



CONFEDERACION DE EMPRESARIOS DE LA CONSTRUCCION DE ARAGON

Plaza de Roma, F-1, Planta 1ª Ofic. Nº 8 – Tfno. 976-325797 – Fax 976-533675 - 50010 ZARAGOZA

ARAGON HOMEBUILDER AND DEVELOPER FEDERATION COMMENTS ON EBA CONSULT TO DEFINE HIGHLY ASSETS IN THE LCR

The Basel Committee has developed the LCR to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient HQLA to survive a significant stress scenario lasting 30 calendar days.

The standard requires that in absent a situation of financial stress, the value of the ratio be no lower than 100% on an ongoing basis because the stock of unencumbered HQLA is intended to serve as a defence against the potential onset of liquidity stress.

The LCR has two components:

1. value of stock of HQLA in stressed conditions
2. total net cash outflows, calculated according to the scenario parameters outlined below

The numerator of the LCR is the value of the stock of HQLA.

The characteristics that stock of HQLA should possess should be:

1. low risk:

assets that are less risky tend to have higher liquidity

2. ease and certainty of valuation:

an asset liquidity increases if market participants are more likely to agree on its valuation. Assets with more standardised homogeneous and simple structures tend to be more fungible, promoting liquidity

3. low correlation with risky assets

4. listed on a developed and recognized exchange

5. active and sizeable market

The asset should have active outright sale or repo market all times

6. low volatility

7. flight to quality

Level 2 assets can only comprise up to 40% of the asset stock.



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Level 2B assets should comprise no more than 15% of the total stock of HQLA.

Certain additional assets (level 2B) may be included in level 2 at the discretion of national authorities.

Large haircut is applied to the current market value.

Level 2B assets are limited to the following:

1. Residential mortgage backed securities that satisfy the following condition subject to a 25% haircut:
 - 1.1 not issued by and the underlying assets have not been originated by the bank itself or any of its affiliated entities.
 - 1.2 the underlying asset pool is restricted to residential mortgage and cannot contain structures products.
 - 1.3 have a long term credit rating of AA or higher or a short term rating equivalent in quality to the long term
 - 1.4 the underlying mortgages are full recourse loans (ie in the case of foreclosure the mortgage owner remains liable for any shortfall in sales proceeds from the property) and have a maximum LTV ratio of 80% on average
 - 1.5 the securisation are subject to risk retention regulations which require issuers to retain an interest in the assets they securitise

According to these principles the EBA issued a discussion paper presenting the methodology and scope of its forthcoming analysis on definitions of highly liquid assets.

Furthermore , the EBA will report to the EC on appropriate definitions of high and extremely high liquidity and credit quality of transferable assets for the purpose of the LCR including suggested haircuts.

The EBA maintain that a key component of the LCR is the stock of HQLA which institutions can sell or pledge it withstand a liquidity stress and that the 2013 Basel text defines two level of suchs liquid assets:

- 1.the highest liquidity Level 1 assets



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2.the relatively less liquid Level 2 assets.National authorities are also permitted to allow institutions to hold a part of their level 2 assets in form of less liquid securities such as high-quality RMBS.

The draft CRR tasks EBA with advising on appropriate uniform definitions of liquid assets for such a liquidity buffer , and for this purpose defines two categories of transferable assets:

Assets of extremely high

Assets of high liquidity and credit quality

More in particular , the CCR proposal requires the EBA to assess a range of asset classes , including but not restricted to those identified as liquid under art 404.In particular , the report should also consider other categories assets , in particular RMBS of high liquid and credit quality among others.

Under the article 481 of the draft CRR the EBA is tasked with providing uniform definitions of high and of extremely high liquidity and credit quality of transferable assets for the purpose of article 404 and appropriate haircuts.The report should also consider other categories of assets in particular RMBS of high liquid and credit quality.

The EBA's task is to translate the general definition of liquidity , and the criteria and guidance for classifying liquid assets in the CRR text , into a concrete definition of assets of high and extremely high liquidity and credit quality based on objective criteria , which could serve as a basis for the implementation of the LCR in the EU.

We consider that RMBS of high liquid and credit quality could be those that which integrated by RED (real estate development) loans and mortgages for social or affordable housing , provided by a broader definition.

In addition , these RMBS integrated by RED loans and mortgages for social or affordable housing with a broader definition of social housing , wouldn't be subjected to a haircut and there would be a duty for the national authorities to hold a part of their level 2 assets in form of less liquid securities such as RMBS integrated by RED loans and mortgages for social or affordable housing.

