very long time, but has gotten stagnation instead of growth.

Another important theory of central banks they should create inflation in order to decrease real wages without reducing nominal wages, and thus make labor cheaper in real terms. Cheaper labor should mean increased employment.

That is one of the most important arguments the Fed made to itself in private as it was adopting its target inflation rate of 2% a year, forever. I have never seen the Fed admit in public that it wishes to reduce real wages, but that is obviously what it does.

At the "target" inflation rate of 2% a year, average prices paid by consumers will quintuple in an average life of 82 years or so. With a straight face, the Fed calls that "price stability."

Of course there is something wrong with any economic theory you can think of, except for the law of supply and demand, including all the theories in vogue with central banks, from time to time. Macroeconomics is certainly not a science and suffers from many unintended and unexpected results. Housing finance under current central banking regimes just has to live with this.

In the meantime, a lot of the buoyancy in U.S. housing, as well as equity and bond markets, does reflect the astonishingly low interest rates and negative real interest rates.

Any initial interest rate increase the Fed makes will be small. What do market actors expect after that? Suppose the Fed increases short-term rates by ¼% six times. Rates would still be historically low. But asset prices would no longer be so high. It will definitely be hard for markets to withdraw from the drug of ultra-cheap leverage the Fed has pushed.

After six quarter-point increases, short-term interest rates would still be only about 1 5/8%-far below normal. What would market or normal short-term interest rates be now, in the absence of manipulation by the Fed? My guess is 2½ to 3%.

There are two things that the Fed does very well. It is very good at lending money it prints in order to get through a crisis, which was indeed the principal purpose for its formation in 1913. This function was notable in 2008-09, and in previous crises.

The other thing the Federal Reserve is really good at, like all central banks, is lending money to the government. The Federal Reserve is now lending $2.5 trillion to the U.S. government. It's very handy if you're a government and you want to run large deficits, to have a central bank of your own that will buy lots of your bonds.

So what are the ultra-low interest rates effecting, six years after the crisis? One thing for sure: the Fed is making it really cheap for the U.S. government to finance its deficits.

Equally important for housing finance, are the things the Fed is not good at. The Fed is not good at managing the economy and it is not good at economic forecasting. It has no special knowledge or insight that other people do not have about housing or anything else. Nobody is good at economic forecasting; the Fed is equally as bad as everyone else. As the saying goes, "Economic forecasting was invented to make astrology look good."

Overall, the U.S. has the underlying strength of an enterprising and entrepreneurial economy, being slowed down by government regulatory burdens and experiencing massive financial distortions and asset price inflations caused by the Fed. How will the U.S. central bank's remarkable foray into unchartered territory end? How will it end for housing finance?

Nobody knows, including the Fed. It is flying by the seat of its pants, as it always does.

The homeownership rate: A flawed metric for making housing policy decisions?

By Emile J. Brinkmann

1. Introduction

Policy makers, the news media, housing industry participants, and others pay a great deal of attention to homeownership rates. The rates are often used as a measure of the relative effectiveness of the housing finance systems in different countries, as well as an indicator of whether a country's housing finance system needs to be changed in some way. For example, in the United States, Fannie Mae and Freddie Mac used the increasing homeownership rate in the 1990s and early 2000s as evidence of the efficacy and indispensability of their hybrid structure of private ownership and government guarantees.

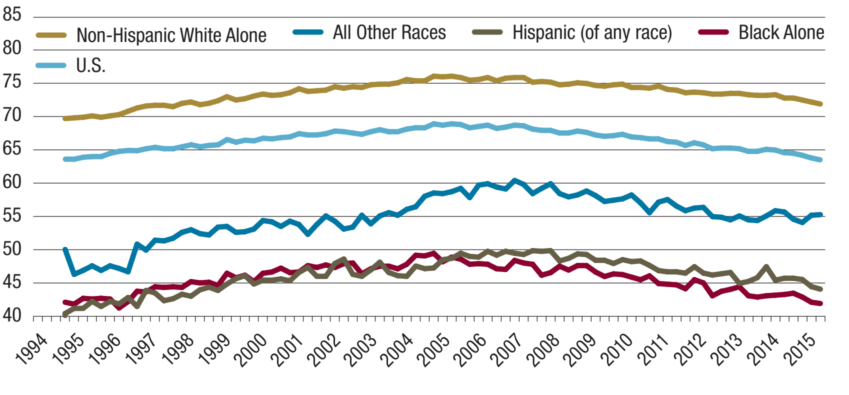
However, the steady decline in the homeownership rate in the United States over the last ten years, has led many to look for causes and remedies. For example, some have pointed to the tightening of credit and the elimination of most reduced documentation, pay-option, and interest-only mortgages, as well as the potential penalties to which mortgage lenders and servicers are exposed when a borrower defaults. In addition, the very large increases in student loan balances, which have increased from $350 billion at the end of 2004 to $1.16 trillion at the end of 2014, are certainly disqualifying some potential home buyers. Other commentators have pointed to the overhang from the recession that caused delays in building careers and starting families, with the corresponding drop in demand to own a home. Still others have cited the phenomena of more young urban professionals enjoying the freedom of a lifestyle unattached from either a spouse or the responsibilities of homeownership.

The US policy responses have included lowering down-payment requirements, weakening credit criteria, forgiveness for some student loans, various forms of subsidies and tax credits, and mandating lending in certain areas through racial disparate impact charges brought by financial regulators and the US Department of Justice[1], but nothing has arrested the continued fall in the US homeownership rate. This has raised questions of whether policies are adequate or properly implemented. What has not been addressed, however, is whether homeownership is a fundamentally flawed metric in looking at housing and housing finance policies. For example, for years homeownership in the US has been highest among those over 65, and lowest among young Blacks and recent immigrants. Is it possible that demographic changes in the United States are driving changes in the homeownership rate in ways that changes in public policy cannot (and probably should not) address? Are differences in the demographic changes in different countries making international comparisons of homeownership rates essentially meaningless? This paper looks at how changes in the homeownership rate in the US have been and will be driven by demographic changes, and how little impact public policy changes will likely have on the homeownership rate.

2. Changes in the US homeownership rate

Figure 1 shows the changes in the overall homeownership rate in the US between 1994 and 2014. While the overall US homeownership rose from 64% in 1994 to 69% in 2004, it fell back to 64% by 2014. The changes, however, differed by race and ethnicity.[2] For Whites the rate rose from 70 to 76% before falling back to 72%. Among Blacks the rate rose from 42 to 50% and fell to 43%. For Hispanics the rate rose from 47 to 59% and fell back to 55%. For each group, therefore, homeownership in 2014 was higher than it was in 1994, yet the overall rate showed no change between 1994 and 2014. How can this be? It is simply because the composition of the population

Figure 1 Homeownership Rates by Race and Ethnicity



[1] A major issue of contention between the lending industry and the Obama Administration has been how racial discrimination tests are applied. It has long been accepted law that lenders could not treat borrowers differently based on race, meaning that they could not have different qualifying standards for loan approvals or different loan pricing based on race. In practice this has also meant that lenders could not use variables in the credit approval process that were highly correlated with race but had weak explanatory power in predicting defaults. Under the Obama Administration, the interpretation of the law has shifted from prohibiting disparate treatment of borrowers based on race to disparate impact based on race. This means that even if no pattern of disparate treatment is discovered, if the racial distribution of the loans made does not substantially match the racial profile of the community in which the lender operates, the lender is subject to sanctions.

[2] The US Census Bureau reports homeownership by race (White, Black, Asian, Native American, etc.) and ethnicity (Hispanic). Since Hispanic can include any race, the breakouts here are those generally used by the Census bureau: White (non-Hispanic), Black (non-Hispanic), Asian (non-Hispanic), Hispanic (all races), Other (American Indian, Pacific Islander, and mixed race).

of the US changed over this 20 year period. Even though the homeownership rate among Hispanics increased, the fact that the rate is below the national average meant that the national average was brought down as Hispanics increased as a share of the population.

This raises the question of what other demographic changes might be driving the changes in the US homeownership rate. One obvious one is the change in the composition of the population by age. Figure 2 provides the homeownership rate by age and race/ethnicity.[3]

The disparity in homeownership by race is greatest in the younger age brackets.[4] The rate for Whites is considerably higher than for Blacks and Hispanics, but the rate for Asians is only slightly below that for Whites. For all groups, the rate increases by age bracket and is generally highest in the 65 to 75-year old bracket. Figure 3, however, shows how these different age and race/ethnicity brackets were impacted by the drop in homeownership since 2005.

While the biggest drops were between the ages of 25 and 44 for all races and ethnicities, the rates for Blacks showed large drops regardless of age. The drop for Hispanics was generally similar to that for Whites, but the rate for Asians increased for the two middle-age brackets. While the changes in the homeownership rates for the individual groups are interesting, they do not in and of themselves illustrate underlying causes for the fall in the overall homeownership rate. For example, while the large drop in the Black homeownership rate for the 25 to 34-year old age bracket might be tied to very high levels of Black unemployment since the recession, the same may not be true for the other race and ethnic groupings.

Neither should it be assumed that large changes in the rates for any one group would have a particularly large impact on the overall national average. Figure 4 gives the actual number of owner-occupied households for each age and race/ethnicity grouping. Three things stand out. First, the largest numbers of White owner-occupied households are in the 55 to 65-year old age bracket. This is not true for the other race/ethnicity groups that have a more uniform distribution. Second, the number of Asian owner-occupied households is essentially the same as the number of Black owner-occupied households for homeowners younger than 45, yet the US Census Bureau does not routinely report out separate homeownership statistics for Asians. As will be discussed, the expected growth rate of the Asian population will soon have Asians outnumbering Blacks in US, so this policy of the Census Bureau will need to change. Finally, and most importantly for understanding the demographic impacts on the homeownership rates, Whites represent the overwhelming number of owner-occupied households and have the biggest influence on the overall homeownership rate. Even though Hispanics represent the fastest growing group, the number of Hispanic owner-occupied households would have to almost double to have the same impact as a 10% increase in White owner-occupied households.

Figure 2 US Homeownership by Race and Ethnicity - 2014

AGE	WHITE	BLACK	HISPANIC	ASIAN	OTHER
25-34	48%	19%	30%	33%	40%
35-44	70%	38%	45%	60%	50%
45-54	79%	51%	56%	75%	63%
55-64	82%	56%	59%	75%	71%
65-74	85%	63%	63%	73%	70%
75 and over	82%	67%	68%	63%	74%
Total	**75%**	**46%**	**48%**	**60%**	**58%**

Figure 3 Change in US Homeownership By Age And Race/Ethnicity - 2005 to 2014

AGE	WHITE	BLACK	HISPANIC	ASIAN	OTHER
25-34	-10%	-11%	-7%	-11%	-3%
35-44	-8%	-10%	-9%	-4%	-13%
45-54	-4%	-7%	-3%	5%	-3%
55-64	-3%	-11%	-7%	3%	-6%
65-74	-1%	-4%	-3%	-3%	-8%
75 and over	1%	-6%	2%	10%	-9%
Total	**-4%**	**-7%**	**-4%**	**-2%**	**-6%**

Figure 4 US Owner-Occupied Households - 2014 (in millions)

AGE	WHITE	BLACK	HISPANIC	ASIAN	OTHER	Total
25-34	5.8	0.5	1.1	0.6	0.2	**8.2**
35-44	8.8	1.1	1.7	0.9	0.2	**12.8**
45-54	12.6	1.6	1.8	1.0	0.3	**17.2**
55-64	13.7	1.6	1.3	0.9	0.3	**17.7**
65-74	10.6	1.0	0.7	0.5	0.2	**12.9**
75 and over	8.5	0.8	0.5	0.3	0.1	**10.2**
Total	**60.0**	**6.6**	**7.0**	**4.2**	**1.4**	**79.1**

2.1. Expected demographic trends in the US

The United States has undergone significant demographic changes in the last several decades, and those changes are expected to continue. There are four principal drivers of that change, the first two much larger than the second two. First, the percentage of population that is non-Hispanic White continues to fall, and the average age of the White population is getting older. Since the end of the Second World War, White demographics have been driven by the

[3] All data in this paper are from the US Census Bureau and the Integrated Public Use Microdata Series, Current Population Survey of the University of Minnesota.

[4] While the US Census Bureau includes households headed by individuals under 25 in its calculation of homeownership rates, this appears to needlessly reduce the rate and there is likely no benefit to encouraging homeownership among people younger than 25. Therefore they are excluded from this analysis.

post-war baby boom as soldiers returned home to start families. The earliest baby boomers have now turned 70, and the youngest are over 50. Following the baby boomers, however, is a gap in the population, those now roughly between the ages of 35 and 55. That gap began to close, however, once the baby boomers began having children (the so-call Echo Boomers), with those children now between the ages of 20 and 40. This lumpiness in the age distribution of the White population has caused various problems such as school systems that expanded to handle over-crowding, only to find themselves with a shortage students a decade or two later. For housing it meant that suburbs that were built for an expanding population then faced a shortage of buyers as fewer people moved into the key home buying age brackets. The Black and Hispanic populations do not have the same Baby Boomer/ Echo Boomer phenomena because those populations were not impacted by participation in the Second World War to the same degree as Whites.

The second major demographic driver has been the large growth in the Hispanic population. The growth has been driven by large number of immigrants from Mexico, both legal and illegal, as well as higher fertility rates among Hispanics whose families are native born or who have been in the United States for many years. More recent Hispanic arrivals have come from countries in Central America, but Hispanic immigrants can be very generally characterized as having limited education, limited skills beyond manual labor, and limited ability to speak or read English. This has led them to work in areas such as agriculture, construction, food processing plants, and cleaning services, all of which are lower-paid positions. The lower pay has led to much longer delays in being able to purchase a home than has been true for other immigrant groups.[5] While being Hispanic is an ethnic rather than racial classification, because Hispanics include several different races, Hispanics are classified as a separate group for US Census purposes and are now the second largest group in the United States, behind non-Hispanic Whites but larger than non-Hispanic Blacks.

The third factor, although of somewhat lesser significance so far, has been the growth of the Asian population in the United States. This group, primarily from China and India, has arrived in the US with generally higher levels of education and a strong focus on education once settled. The result is that they tend to have higher paying jobs and have a higher percentage of home ownership.

Figure 5 Change in US Population, 2005 to 2014 (in millions)

AGE	WHITE	BLACK	HISPANIC	ASIAN	OTHER
Under 25	(5.3)	(0.3)	5.0	1.2	1.7
25-34	0.8	0.4	1.1	0.6	0.3
35-44	(5.4)	(0.4)	1.5	0.6	0.1
45-54	(2.1)	0.3	2.0	0.7	0.1
55-64	5.9	1.6	1.6	0.8	0.3
65-74	5.4	0.6	0.7	0.5	0.1
75 and over	0.8	0.3	0.5	0.3	0.1
Total	**0.1**	**2.5**	**12.4**	**4.5**	**2.8**

Figure 6 Projected US Population Changes, 2014 to 2025 (in millions)

AGE	WHITE	BLACK	HISPANIC	ASIAN	OTHER
Under 25	(4.0)	(0.4)	3.1	1.0	1.1
25-34	(0.3)	0.9	2.2	0.6	0.5
35-44	1.4	0.9	1.9	0.8	0.3
45-54	(5.5)	(0.1)	2.1	0.7	0.2
55-64	(2.1)	0.5	2.3	0.6	0.2
65-74	6.0	1.5	1.8	0.8	0.3
75 and over	5.8	0.9	1.1	0.6	0.2
Total	**4.0**	**4.0**	**10.2**	**3.9**	**1.5**

The fourth factor, also of somewhat less significance, is the slower growth of the Black population. At current growth rates, Blacks will soon be only the fourth largest race/ethnic group in the US. While they generally have the lowest percentages of homeownership, their impact on the overall US homeownership rate is diminishing.

The trends in the US population are in the next two charts. The first shows the changes between 2005 and 2014, and the second shows the changes between 2014 and 2025. What is interesting is the consistency between the two tables. The decline in the number of middle-aged Whites shifts from the ages 35 to 55 to the ages 45 to 65 as this group gets 10 years older. There continues to be a drop in the White population under 25 as the birthrate among White women has not recovered to previous levels. Similarly, the population of younger Blacks will continue to decline while that of younger Hispanics will be larger than all of the other racial/ethnic groups combined. The cold, hard truth about demographics is that these are changes that will happen. Except for possible changes in immigration policies (and, perhaps government-supported family planning programs), there is nothing government policy makers can do to influence these numbers, or the homeownership rates that result from these numbers. No matter how self-important some government policy makers may think they are, they cannot create a policy to cause more births to happen 20 years ago.

The US Census forecasts of the US population for a number of years into the future provide detailed birth/death rates for the various race and ethnic categories of the current population and expected levels of immigration. Using these Census data, it is possible to forecast future homeownership rates attributable solely to changes in the composition of the population. Since the overall homeownership rate is nothing more than the weighted average of the individual rates for the population components, and assuming that the ownership rates within each of the age and race/ethnicity buckets remain the same. Building a weighted-average model using the current age and race/ethnicity weights and well as the associated homeownership rates

[5] See for example "Homeownership in the immigrant population", George J. Borjas, *Journal of Urban Economics* 52 (2002) 448–476 [http://www.hks.harvard.edu/fs/gborjas/publications/journal/JUE2002.pdf]

Figure 7 Projected US Homeownership Rates Based on Demographic Changes Alone

2014*	64.7%
2014**	66.9%
2020	66.6%
2025	66.5%
2030	66.4%
2035	66.2%

* Rate including those under age 25

** Rate excluding those under 25

Figure 8 Number of Renter Households (In Thousands)

AGE		2005	2014	CHANGE
25 to 34	Married couples	2,919	3,319	400
	Male headed, no wife	607	839	232
	Female headed, no husband	2,068	2,374	306
35 to 44	Married couples	2,074	2,856	782
	Male headed, no wife	475	568	93
	Female headed, no husband	1,722	2,055	333

gives the projected overall US homeownership rate through 2035 shown in Figure 7.

