<u>Housing Financing Programs Worldwide – extracts from My business trips and career</u>

A. Background

Over the years, we have had the opportunity to visit several countries, attend seminars, and conduct website research on various housing programs around the world that are designed to help low to middle-income citizens obtain decent, affordable housing. **<u>As a team this reflect our understandings of the program in the context related to the housing programs in the kingdom of Bahrain. It is not conclusive or totally right or wrong, there could be variations which we have not been able to explore further.</u>**

B. Brief description of the outcome:

Affordable housing schemes of several countries have been studied, including Malaysia, Singapore, Thailand, Croatia, Morocco, India, and Holland. The objective of the review was to identify the main solutions for affordable housing around the world, including the provision and or subsidy for - affordable/social housing.

C. Brief of the various schemes of the countries reviewed.

- **Morocco**
  Morocco has a number of parallel housing programs that the government has launched and manages, including Cities without Slums programs “Villes sans Bidonvilles (VSB)” launched in 2004, Fonds de Solidarite del’Habitat an off-budget subsidy fund, “Fogarim” a guarantee fund to secure loans granted on preferential terms to low and seasonal-income groups. In addition, Morocco also relies on private sector financing to reduce the affordable housing shortage in the form of Public Private Partnerships (PPP). Morocco has addressed a number of issues to ensure that the PPP structures are successful, which include the provision of subsidized land and tax breaks to the investors.

- **Turkey**
  Turkey has the main party involved is TOKI, a legal entity of the Housing Development Administration of Turkey. This allows for the retention of the Housing Development Administration Fund established outside of the state budget. In order to solve the housing problem and to increase housing production at national level, the Housing Development Administration Fund Law (No: 2487) was passed in 1981.

  TOKI has three main roles and responsibilities:

  - Housing construction – 70% of income is based on building social housing units, with the other 30% focused on luxury housing projects based on a revenue-sharing scheme. The second component of contemporary housing policies targeting low-income groups is the production of subsidized social housing by the Housing Administration (TOKI). TOKI finances production of the subsidized social housing units through a system of cross-financing. This form of PPP engages in profit-oriented housing production in cooperation with relevant municipalities and private sector construction firms. The Housing Administration transfers its own share of the profits to social housing production.
  - Credit Support – Providing loans to middle/low-class individuals, as well as attracting the participation of banks
  - Strategic Planning – supporting renewal projects and rehabilitation of squatter areas, and coordinating the development of rural settlements

- **Malaysia**

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It has worked to balance the supply and the demand for houses. It has introduced a number of schemes for financing social/affordable housing projects, including:

- Cagamas SRP Berhad (The National Mortgage Corporation) was established in 1986 to promote the broader spread of house ownership and growth of the secondary mortgage market in Malaysia. Its main role within the housing market is to supply a 10% guarantee on bank financing for housing projects.
- My First Home Scheme (Skim Rumah Pertamaku – SRP) The scheme allows first-time homebuyers to obtain 100% financing from financial institutions, enabling them to own a home without needing to pay a 10% down payment, and is aimed at only residential property.
- Public-Private Partnerships. The public and private sectors have developed a business-partnership venture whereby the state provides the land for the development of affordable housing units and assists developers in technical and administrative aspects. While the market provides the financing, implementation, and delivery of housing units. An inclusionary housing quota of 30 percent, and a defined ceiling price is imposed on all private developers when a certain threshold size of development is reached. The quota mandates that all housing projects have to allocate at least 30% of houses as low-cost units, and developers cross-subsidize the cost of building these low-cost units from the sale of higher-cost units. The 30% quota has been successful in ensuring the building of affordable housing.

