3. Regulation and Housing Policy

Well-organised regulatory and supervisory frameworks are indispensable if countries are to gain the maximum benefits from housing finance markets. Due to the complexity of mortgage-related products, establishing accepted standards of regulations for the overall mortgage market is crucial for vitalising the housing finance markets in the region. A proactive approach of regulation with transparency is also very important for establishing sustainable sound housing finance markets in study countries. In this context, the following four aspects are examined: 1) domestic legal infrastructure; 2) compliance with the EU standards and rules; 3) compliance with international standards (e.g. Basel, IAIS, IOSCO, IMF and OECD principles, etc.); and 4) progress of the financial sector reform in study countries.

3-1. Regulatory Structure

Regulators and Supervisors

Mortgage lending is basically a part of the banking system in the region. Therefore, the Ministry of Finance, the Financial Supervisory Agency and the Central Bank are core regulators and supervisors of the housing finance market. As a supervisor of the secondary mortgage market, a trustee also plays a substantial role in supervising mortgage bank's activities. Poland, Hungary and the Slovak Republic make use of a trustee to supervise and monitor cover assets of mortgage bonds. In Poland, the Commission for Banking Supervision appoints a trustee and a deputy trustee. A trustee is responsible for checking the regular security of mortgage bonds and their adequate cover, to control the mortgage cover register, and to conduct on-site examinations in the mortgage banks. In Hungary, each mortgage bank appoints a trustee as an asset supervisor with the approval of the Financial Supervisory Authority. Only a certified public accountant or a resident natural person can become a trustee, whose responsibility is to permanently monitor and certify adequate cover assets of mortgage bonds and the entry of cover assets into the cover register. In the Slovak Republic, the National Bank of Slovakia appoints a trustee and a deputy trustee (which is called "mortgage controller") to each bank for supervising the issuance of mortgage bonds and municipal bonds and for monitoring bank's activities regarding mortgage bonds.

In Kazakhstan, the Financial Supervision Authority (FSA) was newly established as a single regulator of the financial market in January 2004, separating from the National Bank of Kazakhstan. The FSA regulates and supervises both primary and secondary mortgage market in Kazakhstan.

Legal Frameworks for Mortgage Lending and Funding

The basic legal infrastructure is relatively well established in study countries. For countries having a secondary mortgage market, the Acts on mortgage banks and mortgage bonds have been well developed since 1995. These laws are basically modelled on the German Mortgage Bank Act ("*hypothekenbankgesetz*"). These developments may reflect efforts on the part of the German building societies to promote their own housing finance system in neighbouring countries. In fact, some of the study countries have contract savings schemes similar to the German *Bausparkassen* system and mortgage covered bond schemes similar to its *Pfandbrief*. Before those Acts appeared, a mortgage lending system had already existed in the socialist economy but it was not so important for the centrally planned economy at that time. When the transition economies became independent and began to move toward a market economy in the early 1990s, existing regulatory frameworks for mortgage lending were abolished and for a time there was no substantial legal framework on mortgage lending in the region.

Table 5: Regulators and Supervisors

	Name of Organisation	Housing Finance Market		Housing Market
		Primary	Secondary	(Housing policy)
Poland	Ministry of Finance	✔	✔	
	National Bank of Poland	✔	✔	
	Commission for Banking Supervision	✔	✔	
	Polish Bank Association	✔ (SRO)		
	Polish Securities and Exchange Commission		✔	
	Insurance and Pension Funds Supervisory Commission		✔	
	Trustee		✔	
	Ministry of Infrastructure			✔
Hungary	Ministry of Finance	✔	✔	
	Hungarian Financial Supervisory Authority	✔	✔	
	National Bank of Hungary (Magyer Nemzeti Bank)	✔	✔	
	Trustee		✔	
	Ministry of Interior			✔
	Ministry of Economic Affairs			✔
Czech Republic	Ministry of Finance	✔	✔	
	Czech National Bank	✔ (licensing)	✔	
	Czech Mortgage Bank Committee	✔		
	Czech association of Banks	✔ (SRO)		
	Czech Securities Commission		✔	
	Ministry of Regional Development			✔
Slovak Republic	Ministry of Finance	✔	✔	
	National Bank of Slovakia	✔ (licensing)	✔	
	Trustee		✔	
	Ministry of Construction and Regional Development			✔
Lithuania	Ministry of Finance (Central Project Management Agency)	✔		
	Bank of Lithuania	✔		
	Ministry of Economies			✔
Latvia	Ministry of Finance	✔	✔	
	Financial and Capital market Commission	✔	✔	
	Bank of Latvia	✔		
	Ministry of Regional Development	✔		✔
Estonia	Ministry of Finance	✔		
	Financial Supervision Authority	✔		
	Bank of Estonia	✔		
	Ministry of Economic Affairs			✔
Slovenia	Ministry of Finance	✔		
	Ministry of the Environment, Spatial Planning and Energy			✔
Croatia	Central National Bank	✔		
	Ministry of Finance	✔		
	Money-Laundering Prevention Office	✔		
	Deposit Insurance and Bank Rehabilitation Agency	✔		
Romania	Ministry of Public Finance	✔		
	National Bank of Romania	✔		
	Ministry of Transport, Construction and Tourism			✔
Ukraine	National Bank of Ukraine	✔		
	State Commission on Regulation of the Financial Market	✔		
	State Commission on Securities and Stock Market	✔		
Kazakhstan	Financial Supervision Authority of Kazakhstan	✔	✔	

