Building Resilience and Inclusion in Global Housing Finance

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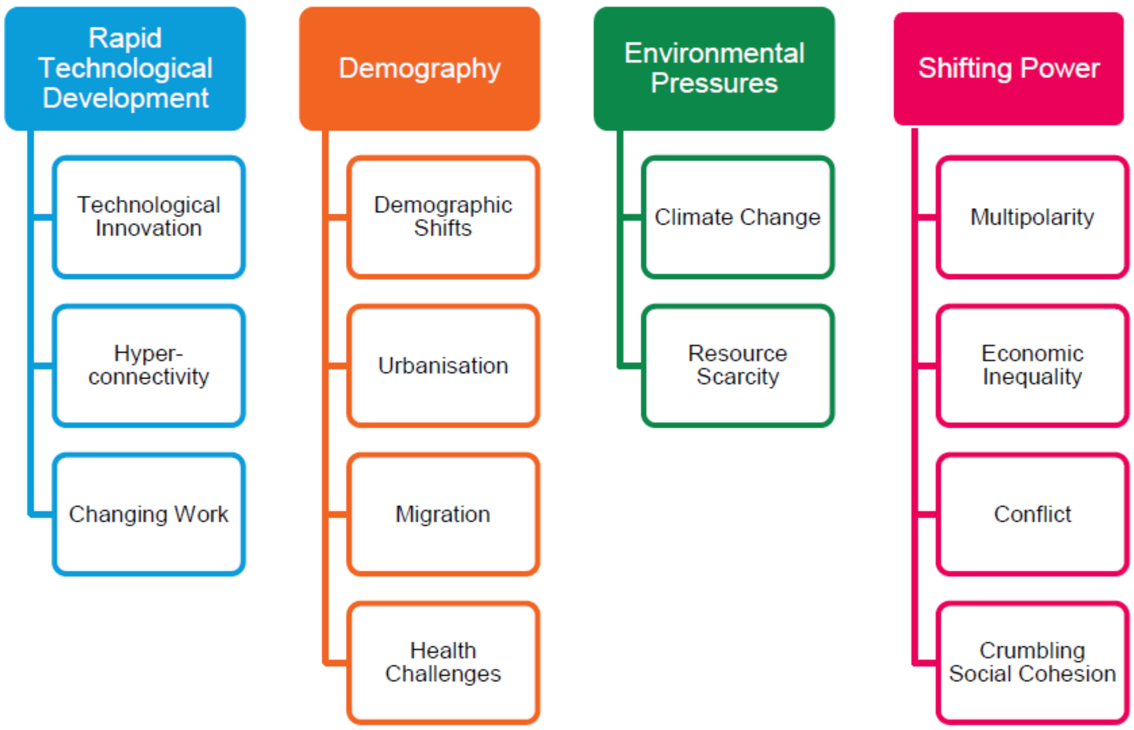
Introduction

- Housing finance is at a crossroads, facing climate change, demographic shifts, and digital transformation.
- We are going through uncertainties and volatility which test our policies and our markets.
- This presentation discusses how covered bonds can contribute to financial stability, social inclusion, and sustainability.
- Korea Housing Finance Corporation (KHFC) is a quasi-government entity trying to balance market efficiency with social responsibility, and to engage in global efforts to promote sustainability and financial stability.
- This presentation shares Korea's experience and proposes a framework for global cooperation in housing finance.

Global Megatrends: A ‘scan of scans’

