

EVALUATION ABSTRACT

HOUSING FOR SOCIAL INTEGRATION IN WESTERN EUROPE MORTGAGES FOR IMMIGRANT POPULATIONS

In 2006, the Council of Europe Development Bank (CEB) provided a € 50 million loan to a bank (hereinafter referred to as the Borrower) in a western-Europe Member State with the purpose of improving access to mortgages for legal immigrants permanently 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 country's 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 at loan approval 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. Already in 2005, some experts were 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 this operation. From the CEB's side, the programme was appraised without the relevant technical input and sector expertise. The CEB's appraisal underestimated the level of risk in the housing and construction sector, even though there were already warning signs. Presentation of the sector context in the loan document was limited to the immigration phenomenon, while no reference was made to the characteristics of the housing sector. A similarly narrow approach was adopted in presenting programme and credit risk.

The full CEB loan was disbursed in a short period of time and the programme's implementation coincided with the beginning of a serious economic crisis that affected the entire country and generated an immediate rise in the unemployment rate. The livelihoods of immigrants were severely affected by the crisis and this impacted their capacity to service their mortgages. The Borrower, as other banks, was highly exposed to this segment of the mortgage market due to the commercial strategy pursued at that time of targeting new immigrant clients, including through non-traditional channels such as the creation of specialized immigrant-only business units. The CEB-financed mortgage portfolio (which featured loan-to-value averaging 88%, targeting of people with unstable employment, working in low-skill sectors, etc.) was concentrated in this highest-risk market segment.

The evaluation showed that the social outcomes of the programme were not satisfactory: at the time of the evaluation fieldwork (July 2012), out of 715 loans associated with the CEB programme, 44 (6%) were still outstanding but in default while 249 (35%) had been cancelled due to eviction. A total of 76 loans (11%) were in litigation. There were 178 (25%) mortgages still outstanding at their original terms whereas 149 (21%) were outstanding at renegotiated conditions. The CEB programme may have succeeded in targeting the intended group of beneficiaries (low-income immigrants) but clearly the programme did not generate the anticipated positive social development effects. Despite the problematic overall economic context, the efforts of the Borrower to mitigate the consequences of the crisis should be acknowledged: it made a significant effort to renegotiate mortgage conditions with clients in financial difficulty, in order to identify suitable solutions.

CEB's handling of the loan was affected by the lack of an appropriate monitoring and evaluation framework. The programme was implemented without the clear measurable indicators of success that would ideally constitute the reference point for monitoring social development outcomes. The framework loan agreement retained the language and procedures normally applied to social housing programmes, despite the radically different nature of this programme. This evaluation clearly underscored the inadequateness of a unique set of indicators/criteria per sector of action. Difficulties were encountered in enforcement of the eligibility criteria related to duration and occupancy. Apart from the warning signals indicated during CEB's technical supervision missions, the monitoring and completion tables prepared by CEB and the Borrower did not include reference to the most important social dimensions associated thereto (rate of arrears, default, mortgage cancellations).

The elements of financial and non-financial value added to which the CEB loan document referred were not substantiated by the evaluation. The evaluation revealed that there was no system in place at CEB to verify whether value added was actually generated and provide a knowledge base for future operations.

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 during implementation, in particular at completion.