While it may be surprising that the homeownership appears to be relatively stable with only a slight decline over the next 20 years, two countervailing forces are at work. First, the continued growth of the Hispanic population, particularly recently arrived immigrant Hispanics, will lower the weighted average homeownership rate, but this will be offset by the aging White population moving into peak homeownership age brackets. These projections, however, are highly dependent on the homeownership rates within each of the brackets remaining the same. The next section looks at some of the factors that could change the rates within each of the brackets.

3. Will the homeownership rates remain constant within each of the subgroups?

The forecasted homeownership rates presented above are due solely to demographic changes, with the critical assumption that the ownership rates within each of the age and race/ethnicity brackets will remain unchanged. There is growing evidence, however, that will not be the case, and that each subgroup is facing a variety of factors that could increase or decrease its home ownership rate.

Non-Hispanic Whites between the ages of 25 and 44 have seen some of the largest declines in ownership rates. Among the reasons cited are carry-over effects from the recession that delayed the starts of careers and families. Demographers have pointed to the continued decline in the birthrate among young White women as the key driver of US population change for Whites, but differ as to whether the change is temporary or permanent.[6] In other words, is it simply a delay in forming families and having children, or a secular decline that will have permanent ramifications? Similarly, is the increased desire to rent among younger Whites something that will remain with them as they grow older? Will they seek eventually to own homes as their parents and grandparents did, except at older ages, or will they be permanent renters in percentages not seen in many, many years? If so the resulting drop in the homeownership rate for those 45 and older would have the single most negative impact on the overall homeownership rate.

While some of the trend away from homeownership is no doubt temporary and related to the residual effects of the recession, there are signs that some of the shift away from homeownership is permanent. Figure 8 shows the change in renters between 2005 and 2014 for married couples, households headed by men with no wife, and households headed by women with no husband. For individuals between the ages of 25 and 34, the combined increase in households headed by single men and single women was far more than the increase for married couples, consistent with the idea of delaying family formation. However, for the age bracket between 35 and 44, married couples who rented showed the largest increase, followed by single women renters. The question then is whether these married couples between the ages of 35 and 44 will ever purchase a home, but that remains an unanswered question.

As for the growth in renter households headed by unmarried women, there are indications that this will be a more permanent phenomenon, primarily due to differences in education levels and location. Women now comprise 57% of the undergraduate population in US colleges, with the percentage even higher at 61 and 62% respectively at prestigious universities such as New York University and Boston University. In addition, once they graduate they tend to move to urban areas such as Manhattan where there are 38% more college-educated women than men[7], a percentage that becomes even more lopsided given the large number of gay men who are also attracted to the same urban areas. Given the strong tendency to marry within the same socioeconomic class or not at all, it is quite possible that we will see some of the highest percentages of never-married women since the immediate post-World War II period.

The Black homeownership rate has seen the biggest decline since the 2004 peak. While some of this decline is no doubt due to the deeper impact of the recession on Blacks, certain socioeconomic trends point to little likelihood of an increase in the Black homeownership rate, and a stronger likelihood of a continued decline. One key factor often cited is the percent of Black children born out of wedlock and the resulting economic fragility of a household headed by an unwed mother with no husband or other partner present in the household.[8] The percent of Black children born out of wedlock is around 72% (and close to 80% in some urban areas), 53% for Hispanics, 29% for Whites, and 17% for Asians.[9]

Another, and closely related consideration, is the percent of Black households receiving govern-

[6] Similar patterns have long been evident in European countries, Japan and Korea.

[7] Birger, John, *Date-onomics, How Dating Became a Lopsided Numbers Game*, 2015, **Workman Publishing Company**

[8] See, for example, some of the earliest work on this topic Daniel Patrick Moynihan ***The Negro Family: The Case For National Action*** (1965) (www.utexas.edu/cola/coretexts/_files/resources/texts/1965%20Moynihan%20Report.pdf) and Ken Auletta *The Underclass* (1983) Random House

[9] Congressional Research Service ***Nonmarital Births: An Overview*** (2014) (http://fas.org/sgp/crs/misc/R43667.pdf)

Figure 9 Percent of US Renters Receiving Food Stamps

AGE	WHITE	BLACK	HISPANIC	ASIAN
25 to 34	15%	37%	29%	6%
35 to 44	16%	31%	26%	7%
45 to 54	20%	32%	24%	4%
55 to 64	21%	32%	26%	10%
65 to 74	19%	23%	37%	19%

Figure 10 Homeownership Rate for Immigrants by Time in the US - 2014

	HISPANIC	ASIAN
Native born	55%	68%
Over 20 years	52%	72%
10 to 20 years	38%	66%
Less than 10 years	23%	30%

ment assistance. Census data provide information on whether or not a household is receiving federal food stamps, officially called the Supplemental Nutrition Assistance Program (SNAP). Figure 9 gives the percent of renter households receiving food stamps by age bracket.

As can be seen, the highest percentages are for young Black households and elderly Hispanic renter households with 37% receiving food stamps. For every age bracket with the exception of those over 65, Blacks have the highest percentage, followed by Hispanics and then Whites. Asian renters have a very low utilization of food stamps. In addition, 82% of Black renter households receiving food stamps are headed by women, and 17% of all Black renter households between the ages of 25 and 44 are headed by women who receive food stamps, have never married, and have children at home, an average of 2.5 children. The implication is that these households likely have difficulty with day-to-day living expenses, much less transitioning into homeownership at any point in the future.

Among Hispanics, the rate of homeownership is largely driven by how long they have been in the United Sates. Figure 10 gives the homeownership rates for Hispanics and Asians for whether they are native born or the length of time since immigration to the US.

For Hispanics who were born in the US or who have been in the US for over 20 years, the homeownership rates are almost identical at 55 and 52% respectively. For those here less than 20 years, however, the rate drops off precipitously. In contrast, the homeownership rate for Asians jumps quickly for those who have been in the US for only 10 years.

The implication for the homeownership rate for the Hispanic population going forward is what happens with the mix between recent arrivals and those who either were born in the US or have lived in the US for a number of years. Even if the flow of new Hispanic immigrants into the US were to be significantly restricted, the Hispanic population in the US will continue to grow at a much faster pace than the other race and ethnic groups. The Hispanic homeownership rate, however, will increase as a higher percentage of Hispanics are either native born or have been US residents for more than two decades. If, however, the inflow of new Hispanic immigrants is substantial, then the Hispanic homeownership rate will continue to be depressed by the more recent arrivals.

4. How flawed is the homeownership rate as a housing indicator?

In conclusion, it is clear that the overall homeownership number in the United States is being driven by a number of demographic and socioeconomic factors that policy makers have limited ability to influence. Therefore, comparisons between countries are problematical unless one is able to ascertain and account for differences in age demographics, immigration patterns, and income levels. It is those differences that are far more likely to account for differences in homeownership rates than national housing finance mechanisms.

In addition, demographic and socioeconomic factors limit the ability to make meaningful comparisons of homeownership rates over time if those factors are changing rapidly. For example, the news media, housing analysts and policy makers have generally expressed considerable concern over the steady decline of the US homeownership rate over the last ten years. Figure 11, however, gives a considerably different picture. It takes the reported homeownership rate for 1995, 2005 and 2014 and subtracts certain groups that can reasonably be excluded from consideration in determining a true potential homeownership rate.

It shows that by excluding from the calculation those who are under 25, those renters who receive public assistance in the form of food stamps, and those renters who are immigrants who have been in the US less than 15 years, the homeownership rate in 2014 was not 64.6% but 75.0%. The rate is slightly higher than it was 20 years ago and the decline from 2005 is less than the decline in the officially reported numbers. The question then is that if three quarters of US householders who appear potentially capable of owning a home do, in fact, own a home, and that percentage has stayed relatively the same for the last 20 years, is any fundamental change needed in governmental housing policy? This author would argue no.

NOTE ON DATA SOURCES: In addition to data from the US Census Bureau, the author made extensive use of data from: Miriam King, Steven Ruggles, J. Trent Alexander, Sarah Flood, Katie Genadek, Matthew B. Schroeder, Brandon Trampe, and Rebecca Vick. *Integrated Public Use Microdata Series, Current Population Survey: Version 3.0.* [Machine-readable database]. Minneapolis: University of Minnesota, 2010.

Figure 11 Homeownership Rates with Certain Groups of Renters Excluded*

	1995	2005	2014	CHANGE 2014 - 1995	CHANGE 2014 - 2005
All Households	64.6	69.2	64.6	0.0	-4.6
Only 25 and Older	67.9	72.5	67.4	-0.5	-5.1
Excluding Rentals Receiving food stamps	72.9	75.4	72.6	-0.3	-2.8
Excluding Rentals of Immigrants Arriving in Previous 15 years	74	77.9	75	1.0	-2.9

* Exclusions are cumulative. The exclusion of renters receiving food stamps also excludes households under 25 years old. The exclusion of recent immigrants also excludes those under 25 and those renters receiving food stamps.

Latest trends in social housing finance policies in France

By Jean-Pierre Schaefer

1. Introduction

This paper presents some features of social housing finance in France. Social housing will be depicted within the comprehensive framework of housing markets, from the production to the management of the housing stock.

In France, housing policies use both supply side and demand side subsidies whatever the sector concerned. Tax rebates are a quasi non budgetary tool which is more and more used. The way in which sub-market loans for the social housing sector are provided will be described. Albeit specific to the organization of private financial assets in France, some of its features might usefully be studied especially as it is an example of private finance for social rental housing.

Figure 1 Housing tenure in France

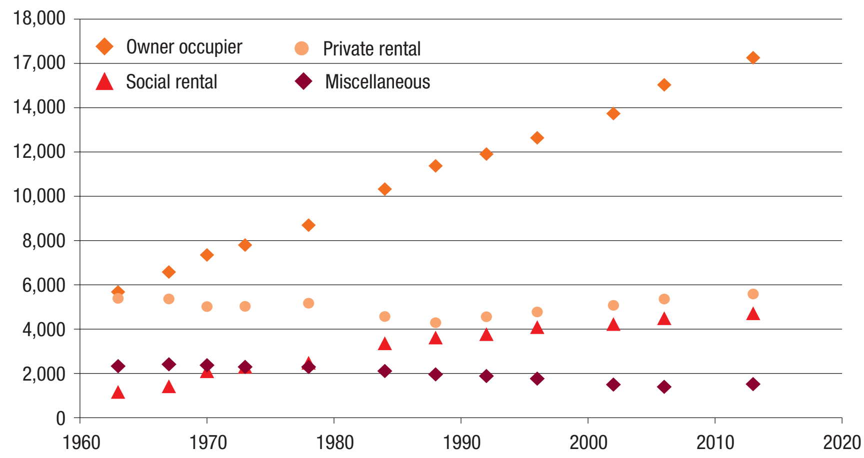
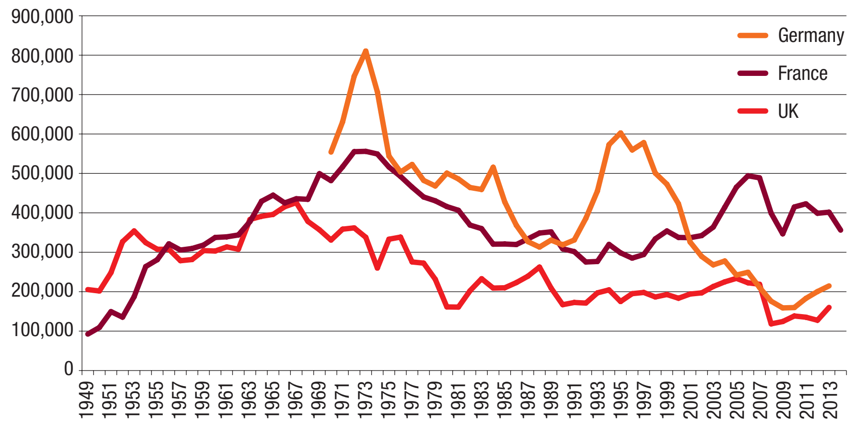


Figure 2 Permanent dwellings started in United Kingdom, Germany and France 1948 - 2014



2. The general framework of housing supply and tenure

2.1. A steady increase in owner occupation

Regarding the long term transformation of housing supply, figures in thousands of households (figure 1) help to understand the deep change in tenure which has happened in France over half a century.

From five million owner-occupiers in the sixties to more than sixteen million owners (2013), the rate of owner-occupancy has climbed from 48% up to 58%. Two thirds of owner-occupiers (10.7 million) are outright owners; one third (5.4 million) have mortgages.

This high share of full owners may be bolstered through the use of short duration loans (15-20 years), fixed rate loans, and an ageing population. On the one hand, this steady and strong increase of home ownership results in a significant increase in private wealth. On the other hand, it means that the gap in wealth between owners and non-owners is growing, intensified by a steep increase of real estate prices.

The Global financial crisis [GFC] was not followed, as forecasted, by a strong decrease of average prices and first time buyers (young and lower middle income households) are presently facing affordability problems. A slow decrease of average houses prices has been noticed since 2013, probably linked to a slack economic context especially in depressed areas, which has as yet had no impact in easing demand.

Social rental housing kept a stable share of the housing market, one sixth, since 1985. Private rental housing, highly sensitive to fiscal incentives (1.3 million new dwellings built since 1984 through "buy to let" fiscal schemes) is nearly one fifth of the market. "Miscellaneous" tenures (free housing, job-related, rental furnished apartment) dwindle steadily.

2.2. A strong rhythm of new production, hindered by the economic situation

Rhythms of production are rather different from one country to another, with a decrease linked with GFC in most countries. In France, production of dwellings started significantly ten years after the war, with a peak above 500,000

Figure 3 Housing starts in France

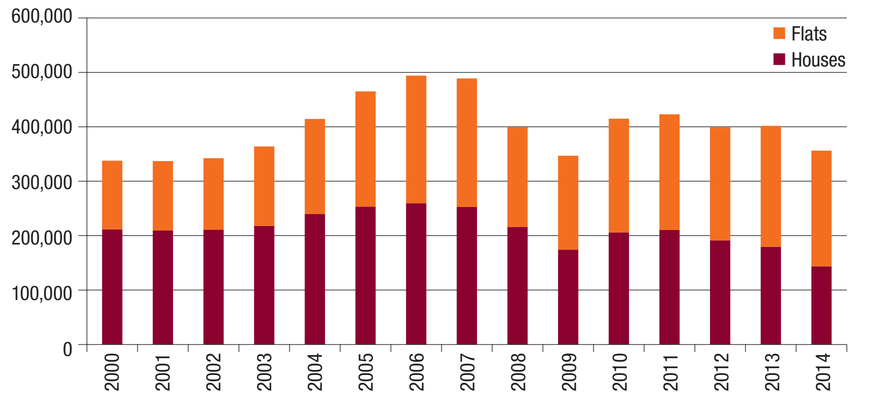


Figure 4 Mortgage loans for the private sector

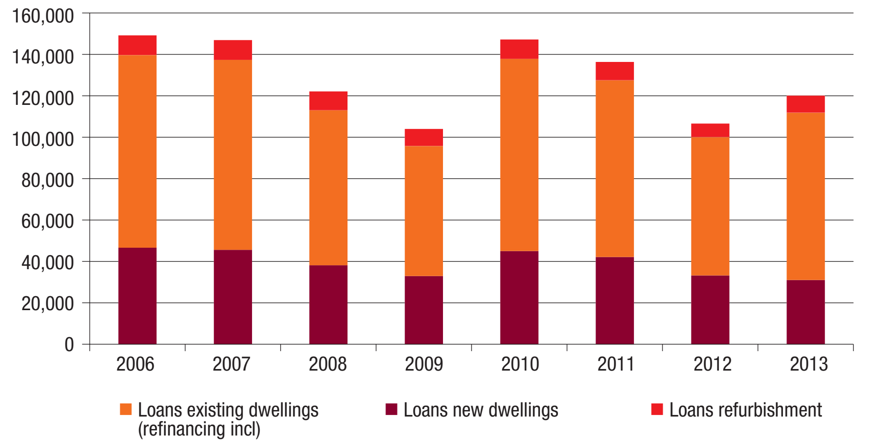
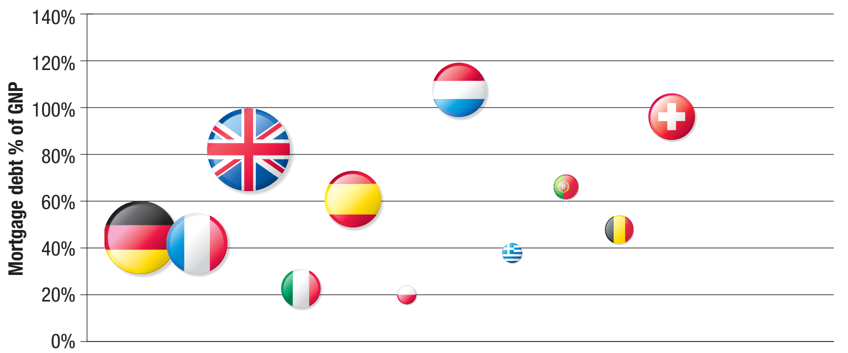


Figure 5 Mortgage debt /GNP



Source: European Mortgage Federation

dwellings during the 70's. The average production was 350,000 dwellings from 1980 to 2000. The production went up to 400,000 dwellings per year from 2000 until the GFC which induced a slowdown. Production will probably be below 350,000 dwellings at the end of 2015.

The housing production (figure 3) is shared between the owner-occupied sector (80% houses, 20% flats), social rental sector (25% houses, 75% flats) and private rental sector (20% houses, 80% flats).

Regarding the social sector, a "Social Inclusion Programme" launched in 2003 led to increased social sector production from a yearly 40,000 units to nearly 100,000 (including family dwellings and homes for the elderly, for students etc.), thus reaching one fourth of the total production in 2014 compared to one sixth before 2007. The private rental sector, triggered through tax rebates, produces 40,000 to 80,000 dwellings per year, 10 to 20% of the market.

