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HOUSING FINANCE INTERNATIONAL

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- The impact of socio-cultural attributes on residential satisfaction in Oroki Housing Estate, Osogbo, Nigeria
- Partnership and financial innovation: Reall and unlocking affordable housing markets in urban Africa and Asia
- Affordable housing finance for informal workers
- Coping with Covid? Housing and mortgage markets in the UK
- EU harmonisation of covered bonds

International Union for Housing Finance

Housing Finance International

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Interesting times

To describe the experience of 2020 as living in "interesting times" risks stretching even that well-known euphemism beyond its limit. The current geo-political situation is fraught with tensions. To name just three sources of concern, relationships between China and a number of other countries, notably the US and Australia are at a long-term low. There is renewed tension between Russia and other countries in Europe. Finally, BREXIT continues to cause frustration and worry in both the EU and, increasingly, the UK, as the likelihood of an adequate deal at the end of the transition period appears to recede.

Then there is Covid. While the short-term responses of governments across the world are well-known, some of the big issues it raises for the longer term remain difficult to discern. Will inflation amongst the developed economies remain relatively low across much of the world or will escalating government debt coupled with a desire to avoid imposing heavy tax rises lead to governments quietly allowing or even promoting higher inflation to depreciate that debt over the longer term?

Then there is the prevailing level of interest rates. In much of the world, notably Europe and the US, interest rates have been at historically low levels for up to three decades. However, could higher inflation coupled with geo-political instability force up interest rates, thus changing the parameters within which much of the housing finance sector and the wider economy have operated for a protracted period? At this stage we simply do not know the answers to many of the questions, but we can at least ask those questions.

HFI plays an important role in confronting the difficult issues and has continued to do this through the Covid crisis. An important article by Peter Williams takes the debate further in this issue in a UK context, while other contributors including Edward Pinto from the US, touch on other possible long-term implications for housing markets.

In a difficult period, we are particularly pleased to be part of a successful collaboration with the World Bank, and to offer publication to two excellent articles on affordable housing selected as the winner and runner up in a competitive Call for Papers issued by the World Bank in early 2020.

The latest Call for Papers follows a successful Call in 2018, when the two winners presented their articles at the World Bank Affordable Housing Conference in Washington DC following which they were published in HFI.

This year's Call for Papers on "Partnerships in Affordable Housing" was if anything even more successful, resulting in the submission of over 100 abstracts. These were studied by a panel of judges who shortlisted nine articles for detailed scrutiny.

Eventually, the winning article was identified as:

- ***Affordable housing finance for informal workers*, by Widya Estiningrum, Achwal Farisi, Wahyu Lubis and Yesi Septiani.**

  This article focusses on Indonesia and, having identified the difficulties faced by households in the non-formal sector in gaining access to housing finance for homeownership, goes on to look at an innovative solution pioneered for self-employed drivers operating as partners in an umbrella organisation which undertakes much of the administration of loans.

The runner up was:

- ***Partnership and financial innovation: Reall and unlocking affordable housing markets in Africa and Asia*, by Andrew Jones, Lisa Stead and Lucy Livesley.**

  In a well-researched article, Jones et al look at the failure of banks and other institutions to serve the poorer households and those in the informal sectors. They go on to recount the role of Reall and partners in building relationships with banks and other housing finance institutions to create a viable market and make finance more available on reasonable terms and with minimised attendant costs.

Our next article by Peter Williams, mentioned above, is entitled *Coping with COVID? Housing and mortgage market responses in the UK*. The UK was, arguably, late in declaring a lockdown, but there has subsequently been significant government intervention and support across the four countries. Having described some of those measures, Williams examines falls in housing transaction numbers and in prices and the subsequent bounce back. He nevertheless points to the likelihood of further price falls in the medium term in the context of falls in GDP, constraints on lending, and deteriorating household finances plus rising unemployment. He also identifies evidence of shifting household preferences towards rural and suburban locations and towards larger houses rather than flats, reflecting changing work patterns with more individuals working from home.

In a complete change of pace and subject matter our next article by Dr Otmar Stöcker of the Verband deutscher Pfandbriefbanken (vdp) is entitled *EU harmonisation of covered bonds*. The package for the EU-wide harmonisation of covered bonds came into force on 7th January 2020. In an in-depth analysis, Dr Stöcker uses his unrivalled knowledge of covered bonds to dissect the package in detail and looks forward toward transposition of the package into national law in 2021. For those who need to know this is the article to read.

The final article in this issue of the journal switches the focus back to affordable housing. In their article, *The impact of socio-cultural attributes on residential satisfaction in Oroki Housing Estate, Osogbo, Nigeria*, Adewale Olufunlola Yoade and Sesan Adeniyi Adeyemi, set out the outcomes from their research, which comprised a survey involving a questionnaire completed by 149 residents of an estate held by a state property corporation. The results throw a fascinating light on the strengths and weaknesses of estate design from the perspective of individual households. Just as important, the results also shed light on the characteristics of households that may influence their individual attitudes to their homes and neighbourhoods.

All in all, this issue of HFI covers some of the most important issues facing those with an interest in housing finance and strikes a balance between current crises and longer-term concerns. Enjoy.

Andrew Heywood

September 2020

Contributors' biographies

Sesan Adeniyi Adeyemi holds a B.Sc., M.Sc. and Ph.D (URP) (Ife). He teaches and has a research interest in Planning Administration, Development Control and Urban Governance. Currently, he is a Lecturer in the Department of Urban and Regional Planning, University of Lagos.

Claudia Magalhães Eloy is a consultant on housing finance and subsidy policy in Brazil, who currently works for FIPE [Fundação Instituto de Pesquisas Econômicas] and has worked for the World Bank (TA) and for the Brazilian Ministry of Cities and Companhia de Desenvolvimento Urbano e Habitacional of São Paulo (CDHU). Claudia has also participated in the development of the National Housing Plan, in the analysis of the Housing Finance System. She holds a PHD in Urban Planning at the University of São Paulo (USP), a Master in City Planning at the University of Pennsylvania, a Master in Public Administration at Bahia's Federal University (UFBA) and a BA in Architecture and Urban Planning (UFBA), with a specialization in Real Estate Finance at the Brazilian Economists Order (OEB). She also attended Wharton's International Housing Finance Program.

Widya Estiningrum is an Indonesian and was born in 1985. She holds an Msc degree in Financial Management from the University of Indonesia. As a housing finance practitioner, she has a passion in exploring housing financial model for informal sectors. Having a 10-years' experience in banking and financial industries, she is the Group Head of Financing and Mortgage Purchasing at Sarana Multigriya Finansial (SMF) – a secondary mortgage company in Indonesia. She was the project leader in developing the first housing finance information system in Indonesia (www.hfis-smf.co.id). Visit her blog to find more about her current research on https://widyaestiningrum.blogspot.com/

Achwal Farisi is an Indonesian and was born in 1993. He graduated from the State University of Jakarta in September 2016 and received his Bachelor of Economics degree. He is passionate about financing and accounting. He is currently as a Senior Officer for finance at Sarana Multigriya Finansial (SMF).

Andrew Heywood is an independent consultant specialising in research and analysis of housing and mortgage markets, regulation and policy with both a UK and international focus. He is a research fellow with the Smith Institute. He is also Editor of the Journal, Housing Finance International. Andrew writes for a number of publications on housing and lending issues and publishes reports commissioned by a wide range of clients.
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Andrew Jones is Research & Policy Manager at Reall. He is a PhD-qualified multidisciplinary researcher and policy professional, Andrew works on demonstrating the commercial viability and sustainable developmental impact of Reall's global affordable housing interventions. This includes recent peer-reviewed research on end-user housing finance innovations (Environment & Urbanization, 2020) speaking slots at the 10th World Urban Forum, and leading research on a DFID-funded project to unlock mortgage finance for informally employed people in Kenya and Nigeria through innovative credit assessment.

Lucy Livesley is Director of Market Transformation at Reall, and has over 15 years' experience in international development and has spent over a decade of her career at Reall. She played a key role in shaping Reall's evolution from grant-giving NGO to market-focused investor and innovator. The bulk of Lucy's expertise is in investor relations, where she has led Reall's strategic relationships with donors. Lucy also has a strong track record of program design and delivery in various African and Asian geographies.

Wahyu Lubis is a senior associate at Sarana Multigriya Finansial (SMF). He is an economics and policy graduate from University College London with interests in Housing, Energy, and Urban Planning. He is experienced in working with urban development stakeholders – government, NGOs, private sector, local communities, and donors in the governance and public policy field. He is very enthusiastic about having conversations related to his interests, so do not hesitate to contact him via www.linkedin.com/in/wahyulubis/.

Edward Pinto is an American Enterprise Institute (AEI) resident fellow and director of AEI'sHousing Center. The Center monitors the US markets using a unique set of housing market indicators. Active in housing finance for 44 years, he was an Executive Vice-President and Chief Credit officer for Fannie Mae until the late 1980s.

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.
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Yesi Septiani is an Indonesian and was born in 1994. She received her Bachelor of Economics degree from Brawijaya University in 2017. Currently, she works as an associate on Financing and Mortgage Purchasing Division at Sarana Multigriya Finansial (SMF). She joined SMF back in 2019 as a Graduate Development Program. She is passionate about housing finance scheme for informal community.

Lisa Stead has 14 years' experience in international development with a focus on affordable housing projects and related areas such as water and sanitation and advocacy for women and land rights. A PhD qualified researcher, she previously headed a team at Reall addressing research, policy, monitoring and reporting.

Otmar M. Stöcker, PhD, is Managing Director and Head of Department "Cover Assets" in the Association of German Pfandbrief Banks in Berlin. He is responsible for German Pfandbrief law, public finance, comparison of covered bond legislation and mortgage finance in Europe, US, Canada and Japan. He initiated and chairs the research group, called "Round Table Covered Bond Legislation". He has been working for the Association since 1989 in several senior positions.

Contributors' biographies

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

Peter Williams is a Departmental Fellow, Department of Land Economy, University of Cambridge. He was previously Executive Director of the Intermediary Mortgage Lenders Association, Director of the Cambridge Centre for Housing and Planning Research and Deputy Director General of the Council of Mortgage Lenders and Professor of Housing at the University of Wales, Cardiff. He is currently on the board of The National Housing Federation.

Adewale Olufunlola Yoade holds a Ph.D in Urban and Regional Planning from Obafemi Awolowo University Ile-Ife, Nigeria. He lectures in the Department of Urban and Regional Planning, Wesley University Ondo, Nigeria. His research focuses on housing, urban renewal and community development. He is a Member of Nigerian Institute of Planners (MNITP) and a Registered Town Planner (RTP).

Asia-Pacific Region

By Zaigham Mahmood Rizvi

Australia

New home loan finance plunges in biggest monthly drop in the history of the Australian Bureau of Statistics' housing data

Australian Bureau of Statistics (ABS])data backs up reports from the building sector that the construction pipeline is drying up and industry is heading towards a deep ebb. In May 2020, new loan commitments (seasonally adjusted) fell 11.6% for all housing. The value of new loan commitments for owner-occupier housing fell 10.2%, while investor housing fell 15.6%. Business construction loans rose by 3.6% in May, but this data is known to be volatile and it will take some months before a clear trend emerges.

PM Morrison's government will be under new pressure to bulk up its measures to stimulate the housing sector after new loans for housing finance experienced the biggest monthly fall in the history of the Australian Bureau of Statistics' housing data. The new statistics back up anecdotal reports by those involved in the early part of the building process, such as architects and engineers, that the construction pipeline is drying up and the industry is heading for a dramatic slump. The construction industry has so far weathered the Covid-19 induced slowdown better than most, with building sites continuing to operate. But with the sector accounting for nearly 10% of jobs, the broader economic malaise now appears to be biting.

(Source: https://www.theguardian.com/australia-news/2020/jul/09/lending-on-new-home-loans-plunges-in-biggest-monthly-drop-in-australian-history)

Impact of Covid-19 on housing finance in Australia

The Covid-19 outbreak led to a shift in monetary policy and financial regulation that would ensure low-cost debt to continue supporting spending. This was spelt out in the latest report from CoreLogic (the property data leader - https://www.corelogic.com.au/) . Eliza Owen, head of residential research at CoreLogic, said housing finance conditions were already becoming "more accommodative" for potential home buyers even prior to the onset of the Covid-19 restrictions. Owen said the cash rate, which was lowered by the Reserve Bank of Australia to 0.25%, will be likely to stay low for years. Rate cuts tend to have an inflationary effect on house prices. A 1% reduction, for instance, could push property prices up by 8% over two years. However, Owen said this might not be the case in the current market conditions. "Due to extraordinarily low levels of consumer confidence, it is less likely that the record-low cash rate would lead to further increases in prices in the short term," she said.

(Source: https://www.yourmortgage.com.au/mortgage-news/how-has-covid19-changed-housing-finance/271586/)

Bangladesh

Government's housing finance company seeks Tk.1,100 crore (BTk 11 billion) to boost housing sector

The state-run Bangladesh House Building Finance Corporation (HBFC) has sought Tk1,100 crores in loans from the Government with a view to increasing investment in the housing sector affected by the Covid-19 outbreak. The BHBFC has asked for Tk. 100 crore from the stimulus package, and the remaining Tk.1,000 from the Government Exchequer. The money will be used as the post-Covid-19 investment in the housing sector. To this end, the corporation has sent a letter to the Financial Institutions Division (FID) of the Finance Ministry, seeking approval for its action plan, created to consider the impact of Covid-19 on the housing sector.

Under the plan, the Corporation has adopted a five-year plan aimed at giving the housing sector a shot in the arm. The short-term initiatives under it will be implemented by the BHBFC from its funds. However, it needs Tk.1,100 crores to execute medium- and long-term programmes. The BHBFC will give a 10% incentive on interest to regular clients in the medium term. As such, it has asked for Tk100 crore from the Government-announced bailout package. This incentive will be given on interest charged on loans which will remain regular between June 30, 2021 and June 30, 2022.

1 crore= 10 million
1 USD= 85 BDT (Taka) on 10 August 2020

(Source: https://tbsnews.net/economy/bhbfc-seeks-tk11000cr-support-housing-sector-84277)

Bangladesh's Central Bank expects housing finance demand to be Tk. 1544 billion next year

According to Bangladesh Bank, the Central Bank of the country, expects the housing finance demand in fiscal year 2019-20 to be Tk 1496 billion, which will rise to Tk 1544 billion next year. Against this growing demand, the total outstanding home loan in 2017-18 fiscal year was TK 815.2 billion, where private commercial banks hold 58.4% contribution. There are also two specialised housing finance institutions: the state-owned Bangladesh House Building Finance Corporation (BHBFC) and the private sector Delta Brac Housing Finance Corporation Ltd. The state-owned banks and BHBFC provide home loan facilities in Zila Sadar (district headquarters), Upazila Sadar (divisional headquarters), peri-urban and growth centres all over the country.

As housing financing plays a major role in the country's economic growth, it is important to resolve some impediments the sector is faced with. People are rushing to city areas and it causes price increases in residential land, construction materials and completed flats. There is unbridled corruption in land and housing offices due mainly to weak regulations and absence of overseeing. Land prices are not validated, and owners of real-state agencies are trading in an unregulated system. Although commercial banks and financial institutions are investing in the housing sector, there is the need for public-private partnership (PPP) to gear up the sector as well as build trust among the potential and prospective clients.

1 USD= 85 BDT (Taka) on 10 August 2020

(Source: https://thefinancialexpress.com.bd/views/revamping-the-housing-industry-1578149831)

Under Covid-19 situation the real estate businesspeople in Bangladesh have demanded a moratorium on interest for bank loans until December 2020

The Real Estate and Housing Association of Bangladesh (REHAB) has demanded an allocation from the economic stimulus plan announced on Sunday. The Housing Association says the ongoing coronavirus crisis has jeopardised the lives of nearly 35 lakh people who are directly or indirectly involved in the real estate business. "We are the most affected due to the crisis as many backlink industries are dependent on the housing sector," claimed REHAB President, Alamgir Shamsul Alamin Kajal. He said if the housing sector is severely hurt, other backlink industries will be affected too – bringing long-term adverse effects to the economy. In the wake of the coronavirus spread, realtors had been claiming that their customers have cancelled their bookings for apartments. Housing businessmen said they have not received any new bookings, as individuals, afraid of the virus, have not shown up to purchase property.

(Source: https://tbsnews.net/economy/real-estate-housing-sectors-seek-allocations-stimulus-plan-65623)

More than 3 million affected by recent heavy rainfalls and flooding in Bangladesh, many had also lost their houses and dwelling places

Across India, Bangladesh, Pakistan and Nepal the humanitarian crisis has been deepening from the natural weather disaster in recent months. In Bangladesh, 20 housing blocks have been built to provide shelter for some of the growing numbers of homeless in Bangladesh who have lost their homes to rising seas and storms. They opened on 23 July in the Cox's Bazar district of south-eastern Bangladesh housing around 650 families – and there are plans for more. According to forecasts by the National Need Assessment Working Group (NAWG), more than 7.5 million people across the country are at still risk of flooding. Meanwhile, Bangladesh has opened a complex of 20 blocks for people who have lost their homes due to storms and floods. The South Asian country has faced a lot of devastation due to climate change and the nation is in the UN list of world's most vulnerable regions due to global warming.

(Source: https://www.euronews.com/2020/07/26/more-than-3-million-affected-by-flooding-in-bangladesh)

Fiji

Housing Authority to look at various financial models to roll out more homes, says Fiji's Minister for Housing

Fiji's Minister for Housing, Premila Kumar says in a recent interview that, people are demanding land with a house on it, and this is something the country's Housing Authority has to provide. She says, the Authority also has to look at the pace at which the Housing Authority has been sub-dividing land and putting it up for sale. Kumar says they want the Housing Authority to look at various financial models and work with development agencies to roll out more homes onto the market along with land and look at products like strata units, duplex homes, homes and land. The Minister for Housing says, that to do all these things the dynamics of the whole organisation have to be changed and based on the new vision. Kumar revealed in the Parliament that they are undertaking a job evaluation exercise and also looking at staffing needs at the Housing Authority of Fiji, along with necessary funding requirements to provide necessary housing to the public.

(Source: https://www.fijivillage.com/news/-Premila-Kumar-says-Housing-Authority-of-Fiji-is-currently-not-serving-its-purpose-while-Sailesh-Naidu-believes-the-entity-cannot-survive-on-its-own-funds-and-provide-affordable-housing-rf4x85/)

First-time homeowners will be provided with incentives

To ensure that more Fijians own a home, first-time homeowners will be provided with a grant up to $30,000. Minister for Economy, Aiyaz Sayed-Khaiyum says that, while the First Home Buyer's Programme will continue, this is becoming more generous towards people needing assistance for having a home. Households who earn less than $50,000 a year will be granted $30,000 to build their first home and $15,000 to buy their first home. He says for families earning above $50,000 annually, they can be granted $20,000 to build their first home and $5,000 to buy their first home. The government of Fiji wants more people to build, because when an office block is built, and when a home is built, many people get employments or earning opportunities, as the construction job is always the way to stimulate the economy which is not beholden in any other foreign investments.

(Source: https://www.fbcnews.com.fj/news/fiji-budget-2020-21/government-to-provide-grants-for-first-home-buyers/)

Hong Kong SAR

Solving Hong Kong's housing affordability problem

For solving Hong Kong's perennial accommodation problems, the SAR authority is thinking to enhance rental housing solutions. Hong Kong's housing is the most unaffordable in the world. Median income households have to spend 20 years of their earnings to buy a 60 square metre flat at an average cost of $US 1.24 million. The biggest hurdle for buyers is the huge 40% down payment on the value of the flat. Even then, they still have to devote nearly 60% of their monthly income repaying the mortgage. Renting is equally expensive, and so multiple occupant flats are in high demand among lower income households. These 'subdivided units' (SDUs) are small, partitioned units within a converted flat, usually in old tenement buildings. They offer cramped and unhealthy living conditions, with tenants in the cheapest SDUs also having to share toilets. But sadly, it is the only choice for many households.

The chronic shortage of affordable housing in Hong Kong pushed it to become the first city in Asia to develop public housing. The Hong Kong Housing Authority is now the biggest social housing provider in the world with a rental stock of over 832,000 units that accommodated 29% of the city's population in 2018. Hong Kong's public housing caters for not just the poorest but also middle-income households. While the poorest 40% of households can apply for highly subsidised rental housing, middle-income households are supported with government developed flats that are sold at a discount of 60-70% via a shared ownership arrangement to increase home ownership. the waiting list for public rental housing is long. Over 250,000 households and family applicants must wait on average 5.4 years for a rental flat.

(Source: https://www.eastasiaforum.org/2020/05/01/solving-hong-kongs-housing-affordability-problem/)

Hong Kong's Housing Policy

Housing policy in Hong Kong is currently formulated, co-ordinated and monitored by the Secretary for Transport and Housing. The Housing Department (HD) supports the Transport and Housing Bureau in dealing with all housing-related policies and matters.

The Government follows the Long-Term Housing Strategy (LTHS), formulated in December 2014. It has three major strategic directions: (1) to provide more public rental housing (PRH) units and to ensure the rational use of existing resources; (2) to provide more subsidised sale flats (SSFs), expand the forms of subsidised home ownership and facilitate the market circulation of existing stock; and (3) to stabilise the residential property market through steady land supply and appropriate demand-side management measures, and to promote good sales and tenancy practices for private residential properties.

Private sector housing and consumer protection: The private sector has an important role to play in meeting the housing needs of the community. The Government's policy aims at maintaining the healthy development of the property market.

Public housing providers: HKHA is a statutory body established in 1973 responsible for implementing the majority of Hong Kong's public housing programmes. The Hong Kong Housing Society (HKHS) is an independent statutory organisation established in 1948 for providing specific categories of subsidised housing to help meet the housing needs of the community.

Public rental housing (PRH): The Government continues to assist low-income families who cannot afford private rental accommodation through PRH. The Hong Kong Housing Authority (HKHA's) target is to provide the first flat offer to general applicants (i.e. family and elderly one-person applicants) at around three years on average.

Subsidised home ownership: Subsidised home ownership is one of the essential elements of the housing ladder. It serves as the first step for low to middle-income families to achieve home ownership.

Green Form Subsidised Home Ownership Scheme (GSH): The HKHA regularised GSH in January 2018 to provide an alternative avenue for Green Form applicants to achieve home ownership.

Tenants Purchase Scheme (TPS): The HKHA has been making active preparation to accelerating the sale of unsold TPS flats, so as to further meet the home ownership aspirations of PRH tenants.

Letting Scheme: The HKHA has been working to allow owners of its SSFs with premium unpaid to sublet their flats to needy families, for Subsidised Sale Developments with Premium Unpaid (Letting Scheme). In the enhanced scheme, apart from letting individual bedrooms, owners are allowed to let the entire flats as well.

Interim housing: Interim housing mainly provides interim accommodation for persons affected by natural disasters or government clearance operations while waiting for PRH allocation.

Housing for elderly people: The Government is to continue to give elderly people in need priority access to public housing through various allocation schemes.

Squatters: The number of squatters and squatter structures has been reduced in recent years through rehousing and clearance programmes. Since December 2002, the criteria for rehousing squatters upon clearance have been relaxed.

Transitional housing: The Government has established a funding scheme to support the implementation of transitional housing projects by non-government organisations. The Task Force on Transitional Housing under the Transport and Housing Bureau (Task Force) is responsible for taking forward the transitional housing projects initiated and implemented by community organisations, including the Funding Scheme.

(Source: https://www.thb.gov.hk/eng/psp/publications/housing/hongkongthefacts/index.htm)

Public housing production forecast of HKHA and HKHS from 2020/21 to 2024/25

Hong Kong's housing authority and society has announced the targeted yearly housing productions from 2020-21 to 2024-25. These numbers do not reflect the total number of public rental housing (PRH) units, as they do not involve PRH units recovered from existing estates, which is the other major source of units for allocation to PRH applicants, but they include the units developed by Hong Kong Housing Society under the Senior Citizen Residences Scheme. As per the projection, 14,000 units will be produced in 2020-21, 28200 in 2021-22, 14300 in 2022-23, 28700 in 2023-24, 16200 in 2024-25, a total of 101,300 units. These include Green Form Subsidised Home Ownership Scheme, Other Subsidised Sale Flats, and Rental Units and Subsidised Sale Flats.

(Source: https://www.thb.gov.hk/eng/psp/publications/housing/public/phpf/index.htm)

India

ICRA expects moderation in growth, asset quality pressures to hit affordable housing finance companies in India

Moderation in growth and pressures on the asset quality may have an impact on affordable housing finance companies' (AHFC) near-term performance, Indian Credit Rating Agency (ICRA) said in a note on Wednesday. The Covid pandemic could take a severe toll on HFCs' borrowers, the note added. As per ICRA's estimates, the total portfolio of the new HFCs in the affordable housing space stood at Indian Rs. 52,350 crores as on December 31, 2019, registering a lower year-on-year (y-o-y) growth of 18%, which, although higher than the industry average of 7%, has significantly moderated from the three-year compound annual growth rate (CAGR) of over 35% during FY17-FY19.

The current challenges in the operating environment have impacted the operations of these entities, given the relatively high customer connect required in this business, even as operations are gradually moving towards normality. At the same time, the debt servicing ability of borrowers could have been impacted as target borrowers are largely self-employed and middle-to-low-income borrowers. Manushree Saggar, Vice President, Financial Sector Ratings, ICRA, said that while the loan book growth of these entities could be in the range of 16-20% in FY20, the growth numbers for FY21 could be much lower and would depend on how long this situation persists and the time it takes for the companies and end borrowers to recover from the impact. The segment's asset quality indicators remained largely stable over the past two quarters, with the gross NPA ratio at 4.1% as on December 31, 2019, even though this is weaker than the industry level of 2.2% and reflects the inherent weakness associated with the segment. However, excluding two players in the segment, the number was lower at 1.6% as on December 31, 2019, which is higher than the gross NPA ratio of 2.1% for all HFCs, but comparable to the gross NPA ratio in home loans for all HFCs (1.4%).

1 crore= 10 million
1 USD= 74.93 Indian Rupee (on 10 August 2020)

(Source: https://www.financialexpress.com/industry/banking-finance/moderation-in-growth-asset-quality-pressures-to-hit-affordable-housing-finance-companies-icra/1987881/)

Reserve Bank of India proposes new rules for housing finance companies

The Reserve Bank of India (RBI) has recently proposed to tighten the rules governing home financiers, including putting restrictions on lending to builders and doubling the minimum net owned funds criterion.

The regulator's proposal has also clearly defined home finance firms and those that are systemically important among them. RBI has also proposed that home financiers should not be simultaneously allowed to lend to a real estate developer as well as homebuyers in the developer's project.

The proposed changes in the rules have come, following RBI's taking over as the regulator of mortgage lenders from National Housing Bank (NHB) in August 2019. Following the review of the rules, home financiers will now be regulated as a category of non-banking financial companies.

Meanwhile RBI has given a second time boost to National Housing Bank (NHB) for enhancing affordable housing and rural lending, with Rs. 10,000 crores additional funding facility.

The facility to the NHB is to shield the housing sector from liquidity disruptions and augment the flow of finance to the sector through housing finance companies. While the funds to National Bank for Agriculture & Rural Development (NABARD) will help ameliorate the stress being faced by smaller NBFCs and microfinance institutions in obtaining access to liquidity.

(Source: https://www.livemint.com/industry/banking/rbi-proposes-new-rules-for-housing-finance-companies-11592403986803.html and https://economictimes.indiatimes.com/news/economy/finance/rbi-gives-affordable-housing-rural-lending-second-boost-with-rs-10000-crore-facility/articleshow/77404614.cms)

Banks differ with Indian bank, SBI on Inter-Creditor Pact for lending to companies battling the pandemic

Large private and foreign banks have voiced their reservations against the State Bank of India's (SBI) proposal to frame an omnibus Inter-Creditor Agreement (ICA) which would be binding on all lender banks who are struggling to create a common pact for lending to companies that will need funds to grow, and battle the slowdown wrecked by the Covid-19 pandemic. In keeping with the Reserve Bank of India's (RBI) 'Prudential Framework for Resolution of Stressed Assets', the Indian Banks' Association (IBA) has put together an ICA incorporating details relating to meetings of lenders, voting matters, payment to dissenting lenders and additional funding. As per the RBI framework, in cases where a Resolution Plan (RP) is to be implemented, all lenders have to enter into an ICA during the 30-day review period (given to lenders after the first default to decide on the resolution strategy and implementation) to provide for ground rules for finalisation and implementation of the RP with respect to borrowers with credit facilities from more than one lender. A revised ICA was necessitated after the RBI put together its framework as a replacement to the defunct February 12 circular on the 'Revised Framework for Resolution of Stressed Assets', which was struck down by the Supreme Court in April.

(Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/banks-differ-with-sbi-on-inter-creditor-pact-for-lending-to-companies-battling-the-pandemic/articleshow/77474875.cms and https://www.thehindubusinessline.com/money-and-banking/iba-finalises-revised-inter-creditor-agreement/article28119021.ece#)

Government of India and World Bank sign agreements to increase access to affordable housing for urban poor in Tamil Nadu

The Government of India, Government of Tamil Nadu and the World Bank have signed an agreement to help low-income groups in the state of Tamil Nadu get access to affordable housing. The agreement was signed for two projects – $200 million First Tamil Nadu Housing Sector Strengthening Program and $50 million Tamil Nadu Housing and Habitat Development Project – to strengthen the state's housing sector policies, institutions, and regulations. The $200 million First Tamil Nadu Housing Sector Strengthening Program is the first of a series of two single-tranche operations. The first operation supports the Government's ongoing efforts to increase the availability of affordable housing by gradually shifting the role of the state from being the main provider to an enabler. It will also aim to unlock regulatory barriers and incentivize private sector participation in affordable housing for low-income families. The second operation will look to deepen these measures to make the affordable housing sector more efficient and inclusive.

