

EVALUATION ABSTRACT
HOUSING FOR SOCIAL INTEGRATION IN WESTERN EUROPE
MORTGAGES FOR IMMIGRANT POPULATIONS

In 2005, the Council of Europe Development Bank (CEB) provided a € 150 million loan to a bank (hereinafter referred as to the Borrower) in a western-Europe Member State with the purpose of improving access to mortgages for legal immigrants regularly residing in the country. The mortgages were to be used to finance the purchase, in the country, of a primary residence which met the CEB's technical criteria for social housing.

The programme was characterised by a strong alignment between the CEB's mandate (namely the targeting of immigrants) and the commercial interests of the Borrower in expanding its market penetration among the newly-arrived foreign population. The rationale of the programme was founded on the credit needs of immigrants and the importance of acquiring home ownership for social integration. According to the CEB's loan document, the immigrant population faced significant hurdles, at that time, in gaining access to mortgage finance. It was argued that medium- to long-term mortgages were easily available to the Member State's nationals and long-term legal immigrants, whereas for newly-arrived immigrants, who often lacked a credit history, were self-employed or performed seasonal and/or irregular jobs, such financial products were almost inaccessible. This situation was said to hinder immigrants' capacity to secure proper housing and ultimately their integration into society.

The socio-economic context in which the programme was implemented was characterised by strong economic growth accompanied by an increasing influx of immigrants and a booming housing sector. With fierce competition among banks to attract new clients, the housing sector became increasingly marked by risky elements, including high household indebtedness, overvalued dwellings and the introduction of high-risk mortgage products. At the time when the loan was approved, some experts were already warning of a housing bubble waiting to burst but, overall, market sentiment still remained optimistic.

The commercial opportunities associated with the massive influx of immigrants in the country's economy were predominant in shaping the programme approach and its implementation modalities. Even though this was the first operation financed by CEB in the mortgage market, the programme was designed without the relevant technical input and sector expertise. The CEB's appraisal underestimated the level of risk in the Member State's housing and construction sector, even though there were already warning signs.

A total of 1 811 mortgages were issued under the CEB-financed programme. The full CEB loan was disbursed in a short period of time (one year), shortly before a serious economic crisis broke out which affected the entire country and generated an immediate rise in the unemployment rate. The livelihoods of immigrants were severely affected by the crisis in the construction sector and this impacted their capacity to service their mortgages. The Borrower was highly exposed to this segment of the mortgage market due to its traditionally strong position with such low-income clients and the number of branches it had in disadvantaged neighbourhoods where immigrants and low-income households were concentrated. The CEB-financed mortgage portfolio (which featured loan-to-value above 80%, targeting of people with unstable employment, working in low-skill sectors, etc.) was concentrated in the highest-risk market segment.

The evaluation showed that the social outcomes of the programme were not satisfactory. Based on figures provided by the Borrower, 42% of mortgages had unsuccessful outcomes, including 18% of beneficiaries who had been evicted and 15% who reached an amicable agreement with the

Borrower but nevertheless lost ownership of their homes. By contrast, 43% of the mortgages were associated with positive outcomes – the mortgages were still outstanding at the time of the evaluation – either on original or revised terms. The remaining 15% of mortgages had been repaid; these cannot necessarily be ascribed to a successful/ unsuccessful outcome because they include cases where beneficiaries may have sold the house or left the country or moved the mortgage to another bank.

The CEB programme may have succeeded in targeting the intended group of beneficiaries (low-income immigrants) but it did not generate positive social development effects. Although CEB did not initiate this line of operations and the mortgages would have been issued by the Borrower even without CEB funding, the CEB programme gave an implicit seal of approval to financing practices that, together with a deteriorating national economy, contributed to the Borrower's current difficulties. CEB's involvement in the programme infers that the Bank bears some responsibility for the final social and economic outcomes.

CEB's handling of the loan was affected by the lack of an appropriate monitoring and evaluation framework. The programme was implemented without a clear understanding of the performance indicators for measuring the social success of the operation. The key elements of the framework loan agreement and of the monitoring approach retained the procedures of "traditional" social housing programmes, despite the radically different nature of this programme. Difficulties were faced in the application of eligibility criteria.

The approach of this programme was replicated in several similar operations without an assessment of the social outcomes and value added generated by this pioneer operation. Moreover, despite the warnings raised during the supervision missions, no changes were made to programme implementation modalities. The elements of financial and non-financial value added to which the CEB loan document referred were not substantiated by the evaluation.

The following recommendations were formulated for consideration and follow-up by the CEB:

- Adequate resources should be made available to facilitate the participation of sector experts and/or independent external experts during programme design;
- A thorough identification of the various risks associated with operations is recommended, including specification of those risk factors (external or internal) that could affect the realisation of intended development outcomes;
- The indicators of social success of CEB-financed operations in the sector should be clearly specified in the CEB's loan document, and evidence-based assessment of these should constitute the basis of monitoring and completion reports;
- CEB should ensure that each programme has an appropriate and realistic monitoring and evaluation framework, in which the specifics of the programme (methodology, context, rationale, value added and social objectives) are well-captured and are adequately monitored during implementation;
- A more rigorous presentation of CEB value added in the loan document is recommended, and the value added of CEB-financed operations should be systematically verified at completion;
- A corporate process should be put in place to improve the management of replication and/or follow-up financing. This should be based, to the extent possible, on evidence-based verification of the social outcomes achieved in the pioneer operation, on transparent identification of implementation pitfalls, and validation of CEB value added.