(Source) OECD Market Survey on Housing Finance 2004

In Poland, Hungary, the Czech Republic, the Slovak Republic and Latvia, the Acts on mortgage banks and mortgage bonds provide market participants with the basic standards regarding both primary and secondary mortgage markets: 1) prudential rule for assessing the lending value; 2) LTV limit to refinance mortgage loans via the issuance of mortgage bonds; 3) bankruptcy privilege for mortgage bond creditors; and 4) mortgage ranking improvement for the foreclosure process (i.e. generally, mortgages as cover assets of mortgage bonds are granted higher ranking than normal mortgages, which often enjoy favourable tax treatment). These Acts have fulfilled the criteria of the European minimum standards for mortgage bonds, particularly Article 22 (4) of the UCITS directive. Therefore, the countries have a similar legal framework for mortgage lending and covered bonds. The few remaining differences among these countries are 1) there is no principle of specialised mortgage lending institution in the Czech Republic, the Slovak Republic and Latvia (i.e. they have no specialised mortgage banks) and 2) there are legal provisions of mortgage-backed securities (MBS) in addition to mortgage covered bonds in Poland.

In Kazakhstan, the legal infrastructure on housing and mortgage finance has been developed since 1991. Particularly, since the Kazakhstan Mortgage Company was established in December 2000 as an entity similar to the GSE in the U.S., the legal framework on mortgage lending and mortgage bonds has been well organised.

Study countries, except for Kazakhstan, have no laws and regulations on mortgage default insurers at this moment.

Table 6: Legal Framework

	PL	HU	CZ	SK	LT	LA	EE	SI	HR	RO	UA	KZ
Mortgage laws and related regulations (to ensure property (real estate) as a mortgage)	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y
Laws and regulations on property registration (to make sure of property rights for owners)	Y	Y	Y	Y	n/a,	Y	Y	Y	Y	Y	Y	Y
Laws and regulations on specialised mortgage lending institutions (mortgage banks) (principle of specialised bank)	Y	Y	N	N	N	N	N	N	N	Y	N	Y
Laws and regulations on depository (savings) institutions	Y	Y	Y	Y	N	Y	N	Y	Y	Y	Y	Y
Laws and regulations on private mortgage insurers	N	N	N	N	N	N	N	N	N	N	N	Y
Laws and regulations on secondary mortgage facilities (MBS)	Y	N	N	N	N	N	N	N	N	N	N	Y
Laws and regulations on transactions of mortgage bonds (mortgage covered bonds)	Y	Y	Y	Y	N	Y	N	N	N	N	N	Y
Foreclosure laws and related regulations	Y	Y	Y	N	n/a,	Y	Y	Y	Y	Y	Y	Y
Others	n/a,	n/a,	n/a,	n/a,	n/a,	Y	n/a,	n/a,	Y	n/a,	n/a,	n/a,

(Source) OECD Market Survey on Housing Finance 2004 (data in 2004, LT: 2002) * Y: Yes, N: No

Compliance with the EU Standards and Rules

New EU members (Group 1) have an obligation to fulfil the European Union banking legislation. EU candidates (Group 2) also must do so in due course. The main provisions related to mortgage banks and mortgage bonds consist of five core groups of directives: 1) the first and second directives on the co-ordination of banking legislation: core principles of banking sector activities, which cover mortgage bank's activities; 2) the solvency ratio and large exposure directives: common standards for the adequacy of own funds of credit institutions and for large exposures of credit institutions to avoid the excessive concentration of credits on a single customer in terms of the active competition; 3) the directives on investment firms: rules on capital adequacy of investment firms and credit institutions; 4) the third directive on life and non-life insurance: liberalisation and harmonisation of life assurance and non-life insurance; and 5) the UCITS directive: the standard on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investments in transferable securities.

Special treatment of highly secured bonds was first introduced in the EU legislation in 1988, namely, UCITS directive. The purpose was to allow investment funds to concentrate their funds on a group of highly secured bonds. An investment fund may invest in highly secured bonds issued by one issuer by maximum 25% of its asset (by maximum 5% for other securities). This regulation is particularly important for countries using capital market funding for mortgage lending. Bonds, as defined in the Article 22 (4) of the UCITS directive, are required to fulfil the following minimum standards:

- The bonds must be issued by a credit institution, which is subject to the law on special public supervision to protect bondholders;

- The proceeds from the sales of bonds must be invested in assets that are able to cover claims attached to bonds during the lifetime of bonds, in conformity with the law; and

- In the event of bankruptcy, the bondholder has a privileged access to the assets funded by the bonds.