(Source: https://www.worldbank.org/en/news/press-release/2020/06/29/project-signing-government-of-india-and-world-bank-sign-agreements-to-increase-access-to-affordable-housing-for-urban-poor-in-tamil-nadu)

Indonesia

Government hopes to boost homeownership through new public housing savings program

The Government aims to boost homeownership in Indonesia through its public housing savings program (Tapera), which requires employers and workers to contribute to a mortgage loan scheme similar to universal healthcare insurance. However, some employers and workers have said the program will be an added burden. Public Works and Housing Ministry's Infrastructure Financing Director General Eko Djoeli Heripoerwanto said recently that, Tapera would help provide funds for first-time homebuyers and increase the homeownership rate. "Our target is to help 11 million new homeowners to purchase homes. To achieve this, the Government must provide funds (via Tapera) to 5 million households," he told a virtual press briefing on June 5. The Government has laid out a goal to increase the homeownership rate to 70%, from the current 56.7%, in the 2020-2024 National Medium-Term Development Plan (RPJMN).

President Joko "Jokowi" Widodo signed Government Regulation (PP) No. 25/2020 on Tapera on May 20, which provides instructions for fund management body BP Tapera and makes membership compulsory for all workers. The regulation requires participants to make a monthly deposit equal to 3% of the employee's monthly salary, which is split between the employer and employee for private sector workers, with the employee paying 2.5% and the employer paying 0.5%.

(Source: https://www.thejakartapost.com/news/2020/06/09/govt-hopes-to-boost-homeownership-through-new-tapera-program-but-employers-workers-concerned-about-fees.html)

Indonesian Government to help pay interest on mortgages, and car loans

The Indonesian Government will broaden its loan interest subsidies to include mortgage loans (KPR), automotive loans (KKB), and loans taken out by micro, small and medium enterprises (MSMEs) as part of a debt relief program for those affected by Covid-19. The Government is working with the Financial Services Authority [OJK] to prepare a debt relief program, according to a statement by the OJK issued on April 30. "The OJK welcomes and supports the Government's relief program related to the provision of loan interest subsidies for borrowers from banks and financing companies," the statement read.

The announcement said borrowers with loans classified under "collectability one" (current) and "collectability two" (special mention) were eligible for the subsidies, as well as automobile loans under Rp 500 million and housing loans of type 21 and type 22 for properties of up to 70 square meters. The payments will be given for six months, from April to September of this year. The interest subsidies for loans under Rp 500 million will be 6% for the first three months and 3% for the remaining three months. For loans between Rp 500 million and Rp 10 billion, the interest subsidies will be 3% for the first half of the stimulus period and 2% for the second half.

1 USD = 14,755 Indonesian Rupiah
(on 10 August 2020)

(Source: https://www.thejakartapost.com/news/2020/05/05/government-to-help-pay-interest-on-mortgages-car-loans.html)

Indonesia seeks to extend ties with Turkey's business, infrastructure sector

Indonesia is set to begin construction of a new capital city in East Kalimantan province, to replace the present, excessively over-populated capital city of Jakarta. This new city will have new housing for the new city dwellers, apart from all other required infrastructures. Indonesia has asked Turkey to participate in developing the new city. Indonesia has been giving weight to infrastructure development especially in the past five years. The Indonesian Minister for

Public Works and Housing, Mochamad Basuki Hadimuljono, stressed that one of the goals of this is to improve connectivity so as to cut logistical costs. Additionally, 65 dams and 1 million hectare of new irrigation networks were built to improve water, food security and disaster mitigation.

Indonesian President Joko Widodo announced last year a $33 billion megaproject to move the nation's capital from Jakarta to the province of East Kalimantan. The move is not only due to the country's search for a new city to replace the congested capital but also because its current capital continues to face environmental challenges especially with the rising of sea levels. Construction and infrastructure efforts are set to begin for the new capital in 2021. Turkish investors would participate in this infrastructure development through the PPP (public-private partnership) scheme. The Minister said, "With Turkey we find chemistry, maybe because we have the same level of ambition to develop our countries, especially in infrastructure." The infrastructures and facilities will be established according to the green and smart city development concepts.

(Source: https://www.dailysabah.com/business/indonesia-seeks-to-extend-ties-to-turkeys-business-infrastructure-sectors-minister-says/news)

Japan

In Japan, mortgage stress is on the rise

The Japan Housing Finance Agency (JHF) is reporting a surge in enquiries from borrowers who are struggling to make home loan repayments in the current crisis. As economic conditions worsen amidst the coronavirus pandemic a growing number of companies are laying off workers or reducing hours and pay. Household finances are being stretched to the limit, putting some borrowers in a precarious situation. Just 20 inquiries were made to the JHF's loan support hotline in February. By March that number had risen 10-fold to 200. In April, the agency received over 1,200 inquiries. Many of the inquiries are from borrowers looking to either delay repayment for a month or cancel their salary bonus repayment.

There are two options offered by the JHF whereby borrowers who have lost their income or seen a drop in income can extend the length of their loan for a maximum of 15 years, reducing the monthly repayments, or switch to interest-only repayments for a limited time. The JHF is expecting the situation to worsen. Despite the growing turmoil and financial hardships, the Government has not issued any support program to protect or assist borrowers with mortgage repayments. Anyone looking for mortgage relief needs to contact their bank to see what options are available. Those that cannot renegotiate their mortgage repayments may be forced to sell their homes. One home loan consultation company in Tokyo has reported a constant stream of inquiries from borrowers thinking of offloading their homes.

(Source: https://japanpropertycentral.com/2020/05/mortgage-stress-on-the-rise/)

Japan's Housing Security Benefit System to provide relief to The Covid-19 affected tenants

The Housing Security Benefit, is a part of Japan's "Independence Support System for the Poor". It is meant to provide financial support for people who have lost their job (or sole proprietor business) and who may be at risk of losing their residence as a result. The system is also meant to provide support for people who have had their working hours or number of working days reduced through no fault of their own; or when their working opportunities have been reduced because of a distressed economy.

While tenants have strong tenant rights in Japan compared to many other countries, if any tenant fails to pay his/her rent, then he/she may contact the landlord or property management company to see if a delayed or partial payment can be worked out, but in Japan, it is not common for landlords to accept these alternatives.

If the renter qualifies for a Housing Service Benefit, the Municipal Government will pay rent on his behalf directly to the landlord for at least three months and possibly for as long as nine months.

(Source: https://resources.realestate.co.jp/living/what-if-i-cant-pay-my-rent-how-japans-housing-security-benefit-system-can-help/)

Malaysia

Cagamas ready to support housing loan market to tackle the conditions triggered by Covid-19

CAGAMAS Bhd anticipates housing loan finance to increase albeit at a moderate pace as the relaunch of the Home Ownership Campaign helps boost the property market.

The National Mortgage Corporation's President and CEO, Datuk Chung Chee Leong, said some first-time homebuyers may adopt a wait-and-see approach amid job security concerns in the current uncertain economic conditions triggered by Covid-19. "Nevertheless, we expect pent-up demand from those with secured jobs to continue as people may find that some properties are being offered at attractive prices. Some developers recently revealed that they recorded a substantial amount of bookings for houses priced RM.500,000 and below even during the Movement Control Order period, hence, it is believed that innovative selling programs and embracing digitalization are key to boost demand," he told The Malaysian Reserve.

Cagamas plays a role by purchasing housing loans and home financing from banking institutions to support their generic liquidity requirements. In 2019, Cagamas purchased loans worth RM5 billion with a number of approved loans/financing for My First Home Scheme (SRP) and Youth Housing Scheme (SPB) extended to 15,492 borrowers worth RM3.2 billion. Chung said the group aims to purchase RM8 billion worth of loans with an increase of approved loans/financing for SRP and SPB to 17,040 in 2020 from a base of 33,236 in 2019, with a value of RM4.4 billion. "The target for cumulative guarantee exposure in 2020 is RM826.9 million," he said. Currently, residential property overhang in the first quarter of 2020 (1Q20) is at 47,045 units (1Q19: 52,203 units), with higher demand for properties worth RM500,000 and below, which accounted for 75% of total transactions, according to the National Property Information Centre.

1 USD= 4.19 Malaysian Ringgit, on 11-08-2020

(Source: https://themalaysianreserve.com/2020/06/15/cagamas-ready-to-support-housing-loan-market/)

Housing loan applications dived 72% in April as virus takes hold

Mortgage applications plunged 72.1% year-on-year (YoY) to RM6.67 billion in April 2020, reflecting caution over making big-ticket purchases amid economic uncertainties in the wake of the Covid-19 pandemic. According to data from Bank Negara Malaysia [BNM], housing loan applications totaled RM23.88 billion for the same month last year. Institute for Democracy and Economic Affairs senior fellow, Dr. Carmelo Ferlito, said borrowers will not get themselves involved with a housing loan in the near-term following uncertainty in the economy as well as concerns on another round of movement restrictions. RHB Investment Bank Bhd senior economic analyst, Ahmad Nazmi Idrus, said demand for housing loan applications should slightly recover from April, while Government fiscal measures such as the stamp duty and real property gain tax exemption would further assist in recovery.

(Source: https://themalaysianreserve.com/2020/07/30/housing-loan-applications-dived-72-in-april-as-virus-takes-hold/)

Maldives Islands

Government to merge Greater Male' Industrial Zone Limited (GMIZL) with Housing Development Corporation (HDC)

The Government has expressed interest in merging the Greater Male' Industrial Zone Limited (GMIZL) with the Housing Development Corporation (HDC). GMIZL has been informed via a letter about the merging of the two companies. The employees of GMIZL will be moved to HDC and no employees of GMIZL will lose their jobs due to merging. The Managing Directors of both the organizations have stated that, the details of the merger will be soon shared by the Finance Ministry.

(Source: https://corporatemaldives.com/government-to-merge-gmizl-with-hdc/)

New Zealand

New Zealand's housing market could face September crunch

New Zealand's real estate market could hit a crunch in September as the end of wage subsidies and mortgage holidays combine with the uncertainty of the election, it has been warned. The second tranche of the wage subsidy was available from June 10 and lasted for eight weeks. That meant the earliest applications would run out in mid-August. Banks have been offering payment deferral on mortgages for people who have been affected financially by Covid-19 for six months. This scheme started on March 27 and will also finish in September. Australian banks have agreed to extend their six-month scheme by another four months. The Reserve Bank has said it is considering an extension here, too.

(Source: https://i.stuff.co.nz/life-style/homed/real-estate/300066967/warning-new-zealands-housing-market-could-face-september-crunch)

Unique features of NZ mortgage markets help shape up Its real estate market even in Covid-19 environment

According to a recent report published by Fitch Ratings, New Zealand's NZD 271 billion residential mortgage market has specified unique loan characteristics and macro-prudential measures that underpin the sound performance of the overall housing market. With a mix of housing types, from standalone buildings on a block of land to attached townhouses and apartments, New Zealand offers it all. Moreover, the process for buying a property is extremely organised and well-regulated to ensure a fair process for each side involved. Besides, all major banks offer home loans and home insurance that is calculated on a 'sum insured' basis. A predominant feature of New Zealand's residential mortgage market is the use of short-term fixed-interest rate periods. More than 80% of banks' residential mortgage portfolios consist of loans that typically offer a fixed-interest period (minimum six months, maximum five years), reverting to variable rate when the term expires.

In contrast, the Australian mortgage market is characterized by floating rate regime. Lenders compete on interest rates, evident in a relatively high rate of refinancing (averaging ~ 15% per annum), whereas borrowers who elect to refinance with another lender typically do so when the fixed-rate period expires, as early prepayment causes an early prepayment charge. Owing to Covid-19, financial markets across the globe have been working more effectively. The economic downturn caused by the pandemic translates into difficult times for bank customers. New Zealand banks felt obliged to help customers manage home loans and took the route of slashing interest rates to record lows to aid New Zealanders with home ownership.

1 USD = 1.53 New Zealand Dollar (NZD) on 23-08-2020

(Source: https://www.scoop.co.nz/stories/HL2006/S00117/5-mortgage-and-home-loan-updates-from-kiwi-banks.htm)

Banks are positive about real estate market, but house prices could still fall by 10%

Banks are being less than apocalyptic on their expectations for a post-Covid housing market correction, which could be as low as 5%, although they warn of potentially significant regional variations. ASB Bank Economist, Mike Jones, is forecasting a modest 6% decline in national house prices, on the back of higher unemployment and slowing population growth over the latter part of the year. The market, however, is expected to gradually recover next year, in line with lower unemployment, although he said that could be even faster if loan value lending restrictions aren't reinstated.

(Source: https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12349854)

Pakistan

State Bank sets mandatory housing loan targets for banks

The State Bank of Pakistan (SBP), the central bank of Pakistan, has mandated banks to lend 5% of their loan portfolio for housing and construction financing by December 2021. In a circular, sent to bank Presidents, the central bank also said the Government needs to play its role to make this happen through passage of an effective Foreclosure Law and the computerization of land records "for facilitation of clean title for bank lending." The circular to the banks was issued in the wake of Government's announcement under the Naya Pakistan Housing scheme to build low-income affordable housing in the country for low-income people.

The central bank has been engaged with commercial banks for almost two months now on this matter. The circular did not say what sort of penalties will apply should the banks fail to meet the stipulated target.".

Under the incentive package, the banks will be provided with fiscal support and subsidies so that low-income housing units up to 850 Sq. ft or 80 Sq. yds will be provided with mortgages at a 5% subsidised rate, and of 1100 Sq. ft or 120 Sq. yds will be provided with housing finance at 7%. For the first time in the country low-cost housing finance by the banks has been placed under the "Mandated or Directed" Credit regime.

(Source: https://www.dawn.com/news/1569282)

ECC decision on housing finance approved by Cabinet at the end of July 2020

The federal cabinet, met on July 28, 2020 with Prime Minister Imran Khan in the Chair and endorsed the Economic Coordination Committee's (ECC) decision on housing finance.

The Naya Pakistan Housing and Development Authority (NAPHDA) stated that the housing and construction industries have a profound significance in the long-term economic development of a country. At least 40 industries and 70% of the unskilled labour force are associated with the construction industry. Despite the immense importance of housing and its strong forward and backward linkages, a shortage of 11-12 million housing units has been estimated in Pakistan, which is accumulating by around 0.4-0.5 million housing units every year.

1 marla = 172.251 sq ft. in Pakistan
1 USD = 168.14 Pakistani Rupee
on August 13, 2020

(Source: https://profit.pakistantoday.com.pk/2020/07/28/ecc-decision-on-housing-finance-to-be-approved-by-cabinet-today/)

Philippines

Government's national resettlement plan in Philippines

The Filipino Government has announced a resettlement plan for families affected by government infrastructure projects and those living along danger areas. It is to provide housing units, community facilities, socio-economic and other community support programs. The program is intended to address security of tenure and infrastructure requirements of informal settlements on government-owned lands proclaimed or designated as socialized housing sites. It covers survey and titling of individual lots for allocation to qualified occupants, infrastructure development, housing construction, and rehabilitation of existing project sites. It will also ensure implementation of local/regional resettlement projects as joint National Government-Local Government undertakings. It addresses resettlement requirements of Local Government Units (LGUs) outside Metro Manila involving families living along danger areas, those affected by government infrastructure projects, indigenous peoples, and former rebels.

(Source: http://nha.gov.ph/programs/)

Pag-IBIG housing loans rise as economy reopens

The Philippine Government's Home Development Mutual Fund (HDMF), better known as the Pag-IBIG Fund, states that its home loan disbursements have increased over the last two months as continuous enhancements to the agency's loan programs made services more accessible to members amid the pandemic. "We fully support the administration's efforts, led by President Duterte, in helping our fellow Filipinos achieve their dream of home ownership even during these challenging times", says a Fund official to the Press. It is being expected by the Fund authorities that, with their recent offering of incentivised rates for housing loans, more members would secure their own homes in the coming months. "This also plays a major part in our country's road to recovery, because as more members secure homes, the more jobs it would generate for the common Filipinos," said Secretary Eduardo del Rosario, who heads the Department of Human Settlements and Urban Development (DHSUD) and the 11-member Pag-IBIG Fund Board of Trustees.

(Source: https://www.philstar.com/business/2020/07/26/2030561/pag-ibig-housing-loans-rise-economy-reopens)

SHFC, Cauayan tie up to build homes for 600 families

The Government of Philippines has announced a Community Mortgage Programme (CMP) under the initiative of the Social Housing Finance Corporation (SHFC) in Cauayan City, in Isabela province of Philippines. Under this programme, about 600 families will be able to get houses of their own. In this programme, SHFC will finance the lot acquisition, site development, and house construction for 584 families. The MOU also mandates the agency to conduct briefing and orientation in Cauayan regarding its housing programs and city-wide community upgrading strategies. SHFC has so far forged similar agreements with 91 local government units, including 16 new partners added this year. In the light of the pandemic, the agency continues with the provision of adequate housing, which has become even more crucial now given that viruses spread fast in congested informal settlements. To date, it has provided security of tenure to more than 400,000 families through about P24 billion in loan assistance under the CMP.

(Source: https://www.shfcph.com/SHFC,-CAUAYAN-TIE-UP-TO-BUILD-HOMES-FOR-600-FAMILIES.html)

Republic of Korea

South Korea to push ahead with housing deregulations

South Korea vowed Wednesday to strengthen surveillance over the transactions of expensive apartments, in a move to curb rampant speculative buying practices and to steady snowballing housing prices here. "(The Government) will tighten control on (irregular practices in the housing market such as) price-rigging and tax evasion," said Deputy Prime Minister and Finance Minister, Hong Nam-ki, in a meeting of economy-related ministers held at Seoul Government Complex. The Fiscal Chief was referring to the Government's plan announced a day earlier to add 132,000 residential units in Seoul and its surrounding metropolitan area to narrow the demand-supply gap and curb housing prices. The blueprint also included landmark deregulations, such as allowing timeworn apartments to be redeveloped into skyscrapers under certain conditions.

As a key action plan, the Government will keep a regular monitor on transactions of apartments that are priced over 900 million won ($757,000), according to the Finance Chief. The 900 million won currently serves as a key indicator in housing regulations. Under the "Dec. 16 measures" introduced last year, houses in overheated zones that are priced over 900 million won face a tightened lending rule – a loan-to-value ratio of 20%, instead of the 40% applied to lower-tier houses. Earlier the authorities said that they will allow outdated apartments to be rebuilt to expand their floor area by up to 500% and the number of floors to 50. Such a measure would require the two-thirds consent of residents, as well as participation of state-run builders such as the Korea Land & Housing Corp. and Seoul Housing & Communities Corp.

1 USD= 1,192.22 South Korean won on 22-Aug-2020

(Source: http://www.koreaherald.com/view.php?ud=20200805000711)

Korean Government to add 132,000 housing units in capital to stabilize property market

The Korean Government says it will supply 132,000 new housing units in the greater Seoul area to stabilize skyrocketing real estate prices and ease fears of a housing shortage. Finance Minister, Hong Nam-ki, announced the plan during a recent press conference and explained some construction rules will also be eased to allow for the redevelopment of aging apartment buildings. This paves the way for such redevelopment projects to increase the floor area ratio of old apartments by up to 500% as well as building 50-story apartment buildings. Construction of the new homes will begin this year and be completed by 2028. Hong said the Government decided to use a military-run golf course in northern Seoul as land for 10,000 new homes, however, it will not use any other greenbelt zones in the capital region for housing.

(Source: http://tbs.seoul.kr/eFm/newsView.do?typ_800=N&idx_800=3398976&seq_800=)

Sri Lanka

Sri Lankan Central Bank planning housing loan scheme under Government policy directions

Sri Lanka's Central Bank will announce a housing loan program for low and middle-income borrowers in line with Government policy directions on priority areas, the Central Bank Governor, W D Lakshman, said. "The Central Bank would be looking at priority areas in the economy as indicated in the overall Government policy directions to initiate appropriate credit and other programs," he said. "Given the widespread benefit to a very large number of people from such scheme we hope to soon begin with announcements about a housing credit program for low and middle-income groups."

He said the economic growth that the central bank wanted to promote depended on banking sector reactions to the monetary policy stance that is continued.

The monetary authority had started several credit schemes with central bank re-finance which involves creating new money rather than using real deposits.

The central bank then started a guarantee scheme to give loans with real deposits.

Under a central bank re-finance scheme, Sri Lankan Rs 100 billion in loans had been approved, Deputy Governor, Nandalal Weerasinghe, said.

(Source: https://economynext.com/sri-lanka-central-bank-planning-housing-loan-scheme-under-govt-policy-directions-cb-governor-73204/)

Thailand

Thailand household debt: the percentage of GDP

Thailand's household debt accounted for 79.9% of the country's nominal GDP in Dec 2019, compared with the ratio of 78.4% in the previous year. Thailand's household debt to GDP ratio is updated yearly, available from Dec 2003 to Dec 2019. The data reached an all-time high of 81.2% in Dec 2015 and a record low of 42.2% in Dec 2003. CEIC calculates annual household debt as % of nominal GDP from quarterly household debt and annual nominal GDP. The Bank of Thailand provides household debt in local currency. The National Economic and Social Development Council provides nominal GDP in local currency. Loans are used due to the lack of flow of funds statistics.

In the latest reports, Thailand's household debt reached USD 430.7 bn in Mar 2020. Money supply M2 in Thailand increased 10.8% YoY in May 2020. Thailand's Foreign Exchange Reserves was measured at USD 230.3 billion in Jun 2020. The Foreign Exchange Reserves equaled 16.7 months of imports in May 2020. Thailand's domestic credit reached USD 679.5 billion in May 2020, representing an increase of 6.2% YoY. The country's non-performing loans ratio stood at 3.0% in Sep 2019, compared with the ratio of 3.0% in the previous quarter.

(Source: https://www.ceicdata.com/en/indicator/thailand/household-debt--of-nominal-gdp)

Vietnam

Vietnam real estate: foreigners are allowed to buy project houses and condominiums in Vietnam

The National Assembly of Vietnam adopted the Law on Residential Housing No. 65/2014/QH13 (LRH) on November 25, 2014, which was effective as of July 1, 2015. According to the new law, foreigners are allowed to buy project houses and condominiums in Vietnam. Foreigners leasing out their houses must notify the competent state agencies and must pay taxes in accordance with the prevailing laws. Foreign organizations can only use the houses for their own staffs' residential purpose and must not use their houses for other purposes (such as office, leasing out, etc.). Foreigners and organizations must make payment of purchases or hire-purchases through a licensed credit institution in Vietnam.

Applicable for maximum 30% of the total condominiums in a single condominium building (or other cap provided by the Prime Minister in areas having a large number of condominium buildings). Maximum 250 villas, townhouses in an area having the population equivalent to an admin level of a ward. Foreign non-real estate companies in Vietnam are allowed to buy the non-residential premises for their own use (i.e., purchase parts of the premise (e.g., floor in an office building)); and to obtain the title certificate for such premises or partial premises.

(Source: https://aslgate.com/vietnam-real-estate-foreigners-allowed-buy-project-houses-condominiums-vietnam/)

Ministry of Construction considers building low-cost housing

The Ministry of Construction (MoC) of Vietnam is preparing a draft resolution to encourage the development of low-cost commercial apartments to submit to the Government in the third quarter of the current year. The move aims to help the real estate market recovery in the "new normal" context, said Nguyễn Văn Sinh, deputy minister of construction. The low-cost commercial apartments would have self-contained designs with an area of less than 70 sq.m and selling price of under VNĐ20 million per sq.m. The maximum value of an apartment must not exceed VNĐ1.5 billion (including VAT).

The Government has instructed the arrangement of an additional VNĐ1 trillion for the Viet Nam Bank for Social Policies and added an additional VNĐ2 trillion to subsidise interest rates for four commercial banks designated by the State Bank of Việt Nam. The country has mobilised more than VNĐ60 trillion to support estate developers to build social housing projects and lend to people in buying and renting such apartments. The Government has amended and supplemented Decree No 100/2015/NĐ-CP on social housing development with favourable conditions by reserving 20% of the total land fund for the projects. It also directed focusing on amending and supplementing Decree 101/NĐ-CP on renovating and rebuilding old apartment buildings in big cities to ensure safe accommodation.

1 USD= 23,176.00 Vietnamese dong

(Source: https://vietnamnews.vn/economy/770432/ministry-of-construction-eyes-building-low-cost-housing.html)

Vietnam commercial banks cut home loan interest rates

Interest rates of home loans at Vietnamese commercial banks have tended to reduce significantly since the second half of last month due to low capital demand from business and production. The home loan interest rates of state-owned banks, including Vietcombank, Bank for Investment and Development of Vietnam [BIDV] and VietinBank were cut by 0.2% to 1% per annum for different terms from the end of last month. Specifically, the preferential interest rate at BIDV was lowered from 8% to 7.8% per annum on 12-month terms, from nine per cent to 8.8% per annum on 24-month terms. By the end of the preferential period, the average lending rate is 10.1% per annum, on a borrowing period of 20 years.

(Source: https://m.phnompenhpost.com/post-property/vietnam-commercial-banks-cut-home-loan-interest-rates)

Europe: Impact of Covid-19 on housing and housing finance markets

By Mark Weinrich

To assist EU citizens, businesses and countries to recover from the economic downturn caused by the COVID-19 pandemic, the European Council decided on a recovery plan for Europe. According to the EU heads of state, Europe will have at its disposal a recovery tool worth 750 billion EUR to support those hit hardest by this crisis. Called NextGenerationEU, it should in particular support investment in the green and digital transitions. This should be topped up by the EU budget for the next seven years, bringing the overall package to 1.8 trillion EUR. In addition, there are the three €540 billion safety nets put in place by the EU to support workers, businesses and countries.

Of course, not only the European Union but also the individual countries implemented packages of fiscal measures, although these reveal large differences in the size of the packages adopted across countries. These packages consist of discretionary fiscal stimulus measures, state guarantees for loans to firms and other liquidity support measures.

Despite all the government support, the economic shock was far more severe than initially anticipated. The IMF expects real GDP in the European Union to contract by 9.3% in 2020, bouncing back with 5.7% growth in 2021, returning to its 2019 level only in 2022. Given the depth of the economic shock, no one seriously believes that the Covid-19 pandemic will leave the European banking sector unscathed, in particular if the economic recovery happens to be slower than expected.

Vast credit losses are the primary concern as potentially millions of companies face bankruptcy amid unprecedented global lockdowns and travel bans. Capital markets share this scepticism: European banks trade at an average 48 p of the book value of their net assets. UK's Barclays (€17.4bn), Germany's Deutsche Bank (€15.6bn) and Italy's UniCredit (€17.2bn) – all national banking champions – are collectively worth less than Zoom (€61bn), the videoconferencing company founded in 2011.

However, European banks start with a strong capital position. The average common equity tier 1 ratio – a metric of capital strength – is more than twice the level seen in 2007 before the global financial crisis. Furthermore, loan-loss provisions have been increased by new global accounting rules as a consequence of the global financial crisis. Nonetheless, those provisions remain also a large source of uncertainty as some European banks increased them drastically while other remained much less conservative. When government support schemes are withdrawn and borrowers start to default on their loans, banks will have to write the debt off. Rising NPLs will mean weak profits, no dividends (which are currently anyway discouraged by the ECB) and much lower, or no, bonuses for most of the banking industry. Nevertheless, when government support measures eventually wear off, the banking sector will be key in the recovery from the economic consequences of the Covid-19 pandemic. As banks remain the main providers of overall corporate liquidity in Europe, the recovery will require intermediated credit support from the banking sector across Europe.

The Covid-19 pandemic also affected mortgage and housing markets in Europe. During the coronavirus lockdown it was difficult for aspiring home buyers to undertake house viewings or arrange a mortgage, freezing most activity in the region's housing markets. Consequently, Eurozone mortgage lending fell sharply in March and April, but it started to rebound in May. Moreover, most banks predict mortgage demand will recover in the third quarter. Eurostat has not yet published the numbers on house price development in the European Union for the second quarter of this year but there are signs that growth has rapidly slowed down in this period in almost all countries. It seems to be the case though that much of the slowdown in the second quarter was just temporary, reflecting the problems of actually concluding deals. It might even be the case that the housing market will do better than the rest of the economy.

In fact, the Covid-19 pandemic might have a lasting impact on the housing market. Many of us have suddenly realised that we can work from home and avoid the commute to the office. And after months spent cooped up indoors, having any sort of private outside space has become much more desirable.

The further development of the housing market – boom or bust – will nevertheless depend heavily on how quickly the economic recovery happens and whether the risk of a second wave of coronavirus materialises. The true impact of the pandemic on Europe's housing markets will only become clear later this year, when the unprecedented support by governments for households wears off.

Housing finance in Latin America and the Caribbean under the shadow of the Covid-19 crisis

↳ By Claudia Magalhães Eloy

Slowdown in economic activity as a result of social distancing, quarantine and other Covid-19 containment measures throughout the globe, is expected to be particularly harsh across LA&C. The region's economies are highly dependent upon commodity exports (oil, metal, mineral and crops) and thus on global demand, which is now contracting. Tourism is another important economic activity that has come under threat, notably in the Caribbean countries where it is responsible for more than 20% of the sub-region's GDP (OECD, 2018).

Furthermore, it must not be forgotten that throughout the 5 years before the coronavirus struck the region[1], LA&C had already been experiencing lower growth rates than the OECD average and its lowest rates since the 1950s. This had already led to a deterioration in GDP per capita and an increase in informality (IADB, 2020)[2].

Thus, following the pandemic, the socio-economic impact that is about to be experienced in this part of the world is going to be severe: an overall fall of 9.1% in GDP is expected for 2020 (ECLAC, July 2020)[3]. The size of contraction varies amongst countries, with Argentina, Peru and Venezuela generally predicted to reach the most negative positions. It also fluctuates quite significantly according to forecast date (ECLAC's contraction forecast for the region in March was of 5.3%[4]) and institution[5], due to the unfolding of the crisis and still great uncertainty regarding its depth. Results from the second quarter in the main economies have triggered recent reviews: Brazil's GDP dropped 9.7% on a quarter-on-quarter basis in Q2/2020 while Mexico´s dropped 17.1%[6]. A partial recovery should follow in 2021 with an average growth of 3.7% (IMF, 2020), which is still lower than that of the emerging market countries' average.