The owner-occupied sector, albeit averaging two thirds of total production, encounters affordability problems especially for first time buyers. This can be seen in figure 3 with a decreasing production of houses.

2.3. Financing of private housing

The value of commercial loans to private households rose above € 140 billion in 2006 and 2007, and plunged during the financial crisis. These figures are to be compared with loans for social rental housing which went from € 6 billion in 2006 up to € 16 billion in 2014.

In France (2013) 60% of new mortgage loans are for terms below 20 years. After a strong increase since 2000, mortgage lending should be stable over forthcoming years, so that the mortgage debt of households should stay around € 800 billion.

The ratio of mortgage debt to GNP compared for various countries shows that France is in a median group with Germany and Belgium, while households in UK, the Netherlands and Switzerland appear with a higher mortgage debt compared with their GNP (in Figure 5 the size of the bubbles are proportional to the mortgage debt of each country).

3. Subsidies, grants and national housing policy

3.1 Demand side subsidies

Demand side subsidies are the first pillar of aid for housing policy and the most far-reaching issue. It consists by and large of housing benefits, which are provided to tenants both in the private and social sectors.

Housing benefit (up to € 19 billion) is shared between

- € 8.7 billion to 2.9 million tenants in the private sector
- € 7.2 billion to 2.3 million tenants in the social sector
- € 3.2 billion to tenants in homes for elderly etc…
- € 0.9 billion to 0.6 million owner occupiers (1st time buyers).

Nearly half of the tenants in the social sector enjoy personal housing allowances. The amount paid, € 7.2 billion, is roughly one third of the rent (and charges) paid in the social sector. In the private rental sector one third of tenants enjoy housing benefit and it covers one fifth of the rent and charges paid by private tenants. Less than 10% of owner occupiers (mortgaged first-time buyers) receive housing benefit. This waning share might be repealed in the coming Government budget.

Housing allowances are financed by Social Security Fund (one half), Ministry of Housing (one third) and the balance through Employer's fund (Action logement, formerly called "1%"[1]) and by Local authorities' budget (mainly for the elderly). Being the highest budgetary expense of the Ministry of Housing, housing benefit is a highly sensitive subject.

For social sector tenants, the average rent to income ratio is 23% without housing benefits and is reduced to 18% thanks to housing benefit. Average benefit (APL) is € 250 per month. The impact is lower for private tenants, due to higher rents and a rent cap used for calculating housing benefit.

Other demand side subsidies (€ 1.5 billion) are granted through a lower VAT rate (10% for maintenance work and 5.5% for energy saving investment).

3.2. Supply side subsidies and fiscal rebates

Supply side subsidies (€ 3.4 billion) are the second financial pillar of housing policies. They are mainly offered to the social rental sector, but only half a billion appears in the Government Budget. The balance is provided by Local Authorities (€ 1.4 billion) and through specific channels including the employer's fund (Action logement, formerly called "1%").

For private sector, grants (€ 300 M) are provided through ANAH (National agency for housing) for low income owner occupier and private landlords.

Fiscal rebates are the third pillar of housing policy. The total, estimated at close to €13 billion includes measures helping both the social rental and private rental sectors.

For the social rental sector, the two main advantages are a lower VAT rate (5% instead of 20%), equivalent to € 2.2 billion and a 25 years land tax rebates on new construction (€ 1 billion).

All partners (private and social) enjoy a lower VAT rate (10%) on maintenance and repair works (€ 3.55 billion). Private rental investment incentives, "buy to rent schemes" offer the right to € 1.7 billion of tax exemption for private investor. Thanks to the shrewdness of the Budget Ministry the tax deduction (18%) is slightly lower than the VAT (20%) paid for these projects.

Among the other fiscal rebates, Social Housing Organizations are still exempted from company tax (unlike Swedish social organizations or German companies which lost their statute of Gemeinnützigkeit) and thus save € 800 million compared to commercial companies.

A former tax credit covering loan interest for first time buyers created in 2007 was abolished in 2011 as it played a windfall role without real impact on the housing market.

3.3. Supply side backing through sub-market loans

Supply side backing might be "real" subsidies: An interest-exempted loan for subsidized homeownership ["PTZ"] implies a cost for the Government Budget (€ 600 M). Some other subsidies are provided by the employers' fund ("1%") and are not considered as a public expenditure.

WHAT IS EMPLOYERS' FUND "1%"?

Created in 1953, a 0.45% tax on private wages is collected yearly through a network of private not for profit bodies [CIL], managed by both employers and employees unions. There are 24 CIL [Collecteurs interprofessionnels du logement], now called Action Logement, with a project to merge into one in the coming years. Their funds are used for providing low cost loans both to social rental organizations and to homebuyers, for new construction and refurbishment of existing dwellings. They provide various aids and guarantees for making housing affordable. Each collecting body receive some allocation rights in the social housing programmes which they have financed. The budget of the Employers 'fund is € 3.5 billion of which half comes from the yearly tax and half comes from reimbursement of the loans. The 1% is especially targeted towards young and mobile workers, considering that all workers are key-workers. Regarding the management of these Funds, the "1%" bodies are at loggerheads with Government about the use of "their" money, regulated through various agreements or ukase.

Another 0.5% of private wages is used directly to fund housing benefit as mentioned in section 3.1.

The main tool for financing the social rental sector is a special financial channel, based on demand savings ("Livret A"). Operated for nearly a century, but really significant since the 50's, it manages to provide sub-market long-term loans to social housing at no cost to the Government budget.

4. Social rental housing finance through private funds

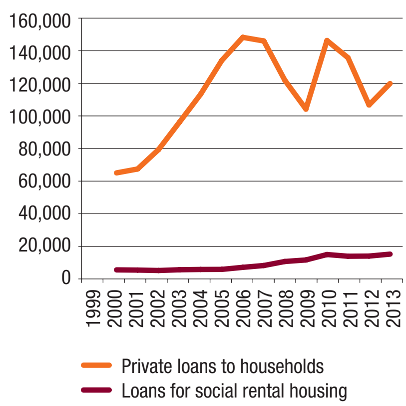
4.1. A net output of 60,000 social dwellings per year

Social housing finance is secured by a strong mechanism using private savings under government control relying on five basic principles. Loans are for very long terms (40 or 50 years). Finance is available to social organizations with a small share to private developers.

Social organizations are either public [Offices HLM] or private "not-for-profit" organizations [SA HLM] and must be registered (and controlled) as social landlords (registered providers – RP). Rules and regulations for granting loans are equal for all social housing organizations operating on the French territories (including overseas). Albeit sub-market loans provide the main share of financing (nearly three quarters), the cost of housing development needs complementary grants provided by Central Government, local authorities and economic partners (employers 'fund'). And the share of equity capital provided by social housing providers is growing.

Loans for social rental housing have strongly increased since 2006, including during the GFC, and their performance is far from the ebb and flow of private mortgage loans.

Figure 6 **Loans to private households and to social sector**



[1] See below box "What is the 1 %"

After a slowdown of social housing production from 1995 to 2000, a strong increase of production was decided in 2003 within the legal framework of a "Social Inclusion Programme". Yearly production of social rental housing increased to reach more than 100,000 dwellings or equivalent dwellings.

The increase in the supply of social rental housing is due to new construction (85%) and buying private existing housing (with or without refurbishment). This helps to scatter around social rental housing in existing urban fabric and in communes with a low share of social rental dwellings.

Launched in 2004 the Urban Renewal Programme is a comprehensive set of actions focused on social neighbourhoods, involving refurbishment, new construction and demolition. Figures for demolition were 8,000 dwellings a year from 2000 to 2004 which doubled to 18,000 from 2004 to 2013.

Combined with a rhythm of 4,000 to 7,000 sales to sitting tenants, the net increase of the social rental stock is thus lower than figures of new production and reached recently nearly 60,000 dwellings a year.

4.2. Main source of finance, private savings fund centralized by a financial institution

From € 4200 billion of private financial assets, less than 10% are demand savings[2] "Livret A" (and similar) of which two thirds are centralized by Caisse des dépôts [CDC], a public interest institution established in 1816, in a central fund "Fonds d'épargne" financing social housing, local authorities and sustainable infrastructure.

Altogether this special financial channel uses less than 6% of private financial assets in France.

WHAT IS LIVRET A?

Like British ISA, Livret A is a tax free savings account, demand savings with no fees on deposit or reimbursement. But unlike ISA, deposits are limited to a permanent ceiling of € 20 500. It is available at any bank at a standard rate of interest (0.75% mid 2015). This rate is calculated as the average between the inflation rate and market rate (Euribor and Eonia rate). The rules fixing the rate are monitored by the Government and Banque de France.

The loans are granted by CDC to Social Housing Organizations [RP]. Such loans for new construction, purchase and refurbishments reached € 16 billion (2014) enabling the production of more than 100,000 dwellings. The outstanding debt of Social Housing Organizations (800 RP) was € 130 billion (end 2014) and their housing stock numbers more than 4.5 million dwellings.

These sub-market loans are equivalent to an aid of € 1.8 billion (2013) if compared with market loan, notwithstanding the fact they are on very long term, with variable rate.

4.3. How does the Fonds d'épargne operate?

The "Fonds d'épargne" must keep a balance between the interests of the savers (private households) who want to be protected against inflation, the interest of the institutional borrowers (social housing organizations) who need low cost loans, the interests of the bankers who service 60 million accounts and the interests of the Central Government which guarantees the system. The commission fees, 0.4%, are paid to banks, servicers of the 60 million "Livret A", by CDC, manager of the funds (€ 1.3 billion in 2014). The yearly net revenue of the financial circuit is paid by Fonds d'épargne to the Government budget (€ 733 M in 2014) as the State is the ultimate guarantor of the mechanism. Liquidity (financial market) is guaranteed up to 40% of the deposit, the State covering the balance. A situation of panic (savers rushing to take their cash) on these specific savings has never been encountered for the last two hundred years, but who knows?

Figure 7 A significant increase of social housing

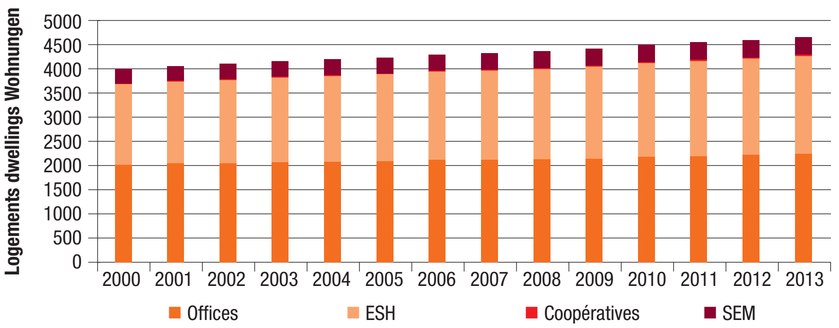


Figure 8 Net increase of social housing after building, purchasing, selling and demolishing

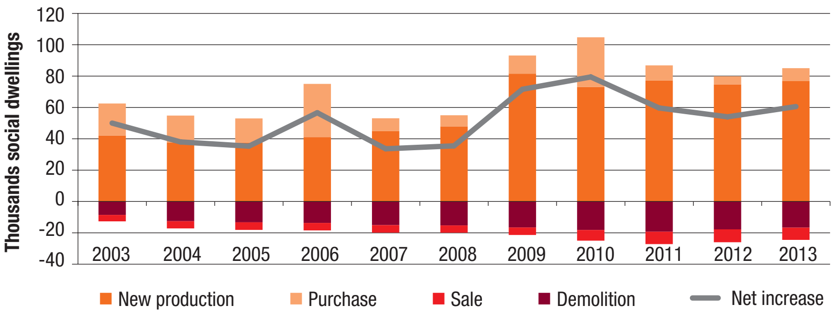
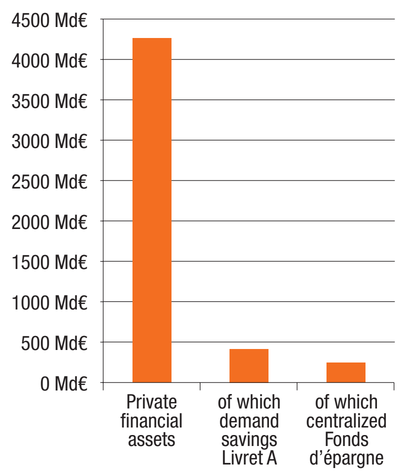


Figure 9 Financial assets centralized through Fonds d'épargne



[2] "Demand savings" or more commonly "demand deposit" refers to a type of account held at banks and financial institutions that may be withdrawn at any time by the customer. The majority of such Demand Deposit accounts are checking and savings accounts.

Figure 10 The general balance of social housing financed through the Fonds d'épargne

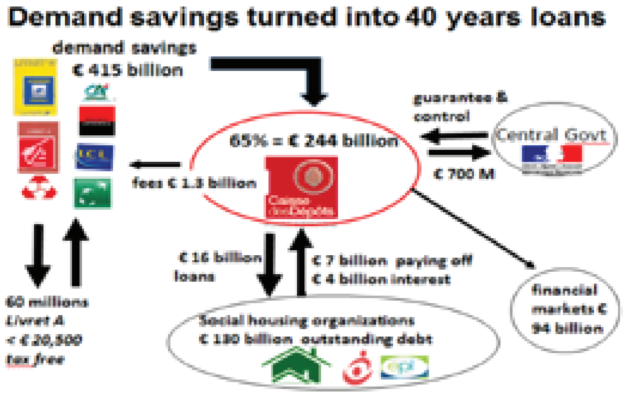


Figure 11 Rate of Livret A and rate of loans for social housing

INTEREST RATE OF "SAVINGS BOOK"

	rate Livret A
01/08/2008 →	4.00%
01/02/2009 →	2.50%
01/05/2009 →	1.75%
01/08/2009 →	1.25%
01/08/2010 →	1.75%
01/02/2011 →	2.00%
01/08/2011 →	2.25%
01/03/2013 →	1.75%
01/08/2013 →	1.25%
02/03/2014 →	1.25%
01/02/2015 →	1.00%
01/08/2015 →	0.75%

RATE OF SOCIAL LOANS

-0.2%	PLA-I very social €4.92/m²
+0.6%	PLUS standard social €5.54/m²
+1.1%	PLS "upper" social €8.66/m²

4.4. A financial circuit dedicated to social housing and public interest purposes

Rates and conditions of loans are the same to all social developers and in any part of the French territories. Loans for new construction have a 40-year term. A share of 20% of the cost of a program, corresponding to the land, could be financed on a 50 year basis. Loans for refurbishment and modernization are on shorter terms; 15 to 30 years. The loan covers up to 70-75% of a project while the balance is covered by equities and grants.

To obtain a loan, a registered provider must present a development project. The project should get the approval of the State or local authorities, according to the condition of the local market. After agreement of the project, the loan is provided by CDC and is linked with to two fiscal rebates:

- VAT is 5 % instead of 20 % (fiscal rebates of 14% compared with private sector);
- Land tax rebate for 25 years.

The rate of the loan is variable. It is adjusted twice a year following the rate of interest for Livret A (savings account) :

- As mentioned above, the rate of Livret A moves according to inflation and the market rate. At mid 2015 its rate was 0.75%.
- The rate of loan is "rate of Livret A" + 0.6% = 1.35% for the standard loan (PLUS).

A cheaper rate is available for social housing, dedicated to households whose income is 60% below a standard ceiling, and a more expensive rate is dedicated for "intermediate" social housing for better off households.

Each category of housing program is authorized to a controlled rent level, as mentioned in figure 11, the financial details of each project are explained below in section 5.

This summer, after some years of erratic movements, the rate of "Livret A" plunged down to 0.75%. This is good news for social housing organizations as most of their loans use a variable rate, and instalments should be lower (over a one year period as rates change once a year according to the date of contract). It is bad news for savers, and could reduce the savings collected. But there is no financial product on the market with a higher yield providing the same level of security and liquidity.

In case of a significant decrease of available savings, CDC will ask for an increase in the rate of centralization (65%) in order to keep a fair level of liquidity. Of course bankers, who keep the other 35%, will resist strongly. The final referee will be the Ministry of Finance.

5. Financing a social housing project

5.1. Financial balance for construction and for the long term

The model for financing an average new construction of social rental units is presented (figure 12) with the cost for the year 2012. Loans (from Fonds d'épargne) cover three quarters of the cost (building and land), the balance is covered by a mix of equities [RP] and public grants (State, Local authorities and "1%"). Public grants could be higher for very social projects.

For each program of construction, forecasts are made for management on a forty year basis (duration of the loan). The expenses, as described in figure 13, are compared with revenue (rent). The long term commitment aims at reaching a positive financial balance, enabling the housing organization to envision a return on equities.

