

# Conclusions and recommendations of the National Audit Office

## The Housing Finance and Development Centre of Finland (ARA) as the housing policy implementing body

The audit assessed the objectives set for the Housing Finance and Development Centre of Finland (ARA) in housing policy as well as the financing instruments and process of housing production. In addition, the audit assessed ARA's steering and monitoring activities, and its risk management policy and procedures.

The purpose of the audit was to assess the implementation of ARA's tasks, its operational performance and risk management, as well as the acquisition and use of the financial resources of the National Housing Fund (VAR). The audit also assessed the State Treasury's role in the management of the credit and guarantee liability risks related to ARA's housing stock and in the use of the financial rehabilitation measures granted to ARA-funded corporations.

## The performance targets set for ARA and the objectives of land use, housing and transport agreements have been well achieved overall

The performance targets set for ARA are broad, and they have been well achieved overall. Agreements on land use, housing and transport (MAL agreements) are an effective way of steering the cooperation between the central and local government and of the implementation of social housing production. Generally speaking, the objectives set by these agreements have been well met. The MAL agreements are a key way of implementing long-term housing policy.

## There is demand for social housing particularly in cities

In cities, or large towns, the demand for social housing production exceeds supply. The demand for ARA apartments is maintained by the population growth, the affordable rents, and the low turnover of the apartments. In many cities, there is a shortage of plots suitable for affordable housing production.

With certain exceptions, ARA's interest subsidy loans are not granted to medium-sized regional centres with a population of between 50,000 and 100,000 inhabitants whose population is not growing. Rental housing corporations in such towns have limited opportunities to finance new construction and renovation investments.

## ARA's financial instruments do not fully meet the needs of developers and financiers

The ARA production supplements the housing production that is not state-subsidized. The rents for non-subsidized housing produced on market terms are higher, especially in the largest cities, than the rents for housing granted on social grounds. Based on the audit, it is difficult to meet the demand for more affordable housing granted on social grounds with market-based production.

The authorizations to approve interest subsidy loans and guarantee loans are mainly adequate. However, ARA's financial instruments do not fully meet the needs of developers and financiers. Constructors receive few responses from financial institutions to their requests for offers for long-term interest subsidy loans for their projects. It is possible that, in the future, the only financier will be Municipality Finance (MuniFin). A regulatory reform concerning the development of the long-term interest subsidy model is under way, but it will not remedy all the problems associated with interest subsidy loans. The long maturity of the interest subsidy loan and the back-end loaded amortization programme will continue to make it difficult to use this type of loan. The decrease in the state-subsidized housing loan stock of the National Housing Fund (VAR) and the reduction of the Fund's return will complicate the Fund's activities in the future.

## It is challenging to promote new tenure models and the construction of wooden apartment buildings

The experiences of ARA's development activities are mainly positive. Owner-occupied housing can be promoted by means of hybrid or intermediate tenure models with features of both rental and owner-occupied housing. These models include, for example, a housing cooperative and purchase of a rental apartment, but their implementation is not without problems. Financial institutions are reluctant to finance housing cooperatives. In the model based on the purchase of rental apartments, in turn, the use of ARA's financial instruments has certain problems.

The ARA production has been a key driver for the construction of wooden apartment buildings. However, there are a number of different reasons preventing more wide-spread construction of wooden apartment buildings. The quantitative policy targets set for the construction of wooden apartment buildings are not met.

## The process of applying for and granting funding for social housing production is undergoing strong development

Despite its multiple stages, the procedure for processing ARA funding applications is clear and appropriate. The purpose of the ongoing digitalization is to speed up the processing of projects and to improve the transparency of the funding process.

The funding criteria are well known to the applicants but leave room for interpretation. When assessing the feasibility of a construction project, ARA

emphasizes long-term need for apartments, habitability, and reasonable housing costs. When assessing the creditworthiness of a funding applicant, ARA emphasizes not only liquidity and solvency but also the customer's credit rating.

The preparation of the funding decision has been developed, but the grounds for the decision have often remained unclear to the customers. The customers hope that the predictability of the approval of funding applications will be improved to reduce their costs and administrative burden. Customers apply for an adjustment to funding decisions and other decisions most frequently during the part-decision stage enabling the start of construction, when the plans and costs are approved.

## Compliance with the provisions on non-profit status is steered and monitored in several different ways

ARA steers the actors on non-profit status comprehensively through guidelines, training, guidance visits, and advice. The prerequisites for non-profit status, the limitations on income recognition, and the related guidelines issued by ARA are found clear in general.