Accordingly, the challenges regarding housing markets in general and housing finance systems in particular throughout the region are worrisome. The unemployment rate is estimated to reach 13.5% by the end of this year in the region, totaling 44.1 million people overall (ECLAC, July 2020). Unemployment insurance and cash transfers constitute mere temporary support measures for longer term income losses. The self-employed, who often rely on manual and less-skilled work that cannot be carried out from home, have lost income as a result of reduced mobility and economic activity. Moreover, they receive little or no welfare benefits and do not qualify for sick pay.

Coping with financially stressed mortgagors demands flexible payment schemes even after the 4 to 6-month deferrals granted and may lead to the design of more comprehensive forbearance measures, alterations to loan terms and/or government guarantees in order to keep mortgage portfolios afloat. As discussed in this column's last issue, while throughout LA&C it has been so far relatively easy to obtain a temporary installment deferral, the question now is how many mortgagors will be able to resume payment as well as repay skipped installments once grace periods end. How many will have found a new job or recover their previous income level by the time forbearance periods end?

On the positive side, new credit demand may increase, even if probably restricted to the upper income segments of the market, for two reasons. First, real estate investments are again perceived as a safe, attractive option in times of so much uncertainty and notably of decreasing market interest rates. Also, the need for more space, larger homes, and city to countryside migration, all new post-Covid phenomena, could encourage sales in the real estate market and fuel demand for credit. However, credit supply may be an issue. Banks, on one hand, are expected to play a counter-cyclical lending role, but on the other, will probably restrict credit supply as risks rise with the economic contraction, despite central banks´ liquidity measures and monetary easing.

At the lower end of the housing ladder lie major challenges to LA&C housing finance systems in this depressed economic scenario. Expanding credit downwards to low-income formal workers has already been a challenge in the region, whilst the inclusion of informal workers is becoming an ever more prominent issue.

The informal sector, which already accounted for 34% of the region's GDP (IMF, 2019)[7] and 58% of workers (OECD, 2019), is expected to increase to 62% due to the pandemic[8]. Informal workers have lower incomes, 19% lower than formal workers (World Bank, 2020) as well as fewer savings. They face restricted

1 For un update on 20 countries, covering GDP estimates, mitigation measures, economic policy and social programs please refer to https://www.as-coa.org/articles/%C2%BFd%C3%B3nde-est%C3%A1-el-coronavirus-en-am%C3%A9rica-latina

2 IADB: Social Policies in Response to Coronavirus: Labor Markets of Latin America and the Caribbean in the face of the impact of Covid-19. April 2020. https://publications.iadb.org/en/labor-markets-of-latin-america-and-the-caribbean-in-the-face-of-the-impact-of-covid-19

3 https://publications.iadb.org/en/labor-markets-of-latin-america-and-the-caribbean-in-the-face-of-the-impact-of-covid-19

4 https://repositorio.cepal.org/bitstream/handle/11362/45603/1/S2000312_en.pdf

5 Focus Economics (https://www.focus-economics.com/countries Aug 2020) forecasts contractions that range from 5.8% in Colombia (BBVA, in July 2020, predicted a 7.5% fall this year); 6.1% in Chile and 6.6% in Brazil, to 9.3% in Mexico, 11.3% in Argentina and 11.7% in Peru.

6 IBGE and INEGI, respectively. Fitch Ratings and Boletim Focus (Central Bank of Brazil) have reviewed projections of Brazil´s GDP which stand at minus 5.8% and 5.3%, respectively, as of September 2020.

7 https://blogs.imf.org/2019/10/30/the-global-informal-economy-large-but-on-the-decline/

8 Bentana, Claire et al. Informalidad laboral y coronavirus: una combinación desafiante. July 17th, 2020. http://vox.lacea.org/?q=blog/informalidad_laboral_coronavirus. Also, IADB, April 2020.

access to financial services due to undocmented and fluctuating revenue streams and lack of formal credit histories. They also have limited access to social benefits, which are needed to cope with more difficult times.

Faced with such a prospect, how does one avoid the housing finance market becoming less accessible throughout the region? Aside from well-designed subsidy policies, inclusionary measures could encompass:

- The promotion of micro-loans dedicated to financing housing construction and improvements. As Hoek-Smit[9] observes, expanding access to non-collateralized credit options is key to achieving more accessible housing markets. Yet, in a region characterized by informal urban settlements, micro-finance should be combined with efforts to increase regularization of property rights.
- Contractual savings used by those with informal incomes as a means of demonstrating regular payment capacity, promoting savings discipline and lowering credit risk. Such schemes are already found in some countries, such as Uruguay's "Yo ahorro", managed by Banco Hipotecário do Uruguai [BHU][10]; Mexico's *Programa de ahorro previo para la vivienda* managed by Banco del Ahorro Nacional y Servicios Financieros [Bansefi]/Banco del Bienestar[11] and Colombia's *Ahorro Voluntário Contratual (AVC)* run by Fondo Nacional de Ahorro [FNA], that uses a savings score model which improved the probability of qualifying for a mortgage by 13.4% in 2010[12].
- Mortgage /Credit Insurance Guarantee which can be general or focused on informally employed borrowers. A guarantee scheme coupled with direct credit from Mexico´s Sociedade Hipotecaria Federal (SFH), functioning generally as a 2nd tier bank, aiming to extend affordable credit to informal workers, was announced back in January, even before the virus hit the region. Chile[13] recently announced a government guarantee, intended to cover deferred installments (up to 6 months) in case of default and foreclosure of the mortgage, and will be valid for up to 60 months from the deferral of the credit.
- Leasing schemes can also be used to compensate for the lack of credit history: after a pre-defined rental period, the lease contract may be reassigned as a mortgage if monthly payments have been regular. Ecuador is about to begin modelling a rent-to-own program.
- Innovations in credit risk assessment: using new alternative data (mobile usage patterns, data from social media etc.) as well as advanced analytics and artificial intelligence to create new risk models, present a promising path (Uniapravi, 2017)[14]. A vibrant Fintech eco-system is emerging in Latin-America. In the 6 years up to 2019, LatAm fintech funding grew from less than USD $50 million to $ 2.1 billion across 139 negotiations (CBInsights, Feb 2020)[15].

  While most techs still focus on online payments, cash transfers, consumer, SME and home equity loans, their expansion particularly in the housing credit market is expected to promote much innovation. New regulations to reduce barriers for new tech entrants, "open banking" and "regulatory sandboxes"[16] are important strategies toward financial inclusion already seen in the region, notably in Brazil.

The crisis triggered by the coronavirus should prompt innovative and affirmative measures to counter the exclusionary effects in the mortgage market housing finance systems, yet keep them safe and sustainable. It should also foster a regional research agenda on inclusionary and resilient housing finance systems that promote access by the lower and informal income segments. Mortgage-induced poverty should also be included in this endeavor.

Keeping housing finance systems healthy, vibrant, and accessible is not only of socioeconomic importance for LA&C, but is also sensible politically. Last year, protests against inequality, vulnerability, and exclusion had already erupted in some Latin countries. As we have already witnessed, the impact of the pandemic has also been highly unequal "in terms of health and economic outcomes, and along income, spatial, gender and racial dimensions"[17].

As inequality is unfortunately expected to rise in the region, it could easily spark new waves of political unrest.

[9] Hoek-Smit, M. "Subsidizing Housing Finance for the Poor." University of Pennsylvania, 2008.

[10] https://www.bhu.com.uy/media/5305/ahr-20foahr0820contrato20yo20ahorro.pdf

[11] https://www.gob.mx/tramites/ficha/programa-de-ahorro-previo-para-la-vivienda/BANSEFI5248

[12] Quigua, Hernando. *Housing for the poor:* Ahorro Voluntario Contractual. Presentation for the 4th World Bank Conference, Washington, 2010.

[13] https://www.eleconomistaamerica.cl/economia-eAm-chile/noticias/10648509/07/20/Pinera-anuncia-creditos-como-medidas-de-apoyo-para-la-clase-media-.html

[14] https://www.housingfinance.org/wp-content/uploads/2020/04/1_3_Fernandez.pdf

[15] https://www.cbinsights.com/research/latin-america-fintech-drivers/ According to Finnovating, fintechs raised USD 2.7 billion in 2019. https://www.finnovating.com/news/fintechs-in-latin-america-raised-us2-66-b-in-2019/#:~:text=Finnovating%20published%20the%20first%20report,US%242.66%20B%20during%202019.

[16] Regulatory sandboxes have been created in Europe as a means of allowing for innovation in the financial sector in a monitored test environment that can provide for the design of appropriate regulatory frameworks.

[17] Women account for 55% of informal workers in LAC https://blogs.worldbank.org/developmenttalk/covid-19-latin-america-pandemic-meets-extreme-inequality.

The Great American Land Rush of 2020

↳ By Edward Pinto

The Great American Land Rush of 2020 is underway in many metro areas across the country. Large numbers of American workers are untethered from a central office. As a result, many are moving to less dense areas with less expensive land and buying less expensive homes but getting larger lots and bigger homes. The greater New York City (NYC) and Los Angeles metros are the hardest hit. Take NYC where single-family residential land per acre is 30 times as expensive in the densest quintile of zip codes as compared to the least dense quintile ($7.41 million vs. $243,000). But most large metros are experiencing intra-metro movement to less dense and less expensive areas.

For the first time, we are able to empirically measure this land rush within metro areas by using high frequency loan transaction data combined with land prices at fine levels of geography.

Covid-19 has been the catalyst for this Land Rush. First, is the unprecedented shift to working from home. At-home workers are highly educated, with above average incomes and a tendency to live in large, coastal urban areas, especially New York City, Los Angeles, San Francisco, San Jose, Seattle, and Boston. An estimated 42% of the 155 million U.S. labor force is working from home full-time during the pandemic, up from 5.2% in 2017. Business leaders and employees think increased levels of remote work is here to stay. Post-pandemic, the share of days spent working at home is expected to increase fourfold, from 5% to 20%. This will likely be even higher in large coastal metros. In a recent survey that asked home buyers what they want, these 6 answers accounted for 90 percent of the responses: more space to work, more space, a bigger yard, more recreational space, more home learning space, and a less expensive home. If working from home is an option: a more spacious, less expensive home on more land and further away from traditional job centers addresses all six.

Second, these same coastal urban areas have benefited from agglomeration benefits due to economies of scale and network effects. Think of it as a gravitational pull that has allowed them to grow bigger and bigger economically. But they are also known for sky high state and local taxes, housing and land costs. These act to counter the favorable gravitational forces and are largely self-inflicted wounds. They are the result of choices made, including excessive land use regulations that make land both expensive and scarce, high public pensions, burdensome business regulations, and in some cases, rent control. As long as employers required knowledge workers to work centrally, these workers (and employers) were willing to put up with being poorly treated.

Decades ago, Walter Wriston (Citibank CEO from 1967 to 1984) had this insight: “Capital goes where it’s welcome and stays where it’s well treated.” Areas will find that their financial and human capital will flee if not treated better.

Consider if only 15% of households in an area decided to no longer put up with this poor treatment and move. It might be 10, 15, 25, or 50 miles, which would have a large impact on many central cities. Or 200, 500 miles, or a thousand miles, with varying impacts on metros, states, and regions. A move to welcoming places that offer bigger lots and more spacious homes, lower taxes, less crime, and lower density. These areas may not have the same urban amenities as the cities they are leaving, but restaurants, gyms, and coffee shops tend to follow their customers.

Third, a desire by older Americans to be prepared for three generational living, should the pandemic return next fall. Nationally over the last 17 weeks, zip codes with more than a 20 percent vacation home share, have seen an 80 percent increase in demand, compared to 41 percent for the nation as a whole.

The move to less dense locations within metros is happening across the country: New York City, Los Angeles, Miami, Phoenix, Columbus, and Memphis to name a few. But nowhere is de-densification more intense than the greater New York City area. Using high frequency data, the AEI Housing Center has found that over the last 17 weeks, buyers have opted for homes in areas with 22% less density on average than the same period last year. Demand is up 67% in the least dense quintile of zip codes, while it is flat in the densest quintile. The net result is that over the last 17 weeks, the market share year-over-year of rate locks is up 5.3 percentage points in the 3 lowest density zip code quintiles,

The difference in land price is the driving factor – less money spent on land leaves more for a larger, and perhaps even a less expensive home. Consider a homeowner moving 20 miles (48 minutes) from zip code 11211 in Brooklyn to zip code 11581 in Valley Stream in Nassau County. The median home in zip 11211 sells for $966,000 with a median land cost of $26 million per acre and a Walkscore® of 92.[1] A home at this price range might be a 2 bedroom, 1 bath home of 992 square feet on a 1370 square foot lot. Contrast to zip 11581 where the median home sells for $520,000 with a median land cost of $2.1 million per acre and a Walkscore® of 53. A home at this price might be a 4 bedroom, 3 bath home of 1540 square feet with a 7187 square foot lot. **Result: 5 times more land with 55% more house, all for about half the price.**

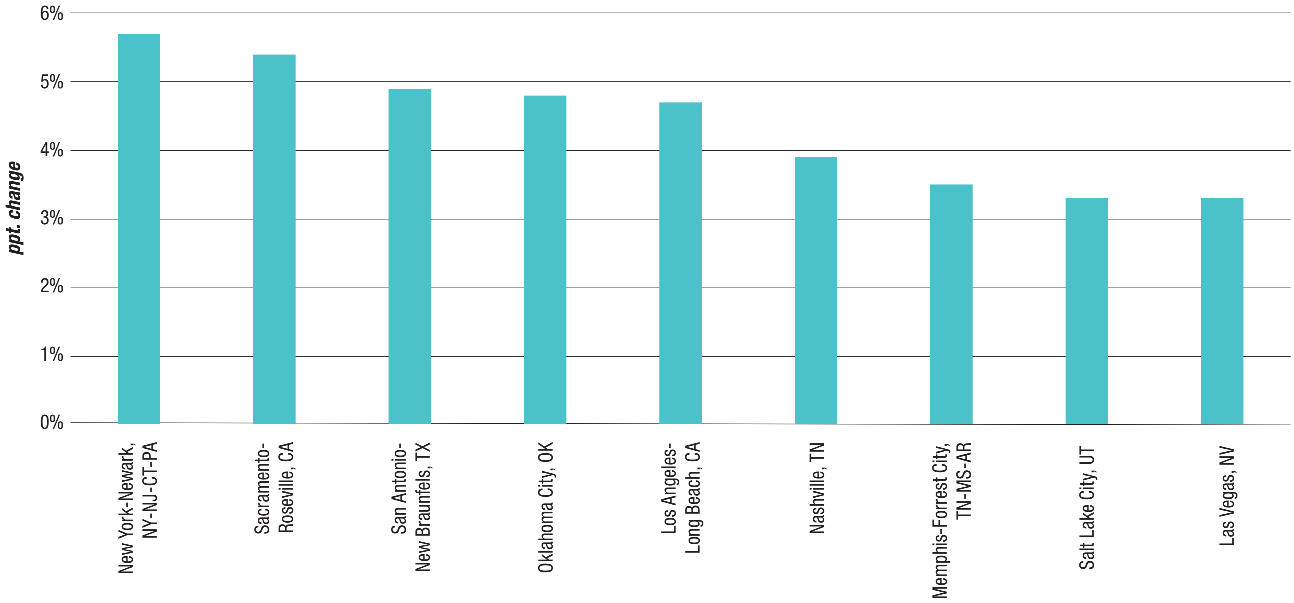
This chart shows the 10 consolidated statistical areas (CSAs) with the biggest share shifts to lower density. The shifts are measured within a CSA only, and do not account for any shift due to movement out of a given CSA.

The Great American Land Rush of 2020 is on and New York City, Los Angeles, and many other central cities had better become much more welcoming.

[1] Redfin Walk Score® is a proprietary product based on a scale from 0 (no walkability) to 100 (most walkability).

FIGURE 1 Move to Lower Density: 10 most impacted CSAs

PPT. CHANGE IN RATE PURCHASE RATE LOCKS IN THE LOWEST DENSITY QUINTILES FOR WEEKS 21-37, 2020



Affordable housing finance for informal workers

By Widya Estiningrum, Achwal Farisi, Wahyu Lubis, Yesi Septiani

1. Introduction

Indonesia as a country is the biggest archipelago in the world with the fourth largest population after China, India, and the United States. As a developing country, Indonesia is still facing the problem of how to meet the needs of their citizens for affordable housing.

TABLE 1 Indonesian population data 2014-2018

YEAR	TOTAL POPULATION (MILLION)	GROWTH RATE (%)	TOTAL HOUSEHOLD APPLIANCES (MILLION)	GROWTH RATE (%)
2014	252.04	—	65.63	—
2015	254.90	1.31	67.23	2.44
2016	257.89	1.27	68.21	1.49
2017	261.09	1.23	69.31	1.68
2018	264.23	1.19	70.10	1.20

Sources: Indonesia Socio-Economic Survey (2014-2018)

The Table above shows that the rate of growth of the population in Indonesia is on average 1.25% per year, with the average rate of growth of households 1.7% per year. The number of households at the end of the year 2018 amounted to 70 million. Furthermore, from the household numbers data, one can derive the data for the ownership status of houses from 2014 to 2018 (in millions):

TABLE 2 The number of households by ownership status

YEARS	PRIVATE HOME OWNERSHIP	RENT	OTHERS	HOMELESS
2014	52.2	5.5	7.8	13.3
2015	55.4	5.4	6.2	11.7
2016	56.2	5.8	6.1	11.9
2017	53.5	6.4	7.3	13.7
2018	54.4	6.3	7.2	13.5

Sources: Indonesia Socio-Economic Survey (2014-2018)

The Table shows that the percentage of households that are homeless reached 12.8 million and in 2018 of the 70.1 million households 13.5 million households do not have a home.

In Indonesia, home ownership is regulated by Law number 1 of 2011 on housing and settlements, which explains that the country is responsible for protecting their citizens through housing and settlements management in order to provide a decent and affordable place to live for all its citizens. The Law also states that government has to give special treatment for the low income community by providing ease of building and earning a house, developing infrastructure and public facilities, giving low permit fees, providing a tax-free stimulus and fiscal incentives.

One of the businesses that assists the Government in expanding homeownership in the community works through a program called the FLPP (Mortgage Liquidity Facility). It is a program designed specifically to help citizens with low incomes to access financing for homeownership. The Ministry of Public Works and Housing administers the scheme through a public service housing organisation called PPDPP (Center for Management of Housing Finance Funds) in cooperation with the Ministry of Finance through its subsidiary company (SMF) which channels funding together with the bank to provide a home ownership mortgage scheme. This scheme is dedicated for citizens who earn a maximum income of about IDR 4 million (USD 270) per month. The mortgage scheme offers various features including low down payment, a fixed interest rate, a long repayment period and exemption from taxes and insurance.

It was expected that the FLPP program would offer wider opportunities for the community in Indonesia to own their homes. However, the target segment is limited, and a further housing program is needed in order to equalize the opportunities for people to own a house. One of the limitations of the FLPP program is inequality of funding opportunity between workers in the formal and informal sectors. The reasons for this include the following:

1. Workers in this sector are not well organized because they are outside the formal institutions and economy.
2. Government policies do not cater for the informal sector, which in turn does not have a direct relationship with the Government.
3. In general, the business does not have a permit from the Government.
4. The informal sector is characterised by irregular working places, working patterns and hours.

In terms of the number of workers, the informal sector in Indonesia is larger than the formal sector. Data from the Indonesian Central Bureau of Statistics, as of August 2019 shows that of the total workforce of 133.56 million people[1], 55.72% of the working population is included in the informal workers' sector. Included in this sector are entrepreneurs, traders (including traders who market their products online), freelancers, and others.

The table below explains the employment conditions of the population in Indonesia:

TABLE 3 Distribution of formal & informal workers

TYPE	AGU-17	AGU-18	AGU-19
Formal	42.97	43.16	44.28
Non formal	57.03	56.84	55.72

Source: Indonesian Central Bureau of Statistics, November 2019

This data shows that the proportion of people working in the informal sector is higher than those who working in the formal sector so it is likely that the largest number of households that do not yet have a house as described in Table 2 is likely to come from this segment, namely informal workers. Unfortunately, those who work in the informal sector have problems in accessing bank loans, including financing for home ownership. The data below shows the realization of the FLPP program by type of work from 2010 to 2019.

TABLE 4 Realization of FLPP program by employment sector

NO	EMPLOYMENT SECTOR	TOTAL	%
1	Government Employees	81,759	12.30
2	Army/Police	26,421	3.98
3	Private Employees	485,381	73.03
4	Entrepreneurs	56,136	8.45
5	Others	14,912	2.24
Total		664,609	100.00

Source: Center for Management of Housing Finance Funds, March 2020

This data suggests that subsidies received by the people in the informal sector (i.e. Entrepreneur and Others) are very low compared to workers in the formal sector (i.e. Government Employees, Army/Police and Private Employees). Distribution of the FLPP program within the formal sector reached 89.31% while in the informal sector only 10.69%. This situation is caused by two things: first, the Government subsidy program is only distributed by banks; second, banks are mainly providing funds to formal workers. Given the above reasons, there needs to be a housing finance scheme made available that can provide easy access for informal workers so that all Indonesian people have an equal opportunity to own a home.

Furthermore, with the situation described above, this journal article is written to offer a different view of the informal segment in terms of income and alternative housing financing schemes that could serve this sector, as well as highlighting broader benefits, both economic and social, for the government, the private sector and society in general.

2. Discussion

Sarana Multigriya Finansial (SMF) is the only secondary mortgage company in Indonesia under the Ministry of Finance and has a goal to create decent and affordable housing for all Indonesian people. Its first step should be to initiate housing finance schemes targeting informal workers because access to bank is still limited for this segment of the population. This is in line with the national development priorities of 2020, one of which is strengthening social protection programs and reducing inequality, as a real responsibility of the Government is to protect the community, especially middle income and poorer people, from social and economic risks.

SMF in collaboration with Grab Indonesia and financial companies launched a mortgage program aimed at Grab's drivers. Grab is one of the leading providers of online transportation service platforms in Asia, which has a capital valuation of more than USD 10 Billion and is included in the decacorn start-up category. Grab currently connects more than 10 million passengers and 185,000 drivers throughout the Southeast Asian region and has 5,000 employees. Their application has been downloaded and used by 166 million people with 339 cities from 8 countries including Singapore, Malaysia, Vietnam, Thailand, Philippines, Myanmar, Cambodia and Indonesia.

Grab Indonesia is a company operating under the auspices of a Malaysian technology company based in Singapore, and provides transportation services, digital payment services, and shipping services. Headquartered in Jakarta, Grab has a branch of business namely Grab Indonesia which employs motor bike drivers (Grab Bike), car drivers (Grab Car) and car drivers with rented vehicles (Grab Rent). Grab has successfully expanded its services from 12 cities in early 2017 to 222 cities in 2019. This achievement strengthens its position as the Online-to-Offline (O2O) mobile platform with the widest coverage in Indonesia. In addition, Grab Indonesia has a complete range of services. At present Grab provides for a number of daily needs in the community via its services which aim to capture a large public demand in the fields of transportation, digital payments, and lifestyle, as follows:

TABLE 5 Grab Indonesia business

Mobility	Grab Taxi
	Grab Bike
	Grab Car
	Grab Wheels
Fintech	Grab Financial
	Grab Pay
	Grab Rewards
Lifestyle	Grab Express
	Grab Food
	Grab Kios
	Grab Fresh

Source: Grab Corporate Profile, 2019

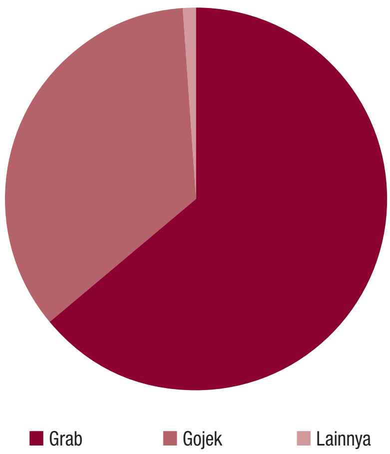
In line with the expanding city coverage of its services, Grab Indonesia currently leads the Indonesian ride-hailing online transportation market service both in the market segment, in the two-wheeled vehicle segment and in the four-wheeled vehicle segment. In terms of similar business competitors, ABI research, a research institute in the UK, said that Grab leads the online transportation market in Indonesia (September 2019) as described below:

In terms of business potential, as of June 2019 Grab Indonesia has a total of 2 million Grab Drivers, spread throughout Indonesia. Furthermore, based on a survey conducted by CSIS and Tenggara Strategics in November

[1] Employed 126,51 Million and unemployed 7,05 Million.

to December 2018 of 3,418 respondents with a margin of error is 3.5% of Grab Drivers in Jakarta, Bandung, Surabaya, Medan and Makassar, Grab Indonesia contributed to Indonesia's Gross Domestic Product (GDP) with the following details.

DIAGRAM 2 Indonesian Online Transportation Market Share



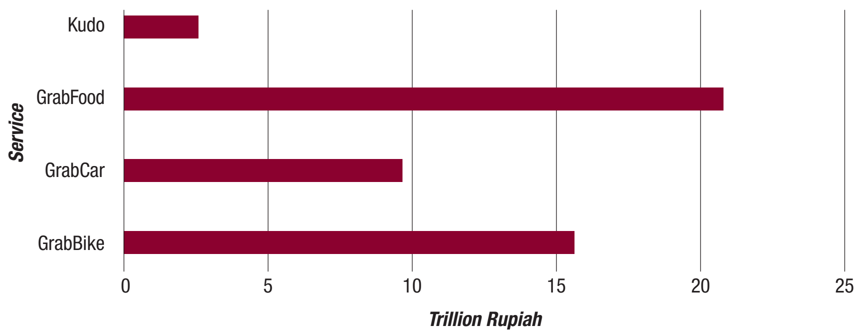
Sources: ABI Research, September 2019

From the table above it can be seen that through its drivers, Grab Indonesia contributed IDR 48.9 trillion (USD 3.27 billion) to Indonesia's Gross Domestic Product (GDP). Moreover, other contributions of Grab Indonesia in terms of the economy can also be conveyed as follows:

1) Grab Indonesia offers self-employment opportunities for those who previously had no income. Approximately, 38% by opening new employment opportunities for Grab Bike drivers and 33% of Grab Car drivers, both respondents claimed have no income prior to partnering with Grab.
2) Grab Indonesia helps improve the quality of life of informal workers by partnering with Grab Bike and Grab Car drivers by helping them to obtain better incomes, as well as quality of life.

Based on the considerations as explained and with the vision that everyone has the right to have the same opportunity to own a home, then as a housing finance pilot project for informal segment workers, SMF collaborates with Grab Indonesia by cooperating with Non-Bank Financial Institution (NBFI) to channel mortgage financing to Grab's drivers. This is a form of synergy between the Government through SMF with Grab Indonesia and the NBFI which is a private company. As a first step, the mortgage program is marketed to Grab drivers

TABLE 6 Contribution of Grab to Indonesia's economy



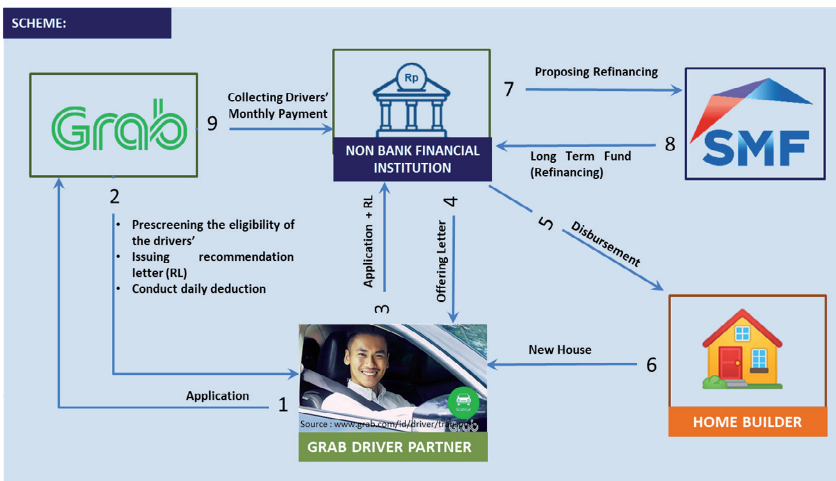
Sources: CSIS and Tenggara Strategics, 2018

who are members of the Grab Rent category, where drivers who are members of this category have a 5-year contract with Transportasi Pengangkutan Indonesia (TPI), as a Grab representative company in Indonesia.

Based on market research conducted through an online survey conducted by SMF of about 500 online drivers in Jakarta Metropolitan Area in February 2019, it was found that 82% of respondents did not yet have a house and had constraints in accessing mortgages from banks, 97% of them want a low down payment and affordable housing costs, and 70% want a house ready for habitation. Based on the needs drawn from the results of the survey, SMF developed a mortgage product scheme aimed at making it easier for Grab drivers to obtain housing finance. For Grab Indonesia, this product will be useful in addition to facilitating its drivers in owning a home, as well as keeping its drivers loyal and not tempted to join a competing company. For SMF, this product is the first step of the company's contribution to the community through financing aimed at the informal workers who have so far found it difficult to obtain access to housing finance from banks. In the future, this product is expected to be replicated and applied in other informal workers' segments so that the number of Indonesians gaining homeownership can be slowly increased. For finance companies, this product is a business alternative that can increase revenue, reduce marketing costs due to the available market, and enhance the company's brand image.

In general, the housing finance scheme for driver partners can be described as follows:

FIGURE 1 Indonesia Grab Driver Financing Scheme



- Collection is conducted by Grab Indonesia to drivers twice a day
- Monthly payment is given by Grab Indonesia to the Non-Bank Financial Institution (NBFI)

Under this scheme, it can be explained that Grab Indonesia partners who obtain recommendations from Grab Indonesia can submit housing finance requests to the NBFI by completing the required documents. After passing the feasibility analysis, the NBFI will pay off the purchase of the selected house and make a loan agreement with selected drivers. For every loan agreement given by a NBFI to Grab drivers, the NBFI can reimburse to SMF in the form of loans so that new funds are obtained and the liquidity of the NBFI liquidity is maintained.