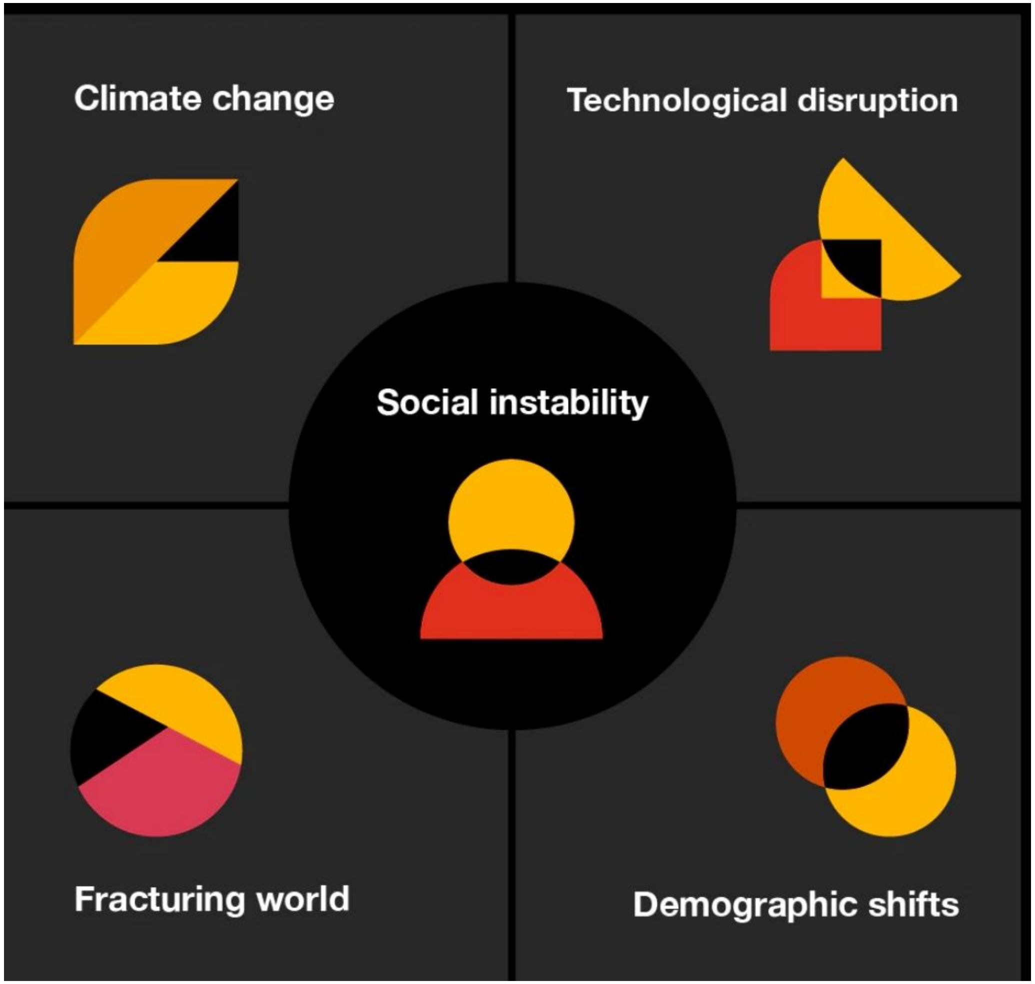
Source: Oxfam, “Global Megatrends: Mapping the forces that affect us all”, 2020.

The four megatrend clusters



Source: Oxfam, "Global Megatrends: Mapping the forces that affect us all", 2020.