In January this year a document on social housing in the EU with a broader definition was requested by the Employment and Social Affairs Committee of the European Parliament.

We introduce a summary of this document:



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Housing is a right recognized by international and EU legislation , also forming part of the social inclusion objectives of the Europe 2020 strategy.

The **Council of Europe** addressed the issue of the right to housing in **the European Social Charter** adopted in 1961 and revised in 1996:

Article 30 of the revised version deals with the right to protection against poverty and social exclusion , establishing an obligation for States to promote effective access to a variety of services , including housing.

Article 31 binding States to make the price of housing accessible to those without adequate resources

With regard to the **EU** , the debate on housing has mainly developed from the late 1990s.An important point of reference in this debate is **the European Parliament Resolution on the Social Aspects of Housing (1997)**.This document expresses the need to include within the Treaty provisions which lead the progressive realization of the fundamental social rights of people living in Europe , those rights to include the right to decent and affordable housing for all.Moreover , the resolution calls for the development of a social housing for all based on efforts to provide adequate housing for all.

This commitment is made concrete in the **Charter of Fundamental Rights of The European Union** , first proclaimed in 2000 and amended in 2007:

In the article 34 the Union recognizes and respects the right to social and housing assistance so as to ensure a decent existence for all those who lack sufficient resources.

Since the **Lisbon Treaty** came into force in December 2009 , the Charter has the same legal effect as the Treaties , and decent housing is consequently formally recognized as a right by the EU.

Finally the housing issue is also part of the **Europe 2020** strategy as part of the social inclusion objective.

Social housing is a **Service of General Economic Interest(SGEI)** , but also a market sector increasingly open to new private players.This has led to the emergence of competing interests



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at the EU level , such as the commitment towards social inclusion and the concern for open competition in the single market.

The disputes on state aid that have arisen in recent years have been resolved by the EC applying a restrictive definition of social housing , which is only intended for the disadvantaged.

SGEIs are bound by specific rules with regard to competition and state aid.State aid in the EU is generally prohibited by the Treaty , because it distorts competition and trade in the single market , unless justified by reasons of general economic development.

EU legislation on state aid has changed over time:

Monti-Kroes package (dating back 2005):

-defines the conditions under which the compensation granted by a public body to an organization providing a public service is possible without prior notification to the Commission

-with regard social housing the package provides that aid given to social housing by Member States is exempted from notification to the Commission regardless of the amount

-the package entails a narrow definition of social housing restricting it only to housing for disadvantaged citizens or socially less advantaged groups , which due to solvability constraints are unable to obtain housing at market conditions

Almunia package (December 2011):

-with regard social housing the package provides that aid given to social housing by Member States is exempted from notification to the Commission regardless of the amount

-uses the same restrictive definition of social housing contained in the Monti-Kroes package

The recent recession has prompted increasing concerns at the EU level about housing affordability , particularly given that the housing market was hit hard by the crisis.



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The literature review conducted indicates that no common definition of social housing is available at the EU level , with different States adopting different definitions that translate into varying levels of public intervention within the sector , referring to:

Legal status of the landlord

Rent regime

Funding method

Target population

In general **four dimensions** characterize european social housing models and policies:

1.the tenure:social housing is provide for:

Rent in most countries:

There is a huge variation in the size of the rental sector:it is small in Eastern and Southern Europe . it is large in Northern Europe.The relative weight of private rental or of social rental varies significantly across states.

Sale of dwellings:

In some Mediterranean countries such as Spain has provided social housing as **low-cost housing for sale**

Home ownership is not present in Northern Europe

EU housing markets are characterized by a high share of home ownership , with ranges from 40% in Germany to over 90% in some Eastern European countries.On average , home ownership levels are higher in Southern than Northern Europe.

Shared ownership as in the UK

2.provider of the service:involves a variety stakeholders

Local authorities:

Manage the existing social housing



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Public companies

Non-profit or limited profit associations, companies and cooperatives:

Have become more involved in the provision of housing services during the past decade, thanks to large scale government subsidies and financing aids, with the public sector regulating and programming the housing provision.

In Denmark and Netherlands social housing provision is the prerogative of the private non-profit sector.

Cooperatives play a crucial role in some countries, namely, Austria, Belgium, Germany, Portugal, Spain and Sweden.