The roles of each party involved are as follows. Grab Indonesia acts as the initial screener of its drivers who can apply to obtain housing finance to the NBFI, while the initial selection criteria for partners are as follows:

1) The driver has a minimum rating of 4 (Grab has a system to rank their drivers according to their performance, this rating ranges from 1-5, getting closer to 5 indicates the better a driver's performance).
2) Have been a Grab Indonesia driver for at least 1 year.
3) Have a minimum gross income of IDR 8 Million (USD 540) per month.
4) Don't have a house yet or classified as a first-time buyer.
5) Have not been suspended in the past 6 months.

Aside from initial screening of partners, Grab Indonesia also plays a role in collecting daily instalments from drivers. Then monthly payments are made collectively to the NBFI. Another role undertaken is a joint program with the SMF in determining housing projects that the drivers can choose from.

In terms of determining this choice of housing projects, the NBFI does a financial analysis of the developers' projects and field visits to the sites. This is done to ensure that developers who undertake these housing projects are credible and the buildings built with sound infrastructure which will provide decent homes to live in for the drivers.

In the selection of housing projects, SMF and Grab agree to choose less-populated areas than Jakarta such as Bogor, Cikarang, and Tangerang, due to the lower housing price. This is done to support government programs in reducing population density in urban areas. Furthermore, a function of SMF is to play a major role in providing long-term financing to the NBFI, SMF also plays a role in synchronizing cooperation both in terms of determining which NBFI can be the originator of these loans. The other party is a finance company that acts as the originator of the loans and conducts a feasibility analysis of the debtors, in this case the drivers, and which then provides long-term housing loans to the selected driver. In the event that the drivers experience a termination of employment with Grab Indonesia, the collection payment that was originally made by Grab will be directly carried out by the NBFI from the ex-drivers.

Compared to the formal segment, the risk of financing to this segment is higher. Some mitigations undertaken are as follows: **First**, the interest rates imposed on drivers, in the product have been set so that the interest rates received by drivers who take part in this program are the same between one driver and others, besides which, the interest rates are calculated in a special way, so that instalments will become affordable for drivers. As a consequence for the driver, if there is a termination of employment with Grab Indonesia, the program interest rate can no longer be enjoyed and the NBFI can charge a higher floating interest rate to the driver, as the risks that the NBFI undertakes is now higher. **Second**, limiting the price of house that drivers can buy (up to USD23,550). This is done as a risk mitigation measure in the event of debtor default and there must be an auction procedure, with house prices that are relatively cheap, so that the opportunity to sell the house are greater than for houses that have higher prices. **Third**, this program is reserved for those buying their first home. This reduces the risk of default compared to financing second or third homes. **Fourth**, besides being protected by life insurance for debtors and fire insurance for the house units, this scheme is also protected by credit insurance for the debtor.

The key to the success of the program lies in the product features that are designed to fully accommodate the needs of drivers in buying a home, such as:

1) Ease of credit terms, in this case the driver is able to prove his good performance after becoming a Grab partner and then can obtain a recommendation letter. Grab will submit the core credit documents related to drivers, including income history for the past 6 months to finance companies through the system that has been created by Grab for this mortgage program.
2) Another advantage is in the form of a small down payment. Compared to other housing loan products provided by banks (banks usually require a minimum down payment of 10% of the price of the house in accordance with Central Bank of Indonesia regulations). In this program, NBFI only require a minimum down payment of 1% (this can be a distinct advantage because it is different from the bank. The provision for a down payment on a home loan at a NBFI is not regulated by the Financial Services Authority).
3) Credit process costs are relatively affordable, in this case in addition to determining the criteria for developers to join the program, SMF and Grab negotiate together with selected developers to provide discounts, and discounts are allocated to reduce the costs required for credit agreements such as notary fees, insurance, and taxes. This is quite effective and beneficial to all parties, for drivers the cost of credit processing becomes more affordable while for developers by joining this program it can increase their business potential.
4) Points 2 and 3 above become the main advantages in this program, because the community, in this case Grab drivers, can directly own a house through credit and do not have to wait a long time because they have to collect down payments and costs required to complete the credit process.
5) The interest rate is fixed for a maximum tenure of 15 years and considered low if we compare it to normal mortgage schemes by banks in which floating rates apply. The maximum instalments for this scheme are 30% of the driver's income. According to a survey, this fixed rate meets the expectations of drivers as the amount of the instalment can be known until maturity.

In addition to the success of the program, benefits received by each party and expectations from this program will be implemented widely in the future in order to bring big changes to the housing industry in Indonesia. There are some weaknesses, including the following:

1) The financing scheme is not yet subsidised by government as is the FLPP program, so that the interest rates are still higher than for the Government housing program. In the housing finance scheme for Grab drivers, SMF acts as a long-term fund provider that channels its financing through NBFI involved in the loan scheme.

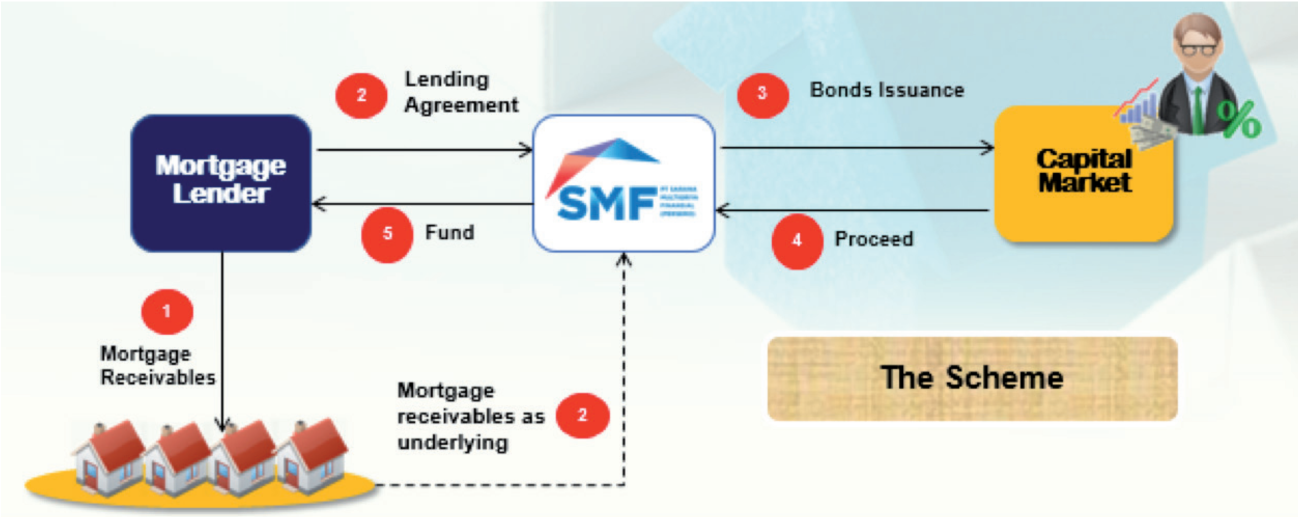
   The financing scheme implemented by SMF is as follows:

   In the case of company operations, SMF raise funding through the issuance of bonds so that the interest rates charged to NBFI are then passed on to drivers as market interest rates.

2) Non-Bank Financial Institution

   A Non-Bank Financial Institution (NBFI) acting as the originator has limited capacity. In the

FIGURE 2 SMF financing scheme



housing finance scheme for Grab drivers, with the high enthusiasm of drivers who submit credit applications, the appointed originator has not been able to perform the best service in terms of credit processing and this causes the credit process to take quite a long time.

In Indonesia, NBFIs generally have the main business of automotive lending. In the case of housing loan disbursement, NFBIs are classified as new players, besides that NBFIs that enter the housing credit business are still limited in number.

3. Result and conclusion

From the information given above, a conclusion can be drawn that access to funding for affordable housing for the informal workers segment is still an issue that needs to be resolved in Indonesia. It has been shown that a greater percentage of informal workers compared to formal workers are unable to access bank credit. The implementation of the housing program for drivers outlined above involving collaboration between government agencies and private companies can be an example to be implemented widely, both from the perspective of the target number of informal workers who want to access housing finance and a number of housing loan distributors, as well as the amount of financing provided for informal workers.

The authors have undertaken to illustrate that in the current conditions, there should be no more restrictions for banks and other credit providers to provide loans to informal workers including housing loans. Workers in this segment have experienced a revolution over time, although the group of workers in this segment do not have official ties with the company (Grab) and are classified as partners. Generally, companies that shelter this group manage their partners' income system so that it provides the equivalent of salary slips to formal workers, information regarding the income of informal workers can be obtained historically. In addition, risk mitigation against the consequences of default can also be achieved with credit insurance protection to provide a sense of security for creditors.

The current financing scheme is still being run on a small scale. So far, there are 150 drivers who are already buying their first homes since the launch of this Program in September 2019. The expectation is that it will be further developed to facilitate the very large numbers of informal workers with housing needs. If this scheme can be developed massively and can be included in the Government program to obtain housing subsidies for this sector of the population, this will be a positive support for informal workers to be able to own a house so that the fulfilment of the housing backlog can be resolved immediately.

Finally, the authors hope that this article will be used to provide new insights related to alternative schemes in terms of housing finance so that the Government, private enterprise, and the public sector can increase collaboration to reduce the housing backlog by increasing the fulfilment of housing needs, because in principle every citizen in Indonesia has the right to own a home.

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Partnership and financial innovation: Reall and unlocking affordable housing markets in urban Africa and Asia

By Andrew Jones, Lisa Stead and Lucy Livesley

1. Introduction

1.1. The global housing challenge

The escalating global housing crisis is one of humanity's greatest challenges. At least 1.2 billion people worldwide live in substandard housing, often lacking access to basic services and infrastructure. This is increasing rapidly in the context of accelerating urban population growth, especially in rapidly urbanizing Africa and Asia.[1] The World Bank estimates that 300 million new homes will be required by 2030 to bridge the global deficit, with the majority of this need concentrated in Sub-Saharan Africa, South Asia and Southeast Asia.[2] This will require a global investment of $17 trillion to facilitate land acquisition and housing construction – representing a huge untapped market for the private sector.[3]

While the challenge is vast, the opportunity is enormous. Delivering quality, serviced, and genuinely affordable housing at scale in Africa and Asia has the potential to achieve transformative positive impacts on the lives of billions of people in the lower-end of the income pyramid, while driving economic growth, financial inclusion, urban resilience, and climate change mitigation. In the context of the Covid-19 pandemic and worldwide lockdowns and stay-at-home orders, the centrality of housing to sustainable development has never been more evident.[4]

Despite growing recognition of affordable housing in national and global policies, delivery at scale has been constrained to date by supply-side and demand-side challenges. These include a lack of affordable urban land, weak regulatory environments, inflated construction costs, and limited finance for developers and homeowners. These systemic barriers suffocate enabling environments and restrict the mobilization of private investment and capital markets. An endemic lack of affordable long-term housing finance for low-income customers is particularly inhibiting, as it pushes quality housing out of reach for most of society.

New forms of partnership between public and private bodies are urgently required, to incentivize developers and financiers downmarket and produce new products with potential for scale. This article documents and evaluates case studies of three innovative new affordable housing partnerships in Sub-Saharan Africa (Mozambique) and South Asia (India and Pakistan), all of which seek in different ways to unlock affordable, long-term mortgage finance for people on low incomes and in informal employment. These case studies all stem from the global network of Reall – a market innovator, impact investor, and thought leader in global affordable housing.[5]

1.2 Reall & housing finance

Supported by the UK government (FCDO) and Swedish government (Sida), Reall is an innovator and investor in affordable housing, for people on low incomes in urban Africa and Asia. With over 30 years' experience in the sector, Reall catalyzes socio-economic development outcomes for the bottom 40% of the income pyramid through commercially viable

FIGURE 1 Reall's global network, with priority countries highlighted in red

1 Global urbanization will add a projected 2.5 billion people to the world's urban population by 2050, with almost 90% of this growth concentrated in Asia and Africa. For more, see: United Nations Department of Economic and Social Affairs (UN DESA). *World Urbanization Prospects: The 2018 Revision*. United Nations. New York, 2019.

2 World Bank. 'Housing for All by 2030'. Washington, 2016. Available at https://www.worldbank.org/en/news/infographic/2016/05/13/housing-for-all-by-2030

3 McKinsey Global Institute. *A blueprint for addressing the global affordable housing challenge*. Washington, 2014.

4 Sharif, Maimunah Mohd and Leilani Farha. *Housing is Both a Prevention & Cure for Covid-19*. UN-Habitat. Nairobi, 2020. Available at https://unhabitat.org/housing-is-both-a-prevention-cure-for-covid-19

5 For more on Reall, see Reall's innovative website. Available at https://www.reall.net/

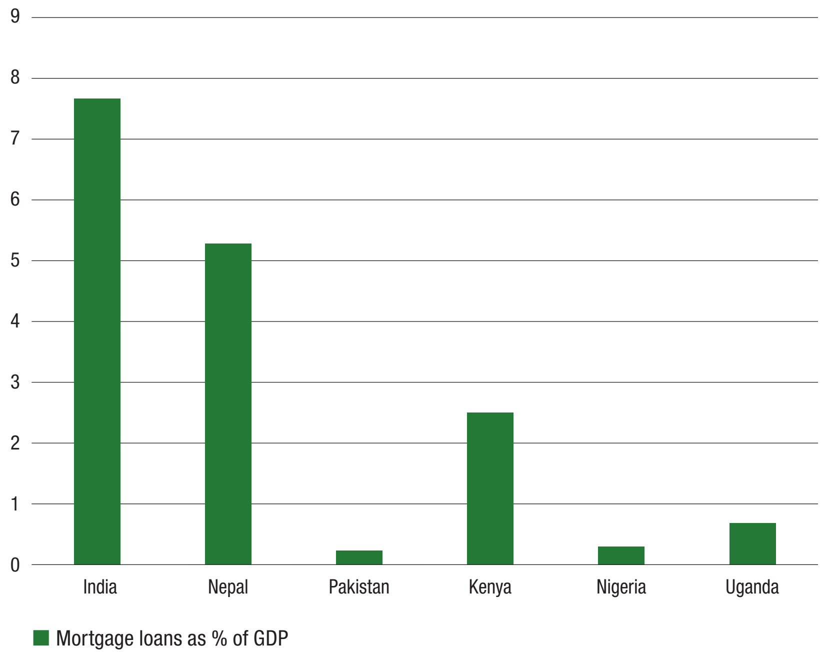
and climate-smart $10,000 homes. Reall and its network of in-country partners specialize in affordable housing and end-user financing solutions, while also tackling systemic political, regulatory, and financial barriers through strategic brokering interventions. By evidencing the cross-cutting developmental impact of housing (contributing to arguably all 17 SDGs) and demonstrating the investable opportunity, Reall leverages private sector actors and resources to transform markets and accelerate delivery at scale. Reall currently operates in 14 countries and has identified six priority geographies where efforts will be concentrated in the coming years (India, Kenya, Nepal, Nigeria, Pakistan, and Uganda).[6]

Since 2000, Reall has invested over $68 million in affordable housing development in Africa and Asia. This has housed over 100,00 people and created 80,000 new jobs, while facilitating affordable end-user finance solutions for over 17,000 households.[7] These interventions have had transformative impact on the lives and opportunities of low-income occupants, while generating the necessary evidence, data, and understanding to enable wider replication, investment, and scaling up. Through working in partnership, sharing innovation and fostering take-up, Reall is committed to improving the lives of 100 million people in urban Africa and Asia by 2030.[8]

Reall and its network of partners engage in strategic interventions throughout the housing value chain. Of these, brokering new end-user financing products and solutions is paramount for resolving demand-side blockages and unlocking the potential of affordable housing markets in Africa and Asia.[9] People on low incomes are erroneously perceived by commercial banks as high-risk for loans due to irregular employment patterns and cash flows and lack of property rights or collateral. This is exacerbated by a lack of evidence to prove to the contrary, creating an information asymmetry.[10]

Consequently, standard mortgage terms are characterized by large deposits, high interest rates and charges, inaccessible income thresholds and limited availability. People and families at the bottom of the income pyramid are pushed towards informal settlements and compelled to incrementally self-build housing

FIGURE 2 Mortgage loans as % GDP for Reall priority countries, based on most recently available data[11]



using informal credit and micro-loans at exorbitant rates. New partnerships are needed that can overcome these systemic constraints and widen financial inclusion to the bottom of the pyramid and the informal sector.

1.3. Case studies

This article presents case studies of innovative Reall partnerships in three countries. The strengths and limitations of these partnerships are evaluated, and key learnings are identified to adapt and replicate elsewhere. In Mozambique, Reall's partner Casa Real (an affordable housing developer) harnessed relationships with the Beira Municipality to access land and co-develop an innovative mortgage product with Absa Bank Mozambique for their clients.

In Pakistan, Reall's housing developer partner Ansaar Management Company (AMC) negotiated a similarly ground-breaking agreement with the Housing Building Finance Company (HBFC) for its own low-income customers, paving the way for other developers and financiers. In India, Reall supports its partner Syntellect (an IT company based in Mumbai) to roll-out a cutting-edge software platform for mortgage finance creditworthiness assessment. This platform assesses the long-term mortgage lending potential of people in informal employment, reducing risk for lenders and opening up a massive, previously excluded client segment.

All three case studies demonstrate that commercial banks can be influenced to move downmarket and recognize the commercial viability of lending to people on low incomes. To do so requires sustained efforts to build organizational credibility and investor confidence, underpinned by de-risking mechanisms and the delivery of a quality housing product or innovative technology. All three examples illuminate the necessity for innovative multi-stakeholder partnerships across the housing and finance sector, supported with amenable political and regulatory environments. Such partnerships must be fostered, scaled up and replicated globally to resolve the escalating urbanization challenge and unleash the developmental impact and economic potential of affordable housing.

6 As of September 2020, Reall operates in in 10 countries in Africa (Angola, Burkina Faso, Ghana, Kenya, Malawi, Mozambique, Nigeria, South Africa, Tanzania, Zimbabwe) and 4 countries in Asia (India, Nepal, Pakistan, the Philippines).

7 For more on Reall's global impact and portfolio of investments, see Reall's innovative new Data Dashboard. Available at https://www.reall.net/data-dashboard/global/

8 For more on Reall's strategic vision, see Reall's recently launched 2020-25 Corporate Strategy. Available at https://www.reall.net/corp-strat/

9 For more on innovative end-user financing models in Reall's network, see: Jones, Andrew and Lisa Stead. 'Can people on low incomes access affordable housing loans in urban Africa and Asia? Examples of innovative housing finance models from Reall's global network'. *Environment & Urbanization.* 2020.

10 Badev, Anton et al., *Housing Finance Across Countries: New Data and Analysis.* Policy Research Working Paper. World Bank. Washington, 2014.

11 Mortgage-to-GDP ratio statistics sourced from: The Housing Finance Information Network (HOFINET); The Centre for Affordable Housing Finance in Africa (CAHF); World Bank datasets.

2. Case study – Mozambique: Casa Real and Absa Bank Mozambique

2.1. Context

Mozambique is an extremely low-income country, with many cities hindered by endemic infrastructural challenges and urban sprawl. Housing affordability is severely constrained by high construction costs and inaccessible end-user finance.[12] Although most Mozambicans live on an income of less than $100 a month, commercial bank mortgages typically specify a minimum loan amount of at least $5,000 – well out of reach for the majority of people. These mortgage loans also tend to have restrictive terms and conditions, including large collateral expectations, high interest rates (at least 30%), and substantial deposits. Many families instead rely on savings and locally procured materials to incrementally self-build houses over time. This has implications for quality and sustainability, spreading informality and increasing future costs for retrofitting services in poorly planned settlements.

2.2. Casa Real and Beira Municipal Council

Into this challenging context, Casa Real was established in 2018 as an affordable housing social enterprise. Reall invested in Casa Real and provided pilot capital for their Inhamizua pilot project – a development of 10 quality, serviced affordable homes in Beria (Mozambique's second city). While Casa Real are early in their organizational growth, they have made significant progress through multi-dimensional partnerships with Beira's Municipal Council, the Dutch government, financial advisors, and Absa Bank Mozambique. Collectively, these partnerships fostered an amenable environment for the project to take off and enable a substantial initial move downmarket for commercial mortgage finance, with huge potential for future growth and impact.

The Mayor of the Beira Municipal Council (Daviz Simango) is a vocal advocate for low-income housing, who has worked with the Dutch government for several years and signed a memorandum of understanding (MoU) with Reall in 2015. The Municipal Council facilitated Casa Real's work from the outset by granting land development rights and connecting land with services. Most importantly, the Municipality permitted the sale of Casa Real houses with 'condominium' titles.

These arrangements enabled Casa Real to build additional houses through a significant reduction of legal minimum plot sizes for construction, from the official norm of 600m^2 (too large and expensive for viable affordable housing). Each homeowner secures the rights to use their property as they wish, including leveraging for finance collateral. The underlying quality of Casa Real's houses was emphatically demonstrated during the damaging impact of Cyclone Idai, which struck Beira in March 2019. In contrast to the wider city, the structures withstood the storm's impact extremely well with only minimal roofing damage.

2.3. Casa Real and Absa Mozambique: Partnership Development

The Government of the Netherlands has supported the development of Beira for several years, including investment in roads, infrastructure, and low-cost housing.[13] One aspect of this support is the regular convening of investor conferences and networking events. Through these networks, Casa Real (working closely with Fount, an impact advisory firm) were facilitated to pitch their housing plans and open a dialogue with mainstream commercial banks and the Central Bank of Mozambique in 2018.

Association with the Dutch government and Reall enhanced Casa Real's credibility, and several banks were attracted by the proposition of opening new markets for long-term loans in a country with little history of inclusionary mortgages. Casa Real's progression of construction work (on time and in budget) further strengthened their case and built investor momentum. While several banks expressed interest in entering the low-income housing space, Absa Mozambique (formerly Barclays) were the first to proceed to formal partnership. After patient advocacy and careful negotiation, Absa agreed to launch a new housing product in late 2019.

Absa's new mortgage product is developed for Casa Real customers with monthly incomes of 15,000 MZN (US$210 in August 2020), which is generally affordable for households around the 50th percentile of the income pyramid in Beira. While Reall's ultimate objective is to lower income thresholds further and render quality housing genuinely affordable for the bottom of the pyramid, this represents a massive improvement on previous mortgage offers in Mozambique and an ideal entry point for testing the product and proving commercial viability.

Through this partnership, Absa Mozambique has moved significantly downmarket. Interest rates have fallen to the national 'prime rate' (18% as of August 2020) plus a small margin of 0.25%. Deposit conditions have been reduced to a minimum of 5% of the property selling price, increasing the loan-to-value ratio (LTV). As part of its agreement with Absa, Casa Real identifies customers, facilitates agreements with employers, assists in opening bank accounts, provides relevant documentation for the houses (such as real estate

FIGURE 3 Casa Real housing in Beira, Mozambique. © Reall, 2019

[12] Centre for Affordable Housing Finance in Africa (CAHF), *2019 Yearbook (10th Edition): Housing Finance in Africa*. Johannesburg, 2019, pp.195-198.

[13] MacauHub, 'Netherlands pay for road and social housing in Mozambique', 22 September 2015. Available at https://macauhub.com.mo/2015/09/22/netherlands-pay-for-road-and-social-housing-in-mozambique/

and municipality certificates), and transfers ownership of the houses to the bank prior to loan disbursement. Casa Real also bears all costs for valuing the houses, and Absa have innovated by agreeing a general valuation for each housing typology, rather than for individual homes. This saves up to $200 annually per house and represents a significant cost saving in Beira.

2.4. Casa Real and Absa Mozambique: Alignment, Contribution, and Benefit

As is the case in many African and Asian geographies, in Mozambique it is typical for NGOs to receive grants to deliver social impact projects while commercial entities cater to the elite. Casa Real occupies a distinctive middle ground – operating as a commercial venture for the public good which engages with financial institutions in the language of enterprise and investment rather than charity. This has strengthened the alignment between Casa Real and Absa, and both organizations contribute specialist skills and a specific offer to benefit the wider partnership.

Casa Real has developed quality, affordable houses on time and within budget. While Casa Real provides housing at a cost of $10,000 for lower-income clients, they have also developed homes at a cost of up to $40,000 for lower-middle-income clients. This mixed-income approach increases flexibility and moves Casa Real closer to Absa's traditional market. Previously Absa Mozambique's lowest income customer was earning $750 a month, and through partnership with Casa Real this has fallen to $250 a month. This reflects the pragmatic reality of creating viable options for both parties in a difficult economic environment.

Until 2019, Absa Bank operated as Barclays Mozambique and was known primarily for serving high-income elites. Under the Absa banner, the bank's brand is associated more overtly with banking for the common citizen. Promoting this customer confidence is essential when offering new products to a target group previously excluded from formalized lending, and Absa Mozambique has tailored the product and accepted the risk of lending to a lower-income segment. Decision making and risk management is accordingly built into their system of client processing, with the need for legal documentation, income and credit checks, a deposit amount, and the potential for foreclosure.

Through this collaboration, each partner has progressed their respective business aims. Casa Real has secured a commercial banking partner to off-take their houses and release funds after the housing construction phase, unlocking capital to revolve faster and be reinvested into additional housing development. This enables Casa Real to scale up and deliver 300 units per year, opening up the Beira market. In return, Absa Mozambique gain access to an untapped market and position themselves as the prime mover at this level. While Absa's initial return on investment is lower for this segment compared to higher-income groups, the potential is significant for a suite of products tailored to lower-income groups and, in time, lucrative returns from increased efficiency and economies of scale.

2.5. Key lessons

The provision of lower-income commercial mortgages on affordable terms is genuinely revolutionary in Mozambique. Casa Real's work has significant potential for scale, both through the growth of the organization itself and by forging a path for other developers and lenders to enter the space. This case study illuminates several insights and lessons that can be engaged with and replicated elsewhere:

- **Commercial lenders and partner should be engaged with on their own terms –** presenting a credible long-term financial opportunity for investment in affordable housing, rather than solely articulating the case for social responsibility. The social enterprise space provides impact and tangible return.

- **The appropriate expertise should be involved and utilized –** for Casa Real, the introduction of financial expertise (Fount) into the project team added substantial value. This equipped Casa Real with the clout to engage at the senior level and speak in the language of banking and investment. This secured essential top-level buy-in.

- **Physical proof of concept is paramount –** in markets such as Mozambique, a lack of precedent for successful, entrepreneurial, market-oriented housing development breeds skepticism. Casa Real tangibly demonstrated credibility by building quality homes on time and at an affordable cost. In parallel, rigorous market research proved the customer demand and fostered lender confidence.

- **Connections, capital, and commitment are essential –** while Casa Real is a new enterprise, association with the Dutch Government and Reall established legitimacy and credibility. Long term commitment and vision are necessary to allow for partnerships to develop and respond to challenging environments.

- **Compromise and common ground are key –** Casa Real accepted the need for a mixed-income approach in Beira, to engage Absa Mozambique and drive their move downmarket. This is despite a goal to target the bottom 40% of the income pyramid.

- **Patient capital investment is vital –** low-income housing in untapped markets is often poorly understood or documented, and pilot projects are needed to test the market. Casa Real would have been unable to sustain construction and influence without consistent investment and capacity funding from Reall. Capital investment is essential to any successful affordable housing venture, especially during the early phases of work when insolvency is high risk. Organizations such as Reall are essential to incubate projects and take the first risk to demonstrate proof of concept.

3. Case study – Pakistan: Ansaar Management Company (AMC) and the House Building Finance Company (HBFC)

3.1. Context

In Pakistan, the affordable housing challenge is vast. The national housing deficit is estimated at 10 million units, rising by an additional 350,000 every year. Accelerating urbanization and population growth further stretch the demand. Unfortunately, a weak banking and finance sector has restricted the accessibility of housing finance to a tiny, high-income social elite. The current government has identified housing construction as an important vehicle for post-COVID economic stimulus and recovery. However, many bottlenecks remain to the delivery of affordable housing, including lack of access to finance and poor understanding of the target market by lenders.[14]

It is within this context that Reall's partner, the Ansaar Management Company (AMC) operates. A social enterprise headquartered in Lahore,

[14] Khali, Ibrahim and Umar Nadeem, Optimizing the Naya Pakistan housing policy opportunity. Working Paper. Tabadlad, Islamabad, 2019. Available at http://www.tabadlab.com/wp-content/uploads/2019/03/Tabadlab-Optimising-Naya-Pakistan-HousingPolicy-Opportunity.pdf.

FIGURE 4 AMC Housing in Faisalabad, Pakistan. © Reall, 2019

AMC develops affordable housing within or close to large cities such as Faisalabad, Lahore, Multan, and Peshawar. AMC builds culturally sensitive houses in desirable communities for the bottom 40% of the population. With Reall's financial support, AMC have constructed over 700 homes and serviced plots with 4,000 more in the pipeline. This makes AMC one of the largest partners in Reall's global network.

3.2. AMC and HBFC: partnership development

As the financial and regulatory environment is so challenging in Pakistan, AMC depends on innovative partnerships to grow as a business and work towards scale. Most promisingly, AMC has nurtured a close relationship with the House Building Finance Company (HBFC), a semi-state-owned institution operating in the public interest. The AMC/HBFC partnership originated in 2012, through a non-binding agreement for HBFC to provide mortgages for a flagship AMC project. Unfortunately, the mortgages at the time did not materialize and Reall instead stepped up to finance the project.

This initial investment by Reall paved the way for further negotiations, eventually resulting in the launch of a new HBFC mortgage product. This product is targeted at low-income AMC customers with monthly incomes of at least 25,000 PKR ($150 in August 2020). This represents a substantial move downmarket for HBFC, as all AMC occupants at this income level are in the bottom 40% of the income pyramid. The HBFC mortgages are loaned at a fixed interest rate of 12% for a term of up to 20 years, with a deposit requirement of up to 25%. The mortgages are available to people in both formal and informal employment, although lending to informal clients remains challenging in practice.