Income recognition is monitored comprehensively. The monitoring of non-profit status does not cover all actors every year, but it is carried out in several different ways. The effectiveness of the monitoring is undermined by the incomplete reporting features of the information system used by ARA's Monitoring and Control service area and the inadequate information received from corporations. The access to information is expected to improve in the future if the sanction clause in the legislative proposal submitted by the Government on 27 October 2022 enters into force.

## The steering related to cost rents and maintenance charges is wide-ranging, but the monitoring cannot be considered sufficient

ARA provides corporations with diverse guidance and advice on the determination of rents and maintenance charges and on the preparation of ex-post calculations. Many corporations still find it difficult to determine rents and maintenance charges and to prepare ex-post calculations. Therefore, they feel that the guidelines should be further improved.

The monitoring of cost rents and maintenance charges consists solely of relatively limited number of separate control visits and verifications of ex-post calculations. Based on the audit, a key reason for the small amount of monitoring is scarce resources. The monitoring of the cost-based nature of rents and maintenance charges cannot be considered sufficient overall in view of the number of corporations, the total of loan and guarantee liabilities, and the incorrect rents often revealed during ARA's control visits.

## The monitoring of short-term interest subsidy loans was started too late

The start of the monitoring of ARA's short-term interest subsidy loans was delayed considerably due to the incomplete operation of the information system and the allocation of resources initially to providing guidance and advice for new actors. ARA has received sufficient information from the actors for the purposes of the monitoring. At present, the monitoring covers all actors in the case of income recognition, but the monitoring of rental levels is more limited and, as a rule, not documented in the system. According to the audit findings, minor overruns of the permissible rent level are not necessarily detected in the monitoring.

## The Monitoring and Control service area lacks internal guidelines and monitoring of audit findings

ARA's Monitoring and Control service area mainly lacks written internal guidelines for monitoring and control. This poses a risk to continuity. In addition, it poses a risk to quality that the monitoring and control activities vary and the desired minimum level of control activities is not reached. According to information received from ARA during the audit, guidelines are currently being prepared.

Moreover, ARA does not monitor the findings of its control activities or the resulting sanctions or other consequences in a systematic and comprehensive manner.

## ARA carries out risk management together with the State Treasury, but the State Treasury cannot influence the credit granting stage

Based on the audit, guarantee liability risks are determined largely in the credit granting stage, which the State Treasury is unable to influence even though it plays a key role in the risk management, financial rehabilitation measures and insolvency procedure of ARA's housing stock.

ARA and the State Treasury have identified right-of-occupancy housing as particularly risky, but this is hardly reflected in the granting of funding. ARA's management of customer and fraud risks is primarily based on steering and monitoring, which has been carried out mainly through guiding procedures. ARA has identified the key operational risks.

## Recommendations of the National Audit Office

1. ARA and the Ministry of the Environment should look into the need and possibilities of funding rental housing corporations in medium-sized regional centres with ARA's interest subsidy loans.
2. ARA and the Ministry of the Environment should explore the need and possibilities of developing the long-term interest subsidy loan so that the credit granting is based on sufficient competition.
3. ARA should promote the use of a specified form in funding decisions and inform funding applicants of the grounds for negative decisions as laid down in the Administrative Procedure Act in order to ensure equal treatment of funding applicants.
4. ARA should engage the State Treasury in the assessment of the creditworthiness of the highest-risk funding applicants. In addition, ARA should, in cooperation with the State Treasury, develop and secure the transfer of data between the systems of ARA and the State Treasury, taking into account the requirements concerning up-to-date information.
5. In order to ensure the effectiveness, continuity and quality of its monitoring activities, ARA should complete its internal monitoring guidelines and the features of the information system that support the monitoring, as well as increase the monitoring of the determination of cost rents and maintenance charges. In order to succeed in these tasks, ARA should allocate sufficient resources to them.
6. To develop its steering and monitoring and to target its control activities, ARA should adopt systematic monitoring of the findings it has made in its control activities and of the measures it has taken in response to them. In addition, ARA should, where appropriate, use the sanctions provided for in the law to access information and to address the shortcomings detected in its monitoring and control activities.
7. In granting funding, ARA should pay special attention to the risks arising from the combined impact of permanent limitations on right-of-occupancy housing and projected migration.