Government Interventions in Housing Finance

An International Overview

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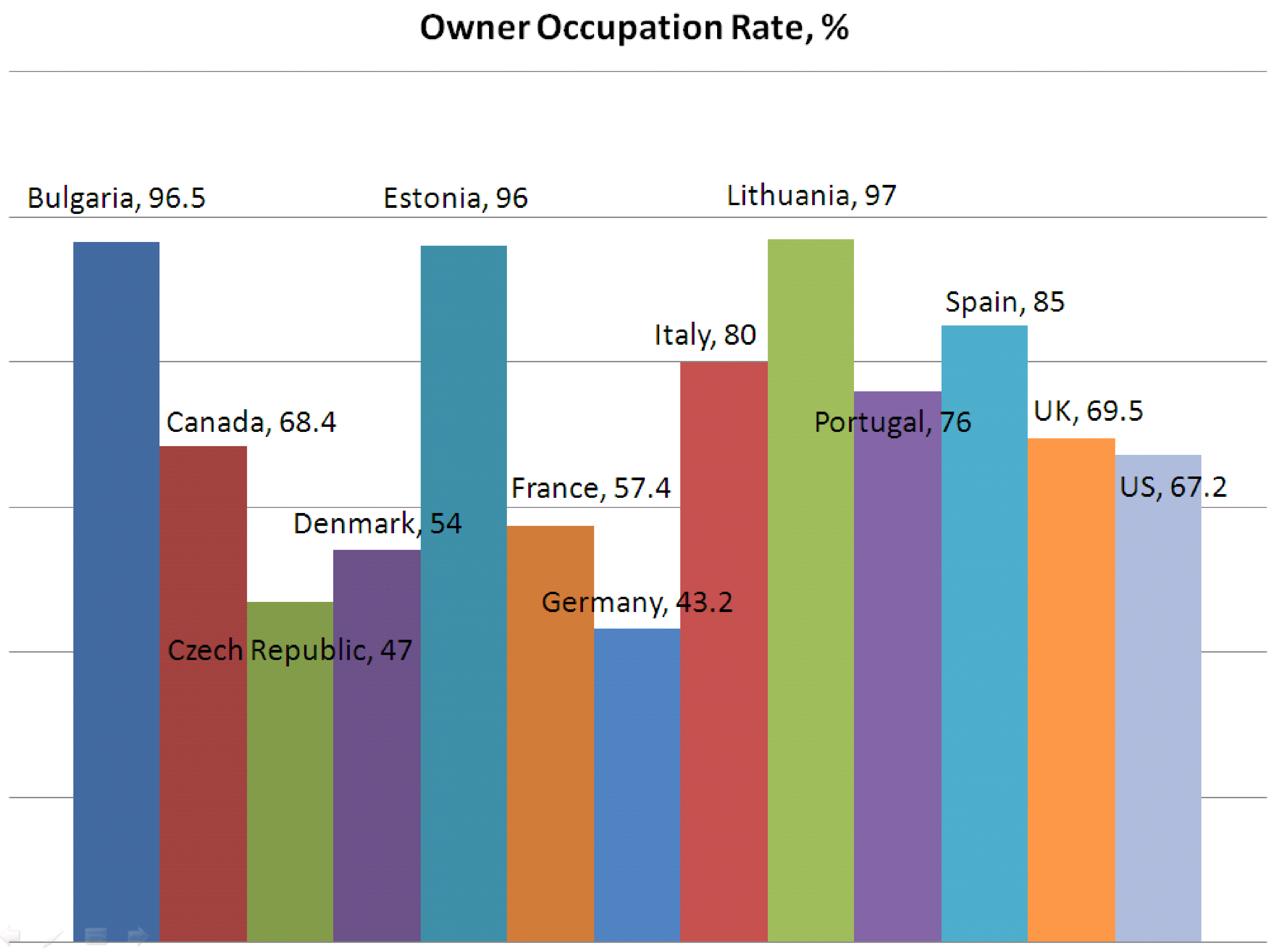
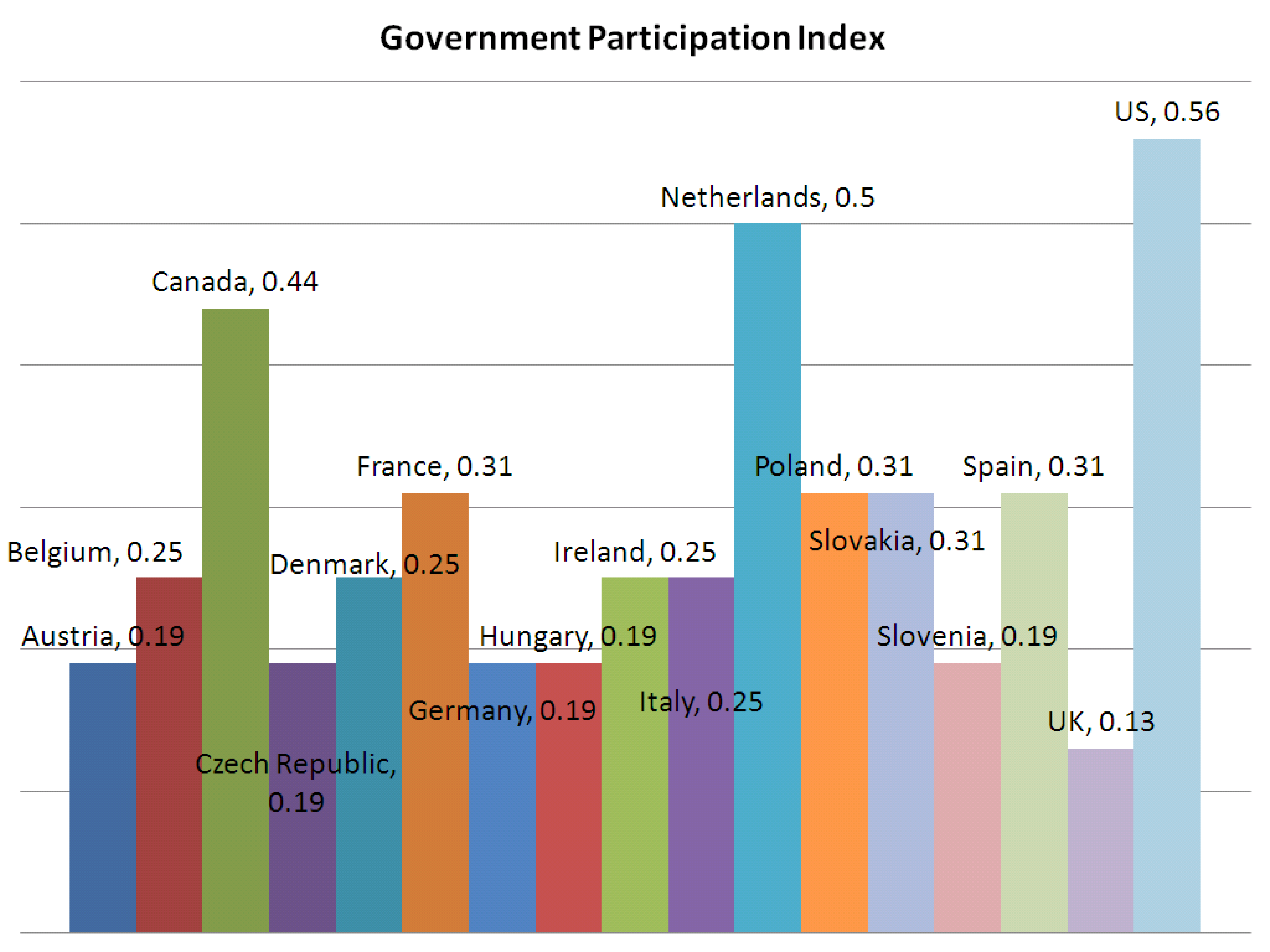
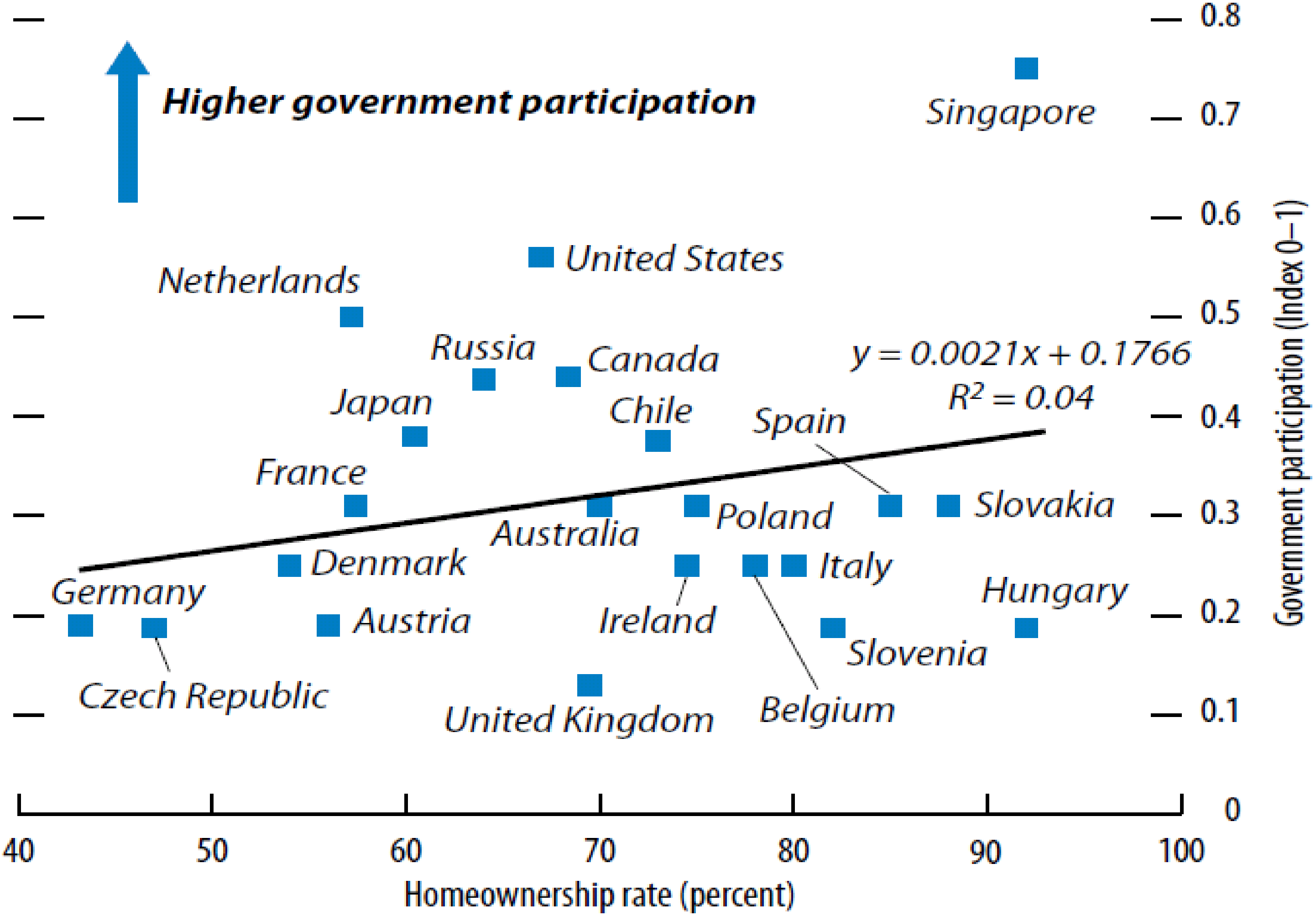

Owner Occupation Rate, %
Bulgaria, 96.5
Canada, 68.4
Czech Republic, 47
Denmark, 54
Estonia, 96
France, 57.4
Germany, 43.2
Italy, 80
Lithuania, 97
Portugal, 76
Spain, 85
UK, 69.5
US, 67.2


Government Participation Index
US, 0.56
Netherlands, 0.5
Canada, 0.44
France, 0.31
Poland, 0.31
Spain, 0.31
Slovakia, 0.31
Belgium, 0.25
Denmark, 0.25
Ireland, 0.25
Austria, 0.19
Hungary, 0.19
Slovenia, 0.19
Germany, 0.19
Italy, 0.25
UK, 0.13
Czech Republic, 0.19



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.

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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

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Government Interventions in Housing Finance Markets

	Canada	Denmark	France	Germany	Italy	Portugal	Spain	UK	US
Subsidies to low and middle income									X
Housing finance funds, Government Agency Provides Guarantees	X								X
Tax Deductible Mortgage Interest		X	X		X		X		X
Capital Gains Tax Deductibility	X	X	X	X	X		X	X	X

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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