Figure 12 Financing (standard) social dwelling

TOTAL COST OF SOCIAL RENTAL DWELLING (PLUS)	145,000	100%
Grants	20,000	14%
of which State grant	3,000	3%
local Authorities grant	12,000	8%
employers's fund grant of loan	5,000	3%
Loan PLUS 40 years, variable rate # 1% below "market rate"	105,000	72%
Social organization equity	20,000	14%

Figure 13 40 year management simulation

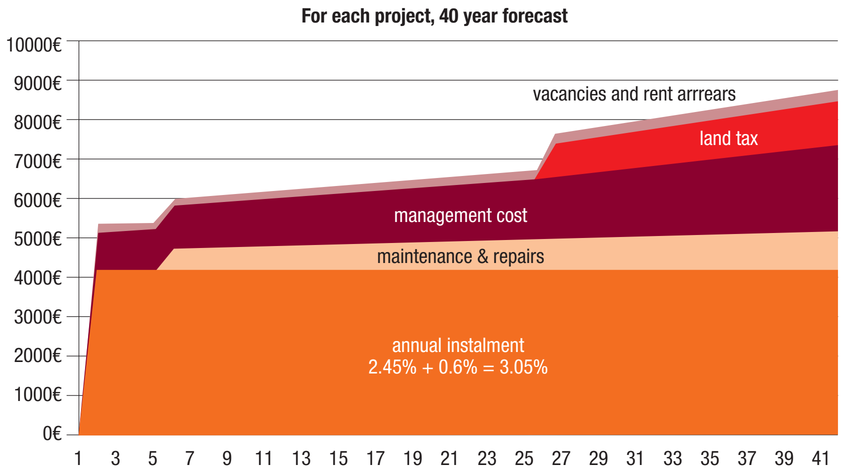


Figure 14 Yearly increases of private and social rents

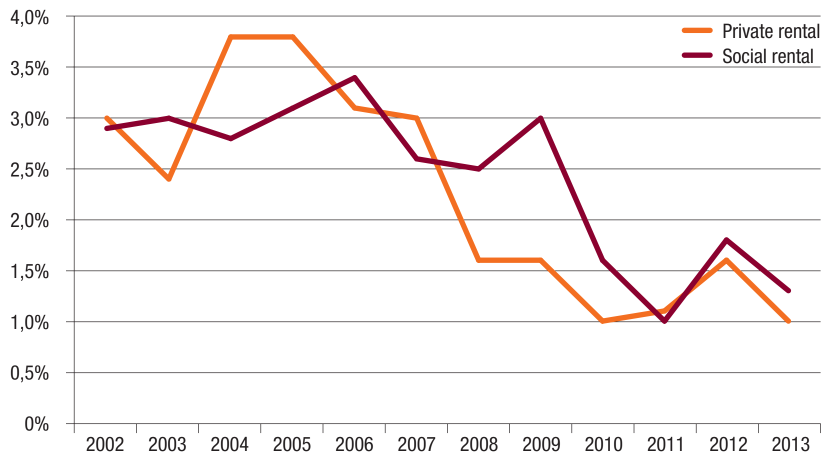


Figure 15 Real grants and invisible subsidies

Lower VAT 5% instead of 20%	17 100
State, Local Authorities, Employers'fund grants	20 000
Land tax rebate during 25 years	10 300
Off market loans : difference 1% with market loans	14 700
Free guarantee on loan provided by Local Authorities	2.100
Total	**64.200**

- Vacancies and rent arrears are calculated according to an average of 3%;
- Maintenance cost and repair : 0.6% of the investment and 1.7% yearly increase;
- On year 25, land tax has to be paid and scheduled to an increase of 2.2% yearly;
- Management costs vary from one RP to another. Yearly increase 2.1%; this might reflect either the efficiency of the management, or more social occupancy leading to higher management costs.
- Rents follow a four level scale (Paris, Paris region, large towns, and other areas).

Rents are increased according to the Rent Index (close to the Price Index) but the Government might ask a social housing organization to freeze the rents or keep them below the legal rent index (it happened ten years ago). A yearly increase of 1.6% is forecast for 40 year calculations of future rents. For 40 years simulation, the rate of interest is estimated at 2.45%, according to long term economic forecasts, thus standard loans [PLUS] are simulated on a 2.45%+.6%=3.05% basis, notwithstanding the rate at the date of construction.

Refurbishment or modernization might induce an increase in rent (still below the controlled level) especially for old buildings financed under older regulations. Before 1977, object subsidies were higher and personal allowances lower. Thus rents in social housing built before 1977 are lower than in those built more recently. The policy of the social housing companies tries to move rents to a common level (according to the quality of each building) instead of reflecting the historical cost.

Altogether, the management of social housing is based on cross subsidizing: Loans of older buildings are amortized. Such buildings are providers of a net income for the housing organization (in spite of the higher maintenance cost). This income is the source of capital equity used for investing in new construction.

5.2. Real grants and invisible subsidies

In the mechanism of public aid for social housing, it should be stressed that subsidies (public spending) are associated with "advantages granted" which doesn't imply Budget expenditure. In the following table (fig 15) all assistance received for building a standard dwelling is summarized. The total (€64.200), if added to the cost (€ 145.000) provides an econometric value of the dwelling, if it was produced on a free market basis. But this is a rather theoretical point of view; it is necessary to be wary about such figures. The sub-market loans cost nothing to the public budget, as mentioned in section 4.3.

Loans are guaranteed by local authorities, which receive allocation rights. If local authorities refuse to guarantee the loans, a specific financial body [CGLLS] managed by RP (similar to the Dutch WSW) could provide a guarantee, increasing the cost.

According to the statistics from CDC (Fonds d'épargne) there are nearly no defaults of payment on social housing loans. In the case of financial (or governance) problems arising within a social housing organization, CGLLS will organize the take over and merging with another organization.

A public authority (ANCOLS) under the control of the Ministry of Housing and the Ministry of

Finance regularly audits housing organizations and publishes a public report reviewing their management and operating cost.

5.3. The economic balance of social housing sector

Beyond the fact that each project should from the start have a sound financial balance, each social housing organization should work to keep a sound financial position, enabling it to fulfil its social task. The strong growth of production, described in section 4.1, was possible with a high level of equity capital provided by income from the existing stock[3]. But recent developments will need years before any return on equity capital. Therefore the growth of social housing stock should slow down in the coming years unless methods for reducing land prices of and building costs are found.

Half of the expenditure of social housing organizations is on loan instalments. As their loans are at variable rate, their financial situation is bolstered by the present period of low interest. An increase in interest rates will curb their commitment to maintain a high level of production, or they may reduce their spending on maintenance and repairs.

Figure 16 Operating expenditures and revenue of the social housing sector

€ millions	2012	
Rent (dwellings)	17.040	90%
Other rent (garage, garden, shops)	2.110	26%
Loss due to rent arrears	-180	-6%
Revenue	18.970	
Instalment loans (capital + interest)	8.100	47%
maintenance, repairs	2.850	16%
management cost	4.440	26%
Land tax	2.010	12%
Expenditures	17.400	

6. Outlook for the waxing and waning of social housing policies

Under budgetary constraints, and in spite of housing being a high priority, the Government budget is using less and less supply-side subsidies while fiscal rebates are more and more used.

Lower VAT applies to the social rental sector, and recently it was extended to owner occupation programmes settled in urban renewal neighbourhoods. But supply-side subsidies are sometimes lower than the VAT paid (at least for standard PLUS)!

Tax deductions have been rather successful for developing a new supply of private rental sector housing, although they have been criticized as their impact seems stronger in middle size towns than in large and tense markets and they are more focused on middle class demand than poorer households.

Developing a regular new supply of social rental housing might require more non-budgetary funds, including more equity capital from social housing organizations. They are impelled to use cross subsidy, but without giving to sitting tenants the impression of neglecting maintenance of existing stock.

Funds from employer's funds (1%) are a useful tool to link housing supply with economic activities but these funds have reached their limits as they encompass a (very) wide spectrum of housing and urban policies.

Following the same trend as the National budget, the local authorities might encounter financial constraints which could jeopardize the development of new projects for the coming years. Social housing plays an increasing social role for sheltering poorer households. More and more very poor tenants hinder the growth of rent, and a 1.6% yearly increase in prospect (over the long term) might be changed by a starker forecast. An important issue is to produce cheaper housing (below the present average of €6 per m^2), perhaps through land lease or mixed projects.

An annual analysis of the financial health of social housing organizations is published yearly by CDC (their main banker) and the general position of the sector appeared strong in the 2014 edition. The next edition should be available soon and will show if the sector is likely to be impelled towards slower growth over the coming years and whether it will be impelled towards new methods of organization.

[3] In the existing stock, debt is lower and installments decrease, and the balance between rent and cost becomes more positive than in recent buildings where installments are above 50% of the rent; such buildings could be called a "cash cow" from a financial point of view.

Housing finance innovations in Africa

↳ By James Mutero

1. Introduction

Financial systems in Africa are not well-developed and have a severely limited reach. Indeed, less than one in every five households has access to banking services, although there are substantial sub-regional variations around this average.[1] Account penetration, a measure of the proportion of adults with an account at a formal financial institution, is highest in Southern Africa (42%), falling off sharply to 23% in Western Africa, 22% in Eastern Africa, 20% in North Africa, and to as low as 7% in Central Africa.[2] In spite of this financial under-development, a number of recent innovations in housing finance point to the increasing role of formal finance in the delivery of urban housing.

Finance is critical because it enables households, through borrowing, to spread the purchase of their housing over several years, thus improving affordability. As the vast majority of households in Africa do not have access to formal finance they depend a great deal on their own limited savings and informal financial sources to pay for the land, building materials and labour they need for construction. As a result, all but a few people build their houses incrementally over many years, as resources become available.

To demonstrate the growing role of housing finance in Africa, two financing innovations are explored in this paper: housing microfinance and mortgage re-financing facilities. Case studies illustrate these innovations, drawn from different sub-regions of the continent.

2. Africa's financial landscape

Africa has the smallest financial system of any region of the world in absolute terms as well as relative to economic activity.[3] Over the last half century, African governments have responded in different ways to this development challenge. In the 1960s and 1970s, the activist phase, government interventions were prominent, not only through direct public ownership of banks and development finance institutions,[4] but also through regulatory frameworks.[5] Government involvement sought to address two major constraints: limited access by locally owned enterprises and households to the privately owned and market-driven financial systems; and the severe shortage of long-term capital, essential for housing, infrastructure, and other development sectors. Outcomes of this interventionist phase were disappointing, largely because political interference in the running of publicly owned financial institutions led to poor management decisions and thus undermined commercial success.

The 1980s and 1990s were the privatization phase with international financial institutions as the main drivers of change. Private ownership of the financial system expanded in most countries, with the exception of a few such as Ethiopia, Eritrea and Togo, where public ownership remained the norm.[6] Results of this phase were also unsatisfactory and this led, yet again, to greater government involvement in the financial sector, but re-calibrated to focus on market-enabling, rather than market-replacing strategies.

In recent years, Government interventions have been focused on institution building with emphasis on several aspects: strengthening legal frameworks for contract enforcement,[7] raising the standards of banking regulation and supervision; and improving disclosure standards to ensure better customer and investor access to information on corporate performance and governance. Recent research supports the case for this type of government intervention.[8]

Household borrowing behaviour on the continent is also worth highlighting. To start with, most loans go towards meeting the costs of education, health and emergencies,[9] strongly suggesting that borrowing for housing is not yet a priority. Although 44% of adults borrow from both formal and informal sources, in Central and West Africa, only a mere 3% borrow from a formal institution.[10] Southern Africa has the highest proportion, at 7%. A far higher proportion of adults (39%) borrow from family and friends, including those who have this as their only source of credit (28%).

The overriding obstacle is that the vast majority of urban residents have low-incomes and, as a result, cannot afford conventional housing finance products, such as mortgage loans. A number of other constraints are also at play: the general lack of credit histories for most prospective borrowers, thus making it difficult for lenders to assess creditworthiness; and difficulties in securing and enforcing creditor rights.[11] Together, these constraints make lending costly and time consuming and are of particular relevance to housing finance. Additional hurdles include the dearth of long-term capital and weak lending institutions. Experience shows that legislation and regulations, properly framed and implemented, would go a long way towards removing some of these bottlenecks.

The obstacles noted here and the accompanying numbers serve to illustrate Africa's financial storyline. Ironically, whilst these broad indicators show that the current situation is dire, they also point to the huge business potential in the large unbanked segment of the population. Innovations in tapping private capital and lending, for instance in housing microfinance, are starting to expand access for the poor and increase the loan portfolios of lenders. Advances in mobile banking technology are also making it possible to extend formal financial services to some of the poorest customers, helping them to save small amounts every day and obtain micro loans.[12] This banking approach dramatically reduces transaction costs for both customer and financier. Whilst this technology has so far not

1 Demirguc-Kunt, A. and Klapper, L. (2013).

2 Demirguc-Kunt and Klapper, *ibid.*

3 Beck, T. et al. (2009).

4 Beck, T. et al. *ibid.*

5 For instance by setting maximum interest rates.

6 Beck, T. et al. *op. cit.* (pp. 40).

7 For instance, through improved court systems, establishment of alternative dispute resolution mechanisms and improved collateral registries.

8 World Bank (2012).

9 Demirguc-Kunt and Klapper, *op. cit.*

10 Demirguc-Kunt and Klapper, *op cit.*, pp 51. In Demirguc-Kunt, A. et al. (2015), these figures are higher still, at 42% and 36%, respectively.

11 World Bank (2007).

12 M-Shwari, a mobile banking product introduced in November 2012 by a local Kenyan bank and a mobile service provider, was reported to have drawn in more than 850,000 customers in the first 3 weeks, taking in nearly $12 million in new deposits and processing more than 5 million transactions. See http://www.capitalfm.co.ke/business/2013/09/m-shwari-wins-global-emerging-technology-award/. However, the cost of borrowing the small loans on offer is very high and this, together with other lending conditions, generally undermines financial inclusion – see http://cfi-blog.org/2015/06/23/a-contrarian-view-of-the-m-shwari-revolution/

had any practical application to housing microfinance, and the loans offered are generally for consumption, who knows what the future will bring? As observed by a recent report:

"With over 640 million mobile phone subscribers in 2012, Africa has become the second most connected region in the world after the Asia-Pacific region. Given this large mobile customer base, and the absence of an extensive brick and mortar banks' network, technology could be seen as a game changer in the sense that it could enable the continent's financial system to outperform the traditional banking model and establish itself as the world leader in mobile financial services".[13]

3. Housing finance: Scoping the challenge

Africa is rapidly urbanizing. About 40% of the continent's one billion people live in cities and towns and this population is growing at 3.5% annually, the fastest rate in the developing world.[14] In Sub-Saharan Africa, about 65% of urban residents live in slums while in North Africa this proportion is lower as a result of more effective urban development strategies and higher investments in infrastructure.[15] African housing markets face formidable supply-side challenges because of rapid urbanization as well as a long history of under-provision of formal urban housing. Although housing deficits are most obvious in the lower segments of the housing market, shortages in the middle-income market are also substantial.

Housing finance inclusion in Sub-Saharan Africa has been relatively low: the proportion of the population (15 years and above) with outstanding home loans (assumed to be both mortgage and non-mortgage loans) is only about 5%, a half of the world average.[16] Only Mauritius (15%), Kenya (12%), and Ghana (12%) in Sub-Saharan Africa surpass this average. As a result of this poor financial inclusion, a substantial proportion of African households depend on informal finance, an unsuitable alternative, as loans are typically small with very short repayment periods. Moreover, this type of finance generally lacks the capacity to be used on a larger scale. It is clear, therefore, that formal housing finance products, tailored to the income realities of low income households, are a necessity.

4. Recent innovations in housing finance

4.1 Understanding innovation

The notion that innovation refers to "moving away from business as usual", "breaking with tradition", or "shifting away from conventional approaches that do not work" is supported in the literature.[17] It is in this sense that innovation has been used in this paper, with a focus on the best practices that demonstrate different financing strategies. More specifically, a financing approach could be considered innovative if it qualifies, in respect to any one of the following: (a) it introduces new resource mobilization or lending methods; (b) it substantially widens access for low-income groups to housing finance; (c) it reforms existing institutional mechanisms or creates new ones that effectively deliver housing finance; or (d) it introduces new risk management strategies.

Two distinct areas of innovations in housing finance will be examined. The first is housing microfinance, commonly used in many African countries to reach the urban poor, enabling them to improve and extend existing houses, often in urban slums. This type of micro-lending has also enabled poor households to build new houses, although this is less common than the financing of home improvements. The second innovation is the recent establishment of mortgage refinancing facilities in a number of countries, through partnerships between central banks and commercial banks, to provide long-term capital to primary mortgage lenders.

4.2 Housing microfinance

Housing microfinance is considered innovative largely because of its ability to address the needs of poor households. By using collateral substitutes to secure loans, instead of the conventional mortgage lien, this approach substantially improves access by the poor, most of whom do not hold formal title to land. So far, the vast majority of micro-lending operations on the continent have been small-scale and their impact limited. To be truly innovative housing microfinance needs to show functionality on a large scale. For this to happen, strategies are needed to mobilize the capital required to ramp up lending operations.

There are no published data on housing microfinance in Africa, making it necessary to use indirect methods to illustrate the importance of this type of financing. MIX Market data for a group of 30 countries, shows that business microfinance has a well-established footprint on the continent with three countries, South Africa, Kenya, and Nigeria, accounting for nearly 75% of the entire microfinance portfolio of about US$ 9 billion. The housing microfinance portfolio could be as high as $3.5 billion assuming that 40% of microfinance loans go into housing.[18]

The near universal presence of microfinance institutions [MFIs] in Africa strongly suggests that housing microfinance has the potential to succeed on a wider scale in most countries. This conclusion is not far-fetched, when bearing in mind that MFIs have tailored some of their products to meet housing needs, driven by their market experience of how to originate and deliver microcredit to the poor (Box 1).

BOX 1. Housing microfinance in selected African countries[19]

- In Angola, KixiCredito is the largest microfinancier with more than 15,000 clients and, in 2012, had a lending programme exceeding US$ 30 million.[20] It has a housing microloan product, KixiCasa, developed when it was realised that 30% of loans were being diverted to housing.

- Benin has a strong microfinance sector, with about 56 registered microfinance institutions, some of which offer housing micro loans. The dominant MFI is: *Federation des Caisse d'Epargne et de Credit Agricole Mutuel*, which collects more than 80% of household deposits.

- In Morocco, the two largest microfinance institutions are Zakoura and Al Amana which give loans for income generation as well as for home improvement and connections to basic services. The removal, in 2004, of a ban that had hitherto stopped microfinance institutions from making housing loans opened the way for this type of lending.[21] The introduction of guarantee mechanisms to enhance the creditworthiness of both individual borrowers and

13 Triki, T. and Faye, I. (2013).

14 See AUHF 2013.

15 African Development Bank (2012). See http://www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/urbanization-in-africa-10143/

16 Kundu, A. (2015).

17 See, for instance, Mazzucato, M. (2011).

18 This is the assumption in Habitat for Humanity (2013) for instance, but more evidence is required for this estimate to be more robust.