The similar EU legislation has been passed given wider access for insurance companies to hold UCITS defined bonds in their technical reserves. In the EU banking legislation, the directive on solvency ratio allows member states to introduce 10% risk weight for highly secured bonds (20% risk weight for other claims on banks). The term "covered bonds" was not used in those directives but European supervisors have now broadly accepted this term. Currently, the term "covered bonds" has appeared in the proposal for amending the capital requirements directive (CRD), which the European Commission presented in July 2004 in parallel with the new Basel II agreement. The CRD proposal gives a definition of covered bonds, which refers to the Article 22 (4) of the UCITS directive, but goes into some details defining the eligible assets for covered bonds.

As already mentioned, Poland, Hungary, the Czech Republic, the Slovak Republic and Latvia have reflected the Article 22 (4) of the UCITS directive in their national legislation. So far, they have successfully incorporated the EU standards and rules into their laws and regulations on mortgage markets.

Compliance with International Standards

Under the recent trend of globalisation, especially the evolution towards a single mortgage market in the EU, the compliance with international standards is critical for study countries to vitalise their markets. In this context, core international principles will be; 1) Basel Core Principles for Effective Banking Supervision (BCP); 2) IAIS Insurance Core Principles (ICP); 3) IOSCO Objectives and Principles for Securities Regulation (SCP); 4) IMF Code of Good Practices on Transparency in Monetary and Financial Policies (MFP); 5) OECD Principles on Corporate Governance (OCG); and 6) International Accounting and Auditing Standards (IAS). According to the financial sector assessment program (FSAP) initiated by the World Bank and the IMF, the compliance level with those international principles seems not to be sufficient yet in study countries (Table 7).

Table 7: Compliance with International Standards on Regulations and Supervision in Selected Countries

	Basel BCP	IAIS ICP	IOSCO SCP	IMF MFP	OECD OCG	IAS
Poland	△ - consolidated financial reporting is overdue, etc.	△ - more inspections, adequate powers to intervene weak companies, etc.	○ - almost compliance	○ - good transparency practices	△ - need regulatory tools to hold management boards	△ - deficiencies still exist (not fully cover all financial products
Hungary	△ - lack legal backing for supervisors	△ - need more risk-based approach	○ - Capital market Act complies with most of SCP	○ - almost compliance with NBH Act	n/a,	n/a,
Czech Republic	△ - need more capital adequacy for credit in banks, etc.	△ - supervision office lacks independence, etc.	△ - practical limitation, lack of human resources, etc.	○ - good transparency practices of banking supervision	△ - lack of strong creditor rights, etc	○ - auditing standards comply with IAS
Slovak Republic	○ - strengthened banking regulation by new law (2002)	△ - supervisor needs additional human resource, etc.	△ - insufficient issuers information, etc.	○ -satisfy high standard of transparency of banking supervision	△ - not fully protected minority shareholder, etc.	△ - little compliance, own accounting standards

(Source) own estimate from FSAP reports in respective countries; PL: June 2001, HU: June 2002, CZ: July 2002, SK: Jan. 2003 & Sept. 2002

○: basically compliance △: limited (need further improvements)

Although these countries have improved their financial sector regulations and supervision, they still have shortcomings to be improved in banking, insurance, securities regulatory schemes and corporate governance. However, transparency in monetary and financial policies already has been highly improved in the region (e.g. via annual report). Furthermore, the EBRD has recently assessed the level of compliance with international insolvency standards in its Legal Indicator Survey 2004, where 1) Lithuania and Ukraine registered a very low compliance (inadequate legal provisions); 2) Hungary, Latvia and Slovenia registered a low compliance (poor treatment of creditors); 3) Poland, the Czech Republic, the Slovak Republic, Estonia and Kazakhstan registered a medium compliance (interim protection of debtors, etc.); and 4) Croatia and Romania registered a high compliance (relatively clear legislation). Also, it should be noted that the new international Basel Capital Accord (Basel II) is supposed to come into force by the end of 2006. Basel II specifies minimum capital requirements, the supervisory review of capital adequacy and the public disclosure. Based on the Basel II, the European Commission introduced 35% risk weight for lending fully secured by mortgages on residential property and is considering 50% risk weight on commercial property. As Basel II will be reflected in the EU directive on capital requirements, study countries, except for Ukraine and Kazakhstan, must implement it in due course.

