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Evaluation of Housing Finance Systems

Joint Congress of UN-HABITAT and EFBS, Prof. Dr. M. Nadler, 24 September 2004, Berlin

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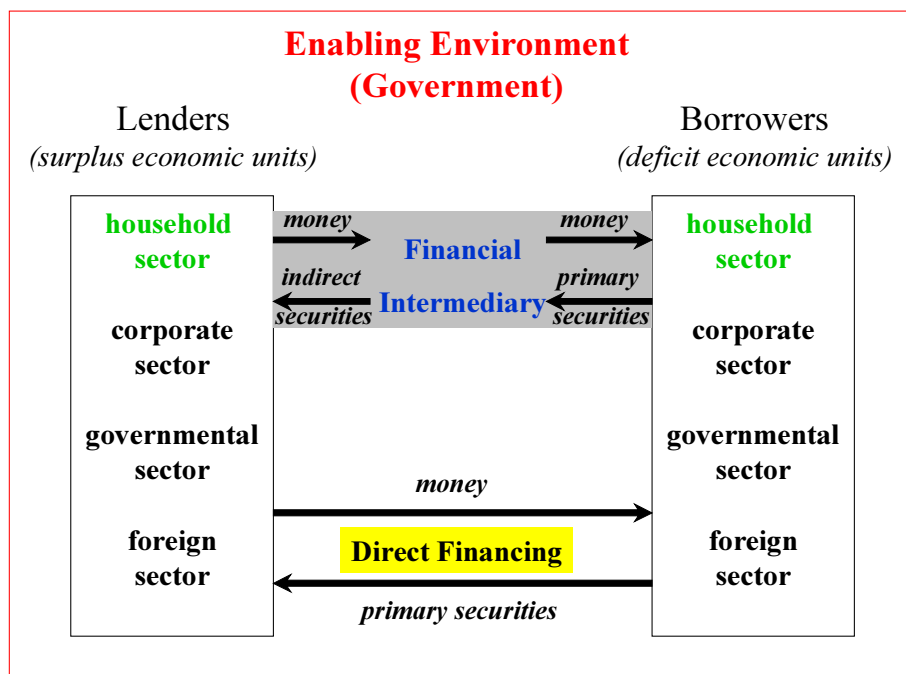**UN-HABITAT and EFBS Congress 2004, Berlin**

Slide 1

- **Einführung in die Methodik / Introduction to methodology**
- **Wertschaffung für Kreditnehmer / Value added for borrowers**
- **Wertschaffung für Kreditgeber / Value added for lenders**
- **Wertschaffung für Regierungen / Value added for government**
- **Erste exemplarische Bewertungsergebnisse / First exemplary evaluation results**

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Introduction to Methodology

National housing finance systems must prove themselves competitive by mobilising and allocating capital efficiently!

Slide 2

**Enabling Environment
(Government)**

Lenders
(surplus economic units)

Borrowers
(deficit economic units)

household
sector

money

Financial

money

household
sector

*indirect
securities*

Intermediary

*primary
securities*

corporate
sector

corporate
sector

governmental
sector

governmental
sector

money

foreign
sector

Direct Financing

foreign
sector

primary securities

Evaluation approach: This demand is met, if the financial system add values for the three stakeholders!

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Value Added for Borrowers

Evaluation approach:

A steady supply of credit, far-reaching credit availability and credit affordability are in the centre of interest for borrowers!

Goals/Indicators for borrowers (excerpt!):

- ➢ **Supply of credit:**
  - ➢ **Housing credit portfolio**
  - ➢ **…**
  - ➢ **Loan amounts and periods of redemption**
- ➢ **Credit availability:**
  - ➢ **Number of customers**
  - ➢ **…**
- ➢ **Credit affordability**
  - ➢ **Mortgage rates and fees**
  - ➢ **…**

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Value Added for Lenders

Evaluation approach:

For lenders investment attractiveness must be combined with a high security of (mobilized) funds as well as a sufficient profitability for shareholders of the financial intermediaries!