Private for-profit developers:

Is responsible for developing new social housing

Historically social housing was created by the private sector, both charitable institutions and private companies in the early 20th century when industrialization and urbanization increased housing needs.

Private providers in Italy are allowed to participate in certain social housing schemes after signing an agreement with local municipalities

In Spain preferential loans are available for potential providers and developers

Investors

3. beneficiaries:

1. universalistic models: considering housing to be a primary public responsibility and thus to hold the objective of providing the whole population with decent quality housing at an affordable price. This model is directed to all citizens.

The objective of social housing is to provide the whole population with decent quality housing at an affordable price.

This model represents the natural evolution of traditional social housing in Western Europe, which was generally directed at workers and middle-income groups.

Universal social housing policies are designed to prevent spatial segregation into ghettos of poor households.



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The economic crisis that started in 2008 has worsened the socio-economic conditions of an increasing share of the population , leading to higher demand for affordable housing and social allowances in the majority of European countries.

Societal changes are diversifying the housing needs of the population , with the emergence of new issues for social housing:housing vulnerability no longer only affects the most disadvantages , but also lower to middle-income households , with the latter finding it increasingly difficult to bear housing costs due to the economic crisis.

The economic crisis represented an unexpected exogenous demand shock for the social housing sector . With the increase in re-possession and evictions forcing people to rely on more affordable houses provided by housing associations. Moreover , in almost all countries the economic crisis has created two new potential beneficiaries of social housing services:

Middle class households

Workers with temporary or atypical contracts

The former for the increase in unemployment rate and the decrease in social benefits :the latter for the limited accessibility to stable tenancy or home ownership.

To provide an idea of the dimension of the demand shock , consider for instance that that :

In Ireland the number of people in need of local authority housing has increased by 75% since 2008 (passing from 56.000 applicants to 98.000)

In England housing waiting lists increased constantly from 1997 to 2011 (from 1 to 1.8 million households)

In France in 2012 1,2 million applicants were registered on waiting lists for social housing

In Italy were registered 630.000. Recent surveys conducted reveal that approximately one million housing unit would need to be built.

2.targeted models:the objective is to satisfy only the excess housing demand not satisfied by the market.Only households for whom the market is deemed unable to deliver housing able to benefit.



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In this model the potential beneficiaries are much more restricted and typically correspond to extremely vulnerable households relying on a variety of welfare state benefits

Generalistic: housing allocated according to the income level. In particular, eligibility is based on means-tested income thresholds.

Income ceilings are the most widespread criteria in defining eligibility for social dwellings.

In countries including Austria, France and Germany the highest income ceiling is set sufficiently high in order to guarantee an income mix among beneficiaries.

Registration for social housing waiting lists are open to anyone in countries like Denmark, Sweden and UK in order to avoid social segregation and to ensure that public dwellings are accessible to all segments of society.

In Italy the ceilings are set at a very low level

Residual: if allocated according to a set of vulnerability indicators. The target population specifically includes the most vulnerable households.

This placed an increased share of the population at risk of housing exclusion, which translated into a growing demand for social housing. Consequently there was an upward trend into a growing demand for social housing waiting list in almost all EU countries.

Debate concerning social housing as SGEI yet also as a market sector increasingly open to new private players. Social housing is considered as SGEI but however there is a debate at the EU level prompted by the emergence of competing interest. On the one hand, it is crucial to satisfy housing needs to stimulate social inclusion, yet on the other hand it is necessary to allow a satisfactory level of competition within the sector.

4. funding arrangements

Housing providers finance their activity through:

Credit raised on the private finance market:

-loans

-mortgages



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-despite more expensive funding following the economic crisis , the sector is actually seen as a **risk free (and therefore attractive) investment for lenders** due to its specific features:

- high level of regulation
- significant explicit or implicit guarantees
- long-term stable and predictable cash flows

-because o the economic crisis , investors have become more risk averse and it somewhat enhances the ability of the social housing sector to obtain funding from the private sector

Credit raised on the public finance market:

- public loans form special public credit institutions

-it is increasingly important to find alternative sources of funding to public resources.This can be achieved through partnerships with private stakeholders and the non-profit sector.

