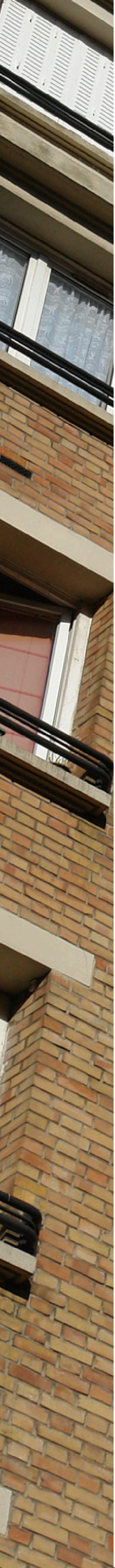

Policy Snapshot: *Loan Guarantees*

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POLICY SNAPSHOT
LOAN GUARANTEES

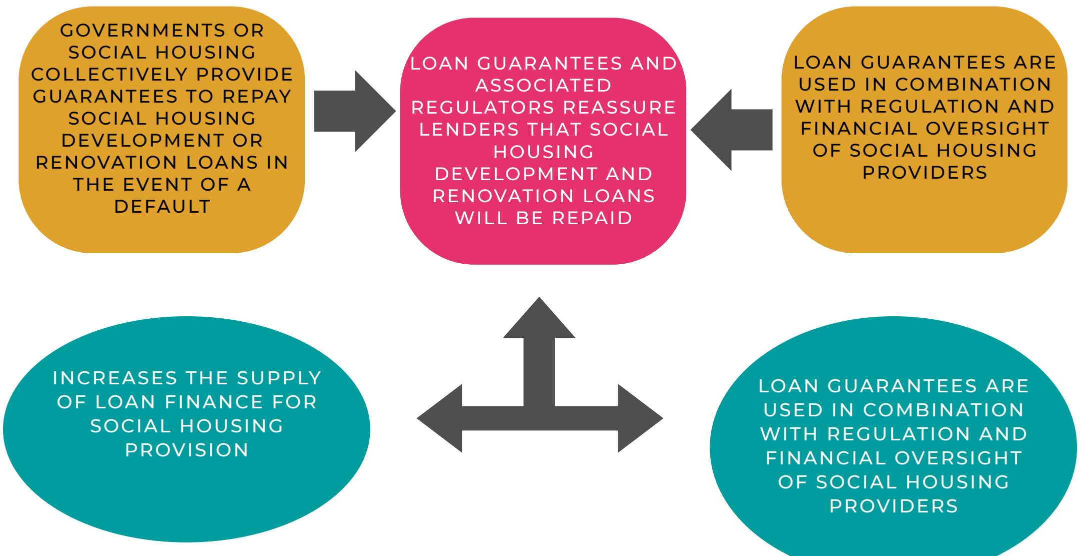
WHAT ARE LOAN GUARANTEES?

These are guarantees to lenders that loans taken out to build or buy new social housing will be repaid. They are generally provided by governments and, if so, take the form of written guarantees that the state will repay social housing providers' loans in the event of default. Sometimes, guarantees are provided by social housing providers collectively. These 'mutual loan guarantees" are a formal or informal understanding that social housing providers will act collectively to ensure loans are repaid if one provider is at risk of default. This is typically achieved by other social housing providers (s) taking over the dwellings and loans of a provider that is at risk of default.

WHY ARE THEY USED?

They underwrite lending to social housing providers to reduce the risk for lenders and increase the availability of housing finance and reduce its cost.

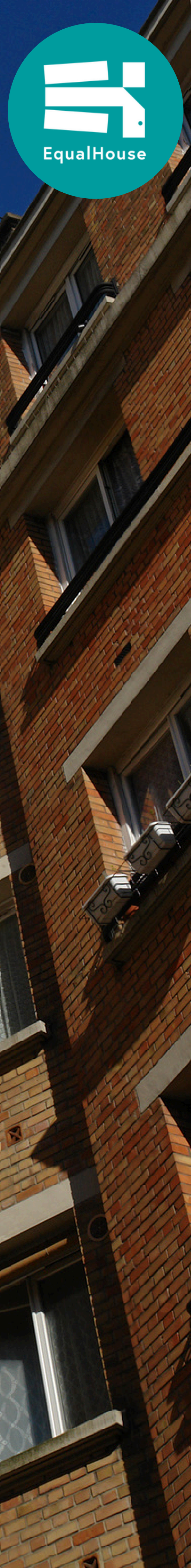
HOW DO THEY WORK IN PRACTICE?



WHERE ARE THEY USED IN EUROPE?

I**n 2001, the Estonian government** established an independent foundation called KredEx to help ensure the availability of finance for the renovation and energy efficiency retrofitting of apartment blocks. In addition to providing grants for the social housing retrofit, it provides project finance to apartment building owners. **This finance encompasses grants, preferential loans, and loan guarantees to enable borrowers to source commercial debt from Estonian banks.**

One of the main users of KredEx loan guarantees are the housing co-operatives (also sometimes called 'apartment associations'), which owners of apartments are obliged to form to manage their communal areas of their estates. KredEx provides loan guarantees to these housing cooperatives as a single legal entity, which allows their members to pool repayments and potential risk with their neighbours to deliver better quality and more attractive housing, and at a lower cost of finance.



WHERE ARE THEY USED IN EUROPE? (*CONTINUED*)

These loan guarantees have had a very positive impact on housing standards in Estonia. 30% of households in this country lived in sub-standard housing in 2004, but this fell to only 10% by 2023, which is below the EU average.

Loan guarantees also support the loans that provide approximately 95% of the capital funding for new social housing delivery in Finland. These loans are financed from bonds issued by a public development bank called MuniFin, which is jointly owned by the Finnish municipalities, central government, and the public sector pension fund. **These bonds are guaranteed by another organisation called the 'Municipal Guarantee Board' (Kuntien takauskeskus - KT).** The KT itself enjoys an effective guarantee from the ability of Finish municipalities to raise taxes, and as a result, it has an AA+ credit rating.

These arrangements enable Munifin to issue loans at very low interest rates. According to a 2023 review by the Finish National Audit Office, the probability of the loan guarantee being invoked is low overall.

WHAT ARE THE RELATIVE STRENGTHS AND WEAKNESSES?

Strengths	Weaknesses
• Widens social landlords' access to market finance. • Can reduce the cost of interest on private finance for social housing and thereby enable dwellings to be rented for below market rents. • Cost-effectively-managed guarantees have a limited impact on the government balance sheet, so they can be cost effective for governments. • Particularly useful when public investment is limited. • Can bolster the credibility of new initiatives, support new investment pathways, and ensure market stability during economic crises..	• ·Social landlords need to set aside revenue to capitalise the fund which they may not have the capacity to do, • ·Moral hazard of supporting risky but desired investments. • ·Measuring the effect of a guarantee on loan interest is challenging. • ·May oversupply market finance to a particular market and create unfair competition with other investments. • ·May lead to inefficient practices because credit costs don't reflect credit risk. • Complex to manage, may need a special purpose financial intermediary to do so.

Where can I learn more?

- KT: https://kuntientakauskeskus.fi/takaustoiminta/
- KredEx - https://kredex.ee/en
- Munifin: https://www.kuntarahoitus.fi/en/
- EqualHouse Report on Financing Social Housing https://equalhouse.eu/media/Publications/Making_Housing_Affordable/EH%20WP5%20Finance%20Report%20Final%20for%20Website.pdf

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