Housing Fund of Finland

-Financial products for promoting wood frame housing construction?
Organisational Structure
ARA’s main responsibilities (1)

- **Fund liquidity management**
- **Strategic planning**
  - Monitoring the housing market situation
    - Market analysis
    - Needs analysis
  - Allocation of funding and authorising municipalities to choose projects
- **Designation and monitoring of approved borrowers.**
  - Solvency and liquidity analysis
  - Co-operation with the State Treasury
    - Cash flow
    - Arrears
ARA’s main responsibilities (2)

- Granting ARAVA loans and repair grants
- Approving interest subsidy loans and state guarantees
- Quality and cost control
- Ensuring fair competition
- Control of state guarantees on household loans
- Housing market information
- Library and information service
- Guidelines for tenant selection and rent levels in social housing
Loans

• **ARAVA loans** = government loans from ARA

• **Interest subsidy loans**
  • Granted by bank or other financial institution
  • ARA approves loans
  • Loans must be based on competition
  • ARA checks suitable interest rates and margins
  • State guarantee
Borrowers

• Finnish municipalities as owners
  • Directly
  • Municipality-owned companies
• Designated borrowers
  • non-profit organisations
  • special purpose associations
    • eg student and old-age organisations
Grants

• REPAIR GRANTS
  – Repair grants for improvement of old people’s homes
  – Housing companies
  – Lift construction, repair and removal of obstacles to movement
  – Change of purpose
  – Eliminating health hazards
  – Energy grants for renovating residential buildings

• INVESTMENT GRANTS
  – The homeless and refugees
  – Students

• INFRASTRUCTURE GRANTS
  – Municipalities
Guarantees

• GUARANTEES
  – Government guarantees for owner-occupied housing loans
  – State and local authority guarantees for the construction of rented and right-of-occupancy housing

Tuomas Toivonen, 11.2.2005
Cost and quality control for social housing
Cost control

• **The builder must be chosen through open competition**
  – attention is paid to cost but and professional competence
  – economic capacity and performance and previous record in fulfilling public commitments

• **Cost monitoring enables economical construction**

• **Monitoring and ensuring good building and contracting practices**

Tuomas Toivonen, 11. 2.2005
ARA and funding

Tuomas Toivonen, 11.2.2005
### Sources of funding and obligations

#### Sources of funding
- All receipts from outstanding ARAVA housing loans
- Securitisation and external borrowing
- Charges from State guarantees
- (Appropriations from the State budget)

#### Obligations
- Payment of ARAVA loans
- Interest on the Fund’s external borrowing
- Interest subsidies for commercial loans
- Grants for housing repairs etc

**ARA’s operational expenditures are funded from the State budget**

Tuomas Toivonen, 11. 2.2005
ARA’s total assets and external funding
Promoting wood frame construction (1)

- The importance emphasised by the Finnish Government
  - Part of the Government programme
  - Employment, equality of geographic areas
    - Working group was lead by Director General of the Housing Fund of Finland, Mr. Teuvo Ijäs
    - Ministry of Environment responsible for implementation
    - PPP –model for financing housing infrastructure suggested
Wood Construction Development Programme
2004 - 2010

Demand

Building type for one-family houses

Funding solutions

Urban residential areas of one-family houses and infill development

Increased use of wood
- quantity will increase
- degree of processing will increase

Construction companies and developers

Self-build and one-off developers

Official guidance

Level of skills

Internationality

A lot of wood used in one-family houses

Other construction using wood
(blocks of flats, commercial premises, agricultural buildings, renovation work, interior work, garden and environmental construction)
directly governed by State measures
Promoting wood frame construction (2)

- Special government sponsored finance for promoting timber construction?
- Not possible, due to EU competition and state aid regulations
- Focus on promoting small-scale construction
  - Meets the housing aspirations
  - Wood is often a dominating material
Small-scale housing and land use

• Demands a lot of land compared to block construction
• Shortage of planned areas
  – The biggest obstacle for housing construction
• Infrastructure cost per capita is high in small-scale construction
  – Municipalities often reluctant because of high investment costs
  – expensive public services (municipalities obliged to provide)
Public Private Partnership (PPP)

- A partnership between the public sector and the private sector for the purpose of delivering a project or a service traditionally provided by the public sector.
- The overall goal of PPP is to structure the relationship between the public sector and the private sector in a way that risks are borne by those best able to control and monitor them and increased value is achieved.
- Agreements on land use (as defined in Finnish Land Use and Building Act) exploitable.
PPP (2)

- A new tool of financing infrastructure
- Both private and public sectors to use their best expertise to achieve the goal in an efficient way
- Every infrastructure building operation is different, the model for co-operation is tailored case by case, an universal model doesn’t exist
- Master agreements can be used on a certain general level, to minimize transaction costs

Tuomas Toivonen, 11. 2.2005
Contractual Forms of PPP

Tuomas Toivonen, 11. 2.2005
PPP Route Map; Traditional Process vs. PPP Model*

- Financial Context
- Legal Context

Project Identification
- Assessment of PPP Suitability
- Project Appraisal
- Project Assessment
- Statutory Process Assessment
- Procurement Procedure Selection

PPP Recommended
Tuomas Toivonen, 11.2.2005

*Source: Department of the Environment and Local Government of Ireland
Contractual Framework (1)

Public Sector
(Governmental and/or Municipal Authority)

Financiers
(Senior Finance)
(Junior Finance)

Project Company
(Special Purpose Vehicle)

Shareholders
(Equity Sponsors)

Construction Contractor

Operating Contractor

Construction Contract

Finance Agreement(s)

Security Package

Operating Contract

Shareholders Agreement

Project Agreements

(Direct Agreement)
Contractual Framework (2)

- Project identification and assessment of PPP suitability
  - Competitive tendering process
- The contractor is a special purpose vehicle (SPV) formed by a group or consortium of investors
- The equity sponsors and the shareholders of the special purpose company
  - Construction companies
  - Financiers
- Contracting
  - Construction contracts
  - Contracts with the sub-constructors
Contractual Framework (3)

• Jurisdiction for the special purpose company
  – Finland
  – Ireland
  – Other

• Financial structure (form of finance in PPP)
  – Loan (loan syndicate)
  – Bonds
  – Structured finance (securitisation)
  – Renting

• Collateral arrangements and forms of contractual protections
Housing fund – a strong financier of infrastructure?

• A strong asset base and cash balance
• Currently a 5-year € 50 M grant programme for municipalities to build housing infrastructure
• New PPP –linked products in portfolio?
  – Grants, state guarantee, interest subsidy, loans?
  – Legislation and state budget
THANK YOU!

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