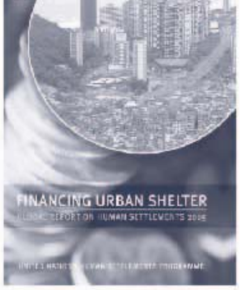

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Financing Urban Shelter

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Embargoed until 12 Sept. 2005

GRHS/05/F4

HOMEOWNERSHIP THROUGH MORTGAGE FINANCE

During recent years, all over the world, considerable effort has been made to extend opportunities to mortgages so that ordinary people can own their own homes. This is the product of two related factors:

On the one hand, the housing finance market has become more competitive as new providers have been encouraged to enter the market. Such providers have been seeking new customers to extend their activities. Thus, the extension of mortgage services is a commercial response to market conditions. On the other hand, the state has been looking to the market to address housing need. Faced with considerable housing problems and seeking to reduce public expenditure, governments have sought to encourage the market to address needs where possible.

In developed countries, the cost of a dwelling can often be 2.5 to 6 times the average annual salary. However, The average cost of a decent low-income family house in Ghana is more than 10 times the average annual salary of most key workers in Ghana. In Algeria the cost can be as high as 12 times the annual salary. This has had considerable implications for the success of mortgage mechanisms and the desire for homeownership.

In the developed world, mortgage lending is at an all time high. The aim has been to encourage increased homeownership. This has meant that in countries like Australia and the United States, the percentage of owner-occupiers with mortgages is 45 per cent and 63 per cent respectively. In the US, homeownership has become a significant measurement of economic health. Moreover, in 2002, despite the worrying increase in property values, 52 percent of the mortgages given out by an institution like Fannie Mae went to low and moderate income families.

In many African and Asian countries, despite its recognized economic and social importance, housing finance often remains underdeveloped. The low levels of lending reflect the small numbers who can afford mortgages because of the high cost of houses in relation to incomes. It also includes the perceptions of risk that are based on, amongst other things, the informal nature of most title deeds and property.

The World Bank estimates that about 40 percent of newly formed households (300,000 units) in Mexico earn less than 3 minimum wages, US$ 327, and therefore cannot afford a completed house in a serviced neighbourhood. The result is that only 12.6 per cent of housing stock in Mexico is currently mortgaged and self-built housing accounts for roughly half of all building in Mexico.

In Thailand on the other hand, mortgage finance, supported by the Government Housing Bank, has picked up considerably, with an annual increase of about 33 per cent in the decade from 1985 to 1995.

In China, the system of housing finance has been significantly developed. Shifting from a system of housing based on work units, Housing Provident Funds have been established in all of the 203 large and medium sized cities and most of the 465 small sized cities, with 69 million participants. With over 149 billion yaun raised, only 10 per cent has been released in mortgages loans partly because of a problem of affordability.

Affordability is one of the problems faced by housing finance institution in Africa. In Kenya, it is estimated that during 2004 the banks and mortgage institutions only offered 9000 loans. The Tanzanian Housing Bank, established in 1973 and which collapsed in 1995, only issed 36,000 loans over a 22 year period. Even in South Africa, 75% of households earn too little to be considered for mortgage loans.

The reality of the housing situation in many developing countries means that new ways of microfinancing and community funds have to be encouraged if the poor are to be provided with adequate shelter and basic services.

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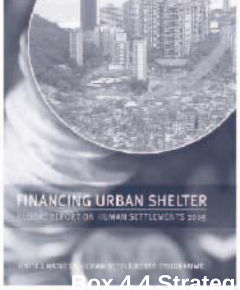

MORTGAGE STRATEGIES IN THE UNITED STATES

The rise in the secondary market in the US during the 1970s and 1980s came about largely because of standardization of pools of mortgages brought on by three government-sponsored agencies: the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae) and for government-insured loans, the Government National Mortgage Association (Ginnie Mae). Annual sales of mortgages to these three institutions have risen from US$69 billion in 1980 to more than US$700 billion in 1998; they now own or are responsible for about half of the outstanding stock of single-family mortgages. It is these agencies that purchase mortgages and package them into securities (or fund them with debt), thereby enabling them to be traded easily with minimal risk of default. Freddie Mac was created in 1970 to be a secondary market for thrifts. At that time it dealt with thrifts and Fannie Mae with mortgage bankers; but now both institutions deal with the same mortgage originators. It initiated the first mortgage-backed securities programme in 1970. Fannie Mae was established during the 1930s to provide a secondary market for government-insured loans to households. During the 1970s, it switched to providing secondary conventional mortgage loans. Ginnie Mae was created as a successor to the old Fannie Mae. Its purpose is to handle Fannie Mae policy-related tasks and provide a secondary market for government-insured loans. It also guarantees issuer payments on mortgage-backed securities, providing an extra level of insurance.*Source:* Van Order, 2001, pp19–20.