19 Based primarily on Centre for Affordable Housing Finance in Africa (2013).

20 Cain, A. (2013).

21 Martin, R. J. and Mathema, A. S. (2008).

retailers of microcredit provided, was yet another boost to this market.

- In Mozambique, housing microfinance is in the early stages of development in a setting with a strong microfinance industry and specialized microfinance laws. There are eight micro-banks, seven credit cooperatives, and 166 microfinance institutions registered with the central bank.
- Namibia has a Financial Sector Charter (FSC), a voluntary code that seeks to transform the financial industry, so that it addresses the needs of disadvantaged segments of the population. In 2012 the FSC developed new legislation to provide a regulatory framework for banks offering microcredit to low-income clients. Although the country has a small microfinance sector, housing microfinance has started.
- In South Africa, two state-owned institutions, the National Housing Finance Corporation and the Rural Housing Loan Fund, provide wholesale finance to microlenders who on-lend to households, helping to improve their houses.
- In Uganda, housing improvement loans issued by Centenary Bank are a substantial proportion of small business loans.

Commercial banks, also active in the micro-credit market, offer a complementary institutional channel and generally have the additional advantage of well-established branch networks. Although their microloans are rarely tailor-made for housing, there is evidence that clients typically disguise their borrowing as being for commercial purposes, but instead use their loans to purchase housing inputs: residential plots, building materials and construction labour.[22]

All organisations venturing into housing microfinance will need to confront three conflicting objectives: affordability for the borrowers; viability for the financial institution; and resource mobilization for the expansion of the sector.[23] Lending at scale is especially important so as to reduce the high administrative costs of originating and managing small loans. This is a hurdle that commercial banks and the bigger MFIs are generally able to surmount, in view of their typically large and diversified operations, but which frustrates the entry into the sector of single-purpose lenders. High transaction costs can also compel organizations specializing in housing microfinance to raise their interest rates above those of commercial bank loans of equivalent maturity and risk, undermining affordability.

BOX 2. Case study: The National Cooperative Housing Union, Kenya

The National Cooperative Housing Union [NACHU] in Kenya is an apex organization made up of primary housing cooperatives. It started operations in the early 1980s and began piloting housing microloans in the early 1990s. Since then, it has become an important provider of such loans to member cooperatives. NACHU has other product offerings, such as education loans, besides providing capacity building and technical support services to its members. It has staff in all major regions of the country.

For many years, NACHU's lending programme relied almost entirely on small donor grants and limited savings by its primary cooperatives, and this severely limited portfolio growth. In 2010, NACHU was able to secure a loan facility of nearly \$2.5 million from a local commercial bank, for micro-lending to residents of slum areas as well as house construction in green sites by low-income borrowers. The wholesale commercial loan was secured in part by an off-shore guarantee and partly by savings deposits by NACHU's members.

To access private capital, NACHU had to ensure that its financial performance indicators were sound. In particular, it was important for the portfolio-at-risk to be within acceptable limits. After loan closing, rising interest rates in the Kenyan financial market restrained NACHU from drawing down the whole facility. However, this deal with a commercial bank and an offshore guarantor generated spin-off benefits. First, it put pressure on NACHU to meet high prudential requirements, especially with regard to loan recovery. Second, it signalled to potential financiers that NACHU was creditworthy, raising its institutional reputation. Indeed, on the strength of its improved financial record and governance structure, NACHU was able to secure a low-interest loan in local currency from an off-shore financier in 2011. This loan facility was initially capped at around US\$ 3.5 million but with the flexibility for additional resources to fund a bigger pipeline of projects. Although the loan was primarily meant for capital development, it was agreed that it could also be rolled over, to be repaid over 5-8 years. The loan facility has enabled NACHU to increase its housing microfinance portfolio more than ten-fold.[24] This case study shows that a relatively small retailer of housing microfinance can attract substantial funding, based upon the strength of good financial performance and sound corporate governance.

4.3 Mortgage refinancing facilities

In recent years, Africa has introduced innovations in the mortgage market. Although mortgage finance is currently only affordable by a mere 3%[25] of the continent's urban population, it is considered here because of its potential to strengthen the capital market.[26] Mortgage finance also has the potential to demonstrate the viability of public-private partnerships in housing finance, and to drive the legislative reforms in land administration that permit non-judicial foreclosure. Moreover, if innovations result in lower lending interest rates, the general expectation is that mortgage lending could also reach further down the income distribution scale. Yet another benefit is that a growing mortgage sector would have a positive knock-on effect on the residential construction industry and its supply chain, thus helping to create additional jobs, especially for unskilled people.

The mortgage market is most developed in only a handful of countries: Egypt, Mauritius, Morocco, Namibia, Seychelles, South Africa and Tunisia. The binding constraint in most countries is that the low incomes of the vast majority of urban households do not allow them to qualify for a mortgage loan. In view of this and a host of other hurdles, it would be unrealistic to expect a dramatic expansion of mortgage lending in the short to medium term.

Mortgage markets in Africa face a number of serious obstacles: limited access to long-term funds; high interest rates; and low levels of

22 See Habitat for Humanity (2013), and Kihato, M. (2013) who puts this proportion as ranging from 15-40%.

23 Daphnis and Ferguson, B. (2004).

24 Interview with NACHU, November 2013.

25 For Botswana, Malawi, Tanzania, and Zambia, recent studies show that this percentage is as low as 1.5%. See Kihato, M. (2013).

26 For instance, where mortgage refinance facilities are established, the long-term bonds they issue are an attractive investment for pension funds and other investors seeking investment instruments that match their long-term liabilities.

household income. The general shortage of long-term capital is largely attributable to poorly developed capital markets, denying commercial banks and other financial institutions access to the long-term finance that mortgage lending requires. In jurisdictions with high inflation, moreover, lenders resort to even higher nominal rates to achieve positive real interest rates.[27] Yet lending rates are increased further by inordinately wide spreads, often reflecting limited competition, small financial markets, crowding out by government borrowing, and high levels of non-performing loans.[28] These constraints have stunted the growth of the mortgage market in Africa. Notably, the ratio of mortgage debt to GDP is highest for South Africa (22.04% in 2013) and lowest for Senegal (0.07% in 2010).[29] In advanced economies, this ratio generally exceeds 50%. The literature shows a clear negative correlation between general lending rates and the mortgage debt to GDP ratio. In other words, countries with high lending rates have a low ratio and those with low lending rates have a high ratio,[30] pointing to the harmful impact of high interest rates, among other factors, on the growth of the mortgage market.

Mortgage lenders in Africa have traditionally depended on short-term deposits to finance long-term mortgages. Using short-term liabilities to finance long-term assets is fraught with liquidity risk and, for this reason, lenders have found it difficult to expand their mortgage portfolios. In the few countries with a growing capital market, mortgage lenders have been able to raise long-term finance through the issuance of bonds and thus reduce their dependence on short-term deposits.[31] In this way, one of the leading mortgage lenders in Kenya has in recent years successfully floated a medium-term note worth US$ 120 million. But even in countries with an active capital market, less well-established lenders and new entrants will likely find it difficult to issue bonds on attractive terms. The overall result is that competition in the mortgage market is suppressed.

To overcome this funding problem, some African governments have established mortgage liquidity facilities i.e. refinancing companies that provide term capital to primary lenders. In view of their catalytic role, these companies are well-suited for countries with small mortgage markets.[32] A refinancing company was established in Tunisia in 1997,[33] followed by a securitization law in 2007. Liquidity facilities have also been created, with the assistance of international financial institutions, in Egypt, Tanzania, and Nigeria, as well as in the WAEMU[34] sub-region of West Africa, where one facility serves several countries. The case studies in Box 3 highlight the common features of these re-financing facilities as well as those that are particular to local contexts. In Tanzania, for instance, legislative reforms on foreclosure were necessary in order to spur the growth of the primary mortgage market. In Nigeria, funds have been included in the government's loan agreement with the World Bank so as to extend the reach of mortgage lending further down the income pyramid.

BOX 3. Case studies: mortgage refinancing facilities[35]

To address the shortage of long term capital, Tanzania and Nigeria have recently established mortgage refinancing companies. These liquidity facilities have been set up to provide long-term capital to primary mortgage lenders. Although they are relatively new, their achievements and projections suggest that they will progressively play an important role in expanding mortgage lending and fostering competition in mortgage markets. These refinancing facilities are examined here to bring out their main features and to draw attention to some of the supporting legislative changes that have been instituted.

(a) Tanzania
At the end of 2013 mortgage finance was offered by 19 commercial banks but their outreach was very small, as mortgage loans are affordable for only a few. The mortgage portfolio is tiny, with the mortgage debt-to-GDP ratio standing at 0.36% in 2014.

To promote the growth of the mortgage market, the government established the Tanzania Mortgage Refinance Company [TMRC] in 2011 as a non-deposit taking institution licensed and regulated by the Bank of Tanzania (Central Bank). TMRC will initially use a World Bank loan to refinance the mortgage portfolios of banks that are its shareholders. Subsequently, it will raise funds from the capital market. This market is quite small, though, with only a limited range of financial instruments and securities, and will benefit from the entry of TMRC.

TMRC's initial operations were slowed by the limited pool of mortgage loans that could be refinanced, but after a readjustment of its business model, the institution can now also pre-finance mortgages. This revised strategy, together with the entry of new lenders, has boosted market growth and increased competition – the outstanding mortgage debt grew by 43% in 2013. Loan tenors are now also longer. Whilst mortgage loans were generally for 5-10 years before the creation of TMRC, lending periods of 15-20 years are now possible, substantially improving affordability.

A supportive legal framework is a necessary, but not sufficient, condition for the mortgage market to grow. For many years, lending in Tanzania was constrained by a land law that made it difficult for lenders to foreclose in the event of borrower default. Other obstacles included delays in registering or "perfecting" mortgage liens, high interest rates, a limited supply of pre-built housing units, and the lack of preferential risk weighting[36] for the mortgage assets held by banks. Recent legal reforms have sought to address the enforcement of creditor rights without jeopardizing borrower interests. Towards this end, the Mortgage Financing (Special Provisions Act) was passed in 2008. This legislation permits non-judicial foreclosure, meaning that lenders can, in principle, foreclose without resorting to the courts.

(b) Nigeria
In spite of having the largest economy in Africa, Nigeria has a very small mortgage portfolio with a mortgage debt to GDP ratio of less than 1% in 2011. The country's financial

27 The real interest rate is the difference between the nominal rate (i.e. the actual rate in the market) and the rate of inflation.

28 See, for instance, Collier, P. and Venables, A. J. (2013).

29 Centre for Affordable Housing Finance in Africa (2014).

30 Further research, based on econometric testing, would be able to illustrate the impact of the different "inhibitors" of mortgage lending i.e. high interest rates, shortage of long term capital, delays in registering of mortgage liens etc.

31 An example: prior to 2007, one of the main mortgage lenders in Kenya depended almost entirely on short term customer deposits to support its mortgage lending. By 2012, the lender had changed its funding mix, with reliance on short term deposits reduced to 66% of total mortgage funding – see Rust, K. (2013).

32 Hassler, O. (2011).

33 *Societe de Refinancement Hypothecaire* or Mortgage Refinancing Company.

34 *West African Economic and Monetary Union consisting of Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.*

35 *Societe de Refinancement Hypothecaire* or Mortgage Refinancing Company.

system, well-established, has been restructured several times leading to substantial improvements in performance. In 2013, the formal housing finance system was driven by 20 commercial banks and 84 primary mortgage banks.[37]

To address the persisting shortage of long-term capital for mortgage lending, the government established a mortgage liquidity facility in 2013, the Nigeria Mortgage Refinance Company [NMRC]. As in Egypt and Tanzania, this company was created with the support of the World Bank. NMRC is a non-bank financial institution, registered as a limited liability company with majority shareholding by local financial institutions.

A ten-fold growth of the mortgage portfolio is projected over the next five years, mirroring the rapid growth of the Egyptian market after the creation of a liquidity facility.[38] A critical constraint is that although non-judicial foreclosure is provided for under Nigeria's laws, lending companies regularly forego their right to register their liens at land registries, largely because this is a lengthy process. The end result is that lenders find it difficult to foreclose in the event of default.[39]

To fast-track title and mortgage documentation, the Lagos state government has established an electronic document management system. Another positive development is that credit bureaus have been introduced in the country and credit checks have been made mandatory as a precondition to loan drawdown. Regulatory reforms underway include central bank regulations for the mortgage liquidity facility and Land Use Act regulations which cover land registration, foreclosure and mortgages.[40]

5. Conclusion

With Africa's financial landscape as its backdrop, this paper has illustrated the innovative approaches that are being pursued on the African continent to finance housing. The paper points out that in spite of financial underdevelopment on the continent, recent mobile banking technology has started to expand financial inclusion for the poor, a trend that might find application in housing microfinance in the future.

Recent innovations in housing finance, it is argued, point to the increasing role of formal finance in the delivery of urban housing. Two financing innovations are explored: housing microfinance and mortgage re-financing facilities. Drawing on case studies and other material, the paper highlights the main features of these financing innovations.

In spite of incomplete statistics there is robust evidence that housing microfinance is available in all regions of Africa from a variety of financial institutions. These include commercial banks, business microfinance organisations, and single purpose housing microfinance institutions. It is clear from this evidence that housing microfinance is gaining ground and has the potential to work on a larger scale. However, single-purpose firms find it difficult to deliver this financial product efficiently because of the high transaction costs of small loans. This is a problem commercial banks and broad-spectrum microfinance organisations are able to surmount because they operate at scale and offer a wider variety of financial products.

Refinancing facilities, relatively new on the continent, act as suitable intermediaries between primary mortgage lenders and capital markets. In this way, they boost the supply of long-term capital for mortgage lending. These facilities foster competition in the mortgage market by promoting the entry of new primary lenders. Moreover, they have the potential to raise capital at lower interest rates than primary mortgage lenders. Yet another benefit is that a growing mortgage sector has a positive knock-on effect on the capital market.

References

African Development Bank (2012) "Urbanization in Africa".

Beck, T. et al. (2009) "Finance in Africa: Achievements and Challenges".

Cain, A. (2013) "Incremental Housing Microfinance and Land Tenure: The Case of KixiCredito Angola". Powerpoint presentation.

Centre for Affordable Housing Finance in Africa (2014). Housing Finance in Africa. A Review of Some of Africa's Housing Finance Markets. 2014 Yearbook.

Centre for Affordable Housing Finance in Africa (2013). Housing Finance in Africa. A Review of Some of Africa's Housing Finance Markets. 2013 Yearbook.

Collier, P. and Venables, A. J. (2013) "Housing and Urbanization in Africa: Unleashing a Formal Market Process".

Daphnis, F. and Ferguson, B. (2004) Housing Microfinance. Kumarian Press.

Demirguc-Kunt, A. and Klapper, L. (2013) "Financial Inclusion in Africa: A Snapshot" in Triki, T. and Faye, I. (Eds). Financial Inclusion in Africa. 45-60. An African Development Bank publication.

Demirguc-Kunt, A. et al. (2015) "The Global Findex Database: Measuring Financial Inclusion around the World." Policy Research Working Paper 7255, World Bank, Washington, DC.

Habitat for Humanity (2013) "Step by Step: Supporting Incremental Building through Housing Microfinance". Shelter Report 2014.

Hassler, O. (2011) "Housing and Real Estate Finance in Middle East and North Africa Countries". The World Bank.

Kihato, M. (2013) "State of Housing Microfinance in Africa". A report commissioned by the Centre for Affordable Housing Finance in Africa.

Kundu, A. (2015) "FINDEX 2014: Understanding Housing Finance Inclusion in Africa". Centre for Affordable Housing Finance in Africa.

Martin, R. J. and Mathema, A. S. (2008) "Housing Finance for the Poor in Morocco". USAID.

Mazzucato, M. (2011) The Entrepreneurial State. The Open University. Magdalen House, London.

Rust, K. (2013) "Overview of Housing finance and Related Issues in an African Context". A powerpoint presentation, Housing Finance Programme for Sub-Saharan Africa, University of Cape Town, Graduate School of Business.

Triki, T. and Faye, I. (2013) "Financial Inclusion in Africa: The Transformative Role of Technology" in Triki, T. and Faye, I. (Eds). Financial Inclusion in Africa. 105-114. An African Development Bank publication.

World Bank (2013) "Project Appraisal Document: Proposed credit for a housing finance project. "

World Bank (2012) Global Financial Development Report 2013: Rethinking the Role of the State in Finance. The World Bank, Washington D.C.

World Bank (2007) Making Finance Work for Africa.

Websites

http://amazingkisumu.co.ke/2015/03/05/cbas-m-shwari-crosses-10-million-customer-mark

http://www.capitalfm.co.ke/business/2013/09/m-shwari-wins-global-emerging-technology-award/

http://www.mixmarket.org/mfi/region/Africa

http://opentoexport.com/article/morocco-housing-demand-stimulates-growth/

http://www.voxeu.org/article/finance-africa-achievements-and-challenges

http://www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/urbanization-in-africa-10143/

http://cfi-blog.org/2015/06/23/a-contrarian-view-of-the-m-shwari-revolution/

Overview of the Ugandan housing finance sector

By Duncan Kayiira

1. Economic outlook

The macro-economic environment in Uganda is stable, and conducive to investment. However, until recently, the performance of the economy has been moderate, with high levels of volatility among key macro-economic indicators (See Box 1).

BOX 1: Examples of economic volatility

Inflation rate
In 2011, annual headline inflation averaged 27%, with the month of October recording the highest rate (30.5%). October 2011, was the second time in two decades that the country recorded very high inflation rates. The first time was in 1993, when inflation surged to 34.2%. In 2012, inflation receded to 23.5%, and it has since stabilized to a single digit rate (5.6% in 2013; 4.3% in 2014 (Uganda Bureau of Statistics; 2015).