The launch of a new low-income mortgage product is pioneering in Pakistan. While HBFC was originally established in the 1950s to facilitate mortgages for lower-income citizens, the institution deviated over time towards higher-income brackets due to risk perception and a lack of credible partners. It was only persuaded to move back down the income pyramid through AMC reducing risk to ensure lending security. AMC has done so primarily by building desirable homes in professionally planned communities with quality infrastructure. AMC also secures all necessary legal approvals and adheres to all official codes and standards. Individual house titles are withheld by AMC until the total amount is recovered, to act as a guarantee for the bank. Community development officers also ensure that the site is maintained and improved, which increases the value of the asset and reassures HBFC that returns will exceed sale value in the case of customer default.

3.3. AMC and HBFC: alignment, contribution, and benefit

The AMC/HBFC partnership and mortgage product has been developed over several years, requiring patience and professionalism from both parties. AMC conducts extensive market research in every location where they have built houses, to ensure sites are in desirable areas with proximity to shops, schools, and employment. AMC also possesses robust capacity for sales and marketing, ensuring customer acceptability and uptake through a range of methods and channels.[15] AMC checks customers for eligibility and assists in assembling their mortgage documentation. This is a vital support for people in the bottom 40% segment, who are typically cautious of dealing with mainstream banks and unfamiliar with formal lending processes and procedures. This also reduces processing times for HBFC and has contributed towards an impressive loan acceptance rate of 98% to date.

For their part, HBFC has invested capital and accepted the inherent risk of lending long-term mortgage finance to lower income groups. HBFC brings expertise in banking systems and credit scoring and has provided concessions with lenient loan terms. The loan approval process has become more efficient over time, and as more loans are processed the bank profits from economies of scale. While the financial returns are currently smaller than for higher-income segments, there is demonstrably huge potential to access a vast untapped market in Pakistan. The business model thus presents gains for both parties, while addressing the housing needs of vulnerable and marginalized groups.

3.4. AMC and HBFC: partnership challenges

External conditions are always a challenge to successful partnerships in low-income geographies. The volatile economic environment in Pakistan has led to increased mark-ups and interest rates which, together with job insecurity, has affected the payment behavior of customers. COVID-19 has also impacted on the ability of customers to repay, although HBFC has offered options for loan rescheduling and repayment deferment as a response to the pandemic.[16] Regulatory bodies, rules and procedures are also restrictive and beyond the capacity of the partners to change, despite AMC being a member of the Pakistan Government's affordable housing task force. Furthermore, over 70% of employment in Pakistan is estimated to be in the informal sector.[17] This informality is poorly understood and widely perceived as risky by lenders.

The AMC/HBFC mortgage product is accessible to people in informal employment, who

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[15] In a recent impact evaluation of AMC housing in Faisalabad by Reall, occupants responded that they could never acquire homes of similar quality or in such a desirable location at anywhere near the same price point.

[16] For more on HBFC's response to COVID-19, see http://www.hbfc.com.pk/page/general_information/covid_19

[17] International Labour Organization (ILO). 'Informal economy in Pakistan'. ILO, 2018. Available at https://www.ilo.org/islamabad/areasofwork/informal-economy/lang--en/index.htm

qualify for eligibility through certain conditions such as paying a large deposit, providing a signed affidavit stating their monthly income, and submitting recurring post-dated cheques. In practice HBFC still finds it challenging to accurately assess informal income flows and is unwilling to relax the eligibility conditions that could widen access for the informal sector. Consequently, most AMC customers making use of this mortgage facility are in documented, formal employment. More could be done to make this product more inclusive, such as refining income assessment methods, reducing processing costs, relaxing deposit conditions and documentation requirements. The product itself could also be tweaked to be more suitable for the informal sector, such as incorporating payment moratoriums and interest embargoes into the repayment period to account for volatility.

3.5. Key lessons

The AMC/HBFC partnership and mortgage product is still in early phases of development, with over 60 mortgages granted to date and more in the immediate pipeline. The initial performance of these loans has been excellent, with average repayment rates by end-users of 80 per cent in 30 days, 90 per cent in 60 days, and 99 per cent in 90 days. Successfully demonstrating the viability of this model is essential for incentivizing new lenders and developers into the affordable housing space in Pakistan. To further accelerate scaling up will require steps towards a more conducive enabling environment in Pakistan, such as streamlining regulatory processes and implementing banking reforms.[18]

The development of this partnership, and launch of a new mortgage product, illuminates lessons for similar initiatives elsewhere:

- **Successful partnerships are underpinned by patient relationship management and networking –** the partnership developed over several years, against a backdrop of shifting priorities and management changes within HBFC. AMC fostered strong connections at the branch, regional, and national level, all of which proved vital to resolving challenges as they arose.

- **A quality product must always be delivered –** AMC smoothed the downmarket move for HBFC by delivering a tangible, desirable, quality affordable housing product. This product is grounded in AMC's nuanced understanding of the target market, providing a ready-made customer base through marketing outreach.

- **Risk mitigation must be effective and convincing –** risk management is paramount for convincing banks to widen access, and AMC de-risked lending extensively by providing land certificates, securing all necessary legal approvals, and building desirable homes that adhere to quality standards and signoff procedures.

- **The investable proposition must be publicized and recognized –** HBFC demonstrated a will to relax standard conditions and risk capital in an untapped segment, recognizing the potential to expand their share of an untapped market.

- **Patient capital investment is essential –** the AMC/HBFC partnership could not have been facilitated without Reall front-financing AMC's initial development costs. This was crucial for demonstrating proof of concept and leveraging bank engagement. Reall undertakes similar investments throughout its portfolio, investing patient capital to demonstrate the commercial viability of affordable urban housing for people on low incomes and catalyze markets.

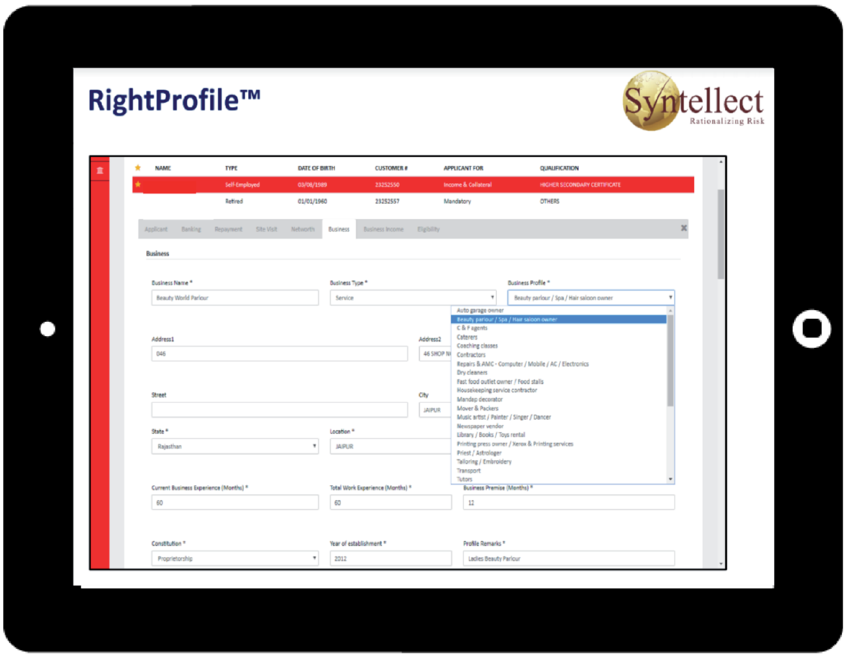
4. Case study – India: Reall and Syntellect

4.1. Context

The high prevalence of informal employment in Africa and Asia is a formidable barrier to deepening housing finance. Informal earnings are often irregular and unpredictable, and workers are more susceptible to short-term shocks due to their lower incomes, lack of social protection, and limited savings. People in informal employment do not have access to formal credit and loans, as financial institutions lack adequate documentation and information on them and consider them risky repayors.[19] To resolve this challenge, commercial banks and lenders must recognize the reality of the informal sector and adapt their formal processes to serve a more 'typical' customer. This will require significant innovation and unorthodox thinking, to disrupt the market and overturn conventions.

Recognizing these constraints, Reall has recently partnered and invested in Syntellect, an Indian software developer based in Mumbai.

FIGURE 5 RightProfile software platform, sample user interface. © Syntellect, 2020



[18] In 2019, the State Bank of Pakistan (SBP) called for the introduction of innovative housing finance products that can cater to all income sectors. These include fixed-rate mortgages, step-up payment options, interest-only period products, and discounted rates for borrowers through arrangements with other entities.

[19] Becker, Kristina. Fact Finding Study: The Informal Economy. Sida. Stockholm, 2004; Medina, Leandro et al. *The Informal Economy in Sub-Saharan Africa: Size and Determinants*. Working Paper. IMF. 2017.

Syntellect has developed cutting-edge technology for the credit assessment of unbanked and informally employed individuals in India for formal, long-term mortgage finance. This software (called RightProfile) is a unique customer profiler specifically catered to the unbanked, new to banking, and new to credit customer segment – with a focus on the informal micro-entrepreneur. RightProfile addresses a substantial gap in the market, applying an exhaustive bank of technologies to analyze loan applications, reduce processing costs, and input into larger financial services architecture.[20]

4.2. Reall and Syntellect: partnership development

Reall's partnership with Syntellect stems from a search for solutions to efficiently understand the risk profile of low-income and informally employed individuals and households. Reall's in-country partners have generated substantive information on the income, demographic, and repayment habits of Reall's target market at the bottom 40% of the pyramid. However, more data is required to triangulate Reall's evidence base and resolve systemic information asymmetries.

Syntellect's RightProfile software is a credible, tested solution with the potential to revolutionize the low-income housing finance industry. The Syntellect team has developed RightProfile over several years to collect targeted data points on potential customers – including demographics, income, expenditure, and informal business performance. RightProfile then analyzes these data points through machine learning, artificial intelligence, and stochastic modelling to produce detailed customer profile reports. These reports empower lenders to accurately assess excluded groups and tailor underwriting to specific customers. RightProfile is specifically designed for long-term mortgage finance lending, which represents a different risk profile to short-term microfinance.

Through partnership with Reall, Syntellect's software will be introduced into Reall's global affordable housing network. This will initially focus on rolling-out RightProfile in Reall's three priority Asian countries (India, Pakistan, and Nepal).[21] The system will be trialed by in-country housing developer partners, providing a bridge to the financial sector and encouraging buy-in and participation by affiliated lenders. Syntellect will provide extensive training and capacity building, to tailor RightProfile to specific contexts and ensure the software is understood and used effectively. While initial focus is in Asia, Reall and Syntellect share a long-term vision to adapt to Sub-Saharan Africa where the need is vast, and the potential market opportunity is enormous.

4.3. Reall and Syntellect: alignment, contribution, and benefit

Reall and Syntellect bring complementary skills, knowledge, and resources to their deepening partnership. Reall invests capital to support Syntellect's growth as a business and accelerate the integration of RightProfile's credit-scoring platform within the operations of selected lenders and developers. Reall also facilitates Syntellect with access to its wider transnational network of partners and collaborators, who possess a ready-made customer base and deep contextual knowledge of specific environments. Reall's status as a thought leader in the global affordable housing space ensures that it is best equipped to strategically steer Syntellect's business development and leverage buy-in from influential stakeholders.

Syntellect's team also possess extensive knowledge of the affordable housing finance sector. Senior Syntellect staff are regularly consulted by lenders and stakeholders for specialist expertise relating to mortgage finance products, policies, processes, and training.[22] Syntellect have patiently developed the technology that underpins RightProfile for several years, and have already vetted over 20,000 informal sector clients for mortgage finance from the Housing Development Finance Corporation (HDFC) in Mumbai.[23] Of these, 14,000 clients were approved for loans – with early data indicating these loans are performing better than sector norms for delinquency rates. Furthermore, the lender's turnaround time for loan sanctioning was reduced by at least 40% due to Syntellect's digitization. This represents a significant increase in efficiency and cost optimization.

Once RightProfile's proof of concept has been further demonstrated, the software's potential for scaling up and replicating in additional countries can be realized. With Reall's guidance and investment, Syntellect will eventually adapt and export the technology to Sub-Saharan Africa where no proven alternative exists. With end-user finance unlocked for the unbanked and informally employed, Reall and Syntellect aim to unleash the untapped affordable housing market as a highly impactful commercial proposition for lenders, developers, investors, and governments.

5. Conclusion

This article has documented and evaluated exciting partnerships throughout Reall's transnational affordable housing network. These case studies highlight a pressing need for financial innovation and new types of collaboration in urban Africa and Asia, to overcome the systemic barriers that have historically prevented the flow of affordable, long-term housing finance to most of society. In a global context of rapid urbanization and damaging socio-economic impacts of COVID-19, identifying and promoting new solutions is more urgent than ever.

Persuading commercial banks and mainstream lenders to move downmarket and extend long-term lending to lower-income segments and the informal sector is challenging. However, Reall-supported partnerships in Mozambique (Casa Real and Absa Mozambique) and Pakistan (AMC and HBFC) prove that breakthroughs are possible with sustained effort to develop organizational credibility and long-term investor confidence and commitment. In the case of Casa Real and AMC, these efforts were underpinned by the delivery of an exceptional product (quality, affordable homes) and extensive risk management and reduction. Furthermore, the ongoing development of Syntellect's RightProfile platform (under Reall's oversight) illustrates the potentially transformative impact of technological innovation on traditional mortgage underwriting and customer assessment processes.

Ultimately, the lower-income and informally employed market has vast potential for penetration and expansion of affordable, long-term housing finance. While commercial banks and institutions are essential to realizing this potential, the financial sector in Africa and Asia has largely failed to fulfil their obligations to most people. It is only through committed partnerships, innovative new financial products, and exciting new disruptive technologies – as relentlessly pursued by Reall – that established attitudes and conventions will be overturned

[20] For more, see Syntellect's official website. Available at http://www.syntellect.co.in/

[21] Syntellect's research indicates that there are currently 190 million unbanked customers in India and 100 million unbanked customers in Pakistan.

[22] For more on Syntellect's CEO (Sumedha Naik), see: Business World. 'For the Entrepreneurs'. New Delhi, 2019. Available at http://www.businessworld.in/article/For-The-Entrepreneurs/20-02-2019-167384/

[23] HDFC was founded in 1977 as the first specialized mortgage company in India and is a major housing finance provider in the country. For more, see https://www.hdfc.com/

and systemic barriers resolved. This is a unique opportunity to drive systemic change, mobilize private investment, and catalyze markets to unlock access to housing finance and affordable housing assets for millions of people living on low incomes.

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Coping with Covid? Housing and mortgage market responses in the UK

By Peter Williams

1. Introduction

Depending upon the scale of infection and government responses, housing and mortgage markets around the world have been disrupted to greater or lesser degrees by the Covid-19 pandemic in late 2019/early 2020. Now some months later we are able to take stock of what has happened to the housing market and how the new pressures the pandemic has generated might play out over the rest of 2021 and into 2022. This article by Peter Williams focusses on the situation in the UK and its constituent countries – England, Northern Ireland, Scotland and Wales – housing and pandemic responses being devolved matters.

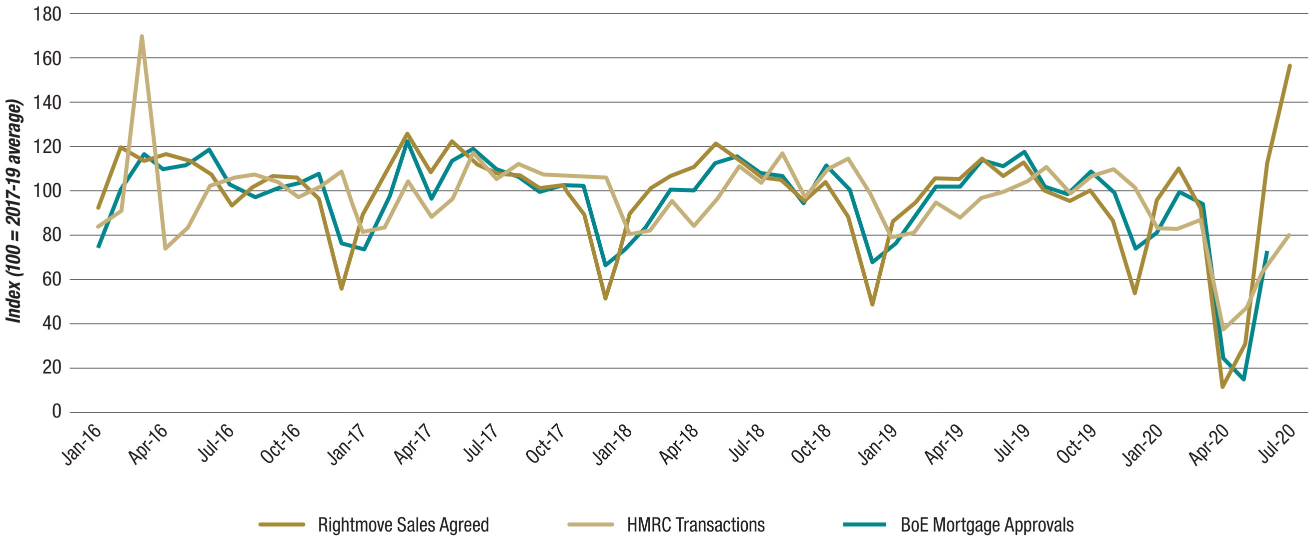
As has been widely argued, the UK Government (along with its constituent countries) was probably late in declaring a lockdown on March 23rd compared to other countries. There are a variety of explanations for this, but the fact is the UK Government was fully focused on Brexit. The lockdown required people to minimise travel and much else. Subsequently governments across the UK then banned home moves unless absolutely essential thus effectively bringing the housing market to a halt. Transactions in the pipeline were allowed to continue but these fell away quite quickly as we shall show later.

Prior to the announcement of lock down and in the middle of March - the Chancellor of the Exchequer had announced sequentially, payment holidays-in reality deferrals, for mortgage borrowers (owner occupiers and landlords), a ban on evictions from rented homes till mid-August (subsequently extended and a job retention scheme allowing employees to be placed "on furlough" where they would receive payment equivalent to 80% of their wages up to a maximum of £2500 per month. Some 2 million mortgage borrowers took advantage of the deferral scheme (which was then subsequently extended by a further 3 months – expiring in September) and at the end of June over 9 million were on the furlough scheme.

2. The housing and mortgage markets

Figure 1 gives a clear sense of how housing market activity plummeted in March and April on the back of government actions. The chart shows two forward indicators (both the Rightmove data, based on sales agreed and the mortgage approvals data as recorded by the Bank of England for the UK give a sense of what might happen but, because they are not based on completed transactions, it will be some months later (probably 2 or 3 months) that we know the final outcome). The market had been trending down prior to the General Election in December 2019 not least reflecting uncertainty regarding Brexit. With the Government returned and exit from the EU delivered there was a bounce in activity – including property viewings, sales agreed and house prices – the so called "Boris Bounce" which ended with the Covid lockdown.

FIGURE 1 Monthly Housing Market Activity, UK



Source: Rightmove, Bank of England, HMRC – all data not seasonally adjusted

Mortgage lending activity also stalled in March and not least because prices began to edge down in the lockdown and there was greater uncertainty regarding property valuations[1]. Lenders withdrew higher Loan to Value (LTV) products reflecting concerns both about the likely course of house prices and borrower capacity to sustain payments post the ending of the new furlough scheme. In the immediate aftermath of the lockdowns finance markets themselves faced some turbulence – the global mortgage securitization market stuttered and wholesale funding providers stopped lending.

While none of this had serious implications for most mainstream banks and building societies in the UK it did impact upon the non-bank sector where access to finance was much reduced. The Bank of England revived its term funding scheme – offering up to four-year funding at 0.1% to approved institutions but again excluding non-banks. Questions were raised as to the impact of this stance in terms of market competition but fortunately by July, both markets had re-opened and issuance and lending restarted.

The withdrawal of higher LTV lending (primarily above 85%) put considerable pressure on first time buyers with limited deposits. This was further exacerbated by reductions in the capacity of the Bank of Mum and Dad (BOMAD) and the Bank of Grandpa and Grandma (BOGG) to step up and assist. Household finances were under pressure and some relatives simply could no longer make the contributions they might once have considered possible and desirable.

Some lenders began to recognize that their response might itself begin to push prices and activity down and there was some re-appraisal resulting in some higher LTV products returning (at higher rates). However subsequently some lenders stepped back again being more fearful of a major price adjustment in 2020 and with growing questions about the capacity of borrowers to service debt once government support was ended. Although interest rates are likely to remain low by historical standards there is also a clear threat that should inflation make a strong resurgence rates would rise bringing further pressures upon mortgage borrowers. However, with a weak economy and low inflation the Bank of England is signalling it expects rates to remain low for even longer. Despite this, the current 3% stress test applied to the mortgages of all borrowers, standard variable interest rate (the rate applied at the end of any discounted rate term remains.

3. Market evolution after re-opening

Across the UK housing markets were re-opened in May (precise dates varied by country) and a combination of stalled purchases (it is estimated that around 125,000 transactions were held back) and pent up demand (which includes the Brexit delayed activity in 2019) and the fact that households were "at home" with time to scan the market resulted in surging prices as demand began to outstrip supply.

A number of market indices had been suspended during the lockdown as the scale of activity was too low to allow reliable indicators to be produced. All have now restarted including the government's own ONS house price index albeit that it has begun by reporting earlier months. The RICS housing market survey (based on surveyors' opinions) is viewed as a reliable forward indicator of market activity in advance of lenders' mortgage completion price indices (Halifax and Nationwide and the final transaction-based indices produced by Acadata and ONS). In July, RICS was reporting a net balance of 75% of respondents indicating a rise in new buyer enquiries and a 59% increase in instructions to sell (RICS, 2020).

A further factor in this mix was the Chancellor's announcement in his summer update " a Plan for Jobs," of a temporary increase to the Nil Rate Band of Residential SDLT (Stamp Duty Land Tax – a transaction tax) from £125,000 to £500,000 until 31 March 2021 in England and Northern Ireland. The other administrations also introduced similar tax changes though typically they were less generous.

Stamp Duty is paid by buyers, so this had an immediate impact on activity. Of course, history tells us that such holidays tend to result in purchases being brought forward to take advantage of the tax reduction meaning that we may see a fall in activity in April 2021. Clearly the Government is hoping the market momentum can be maintained. There will inevitably be pressure to extend the holiday. On that note the Government in England has also extended its current Help to Buy equity loan scheme to allow households whose newly built homes were subject to delays in completion due to Covid-related matters to benefit from an extension in the deadline to complete the transaction before a revised and less generous scheme was introduced.

The government has also extended the no eviction period for tenants – until the 20th September – and requires six months' notice by the landlord of an intention to take back the property. Although these temporary measures were welcomed by some, many argue the government must carry through its pledge to reform the private rented sector and not least to remove the "no fault" evictions, when landlords can simply say they want the property back for their own use or to sell.

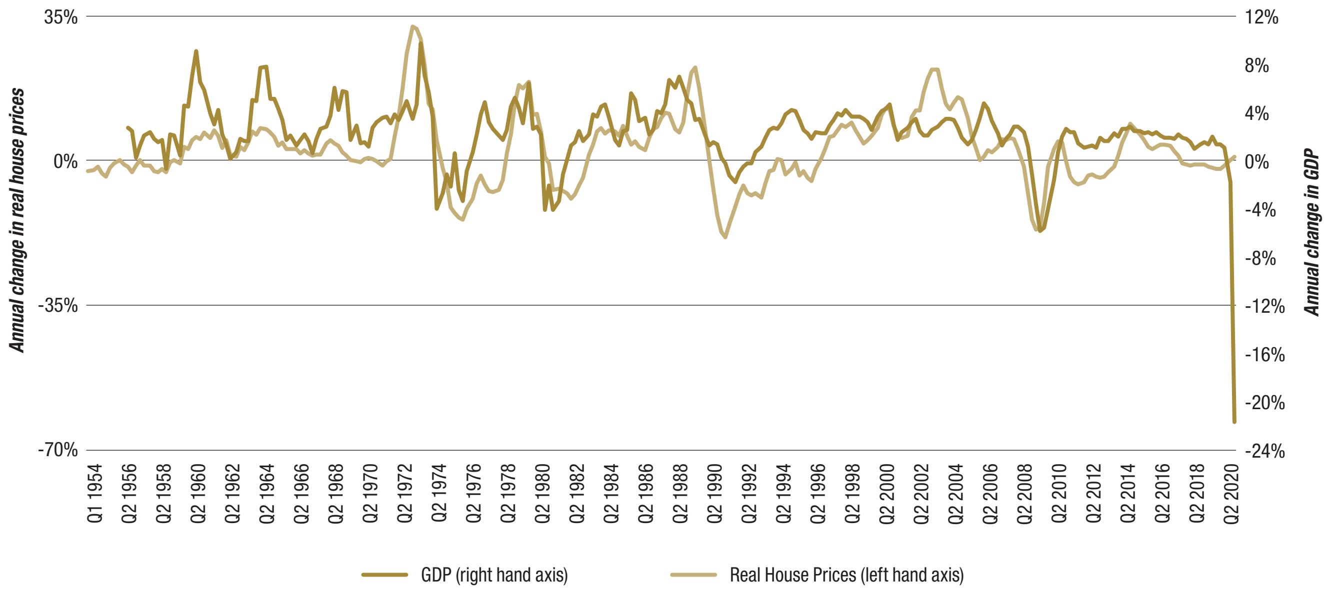
Landlords with a mortgage were given access to the payment holiday scheme and some took advantage of it. Not all then passed on the benefit of that holiday to their tenants who in turn might also be furloughed and facing a reduced income. On the back of the Office of Budget Responsibility estimate that 20% of those people on furlough will become unemployed, It has been suggested that perhaps some 300,000 private rented tenants may lose their jobs and that these might be clustered geographically around key service sector clusters, e.g. airports. Shelter, a UK housing charity, has recently estimated that 227,000 adult private renters (3%) have fallen into arrears since the start of the pandemic. Anyone accruing rent arrears of eight weeks or more can be automatically evicted once the ban ends and 174,000 private tenants were reported to have already been threatened with eviction.

4. The outlook

Figure 2 gives a long-term view of the correlation between UK GDP and house prices. As it shows there have been a number of economic downturns and these are also linked to downturns in house prices. The UK is overly reliant upon its service sector which has proved to be very vulnerable to the effects of the Covid induced downturn. UK gross domestic product (GDP) is estimated to have fallen by a record 20.4% in Quarter 2 (Apr to June) 2020, marking the second consecutive quarterly decline after it fell by 2.2% in Quarter 1 (Jan to Mar) 2020. However early estimates of third quarter GDP suggest there might be a 14% rise boosted largely by consumer spending. It is accepted that the 4th quarter is more difficult to predict not least given the furlough scheme is expected to end in October.

[1] See Williams, 2020 for a short summary of market developments in recent months.

FIGURE 1 GDP and house prices in the UK, Q2 1954 to 2020



The outlook is therefore quite negative albeit that both current estimates and forecasts are subject to correction as more data and evidence emerges. The reality is there are still many unknowns. However, on the basis of the past and given the scale of the decline in GDP we might expect house prices to fall. Offsetting that is the data on recovery and to date there has been a sharp bounce-back (the so called V shaped recovery) which of course provides the basis for more optimism in some quarters along with the hope that such is the scale of unmet demand in the housing market it is possible a degree of positive housing market momentum might be maintained through any economic downturn (though history doesn't really support that contention).

There is some fragmentary evidence that the geography of the housing market is also being reworked at this time. COVID has triggered a degree of rethinking about preferences for housing types and locations. More crowded inner-city locations have moved out of favour, with some buyers/movers who are looking to relocate to suburban/rural locations where more space can be found. As part of this, flats and converted houses look less attractive while semi-detached and detached homes are viewed more favourably – a shift which is already being reflected in house price trends (Acadata, 2020). This shift is in part triggered and supported by the rethink on jobs and the balance between being at the formal place of work or working from home. Large numbers of employers are now comfortable with more staff now working from home and of course if that is sustained and all the evidence suggests it will be, then there is no need to look for homes suitable for daily commutes to the workplace. Freed of these locational constraints little wonder we are seeing a degree of reshaping. Price inflation is currently picking up in the South West of England and Wales reflecting a re-orientation from the London market.

The question of course is then whether this reworking is both at scale and is sustained over the medium to long term. We simply don't know but the early signs are that this rethink is underway. This also has long term implications for housing and mortgage markets. However, before any conclusions are drawn as to the future of say the central and inner London housing markets you have also to take account of international flows. The decline in the value of the pound and political volatility in other countries, e.g. Hong Kong, Belarus and the Middle East has led to significant investment in UK residential real estate. Static or falling prices in these areas of London could actually make them more attractive to some buyers rather than less. However, we should note that Savills, a major residential property agency, has reported a somewhat faltering prime central London market (Savills, 2020) and has edged its forecasts down slightly. Travel restrictions have limited some of the expected overseas interest though the expectation is that that will recover in time.

The expectation has been that house prices in the UK will fall by between 5 and 10% in 2020. Given the current "mini boom" this would imply a sharp contraction in the last quarter otherwise we will end the year in positive territory on the basis of current trends. Clearly the Stamp Duty tax assistance will be supportive of the market and that continues to the end of March 2021. However, rising unemployment and concerns about Brexit will weigh on the market. On the basis of historical trends in relation to GDP and house prices we would still expect a contraction but the scale of this is difficult to call and there will be important local, regional and national variations. Going into 2022 the expectations are for a bounce back with price rises though much turns on how government interventions play out.