Goals/Indicators for lenders (excerpt!):

- ➤ **Investment attractiveness:**
  - ➤ **Real interest rates**
  - ➤ **…**
- ➤ **Security of funds:**
  - ➤ **Capital adequacy**
  - ➤ **…**
- ➤ **Profitability for shareholders of financial institutions**
  - ➤ **Cost efficiency**
  - ➤ **…**

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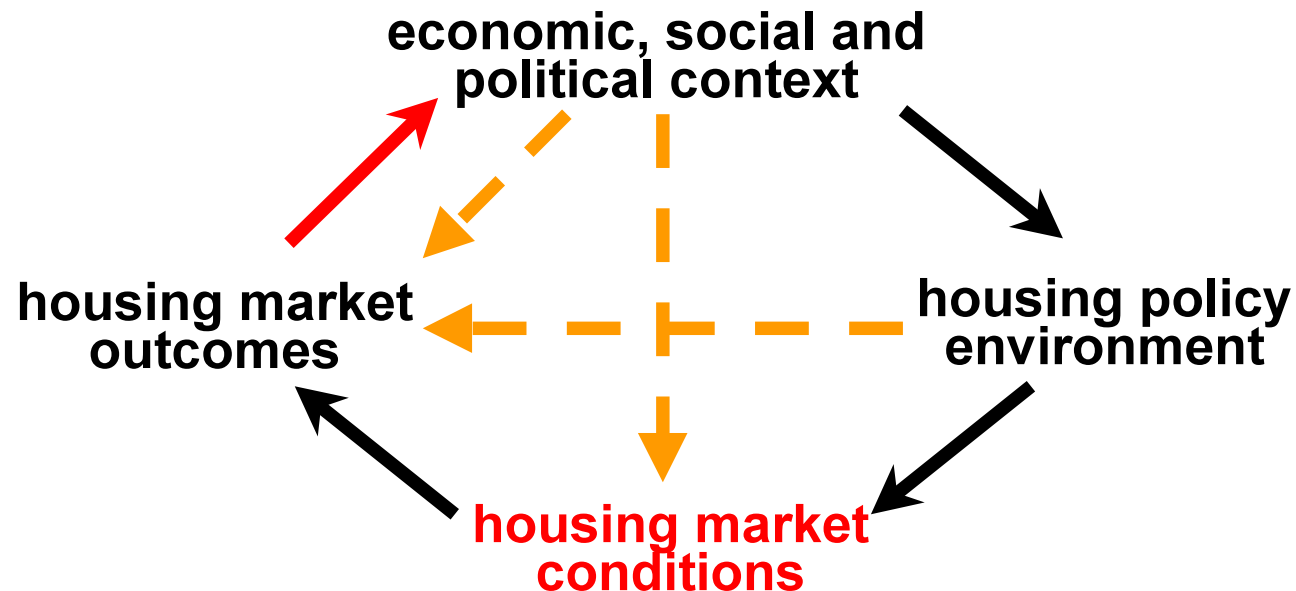
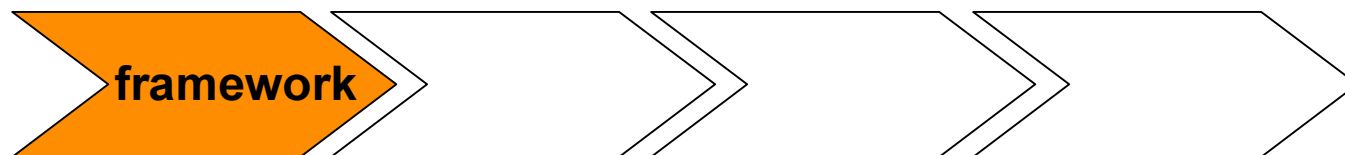TECHNISCHE UNIVERSITÄT KAISERSLAUTERN

Value Added for Government

Evaluation approach:

Development goals of national governments like, for example, 'improvement of housing situation' and 'growth of income' can only be realized indirectly by a value added for the residual private stakeholders, borrowers and lenders!

economic, social and
political context

housing market
outcomes

housing policy
environment

housing market
conditions

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First Exemplary Evaluation Results I

framework

Step 1: Remark the necessary **framework** for housing finance systems and compare them to existing local conditions!

Financial systems need with varying degrees:

- Economic prerequisites: macro and micro economical level
- Institutional prerequisites: legislation and supervision
- Financial sector specific prerequisites
- Housing sector specific prerequisites

=> 'Enabling strategy' of national governments: Facilitate and stimulate private housing finance!

Consequence: Housing finance systems with **less implementation costs** achieve a higher (partial) value for national governments!

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First Exemplary Evaluation Results II

framework → **checklist of value indicators** →

Step 2: Measure goal criteria through (a checklist of) **indicators** for borrower and lender and compare the results!

