## Appendix 2 Public support for homebuyers in Iceland and elsewhere

Broadly speaking, the government can influence the housing market in two ways: through the tax and welfare systems, or by intervention in housing finance arrangements. The following is an attempt to chart public sector intervention in the housing finance market in Iceland and present a comparison with Scandinavia and several other European countries.

### *The Housing Financing Fund dominates the Icelandic housing credit market ...*

The Housing Financing Fund is a public sector institution and by far the largest supplier of credit in the Icelandic mortgage market. It lends both for social and private housing, for construction and older properties alike. Loans are secured with a mortgage that may be equivalent to up to 90% of market value in the case of social housing, 70% for first-time private buyers and 65% in other cases of purchases in the secondary market, with a loan ceiling of 7 to 8 m.kr. At the end of 2002, the Housing Financing Fund's outstanding loan stock amounted to just over 388 b.kr. Other outstanding loans backed by housing collateral comprised 84 b.kr. from pension funds and 27 b.kr. from commercial banks. The Housing Financing Fund's market share is therefore more than 75%.

### *...and its scope is greater than in most other countries*

The scope of the Housing Financing Fund's activities is greater than that of corresponding bodies in neighbouring countries, as shown in Table 1. In the countries included there, apart from France and Norway, public sector lending to homebuyers only takes place through the social housing programme. In Norway, the public sector agency *Husbanken* provides loans for the purchase of newbuildings and has a total share of 12% in that market. Husbanken lends up to 60%-70% of mortgage value of approved types of housing and is the only provider of loans with a state guarantee. In France, public sector support for homebuyers is more complex and there are many loan categories, for example mortgages for civil servants at lower rates of interest than in the ordinary market and interest-free loans as welfare assistance. Sweden and Finland provide loans with state guarantees at a premium, but under stringent terms including the type of housing, loan-to-property value and maximum loan amount. A recent report by SBV (the Bankers' and Securities Dealers' Association of Iceland)[1] found that as a result of state guarantees on loans from the Housing Financing Fund and the lower equity requirements made towards it than to other credit institutions, its interest rates are 0.9%-1.3% lower than would otherwise be the case. Based on the Fund's outstanding loan stock at the end of 2002 this spread is equivalent to 0.5%-0.7% of GDP. Although no statistics are available on the corresponding support that other countries provide through their mortgage systems, it almost certainly seems to be much lower than in Iceland.

Table 1 Public sector intervention in the housing finance market

| | *Public sector loans available for purchase of:* | | | |
|---|---|---|---|---|
| | *Social housing* | *New housing* | *Older housing* | *State guarantee* |
| Denmark | No | No | No | No |
| Finland | Yes | No | No | Yes |
| France | Yes | Yes | Yes | Yes |
| Germany | No | No | No | Yes[1] |
| Iceland | Yes | Yes | Yes | Yes |
| Netherlands | No | No | No | No |
| Norway | No | Yes | No | Yes |
| Sweden | No | No | No | Yes |
| UK | No | No | No | Yes[2] |

1. Some form of social assistance, including payment of mortgages depending on family size and household income (German *Wohngeld*).
2. Some form of social assistance aimed at easing the interest rate burden in cases of, for example, sickness or unemployment, which is not granted until after 39 weeks for people of working age.
*Sources:* Wyman, M. O., *Financial Integration of European Mortgage Markets*; Kemp, P. A. and G. Pryce, Evaluating the mortgage safety net; German Ministry of Health and Social Security; Norwegian Housing Bank (Husbanken) and Icelandic Housing Financing Fund.

1. *Markaðsvæðing húsnæðisfjármögnunar á Íslandi* (Liberalisation of housing finance in Iceland), the Bankers' and Securities Dealers' Association of Iceland, February 2003.