Public sector supports:

-land for the construction of social housing at reduce pirces or for free such as Austria , Italy and Luxemburg

- public grants
- interest rate subsidies
- government backed gurantees
- municipal budget
- tax deduction
- detraction for social housing providers

-the recent economic downturn that has hit Europe since 2011 poses a serious threat to the possibilities of national governments to further expand their intervention



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in the housing market. Indeed, the social housing sector is not immune to recent cuts in public expenditure and the budget dedicated to housing policies is reduced in a number of countries:

Social housing expenditure represented 0,1% of GDP in the EU-27 area

Rent beneficiaries in social housing represented 0,28% of GDP in the EU-27 area

-significant reduction in public funds devoted to the social housing sector is also represented by the upward revision in the Vat rate applied to social housing, which occurred in Italy, France, the Netherlands and Spain.

The current study identifies three elements common across European social housing sectors:

1. mission of general interest
2. objective of increasing the supply of affordable housing
3. the identification of specific targets defined in terms of socioeconomic status or the presence of vulnerabilities

After the entry into force of the Treaty of Lisbon, the Charter of fundamental rights including the right to housing assistance has become part of the legal basis for EU policies. Available statistics indicate that around 3 million people in Europe lack access to decent housing.

The term social housing has two possible connotations according to the 2012 edition of the Encyclopedia of Housing:

1. all types of housing that receive some form of public subsidy or social assistance, either directly or indirectly, which can include:

Tax relief on mortgage interest

Tax shelters for homeownership

Subsidies to builders

Depreciation allowances for investment in residential properties

Below cost provision of collective public services for housing



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In this type , it should be included the private housing stock when receives some public subsidies

2.refers to traditional public housing , namely housing subsidized by the state and social rented housing , such as ccoperatives , rent-geared to income , limited dividend and non-profit private firms and political organizations other than governments.The common distinction of these new forms is that they are collectively managed or not-profit basis.

In light of these reflections providing a single definition of social housing at the EU level would be rather problematic , given the vast differences present in the models adopted by different countries.Therefore , such a trenchant solution could only be chosen following democratic debate between all Member States.At this stage , it appears crucial that each country could contribute with its own welfare experience and tradition and that it would only be possible to derive a common definition of social housing after an interlocutory phase.

Social housing definition should be much broader than currently adopted within the legislation on competition , and that this would subsequently offer the advantage of preserving the universalistic models of social housing and minimision the risk of social exclusion.

According to the principle of subsidiarity housing policies are stated by national or local (regional) governments in all EU member states , and given the lack of common definition the functioning of the social housing sector is completely country specific , which hinders the possibility of adopting Union policies.Some stakeholders have doubts about the fact that a common definition could call into question the subsidiarity principle.It would not happen and , instead , it would produce positive externalities within the sector.In fact , the subsidiarity principle would still be applicable but , with a single common definition , it would have the additional advantage of increasing the range of instruments that could be used to implent housing policies.

Whereas this document , the Aragon Homebuilder and Developer Federation propose a broader definition on social housing in EU based in the following principles.

Social housing definition should be much broader than currently adopted within the legislation on competition.

Furthermore , it would be produce positive externalities for the whole homebuilder´s sector if the subsidiarity principle , which is implemented in the EU laws , would still be applicable in the social housing legislation but with a single common definition , that supposes a broader definition of social housing.



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In the broader definition of social housing it should be taken account that recent cut in public expenditure and reduction in the budget dedicated to housing policies are configuring at the present and looking forward a social housing without public subsidies.

According to the four dimensions that characterize European social housing , the broader definition of the latter will consist in:

1.the **tenure**:the social housing will be provided for:

Rent

Sale of dwellings , **included social housing as low-cost housing for sale**

Shared omnership

2.**provider of the service** will include **private for-profit developers** among others stakeholders

3.**beneficiaries**:it should be opt to a universalistic model in which the objective should be provide the whole population with decent quality housing at an affordable price.

The economic crisis has worsened the socio-economic conditions of an increasing share of the population , leading to higher demand for affordable housing and social allowances in the majority of European countries.The economic crisis represented an unexpected exogeros demand shock for the social housing.Therefore the crisis has created two new potential beneficiaries of social housing services:

Middle class households

Workers with temporary or atypical contracts

, both would be exclude to the access of social housing , whereas the restrictive definition of social housing resolved by the EC within the concept of Service of General Economic Interest (SGEI) , which is only intended for the disadvantages.

Open to new private players , such as middle class households and workers , in the demand of social housing is necessary .This opening could be mitigated by the mix of the generalistic model with a targeted model. Through the targeted income ceiling could be introduced among the new private players.Therefore the highest income ceiling is set sufficiently high in order to guarantee an income mix among beneficiaries.

