

Improving Access of the Poor to Housing and Public Services

- Korea's examples and proposal for financial capacity-building of developing countries -

Korea's examples

- **Housing policies to be tailored to income groups**
- **National Housing Fund supported by the Housing Bond and Lottery**

Proposal

- **Establishing an "International Housing Finance Credit Guarantee Fund" to support financial capacity-building of developing countries**

Mr.(Madame) Chair, Your Excellencies, and ladies and gentlemen,

Korea delegation fully supports the IPM policy options and practical measures to provide adequate housing to the urban poor. Improving access of the poor to adequate and affordable housing requires implementation of housing policies from the perspective of both demand and supply side. From demand side, special needs of the poor should be considered since they could not afford basic housing credit in financial markets. From supply side, housing provision should be tailored to payment capabilities of the poor.

The Republic of Korea has long implemented housing policies to take economic status of the poor into account. For the lowest income group (1st income percentile), housing subsidy in the amount of about US\$ 40 a month is provided. For the next lowest income group (2nd to 4th income percentile), housing loan is provided at below market interest rates through the National Housing Fund (NHF) and housing finance credit guarantee is also provided to help them access to financial market. For the middle-income groups (5th to 7th income percentile), the Korea Housing Finance Corporation (KHFC) was established in March 2004 to specialize in securitizing mortgage bond and provide mortgage loans at low interest rates. Giving credit to the poor through differentiated housing finance including affordable mortgages is well-suited to the Item 96 in the Chair's draft.

(The KHFC was 100% funded by the Korean government and is guaranteed deficit covering by the government so that the Corporation can issue Mortgage Backed Securities (MBS) at low interest rates. Issuing MBS at low interest rates lowers the KHFC's financing costs, which in turn lowers the interest rates of mortgage loans, ultimately helping people secure homeownerships. Due to the government's active market making, the Corporation is successfully fostering mortgage and MBS market by providing mortgage loans as much as US\$ 5 billion within a year since established.)

From supply side, housing provision takes into account housing affordability of each income group. For the 1st income percentile, permanent rental housing units are provided, 85% of whose construction cost is financed by the government. For the 2nd to 4th income percentiles, 30-year rental housing units are provided with 10 to 40% of the construction cost financed by the government. For the 5th and 6th percentiles, 5-year rental housing units are provided and the construction cost is financed by the NHF at low interest rates.

Successful housing policies need mobilization of financial resources. For most developing countries, a lack of relevant finance is a cause to deter adequate improvement of human settlements. Due to rapid industrialization, for example, Korea suffered from chronic housing shortage and a lack of adequate housing finances. To address housing needs of low-income groups, Korea set up the National Housing Fund (NHF) in 1981 to finance housing construction, purchase, and housing rental. To secure the fund for the NHF, the National Housing Bond (NHB) was introduced, which levies on the title registration of real estates. A national housing lottery system was also introduced to support the financing of NHF. Due to the successful operation of the NHB and the housing lottery, the NHF has financed the construction of 3.3 million housing units at below market interest, 3~5%, and provided housing loans in the amount of about US\$ 40 billion as of 2004. Korea delegation believes that these financing tools could be examples for other countries which might experience a lack of housing finance.

To promote a global effort for financial capacity-building of developing countries, Korea proposes that an international housing finance credit fund be established to help developing countries access financial resources in an international financial market. The fund, which could be financed by developed countries, could provide housing finance credit guarantee when developing countries need financing from international

financial institutions.

Developing countries could benefit from the fund, for their domestic financial market may not provide housing finance and they may have difficulties in issuing bonds or borrowing in an international financial market. The fund could reinforce credit to developing countries, thus lowering their financing cost.

The fund also could leverage in housing financing in that the fund could guarantee housing loan 30 to 50 times its equity. For example, a loan of US\$100 million to developing countries could provide a loan no more than \$100 but in the case of loan credit guarantee the same amount could finance 3 up to 5 billion.

Korea delegation hopes that the mechanism of housing finance credit guarantee will benefit both developed and developing countries.

Thank you for your attention.