Mega trends



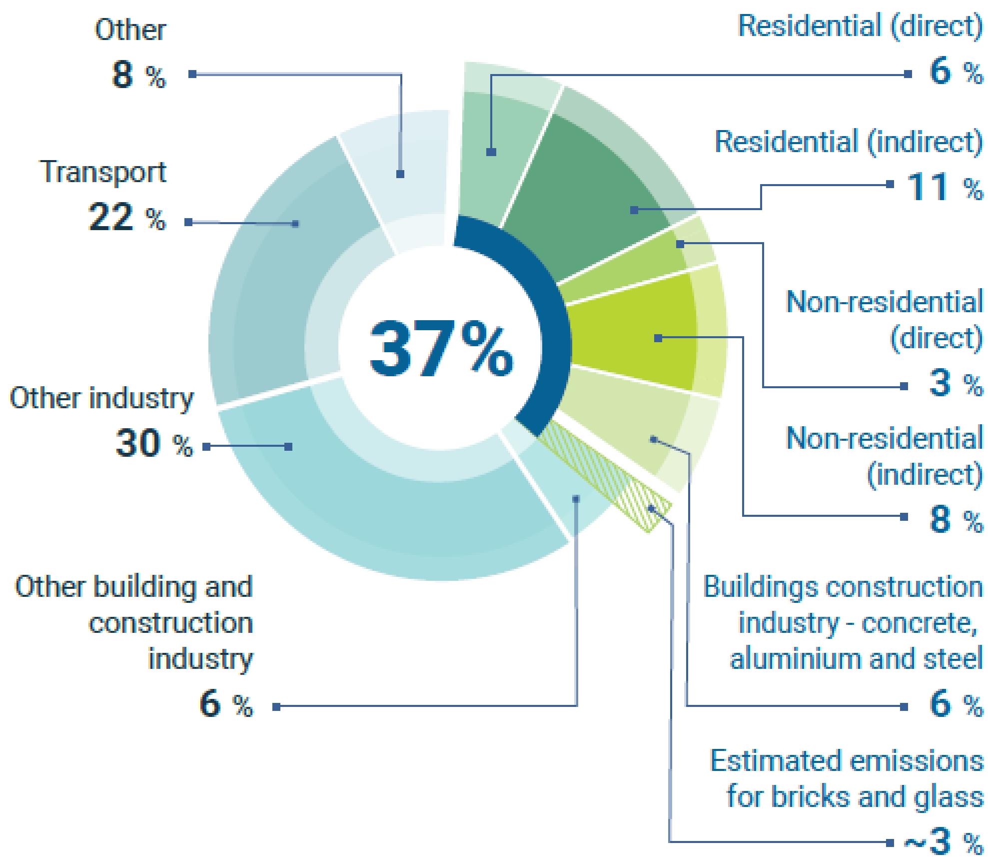
Source: Deloitte, "Five global shifts reshaping the world we live in", 2022

Climate Change & Green Transition

- Residential buildings account for a significant share of energy consumption and carbon emissions.
- Korea’s national strategy prioritizes green transition, with housing as a key sector.
- KHFC supports this through green mortgages and plans to issue covered bonds, channeling capital into energy-efficient housing projects.
- These instruments align with global ESG standards and contribute to climate resilience.

Housing is a major contributor to CO2 emissions

Housing accounts for 17% of total carbon emissions in 2021.

