

State lending for housing production

Loans for housing production have become the largest category of state lending. In 2004-2008 the loan portfolio for social housing production was around 10 billion euros, which is significant from the viewpoint of public finances. Key authorities has been the National Housing Fund (an off-budget entity), governmental agency named the Housing Fund of Finland operated during 1993–2007 and from the beginning of 2008 the Housing Finance and Development Centre of Finland (ARA), which operates under the Ministry of the Environment. An important actor is also the State Treasury, which operates under the Ministry of Finance. The task of the Housing Fund of Finland has been to grant loans for subsidized housing production and to approve interest-subsidy loans to build, repair and procure rented and right-of-occupancy housing. During the 2000s the focus of financing has shifted from subsidized housing production to interest-subsidy loans, since the authorization to grant loans for subsidized housing production has gradually been reduced in the state budget. The Housing Fund has also granted different types of housing support and supervised the government guarantee scheme for mortgages. The State Treasury has been responsible for implementation tasks following the granting of a loan for the entire loan period. The State Treasury has also taken care of changes in loans, debt arrangements and support measures related to the restructuring of subsidized housing production as well as certain aspects of risk management.

The audit focused on administrative arrangements and risk management associated with lending for social housing production and the economic and efficient use of the systems used in lending.

According to the audit findings, the administration of lending can be considered properly managed for the most part. The cumulative amount of credit losses has been small, on which basis risk management can generally be considered successful. It has been possible to keep problem borrowers in housing use with financial sup-

port, and it has seldom been necessary to resort to foreclosures. Development needs were observed in cooperation among authorities, and measures have already been taken. Deepening cooperation and particularly making better use of information technology still require attention, in the opinion of the National Audit Office. The development of risk management, which has already been started, should also continue in order to prevent significant credit risks in the future.

The supply of subsidized housing loans has been limited by current legislation and the ceiling on subsidized housing loans in the state budget, which is decided each year. According to the audit, the demand for loans has been guided mainly by market interest rates and the supply of alternative financing. When the interest rate on subsidized housing loans was lower than market interest rates in the 1990s, subsidized housing loans were an attractive option for borrowers. In relation to market interest rates the interest rate on subsidized housing loans has been rather inflexible, and before the middle of the 2000s it was on 0.5-1 percentage points higher than the average market interest rate, which lowered the attraction of subsidized housing loans for borrowers.

Since 2008 the state budget has no longer included authorizations to grant new subsidized housing loans, although the relevant legislation is still in force. In practice this means that in the current recession consideration can be given to reintroducing subsidized housing loans without having to develop or create new mechanisms.

The audit found that the loan conditions for subsidized housing loans have in practice been complicated and interpreting them has required deep knowledge of the subsidized housing loan system and authorities' practices. Changes and exceptions that were enacted at different times with the aim of adapting the system to the operating environment have increased complexity in interpretation and application situations. The National Audit Office notes that it is important to ensure the continuity of the relevant authority's expertise, since questions concerning old long-term loans for different types of borrowers can arise until a loan has been fully repaid to the state.

The audit examined the use of financial support in cases in which borrowers had difficulties repaying a loan. It found that the Housing Fund's point of departure was the social aspect of housing production and the borrower's possibility to manage a loan, while the State

Treasury's activities have been based on its financial management and lender's role. In practice, however, no conflict was observed between these roles.

The condition for the State Treasury's support measures has been the continuation of borrowers' activities in an economically reasonable way so that the original purpose, which is to provide housing, could continue. Restructuring measures in most cases ensured the continuation of housing. Cooperation with local authorities also had positive effects. Procedures often made it possible to protect the state's receivables as well.

Financial and other support measures can be considered efficient and effective, since they have made it possible to continue the original purpose of lending, which is to provide housing. This has in turn protected the state's receivables and reduced the amount of credit losses that would have probably resulted for the state otherwise. The National Audit Office notes that, from the viewpoint of public finances, with fairly small sacrifices it has been possible to prevent greater financial losses (credit losses) while continuing to provide housing in the subsidized projects.

Since financial support for state-subsidized housing has proved to be effective, on the basis of experience concerning the restructuring subsidies that were introduced at the beginning of 2009 it would make sense to investigate whether it is necessary to expand and develop other financial support measures for projects financed through the interest-subsidy system.

The audit also found that subsidized projects' financial difficulties had in some instances reached such a point that there was no longer any justification for the use of ordinary financial support measures. In this case the borrower could still apply for a partial abatement of debt combined with a release from restrictions on subsidized housing loans and a change in the purpose of the property or the sale of the property. According to the audit, in such situations the Housing Fund and the State Treasury have each examined the matter from the perspectives of their own expert tasks, which have not converged in every respect. Since the abatement procedure was reformed at the beginning of 2006, cooperation is still being worked out. For this reason the Housing Fund and the State Treasury still need to develop cooperation particularly in the abatement proce-

dure. Development is also needed in situations in which the conditions that have been set for an abatement are not met.

According to audit findings, the use of IT by both the Housing Fund and the State Treasury is developed and different systems and applications support officials' work in different stages of lending. The fact that information transfers between the information systems of the Housing Fund and the State Treasury take place in paper form can be considered a significant shortcoming, however. Since the sending and receiving systems are electronic, but decisions on subsidized housing loans have been delivered by post in paper form, the operating model is completely outmoded.