Interest rates
In 2011 and 2012, interest rates rose to as high 30%, commensurate with Bank of Uganda's tight monetary policy measures that were instituted to curb rising inflation. The Bank of Uganda raised the Central Bank's Rate (CBR) to 23%, to subdue the inflation rate to single digits. In 2013, interest rates dropped to an annual average of 23.3%, following a drop in CBR to 12%, after inflation had subdued, to 4.3%. In 2014, the annual average interest rate was 23.4%.

Exchange rate
In 2012, the Uganda shilling depreciated by 10.7 percent on an annual basis against the US dollar. In 2011 it had depreciated by 24.9%. In 2013, the shilling appreciated against the US dollar by 6.3%. In 2014, the shilling, again, depreciated by about 12%, mainly on account of market sentiments following the announcement of donor aid cuts in retaliation for the enactment of the anti-gay law.

Source: Bank of Uganda; 2015

In the last six years (2010 to 2015), Real GDP growth averaged 5.5% per annum, up from an average of 7% in the 1990s and 2000s. Nonetheless, the revision of the national accounts data, which included changing the base year against which GDP is measured, from 2002 to 2009, and provisional results from the 2014 population census, indicate that Uganda's economy is about 20% larger than had previously been calculated, while the population is 3% smaller[1].

The economy is forecast to grow at a rate of approximately 5.8% in 2015-16, and it could maintain an upward trajectory, mainly driven by:

- Huge public investment – government expenditure on infrastructure is expected to have a long-term multiplier effect on economic activity; and
- A recovery of private consumption supported by stronger credit growth. Since January 2014, growth in commercial banks' shilling-denominated credit to the private sector has been strong. On a monthly basis, shilling-dominated lending has increased by 1.2% since January 2014, compared to a decrease of 0.7% in 2013. Nonetheless, lending rates remain relatively high (above 20%), because of commercial banks' high operating costs and rising provision for bad debt. Growth in private sector lending is expected to be short-lived, because of the rising non-performing loans.

By 2020, Uganda has ambitiously targeted itself to become a middle income class country, with per capita income in the range of US $1,033, up from US $700. This will require continued macroeconomic stability to sustain economic growth at a rate of 6.2% per annum and structural transformation and diversification of the economy, through industrialization, to guarantee sustainable wealth creation, inclusive growth and employment.

2. Access to finance

Uganda's financial sector is stable, relatively well-capitalized[2] and it has grown at an average rate of 17% per annum since 2006[3]. Commercial banking accounts for the largest share of the financial sector, with 26 licensed banks and a network of 457 branches by June 2014. Total assets of the commercial banks stood at UGX 17.2 trillion by December 2013, compared to UGX 10 trillion in 2010, and UGX 3.5 trillion shillings in 2006[4]. The increase in bank assets was largely on account of bank loans and advances, which grew at an annual average rate of 19% between 2010 and 2013.

During the last four years, however, overall asset quality has been in decline, due to a persistent increase in non-performing loans. The ratio of non-performing loans to total loans increased from 1.6% percent by June 2012; to 3.9% by June 2013 and 5.8% by June 2014. The increase in non-performing loans was attributed to the following factors;

(i) Higher interest rates on new loans,

(ii) Re-pricing of existing loans at higher interest rates, and

(iii) A slowdown in economic growth.

In 2013, there was a gradual shift in bank lending by sector, with a higher preference for extending loans to households, and not the real estate sector, as it was in 2011 and 2012. Loans to households and personal loans grew by 39.8% at the end of December 2013, although they performed poorly the previous year (December 2012), receding in growth by 13.7%. In the same period (December 2012 and December 2013), loans to the building and construction sector registered a decline in growth of 13.3%. In the past (2011 and 2012), however, loans to the building, construction and real estate sector had grown strongly – they grew by 58.1% in 2012 and 41% in 2011.

Nonetheless, to date, the building, construction and real estate sector comprises the largest share of banks' total lending. Bank credit to

[1] Provisional results from the census indicate that Uganda has a population of 34.9 million people – this is 3% lower than the figure of 37 million that had been previously calculated.

[2] The capitalization of the financial sector is estimated at about 37% of GDP.

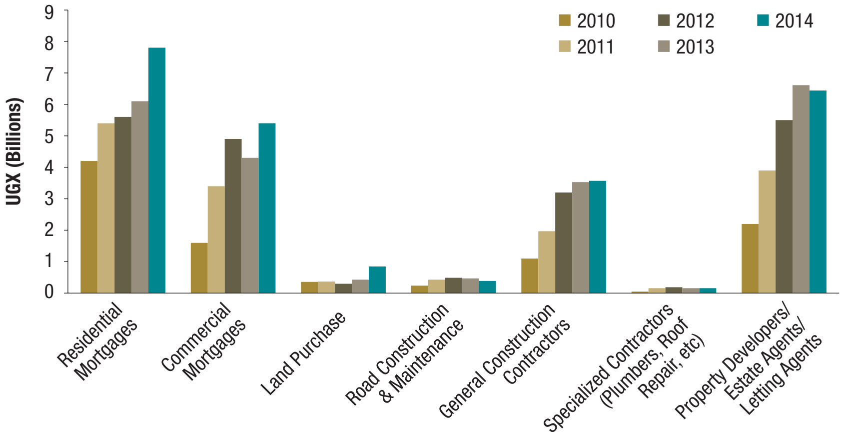
[3] World Bank (2015): Financial Sector Policy Credit: Implementation Completion & Results Report (IDA – 489890)

[4] Source Bank of Uganda; 2015

the building and construction sector as a share of total loans has dominated during the last seven years, growing exponentially, from 5.1% in June 2008 to 23.2% in June 2014[5]. As at June 2014, the real estate sector comprised the largest share of bank lending, estimated at 23.2% of total bank loans. Between 2010 and 2014, loans to the real estate sector comprised commercial mortgages, land purchases, road construction, loans to general and specialized construction contractors and property developers and estate agents.

A closer look at the activities for which credit was extended revealed that over 50% of the credit was extended for both residential and commercial mortgages (See Fig. 1 for more details). Credit extended to property developers and estate agents, as a share of credit extended to the building and construction sector increased from 23.7% in June 2010 to 25% in June 2014.

Figure 1 Loans to the real estate sector



Source: Bank of Uganda; 2015

Table 1 Changes in prices of residential properties (2009 and 2014)

Location	Cost of a 2-3 bedroom house (UGX, millions)		
	2009	2012	2014
Bweyogerere (10 km from the capital city)	95	135	185
Namugongo (about 8 km from the capital city)	200	300	425
Mukono (20 km from the capital city)	55	75	120
Bwebajje (18 km from the capital city)	68	87	118

Source: Interviews with Real Estate Agents

3. Property markets

Uganda's property markets are gradually developing, supported by the growth of the middle income class and, most recently (2012), the expected boom from exploration of oil and gas. Below is a review of the impact of

(i) The growing middle class and

(ii) The expectations from the oil and gas sector, on the property markets. A synopsis on the impact of the improving road infrastructure on property markets in towns located 20 km from the Capital City – Kampala, is also presented.

3.1. Impact of the growing middle-class on the property markets

The middle income class, which has grown seven-fold during the last two decades, increasing from 1.8 million in 1992-93 to 12.6 million in 2012-13, has been instrumental in the revolution of the property markets. Notably, between 2009-10 and 2012-13, 2.6 million Ugandans acquired middle class status (Ministry of Finance, Planning and Economic Development; 2014). In the last six years (2009 to 2014), prices of residential property[6] increased by 115.3%, mainly as a result of the high demand for the properties by the middle income class. Also, the Land Price Index [LPI][7] registered similar growth during the same period, increasing by 223.5%, because of the high demand for land, and consequently, a significant increase in the price of land.

However, in 2011 and 2012, there was a slump in demand for residential properties, and consequently a drop in prices, as illustrated in Fig. 2 below.

In that period, interest rates for residential mortgages hit record levels (from an average of 20% in 2010, to an average of 27% in 2012) as Bank of Uganda tightened its monetary policy stance to control inflation that had risen to 30% by October 2011.

Since a huge percentage (over 90%) of residential houses are purchased through mortgages, the high bank lending rates, coincidently, led to a significant reduction in the demand for residential houses. Also, the introduction of more stringent lending requirements, coupled with the high interest rates, led to a marked reduction in demand for residential properties, particularly within the mid income bracket.

In addition, in 2012, home owners who had failed to meet their mortgage repayments, opted to sell their houses; marginally contributing to the supply of housing on the market. These home owners, accessed loans at variable interest rates, which could either increase or reduce, depending on the inflation rate. Hence, the high inflationary pressures that were witnessed in late 2011 and 2012; commensurately increased interest rates on their monthly repayments, to levels that they could not comfortably afford. They therefore opted to sell off their houses, before the banks could auction them (See Box 2 for more details).

BOX 2: Auctioning of property

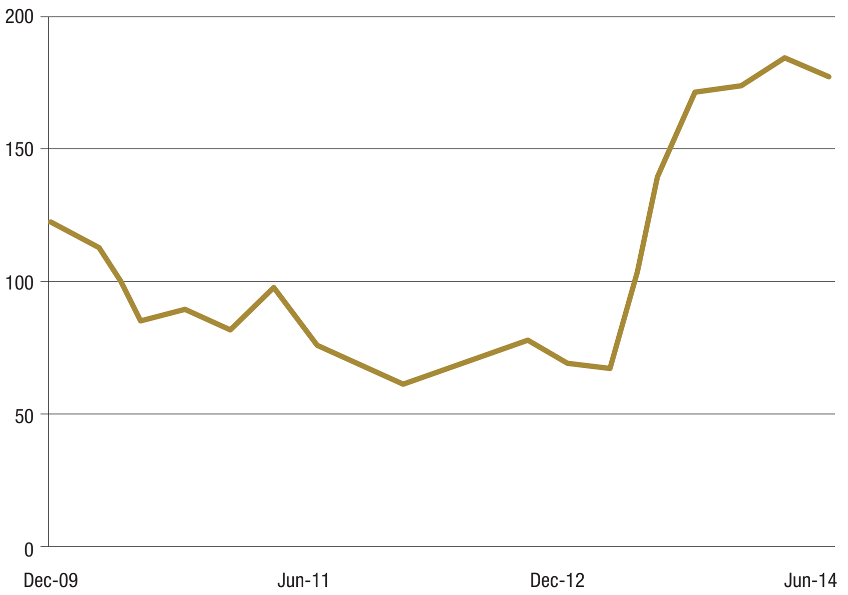
Since late 2011, banks were more risk averse to the real estate sector, adopting more precautionary measures while appraising and lending to developers, including cutting back on the loans to the sector, and selling off property to recover their loans. Non-performing loans as a percent of total credit increased, from 2% in December 2011 to about 4% percent by June 2012. In that period several properties of home owners that defaulted on their mortgage repayments, were auctioned.

5 In that period, real estate activities grew at an annual average rate of 6%, which is higher than Uganda's average GDP growth over the same period.

6 The Residential Price Index is a measure of the percentage change of the average price of buying a unit of residential housing over time.

7 The Land price Index is a measure of the percentage change of the average price of buying a square meter of land

Figure 1 Residential Property Index (2009 to 2014)



Source: Bank of Uganda; 2014

The classified sections (where property are advertised) in local newspapers was in high demand from companies which auctioned and sold property on behalf of the banks. Accordingly to the Daily Monitor, in 2012, the newspaper received about 10 adverts for property to be auctioned per week, compared to only two or three adverts, in 2011.

Source: Bank of Uganda; 2012; and the Daily Monitor; 2012

This situation could have been avoided, had the home owners been knowledgeable enough about the mortgage terms and also the opportunities they could seize, using their positive credit history.

Presently, the supply of middle and high level residential properties outstrips demand, although demand is stronger for apartments than for standalone houses. Prime residential yields have grown steadily at between 9-10%, per annum. Demand for mid-income properties has generally recovered, though at relatively high, mortgage interest rates.

For the past decade, six modestly sized property developers have led efforts to increase the supply of residential properties, targeting the middle and high income earners (See Box 3 for more details).

BOX 3: Main developers in Uganda

Developer	No. of Units developed (2010 – 2014)
National Housing and Construction Company	4,500
Akright Projects	400
Pearl Estates	250
Kensington Group	500
Nationwide Properties	5,000
Tirupati Uganda	800

Source: Strategic Plans of Developers

Collectively, however, these developers have not been able to supply more than 5,000 units annually. Annually, each developer[8] had planned to develop between 3,000 and 5,000 units, during the last five years, however, because of the high debt exposure and the generally low demand for properties, particularly in 2012 and 2013, the units delivered annually, per developer, slumped to between 500 and 1,000.

Also, there several small sized firms (90% of which are solely owned) who incrementally develop small estates, comprising flats of about 20 apartments. The apartments are priced at over US $ 60,000, and they can comfortably be afforded by middle and high income earners. Collectively, the contribution of the small sized developers to the housing industry has been significant – the only challenge is that there are no formal mechanisms to track their input to the industry.

3.2. Impact of the expected boom of the oil and gas sector on the property markets

Since 2012, several commercial properties have been constructed, in anticipation of entry of new businesses targeting opportunities in Uganda's oil and gas sector ahead of the commercial production phase (2018 onwards). However, supply exceeded demand. Some new commercial buildings that were built in the up-market business zone in Kampala have since 2012, failed to get 100% occupancy. The owners of the properties, many of whom were new to the commercial property markets, were forced to revise their rental fees, downwards, in order to secure sufficient revenue to repay bank loans to avoid seizure of their assets due to default. Their debt levels were estimated at 80% of total project costs. According to the East African Newspaper[9], some developers quoted rates as low as US$ 9 per square meter, compared with similar space offered by well-established property developers like UAP Insurance, which charge US $14 per square meter. Prominent commercial buildings lost tenants to the new developers, because of the competitive pricing. This trend is likely to continue. Further, the availability of cheap commercial space is likely to discourage future investments in the industry (commercial property), particularly, in prime areas within Kampala.

3.3. Impact of improving infrastructure on the property markets

During the implementation of the National Development Plan (2010-11 – 2014-15), several large scale infrastructure projects were commissioned to catalyze industrial development and economic growth. Notable, was the construction of several roads in towns that neighbor Kampala, including Mukono, Wakiso and Mpigi. The improved road network in these towns has spurred development of several housing projects, targeting modest, middle and high income earners. The construction of the roads in the towns has also helped ease congestion in the Capital City, where a lack of sufficient land has, in the past, forced developers to build high rise structures without any greenery. In these towns,

[8] According NHCC's Corporate Strategic Plan (2012 – 2016), the company's target was to construct and sell houses equivalent to 70% of the housing backlog within the income bracket of UGX 1.8 to 9 Million and 50 of the backlog in the income bracket of UGX 9 to 29 Million. This brings the total number of houses that were to be constructed and sold in five years to 8,728 housing units. However, about half (4,500) have to date been constructed and sold.

[9] See http://www.theeastafrican.co.ke/news/Uganda-s-real-estate-sector-set-to-thrive-in-2015/-/2558/2570616/-/1ux7w9z/-/index.html.

better planned and organized housing estates are being developed. Joint ventures in developing housing projects are also common, where land owners partner with reputable developers like the National Housing and Construction Company Ltd, to build modestly sized housing estates of about 2000 units.

4. Affordability

Although the demand for housing is high, Effective Demand[10] is actually very low. On the contrary however, effective demand is perceived to be low, because only a portion of employees' income is documented. In Uganda, like several developing African countries, it is common for individuals to complement their salaried income with other revenues, from micro and small sized investments.

Nonetheless, going by documented income, and using a case example of private health workers, it is evident that the majority of Ugandans (about 90%) earn too little to finance their housing needs. From Table 2 below, it is clear that the income and savings of the majority of private health workers falls below a level where they could secure mortgage financing in the formal market (UGX 1 million and above).

Mortgage lenders generally require a high down payment (between 20 and 50%), to reduce credit risk and keep monthly payments affordable. Other terms at which commercial banks offer mortgages include an interest rate of between 19 and 30%; and loan repayments should not exceed 40% of an individual's salaried income. The mortgage term ranges between 5 and 20 years. Banks are funded predominantly by consumer deposits, which are mostly short-term. Due to short maturity of deposits, banks face challenges with funding long-term projects.

On the above terms, only private health workers who earn above UGX 1 million, monthly (US $400), are well positioned to access a modestly priced mortgage from commercial banks. This implies that less than 2% of Uganda's private health workers can access mortgage finance.

Some efforts have been embarked upon by commercial banks to address the housing finance needs of modest income earners, like private health workers. The commercial banks have developed "mini mortgages" that are small enough to be affordable but large enough to enable individuals purchase "modestly priced houses".

Mini-mortgages are becoming useful tools to finance Uganda's modest income market. Mini-mortgages are likely to be collateralized but differ from conventional mortgages in that their term is shorter and origination is likely to involve underwriting of informal income. The tenure of the mini-mortgage is shorter than the conventional 20 year loan product, often 7 to 12 years. The smaller size, lower collateral conditions and shorter terms make mini-mortgages more attractive to modest income earners and are being used by some banks to lend to this market segment.

Presently, there are only two commercial banks (Stanbic Bank and Housing Finance Bank) that address the housing needs of modest income earners, using the "mini-mortgage-modestly priced house" arrangement.

Stanbic offers mini-mortgage loans from as low as UGX 30 million (US $ 9,800), payable between 5 to 15 years. A particular term that has to be met by prospective borrowers to access mini-mortgages is the quality of the collateral (property). Stanbic Bank appraises the quality of the property, including its neighborhood and registration (title). Stanbic also underwrites other forms of income (informal income), other than salary, if the income is banked on a customer's account before a mini-mortgage can be offered. For example, if a customer owns a taxi, or rental units, and the monthly proceeds from these businesses are banked in the customer's account, the bank will appraise them when evaluating his/her mini-mortgage application. These types of more flexible approaches to appraising collateral need to be taken up by other commercial banks to meet the high demand for housing finance.

5. Conclusion

Uganda's housing industry is gradually improving, with few, but an increasing number of innovative products. However, significant investments are needed to address the current backlog, estimated at 1.6 million units, in 2013[11]. Several factors still hold back the potential of the industry; including the high urbanization rate (about 5% percent annually); and the low levels of income, which make it difficult, if not impossible, for the vast majority to afford residential properties on the market.