- **India**
  India feature of the housing projects in India is that the responsibility and funds is split between the Central Government and the State Government.
  - National Housing Bank of India (NHB), wholly owned by the Reserve Bank of India (RBI) and is chartered to function as a principal agency to promote housing finance institutions from various fields. NHB carries out its statutory functions of developing a healthy housing finance sector through refinance of housing loans, supervision of the sector, and creation of a vibrant securitization market.
  - Integrated Housing & Slum Development Programme (IHSDP). The basic objective of the scheme is to strive for slum less cities by adopting holistic slum development with a healthy and enabling urban environment by providing adequate shelter and basic infrastructure facilities to the slum dwellers of the identified urban areas. The Scheme is sponsored by both the Central and State Governments. Under this program, the Minimum Floor Area of Dwelling Unit should not be less than 25 square meters, and preferably two-room accommodation, plus kitchen and toilet, should be constructed.
  - Scheme of Affordable Housing. The Scheme of Affordable Housing in Partnership with the private sector aims at promoting various types of public-private partnerships – of the government sector with the private sector, the cooperative sector, the financial services sector, the local states, etc., - for realizing the goal of affordable housing for all.
  - Rajiv Awas Yojna (RAY) Scheme. Under the scheme, the federal government will provide financial assistance to states willing to assign property rights to slum dwellers. The money would be used to build low-cost houses and improve the basic civic services in the slums.
  - National Housing Bank of India Refinance Scheme (NHB). Introducing a new refinance scheme for construction finance for affordable housing. NHB, under the scheme, is extending support to the housing activities. Slum redevelopment in metros is also being covered under the scheme in addition to industrial worker housing, working women hostels, and old age homes, housing projects financed under the JNNURM or any other similar Central Government / State Government scheme, such as natural disaster-

affected housing. The Scheme incorporates certain key restrictions on unit cost, unit area, land price, etc., to ensure that refinance is not used for higher-income housing.

- **Thailand**
  The Government Housing Bank (GHB) is the main party involved in the affordable housing market in Thailand. GHB's primary objective is to provide housing finance for the people of Thailand. Its main aim is to provide a source of finance with lower interest rates for people seeking to purchase their own homes. The Bank's special focus is on providing residential financing for low and medium-income borrowers. With a market share currently exceeding 38%, the GHB is Thailand's leading housing finance leader.

- **Singapore**
  The public housing policy of Singapore is often cited as a successful example of affordable housing production in Asian cities. Due to legislation and the various initiatives offered, housing access and affordability, including homeownership, are no longer exclusive to upper and middle-income families.

  The main party involved in the housing scheme is the Housing and Development Board (HDB). Public housing in Singapore is currently managed by the HDB. HDB plans and develops public housing towns that provide Singaporeans with quality homes and living environments. It also engages in active research and development work to ensure that cost-effectiveness and quality standards are maintained and continually improved upon. One of the main achievements attained by the HDB is that more than 80% of Singapore's population lives in HDB flats, with 95% of them owning their HDB flat. The remainder are rental flats reserved for those who are unable to afford to purchase the cheapest forms of public housing despite financial support.

- **Canada**
  Canada Housing and Mortgage Corporation (CMHC) is Canada's premier provider of mortgage loan insurance, mortgage-backed securities, housing policy and programs, and housing research. CMHC works to enhance Canada's housing finance options, assist Canadians who cannot afford housing in the private market, improve building standards and housing construction, and provide policymakers with the information and analysis they need to sustain a vibrant housing market in Canada. One of CMHC's most valuable non-housing initiatives is the energy Retrofit Program to help approximately 130,000 low-income Canadian Households, including those on-reserve and in North to address the high costs of energy and help achieve better long-term energy efficiency.

  - <u>Affordable Housing Initiative (AHI).</u> Under this initiative, the Affordable Housing Initiative (AHI), the federal government, through Canada Mortgage and Housing Corporation, provides contributions to increase the supply of off-reserve affordable housing, in partnership with provinces and territories, and providing these contributions that maybe in the form of a grant, a stream of ongoing subsidies or the value on in-kind contributions (e.g. land).
  - <u>Non-profit program (Co-op Housing).</u> An alternative program is the non-profit program that aims to provide affordable housing for low-income or homeless individuals. This program is directly funded by the government, and housing is commonly supplied within high-growth emerging areas. Once the housing units are built, the area receives annual operating subsidies so that the inhabitants are able to afford the rent.
  - <u>Homeowner Residential Rehabilitation Assistance Program (Homeowner RRAP).</u> Canada Mortgage and Housing Corporation (CMHC) offers financial assistance to low-income homeowners for mandatory home repairs that will preserve the quality of affordable

housing. The program helps people who live in substandard dwellings and cannot afford to pay for necessary repairs to their homes.

- **Holland**
  Holland operates a different system from other countries in terms of the organizations that manage affordable housing. In practice, this is accomplished by non-profit private housing foundations or associations (Toegelaten Instellingen). The agencies offer direct advice to a potential beneficiary and discuss both the potential options available for financing and the potential locations for housing. The other major party involved is the Government. They are the main financers and offer funding that provides subsidies for all the different types of housing projects. The main idea is to offer various schemes that offer greater flexibility and are more inclusive. This has the advantage of offering people freedom of choice and a more tailored approach that is more suited to individual circumstances. The idea is that the subsidies are funded through a revolving fund (Central Housing Fund) that implies that current and future reserves generated in the social rented sector are put to use within that sector; in this manner, the housing associations subsidize themselves.