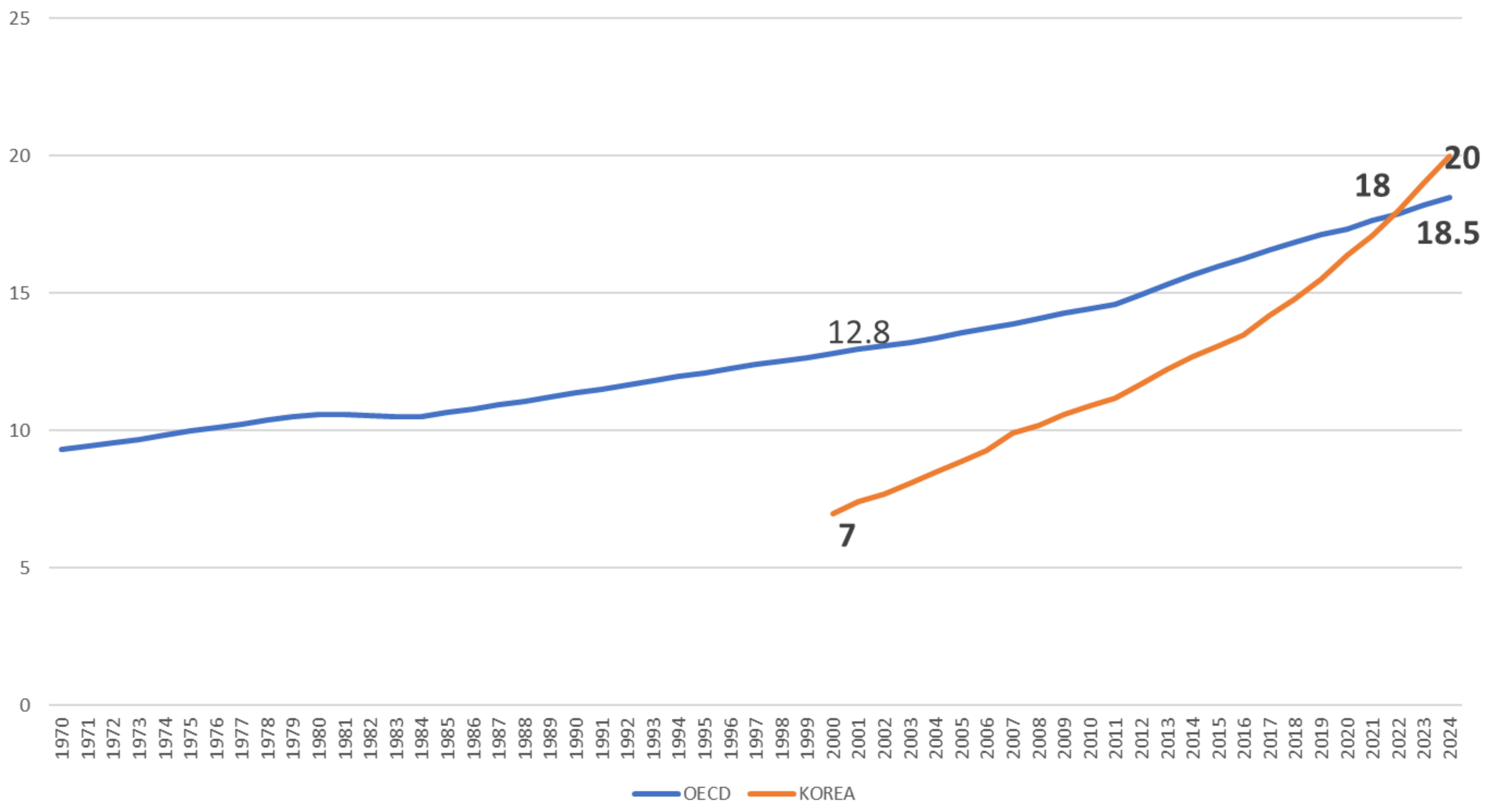


Source: UNEP, Accounting and reporting GHG emissions from real estate operations, 2022