Slide 7

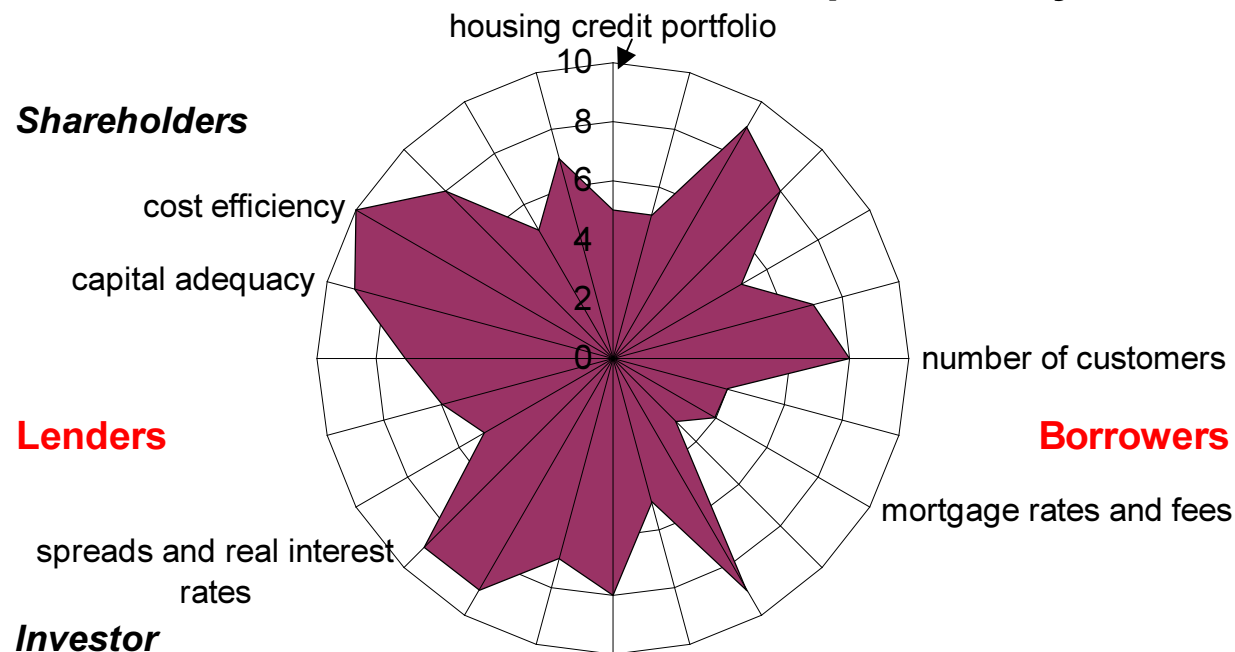|	Goal criterion	Indicator	Danish Mortgage Banks	US Secondary Intermediaries	German CSH ('Bausparen')
BORROWERS	supply of credit	housing credit portfolio	58,0%	96,0%	100,0%
		…	…	…	…
	credit availability	number of customers (of population)	35,0%	1,0%	30,0%
		…	…	…	…
	credit affordability	mortgage rates and fees (average 30y)	9,5%	10,4%	6,0%
		…	…	…	…
LENDERS	investors funds	spreads and real interest rates (aver.)	3,0%	3,0%	-0,5%
		…	…	…	…
	security of funds	capital adequacy	6,0%	2,1%	4,8%
		…	…	…	…
	profitability for shareholders	cost efficiency (operative)	0,4%	0,6%	3,2%
		…	…	…	…

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framework > checklist of value indicators > **partial benefit values** >

Step 3: Transform and visualize all measured indicators on a **uniformed benefit level** and compare the system results!

housing credit portfolio

Shareholders

cost efficiency

capital adequacy

number of customers

Lenders

Borrowers

mortgage rates and fees

spreads and real interest rates

Investor

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First Exemplary Evaluation Results IV

framework ➤ checklist of value indicators ➤ partial benefit values ➤ **total benefit value**

Step 4: Weight the goal criteria and summarize the partial to a **total benefit value** of a system for the three stakeholders!

Efficient Private Housing Finance System

stakeholder	goal	indicator	weight	Danish Mortgage Banks		
				goal value	partial benefit	weighted partial benefit
borrowers	supply of credit	housing credit portfolio	6%	58%	5	0,3
		loan amounts + periods of redemption	…	…	…	…
	credit availability	...				
	credit affordability	...				
lenders	...					
government	...					
	costs for sector-specific prerequisite	... home ownership promotions	10%	3,2 bn.	6	0,6
total benefit value						8,7

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More information to this evaluation approach

✓ **will be given in various forthcoming publications and**

✓ **are directly available through:**

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Thanks for your attention!