The Office for Budget Responsibility (OBR) set out three house price scenarios in its July Fiscal Sustainability Report (OBR, 2020). The 'upside scenario', saw prices fall by just two per cent for 2020, followed by a rapid recovery to pre-crisis levels. Their 'central scenario' had house prices fall 5% in 2020 and cumulatively by 1% by the end of 2021. Finally, the downside scenario saw a 22% fall in real house prices observed by Q3 2021, followed by a period during which prices remain around 10% below the trend. Its scenarios were all underpinned by developments in the labour market. In the upside scenario, falls in employment and inflation-adjusted wages are limited, whereas in the downside scenario, the unemployment rate reaches an all-time high. It is worth noting that in the past, the cost of borrowing has also been an important driver of house prices However, with interest rates close to zero, the significant interest rate cuts that boosted house prices during previous recessions cannot be repeated today.

Transactions are in many respects a better measure than prices. Inevitably transactions plummeted with the closure of the market, but they have subsequently recovered albeit are still below historical trends. The tax reduction has boosted activity and we would expect that to continue through the rest of 2020 and into 2021. In March 2020 there were around 80,000 transactions (not seasonally adjusted) above £40,000. This then plummeted to below 40,000 in April before recovering back up to 80,000 in July. Historically there have been around 120,000 transactions per month.

5. Implications of the changing market

What then are the implications of the UK changing markets? Lockdown has witnessed a boom in home improvement whether by the occupier or contractors and this in turn has fed through to supplier markets, with the scaling up of transactions and a return of a level of consumer confidence. With the contraction in lender appetite to offer higher LTV loans and with growing concerns about incomes and unemployment access to home ownership has tightened. Lenders are closely scrutinizing borrowers who have been on payment holidays to fully understand their debt servicing capacity. Like the rental market the working assumption is that 20% of those of these deferred payment schemes might become unemployed.

Drilling further into the impacts research suggests that it will be the young and the old who are perhaps most vulnerable to a fall in income. Focussing on the former, this age group is more likely to be working in the service sector which has itself shrunk during the pandemic. There will be less overtime and wage increases will be constrained. Around a third of first-time buyers rely on financial contributions from relatives and as noted earlier the capacity to do this has also shrunk. So, put together the pressures on young first-time buyers is increasing and these probably outweigh any benefits that might derive from prices stabilizing or even falling[2]. Although first-time buyer numbers had recovered to a degree not least reflecting the impact of the Help to Buy equity loan scheme since 2013, they are still well below the numbers achieved in the 1990s.

Mortgage and rent arrears rates have increased slightly during the pandemic and are likely to increase further. Both owner occupiers and landlords will come under pressure. Some landlords may find their debt servicing capacity is undermined by their tenants' unemployment (see Judge, 2020). However very low mortgage rates and relatively few borrowers with high debt service ratios should limit the damage caused by any downturn. Obviously in the short term mortgage holidays will assist and then beyond that lenders are required to have in place a variety of forbearance measures aimed at helping households remain in their homes and not least those designated as vulnerable (which includes job vulnerability). The upshot of all of this is that the number of forced sales coming onto the market from repossessions and which then create downward pressure on prices should be limited. Housebuilders have resumed building on most of their sites but are operating within the limits imposed by relatively flat prices in order to ensure that the absorption rate (the rate of build out that is commensurate with stable prices) is sustained. In that regard forced sales by builders might also be limited if there is a downturn.

6. Government interventions

In all of this there is the question of government interventions to assist any needed market recovery. The UK Government has a history of stepping in to limit the impact of any housing market downturn, in part a reflection of the economic and political significance of housing within the economy. In the 2008/09 downturn the Government put in place a number of schemes to support borrowers in difficulty (see Williams, Wilcox and Whitehead, 2017 for a review). These included a mortgage rescue scheme for vulnerable households, a home owner mortgage support scheme (the Government guaranteed up to 80% of any unpaid mortgage payments once inside an agreed lender forbearance scheme) and a pre-action protocol which laid down a set of stringent requirements lenders had to meet before they could take a possession case to court. In addition, from 2013 the government also created a mortgage guarantee scheme aimed at encouraging lenders to offer high loan to value mortgages (up to 95%).

Most of these schemes are now in abeyance/been withdrawn but clearly, they might need to be "dusted off" and brought back into use if the circumstances dictate. The Government has maintained the loan for mortgage interest scheme (LMI) through which unemployed homeowners can have their mortgage interest payments met by the government. These have to be repaid with interest after any subsequent sale of the home.

For the current Government the promotion of home ownership in England remains an important priority. Although it has been elected on a levelling up agenda there is only limited evidence that it will widen its priorities to ensure more affordable and social rented housing is built. This remains the big gap. In England a new First Homes scheme has been introduced as a pilot programme. This will provide a 30% discount on a new home with the builder providing it avoiding having to meet any Section 106 planning obligations to provide free land for social housing or other community requirements (see MHCLG, 2020 for further details). This of course will have the impact of reducing 106 contributions through which around half of all non-profit housing association output is derived. Scotland has also introduced a pilot First Home Fund which is an equity loan scheme to assist the purchase of both new and existing homes. Both Scotland and Wales have more balanced policies and markets and it is notable these countries suffer lower levels of market volatility.

Unlike in other countries in the global downturn the UK government did not let the housing market and house prices fall fully in line with the new economic reality of the Global Financial Crisis. Instead it intervened to keep house prices and the market more buoyant than they might otherwise have been the case. This meant the price/income ratio remained high and affordability remained stretched – a factor that has further worsened over the last decade.

The Government is firmly committed to addressing this affordability crisis primarily by increasing the supply of new homes. Most recently it has announced a series of planning reforms aimed at limiting the extent to which local communities can resist new development with the aim of speeding up new building and bringing in more supply. However, there are significant flaws in its approach as Johnson (2020) reminds us. First boosting housing supply will only bring prices down in the very long term and then only by small amounts (and it ignores the fact that the supply of mortgage credit and the level of interest rates are also important factors – a recent BoE report (Miles and Munro, 2019) notes that interest rate falls led to a more than doubling of real house prices after 1985, with rising household incomes contributing a further 80%). Second, builders will only increase supply if in so doing they do not bring prices down. The Government's own Letwin inquiry into build out rates showed this to be the case very convincingly, yet this seems to have been overlooked in its latest planning proposals.

Third, in many respects it is not overall supply that needs boosting but rather the supply of social and affordable housing for rent and low-cost home ownership. This is where the key shortages currently exist.

The Chancellor of the Exchequer is currently planning an Autumn Budget (November) in which it is possible we will see more housing related measures announced to support the housing market. He has also suggested that he will outline his plans to bring the UK public expenditure back in line after the substantial outlays on Covid-related measures. He has indicated this may include new taxation measures which might potentially include adjustments to the current housing related taxation , e.g. a reform of the current Council Tax regime – the equivalent of a property tax or the exemption for capital gains tax on the household's principle residence. Any of these would be deeply controversial however much they might be justified.

7. Conclusions

As this article shows the Covid pandemic has had a considerable impact on the UK's housing and mortgage markets. Clearly the process is still evolving and much turns on how the economy develops over the next two quarters and not least in the context of the withdrawal of the government's support measures (notably the furlough scheme). In many respects this is now more about the economy (and Brexit) than Covid though of course a second national lockdown prompted by a further widespread outbreak would highlight the significant role it has played.

The Government fully recognizes the significance of housing and the housing market in the economy and it is for these reasons it has provided considerable market support over the last decade or more. It is hard to see how it can escape this given the gap that now exists between the prime mortgage market and full home ownership and the rented sectors if it wants to retain some sense that it is supporting home ownership.

However, it is also clear that some important distributional issues are arising which the Covid crisis has amplified. Households without significant savings and parental support and who are in weaker post-Covid (and possible post Brexit) labour markets could find themselves largely permanently excluded from this tenure and forced to seek homes in the private rented sector. This in turn will amplify the pressure on the government to reform that sector to make it a more suitable tenure for family households.

The mortgage market's retreat from higher LTV lending is likely to be long lasting without any form of external support whether in the form of government or private sector insurance. As this suggests what Covid has done is to further weaken segments of the UK economy which in turn feed through into housing and mortgage market responses. This may ameliorate over time, but much turns on how the economy evolves over the next decade and whether there are further countrywide lockdowns. The latter may become ever less likely especially if effective vaccines come into being but the reality at the moment is that we cannot be sure. Without doubt the short to medium term is clouded with uncertainty.

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EU harmonisation of Covered Bonds

↳ By Otmar Stöcker

1. Introduction

On 7 January 2020, the package for the EU-wide harmonisation of covered bond (CB) frameworks entered into force. This needs to be adopted and published in national law by 8 July 2021, and the new measures have to apply by 8 July 2022 at latest.[1]

This article presents the most important contents of the harmonisation package. These were intensively discussed during the EU legislative process by the European Commission, EU parliamentarians, and by members of the Council working group, but also among experts, especially in the Central European Covered Bond Conferences[2] and the workshops of the Round Table Covered Bond Legislation.[3] They are still being discussed today in the context of the transposition of the CB Directive into national CB law.[4] In order to understand and interpret the CB Directive, it is also important to know which regulations were proposed but were ultimately rejected in the procedure. As such, the most important points of contention are also mentioned.

Although the CB Directive refers only to covered bonds, the requirement of issuance by a credit institution is explicitly laid down in Article 2 of the CB Directive. As such, the terms "secured bond issued by a credit institution" and "covered bond" will be used in the following to emphasise their issuance by a credit institution.[5]

2. Completion of the EU legislative process

On 18 March 2019, the European Parliament adopted the harmonisation package for covered bonds in its last session before the elections for the new European Parliament, but only provisionally based on the English language version, as the translations into the individual EU member languages were not yet available. The newly elected European Parliament took up the package[6] and approved it on 11 October 2019, as did the Council in 8 November 2019. As the legislative package was published in the Official Journal of the European Union on 18 December 2019,[7] it entered into force on 7 January 2020.[8]

This EU law is to be transposed into national law by 8 July 2021. In accordance with Article 32(1) of the CB Directive, the national legislator can allow a transitional period for the application of new provisions of up to 12 months, so the measures need to apply by 8 July 2022 at the latest. In accordance with Article 2 of Regulation (EU) 2019/2160, the amendments to Article 129 of the CRR[9] will become directly applicable on this date.

The harmonisation package consists of a Covered Bond Directive and an amendment of Article 129 of the CRR, which distinguishes the core group of traditional secured bonds issued by a credit institution more clearly from other kinds of covered bonds. The CB Directive regulates the requirements for covered bonds, which, up to now, were only laid down in a rudimentary fashion in Article 52(4) of the UCITS Directive;[10] this provision has been accordingly amended and now refers to the CB Directive,[11] as has the Bank Recovery and Resolution Directive (BRRD).[12] Various other provisions on covered bonds in other directives that refer to Article 52(4) of the UCITS Directive are thus also indirectly amended.[13]

3. Principle-based harmonisation

The regulatory discussion on the creation of the CB harmonisation package was characterised

1 Additional background on this topic can be found in the Winter 2019 issue of Housing Finance International, in Stöcker, *Towards harmonisation of covered bonds in Europe*, Housing Finance International Winter 2019, pp. 24-30, which is the abridged and updated English translation of the article: Stöcker, *Pfandbriefe und Gedeckte Bankschuldverschreibungen (Part 2), Auf dem Weg zur Harmonisierung von Covered Bonds in Europa*, EuZW 15/2018, pp. 617 – 624. The article presents (I.) the development and current status of secured bonds issued by credit institutions in Germany, and outlines (II.) the preparatory work for the EU harmonisation of covered bonds, (III.) the draft of a Covered Bond Directive, and (IV.) the parallel discussion on the introduction of European Secured Notes (ESN), and, finally (V.) draws a conclusion.

2 For more on this annual conference series established in 1997, see Stöcker, EuZW 15/2018, p. 617 (p. 620).

3 For more on this network, see Stöcker, EuZW 15/2018, p. 617 (p. 621), footnote 45.

4 A complete presentation of all provisions of the harmonisation package would go far beyond the scope of a technical paper. As such, this article should not be understood as a commentary on the CB Directive.

5 For more on the terminology of cover bonds, see Stöcker, EuZW 15/2018, p. 617.

6 Although the principle of discontinuity fundamentally applies (Rule 229 of the Rules of Procedure of the European Parliament), the results of the Parliament's votes (plenary decisions) taken before the election at the end of a parliamentary term remain legally binding on the Parliament for the next parliamentary term. This means that, after the elections, the newly elected Parliament continues to work on the proposals at exactly the point where the old Parliament left off and moves on to the next stage in the decision-making process. There is no legally binding position of the European Parliament on any legislative proposals on which the plenary did not vote before the elections. However, in this case, the Conference of Presidents may decide at the beginning of the new parliamentary term to continue work on these legislative proposals.

7 CB Directive: Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directive 2009/65/EC and 2014/59/EU, OJEU L 328 of 18 December 2019, pp. 29 – 57. Amendment to Article 129 of the CRR: Regulation (EU) 2019/2160 of the European Union and of the Council of 27 November 2019 amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds, OJEU L 328 of 18 December 2019, pp. 1 – 6.

8 In accordance with Article 33 of the CB Directive, the CB Directive entered into force on the twentieth day following that of its publication in the Official Journal of the European Union, as did Article 2 of the amendment to Article 129 of the CRR.

9 Capital Ratio Regulation, Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJEU L 176 of 27 June 2013, pp. 1 et seq. (corrigendum in OJEU L 321 of 30 November 2013, pp. 6 et seq.).

10 Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

11 Amended in Article 28 of the CB Directive.

12 Amended in Article 29 of the CB Directive. The Bank Recovery and Resolution Directive refers to Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council, OJEU L 173/190 of 12 June 2014.

13 For more on the link between the CB Directive and LCR regulations, see 4.8 below.

by the "principle-based harmonisation" aimed at by the EU regulatory framework.[14] This means that the EU provisions lay down the minimum requirements for secured bonds issued by credit institutions and, in a number of ways, leave room for particularities and detailed regulations at the national level; this has also been the (almost) unanimous petition of CB issuers and other market participants. This is of fundamental importance both for understanding the regulatory package and for interpreting the individual provisions.

While the CB Directive builds on the essential traditional quality features of covered bonds, it leaves national legislators a wide margin of leeway in shaping their national CB laws, which is reflected not only in the open wording,[15] but also in the options[16] and the exclusions of what are in themselves very important issues of principle.[17]

This is also illustrated by the fact that the CB Directive contains both mandatory and optional provisions. Some mandatory provisions also contain optional elements,[18] and vice-versa.[19]

4. Directive for secured bonds issued by credit institutions

The recitals of both parts of the CB harmonisation package are worth reading, as they explain the aim of the harmonisation project and locate the new rules within the existing set of rules for covered bonds. The definitions listed in Article 3 of the CB Directive are also important for understanding individual provisions.

4.1. Dual recourse

Article 4 of the CB Directive describes the most important element of covered bonds, dual recourse. Although this term has been in use for a long time, there is often confusion as to what its two components should be. In fact, there are three components, as Article 4(1) of the CB Directive clearly illustrates in listing components a) – c):

a) a claim against the credit institution (the CB issuer); this is the most important difference to securitisations (such as asset-backed securities and mortgage-backed securities) where the investor has a claim against an SPV as a non-bank;

b) in the case of the insolvency of the CB issuer, a claim against the cover pool; and

c) if the cover pool is insufficient, a claim against the insolvency estate of the CB issuer. If this third claim is regarded simply as a consequence of a), then "dual recourse" is the correct term, otherwise "triple recourse" would be more precise.

4.2. Bankruptcy remoteness of covered bonds

Article 5 of the CB Directive makes only brief mention of the fact that payment obligations attached to covered bonds are not subject to automatic acceleration upon the insolvency or resolution of the CB issuer.

Although taken for granted today, this element of a secured bond issued by a credit institution is one of the more recent innovations in the 250-year history[20] of this asset class; it was first introduced in the German Mortgage Bank Act (*Hypothekenbankgesetz*, HBG) in 1998,[21] where it was expressly regulated in 2004, and adopted in the second sentence of Section 30(1) of the German Pfandbrief Act (*Pfandbriefgesetz*, PfandBG). Since then, it has established itself worldwide.[22]

This ensures that investors will receive their capital and interest payments at the time specified in the terms and conditions of the issuance, even if the CB issuer becomes insolvent. This "timely payment" is a key requirement in encouraging investors to accept low interest rates and in enabling rating agencies to grant high ratings to covered bonds.

As simple as this sounds, difficulties arise when determining the time specified in the terms and conditions of the issuance. The "hard bullet" versions of covered bonds such as (up to now)[23] the German Pfandbrief, have a fixed maturity. However, most legislators in other countries allow this date to be extended under certain conditions. Many credit institutions use this for their CB issuances, which are then called "soft bullet" covered bonds. Article 17 of the CB Directive addresses this issue.[24]

4.3. Eligible cover assets

In 2013,[25] Article 129 of the CRR established the first uniform, EU-wide, and directly binding provision[26] on which cover assets could be used to back a covered bond in order to achieve a favourable risk weighting. These requirements continue to apply.

a) Article 6 of the CB Directive goes beyond the framework of Article 129 of the CRR and allows for additional cover assets. Anyone taking advantage of this loses their preferential treatment in accordance with Article 129 of the CRR but can make use of the other special provisions directly linked to the CB Directive or other EU directives that refer to the CB Directive.[27]

   Furthermore, according to Article 27 of the CB Directive, a covered bond whose cover assets meet the requirements of Article 129 of the CRR may be designated as a "European Covered Bond (Premium)". However, the term "Premium" may not be used for covered bonds that go beyond this group of cover assets. In the meantime, the term "Directive-only covered bond" is sometimes used for these bonds in order to simplify matters and to distinguish them from "CRR Covered Bonds".

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[14] Recital 5 of the CB Directive.

[15] See, for example, Article 6 of the CB Directive (cover assets).

[16] See, for example, Article 13 (cover pool monitors) and Article 17 (extendable maturity structures) of the CB Directive.

[17] Particular mention should be made here of the segregation of cover assets, which Article 12 of the CB Directive provides for, but does not regulate how this should be accomplished.

[18] See, for example, second sentence of Article 13(2) and second sentence of Article 15(3) of the CB Directive, as well as third sentence of Article 129(3a) of the CRR.

[19] See, for example, Article 13 and Article 17 of the CB Directive.

[20] The 250-year history of the German covered bond (the Pfandbrief) is detailed in Sattler, *Der Pfandbrief 1769-2019, Von der preußischen Finanzinnovation zur Covered Bond Benchmark*, Stuttgart 2019, with a contribution from Engelhard on the development from 2005.

[21] The exclusion of automatic acceleration of German Pfandbriefe was first regulated by an amendment to the HBG on 1 April 1998 after Stürner had addressed the issue in his report and developed proposals for solutions. See here Stürner, *Die Sicherung der Pfandbrief- und Obligationengläubiger vor einer Insolvenz der Hypothekenbank*, 1998, VDH/vdp publication series, Volume 7, pp. 61 et seq. and pp. 156 et seq.

[22] Only the Czech Republic has long done things differently. It is still unclear today whether this is still the case or whether the relevant regulation should be interpreted differently. This should be resolved in the context of the transposition of the CB Directive.

[23] The vdp has been calling for a statutory extension of maturity in the event of the insolvency of a Pfandbrief issuer for many years now; see Stöcker, *PfandBG – Pfandbriefbanken schlagen Fälligkeitsverschiebung vor*, vdp Infobrief Q2 2016, pp. 2 et seq.

[24] See 4.9 below.

[25] In force since 1 January 2014.

[26] Requirements for cover assets for covered bonds were included for the first time in point 68 of Part I of Annex VI of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions. This directive together with Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions were usually collectively referred to as the "CRD I Package". For more details on the CRD rules for covered bonds, see Engelhard, *Covered Bonds and the EU Capital Requirements Directive*, ECBC, European Covered Bond Fact Book, 1st Edition, 2006, p. 179 (pp. 180 et seq.).

[27] See here Stöcker, *Pfandbriefe und Gedeckte Bankschuldverschreibungen* (Part 2), EuZW 15/2018, p. 617 (pp. 621 et seq.).

b) Article 6(1) of the CB Directive provides for three categories of eligible cover assets:

(1) Assets that are eligible pursuant to Article 129 of the CRR:[28] These are mainly traditional assets, especially claims related to property financing, public financing, and ship financing. In this context, the following LTV ratios[29] apply to property and ship assets: residential immovable property mortgages 80%; commercial immovable property mortgages 60%;[30] and maritime liens on ships 60%.

(2) High-quality cover assets:[31] exact criteria for the high quality of cover assets is not provided. Rather, it lists requirements that a cover asset has to fulfil by consisting of a claim for payment[32] and a collateral asset.

These cover assets can also be property and ship financing that exceed the LTV ratios provided in Article 129 of the CRR.

Collateral assets can be provided as "physical collateral assets"[33] or as "assets in the form of exposures".[34]

In the case of a mortgage loan, the collateral asset would be a lien encumbering a property (and thus a physical collateral asset). These physical collateral assets can be both movable and immovable assets. They require generally accepted valuation standards that are appropriate for the physical collateral asset concerned.

In addition, these physical collateral assets require the existence of "a public register that records ownership of and claims on those physical collateral assets."[35] This requirement was one of the main points of contention in the provision, as there are no registers for many assets. As such, the following text was added: "Member States may provide for an alternative form of certification of the ownership of and claims on that physical collateral asset, insofar as that form of certification provides protection that is comparable to the protection provided by a public register in the sense that it allows interested third parties, in accordance with the law of the Member State concerned, to access information in relation to the identification of the encumbered physical collateral asset, the attribution of ownership, the documentation and attribution of encumbrances and the enforceability of security interests."[36] The EU legislator has thus opted for a broad recognition of national covered bond regulations and national certification and recognition schemes. Nevertheless, this does not go as far as some would have liked, who wanted a legal opinion from a lawyer to be sufficient.[37]

Aircraft registered in Germany are certainly covered by such registers, as there are two registers; one that shows ownership[38] and another that shows mortgages[39] on the aircraft.[40] This also applies to cars and trucks registered in other countries where the required registers exist. Several European countries also have registers for movable assets, so there is a potential wealth of movable assets throughout Europe that could be used as cover assets. However, it remains to be seen what is meant by an "alternative form of certification" as specified in Article 6(3) of the CB Directive.

(3) Public undertakings:[41] these include claims on loans to or guarantees by public undertakings within the meaning of Article 2 of the Transparency Directive.[42]

The reference to this legal definition of public undertakings makes the scope of this category very broad.[43] With its goal of classifying as many companies as possible as "public" (thus making them subject to transparency requirements), the EU Transparency Directive does not aim to define a group of high quality public borrowers or guarantors. Its application was a political compromise to settle the dispute about the scope of counterparties eligible for cover.

Further requirements are set out in Article 6(4) of the CB Directive. These contain several terms that are subject to interpretation, such as "provide essential public services" and "subject to prudential supervision".

(4) Claims against credit institutions and insurance undertakings are a special case.

On the one hand, recital 16 of the CB Directive makes it clear that credit institutions and insurance undertakings should not be considered public undertakings. In consequence, claims against them cannot be eligible for cover in accordance with point (c) of Article 6(1) of the CB Directive.

On the other hand, however, they fulfil the requirements for public supervision in accordance with point (b) of Article 6(3) of the CB Directive. This means that any claim for payment, for whatever legal reason, to cover European covered bonds is eligible if it is guaranteed by a credit institution or insurance undertaking.

It is questionable whether direct claims without any collateral against credit institutions and insurance undertakings are eligible as cover to an unlimited degree. An interpretation according to the

28 Point (a) of Article 6(1) of the CB Directive.

29 Loan to Value ratio. Article 129 of the CRR leaves it open as to whether national CB legislators define these LTV limits in absolute or relative terms (i.e., whether exceeding the loan amount leads to the result that the entire loan may not be used for cover, or whether the virtual division of the loan into a part for cover purposes and part outside of cover is permitted). The national CB laws differ considerably in this respect.

30 This can be exceeded up to a maximum level of 70% if the total assets pledged as collateral for the covered bonds exceed the nominal amount outstanding by at least 10%.

31 Point (b) of Article 6(1) of the CB Directive in conjunction with Article 6(2) and Article 6(3) of the CB Directive.

32 In the case of a mortgage loan, eligible claims for payment would be, for example, claims for payment of interest and principal.

33 Point (a) of Article 6(3) of the CB Directive.

34 Point (b) of Article 6(3) of the CB Directive.

35 Point (a) of Article 6(3) of the CB Directive.

36 Last sentence of Article 6(3) of the CB Directive.

37 Another controversial proposal for Article 6 of the CB Directive, which ultimately failed to gain acceptance, was the almost unlimited use of assets for cover without any quality criteria.

38 The aircraft ownership register is maintained at the German Federal Aviation Office (Luftfahrt-Bundesamt) in Braunschweig.

39 The aircraft mortgage register is maintained at the Braunschweig local court (Amtsgericht). In addition (or alternatively), an international interest can be created in accordance with the Cape Town Convention and entered in the International Registry of Mobile Assets in Dublin.

40 These are two separate registers. However, even if some translations of the CB Directive mention "one" register (e.g., the German version refers to *"ein öffentliches Register"*), it should not pose a problem if ownership and mortgages are recorded in separate registers. First, the indefinite article is used, and second, the English version refers to "a" register (not "one" register).

41 Point (c) of Article 6(1) and Article 6(4) of the CB Directive.

42 Recital 16 of the CB Directive. Commission Directive 2006/111/EC of 16 November 2006 on the transparency of financial relations between Member States and public undertakings as well as on financial transparency within certain undertakings, Official Journal of the European Union of 17 November 2006, L 318/17.

43 In accordance with the legal definition in Article 2 of the EU Transparency Directive 2006/111/EC, a public undertaking means "any undertaking over which the public authorities may exercise directly or indirectly a dominant influence by virtue of their ownership of it, their financial participation therein, or the rules which govern it. A dominant influence on the part of the public authorities shall be presumed when these authorities, directly or indirectly in relation to an undertaking: (i) hold the major part of the undertaking's subscribed capital; or (ii) control the majority of the votes attaching to shares issued by the undertakings; or (iii) can appoint more than half of the members of the undertaking's administrative, managerial or supervisory body;…."

wording and system of Article 6 of the CB Directive would mean that claims against credit institutions would not be directly eligible as cover, but could only serve as collateral for other claims, which, in turn, could also be claims against credit institutions. Consequently, (direct) claims against credit institutions and insurance undertakings would only be eligible for cover within the requirements and limits of Article 129(1a) to (3) of the CRR; in particular, the total exposure limit of 15 % in accordance with point (d) of Article 129(1a) would have to be observed.

In discussions, the European Commission stressed that the aim of the negotiations was to allow payment claims against credit institutions and insurance undertakings for European Covered Bonds (without Premium) to be accepted as eligible for unlimited covered (i.e., not only payment claims guaranteed by them). The collateral asset required by point (b) of Article 6(3) of the CB Directive is in these cases the "ongoing public supervision of the counterparty's operational soundness and financial solvability" of the credit institution or insurance undertaking. Although the wording of Article 6 of the CB Directive is ambiguous, clarification is made in recital 16. Its mention of claims against credit institutions and insurance undertakings not only relates to guarantees, but directly to these claims.

In order to make this even clearer, on 12 September 2019, the EU expert group for the alignment of the various translations decided to change the order of the wording of recital 16 so that the statement that claims against credit institutions and insurance undertakings should be eligible for cover is presented in such a neutral manner that their direct eligibility for cover becomes even clearer. This change has been incorporated in a corrigendum, thus adopted and published with the CB Directive.

c) Given the multitude of conceivable cover assets, Article 10 of the CB Directive aims to make covered bonds more or less uniform in order to ensure homogeneity in the national transposition by the EU Member States, without however defining how this is to be interpreted.

This provision was also highly controversial. In order to achieve a high degree of homogeneity, some parties wanted to lay down strict and detailed specifications on how cover pools may be composed. This went as far as proposing a percentage ceiling for loan claims secured by mortgages on commercial properties, so that residential properties should always make up the largest share of a mortgage cover pool. It was also suggested that residential mortgages and commercial mortgages should not be included in the same cover pool. However, these proposals did not gain acceptance, nor did the suggestion of including the obligation for national legislators to allow multiple cover pools per CB class.[44]

Rather, Article 10 of the CB Directive[45] leaves it to national legislators to decide how to regulate homogeneity. The more cover assets a national CB law permits, the more important it becomes to distinguish between them. Ultimately, this provision is particularly important for those countries that do not regulate any classes[46] of covered bonds, but only a list of assets eligible for cover, and then leave it to the CB issuers to decide whether and how they mix these assets in their cover pools.[47]

d) The complicated topic of allowing derivative contracts in the cover pool is regulated separately in Article 11 of the CB Directive.

Discussions on this topic still focus mainly on the requirement that a derivative contract may be included in the cover pool "exclusively for risk hedging purposes."[48] However, this exclusivity criterion cannot be understood in absolute terms, as this would not be feasible in practice. On the one hand, a CB issuer has to be guided by the derivative products available on the derivatives market and, on the other hand, the cover pools "breathe", that is, they change daily as a result of new inclusions and redemptions of cover assets. This requirement should therefore be understood to mean that the clear objective of inclusion of a derivative has to be to reduce an open net interest or currency position; the creation of a new open position without need from the point of view of the cover assets or covered bonds (e.g., purely to enhance earnings) should be excluded. Moreover, a sense of proportionality and a practical approach are appropriate here.[49]

4.4. Segregation of cover assets

Article 12 of the CB Directive prescribes the segregation of cover assets but does not regulate it. It is thus left to Member States or, at their discretion, even to the issuers to ensure segregation.

a) The legal structures of covered bonds cannot be harmonised

The basic legal structures of covered bonds vary widely and have developed over many years (in some cases centuries). In order to make it easier to compare and contrast these diverse forms, they are usually categorised in five different CB models based on the issuer: specialised funding institutions (vehicles), traditional specialised credit institutions, universal credit institutions, SPV models, and pooling models.[50]

The fundamental differences are particularly evident in the rules governing the link between covered bonds and their cover assets, which are crucial for the segregation of both parts (of critical importance in the event of insolvency of a CB issuer) from the remaining assets of a CB issuer. The legal structure interacts with the degree of specialisation of CB issuers and their ability to integrate into banking groups, so any change in this legal structure would also affect the group structure.