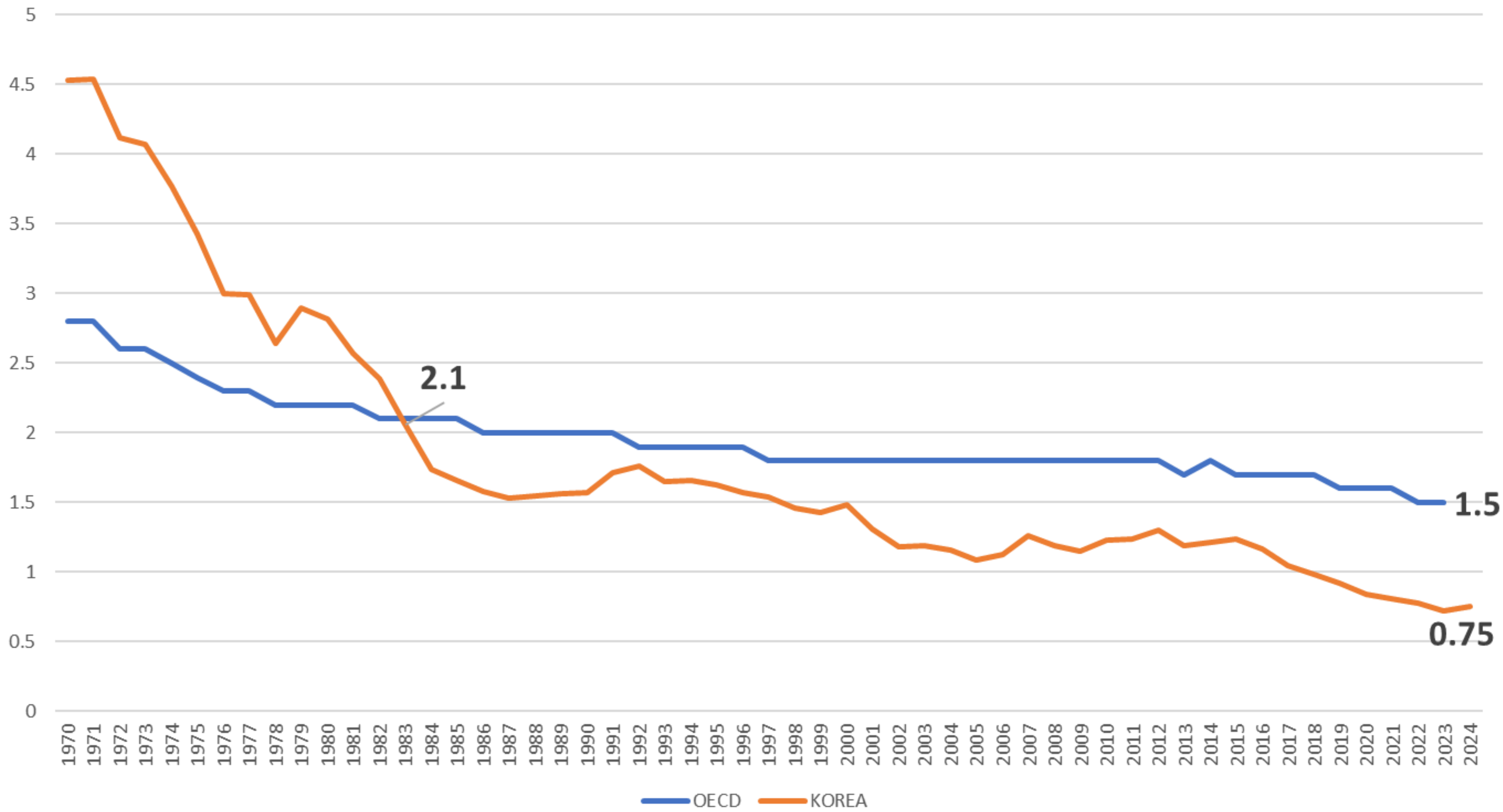
Aging Population & Social Inclusion

- Korea is one of the fastest-aging societies globally, with profound implications for housing markets and intergenerational housing equity.
- Younger generations face rising housing costs and find homeownership less achievable, while many older homeowners have inadequate income while their wealth is locked in their housing assets.
- KHFC's Home Pension program under government leadership allows seniors to convert home equity into retirement income, enabling them to attain financial security without having to leave their homes.
- This model may offer insights for other aging economies.