The housing finance sector, though improving, still lacks the capacity and capital to:

(a) Expand the supply of affordable housing; and

(b) Provide appropriate housing finance products.

In particular, there is a growing demand for mortgage lending to middle and high income groups, requiring loans of maturities of up to 20 years.

The Draft Housing Policy (April 2012), delineates several measures on how to address the housing challenge in the country. The Policy notes that housing finance institutions need to work on their institutional framework to reduce operational costs, as one of the ways to bring down interest rates[12]. The Policy also calls on financial institutions to expand the range of acceptable security for accessing mortgages to include insurance policies, pension and provident funds and employer guarantees. There is also a need to promote the development of housing finance products that cater for the needs of all income groups.

References

Bank of Uganda (2014): Financial Stability Report

Bank of Uganda (2013): Financial Stability Report

Bank of Uganda (2012): Financial Stability Report

Bank of Uganda (2011): Financial Stability Report

Ministry of Finance Planning and Economic Development (2014): Poverty Status Report

Ministry of Lands Housing and Urban Development (2014): Habitat III National Report

Uganda Bureau of Statistics (2011): Consumer Price Index

World Bank (2015): Financial Sector Policy Credit: Implementation Completion & Results Report (IDA – 489890)

World Bank (2015): The Growth Challenge: Can Ugandan Cities Get to Work?

Websites

http://www.businessdailyafrica.com/Banks-start-open-loan-pricing-July/-/539546/2322744/-/a8l3jhz/-/index.html

http://www.theeastafrican.co.ke/news/Uganda-s-real-estate-sector-set-to-thrive-in-2015/-/2558/2570616/-/1ux7w9z/-/index.html

http://www.independent.co.ug/ugandatalks/2011/10/uganda-inflation-hits-30-5-percent/

http://mobile.monitor.co.ug/News/Ugandans+owe+banks+Shs8+trillion+in+loans/-/691252/1520214/-/format/xhtml/-/gv2xg8/-/index.html

[10] Effective demand constitutes what households are able to pay for housing. Effective demand is based on several factors, including: (i) the household income, (ii) the price of a house, (iii) financing arrangements (including the interest rate and the loan term), and (iv) household preferences for different attributes of a dwelling, such as location.

[11] Uganda Habitat III National Report (2014).

[12] As has already happened in Kenya, Uganda needs to develop the Annual Percentage Rate [APR] Pricing for commercial banks. The APR is a measure that shows the complete and true pricing of loans and takes into account the set interest rates and other compulsory charges like legal fees, insurance costs, valuation fees, and government levies in calculating the borrowing rate. This allows borrowers to easily compare lending rates among rival banks, and also for the Central Bank to probe for uncompetitive behavior.

The Finnish housing finance system and the role of MuniFin

↳ By Pekka Averio[1]

1. Introduction

Finland is a country of 5.5 million people, characterised by rough arctic weather and a northern European welfare state model. Both the geography and social tradition deeply affect the country's housing system and how it is financed.

Despite the fact that the post-2008 downturn has hit Finland more heavily than most central and northern European countries, Finland is a relatively wealthy nation, with a GDP per capita of 37,559 EUR (42,420 USD) in 2014.

Due to great climate contrasts with temperatures ranging from almost +40 degrees Celsius in the peak of summer to –40 degrees Celsius in the winter, the standards set for housing construction quality are extremely high. With labour costs relatively high as well, construction costs are high in international comparison. For these reasons there is a shortage of reasonably priced housing in Finland.

2. Exceptionally strong tendency towards home ownership

Most Finns live in owner-occupied homes. The rate of homeownership in Finland was 66.4% in 2013. There is a strong preference for home ownership, and mortgage instalments are the most common method of saving and investing. There are no large mortgage banks in Finland so families typically finance purchased housing through commercial banks. In relation to international comparison, the housing loan amounts are moderate (average loan is 114,000 EUR) and the average maturity relatively short (17 years). In Finland, home ownership is characterized by a tendency to take reasonable loans, buy small apartments and invest gradually in bigger homes.

Despite the fact that owning one's home is greatly valued in Finland, one reason for the high rate of home ownership is also the lack of affordable rental homes, especially in the metropolitan areas and the main regional centres of Finland.

The four main types of housing in Finland are owner-occupation, rental housing, right-of-occupancy housing[2] and shared ownership.

The rental housing market is divided almost evenly between the private rental market and state-subsidized social housing and special groups' housing. Social housing refers to housing provided by municipalities and their housing companies to low-income residents. Special groups' housing includes homes for senior citizens, students and disabled people.

The models of right-of-occupancy housing and part-ownership housing have been launched as alternatives for rental housing and owner-occupied housing; they are more secure for the resident than rental apartments but do not require as much capital as buying a home. The amount of right-of-occupancy and part-ownership housing has stayed relatively low.

3. The government's role in influencing housing trends

The Finnish public sector is divided into central and local governments, with both having a strong say in housing policies. In Finland, there is a relatively high, progressive state income tax. Additionally, the municipalities – which have the obligation to provide basic public services – have an unlimited right to levy tax on the income of its inhabitants. The municipal tax is a flat tax varying from municipality to municipality. The average tax rate in 2014 was 19.74 %.

There are several tools the Finnish public sector uses to make housing more affordable for everyone in society.

The Ministry of the Environment is responsible for Finnish social housing policy and promoting ecologically sustainable, high-quality and reasonably priced housing, while the Ministry of Social Affairs and Health is in charge of the general planning, control and monitoring of the housing allowance legislation.

The General Housing Allowance is intended to facilitate the housing costs of low-income households. It is available for both rental and owner-occupied homes, in the same way as the Housing Allowance for Pensioners, which is paid for a pensioner living alone or with a spouse.

The Ministry of Education and Culture is responsible for the Housing Supplement for Students. Home ownership is supported by the government through mortgage interest tax relief. There is also no stamp duty for first-time buyers and property tax is generally low. The main methods of promoting the availability of affordable housing are, however, the subsidies paid in relation to a project to the construction and housing companies who provide rental, part-ownership and right-of-occupancy housing.

4. State-subsidized housing finance system

There are currently approximately 800,000 rental homes in the country, and more than half of them have been constructed using state subsidies granted by ARA, the Housing Finance and Development Centre of Finland. There are also more than 100,000 households on the waiting list for ARA-subsidized rental homes.

ARA belongs to the administrative branch of the Ministry of the Environment. ARA has lead responsibility for the implementation of Finnish housing policy. The interest subsidy system is targeted at non-profit housing companies who commit themselves to offer reasonably priced rental, right-of-occupancy or part-ownership housing in the subsidized buildings.

ARA grants a non-profit status for each specific construction project. After that the construction

[1] Pekka Averio is President and CEO on Municipality Finance.

[2] Right-of-occupancy housing is an alternative to rented housing and to owner-occupied housing. To receive right of occupancy the resident must make a right-of-occupancy agreement and pay part of the purchase price of the apartment as a right-of-occupancy payment. The residents continue to pay a residence charge while living in the apartment.

company or the housing company applies for a loan from a credit institution. ARA approves the interest subsidy loans and the State Treasury pays the subsidy directly to the credit institution. The State Treasury also guarantees the subsidized loans by special law.

The stock of ARA-subsidized buildings consists of rental (70 %), right-of-occupancy (10 %) and part-ownership housing (20 %).

5. MuniFin finances most of the subsidized housing production

Municipality Finance Plc, or MuniFin, is the third largest credit institution in Finland and by far the most important credit institution financing state-subsidized housing projects.

MuniFin is owned by the Finnish municipalities, the municipal pension fund Keva and the Republic of Finland. It can only finance municipalities and municipal federations, municipally owned corporations and housing companies and companies with a non-profit status granted by ARA.

MuniFin was founded to ensure competitive funding for the municipal sector under all market conditions, and its role has proved to be crucial especially during financial crises, such as the 1990's economic recession and the post-2008 financial crisis.

MuniFin does not receive deposits from its customers. Its funding is sourced from the international capital markets and is extremely cost-efficient due to MuniFin's strong credit ratings (Aaa/Aa+) and continuous presence and activity in various markets. MuniFin's funding has an explicit guarantee from the Municipal Guarantee Board, of which all Finnish municipalities are members and thus are jointly responsible on a pro-rata basis for all of MuniFin's liabilities to its bondholders.

When it comes to housing loans, MuniFin's offering is unique in Finland since the company can offer remarkably long-term loans to its housing customers with an ultimate maturity of up to 41 years. This is exceptional in the Finnish market, and long-term loans are commonly used in housing projects.

Forty-three per cent of MuniFin's lending portfolio consists of housing loans. The remaining 57 per cent of the lending is used for other municipal investments such as building hospitals and healthcare centres, schools, day care centres, energy production and technical infrastructure.

The MuniFin model is unique in some respects, but roughly similar models exist elsewhere. Specialised credit institutions with social mandates and a local government customer base can also be found in other Nordic countries, the Netherlands and France. At the moment, several countries are in the process of determining if the MuniFin model would bring benefits. At least from the Finnish perspective the model has proven to be a success.

1. MuniFin in brief

- Founded in 1989
- Owned by the Finnish public sector
- Lending portfolio 19.4 billion EUR
- Balance sheet total 33.7 billion EUR
- Personnel 94

© Henrik Kettunen and VAV Asunnot

© Suomen Vuokrakodit and Vuorelma Arkkitehdit

The Dutch experience post Vestia: Lessons from the Netherlands

By Jan van der Moolen

1. Introduction

In recent years there have been several scandals in the Dutch social housing sector. From failed project development and large scale land acquisitions to the internationally known scandal surrounding the purchase of derivatives by several associations and during which Vestia, at that time the biggest housing association in the public housing sector in the Netherlands, also drew international attention to itself. Aside from that there were a number of cases in which the integrity of managers and supervisors was compromised. The Vestia case drew the attention of the public in 2012 and led to intervention by the government. What has happened since then? Are there lessons to be learned? The following is an adaption of a lecture for The Cambridge housing symposium that was held from 20 – 22 July 2015. The meeting was an initiative of The Housing Finance Corporation [THFC].

2. Some characteristics of the housing association sector

Of the over 7.6 million homes in the Netherlands about 30% fall under the ownership and management of housing associations. At this moment there are 375 associations and they manage about 2.4 million homes. They have a long history: the first was founded in 1852. They have contributed to a large number of good quality and affordable homes in districts and neighbourhoods that are doing well as far as maintenance and liveability are concerned. In recent years about 30,000 homes were built a year, the yearly rental sum amounts to over € 13 billion and the financial continuity is secured with a solvency rate of 30%. The market value of the stock amounts to about € 250 billion. The core business of associations is the housing of households with an income up to € 34,678. In justifying the allocation of homes the Government has acted more strictly to housing associations in the past few years. The reason for this is partly that when the rent is relatively too high for the income, the budget of the government becomes more strained because they have to give out rent benefits. Since 2013 the Government has started to levy a charge on the entire social housing sector, and starting in 2017 this will lead to an annual yield of € 1.7 billion. That is a considerable impact on the cash flows of housing associations, certainly on top of the integral corporation tax and the levy as a result of the scandals involving Vestia among others.

3. Private and non-profit

Housing associations are private organisations, but also completely non-profit. They venture out into the public sector and because of this there are extensive regulations that apply, along with the associations' own Governance Code. Nevertheless, in the first decennium of this century there was a big discussion about the position, function and role of housing associations. At the end of the previous century, after long discussions a policy was implemented for the decentralisation of tasks and authorities from the state to municipalities for greater independence of housing associations and for deregulation. With the Government itself there had been discussions about a smaller but more effective government via principles of 'new public government' and 'reinventing government'. But where the central government did avoid getting involved, cases were inadequately handled by local governments. Aside from the scaling-up in the social housing sector itself this led to suggestions that the sector could possibly manage without the backup or influence by the Dutch Government.

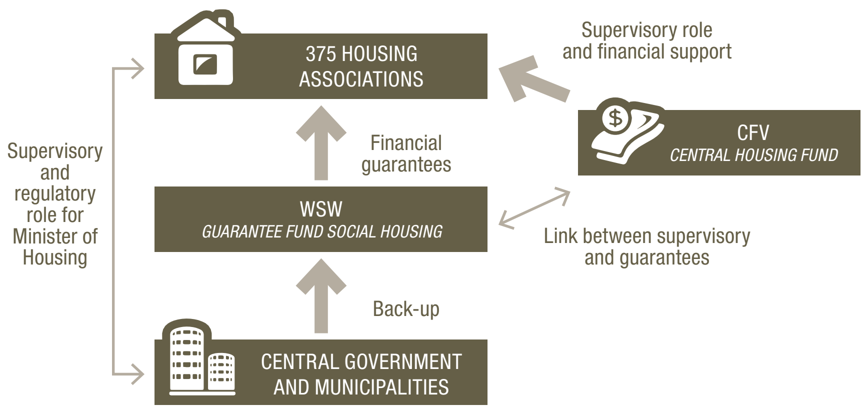
This is remarkable if we look at the security structure that was built in the 1980s. From halfway through the 80s financing was no longer received from the government, but the housing associations were to secure their investment via banks. To prevent this leading to higher interest rates, a guarantee fund was founded in 1983, the Guarantee Fund Public-Sector Housing and the Central Fund for Housing was created in 1988. This institution had the task of providing financial aid where financial problems reared their heads within individual housing associations, for example as a result of developments on the residential market, via a levy over all associations. Since its foundation this has happened about 20 times. The security structure that has been created (see figure 1) was applicable until 1 July 2015 and involves three steps in case of serious financial problems with an individual housing association:

a. Firstly the association was supposed to pay as much as possible itself, and if there was not enough money the Central Fund would provide support via a levy over all housing associations;

b. If there was insufficient capital then, the equity of the Guarantee Fund was a resource which had been built up by all housing associations;

c. If there was still too little capital, there was the possibility that state and municipalities would provide 50% support each.

Figure 1 System of finance and supervision



4. Effective structure

This structure turned out to be effective: the equity of the Guarantee Fund or that of municipalities and state has never been needed, not even in the Vestia case. Furthermore this form of security provided an interest rate advantage for the housing association sector of around € 800 million on a yearly basis: on average this means a lower rent of € 30 per home per month. The Guarantee Fund was a private institution and remarkably enough it was not subject to any supervision by the government. Remarkably because the secured equity has increased considerably in recent years and amounts to around € 85 billion at the moment. The Central Fund was a government institution and directly answerable to the Minister for Housing. In 1998 and 2002 it also got more tasks in the area of financial supervision. Supervision of housing and the supervision on whether associations were acting lawfully remained with the Minister himself. Because of this supervision was formally divided between two institutions (the Minister and the Central Fund) and materially speaking the Guarantee Fund also had a big influence, because of her way of working and the sanctions toolbox. Remarkably enough the financial supervisor did not have any tools in the form of sanctions. Intervention was a task for the Minister himself. This division of responsibility has been criticised a lot but it has been maintained up until 1 July 2015.

5. Backgrounds

The various scandals occurred with a number of relevant developments. Firstly there had already been talk of the residential market being locked up tight for several years. Because of the financial crisis and the crisis with banks, getting a mortgage in order to buy a home turned out to be more and more difficult. This became even worse because of developments in the labour market and in relation to pensions. Furthermore, housing associations were more or less forced by the government to apply a more market-focused policy in the rental sector. This meant that tenants who wanted to move, were confronted with a considerable rent increase. The share of rent as a proportion of household income amounts to an average of about 26% and with the share for the costs for energy, a lot of households get above 40%. Because of this the costs of housing have become a political issue. Because people could not buy and would be confronted with a considerable increase in rent if they moved to a rented home of better quality, the effect was that a lot of people stayed where they were. The turnover went down in a lot of districts, neighbourhoods and cities.

Aside from this state policy over a longer period of time had already been focusing on the realisation of a smaller social housing sector. Attempts were made several times to develop a policy for large-scale sale of the property of housing associations. The discussions from Brussels about whether or not the support from the state was justified, also formed an important discussion. It was acknowledged that housing associations made all kinds of investments which strongly served the public interest, but the question often arose if this should be a task for the association. Did the market sector have no possibilities here or wasn't it too easy for the housing association sector to pick up cases because on the one hand they had become very wealthy and on the other municipality, healthcare and education institutions couldn't invest or couldn't invest enough? The taking up of the theme liveability was also a reason for a lot of discussions: what exactly are the tasks of housing associations in this? The appointment of a caretaker is certainly one, but the renovation of a city centre or the build and maintenance of health care real estate?

One thing that is certain is that the discussions on this have gone on for too long. From 1998 a lot of commissions have been at work, a lot of proposals have been made, but not one of the proposals and ideas has led to a change in regulations or to the way of working. In the background there was always the discussion on who the housing associations actually belongs to. Or rather, who has the control over (the use of) the equity in that sector? Housing associations often have the legal form of a foundation and so they have no members. Aside from that tenants do have certain rights to approve and view documents, but the real power lies with the management of the housing association. With all the mentioned developments and the uncertainty that came with them there was a climate in which matters could and possibly had to go wrong. And it did go wrong: with the financial management, with project development and in the behaviour of individual managers.

6. Lessons from the incidents

It is also important to know that housing associations have a so-called two tier system of governance, unlike the Anglo-Saxon situation: there are two bodies: a management and a supervisory board. These two bodies each have their own responsibilities. The management manages and has the chief responsibility for the operations of the organisation. The supervisory board supervises the dealings of the management, advises the management and is formally the employer. This system has been possible since 1993 and is used in just about every housing association. There is only a small proportion of societies left where there are also members as a third party. Often it is a feature of small organisations.

From my experience as a manager with the Central Fund there are lessons to be learned from the scandals. This has also been talked about publicly. First of all the work area should be formulated better. Until recently everything from a rocking chicken to a steamship was a case for housing associations to pick up, next to the regular maintenance and the management of social housing. But the quality of the management in general was also inadequate. Large sums of money and equity pass through a housing association, but it was not always clear enough if the use of those resources was effective and efficient. Improvement of efficiency has become a theme in the social housing sector over the last two years.