Progress of the Financial Sector Reform

According to the EBRD, study countries have been progressing with their banking sector and securities market reforms. In the Czech Republic, the introduction of a new collective investment law (enacted in May 2004) and the first successful IPO of a domestic company (Zentiva, leading pharmaceutical company) raised its ranking upward. In the Slovak Republic, growing competition in the banking sector and the improved credit quality were positively evaluated. Also in Estonia, Romania and Croatia, the growth of credit to the private sector was well evaluated (Table 8).

Table 8: Financial Sector Reform

	Governance & enterprise restructuring [a]	Competition policy [b]	Banking reform & interest rate liberalisation [c]	Securities markets & non-bank financial institutions [d]
Poland	3+	3	3+	4-
Hungary	3+	3	4	4-
Czech Republic	3+	3	4-	3+
Slovak Republic	3	3	4-	3-
Lithuania	3	3	3	3
Latvia	3	3-	4-	3
Estonia	3+	3-	4	3+
Slovenia	3	3-	3+	3-
Croatia	3	2+	4	3-
Romania	2	2+	3	2
Ukraine	2	2+	2+	2+
Kazakhstan	2	2	3	2+

(Source) EBRD Transition Report 2004

[a] 2: moderately tight credit and subsidy policy but weak enforcement of bankruptcy legislation and little action taken to strengthen competition and corporate governance; 3: significant and sustained actions to harden budget constraints and to promote corporate governance effectively

[b] 2: competition policy legislation and institution set up; some reduction of entry restrictions or enforcement action on dominant firms; 3: some enforcement actions to reduce abuse of market power and to promote a competitive environment

[c] 2: significant liberalisation of interest rates and credit allocation; limited use of directed credit or interest rate ceilings; 3: substantial progress in establishment of bank solvency and of a framework for prudential supervision and regulation; 4: significant movement of banking laws and regulations towards BIS standards

[d] 2: Formation of securities exchanges, market makers and brokers; some trading in government paper and/or securities; rudimentary legal and regulatory framework for the issuance and trading of securities; 3: substantial issuance of securities by private enterprises; 4: securities laws and regulations approaching IOSCO standards

3-2. Housing Policy

There are several government support measures in study countries as well as in the advanced EU countries. Table 9 shows a comparison of housing policy in Central Europe and the selected EU countries, and the major government programs in the selected study countries, which are subdivided into further detailed programs in practice. Most housing policies in study countries, except for Latvia and Kazakhstan, are closely linked to the government subsidy. In general, housing policy in the region can be classified into the following four categories: 1) government support measures for homeownership; 2) government support measures for rental housing; 3) preferential housing taxation; and 4) urban development and other social policies.

Housing Policy for Homeownership

The core housing policy for homeownership is two-fold: 1) interest payment subsidy for housing construction, purchase, renovation or enlargement and 2) guaranteed bonus on savings for housing purpose. Study countries, except for Latvia and Kazakhstan, have one of those systems or both, which are subsidised by the government.

The interest rate subsidy is the scheme by which the government grants an amount covering the excess of the mortgage interest rate over the market rate, which enables households to enjoy a relatively low fixed-rate long-term housing loan. Although this scheme usually sets a ceiling on the subsidy amount (e.g. max. 2.5 million SKK per unit in the Slovak Republic) or the interest rate limit of housing loans (e.g. 6% in Hungary), it may seriously bloat the national budget if inflation rates continue to rise. For this reason, the Polish program is to be terminated in 2005.

The guaranteed bonus on savings is the premium granted by the government to home-savings-account holders in the framework of contract savings schemes (e.g. 25% of the deposit per annum in the Czech Republic, 15% in the Slovak Republic), which is basically modelled on the German *Bausparkassen* system. A major problem with this scheme is that the large portion of savings has not been used for housing purpose (e.g. only 40% of savings are used for housing investments in Poland). The premium rate has been gradually decreasing recently.

In the advanced EU countries, those schemes tended to be abolished because of the budgetary concern. In transition economies, the initial purpose of government policy for encouraging homeownership was mainly to promote housing privatisation, to stimulate housing construction and to improve the quality of housing stocks. The first aim has been well achieved in the region. The second aim should be left to the market taking into consideration the current transition stage to the market economy in the region. The third aim still might be in the government initiative.

Housing Policy for Rental Housing

An important purpose of the government policy for rental housing will be to offer social supports for socially disadvantageous groups (i.e. low income households, the disabled and retired individuals) by means of the construction and repair of rental housing. In general, municipalities are responsible for this purpose. Therefore, the government often subsidises municipalities (e.g. financial supports for the construction of municipal rental apartments and technical infrastructure in the Czech Republic). To this end, the National Housing Fund has been established based on housing privatisation revenues in some of study countries. Thanks to this scheme, municipalities are able to make use of low interest rate credits (e.g. interest-free government loans for municipalities through the State Housing Development Funds in the Czech Republic). Although this scheme plays a supportive role in vitalising the housing finance market, it raises the risk of accelerating the national budget deficit and impeding sound competition in the market. One unique example is the bank guarantee scheme on loans for housing construction in the Slovak Republic, which has prioritised the rental housing construction for socially disadvantageous groups but the national budget has not been introduced in this program (its operations are the bank's responsibility: the Slovak Guarantee and Development Bank implemented this program in 2004).