Population aging in OECD and Korea



Declining fertility rates in OECD and Korea

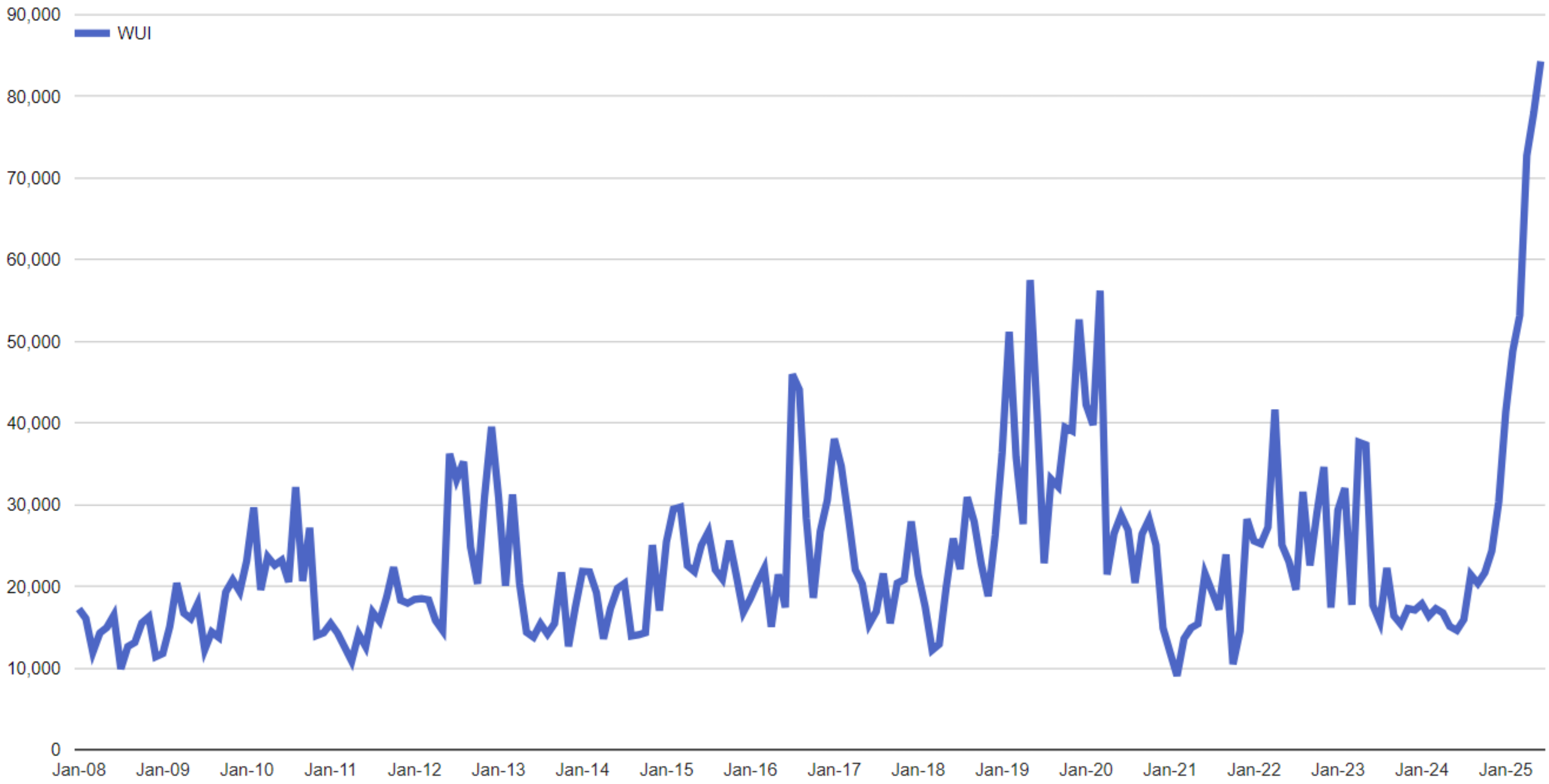


Geopolitical Fragmentation and Financial Volatility

- Geopolitical fragmentation is a source of growing uncertainties around the world.
- Geopolitical tensions can exacerbate interest rate fluctuations and create instability in housing finance markets.
- KHFC acts as a stabilizer through mortgage guarantees and MBS issuance, ensuring liquidity and access to credit in Korea.
- Korea’s experience during the Asian and global financial crises underscores the importance of proactive policy intervention.
- These lessons become increasingly relevant in today’s volatile environment.