Table 2 Public sector support/taxation as % of GDP

| | *ECB* | | *OECD* | | *Nord 2001:27 Housing support*[1] | | *Housing taxes*[2] | | *Net support* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *1990* | *2000* | *1990* | *1998* | *1995* | *1999* | *1995* | *1999* | *1995* | *1999* |
| Denmark | 1.3 | 1.4 | 0.66 | 0.72 | 3.26 | 2.67 | 1.33 | 1.35 | 1.93 | 1.32 |
| Finland | 1.6 | 1.2 | 0.18 | 0.38 | 1.93 | 1.32 | 0.13 | 0.13 | 1.8 | 1.19 |
| France | 1.1 | 1.1[3] | 0.74 | 0.92 | - | - | - | - | - | - |
| Germany | 0.6 | 0.9 | 0.13 | 0.18 | - | - | - | - | - | - |
| Iceland | - | - | . | 0.12 | 1.06 | 0.87 | 0.6 | 0.5 | 0.46 | 0.37 |
| Netherlands | 0.9 | 0.7[3] | 0.33 | 0.44 | - | - | - | - | - | - |
| Norway | - | - | 0.15 | 0.2 | 1.44 | 0.8[4] | 0.82 | 0.72[4] | 1.44 | 0.8[4] |
| Sweden | 1.5 | 1.4 | 0.66 | 0.81 | 3.91 | 1.74 | 0.93 | 0.93 | 2.98 | 0.81 |
| UK | . | 0.6 | 1.28 | 1.61 | - | - | - | - | - | - |

1. 1990. 2. 1998. 3. Housing benefits are stated for 1999. 4. 1998.

*Sources:* ECB (March 2003), OECD (Social benefits) and Nordic Council of Ministers (Nord 2001:27).

### *Public sector intervention in the housing market through the tax and welfare systems*

Likewise, support for homebuyers through the tax and welfare systems varies from one country to another. Differences in their systems and data compilation methods make comparisons difficult, however. Table 2 presents recent data published by the European Central Bank (ECB), OECD and the Nordic Council of Ministers (in its report Nord 2001:27) on direct public sector intervention in the housing market, which is defined as taxation, tax relief and subsidies directly linked to residential housing ownership. There is some inconsistency in findings between sources, probably caused by the different definitions applied.

Data from these three sources reveal that Iceland has one of the lowest levels of public sector intervention in the housing market through the tax and welfare systems, and the second lowest among the Nordic countries. General support in connection with mortgage interest is normally only in the form of tax relief rather than the system of reimbursements in effect in Iceland; reimbursements are generally paid in cases of social assistance. Many countries have reduced both tax relief and mortgage interest reimbursements. Within the EU, for example, Ireland, the Netherlands, Austria, Portugal and the UK have all lowered or reduced mortgage reimbursements/tax relief over the past decade, and only Luxembourg has raised them.

### *Most countries' public sectors have been withdrawing from the housing finance market*

In most countries, housing policies aim to ensure that all citizens have the opportunity to live in satisfactory housing. Emphases vary between countries, however, with different degrees of support aimed to increase general owner-occupancy, encourage construction of housing, help first-time buyers or assist lower-income groups with social housing schemes. Housing policy priorities can be analysed by examining the mix of taxation and subsidies or tax relief. Tax relief or mortgage interest subsidies benefit recent homebuyers in particular, while property tax is paid by long-time owners who have repaid a large part of the loans they originally took. All in all, a system of mortgage interest subsidies and property tax represents a transfer of housing costs to the later part of taxpayers' lives.

Some countries have stepped up their public sector intervention in housing financing while others have reduced it. Overall, however, in the countries discussed here the public sector has tended to withdraw from the housing market, especially on the financing side. Commercial banks have been granted more freedom to offer mortgages, e.g. with deregulation of interest rates and more diverse loan formats. The countries appear to have kept broadly in step in reducing or abolishing mortgage interest reimbursements and tax relief on mortgage interest payments. For example, France, which had a widereaching system of support for homebuyers, changed its legislation in this field in 1999. The aim was to simplify the system and reduce public sector intervention in housing finance.

### *Conclusion*

Public sector intervention in the housing finance market through the tax and welfare systems is fairly limited in Iceland compared with other countries for which data has been studied. The trend in Iceland is also to reduce it further, as shown by the lowering of the net wealth tax this year and a conceivable reduction in mortgage interest reimbursements. The picture is different as regards the scope of state-guaranteed housing finance and the Housing Financing Fund's lower equity requirement compared with other credit institutions. This support will increase still further if ideas for raising the maximum loan amount to 90% of mortgage value go ahead. The other countries in the comparison generally only lend 70%-80% of the mortgage value. Raising the maximum loan would therefore represent a step towards greater intervention in the housing finance market, which would run counter to the trend in neighbouring countries.