Preferential Housing Taxation

The preferential tax treatment for housing purpose is an important scheme for enhancing households' access to housing finance and the liquidity of the housing market. Study countries have several types of tax relief and tax exemption schemes: e.g. personal income tax relief/exemption; preferential value added tax rate for home acquisition, selling and renovation; income tax exemption for social housing associations and housing cooperatives; tax exemption on capital gains from mortgage covered bonds, etc. Those tax treatments will be effective to activate the housing and housing finance market in the region, but can impact the government revenue. In Poland, the tax relief was abolished in 2002.

Urban Development and Other Social Policies

Several urban development and social policies have functioned as supplementary measures. For example, Hungary and the Czech Republic have provided special financial support for targeted households: i.e. interest-rate support for young couples and families with three or more children only for new housing construction or purchase in Hungary; financial support for the acquisition of older dwellings for persons younger than 36 years old in the Czech Republic. As well, Hungary and the Czech Republic have prepared financial support for housing reconstruction in case of natural disasters. Thus, some of the countries have adopted wide-ranging subsidy programs for housing purpose.

Table 9: Housing Policy in Selected Countries

	Housing Policy for Homeownership	Housing Policy for Rental Housing	Preferential Housing Taxation
4CE	- Interest payment subsidy PL: to be terminated in 2005 - Guaranteed bonus on savings CZ: 25% of deposits, SK: 15% [Problem] large portion of savings are not used for housing purpose PL: only 40% of savings are used for housing investments	Social supports for low-income households, the disabled and retired individuals - Financial support for rental housing construction - Budgetary support for municipalities PL: National Housing Fund - Housing allowance	- Personal income tax relief / exemption; - Preferential value added tax rate for home acquisition, selling and renovation; - Income tax exemption for social housing associations and housing cooperatives; - Tax exemption on capital gains from mortgage covered bonds (SK), etc.
UK	- Preferential sales of public housing ("Right to Buy") - Preferential loan program for low-income households by municipalities ("Mortgage Interest Relief at Source (MIRAS)": abolished in Apr. 2000)	- Housing allowance	- Preferential value added tax & stamp duty for home acquisition, etc.
DE	- Subsidy on home acquisition (since 1996; term – 8y) (Mortgage interest rate relief: abolished in 1996) - Guaranteed bonus on savings ("Bausparförderung") - Preferential loan program for low-income households by municipalities	- Financial support for rental housing construction ("Bausparförderung") - Housing allowance ("Wohngeld")	- Income tax exemption for pre-acquisition costs of housing, etc.
FR	- Interest payment subsidy ("prêt à taux zero, PTZ ; interest rate burden zero% for low-& middle-income households, loan equivalent to max. 20% of property value) (Mortgage interest rate relief: abolished in 1996) - Guaranteed bonus on savings (PEL) - Subsidy on home improvement for low-income households (PAH)	- Financial support for rental housing construction ("prêt locatif aide, PLA) - Housing allowance (AL, APL)	- Preferential value added tax - Property tax relief, etc.

(Source) 4CE (Poland, Hungary, Czech Rep. and Slovak Rep.): *OECD Market Survey on Housing Finance 2004*

UK, DE (Germany) and FR (France): interpreted the data from "*Kaigai Jutakukinyu Kenkyukai, Japan (May 2000)*"

