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Alternative financing in Ireland helps more families move into homes

The “Celtic Tiger” economy has been a feature of Irish life for more than a decade, resulting in high employment, increased prosperity, lifestyle changes and more immigration. This has led to a growing demand for housing. But the supply has not kept up.

In 1995 the average price of a new home in Dublin was €86,671 (US\$105,000). By the end of 2005, the average price was €351,263 (US\$425,500), an increase of 405 percent. The average price of an existing home has increased by 483 percent over 10 years to €430,220 (US\$521,000). More and more people are finding it increasingly difficult to buy their first home, especially those on low incomes.

Habitat for Humanity Ireland was founded in 2002 to

help low-income earners move from poverty housing into homeownership.

Financial Challenges

A contributing factor to the increasing price of new homes is the cost of labor and materials, which has been growing by an average of 5 percent per year over the past 10 years. This left HFH Ireland in a situation where the traditional Habitat model of a zero-interest monthly repayment from the homeowner to the affiliate would mean that fewer and fewer new homes could be built in the future. Building costs would continue to increase while repayments would stay the same.

Irish financial regulations also meant it was not feasible for HFH Ireland to register as a mortgage company, which would have been necessary if the traditional model was to be applied. The only option left was to partner with an existing financial institution. If successful, this would mean HFH Ireland would receive the proceeds of the sale of the home to the partner family immediately following the sale, rather than over a period of 20 to 30 years. This, in turn, would allow for an acceleration of the building program, as funds are released much sooner.

Partnering With EBS

In April 2005, EBS Building Society partnered with HFH Ireland to provide mortgages to the partner families. EBS, one of the largest mortgage providers in Ireland, is a mutual building society, owned by its members, whose aim is to help people buy their own home. With a strong corporate social responsibility program, they felt that a partnership with HFH Ireland would not only help families in need purchase their own homes, it would also offer EBS employees the opportunity to help build these homes as they volunteer their time on Habitat building sites.

The EBS partnership means that over four years the building society will provide mortgages for 91 new Habitat homes. The traditional zero-interest model would be unfeasible for this partnership as the program would cost EBS €540,000 (US\$654,000) per year by the fourth year. They would have to absorb the costs relating to raising the money in the market, regulatory capital requirements and company profit, totalling more than €12 million (US\$14.5 million) for the duration of the 25-year mortgages.

An alternative agreeable to all parties was found. EBS will forego any profit on the loans through a mortgage product that tracks the European Central Bank Rate and incorporates the cost of raising and holding the money. This means the families will pay back capital costs, plus an interest rate of 2.5 percent (December 2005). This will result in an increase in monthly repayments of €40 on a €150,000 mortgage over a zero-interest mortgage. By year four of the partnership, EBS will be foregoing more than €100,000 a year in profit to help 91 families own their homes.

In addition, EBS has assigned Habitat families a dedicated mortgage adviser, who will guide them through the process of applying for the mortgage and answer any queries they might have. The families have the opportunity to build up a good credit record, as well as gaining confidence in dealing with financial institutions—something they had not done previously.

Summary

The HFH Ireland alternative financing model has the potential to be replicated in other markets, as long as interest rates

are kept low. Repayments to the financial institution can rise and fall according to interest rate shifts, so the model will not work if the partner family is exposed to high interest rates. (HFH Ireland stress-tests families to see how they could cope with an increase in rates.) In the current financial situation, it is a winning situation for all parties involved, with the result that HFH Ireland can help more families move from poverty housing into homeownership.



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