Government Interventions in Housing Finance
An International Overview

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Owner Occupation Rate, %

- Bulgaria, 96.5
- Estonia, 96
- Lithuania, 97
- Canada, 68.4
- Denmark, 54
- Czech Republic, 47
- France, 57.4
- Germany, 43.2
- Italy, 80
- Portugal, 76
- Spain, 85
- UK, 69.5
- US, 67.2
Higher government participation

Homeownership rate (percent)

Government participation (Index 0–1)

Sources: European Mortgage Federation; Australian Bureau of Statistics; Japan, Ministry of Internal Affairs and Communications, Statistics Bureau; Singapore, Department of Statistics; U.S. Census Bureau; and IMF staff estimates.
CASE 1: The United Kingdom

- High homeownership rate (69.5%)
- Low government participation in housing finance
CASE 1: The United Kingdom (continued)

- Institutions
  - Bank of England
  - Treasury
  - Lenders

- Monetary Policy
  - Low interest rates

- Tax Policy
  - No tax relief on mortgage interest
  - No VAT on new dwellings
  - Capital gains are tax-free
The United Kingdom’s Government Interventions for Housing Finance

• Funding Sources
  - More money markets and less dependent on retail deposits
  - Residential mortgage backed securities (RMBS) Covered bonds
  - Bank of England Special Liquidity Scheme (SLS)
  - Treasury Credit Guarantee Scheme (CGS)

• Borrower Support
  - Mortgage Rescue Scheme
  - Homeowner Mortgage Support
  - Support for Mortgage Interest Programs
CASE 2: Italy

- High homeownership rate (80%)
- Medium government participation in housing finance
CASE 2: Italy (continued)

• **Institutions**
  - 800 Italian Banks with 30,000 branches
  - National real estate brokers linked to banks
  - Bank of Italy
  - Post offices distribute loans
  - Direct purchase via phone or internet

• **Monetary Policy**
  - Low interest rates

• **Tax Policy**
  - 19% of mortgage interest payments deducted from personal income tax
  - Tax incentives for renovation
Italy’s Government Interventions for Housing Finance

• Funding Sources
  - Majority of loans for house purchases are held on banks’ balance sheets
  - Banks issue securities on domestic/international bond markets to fund mortgages

• Borrower Support
  - Loan recovery procedures on defaults long and costly (5-7 yrs)
  - Less than 2% of loans benefit from public subsidies for interest rate payments
CASE 3: Canada

- High homeownership rate (68.4%)
- High government participation in housing finance
CASE 3: Canada (continued)

- **Institutions**
  - Lenders mostly domestic, dominated by six Canadian banks

- **Monetary Policy**
  - Low interest rate environment

- **Tax Policy**
  - Home Buyers’ Plan (HBP)—homebuyers withdraw $ from retirement plan without income taxation
  - No taxation on capital gain in the case of sale of a property
  - Property taxes and mortgage interest payments not deductible
Canada’s Government Interventions for Housing Finance

• Funding Sources
  - Increasing off-balance sheet funding based on MBS created from insured mortgages
  - Securitization of conventional mortgage loans remains marginal
  - Subprime mortgage lenders securitize a greater share of their mortgages than major banks do

• Borrower Support
  - Small fraction of homeowners benefit from governments’ direct subsidy assistance targeted to low-income households in rural or remote locations
<table>
<thead>
<tr>
<th>Government Interventions in Housing Finance Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td><strong>Subsidies to low and middle income</strong></td>
</tr>
<tr>
<td><strong>Housing finance funds, Government Agency Provides Guarantees</strong></td>
</tr>
<tr>
<td><strong>Tax Deductible Mortgage Interest</strong></td>
</tr>
<tr>
<td><strong>Capital Gains Tax Deductibility</strong></td>
</tr>
</tbody>
</table>
Conclusion

• Improve and regulate *credit information* systems

• Tighten conditions on *government backstopped insurance* against default

• Avoid decline in *underwriting standards*

• Consider *alternative funding mechanisms to MBS* such as customer deposits and covered bonds

• Rethink the implications of *tax deductibility of mortgage interest*

• Implement macroeconomic and other policies which complement *other efforts to avoid foreclosures*
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