Poland	**Housing Policy for Homeownership**	
	Interest payment subsidy (low fixed rate long-term loan for housing construction, purchase and renovation)	Payment of an interest rate over the market rate Law on Fixed Interest Housing Loan Program is terminated in 2005.
	Guaranteed bonuses on savings (individuals)	Guaranteed premiums for depositors in case of deposit for housing purpose. 40% of savings are used in housing investments. Law on state Support in Repayment of Selected housing Loans, Refunding to Banks Guaranteed Bonuses
	Tax relief / tax exemption	Income tax relief (Law on Personal Income Tax); Preferential VAT (value added tax) rate for home acquisition, selling and renovation
	Housing Policy for Rental Housing	
	National Housing Funds (explained in Chapter 2)	Law on Selected Forms of Housing Support
	Guarantees bonuses on savings (corporations)	See above.
	Housing allowances	Introduced in 1994. Municipalities' support for low-income segment. Gov. subsidies have been withheld since 2004. Law on Housing Allowances
	Tax exemptions for social housing associations (SHA)	Temporary measure (till the end of 2006) SHA are exempted for tax only under the condition that its revenues are directed to statutory activities. Law on Corporate Income Tax
	Urban Development Policy	
	Technical infrastructure loans	Loans for technical infrastructure related to housing construction are granted under similar conditions as loans granted to SHA.
Hungary	**Housing Policy for Homeownership**	
	Interest payment subsidy (low fixed rate long-term loan for new housing construction and purchase)	Payment of an interest rate over the market rate The sum of interest rate and service charges paid by the client is limited in 6% ; not permanent measure
	Preferential interest payment support for a preferential social group	Interest rate support for young couples and families with 3 or more families. New housing construction or purchase only
	General interest payment support	Anyone can apply. Housing purchase, renovation or enlargement can be applicable.
	Guaranteed bonuses on savings	Home savings account holders or beneficiaries are eligible for the state subsidies. Provided via Home Savings and Loan Association Mortgage rate must be ≦10%; New deposits on savings accounts by 30% with a ceiling.
	Tax relief	VAT; personal income tax relief
	Housing Policy for Rental Housing	
	Rental housing construction program	Joint financing with municipalities for the reconstruction of blocks of flats and apartment houses.
	Social Policy	
	Preferential interest rate credit lines	For modernising heating systems For owners of dwellings in blocks of flats
	Financial support to the adaptation of housing for the disabled	n/a,
	Financial support to the reconstruction in case of natural disasters	n/a,
Czech Republic	**Housing Policy for Homeownership**	
	Interest payment subsidy on mortgage loans	Available only for the purchases of new dwellings
	Financial support for the acquisition of older dwellings for a preferential social group	State support for persons younger than 36 years old
	Guaranteed bonuses on savings	Savings bonuses for home savings account holders 25% of the deposits per annum
	Subsidy on repair of housing stocks	For all owners (private owners, municipalities, housing co-operatives and legal entities
	Subsidy on down payment	n/a,
	Tax relief / tax exemption	Income tax exemption on interest revenues from mortgage certificates, etc.
	Housing Policy for Rental Housing	
	Financial support for construction of municipal rental apartments and technical infrastructure	Rental housing construction for persons in a specific income bracket (low income segments)
	Financial support for construction of rental housing with community case services	For the disabled and retired individuals
	Financial support for repair of defects of prefabricated panel building	The same program as subsidy on repair on housing stocks
	Interest-free government loan for municipalities	Interest-free and repayable within up to 10-year Low interest credits granted by the State Housing Development Funds
	Housing allowances	n/a,
	Social Policy	
	Financial support to the reconstruction in case of natural disasters	(Flood)
	Subsidy for heating insulation	n/a,

Slovak Republic	**Housing Policy for Homeownership**		
		Interest payment subsidy on mortgage loans ("government bonus")	Government bonus to a mortgagor (property owner) Granted only upon mortgage loan contract Max.2.5 mil. SKK per unit
		Guaranteed bonuses on savings ("government bonus")	Savings bonuses for home savings account holders 15% of the deposits per annum
		Tax relief / tax exemption	Property tax exemption (5-10 years) Personal income tax exemption, etc.
	Housing Policy for Rental Housing		
		Subsidy on the acquisition of rental flats for residents with low income	n/a,
		Subsidy on the remedy of damages of blocks of flats built using the panel technology	n/a,
		Bank guarantees on loans for housing construction	Priority: rental housing construction for socially disadvantageous groups (low-income segments) No state budget introduced. The Slovak Guarantee and Development Bank implemented this program in 2004.
		Tax relief / tax exemption	Income tax exemption for housing cooperatives
	Other Policy		
		Tax exemption on capital gains from mortgage covered bonds	n/a,

(Source) OECD Market Survey on Housing Finance 2004

Hereby a few questions arise: how much has the government been spending for housing policy and whether or not government support measures for housing have been bloating the national budget severely. Table 10 shows a comparison of the total cost of government support measures for housing with government spending for other social policies in study countries. Around 1-7% of the national budget has been spent for government measures for housing purpose in the region, which accounts for less than 1% of GDP except for Romania (2%). In comparison, as examples of other social policies, education and health care policies have accounted for much more of the budget, either of which accounted for more than 10% of the national budget and around 4% or more of GDP in Hungary and Romania. That spending amounted to more than 10% of GDP in Hungary (2003). From this fact, it seems that government subsidies for housing purpose have not bloated the national budget at present as compared to other types of government spending. However, wide-ranging subsidy-scatter will not be cost efficient (e.g. savings bonus subsidy ineffective in some case). Taking account of their current transition stage to market-based economies, it may be necessary that government subsidy programs be more focused as regards housing demand (market demand) and that unfocused and costly subsidy programs be reformed appropriately.

