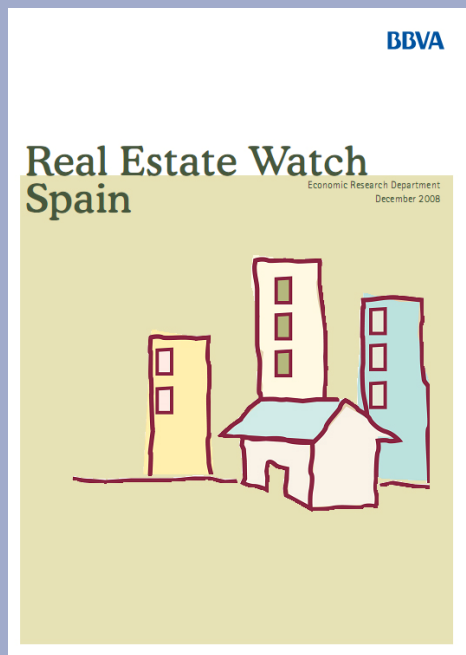


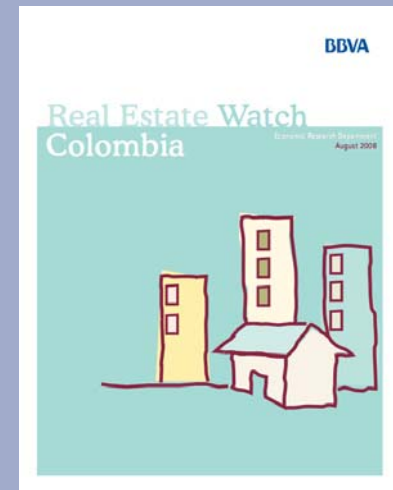
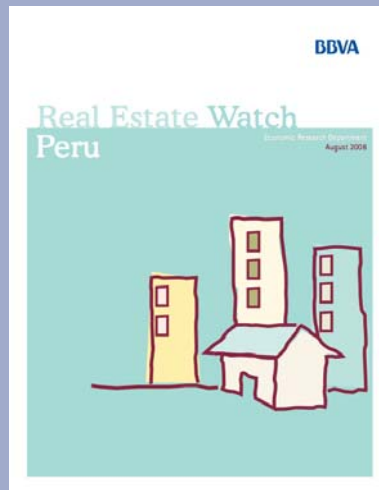
International Experiences In Housing Markets

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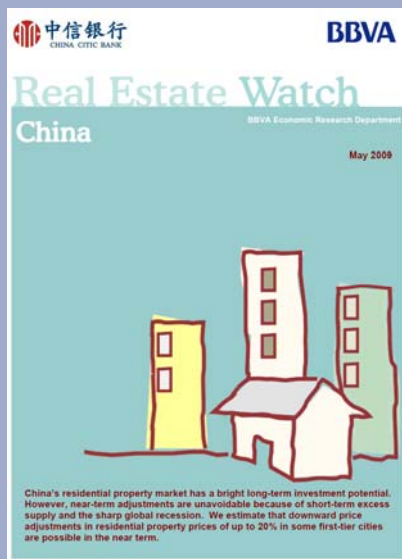
- ❑ BBVA economic research department has produced regular housing reports for a growing number of countries
- ❑ Spain was the first case in point followed by Mexico



- More recently, reports have been produced for Argentina, Chile, Colombia and Peru.



- ❑ In depth analysis of the US housing market. Special focus on the South belt where we have strong local presence.
- ❑ China's housing report is our most recent milestone, in collaboration with the research department of CITIC bank, our strategic investment in China.