The elementary corporate processes and the administrative processes based on them turned out not to be in order. The state of affairs around automation and digitalisation only made this worse. If the company processes are not in order, the information that management and the supervisory board receives is not good either. For example this was made explicitly clear during the Vestia scandal: the information revolving around the entire portfolio of derivatives with a worth of over € 20 billion, turned out to have been justified by the treasurer via an Excel spreadsheet. Management, supervisory board and accountants were content with this and because of the limited accountability the situation was little known amongst external parties. But with other housing associations the purchase of land and projects also turned to be administered incorrectly and submitted incorrectly to internal or external supervisors.

7. Moral hazard

It was also remarkable that with regard to many incidents the supervisory board was at too great a distance from management and the organisation. Aside from an unclear view of their tasks and the lack of a direct information flow this is an important reason for things going wrong within organisations. There was no timely communication of problems. Because of the established structure of security in the sector, acquiring new financing was not a problem for many housing associations. But because the spending was not monitored enough, cash was attracted by a number of associations for a period of three years and they started to do their own banking, for example by purchasing derivatives, and the money was put into commercial projects.

It was possible to take risks that could not be carried by an individual housing association, but could be passed onto the entire sector through the collective warranty and security structure. This fact has become a moral hazard in the system that has been acknowledged and acted against too late.

8. Far from home

After the Minister responsible for housing had first established a commission to examine where it went wrong with Vestia, there was a request from the parliament for a parliamentary survey. That is the most formidable instrument at the disposal of the Dutch parliament to examine the way things are handled in certain areas of policy. The Commission worked through private and public interview and examination of sources and put its results in a report with the title “Far from home” in 2014. The conclusions of the Commission speak for themselves. In unparalleled strong words the Commission gives an account of what went wrong:

a. The managements of housing associations have failed;

b. The supervisory boards of housing associations have failed: they had no power and they did not function well enough;

c. Political bodies themselves have failed. There has been too much discussion for too long without clear conclusions being drawn. No significant change has been achieved since 1998. A serious reproach is also that the politicians have not reacted or not reacted enough to the various signals that were given that things in the sector were not as they should be. This explicitly refers to signals of the financial supervisor;

d. The system of public housing has fundamental problems in its composition and structure that have not been acknowledged properly;

e. Human behaviour: there turned out to have been too few corrections from non-executive boards next to the lack of moral values of executives. Managers succumbed to competitive behaviour, there was a question of (too) high salaries and things were done that do not become managers of organisations in the public sector. There was insufficient attention to the culture within associations in which the attitudes and behaviour of managers was often crucial;

f. There were no clear boundaries to the job description of housing associations: everything seemed to be possible;

g. The entire governance structure had failings. This applies to the structure established by the government as well as the governance structure existing within every housing association;

h. There was a lot of equity and a too high level of risk acceptance, caused by the system of collective security, among other things. The discipline of the market did not have enough influence, the supervision of the government failed, accountants and banks did not do enough;

i. The system of self-regulation the social housing sector came up with did not function or did not function well enough.

A lot of recommendations were made by the Commission, based on the report. Just about all of these have been incorporated by the Lower House of the Netherlands Parliament during the deliberations about the report. It was important what the Minister would do with this. It was remarkable in this case that the Parliament had already accepted a proposal for the amendment of the Housing Act a year previously, but this had not yet been approved by the Upper House of the Netherlands Parliament. In reaction to the report the Minister came up with a proposal in which he tried to integrate his earlier proposal with the proposals of the Commission. In the spring of 2015 this led to the adoption of an amended Housing Act and a new general administrative regulation, in which many matters mentioned in the main text of the Act, have been further elaborated.

9. The new Housing Act

The proposals for amendment of the Housing Act illustrates that public housing is still within the welfare state. Within frameworks to be established by the government private organisations perform tasks to safeguard the public interest. The impact of this can be found in the statement of purpose of housing associations: they have to act for the benefit of public housing. Furthermore the topic is still finding checks and balances between the responsibilities of government and the sector itself, between formulating policy and executing supervision, between the internal and external supervision and within the organisation of an association itself, between management and the maintenance of (internal) supervision. So the system is kept intact, but there are important changes in emphasis.

The structure of supervision by the government has changed: the Central Fund no longer exists as an independent entity and was absorbed by another body- the Authority housing associations. This is in charge of the execution of both financial supervision and the supervision of public housing and the supervision of acting lawful. Furthermore the Guarantee Fund has been placed under the supervision of the state and has changed its method and risk assessment considerably. In addition the Guarantee Fund will be dealing with associations with financial problems but under the responsibility of the Minister in the future. Thus far this had been the task of the Central Fund. For a number of important decisions the individual housing associations will need the consent or permission from either the minister or the Guarantee Fund.

Furthermore housing associations will be obliged to separate their administration according to activities that are permitted within the framework of state support (the so-called services of general economic interest) and activities that no longer are, in accordance with agreements made with Brussels in 2009. These last activities have to be financed, exploited and justified in conformity with the market. Mutual so-called cross-subsidisation is no longer permitted. It is also important that the Minister has indicated that both branches have to be able to be executed independently. The purpose is to no longer pass risks from market or commercial activities onto the social housing property. Finally the minister has indicated that the entire housing property has to be valued at the market value in the near future. This to achieve greater transparency in the social housing sector.

The role of municipalities and residents’ organisations has increased. Municipalities have to put together a housing vision. Afterwards the municipality bases the achievement agreements made with the housing associations active in their municipality on this. When the achievement agreements are made residents’ organisations get a larger role. They practically become the third party. The agreements apply for a period of four or five years. Designs can be diverse: on the size of the core supply of social housing, on the number of new buildings and renovation projects, on energy measures, on affordability and accessibility, on housing of special target groups, on the transformation of healthcare and the relationship between housing and healthcare, on the use and maintenance of nursing homes, on liveability and on the control of tenants.

10. Conscious role-view internal supervision

The new proposals make it clear that the external supervision will become more explicit and more effective. Both the newly formed Authority and the Guarantee Fund will get more explicitly involved with operation, the quality of data and the internal governance structure. The role of municipalities becomes more substantive and important, via the Minister they get more insight into the financial state of affairs of associations working in their municipalities. But the banks and the accountants will also speak out more.

The banks because of the possibility that individual housing associations can go bankrupt, now mentioned formally in the law. This was also possible before, but it was not determined by the law but by the assessment of the Central Fund. The accountants, because the supervision focused on them by the Authority Financial markets has intensified after 2012.

But the internal supervision also has to do better. The law indicates that with every (re)appointment of a member of the supervisory council there has to be a 'fit and proper test' from now on under the responsibility of the new Authority housing associations. Members of the supervisory council also have to advance their expertise every year, which has to be kept track of via a points system. There has been a revision of the Governance Code in which it was indicated that for a number of matters it is mandatory to apply these rules from the Code and therefore an explanation in the annual report about what happened will no longer do. The justification of the internal supervision will be improved.

Because of the enormous publicity surrounding a number of incidents, members of the internal supervisory body will have realized that the attitude towards being a commissioner or member of a supervisory body has changed. In almost all cases of scandal the media claimed in huge headlines that "the internal supervision had failed". Aside from a more outward-focused justification, the function has also become more 'public'. Moreover the liability is now a serious theme: in a number of cases a lawsuit was not only started against the manager, but also against the members of the supervisory council. In one case it was the government itself (via the Central Fund Housing) that started a lawsuit against the former members of a supervisory council of a housing association that had landed in big financial trouble, despite earlier warning signals.

But we also see changes in the justice system. A defence based on the core question "should I have known?" is no longer sufficient. Judges go further, so that the question for members of supervisory councils should often be "Should I have asked"? So it no longer just concerns the application of the rules, but more and more often it concerns the question as to what the role or view of a supervisory council and individual members of such a council should be. That no longer means just looking at the structure and procedures and supporting documents, but also paying a lot of attention to the culture of the organisation of an association. Where structure can be viewed as the hygiene of an organisation, culture mostly touches upon the image of an organisation, for its own employees ("do we find this normal here"?) as well as the tenants and other stakeholders ("do I want to do business with such an organisation"?).

Of course it is also important to realize that only an amendment of the law and adjacent regulations are not enough for a desired change in behaviour. People don't change their behaviour because the law has changed. There will have to be looked for intrinsic conditions in organisations themselves. Another and intensified form of internal supervision has become important meaning a broader scope and another way of looking at organisations and its management.

11. What is good internal supervision?

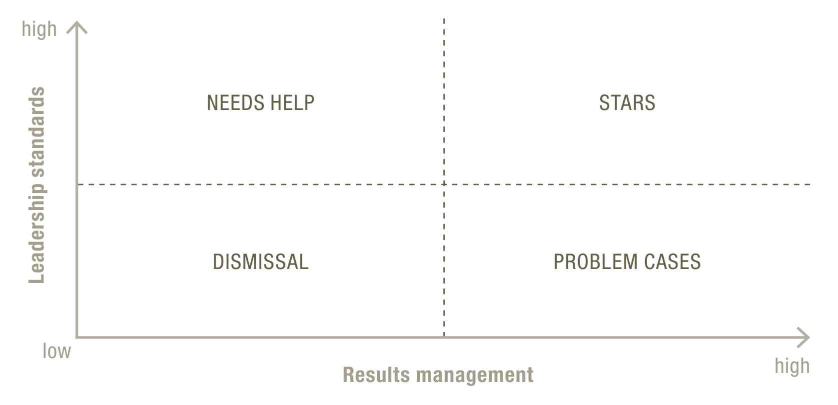
It will not be enough for members of supervisory councils or commissioners to abide by the law, regulations and Governance Code. They will also have to find an answer to two questions: what they want the management and organisation to do and how they want them to do it? So they will have to be constantly on the lookout for answers to questions concerning the effectiveness of the supervision they execute themselves. They will have to guarantee that there is enough diversity in the supervisory council when it comes to age, gender, backgrounds and knowledge and skills. It has to be clear that supervision is a job and that a professional attitude is to be expected because of this. And not unimportant: a supervisory council has to realize that moral virtue forms an important theme. Finally a supervisory council will have to realize what the core task of a housing association is. Incidentally this has not changed much since the very first Housing Act from 1901: offering good quality and affordable housing for people who are unable to provide for that themselves. Quality, affordability and accessibility are three definitions that haven't lost their shine yet.

But there is no single best way for supervision. Organisations differ, circumstances differ, housing markets differ. But it is at all times necessary that ambitions are formulated clearly and that open and good communication is required with all those involved; towards employees, tenants and important stakeholders like municipalities. A manager can be expected to sketch a clear perspective in case of a change and makes active involvement possible. For a supervisory council it is necessary to supervise this. For this purpose a manager and a supervisory council have to have insight into the competences and skills of a manager. Both the manager and the supervisory council are to be familiar with the so-called "own theatre" of a manager: his strong and weak points, his skills, emotions and pitfalls. Managers can be expected to keep being surprised, to keep learning, to keep motivating and inspiring. It's all about credibility.

12. Credibility as foundation for leadership

By realizing that the changes in law and regulations are too much about procedures and systems and by studying several scandals and the insights that have sprung from them in the necessity for better internal supervision, I have developed two small matrixes, that can help supervisory councils in the assessment of managers of organisations. The core question in this is if the effectiveness of the internal supervision can be improved. After all, impulses from the market or from stakeholders are lacking and despite all changes, the external regulator remains at a (too) great distance. First and foremost trust still forms the basis of the relationship between a management and the supervisory council. But also the awareness with both parties that the balance between management and supervisory council is vulnerable.

Figure 2 Failure of corporate gorvernance

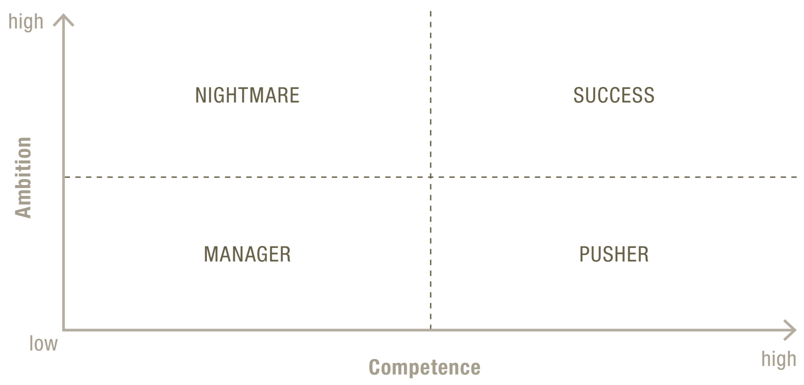


The first matrix describes the steps to pass a judgement if the association governance fails. In figure 2 "Leadership standard" and "Results of the management/board" are compared. There is a question of low standards on leadership shown by the executive and low results of the organisation, dismissals seems like the only way. But where the standards of leadership are good, but the results are bad, help is needed to achieve improvement. It is difficult when the organisation's results are good, but the leadership standards are not. This is when problem cases spring into being, as could be seen with a number of housing associations, but also with healthcare and education institutions. Undesired behaviour develops and the whole organisation will focus on the behaviour of the leader/manager.

Supervisory councils have to realize what the weaknesses of their managers are and should compensate for those. In these cases it is important that there is enough counterforce, not only in the relationship between the internal supervision and the management, but also within their own working organisation. Every manager should make sure that there is enough counterforce in his own organisation. The division of roles between bodies and people should be clear and roles or standards should not be reduced. Every manager has the right to his own court jester, as it were. It is also important that the supervisory council is aware of the fact that it is important for employees in an organisation enjoy their jobs, and realize that they add meaning to the lives of people on the fringes of society and that they contribute to the creation of a sense of community by being active in an organisation in the public sector.

But not all scandals can be explained with matrix 1. The second matrix is needed for that. And this one compares "Ambition" and "Competence". There where ambition and competence are low, I describe that as an administrator/caretaker. That doesn't have to be a bad thing. In a peaceful housing market with very little new building, the maintenance, management and exploitation of existing housing property forms the core business. No high-flying ideas are needed there, just good execution of management and maintenance responsibilities. It is more difficult when the ambitions are high and the competences low: that leads to behaviour that was visible with a number of managers and led to large-scale and in the end to failed projects. That is the nightmare for every organisation and its supervisory board, but also its tenants or clients. Also difficult, but less damaging to the outside world is the quadrant where low ambition and high competence meet. I describe them as "pushers", people who always point out what they have already established weeks or months before. The best remedy is the get rid of them as quickly as possible.

Figure 2 Effective supervision is situational



Both matrixes don't apply without exception. The applicability (in the housing association sector in this case) depends on the type of association and the situation on the housing market. A managing housing association also asks for another type of manager than an association where they still work on projects a lot and where they deal with a dynamic housing market. In those housing associations supervisory boards have to keep a close eye on what might just be the crucial moment: the moment of hiring and appointing a manager. It is for example possible for a manager to be working well and effectively at a certain point, but to become discredited by certain occurrences afterwards. Both the manager of a big association who mostly became known because of his choice of car brand, and another manager who became known because of the purchase and handling of a big steamship, had meant a lot for both cities where they led their associations in the period before that, from a public housing point of view. The manager of Vestia had also served public housing in several cities well because of his methods. But his towering ambitions were overtaken negatively by his low competence and knowledge of the (toxic) effects of several derivative products that were also acquired in large numbers.

Supervisory boards will have to develop a supervision and assessment framework to achieve a good assessment. The supervision to be performed will have to be attuned to the executed management. Aside from that they will have to have the courage to intervene at all times. In a number of incidents this also turned out to be a difficult task sometimes, the result of which was that the dismissal of members of supervisory boards was demanded by the external supervisor.

13. The motto

In the preceding text, I have tried to indicate what has happened, by describing the situation in the Dutch social housing sector and the scandals that occurred. Law and regulations have changed, the attitude and methods of several stakeholders have changed and control and supervision have increased. But the internal supervision of housing associations also has to change (and probably that of many organisations in the public or social sector. Think about healthcare, childcare and education). A supervisory board has to realize that it won't do to adopt a wait-and-see attitude and approve certain documents (annual accounts, budget, investment proposals). A supervisory board also has to concern itself with the strategy of the organisation, with the social achievements, with the question of whether the management is "in control", the issues surrounding effectiveness and efficiency, with the justification of actions to stakeholders, with integrity, with the trust and the reputation of its own organisation, with the finances of the organisational structure, with the attitude and behaviour of the management and the dominant culture within the organisation. The board will also have to perform the active role of employer.

This is all no small matter. The effects of the new regulations cannot be evaluated yet, but it is clear that supervisory boards will have to work hard themselves. Supervising is a job. But it is also an attitude, as can be gathered from the following quote from the novel "Op slot" from 2007 by the Dutch writer Bernlef. A short dialogue between two artists: "Looking, that is all, that's what it is about. What people call their looking, is mostly a betrayal of the seeing. They only see, what they recognize". A quote that can be put up in the study of every supervisor.

IUHF
www.housingfinance.org

INTERNATIONAL UNION FOR HOUSING FINANCE

Established in 1914, the International Union for Housing Finance (IUHF) is a worldwide networking organisation that enables its members to keep up-to-date with the latest developments in housing finance from around the world and to learn from each other's experiences.

How does the Union do this? **By communicating!**

The Union does this in five different ways

- The Union runs a website - www.housingfinance.org. Please pay a visit!
- The Union publishes a quarterly journal, *Housing Finance International* (HFI)
- The Union organises a World Congress every two years
- The Union actively participates in events related to key housing finance issues around the world
- The Union facilitates the exchange of information and networking opportunities between its members

For more information, please see www.housingfinance.org
or contact us at:
International Union for Housing Finance | Rue Jacques de Lalaing 28, B 1040-Brussels - Belgium | Tel: +32 2 231 03 71 | Fax: +32 2 230 82 45