D. <u>Overall findings of review</u>

Trends observed throughout the affordable housing schemes offered around the world

- It is observed by the countries reviewed that there is no one solution that fits all, and all have a number of parallel schemes to provide affordable housing to different sectors of society. In many of the countries, there are schemes that help the end user directly and others that subsidize developers/land, etc.

- The three general principles of affordable housing schemes around the world are:

  - Government-sponsored Guarantee Funds for a specific income group
  - Public Private Partnerships (PPP) with various subsidies from the government, such as land, tax breaks, cross-subsidization, etc.
  - Direct subsidy funding to the end user for the lower income brackets, whether in the form of grants, relaxed loan facilities, etc.
- Successful schemes are the dynamic ones to remain successful and are noted in countries such as Canada and Singapore.

E. <u>Details of schemes that Bahrain could benefit from</u>

The two main experiences that may benefit Gulf Countries, in addition to the current PPP, MGS, beneficiary subsidy program, are from Singapore and Thailand.

<u>Singapore's experience that GCC can benefit from:</u>

We can benefit from the allocation and financing system to help the affordable housing market. In Singapore, all housing matters are governed under the Housing Development Board (HDB), which is a statutory board established by the government in 1960. The housing services are divided into three main categories:

1. **Sale of New social houses:**
   - Newly built and highly subsidized
   - Strict eligibility criteria, however, as supply has become sufficient, the criteria have been relaxed
   - Built to Order 9BTO), with waiting time
   - Walk-in selections (WIS), immediate purchase, and ready to move within 3 months
2. **Resale of the social housing market**

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- Established in 197, social homeowners are permitted to sell their homes at a profit under set conditions
- This resale of social houses is mainly driven by market forces
- One of the main regulations governing this has been the compulsory occupation period before resale, which has fluctuated between 30-60 months since the inception of the program, depending on HDB policy based on demand, and up to 120 months (10 years) if purchasing a second new public housing unit from HDB
- This market has developed over the years with continuous adjustments to the scheme to ensure its attractiveness, with eligibility relaxed in 1989
- A Contra Facility Policy was introduced to encourage this market, where homeowners can sell their existing unit on the market, and simultaneously purchase another home, and funds are transferred from the sale to the purchase of the new unit, so as not to burden the homeowner with the need for a large cash outlay, a bridging loan, and high mortgage repayments.
- Homebuyers are allowed two subsidized mortgage loans, whether their homes are from new social houses or from the resale market, as long as their income remains within the eligibility criteria.

3. **Executive condominium market**
   - Established in 1996
   - High quality for middle/upper incomes
   - Small subsidies and few restrictions on sales
   - All units, whether for sale or executed, are in high prices. High-density buildings with 99 years, however, the differentiations for all resale units are based on location, size, design, facilities, and amenities

One of Singapore's policies has been tied to a social objective to strengthen family ties and encourage children to live near their parents. This has been done through two schemes. The first, the "Multi-Tier Family Housing Scheme", where a multi-tier family (parents and at least one married child) is listed in the same household for the purchase of a single public housing unit, a three-year retrospective priority is given. The second scheme is the Joint Balloting scheme, where parents and a married child can be allocated adjoining units. In addition to the two schemes, in 1994, an additional government subsidy was introduced that is awarded to eligible first-time owners who purchased resale units within two kilometers of their parents' homes.

Another important component of the housing finance allowed in Singapore is the ability to use savings with the Central Provident Fund 9CPF), which is the social insurance entity of Singapore. Since 1968, homeowners have been allowed to withdraw from their CPF savings and monthly contributions to help pay their mortgage installments and the 20% initial downpayment for the mortgage.

<u>Conclusion on Singapore</u>

From the above, it is noted that Singapore continuously does three main actions to ensure its housing programs continue to be successful and effective, which have resulted in the provision of housing for over 80% of the citizens. The three main actions are:

1. Provision of incentives
2. Continuous review of housing-related policies
3. Encourage the population to purchase house units by providing more choices

How Countries Can Use the Singapore Model

Can benefit from the Singapore experience on a number of levels:

1. **The resale market:**
   For both the social housing units and the social mortgage loans schemes in the region, beneficiaries would benefit from the concept of resale after a specified time shorter than the 25/30 years of the repayment, similar to Singapore. This would encourage younger married couples to purchase smaller units or flats at the start of their family life, knowing that within a short time, they are permitted to sell their unit and purchase a larger unit more suitable to their circumstances.