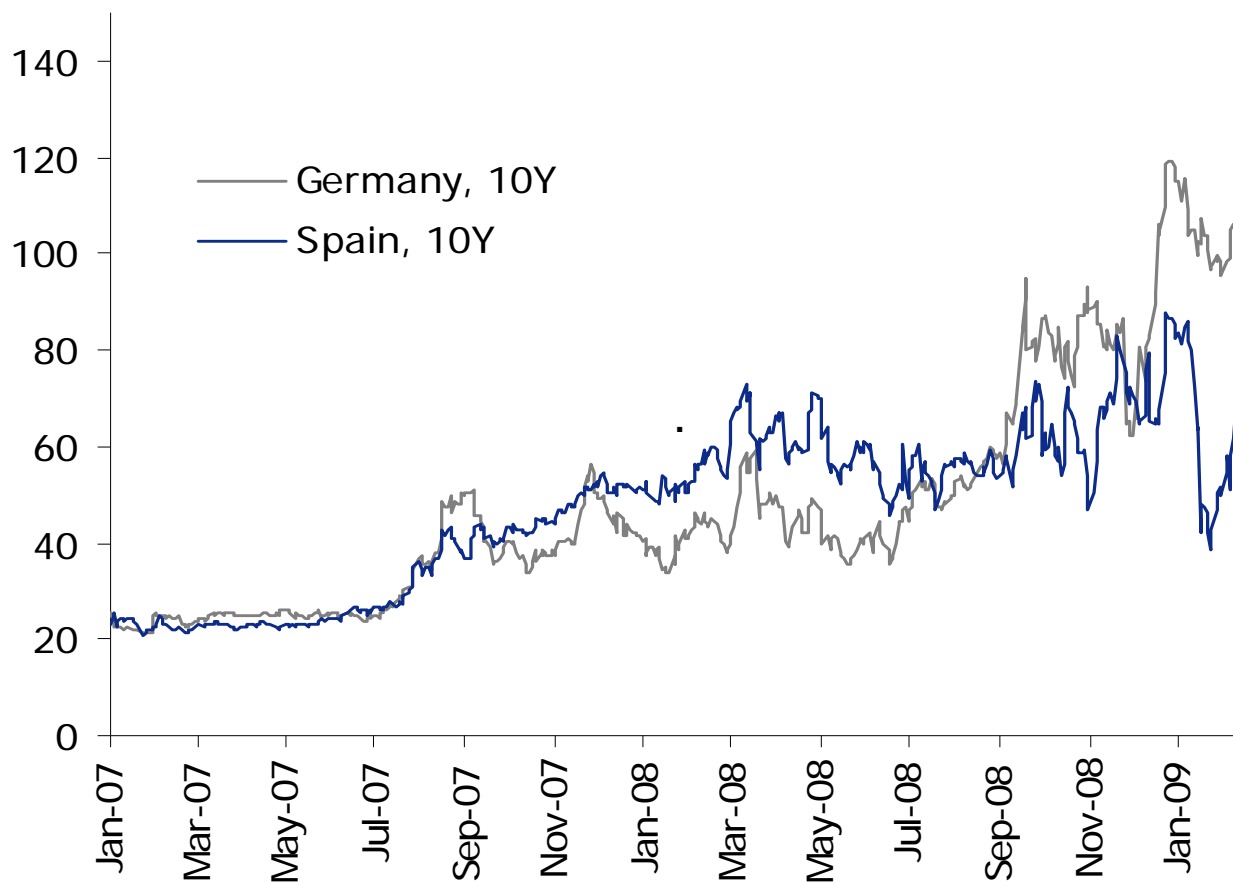


1. How to finance a well functioning mortgage market
 - ❑ Specially relevant after the collapse of the US model with the subprime crisis
2. How to increase the number of house owners among the less favored population?
 - ❑ Affordable housing is a key issue in China's fiscal package