Table 10: Government Subsidies and Other Government Spending

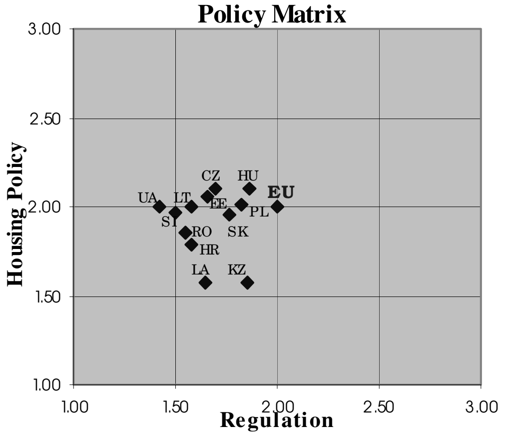
			PL	HU	CZ	SK	LT	LA	EE	SI	HR	RO	UA	KZ
Interest bonuses on savings			Y	Y	Y	Y	N	N	Y	Y	Y	Y	N	N
Subsidies on interest payments on mortgage loans			Y	Y	Y	Y	Y	N	Y	n/a,	N	N	Y	N
Personal income tax benefits			Y	Y	Y	N	Y	N	Y	n/a,	Y	N	Y	N
Down payment subsidies			N	N	Y	N	Y	N	N	n/a,	Y	N	Y	N
Construction subsidies			Y	Y	Y	Y	n/a,	N	N	n/a,	N	N	Y	N
Others			Y	N	N	Y	Y	N	Y	n/a,	N	Y	Y	N
Total cost of government support measures for housing		% of national budget	1.2	1.9	2.3	2.8	n/a,	n/a,	0.1	n/a,	n/a,	7.2	1.3	n/a,
		% of GDP	0.2	0.9	0.7	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	2.3	0.3	n/a,
Government spending for other social policies														
	Education	% of national budget	5.1	12.0	12.0	n/a,	n/a,	5.1	12.0	n/a,	5.7	11.2	n/a,	14.0
		% of GDP	1.0	5.8	3.6	n/a,	n/a,	1.7	n/a,	n/a,	2.8	3.6	n/a,	3.0
	Health care	% of national budget	1.8	10.0	6.2	n/a,	n/a,	14.5	13.4	n/a,	15.4	11.9	n/a,	8.0
		% of GDP	0.4	4.9	1.9	n/a,	n/a,	4.8	n/a,	n/a,	7.6	3.8	n/a,	2.0

(Source) OECD Market Survey on Housing Finance 2004 ; data in 2003 (CZ & LT: 2002); Y: Yes, N: No

3-3. Country Assessments

It is more difficult to accurately assess regulatory schemes and housing policies in respective countries. In particular, housing policy varies country by country. In this chapter, however, I tried to evaluate them in terms of households' access to housing finance, taking account of the domestic regulatory environment on risk management and the overall financial sector development, as well as the government support measures for households. Figure 18 indicates the aggregate result from Table 11:

Figure 18: Regulation & Housing Policy Matrix



PL	Poland
HU	Hungary
CZ	Czech Republic
SK	Slovak Republic
LT	Lithuania
LA	Latvia
EE	Estonia
SI	Slovenia
HR	Croatia
RO	Romania
UA	Ukraine
KZ	Kazakhstan

From Figure 18, the regulatory structures and the housing policies in study countries can be analysed as follows:

- In the regulatory structure, most of Group 1 (new EU members; Poland, Hungary, the Czech republic, the Slovak Republic, Latvia and Estonia) and Kazakhstan from Group 3 (CIS) make a group having a relatively well organised regulatory scheme, which is backed by well established legislation on the secondary mortgage market and regarding mortgage insurance schemes. Conversely, some of Group 1 (Lithuania and Slovenia), Group 2 (EU candidates; Croatia and Romania) and Ukraine from Group 3 make the second group, which contains countries for which there is currently no legislation on specialised mortgage lending institutions (except for Romania), securitisation schemes and mortgage insurance schemes (except for Lithuania), as well as relatively little compliance with international standards on financial regulations.

- In the area of housing policy, Group 1 (except for Latvia) and Ukraine from Group 3 can be regarded as having schemes equivalent to the housing policy in the advanced EU countries in terms of the social support measures for low-income segment and the fact that the government spending for housing policies has yet to bloat the national budget. However, some subsidy schemes will be debatable from a viewpoint of the total cost effectiveness (e.g. some programs have poorly targeted beneficiaries). Group 2 makes the second position in the matrix, which subsidy schemes have been improving in terms of the cost effectiveness. Latvia (Group 1) and Kazakhstan (Group 3) have currently no identified government subsidy schemes. Their mortgage markets are risk-based market-driven without the dependence of government supports. Although there are little visible state support measures, it will be expected that the Anglo-Saxon style risk management enhances the accessibility to housing finance for the low-income segment (via securitisation and mortgage insurance).