The social housing could be subject to a sale price limit regard with the ratios loan to income and price to income of the buyers and whereas:



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- 1.the average of the disposable incomes of the EU citizens
- 2.the effort to pay mortgage up 30% of the disposable incomes
- 3.the save of a deposit of the 20% price's sale

4.funding arrangements: private for-profit developers providers will finance their activity through an internal devaluation of the production factors in the social housing industry as a shock measure to become more competitive.This internal devaluation should be consisted in supply policies focused on savings in production costs.These supply policy measures will slowly replace the demand policies , namely subsidies policies.

Examples of supply policies as funding arrangements for the social housing would be:

4.1 Credit raised on the private finance market:

despite more expensive funding following the economic crisis , the social housing sector is actually seen as a risk free investment for lenders

because of the economic crisis , investors have become more risk averse and it somewhat enhances the ability of the social housing sector to obtain funding from the private sector

To encourage this movement that it is described in the private finance market , it should be implemented some measures like:

CRDIV:social housing mortgages should have a lower weight in order to fix the amount

LCR and NFSR:social housing mortgages have to be considered in these ratios lowering their weights

EU wide deposit insurance scheme:social housing mortgages with lower risk should be charged at this scheme with lower fees than other types of mortgages

Single Supervisory Mechanism:the proposal of the EC for SSM puts in place supervisory fees;the ECB shall levy fees on credit institutions .The amount of a fee levied on a credit institutions shall be proportionate to the importance and risk profile on the credit institution concerned.It could be proposed that social housing mortgages



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lower the risk profile according to determine the amount of fee charged to a credit institution.

Single Resolution Mechanism:the same proposal as in the SSM with regard to the social housing mortgages.

Guideline of the ECB on monetary policy instruments and procedures of the Eurosystem:retail mortgage-backed debt instruments (RMBS) as non marketable assets are used as collateral at ECB;these RMBS are subject to a valuation haircut of 24% at ECB.

In this case , the proposal will consist in reduce the valuation haircut below 24% for the RMBS which were constituted by social housing mortgages.

4.2 Credit raised on the public finance market:

European Investment Bank(EIB):recently a fully paid-in increase of EUR 10 billion in the capital of EIB has been approved to support up to EUR 60 billion of additional financing over the next three to four years.This would unlock up to three times amount form the other providers of finance to support a total of up to EUR 180 billion for investment.The amount of finance is geared to:

EU innovation and skills initiative

EU SME access to finance initiative

EU resource efficiency initiative

EU strategy infrastructure initiative

The homebuilder and real estate sector is excluded of the targets , albeit the private credit institutions are collapsed.

While the private credit institutions continues collapsed , the proposal could be that EIB intends to include in its targets with the increase of capital the finance for private for-profit developers for their social housing projects (ownership and rent).In this case the ownership will be a new trend for the targets of the EIB.

Europe 2020 Project Bond Initiative: the objective is to increase debt financing availability for large scale infrastructure projects in the targets areas of transport , energy and broadband.The EIB-supported by the EU-would provide credit enhancement to project companies raising senior debt under the form of bonds to finance infrastructure projects.In



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fact , in the pilot phase of Europe 2020 Project Bond Initiative , the EIB would provide a loan or guarantee (EIB facility) to the project company in order to raise the likelihood of timely repayment of principal and interest to bond holders during the lifetime of the bonds (therefor reducing the risk of such bonds and , consequently , increasing their credit rating.This EIB facility would rank between the equity and senior debt tranche.

The proposal could consist in include social housing finance (ownership and rent) as target areas of the Project Bond Initiative because of its lower risk in opposite other kinds of housings.

4.3 Public sector supports

The purpose will consist in erase the public subsidies and in its place implementing supply policies.

Inside these supply policies , as example , and following the communication from the EC about this matter issued on 23/11/2011 , it could be enumerate a growth-friendly tax policy for the social housing due to its lower risk and competitiveness which contribute to enhance the growth and employment.Some examples of this growth-friendly tax policy for social housing would be:

-referring to the further Financial Transaction Tax (FTT) , it could be outline that RMBS integrated by social housing mortgages (defined as qualified residential mortgages) will be ring fence of the tax base in order to reduce the financial cost of this type or mortgages.

-social housing deserves a reduced or a super-reduce Vat rate in order to reduce production costs and to regain competitiveness for the social housing sector for enhance growth and employment in the European housing sector.