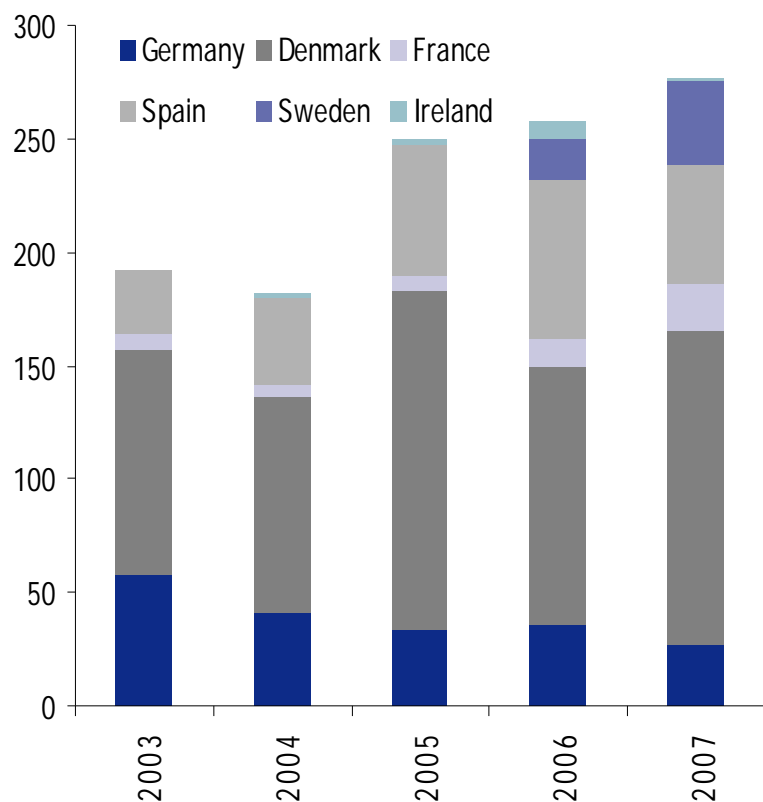
1. The US subprime crisis argues against **securitization** (i.e. taking mortgages out of the banks' balance sheets) as long as risk cannot be assessed properly.
2. The European experience with **covered bonds** is less familiar and probably worth exploring.

- ⑩ Germany and Denmark were the first two countries to use the cover bond instrument
- ⑩ They were introduced more widely throughout Europe with various degrees of success during the late 1990s
- ⑩ Spain, with *Cedulas Hipotecarias*, and France, with *Obligations Foncières* followed
- ⑩ In only two years, *Cédulas Hipotecarias* grew from funding about 20% of housing loans in 2005 to more than 40% at the end of 2007

- More generally, cover bonds have behaved relatively well during the crisis since spreads have not spiked to an unsustainable level and the market has not been fully closed.
- Covered bonds are issued by banks and guaranteed not only by the collateral associated with the underlying loans (the so-called “cover pool”) but also by the issuer’s creditworthiness.
 - In fact, banks’ creditworthiness might be the reason behind the good performance of Spanish cover bonds when compared to German ones