Right from the start of the harmonisation work, the European Banking Authority (EBA)[51] and the European Commission realised that the harmonisation of these fundamental features would not be feasible. It would have been necessary to intervene profoundly in the existing structures of active CB issuers and in well-functioning CB markets without being able to

[44] Other controversial proposals discussed in connection with Articles 6 and 10 of the CB Directive, included specific upper limits for concentration risks and provisions for the granularity of cover pools. Ultimately, these too failed to gain acceptance.

[45] Recital 18 of the CB Directive is also clear in this respect.

[46] The German Pfandbrief Act regulates four classes: Mortgage Pfandbriefe (*Hypothekenpfandbriefe*), Public Pfandbriefe (*Öffentliche Pfandbriefe*), Ship Pfandbriefe (*Schiffspfandbriefe*), and Aircraft Pfandbriefe (Flugzeugpfandbriefe) – with detailed provisions on the respective eligible cover assets.

[47] This has so far been the case according to the CB rules of France, Sweden, and Finland, for example.

[48] Point (a) of Article 11(1) of the CB Directive.

[49] The introduction of an amount-based limit per cover derivative, as discussed in the EU legislative process, was not included in Article 11 of the CB Directive.

[50] For more details on the CB models in association with the degree of specialisation and on the legal link between covered bonds and their cover assets see Stöcker, EuZW 2018, p. 617 (p. 618). For a detailed description of the categorisation developed by the Round Table Covered Bond Legislation see Stöcker, *Covered Bond Models in Europe, Fundamentals on Legal Structures*, Housing Finance International, Winter 2011, pp. 32-40.

[51] For more on their preliminary work, see Stöcker, EuZW 2018, p. 617 (p. 622).

estimate the consequences and effort involved even approximately, and nobody wanted to examine in detail the accounting and tax consequences of a model change.

As such, Article 12(1) of the CB Directive only provides the following:

- All cover assets have to be identifiable.[52] This can be done through entry in a cover register, as stipulated in most CB laws in EU Member States. This can also be achieved by establishing a separate legal entity for the cover pool[53] or even for the CB issuers,[54] so that the cover pool and total assets of this fully specialised company are basically identical; a cover register to decide on the distribution between the cover pool and the insolvency assets in the event of CB issuer insolvency is thus not necessary.[55]
- The respective CB law has to provide for segregation of assets.[56]
- The cover assets have to be protected from any third party claims.[57]

Limiting the provisions to these basic statements means that principle-based harmonisation also applies here, and the design is left to the national CB legislators.

b) Foreign cover assets and segregation of assets

The most challenging discussion in this context focuses on the questions of whether and to what extent foreign cover assets can be integrated into a cover pool or segregated under insolvency law – or, in other words, whether the protection of CB investors regulated by national law also extends to cover assets located abroad.

All CB laws aim to protect CB investors in the event of the insolvency of the CB issuer. If the registered office of the CB issuer is in the same country as the cover assets, the legislator may regulate the allocation of cover assets to the covered bonds because both are located in its territory and therefore subject to its regulatory competence.

Segregation of assets should also apply if the cover assets are located outside the country in which the CB issuer has its registered office. However, this is no longer entirely in the hands of the national legislator – the national border is also the limit of its regulatory power.

This gives rise to two main questions: Could other parties than CB creditors seize cover assets abroad in order to gain access to the payments of the loan debtors? Could secondary or territorial insolvency proceedings be opened abroad in respect of the assets of the CB issuer there and, if so, would the preferential treatment of CB creditors under the CB law of the home country of the CB issuer be respected in foreign insolvency proceedings?

c) Cover assets from EU Member States

In answering these questions, the creation of the Directive on the Reorganisation and Winding-up of Credit Institutions[58] is of great importance for the legal area of the EU. This had to be transposed into national law by EU Member States by 5 May 2004.

This EU directive follows the principles of country of origin and universality.[59] This means that the authorities and courts of the country in which the credit institution has its registered office are competent for recovery measures and consequently also for measures taken by banking supervisory authorities in advance of or to prevent insolvency, which have to take effect in all other EU Member States.[60] This also applies to the opening and performance of winding-up proceedings.[61]

The national authorities no longer have sole responsibility within the scope of the BRRD[62] (transposed into German law by the SAG[63]) and the SRM[64] Regulation;[65] instead, the SRB now plays a central role among the credit institutions subject to ECB supervision. However, the newly established resolution authorities also have to comply with the principles of private international law and international insolvency law. As such, these newer provisions on resolution law do not fundamentally change the principles that determine which law is applicable with regard to the protection of CB creditors and the allocation of cover assets important for this purpose. This applies equally whether the resolution authorities initiate recovery, resolution, or insolvency proceedings against the CB issuer.

This means, for example, that in insolvency proceedings, the law of the country in which the insolvent credit institution has its registered office is applied. The assets (including the cover assets) located in another EU Member State are assessed only according to the law of this country of domicile with regard to their belonging to a separate estate (e.g., the cover pool); thus its CB law governing this separation of assets is decisive. The conduct of further insolvency proceedings in another EU Member State is not permitted; likewise, any individual enforcement measures (e.g., attachment of assets) are prohibited in all EU states already by the opening of insolvency proceedings.

As such, the legal situation in the EU can be summarised as follows: Creditors other than CB creditors cannot attach cover assets in other EU countries and thus cannot gain access to the payments of local loan debtors. It is not possible to open secondary or territorial bankruptcy proceedings against the assets of the CB issuer in other EU countries. The protective effect of the national CB laws is

[52] Point (a) of Article 12(1) of the CB Directive.

[53] This is the case with the CB SPV models in Italy, the Netherlands, and the United Kingdom; here, the SPV is not a credit institution, but guarantees the covered bonds issuances of the universal credit institution with its assets acquired from the universal credit institution. This is also the preferred CB model outside Europe (e.g., in Australia, Canada, New Zealand, and Singapore).

[54] France and Norway bear mentioning here. In these countries, the special purpose company is a credit institution that acquires the cover assets from a universal bank parent company and issues the covered bonds itself.

[55] Whether this can already be regarded as a segregation of assets is another question and depends, among other things, on whether the transfer to the specialised company is reversible (i.e., whether, when, and under what conditions these cover assets can be transferred back to the CB issuer).

[56] Point (b) of Article 12(1) of the CB Directive.

[57] Point (c) of Article 12(1) of the CB Directive.

[58] Directive 2001/24/EC of the European Parliament and of the Council of 4 April 2001 on the reorganisation and winding up of credit institutions, Official Journal of the European Union L 125/15 of 5 May 2001.

[59] See here Schimansky/Bunte/Lwowski, *Bankrechts-Handbuch*, 5th edition/Kolassa, Section 138, marginal note 16. .

[60] Recitals 6 and 7, as well as Articles 3(1) and 3(2) of the Directive on the Reorganisation and Winding-up of Credit Institutions.

[61] Recitals 14 and 16, as well as Articles 9 and 10 of the Directive on the Reorganisation and Winding-up of Credit Institutions.

[62] See here Schimansky/Bunte/Lwowski, *Bankrechts-Handbuch*, 5th edition/Kolassa, Section 138, marginal notes 18 et seq.

[63] The German Act on the Recovery and Resolution of Credit Institutions (Gesetz zur Sanierung und Abwicklung von Instituten und Finanzgruppen, SAG) of 10 December 2014 (BGBl. I, p. 2091).

[64] Single Resolution Mechanism, established under Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation EU No 1093/2010.

[65] See here Schimansky/Bunte/Lwowski, *Bankrechts-Handbuch*, 5th edition/Kolassa, Section 138, marginal note 31.

therefore fully effective within the countries of the EU.[66]

d) Cover assets from third countries

The legal situation becomes more complicated with respect to cover assets located in third[67] countries.[68] Neither national nor EU legislators can create regulations that impact third countries and override international enforcement and insolvency law or directly interfere with regulatory sovereignty of third countries. Consequently, attachment and secondary bankruptcy proceedings in third countries cannot be excluded by domestic legal measures. The EU CB legislator was aware of this. As such, the requirements of Article 12 and Article 7 of the CB Directive have to be considered in conjunction.

In this context, it is important to know that, with respect to Article 7 of the CB Directive, a ban and a limit on cover assets from third countries were discussed, but not included in the final version of the CB Directive. Rather, Article 7(1) of the CB Directive explicitly allows EU Member States to include assets from third countries as cover assets. Although Article 7(2) of the CB Directive contains requirements for comparability, these relate to collateral assets and their enforceability.[69]

Article 7 of the CB Directive does not require that the scope of asset segregation has to be identical to that of national or EU cover assets. In the discussions on this provision, the limited regulatory competence of national CB legislators was addressed, which also results from the principles of private international law and international insolvency law. Any vagaries therefore lie within the decision-making competence of the national CB legislators. They can prohibit assets from third countries, or allow them to be held for an unlimited or limited amount, and thereby take into account the complexity of the legal issues associated with cross-border situations, accepting them, or even limiting them by imposing additional requirements.[70]

The scope for flexibility in this area is also a consequence of principle-based CB harmonisation. If the same requirements had been imposed on cover assets from third countries as on national or EU cover assets, the special provision of Article 7 of the CB Directive would not have been necessary. In other words, identical requirements would lead to the ineligibility of third-country assets as cover assets, which, in turn, would render Article 7 of the CB Directive obsolete.

As such, the legal situation regarding cover assets from third countries can be summarised as follows: The theoretical risk that creditors other than CB creditors might be able to access cover assets located in a third country by means of attachment measures after the opening of insolvency proceedings against the CB issuer cannot be excluded by national or EU legislative measures. Similarly, the opening of secondary of territorial bankruptcy proceedings against the assets of the CB issuer located there cannot be completely ruled out. These risks can be reduced by legal volume restrictions or other measures. In accordance with principle-based harmonisation, the complexity associated with third-country cover assets lies within the competence and area of responsibility of the national CB legislator.

e) Segregation of assets before the opening of insolvency proceedings

Sometimes, the requirement is made that the segregation of assets has to be possible at all times. Based on Article 12(2) of the CB Directive[71] alone, one may conclude that the segregation of assets has to exist prior to the opening of insolvency or resolution proceedings, otherwise the inclusion of the word "also" does not make sense.

This seems plausible at first glance. Nevertheless, one can legitimately ask what the purpose of a "segregation of assets" protection mechanism is if a CB issuer is financially sound and liquid.

In addition, Article 12(2) of the CB Directive does not specify what is meant by segregation of assets prior to insolvency proceedings and from that moment on.

A look at point (6) of Article 3 of the CB Directive provides some guidance here: Segregation of assets is defined there as "the actions performed by a credit institution issuing covered bonds to identify cover assets and put them legally beyond the reach of creditors other than covered bond investors." This shows that, in addition to the segregation component, the identification of cover assets is also an objective, and this determination can be made prior to a crisis situation (e.g., by entering the assets in a cover register).[72]

A liquid credit institution will settle undisputed liabilities, otherwise it risks facing problems in the interbank and capital markets, where rumours of impending liquidity shortages spread very quickly and can lead to a real problem. Consequently, there should be no attaching creditor who could seize a cover asset. Therefore, there is no need to require the segregation of assets to protect against potential attaching creditors even before a crisis situation arises; the identifiability is fully sufficient, and this is what the CB Directive intends.

Moreover, no national legislator can directly regulate cross-border attachment protection, as attachment protection is part of the enforcement proceedings law, which is governed by *lex fori*. If the separation of assets were to be understood as broadly as this, it would practically rule out the use of EU cross-border assets to cover covered bonds. However, damaging the EU single market is certainly not the aim of CB harmonisation.

f) Segregation of assets in resolution proceedings

Article 12(2) of the CB Directive states that the "segregation of cover assets … shall also apply in the case of … resolution of the credit

[66] An expert opinion examined the question of whether the implementation of the Directive on the Reorganisation and Winding-up of Credit Institutions ensures EU-wide recognition of the preferential right of Pfandbrief creditors in insolvency in accordance with German Pfandbrief law. The expert opinion confirmed this, finding that the opening of insolvency proceedings against a credit institution can only take place in the EU Member State where the credit institution has its registered office and that neither individual enforcement measures against this (insolvent) credit institution nor the opening of secondary or territorial insolvency proceedings are permitted in other EU Member States. Consequently, insolvency proceedings against a German Pfandbrief bank could only be opened in Germany, where German Pfandbrief law would apply, thereby ensuring the protection of Pfandbrief creditors. This opinion was published in Stürner, *Die europäische Sanierungs- und Liquidationsrichtlinie für Banken und die deutschen Hypothekenbanken*, in Gerhardt/Haarmeyer/Kraft (Eds.), *Insolvenzrecht im Wandel der Zeit, Festschrift für Hans-Peter Kirchhof zum 65. Geburtstag*, 2003, pp. 467 et seq.

[67] According to EU law, third countries are countries outside of the EU and the EEA.

[68] For more detail, see Stöcker, *Pfandbriefrechtlicher Insolvenzschutz und ausländische Deckungswerte*, Festschrift Rolf Stürner, 2013, pp. 815 et seq.

[69] The content of this was adopted from Section 18(1) of the German Pfandbrief Act.

[70] In Sections 13, 20, 22, and 26b, the German Pfandbrief Act sets volume limits for all types of cover assets with regard to the extension of the preferential right in insolvency to cover assets located in third countries. Pfandbrief cover assets from third countries may be excluded from the limits if substitute legal constructions are implemented that ensure that the third-country cover assets are allocated in the event of the Pfandbrief bank's insolvency. The vdp has had academic reports drawn up that indicate alternative solutions by way of contractual arrangements; lawyers have drawn up contracts on the basis of these reports. For further details, see Stöcker, *Pfandbriefrechtlicher Insolvenzschutz und ausländische Deckungswerte*, Festschrift Rolf Stürner, 2013, p. 815 (pp. 821 et seq.). These rules on third-country cover assets under German Pfandbrief law were time and again the basis for reaching a compromise in the Brussels discussions, in that the German solution was judged to be balanced and should continue to apply and therefore be compatible with Articles 7 and 12 of the CB Directive.

[71] "The segregation of cover assets … shall also apply in the case of insolvency or resolution of the credit institution issuing covered bonds."

[72] For the other options, see 4.4 a) above.

institution issuing covered bonds." This too shows that asset segregation does not have to mean an irreversible segregation between cover assets and the other assets of a CB issuer, as would be the case from the opening of insolvency proceedings.

Indeed, the objective of resolution may well be recapitalisation by writing down liabilities[73] and thus the full continuation of the credit institution, including its CB component. In this context, the ongoing ability to issue covered bonds could make a decisive contribution to the success of the bank's continuation, as covered bonds provide a better basis for funding than other capital market instruments, especially in times of crisis. Segregation of the cover assets could run counter to this objective, or even thwart it entirely.

4.5. Cover pool monitors and public supervision

The provisions of Article 13 of the CB Directive on the "cover pool monitor" and, in particular, of Articles 18 to 26 of the CB Directive on "covered bond public supervision" are ground-breaking, as there has been nothing comparable on covered bonds in EU law until now.[74] Without the intensive work of the EBA, this density of regulation would not have been possible.

It was long disputed whether the function of a responsible individual to monitor cover pools and CB issuances was part of supervision. This is as, in some EU countries, bank supervisory authorities have hardly performed any tasks with respect to covered bonds. Rather, the "supervision" was at times left to cover pool monitors. However, the supervisory authorities did not want to accept responsibility for a cover pool monitor's mistakes in the event that something went wrong. The very fact that Article 13 is located in Title II of the CB Directive, and Articles 18 et seq. are located in Title III of the CB Directive (i.e., in different Titles), shows the decision of the EU legislator that the activity of a cover pool monitor cannot be considered part of public supervision.

It is a subject of discussion whether the cover pool monitor's reporting obligation in accordance with point (d) of Article 13(2) of the CB Regulation means that it has to send unsolicited reports to the competent authorities on a regular basis. However, the precept of principle-based harmonisation applies here as well. Since the manner in which reports are to be submitted is left open here, these details are left to national CB legislators. The reference to Article 18(2) of the CB Directive only indicates to whom the reports have to be submitted, namely the competent authorities designated by EU Member States for the public supervision of CB issuers.

It was strongly disputed whether the function of a cover pool monitor should be required at all and how its independence should be structured. Here too, principle-based harmonisation is evident: As there are CB cover pool monitor regulations in most, but not all, Member States, the entire cover pool monitor provision has been regulated only as a possibility (i.e., as an optional provision, which, however, contains some mandatory requirements if the decision is made to set up such an authority). In addition, various versions of independence have been permitted with mention made both of a "cover pool monitor … separate and independent from the credit institution",[75] as well as of an "internal cover pool monitor"[76] when the function is not separate from the credit institution. However, neither the selection criteria nor the economic relationship[77] with the CB issuer are regulated for either cover pool monitor version, so this too remains within the scope of the national CB legislator's freedom of design.

The attention to detail with which Articles 18 to 26 of the CB Directive regulate various issues concerning the competences and procedures of CB competent authorities is remarkable. In particular, the list of administrative penalties detailed in Article 23 of the CB Directive is extremely long. These provisions are the result of the deliberations of the EBA's CB working group, which brought together and (in part) summed up the existing national provisions.

After lengthy discussions, a large majority agreed that EU Member States have a duty to ensure that "the competent authorities … have the expertise, resources, operational capacity, powers and independence necessary to carry out the functions relating to covered bond public supervision."[78] Although this sounds self-evident, many countries still have no person in the national competent authorities that is responsible for CB issues (such as the interpretation of CB law), so there is a great deal of organisational work to be done here.

A very important but equally controversial regulatory idea did not gain acceptance either in the EBA's CB working group or in the subsequent EU legislative process; namely the obligation of the competent authorities to regularly review cover assets. Only the duty of national CB legislators to give their competent authorities "the power to carry out on-site and off-site inspections"[79] was included.

4.6. Investor information

The provisions included in Article 14 of the CB Directive have been largely taken from Article 129(7) of the CRR. There is particular discussion of how to transpose the requirement in national CB law that CB issuers have to regularly publish information on credit risks.[80]

Here too, the CB Directive aims at principle-based harmonisation. As such, if it does not regulate its objectives in detail, rather, it is up to the national CB legislators to decide on the details and scope, which will be based on existing standards.

The connection between this provision and Article 6 of the CB Directive is obvious. The wider the range of eligible cover assets permitted by national CB law beyond the traditional cover assets, the greater the consideration that needs to be given to including transparency provisions for the associated credit risks.

4.7. Coverage requirements

Article 15 of the CB Directive contains provisions on coverage principles[81] and coverage calculation.[82] Although the nominal principle is provided for in general, national CB legislators may also allow for other principles of

[73] Special provisions apply to covered bonds in resolution proceedings. In particular, covered bonds may only be "written down" to the extent that they are not covered by cover assets (in accordance with the fourth sentence of Article 44(2) of the BRRD, transposed into German law in point 2 of Section 91(2) of the SAG).

[74] Article 52(4) of the UCITS Directive and all EU provisions on covered bonds that use the same wording or refer to it only contain the provision that there has to be "special public supervision". However, it has never been clarified how the terms "special" and "public" should be interpreted.

[75] First sentence of Article 13(3) of the CB Directive.

[76] Second sentence of Article 13(3) of the CB Directive.

[77] In particular, the remuneration for the work of the cover pool monitor.

[78] Article 18(6) of the CB Directive.

[79] Point (c) of Article 22(2) of the CB Directive.

[80] Point (d) of Article 14(2) of the CB Directive.

[81] Article 15(2) of the CB Directive.

[82] Questions have on occasion arisen regarding the fact that the liabilities to be covered expressly mention CB interest payments in point (b) of Article 15(3) of the CB Directive, however, no mention is made of these with respect to the cover assets contributing to coverage requirements in Article 15(4) of the CB Directive. This does not mean that only principal claims should be included in the cover assets when calculating coverage (especially since these are not explicitly mentioned either). Rather, this discrepancy is explained by the fact that point (4) of Article 3 of the CB Directive defines cover assets as those assets that are included in the cover pool without distinguishing between principal and interest claims.

calculation, the details of which have to be regulated in national CB laws.[83]

For the first time, an EU provision has stipulated that winding-down costs are to be taken into account in the coverage calculation:[84] "the expected costs related to maintenance and administration for the winding-down of the covered bond programme." This is discussed in greater detail below.

a) According to point (20) of Article 3 of the CB Directive, resolution should be understood within the meaning of point (1) of Article 2(1) of the BRRD,[85] which defines this term as: "the application of a resolution tool … in order to achieve one or more … resolution objectives." As such, resolution does not necessarily mean the opening of insolvency proceedings. Rather resolution can also consist of recapitalising the entire credit institution through writing down liabilities (a bail-in), thereby continuing their business activities, including the CB programme. In such a case, covered bonds and cover assets are usually not separated from the CB issuer. Consequently, this case cannot be used as a basis for the calculation of winding-down costs. Instead, the focus should be on cases of insolvency, which are likely to represent the maximum cost volume. If the resolution authorities were then to decide on a less costly winding-down variant for the CB part of a CB programme, the financial reserves for the costs then incurred would be all the more sufficient.

   Point (2) of Article 3 of the CB Directive defines a covered bond programme as "the structural features of a covered bonds issue that are determined by statutory rules and by contractual terms and conditions, in accordance with the permission granted to the credit institution issuing the covered bonds." In simple terms, this refers to the totality of the covered bonds and the related cover assets; as CB models can vary widely, this somewhat complicated description was chosen to ensure that all CB models are covered. Furthermore, the term "programme" is commonly used by market participants to describe this totality.

b) As the coverage requirements have to be complied with "at all times",[86] this means that the coverage calculation has to be carried out on each and every bank business day. However, in order to avoid the time-consuming and costly calculation of winding-down costs according to current (and therefore frequently changing) demand, EU Member States may allow their national CB laws to calculate these winding-down costs on the basis of a "lump sum calculation".[87]

   Major discussions have been triggered by the question of whether the minimum overcollateralisation already provided for in many countries can be used as this lump sum. The European Commission has confirmed this in principle on various occasions. However, it was emphasised that these lump sums cannot be used twice. Thus, anyone using a statutory overcollateralisation provision to cover winding-down costs cannot use the same amount again to meet the overcollateralisation provisions of Article 129 of the CRR.[88] This is already apparent from the fact that the calculation of coverage and the calculation of overcollateralisation are regulated by different pieces of legislation (i.e., the CB Directive and Article 129 of the CRR). Rather, the entirety of the liabilities referred to in Article 15(3) of the CB Directive, including the winding-down costs, forms the basis of the calculation of the statutory overcollateralisation requirements of Article 129 of the CRR;[89] the winding-down costs consequently increase the calculation basis for the statutory fulfilment of the overcollateralisation requirements. This is particularly clear from the definition set out in point (14) of Article 3 of the CB Directive, according to which "'overcollateralisation' means the entirety of the statutory, contractual or voluntary level of collateral that exceeds the coverage requirement set out in Article 15," of which the winding-down costs form an integral component.

c) With respect to point d) of Article 15(3) and Article 15(4) of the CB Directive, the question of whether this inclusion of winding-down costs in the coverage calculation needs to be fulfilled after the opening of insolvency proceedings against a CB issuer has already been discussed on several occasions. Since the aim of the provision is to cover precisely these costs, it is not possible to save the funds for later when they are currently needed in the event of insolvency.

   This can be different in resolution proceedings. If the resolution authority chooses to allow the credit institution to continue, including the CB component, the winding-down costs have to be fully included in the cover calculation, as a later case of insolvency cannot be excluded.

4.8. Requirement for a cover pool liquidity buffer

Article 16 of the CB Directive introduces a new element to EU legislation on covered bonds, as the requirement to maintain a liquidity buffer for the "next 180 days" can be found neither in Article 52(4) of the UCITS Directive, nor in Article 129 of the CRR. The aim of this provision is to enhance the quality of covered bonds by increasing the probability that CB creditors will receive timely payment in the event of the insolvency of a CB issuer.

a) There were intense discussions on how Article 16 of the CB Directive could be brought into line with the LCR requirements[90] of general banking supervision law,[91] which lay down criteria for the eligibility of covered bonds as "liquid assets".[92]

   Taken on its own, Article 16 would mean that CB issuers would have to comply with the provisions of two legal acts, both aiming at the same objective – namely, to maintain a liquidity buffer for payment obligations for the next 30 days. The CB liquidity buffer requires this for all CB liabilities, and for a period of time as long as 180 days. The LCR provisions require this for all

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[83] Article 15(6) of the CB Directive. This allows the continuation of the net present value calculation of cover as it is currently regulated in national CB laws (such as in Section 4(1) of the German Pfandbrief Act).

[84] Point (d) of Article 15(3) of the CB Directive.

[85] The Bank Recovery and Resolution Directive: Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council, OJEU L 173/190 of 12 June 2014.

[86] Article 15(1) of the CB Directive.

[87] Second sentence of Article 15(3) of the CB Directive.

[88] See 5. below.

[89] In contrast, the statutory overcollateralisation of 2 percent of net present value provided in Section 4(1) of the German Pfandbrief Act 2005 was taken over from the German Mortgage Bank Act, where it had only been regulated since 2004, in order to cover, among other things, the costs of managing the cover pool in the case of a Pfandbrief bank becoming insolvent. The winding-down costs were therefore not yet part of coverage calculation to cover the liabilities and consequently do not increase the cover basis of the statutory overcollateralisation.

[90] Liquidity coverage ratio. Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.

[91] Article 412 of the CRR regulates the requirement that bnks have to be able to provide liquidity for the next thirty days even under stressed conditions. For more on this provision and the associated delegated regulation, see Boos/Fischer/Schulte-Mattler – Zeranski, *KWG, CRR-VO*, 5th Ed., Munich 2016, Art. 412 CRR, marginal notes 1 et seq.

[92] QFor more on the LCR with respect to covered bonds, see Will, ECBC, *European Covered Bond Fact Book 2019*, pp. 164 et seq.

liabilities of the CB issuer (and thus also for the CB liabilities) for the next 30 days. The overlap for the first 30 days results in a double burden for CB issuers.

However, until the adoption of the CB Directive, no agreement could be reached on how to avoid this double burden. In addition, the required amendment to the LCR Delegated Regulation to eliminate the double burden was not possible in parallel with the creation of the CB Directive.

As a compromise, an interim solution was arrived at, resulting in the provision in Article 16(4) of the CB Directive. Although difficult to understand at first glance, the provision aims to avoid this double burden on CB issuers. According to the provision, national CB legislators may, on a transitional basis, allow the first 30 days of the 180-day liquidity buffer to be covered only by the LCR.[93] This applies until such time as the double burden is eliminated by an amendment to the LCR provisions[94] (work is already underway to amend the LCR Delegated Regulation to eliminate this double burden).[95]

b) Article 16(5) of the CB Directive simplifies the matter further by permitting national CB legislators to allow maturity extension provisions to be taken into account in the calculation of the liquidity buffer. This also means that the liquidity buffer would only be required for interest liabilities falling due in the next 180 days if either no principal amounts fall due in this period or if principal amounts falling due according to the original payment schedule are postponed by at least this period.[96]

4.9. Conditions for extendable maturity structures

For a number of years now, more and more CB issuers throughout Europe have been providing in their terms and conditions of issuance that the maturity of their covered bonds may be extended under certain conditions.[97] Given the major significance of this development, it was necessary to include the topic in the CB Directive.

Article 17 of the CB Directive grants EU Member States the possibility of allowing the issuance of covered bonds with extendable maturity structures; this is therefore an optional provision. However, at the same time, mandatory requirements apply to these provisions if they are used. The national CB laws can either regulate all details of maturity extension themselves,[98] or limit themselves to the basic principles and leave further design to the CB issuers.

The following topics continue to be the focus of in-depth discussions:

a) A minimum requirement is that the national CB law has to specify the objective triggers for maturity extension (i.e., these may not be at the discretion of the CB issuer).[99] These maturity extension triggers are to be specified in the contractual terms and conditions of the covered bond.[100] When introducing provisions for maturity extension into national CB laws, the question thus arises of whether this is also possible for covered bonds that have already been issued (i.e., are in circulation). This can occur in two ways:

First, the CB issuer could ask the CB holders for their consent to a subsequent amendment of the terms and conditions of issuance (this approach could be quite costly). Second, Article 30 of the CB Directive may be applied, according to which covered bonds issued until 8 July 2022 may be labelled as "Directive-only covered bonds" if, for example, they do not comply with the requirements of Article 17 of the CB Directive.[101]

b) The final maturity date of a covered bond with an extendable maturity structure is to be determinable at all times.[102] However, this provision does not stipulate that this determination needs to be possible for every person.

The term "determinable" was deliberately chosen, as opposed to, for example, "specified". As such, the CB Directive grants a great deal of scope with respect to design. It also allows for covered bonds with conditional pass-through structures,[103] which (as usual) include a legal final maturity in their terms and conditions of issuance, on the basis of which a calculation can be made. It should also be emphasised that Article 16(5) of the CB Directive allows the liquidity buffer to be based on the final maturity date, which applies to all forms of maturity extension.[104]

c) A provision is also required whereby a maturity extension does not affect the ranking of CB investors or invert the sequencing of the original maturity schedule.[105] In this respect, it has already been intensively discussed whether this would exclude any change in the sequencing of the servicing of covered bonds in the event of the insolvency of a CB issuer.

Based on the precept of principle-based harmonisation of CBs, it is generally agreed that the CB Directive does not intend to interfere with the basic structure of CB systems. As such, this provision should be narrowly interpreted as well. Thus, the provision only prohibits changes in the sequencing that would result from the maturity extension and would be to the disadvantage of investors.

Thus, if national CB law allows an administrator of cover pools and covered bonds to generally change the order in which they are serviced (i.e., without extending the maturity), they should be able to do so in addition to extending the maturity date. The main options here are: repurchasing covered bonds,[106] exercising call options,[107] taking out loans and thus creating new liabilities, and the issuance of new covered bonds.