Heightening Uncertainty

World Uncertainty Index Jan. 2008–June 2025



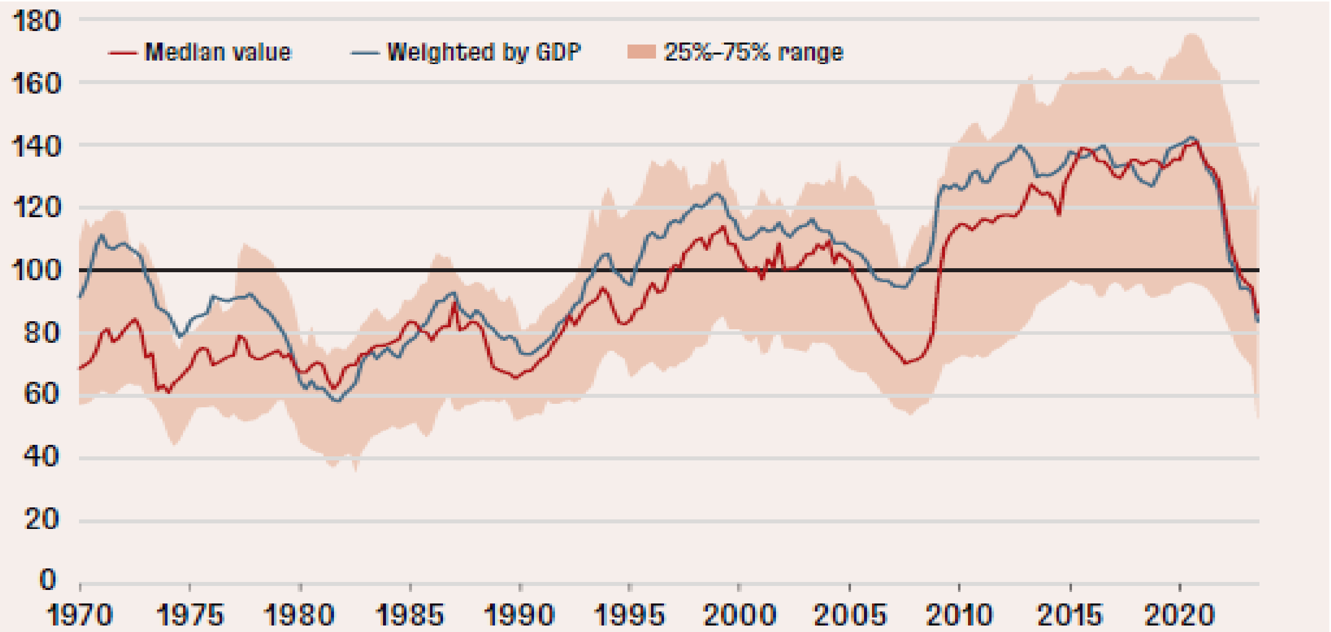
Home - World Uncertainty Index

Deteriorating Housing Affordability

- Housing affordability issue is a global one.
- The increase in housing prices outpaced income growth in many big cities.
- An important reason for inadequate supply of (affordable) housing and hence high and rising prices is land use and building regulations, creating a mismatch between demand and supply.
- It is important to make housing supply responsive to demand in order to make housing more affordable.
- If housing is too expensive compared with household income, increasing access to credit has little impact on making housing affordable.

Housing affordability crunch

The housing affordability index is the ratio of household income to household income needed to qualify for a typical mortgage for a typical house