FINANCING HOMEOWNERSHIP IN SINGAPORE

In Singapore, the public housing programme began prior to self-government in 1959. However, the Singapore Investment Trust (established by the British colonial government) failed to meet the housing needs of the poor. The new government was committed to improving housing, and it began during the early 1960s on a relatively small scale by providing basic rental units for the poor who were living in congested urban shop houses and as squatters. The flats, built by the Housing and Development Board, were let out at monthly rentals of between US$20–$40 and were within the paying ability of 75 per cent of the working population. In 1964, homeownership was introduced and flats were sold on 99-year leases. Once the state allowed would-be homeowners to use their savings in the Central Provident Fund to help finance their purchase, the scheme took off. The fund is a state-managed, tax-exempted compulsory social security fund for all citizens to which employees and employers contribute. The prices of the flats are subsidized so that they remain within the affordability of the majority population. The interest rate charged is 0.1 per cent above the rate paid on savings. Among the mortgage financing policies, the significant point is that purchasers of public housing are allowed to use their provident fund savings to pay for their flats. The 20 per cent down payment may be drawn from their accumulated savings, and monthly repayments may be deducted directly as well. The board provides the mortgages. With this facility, the entire process constitutes an internal fund transfer without involving any conventional banking process. The board receives finance from the government and is charged an interest rate 0.1 per cent below the mortgage rate charged by the board for its loans. As of 31 March 2002, the total mortgage financing loans on the board's books was 63 billion Singapore dollars, of which 51 billion Singapore dollars was lending at concessionary rates. By 2001/2002, an estimated 85 per cent of the 3.3 million population in Singapore were living in Housing and Development Board dwellings (96 per cent of which are owned by their occupants and 4 per cent of which are rented). *Source:* Chin Beng, 2002, pp99–114.

ZAMBIA: A BRIEF HISTORY OF STATE INVOLVEMENT IN HOUSING FINANCE

During the period of the second and third National Development Plans in Zambia 1971–1983), the government pursued a policy of developing residential and commercial property through the parastatal firms. Among the parastatal companies that were used to increase housing stocks were the National Housing Authority (NHA), the Zambia State Insurance Corporation (ZSIC), the Zambia National Provident Fund (ZNPF) and the Zambia National Building Society (ZNBS).Apart from the National Housing Authority, these companies were supposed to build institutional houses, which their employees would rent.The NHA was allowed to build houses specifically for selling and letting out to the public.This in itself represented a shift in the general policy from encouraging homeownership to allowing renting from parastatal firms. During the 1970s, the government removed the responsibility of housing financing from the local authorities. The government created the Zambia National Building Society in 1970 to finance property development for both residential and commercial purposes. It offers three types of property financing. First, credit is available for the outright purchase of already developed property to all prospective owners. Second, it manages a construction scheme under which it finances the construction of property on behalf of its clients. Third, it offers smaller loans for renovations, improvements and extension of already owned property. With the ZSIC, it undertakes real estate management (residential and commercial) and rents out from its own stock or on behalf of customers. Since its inception in 1971, the NHA's core function was property development for the purposes of selling and renting to the general public, with selling being its biggest option.The NHA sought to provide minimum housing standards within the resources of the country. At the same time, it conducted research to lower the costs of low-income housing. The third National Development Plan (1979–1983) gave the NHA the responsibility of 'vetting all housing programmes' prepared by all organizations, including government. Currently, the NHA specializes in building houses for sale through outright purchase and financing of construction. NHA also considers itself to be the foremost adviser to government on housing policy.The government also formed the Presidential Housing Initiative (PHI) in 1999 to spearhead the implementation of the National Housing Policy. Among other things, the PHI was expected to rejuvenate the construction of new houses. However, the programme was dissolved in 2002 under accusations of corruption. *Source:* Mulenga, 2003.

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