RECENT DEVELOPMENTS IN HOUSING FINANCE IN LITHUANIA

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SUMMARY

- Macro environment conducive of housing finance development: GDP, prices, interest rates, source of funds
- Growing demand for mortgage loans
- Legal / institutional barriers to improvement of the existing stock
- Historically, lack of policy coordination of housing programs
- Development of the National Housing Strategy
MACROECONOMIC FRAMEWORK

- Local banks sold to foreign investors
- Pension funds not active yet
- Insurance sector is picking up
MACROECONOMIC FRAMEWORK

- 35,000 real estate sales yearly
- 5,161 mortgage loans in 2001
- 9,000 mortgage loans expected in 2002 for 180 mln. EUR
- Average loan of 19,000 EURO (2002)
- Banks have funds to meet mortgage demand

![Households income and expenditure in income deciles](image)
BASIC FACTS ABOUT HOUSING SECTOR

- 1.3 million dwellings:
  - 37% private houses,
  - 60% private apartments,
  - 3% municipal housing.

- Age structure:
  - 26% built before 1960,
  - 65%: 1960-1990,
  - 9%: after 1990.

Major imbalances:

- Tenure: 97% private, only 3% municipal rental stock
- Standards: poor condition, lack of proper management
- Location: surplus in rural areas, lack in developing areas
BASIC FACTS ABOUT HOUSING SECTOR

- 1.04 household per dwelling (difference of 48,000);
- 2.5 rooms and 2.7 persons per dwelling;
- Construction = 0.3% of housing stock (1 - 1.5 in mature markets)

- Around 90% of multifamily buildings need renovation and improvement of energy efficiency.
SOURCE OF FUNDS FOR HOUSING FINANCE

Housing acquisition:
- Government budget no longer used
- Domestic bank deposits
- Foreign bank deposits
- Mortgage bonds: draft law submitted to the Parliament
- Homeowners’ equity: savings and privatized apartments

Multifamily building renovation and upgrade:
- The World Bank loan forming a revolving fund
- Credit enhancements aimed at involvement of commercial financial institutions (since 2003)
LENDING INSTRUMENTS

- Typical terms of market mortgages (for 2002): 5-7% interest rate, 10-25 year maturity, 20-30 % downpayment

- State support to homebuyers:
  - State mortgage insurance: downpayment down to 5%, (maximum insurance charge is 4.34% in 2002)
  - Soft loan interest subsidies (till 2003)
  - Mortgage interest deductibility (since 2003)
  - Capital grants for special social groups
MORTGAGE DEMAND

- 80% of households intend to improve their housing:
  - 67% repair or remodel existing housing
  - 23% buy new dwelling (house or apartment)
- Preferred financing of housing improvements:
  - personal savings: 66% YES / 27% NO
  - assistance from relatives: 35% YES / 56% NO
  - bank loan: 19% YES / 69% NO
  - lease: 9% YES / 73% NO
MORTGAGE DEMAND

Only 6% of Lithuanian households used bank loans for housing:

- Income gap
- Equity gap
- Effort ratio
- Preferences

Forecast of housing completions for different scenarios, 2002 - 2007* (* - CMHC forecast)
REGULATORY AND INSTITUTIONAL FRAMEWORK

Challenges:
- Constitutional problem with homeowners associations HOA
- Mortgage liens on apartments to protect lenders
- Eviction rights and children’s rights
- Credit underwriting of housing borrowers
- Collateral value uncertainty
- Shifting housing policy interventions
- Mortgage bonds acceptable to the investment market
GOVERNMENT HOUSING RELATED PROGRAMS

- State support law: instrument changes in 2002
- Utility compensation: amended in 2002
- Mortgage insurance: amended in 2002
- Mortgage bonds: submitted to Parliament in 2002
- Energy Efficiency Housing Pilot Project: re-lending
- Interest deduction: replace interest subsidies in 2003
- Subsidized contract savings: rejected as too expensive
# NATIONAL HOUSING STRATEGY

## Basic Framework

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Emerging recommendations on housing finance programs:

- Interest rate subsidy: NO, but previous commitments honored
- Interest deduction: YES(?), but with targeting and cost control
- Up front grants: YES, to selected buyers (young families)
- Unsubsidized mortgage bonds: YES, issued by anyone
- Subsidized contract savings: NO, too expensive intermediary
- Mortgage insurance: YES, with more targeting
- Credit bureaus: YES, for better credit underwriting
- Lending to HOAs: YES, but credit enhance. needed by banks
- HOA grants / loans on energy efficiency: YES, but small scale
- Mortgage lien on apartments: YES, but need Civil Code change
- Alternative to mortgage liens: YES, if effectively protect lenders