   This would benefit the market in a number of ways, creating a secondary housing market, helping to meet the demand from younger married couples, and enabling the government to fulfill the citizens' needs in a timelier manner.

   It will also help change the culture that a family will wait for years to get a house since they believe it is the only house they will own. The introduction of a resale market with a second subsidy similar to Singapore would be an introduction for the younger generation to accept flats at the start of their life, knowing that once they need larger dwellings, they are able to sell the small flat on the market and purchase a new one without losing the benefit of a government subsidy.

2. **Strengthening family ties**
   The concept of strengthening family ties is an important one that already exists in the regional culture; however, the government could continue to encourage this by introducing incentives. Such incentives may not necessarily be like Singapore's due to different circumstances; however, the government can consider options such as the expansion of family houses for married children. This would again help minimize demand for land plots, which are already scarce and expensive. Younger couples with lower incomes could be encouraged to benefit from social loans to construct extensions to their family houses, thereby saving on the price of land and availing of government housing benefits quickly. Another way would be to encourage new families building homes to design and lay foundations for a number of floors for the future of their children. Incentives may be introduced, encouraging them to do so, such as providing free house designs, giving them faster services, etc.

Thailand experience

Thailand faces a large demand for affordable housing and has three main government units that implement lower/middle-income housing programs. These are the Government Housing Bank 9GHB), the National Housing Authority, and the Community Organization Development Institute.

Each one of these has a distinct role:

- **The Government Housing Bank (GHB).** The main provider of mortgages for affordable housing with the objective of providing a source of fiancé with lower interest rates for home buyers in the low ti middle income families. Its market share is around 38% thus making it Thailand's leading mortgage residential provider.
- **The National Housing Authority.** A government organization operating under the Ministry of Social Development and Human Security, the NHA currently plays a significant role in developing and providing low-income housing to Thais, under the guidance of strategic government policies. NHA builds low-cost houses for the lower-income population and gives

them out on Hire purchase agreements. The citizens pay directly to NHA. NHA gets its funding for development through MBS issues.

- **Community Organization Development Institute.** A government organization with the objective of helping poor communities organize savings groups and fund their loans for development. It also provides housing projects on a land-sharing basis and offers land at lower costs.

Bahrain Banks can benefit from the Government Housing Bank (GHB), Thailand's experience:

The Government Housing Bank in Thailand is similar to other housing institutions in the region in that it is a government-owned entity established with the sole purpose of serving the Thai housing market, providing housing finance to the general public with a special focus on providing residential financing to low and middle-income borrowers. Its mandate restricts lending for housing purposes only and is chartered to develop housing projects for sale to the public to buy or acquire and subdivide land. In addition, it is permitted to accept public deposits. In the early years, the bank's loans were funded through government-guaranteed bonds and overseas currency long-term loans, which resulted in the limitation of mortgage lending, and homebuyers had to wait years to access GHB mortgage loans. This was resolved in the 1980s when the GHB introduced "Special Deposit Accounts" that paid higher than commercial bank interest rates and were extremely successful, so the bank expanded and no longer faced funding problems, becoming branded ad the "Primary Thai Home Lender". We can benefit from this experience if it is permitted to introduce "Special Deposit Accounts" that would pay higher commercial bank interest rates, possibly to target markets. Further to this post, the 1997 Asian Financial Crisis, GHB implemented several government-led housing programs and housing stimulus policies, resulting in the availability of housing and funding for the people. The experience of GHB is a successful one.

Another factor helping with the success of GHB has been the introduction of fixed monthly installments for the mortgage loans that extend to up to 30 years. Th GHB calculates the monthly installment at 1-2% higher than the actual interest charged so that installment amounts do not change in the event of small interest rate increases and thus reduces expenses on the bank and confusion of borrowers. Such practice has helped prevent problems of how low-income families can meet fluctuating interest rates, and in case of the interest rates declining or remaining stable the customer benefits from the earlier repayment of his mortgage.

Conclusion

The above is only our interpretation and should not be considered as the source of information but only general information.