Table 11: Regulatory Structure and Housing Policy – Country Assessment Sheet

		PL	HU	CZ	SK	LT	LA	EE	SI	HR	RO	UA	KZ
Regulatory Structure	**Regulators and Supervisors**												
	- Regulators/supervisors in the primary (lending) market	2	2	2	2	2	2	2	2	2	2	2	2
	- Regulators/supervisorys in the secondary (funding) market	2+	2+	2	2+	2-	2	2-	2-	2-	2-	2-	2+
	Domestic Legal Framework												
	- Basic legislation on both primary & secondary market (property right / protect market participants appropriately)	2	2	2	2	2	2	2	2	2-	2	2	2
	- Legislation on specialised mortgage lending institution	2	2	2-	2-	1	1	1	1	1	2-	1	2
	- Criteria of mortgage lending value (exist and/or evaluated?)	2	2	1+	2	2-	2-	2-	2-	2-	1+	1+	2-
	- LTV limit criteria (primary market)	2	2	2	2	2	2	2	2-	2	2-	2-	2-
	- Bankruptcy remoteness (secondary market)	2	2	2	2	n/a,	2	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
	- Mortgage ranking of cover assets (secondary market)	2	2	1+	1+	n/a,	1+	n/a,	n/a,	n/a,	n/a,	n/a,	2
	- Government supported mortgage insurance scheme (legal setting)	1	2-	1	1	2	1	2	1	1	1	1	2
	- Regulations/supervision on private mortgage insurance scheme	1	1	1	1	1	1	1	1	1	1	1	2
	Compliance with EU/International Standards												
	- Fulfilment of EU directives (inc. UCITS directive)	2	2	2	2	1	2	1	1	1	1	n/a,	n/a,
	- Compliance with Basel BCP, IAIS ICP, IOSCO SCP, IMF MFP, OECD CG and IAS (from FSAP data)	2-	2-	2-	2-	2-	2-	2-	2-	2-	2-	2-	2-
	- Compliance with international insolvency standards (from EBRD research data)	2-	1+	2-	2-	1	1+	2-	1+	2	2	1	2-
	Overall Financial Sector Reform												
	- Banking sector reform	2-	2	2	2	2-	2	2	2-	2	2-	1+	2-
	- Securities market reform	2	2	2-	2-	2-	2-	2-	2-	2-	1+	1+	1+
Average Performance (sum of scores divided by the number of items)		2-	2-	2-	2-	2-	2-	2-	2-	2-	2-	1+	2-
Housing Policy	**Support for Homeownership**												
	- Interest payment subsidies on mortgage loans	2+	2+	2+	2+	2-	1	2+	n/a,	1	1	2+	1
	- Housing purpose fulfilled (savings bonus)	2-	2-	2-	2-	n/a,	n/a,	2-	2-	2-	2-	n/a,	n/a,
	Support for Rental Housing												
	- Supportive to socially disadvantageous groups (low-income seg.)	2+	2+	2+	2+	2+	1	2	2+	2	2+	2	1
	Housing Taxation												
	- Preferential tax treatment	1+	2+	2+	1+	2+	1	2+	2	2+	1+	2	1
	Other Social Supports												
	- Supportive to socially disadvantageous groups (low-income seg.)	2+	2+	2+	2+	2+	1	2+	2+	2	2+	2	1
	Cost Effectiveness												
	- Share of housing related measures to the total govt. spending	2+	2+	2+	2+	n/a,	n/a,	2+	n/a,	n/a,	2	2+	n/a,
	- Share of housing related measures to GDP	2+	2+	2+	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	2	2+	n/a,
	- Comparison with costs of other social policies	2+	2+	2+	n/a,	n/a,	3*	2+	n/a,	n/a,	2+	n/a,	3*
	- Government subsidy programs: well focused?	2-	2-	2-	2-	2-	n/a,	2-	2-	2-	2-	2-	n/a,
	- Municipalities' support measures without govt. subsidies (will it bloat the national budget?)	2-	2-	2-	2-	2-	n/a,	2-	2-	2-	2-	2-	n/a,
	Accessibility for Households												
	- Number of subsidy programs	2+	2+	2+	2+	2+	1	2+	2+	2	2+	2	1
	- Competition in the market (govt. programs do not impede active competition?)	2-	2-	2-	2-	2-	3	2-	2-	2-	2-	2-	3
Average Performance (sum of scores divided by the number of items)		2	2	2	2	2	2-	2	2	2-	2-	2	2-

(Note) All analyses in chapter 3 have been translated into country assessment sheet in Table 11, where each condition influential in the housing finance accessibility was rated from 1 (relatively low performance) to 3 (relatively high performance) as compared to the EU level. In the definition, the rating is classified into seven categories: 1: much worse than EU; 1+: worse than EU; 2-: slightly worse; 2: EU level; 2+: slightly better than EU; 3-: better than EU; and 3: much better than EU. To calculate the average performance in each country, 0.3 point is given to "+" and deducted from original point in "-" for convenience sake. It should be noted that the performance in study countries is subjectively rated in comparison with one another, the advanced EU countries and/or the international standards. * No government subsidy schemes (no expenditures for housing policy identified)

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