93 This, however, weakens covered bonds to a certain extent, as in the event of the insolvency of a CB issuer, for the first 30 days, the liquidity buffer would not be part of the cover assets segregated under insolvency law, but rather would be part of the general insolvency estate.

94 As the LCR provisions require all liabilities of a CB issuer to be considered, a solution has to be anchored in the LCR legislation.

95 Even during the work on the CB Directive, it was suggested that the LCR Delegated Regulation should stipulate that the cover assets should not be treated as encumbered for the purposes of the LCR liquidity analysis, so that they could be counted towards the LCR.

96 In the CB issuance practices of soft-bullet covered bonds to date, a maturity extension of one year is common, and some even go beyond that. Polish CB law also regulates maturity extensions of one year. There are no known provisions on extensions for less than 180 days. For more on this, see 4.9.

97 For an overview of this topic, see Rudolf, *Extendable maturity structures – the new standard*, ECBC, European Covered Bond Fact Book 2019, pp. 85 et seq.

98 The first country to include detailed provisions for maturity extensions in its CB law was Poland, which did so in 2016.

99 Point (a) of Article 17(1) of the CB Directive.

100 Point (b) of Article 17(1) of the CB Directive.

101 However, without the additional label of "European" (and definitely not of "Premium") that results from the interaction of Articles 27 and 30 of the CB Directive.

102 Point (d) of Article 17(1) of the CB Directive.

103 For more on this, see Rudolf, *Extendable maturity structures – the new standard*, ECBC, European Covered Bond Fact Book 2019, p. 85 (p. 86).

104 See 4.8 b) above.

105 Point (e) of Article 17(1) of the CB Directive.

106 For example, repurchasing below the nominal value in order to increase overcollateralisation.

107 This can be considered, for example, if the outstanding covered bonds have very different interest rates and the administrator wants to service the high-yield covered bonds earlier than the low-yield covered bonds.

In this context, it should be noted that "ranking of covered bond investors" refers to the situation where payments are not sufficient for all creditors, and that "sequencing of the covered bond programme's original maturity schedule" is used when referring to the timing and sequence of payments.

d) Recital 33 of the CB Directive, which enables national CB legislators to grant national CB competent authorities the power "to invalidate a maturity extension", is more difficult to comprehend. It seems hard to envisage in the case of maturity extensions that have already been implemented. It is more conceivable that this could be prescribed prior to an extension in order to prevent it. Apparently, the EU legislator was not entirely comfortable with this topic either, as it is not provided for in Article 17 of the CB Directive.[108]

4.10. Labelling

Article 27 of the CB Directive lists two protected labels:

- The label "European Covered Bond" may be used for covered bonds that meet the provisions of national law transposing the binding rules of the CB Directive that apply in the country where the CB issuer has its registered office; and
- The label "European Covered Bond (Premium)" may only be used for covered bonds that also meet the requirements of Article 129 of the CRR.

Not every national CB law has to explicitly protect the labelling in the languages of all other EU countries. It is sufficient when a general provision is selected, such as that contained within Article 27 of the CB Directive.

4.11. Transitional measures

The grandfathering provision of Article 30(1) of the CB Directive permits covered bonds issued until 8 July 2022 to be designated as covered bonds in accordance with the CB Directive, even if they do not meet the requirements of various expressly mentioned provisions[109] of the CB Directive.[110] However, the terms "European" and "Premium" may not be used for such covered bonds.

5. Content of the amendment of Article 129 of the CRR

The most important amendment to Article 129 of the CRR is the provision on the minimum level of overcollateralisation. This minimum level of overcollateralisation is to be calculated based on the liabilities referred to in Article 15(2) and (3) of the CB Directive.[111]

In accordance with the first sentence of Article 129(3a) of the CRR, the minimum level of overcollateralisation is to be 5%.[112] Here too, principle-based harmonisation comes into play, in that the third sentence of Article 129(3a) of the CRR grants the EU Member States the authority to set a lower level of overcollateralisation or to authorise their competent authorities to set such a level, provided that the minimum level of overcollateralisation is not lower than 2%.

The reduction applies to all immovable property cover assets whose valuation is subject to the mortgage lending value. For other cover assets, "the calculation of overcollateralisation is based on a formal approach where the underlying risk of the assets is taken into account";[113] such a reduction must therefore be risk-adjusted.

6. European Commission and EBA tasks

Through Article 31 of the CB Directive, the EU legislator has given several tasks to the European Commission and the EBA to complete:

- **By 8 July 2024:** The development of an equivalence regime[114] for the regulatory treatment of covered bonds issued by third-country credit institutions;[115]
- **By 8 July 2025:** The submission of a report on the implementation of the Directive in national law, as well as on the developments regarding permissions to issue covered bonds, cover assets, overcollateralisation, cross-border investments in covered bonds, the issuance of covered bonds with extendable maturity structures, and any recommendations for further action;[116]
- **By 8 July 2024:** The commissioning of a study on the risks and benefits arising from covered bonds with extendable maturity structures;[117]
- **By 8 July 2024:** The adoption of a report on the possibility of introducing a dual-recourse instrument named a European Secured Note (ESN).[118]

7. Outlook

The CB harmonisation package is to be warmly welcomed as an important milestone in the development of CB legislation. Principle-based harmonisation allows national CB legislators enough room to maintain and individually develop the legal structures of their CB models, while also achieving an EU-wide minimum standard, which will certainly have spill-over effects beyond the EU on other CB systems. Despite criticisms that provisions are unclear, too far reaching, or not far-reaching enough, it should be noted that this European Union CB legislative package has laid the foundation for ensuring that covered bonds will continue to remain deeply anchored in the EU regulatory framework.

As early as 2019, the European Commission announced that it would discuss questions of interpretation in a special group of experts, which – just like the Council working group during the EU legislative process – would include representatives of national

[108] This was possibly one of the disputed provisions that could not be pushed through, but it was forgotten to delete the recital drafted for it.

[109] Articles 5 - 12, 15, 16, 17 and 19 of the CB Directive.

[110] For the application of Article 30 of the CB Directive when a statutory provision introduces an extension of maturity without (subsequent) changes in the terms and conditions of issuance, see 4.9 a) above.

[111] For more on this, see 4.7 b) above.

[112] During the EU legislative process, a statutory minimum level of overcollateralisation as high as 10 percent was discussed. However, this was not included in the final version of the CB harmonisation package.

[113] Point (a) of the third sentence of Article 129(3a) of the CRR.

[114] Consideration could be given to requiring mutual recognition of the preferential treatment of CB creditors in order to solve the legal problem described in 4.4 d). Possible formulations could be based on the CB laws in Germany, Ireland, Luxembourg, and Austria from the 1990s. These countries included such provisions in the CB laws until the creation of the Directive on the Reorganisation and Winding-up of Credit Institutions. With these laws, these four countries achieved complete protection of the foreign cover assets among themselves in favour of the respective CB creditors with regard to the allocation of these cover assets.

[115] Article 31(1) of the CB Directive. The proposal to include an equivalence provision in the CB Directive as early as 2019 was not accepted.

[116] Article 31(2) of the CB Directive.

[117] Article 31(4) of the CB Directive.

[118] Article 31(5) of the CB Directive.

governments and supervisory authorities. It was originally planned that this interpretation working group could meet as early as spring 2020. However, as most national legislators did not want to start their deliberations on transposition until the European Union CB harmonisation package had been published in the Official Journal of the European Union, the project was postponed. Due to personnel changes in the European Commission and the COVID-19 pandemic, the timetable was changed again, so that the meeting of the interpretation working group is now expected in the autumn of 2020 at the earliest.

Work on the timely transposition of the CB harmonisation package into German law began in parallel with the final editing of the work at the EU level. It can be expected that the German Federal Ministry of Finance (Bundesministerium der Finanzen) will initiate the parliamentary procedure to amend the German Pfandbrief Act in autumn 2020.

Impact of socio-cultural attributes on residential satisfaction in Oroki Housing Estate Osogbo, Nigeria

By Adewale Olufunlola Yoade

1. Introduction

The World Health Organization (WHO) describes housing as residential environment which includes the following: the physical structure used for shelter, all necessary services, facilities, equipment and devices needed or desired for the physical and mental health and social well-being of the family and individuals. The United Nations, 1996 Ad-Hoc Group of Experts on Housing and Urban Development equally asserted that housing is neither a mere shelter nor household facilities alone (UN-Habitat, 2005). It is an essential need that comprises essential services and facilities, which make up a physical environment that link individuals and their families to the community in which they live. Therefore, environmental amenities such as waste disposal, water supply and road access and location services implied by the special links between necessary economic and social infrastructure such as education, health and recreation are all parts of the package of services designated as housing (Aribigbola 2001; Elsinga and Hockstra, 2005).

Housing fulfills a basic need for shelter and has a profound impact on the quality of life, health, safety, security, welfare as well as productivity of man. It also plays a crucial role in integrated physical and economic development, environmental sustainability and mitigation of natural disaster via compensation of victims and employment generation as well as wealth creation (Erguden, 2001; Un-Habitat, 2006). Housing is often regarded as one of the basic human needs. It ranks second after food and thereafter clothing. It is a prerequisite for the survival of man (Onibokun, 1985). Housing as a unit of the environment has profound influence on the health, efficiency, social behaviour, satisfaction and general welfare of the community. It reflects the cultural, social and economic values of a society, as it is the best physical and historical evidence of the civilization of a country. It is a composite of the overall physical and social components that makeup the housing system (Francescato, Weidemann and Anderson, 1987).

The concept of housing satisfaction is multilayered. Ramdane and Abdullah (2000) display similar views on the concept of housing satisfaction based on their observation of past studies. In their opinion, the concept of housing satisfaction has been used for four major objectives: Firstly, it is the key to predict an individual's perception of the overall quality of life. Secondly, it is also an indicator of individual mobility which later changes the demand for housing and influences surrounding area change. Also, it is used as an ad hoc measurement of private sector development success; furthermore, it is used as an evaluation tool to measure residents' acceptance of prevailing shortcomings for existing surrounding area development and finally it acts as a variable in determining the relationship between the resident's background and his attitude towards mobility (Salleh, Nor'Aini Yusof, Abdul Ghani Salleh and Johari, 2011).

Housing satisfaction has become the prominent indicator used by researchers and analysts as an evaluative measure of private and public building sector performance; as an indicator of residential mobility and as an evaluation of occupants' perception of their residential environment and improvement through new projects. The choice of residential satisfaction as a criterion is governed by a number of considerations, one of which stresses the point of view of the inhabitants themselves, and this emphasis is based on the fact that many problems in the built environment are the result of neglecting the users' point of view. The goal of residential building performance is creating and sustaining an environment which maximizes the efficiency of the residents while enabling effective management of resources at minimum lifetime cost (Oliveira and Heineck 1999).

Culture is a comprehensive notion, and its meaning should be drawn from the collected studies which cover three major areas which influence residents' satisfaction and sociocultural experiences of people in housing (Thaman, 2002). The first is its aesthetic and artistic dimension that relates to user's satisfaction with housing and culture. This covers fine arts, popular culture, performing arts and so on. The second aspect refers to the cultivation of mind and spirit. It includes knowledge, belief, religion and ideologies. This is associated with the important aspect attached to the availability of a praying area within the house and the characteristics and distance to the place worship in the neighbourhood. The third dimension is the anthropological perspective: the way of life as it pertains to the social aspect of human behavior. This is attributed to the existence of privacy within the functional area in the house and the neighbourhood area (Onibokun, 1974; Olotuah, 2002). The housing form developed in an area will reflect the totality of the socio-cultural conventions inherent in a specific society. It includes morals, values, laws, codes, customs, traditions, heritage, lifestyles and the ways it socializes. The above three dimensions overlap and influence one another in various ways (Schusky and Culbert, 1973). Culture also has its own attributes: it is cumulative over generations and it is diverse, giving housing identity to a place over different periods. An important interpretation of culture pertinent to the housing development perspective is that culture is the means by which man adapts to his environment and secures things that he needs for his survival (Salleh, 2008).

"Socio-cultural" is an umbrella term for a variety of cultural, social or political interests and needs of a society or social group, combining the social and cultural aspects representing their strong relation to social groups and their value systems, which could be attributed to the existence of various ethnic groups within the housing development considered as one of the variables relating to residential satisfaction. Housing forms favoured by different ethnic groups therefore speak of the changes of a culture and the cultural identity of a place (Thaman 2002). The other important factors relating to ethnic groups are that people from different ethnic backgrounds live together peacefully and harmoniously in public estates.

Living together brings a greater opportunity for inter-ethnic contacts and living together in the same residential area harmoniously (Diogun, 1998; Amad 2003; Jiboye, 2010). Consequently, the culture of a place cannot be separated from the natural environment, and it unquestionably has a part to play in the pursuit of housing development of a place. The idea of cultural influences is not as well established as that of social influences, and it is often subsumed under social influences because of its social dimension (Munro, 1995). Nevertheless, Hardoy, Mitlin and Satterthwaite (1992) have concisely pointed out two important interpretations of cultural influence. The first refers to the influence of shared values, perceptions and outlooks for the achievement of development. The second interpretation refers to the sustenance of a culture itself, and in this case, culture is regarded as a critical component of development. Thus, culture should evolve with socio-economic developments over time, and its evolution process should be recognized through conservation of the cultural inheritance. Clearly, cultural influences overlap with social influences in terms of the socio-cultural limits to and pre-conditions for development. These overlaps and distinctions can also be identified between the social and cultural influences on housing (Chiu, 2002b).

However, in a residential environment, the influences of socio-cultural experiences in housing constitute a fundamental factor that will be required to meet the needs of the residents, to satisfy them and to maintain the overall health of individuals and the public. Various needs that appear due to the problems caused by housing and the residential environment, which are a result of failure to consider the physical, psychological, socio-cultural and environmental requirements that could affect resident satisfaction and attitude, by promoting the overall individual/family happiness and welfare (Agbola, 1998; Jiboye, 2004).

In most of our urban centres, the problem of housing is not only restricted to quantity but the poor quality of available units (Nubi, 2008; Yoade, Olayiwola and Popoola, 2013). In spite of an attempt to provide low-cost housing through emphasis on public housing schemes for decades, Nigeria's housing policies have had little success since most of them have failed to meet the housing needs of the most vulnerable low-income households. The realization of this has led to several more policy formulations and researches (Morris and Winter, 1975, 1978; Ha, 2008; Jiboye, 2008 Mohit and Nazyddah, 2010; Ibem and Amole, 2012; Makinde, 2015). All these proffer solutions to the prevailing qualitative and quantitative housing problems in Nigeria. It is therefore evident that the works of the scholars aforementioned are inconclusive because they have looked at housing provision mainly from the socio-economic perspective alone. In addition, their works have looked at general factors militating against quality housing development. Similarly, studies on the influence exerted by socio-cultural background on residents' preferences and satisfaction are scanty. Therefore, this study is intended to fill this gap by providing necessary information on socio-cultural variables that could influence residents' satisfaction in housing condition capable of fostering sustainable development in low cost housing delivery in Osogbo, Nigeria.

2. Methods and materials

Both primary and secondary data were used for this study. Primary data was collected through the pilot study, reconnaissance survey and questionnaire administration. The study population for this research is residents in the Oroki housing estate, Osogbo held by the Osun State Property Development Corporation (OSPDC). A preliminary survey revealed that Oroki estate has eight hundred and sixteen (816) occupied residential buildings. Systematic random sampling was adopted in selecting every 20th building in the housing estate after the first building had been randomly selected, which represented 20% of the buildings which is 164 residential buildings in Oroki Estate. This gives a total of 164 copies of the questionnaire that was administered to the residents, 149 of which were successfully retrieved. The data analysis in this section was mainly descriptive, and an index of residential satisfaction was developed to measure the level of resident satisfaction for each of the housing elements.

Further, the Road Infrastructure Condition Index (RICI) and the Road Rehabilitation Assessment Index (RRAI) were used to analyse residents' assessment of the roads' condition and government's road rehabilitation performance, respectively. However, the underlying principle is essentially the same as what obtains in the more popular Residents Satisfaction Index (RSI). This corroborates with the studies of Afon (2000, 2006), Sambasivan and Soon (2007) and Olojede et al. (2017a, 2017b, 2019). The respondents were guided through the principle of the Likert-type scale (Likert, 1961; Vagias, 2006). In each case, the scale was from 5 through 1 in a descending order of significance (Excellent, Very Good, Good, Fair and Poor). The total weight value (TWV) for each variable was obtained through the summation of the product of the number of responses for each rating of the variable and the respective weight value. The mathematical expression for this is

$$\textbf{TWV} = \sum_{i=1}^{5} N_i \times W_i \quad \ldots\ldots\ldots\ldots\ldots\ldots (1)$$

where N_i = the number of respondents rating the variable

W_i = the average weight value assigned to the variable by the respondents.

Thus, the RSI was computed by dividing the summation of all the responses to each of the five ratings on it by the total number of respondents who rated the road infrastructure facility (N).

The mathematical expression for this is

$$\textbf{RSI} = TWV/N \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

The closer the RSI of a facility is to 5, the higher the residents' rating of it; the farther it is from 5, the weaker the rating of respondents of such a facility. The RSI was also measured and computed the same way.

3. Results and discussion

3.1. Socio-economic characteristics of the respondents

A short description of the socio-economic composition of respondents in the study area as shown in Table 1 revealed that 59.1% were males, while 40.9 % were females. This elucidates the level to which men by tradition control most households in Nigeria.

The study established that 1.3% were less than 20 years of age, 32.2% were between the ages of 20 and 39 years of age, 53.0% were between the ages of 40 and 59 years of age, and 12.8% were 60 years and above. From the result, it is evident that the youth constitute a larger percentage of the total population, thus suggesting the prevalence of a middle-aged population over older adults occupying most low-cost housing in the study area. However, the explanatory value of age is difficult to assess, because different ways of reasoning are possible.

Considering the marital status of residents, it was discovered that the majority of the residents were single with 73.2% followed by the married with 16.1%, while 4.7 and 6.0% were widowed and divorced, respectively. This indicates that most of the respondents available for interview in the study area were single. The majority of the respondents were well educated, as 47.7% had tertiary education and 32.9% had secondary/technical education while 10.7% of the respondents had primary education. Only 8.7% had no formal education. Perhaps, the high level of educational attainment by most tenants may well be responsible for their preference for an organized housing system such as the subject of this study. Findings revealed that 54.4% of the respondents' worked in public sector establishments, 27.5% worked in private sector establishments while 14.1% of the respondents were engaged in a particular business which was theirs. About 4.0% residents were at school. The category of public servants had the highest frequency. In a way, this is good for the reliability of the findings obtained from this kind of study.

A summary of households' average monthly income shows that 2.0% of respondents earned N20,000 naira and below, 8.7% respondents earned between N21,000 and N40,000 naira, 1.14% earned between N41,000 and N60000 naira, 4.9% earned between N61,000 and N80,000 naira, 1.6% respondents earned between N81,000 and N100,000 naira while 75.2% respondents earned above N60,000. This shows that most of the respondents interviewed were middle-income earners, and the level of residents' income is important because it could determine housing quality which is an intrinsic factor in determining residents' satisfaction. This study indicates a relatively middle-income level of respondents in the study area, when compared with respondents' high level of educational attainment. Also, the cost of maintaining a household and residential unit in the urban areas of Nigeria is relatively high. However, it is possible to conclude from this analysis that these socio-economic attributes could influence residents housing preferences and overall housing satisfaction in the study area.

In terms of household size, it was established that 18.1% of residents lived in a household of 1-3 people, 21.5% of respondents lived in a household of 4-6 people, and 60.4% of respondents lived in a household of 6 people and above. This implies that most residents in the study area lived in a household averaging than 6 people, and thus, the household size is of importance in determining their level of satisfaction especially when considering the spatial configuration of the residents' dwelling. From the study, the numbers of year's residents have spent in the study area show that 15.4% of respondents had been living in the area between 1 and 3 years, 29.6% of respondents had been living in the area between 4 and 6 years, 34.2% respondents had been living in the area between 7 and 9 years, 20.8% of respondents had been living in the area for 10 years and above. This implies that the majority of the respondents has been living in the area between 1 and 6 years and is relatively new occupants. It can therefore be inferred that the respondents have adequate knowledge of their living apartments and outdoor environment. Information obtained for residents' ethnic group reveals that 1.3% of respondents were from the Hausa ethnic group, 6.0% were from the Igbo ethnic group, 92.7% were from the Yoruba ethnic group. Thus, the predominant ethnic groups in the study area were the Yoruba, who numerically dominated the estate, which as a result can cause differences in the way residents assess their dwelling units. Even with the high proportion of people from the south-west located within the study area, other ethnic groups were properly represented. This discovery supports that of Jiboye (2008, 2010), indicating that the city of Lagos is no man's preserve, and, as a commercial nerve center of Nigeria, attracts residents from a variety of ethnic origins. It also confirmed that of Amad (2003) that shows that people from different ethnic backgrounds can live together peacefully and harmoniously. However, the result was based on the housing composition in the study area as there were many more semi-detached bungalows than detached houses.

3.2. Residents' satisfaction with components of housing facilities in the estate

Residents' level of satisfaction with the physical aspect of their housing is presented in Table 2. Having a positive deviation around

TABLE 1 Respondents' socio-economic characteristics

VARIABLES	FREQUENCY	PERCENTAGE (%)
Sex		
Male	88	59.1
Female	61	40.9
Age		
Less than 20 years	2	1.3
20-40 years	48	32.2
41-60 years	79	53.0
61 years and above	19	12.8
Marital Status		
Single	24	16.1
Married	109	73.2
Divorced/separated	9	6.0
Widowed	7	4.7
Educational Level		
No formal education	13	8.7
Primary school level	16	10.7
Secondary school level	49	32.9
Tertiary school level	71	47.7
Employment Status		
Schooling	6	4.0
Public	81	54.4
Private	41	27.5
Business	21	14.1
Monthly Income		
Less than 20,000	3	2.0
20,001 – 40,000	13	8.7
40,001 – 60,000	21	14.1
Above 60,000	112	75.2
Household Size		
1 – 3	27	18.1
4 – 6	32	21.5
More than 6 persons	90	60.4
Length of stay		
1-3 years	23	15.4
4-6 years	44	29.6
7-9 years	51	34.2
10 years and above	31	20.8
Ethnicity		
Yoruba	138	92.7
Igbo	9	6.0
Hausa	2	1.3
Total	**149**	**100.0**

TABLE 2 Physical element

S/N	PHYSICAL ELEMENT	N	TWA	RSI	RANK
1	Wall quality	149	578	3.87	1
2	Number and design of rooms	148	519	3.50	4
3	Design of bathroom and toilet	133	450	3.38	5
4	Street design	149	543	3.64	3
5	Quality of materials used for roof	143	552	3.86	2

TABLE 3 Functional element

S/N	FUNCTIONAL ELEMENT	N	TWA	RSI	RANK
1	Sources of water	147	457	3.10	2
2	Drainage system	139	441	3.17	1
3	Illumination	122	348	2.61	4
4	Collection and disposal of waste	131	385	2.93	3
5	Street lightning	123	313	2.54	5

TABLE 4 Economic element

S/N	ECONOMIC ELEMENT	N	TWA	RSI	RANK
1	Nearness to work place	149	567	3.81	1
2	Nearness to school	144	512	3.56	2
3	Nearness to recreation canter	135	471	3.48	3
4	Nearness to religious canter	147	511	3.47	4
5	Nearness to market	149	513	3.44	5

TABLE 5 Behavioral element

S/N	BEHAVIORAL ELEMENT	N	TWA	RSI	RANK
1	Level of privacy	146	583	3.99	2
2	Building setback	139	496	3.56	3
3	Aesthetic appearance	149	525	3.52	4
4	Street light	138	476	3.44	5
5	Neighbourhood security	149	626	4.20	1

the average RSI of 3.65, it was found that the highest RSI was recorded for ''wall quality'' with 3.87, followed by ''quality of materials used for roofs'' with 3.86 which indicates that the residents appear to be satisfied with the wall quality and quality of materials used for roofs in the study area, while residents appear to be dissatisfied with the design of bathrooms and toilets which had an RSI of 3.38. This is an indication that the residents were fairly satisfied with the physical elements of the housing units. This shows that social-cultural characteristics that include family values, custom and norms, family size, prevailing family life and structure, religious beliefs, kinship interactions and social relation and age of residents were not considered during the design stage of the estate, which is relevant and germane to the occupiers of any housing units.

The information presented in Table 3 is the level of the residents' satisfaction with the functional elements of the homes. It was found that the highest RSI was recorded for the drainage system with 3.17, which indicates that the residents were fairly satisfied with their drainage system in the study area, while residents were dissatisfied with the street lightning, with RSI of 2.54. The average RSI of 2.87 indicates that the residents were not satisfied with the functional elements of the housing units. Considerations for proxemics differences between religion, regions and some cultures are comparatively more conservative than the other.

Presented in Table 4 is the residents' level of satisfaction with the economic elements of dwellings. The highest RSI was recorded for nearness to work place with 3.81, which suggests that the residents were satisfied with the level of accessibility to their place of work. Proximity to market has the lowest RSI with 3.44. The average RSI of 3.55 indicates that the residents were fairly satisfied with the economic elements associated with their dwellings.

Table 5 set out residents' level of satisfaction with the behavioural elements. It was observed that the highest RSI was recorded for neighbourhood security with 4.20 followed by the level of privacy with 3.99. This indicates that the residents were fairly satisfied with the level of privacy offered by their dwelling units, while residents appeared to be dissatisfied with the street lighting with an RSI value of 3.44. The average RSI for behavioural elements indicates that the residents were fairly satisfied with the behavioural elements of their dwelling. This shows that social-cultural backgrounds of residents should be considered during design and construction stage of the estate.

3.3. Residents' level of satisfaction and socio-cultural characteristics

This section examines the relationship that exists between residents' socio-cultural characteristics and their level of satisfaction with the components of their dwelling units. ANOVA was used to determine the significance of the variation recorded in the level of satisfaction when compared to certain characteristics of residents.

Table 6 set out the relationship between residents' level of satisfaction with neighbourhood security, level of privacy, aesthetic appearance, building setback, emergency/escape routes, nearness to a fire fighting station and years of living in the area. The results showed that there is a significant difference in residents' level of satisfaction with the identified components depending on how long residents have lived in the study area. The F ratio generated is significant at 0.302. This implies that the numbers of years spent in the area are a determinant of the level of satisfaction with the identified components.

Table 7 set out the relationship between residents' level of satisfaction with the distance from their residence to work places, recreational facilities, house maintenance facilities, nearness to shopping centers/market, the cost and effort of housekeeping in the estate. The results showed that there is no significant difference in residents' level of satisfaction with the identified components among residents in the study area. The F ratio generated is significant at 0.000. This implies that residents' position among their household and the perception of residents' proximity to the work place are factors that determine the level of satisfaction in the study area.

TABLE 6 Household position and residents' level of satisfaction

MODEL	SUM OF SQUARE	DF	MEAN SQUARE	F	SIG.
Between groups	546.309	3	63.724	2.009	.302
Within groups	414.8043	117	12.389		
Total	**340.554**	**198**			

p significant at 0.01

TABLE 7 Years of living in area and residents' level of satisfaction

MODEL	SUM OF SQUARE	DF	MEAN SQUARE	F	SIG.
Between groups	45.033	5	6.409	6.149	.000
Within groups	114.323	283	1.249		
Total	**190.291**	**369**			

p significant at 0.01

4. Conclusions and suggestions

This study has examined the influences of the socio-cultural experiences of residents on residents' satisfaction with Oroki housing estate Osogbo, Nigeria. In doing so, it has examined the socio-cultural characteristics of the residents; their level of satisfaction with various housing elements based on quality performance criteria with various elements including physical, environmental, economic, and behavioural, elements. It was discovered in the study that the residents were fairly satisfied with the environmental components of their dwelling units, which means that their level of expectation with regard to the housing components such as illumination, indoor air quality, landscaping space, water sources etc. were adequately met in terms of satisfying their needs. Residents were also fairly satisfied with the physical elements of their dwelling such as the ceiling height, street design, number(s) of bathrooms etc., as well as with the behavioural elements such as the level of privacy, neighbourhood security and colour(s) and quality of paint provided in their dwelling units. They were fairly satisfied with the economic elements of dwellings.

However, it was discovered that the residents' gender is a determinant of the level of satisfaction with the various housing components; also, applicable to this is the numbers of years spent in the area by residents, ethnicity of residents and age of residents. This indicates that the level of satisfaction is dependent on their ethnicity, age and the numbers of years spent in the area. The level of satisfaction is not affected by residents' marital status and household position. This study on the profile of residents of Oroki housing estate shows that households with different socio-cultural backgrounds have different levels of aspiration, tolerance and psychology on satisfaction towards housing.

The housing programme must be based on genuine local participation so as to guarantee housing satisfaction. The state and local government should be encouraged to embark on intensive site and service schemes. Government at all levels should provide an enabling environment which will encourage the promotion of non-conventional means of housing finance. In this way, more people may be given the opportunity of having a house of their own. A collaborative effort in housing provision is essential. This situation calls for a collaborative effort between government and private business concerns.

Land-use regulations and other relevant planning laws should be reviewed and made flexible to accommodate the needs and aspirations as well as the cultural attributes of the great majority of the people who are aspiring to have their own house. It is important to inform policy on neighbourhood design and development, particularly when designing houses for people of particular cultural backgrounds. Planners and architects should take into account the prevailing proxemics practices. There is a need to support proxemics rule where neighbourhoods are designed in particular ways to take account of the pattern of social interactions and cultural backgrounds of residents.

There is need for relevant up-to-date data which would definitely help in the preparation of functional and reliable housing proposals for the people; the implication of these findings for housing policy formulation in Nigeria is that the provision of adequate and relevant environmental amenities, coupled with an effective and efficient housing management structure are all necessary prerequisites to ensuring adequate and satisfactory housing in our cities. This study could therefore serve as good feedback to government and housing technocrats in developing nations generally and Nigeria, especially, by providing them with relevant information that will guide them in undertaking housing improvement and development.

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