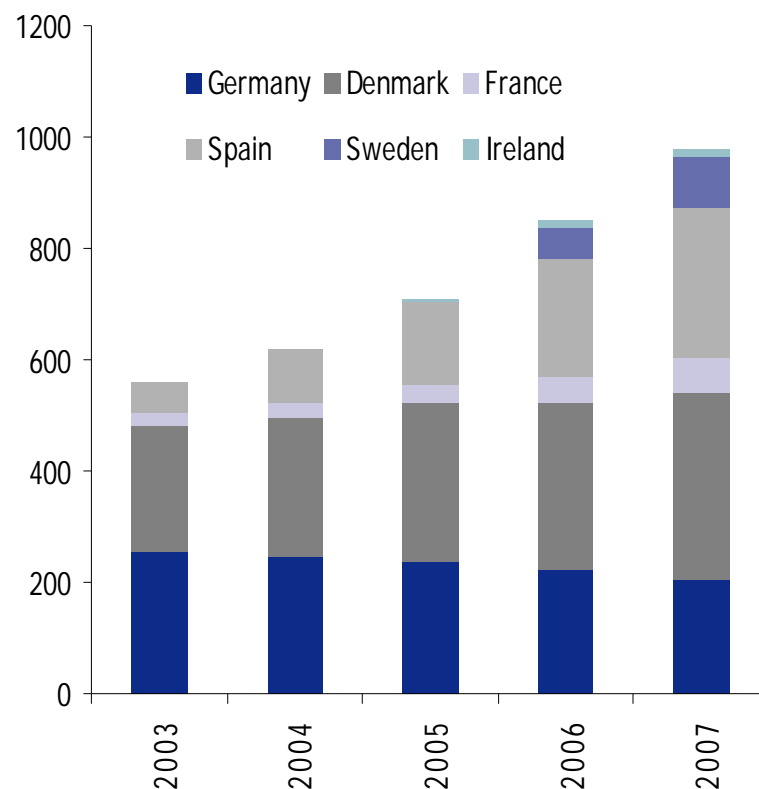
Chart : Covered bond spreads, bps

Mortgage bonds issuance In billion euro



Source: European Mortgage Bond Council.

Mortgage bonds outstanding In billion euro



Source: European Mortgage Bond Council.

1. Experiences from other emerging countries may be more relevant for China than those of developed countries. The reason is obviously the more similar purchasing power.
2. Some interesting experiences in **Latin America**.

Chile

- ❑ The government provides direct financing - through the housing ministry - only for very basic housing (only 1% of total mortgages)
 - ❑ Households are required to proof their low income
 - ❑ They must also have a minimum amount of savings.
- ❑ The government also subsidizes the housing purchase by still low but higher income households through a state-owned bank BancoEstado.
 - ❑ BancoEstado does not really compete with the rest of the banking system since the income level of such families is too low for other banks.
 - ❑ It has a sizable share of the market: 24% of total mortgage value (54% of the total number of operations)
- ❑ As part of a fiscal plan announced in October 2008, the government extended the subsidy for low to medium income households that will cover 10 to 20% of the house purchase value.

Peru

- ❑ The government created three state-programmes to provide financing for low and middle-income households.
- ❑ The first and most successful one (“Mi Vivienda”), which has been functioning since 2001 reached 25% of total mortgages.
 - ❑ The reason why it was very successful is that there was a clear incentive for households to pay their mortgage on time: the so called “bonus for good payers” would reduce the mortgage by 15% of the purchase price
- ❑ Other programs were created later differentiated between middle-income (“Mi Hogar”) and very low income households (“Techo Propio”).
 - ❑ In the latter case, a very low initial installment is allowed (just of 3%) although interest rates are usually higher than in the other two programs.

Colombia

- ❑ The government is putting forward some plans to grant one time housing subsidies for the poorest sector of the population.
 - ❑ Eligibility criteria: Workers with monthly income below 4 minimum wages (More than 80% of total employees)
 - ❑ Must have saved at least 10% of total house value
 - ❑ Subsidies are progressive and amount from 4% to 42% according to income.
- ❑ Mortgages for low income households are partially granted, 30%, by the government.
- ❑ Income tax relief for building projects targeted to the lowest income households

Mexico

- ❑ It has government housing framework to support lower income workers
 - ❑ Conavi, Infonavit and SHF (public bank) are institutions to development the housing sector and lend mortgages
- ❑ Government has chosen to support affordable housing from the demand side, i.e. with direct subsidies to the population
 - ❑ The criteria to access such subsidies are the income per household and the lack of/poor credit history
- ❑ There are three main schemes:
 - ❑ They have a limit of twice the minimum salary for single buyers and four times for married couples to access the subsidy
 - ❑ They involve a minimum down payment of 4%-5% of the house price and part of the transaction costs of buying the house
- ❑ For the 2001-06 period, 1.4 million subsidies have been announced, which constitute about 10% of banks' total lending

Given the importance of the housing market for China's recovery,

- ⑩ Looking in more detail to the international experience seems interesting.
- ⑩ Experiences from emerging countries look specially appealing for the issue of developing affordable housing
- ⑩ Europe seems to offer a useful model in terms of financing