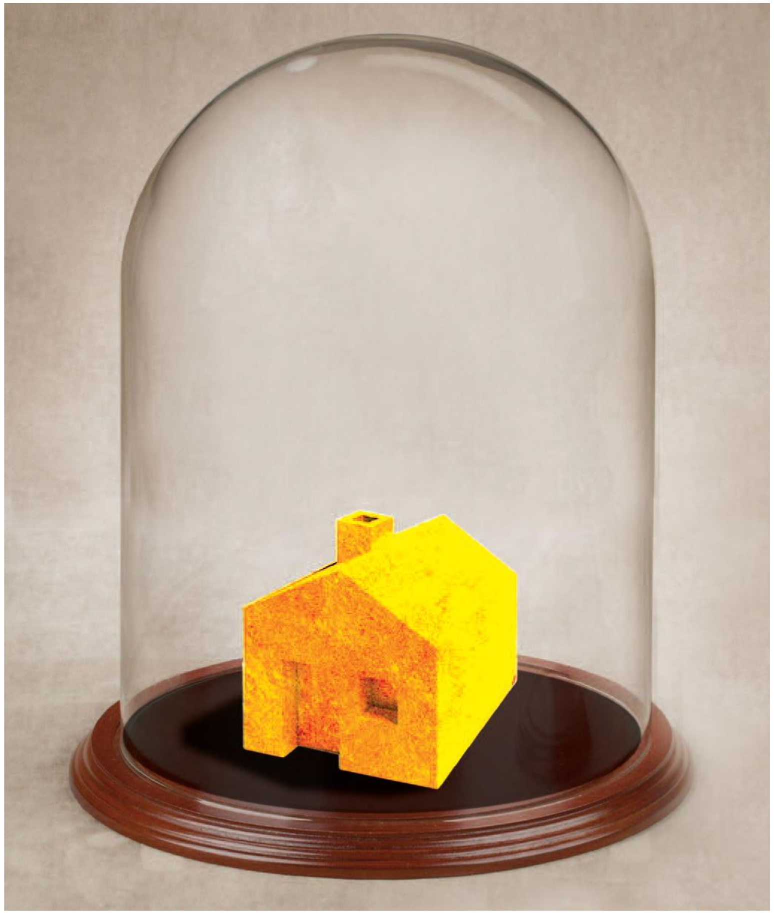


SOURCE: Biljanovska, Fu, and Igan 2023.
NOTE: The housing affordability index is the ratio of household income to household income needed to qualify for a typical mortgage for a typical house. A reading above 100 indicates that a household has more income than necessary for approval; readings below 100 signal less income than needed.

Source: Igan, Finance and Development, 2024

Turning houses into gold

Don't blame the foreigners: it's we Brits who turned houses into gold. The failure of British planning system. (Paul Cheshire)

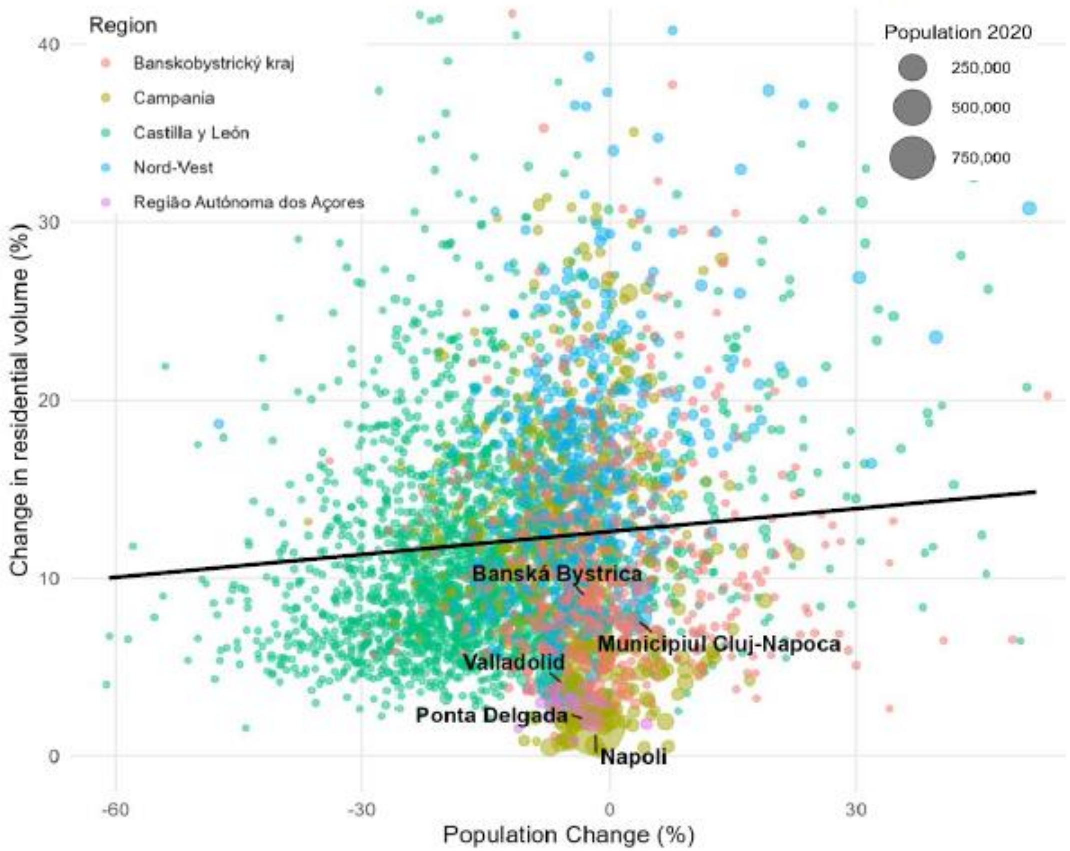


Source: Paul Cheshire, "Turning housing into gold: The failure of British planning system".2014

Land use inefficiency and housing mismatches

Housing is generally not built where needed most.

Population change versus change in residential volume in municipalities (%), 2010-2020



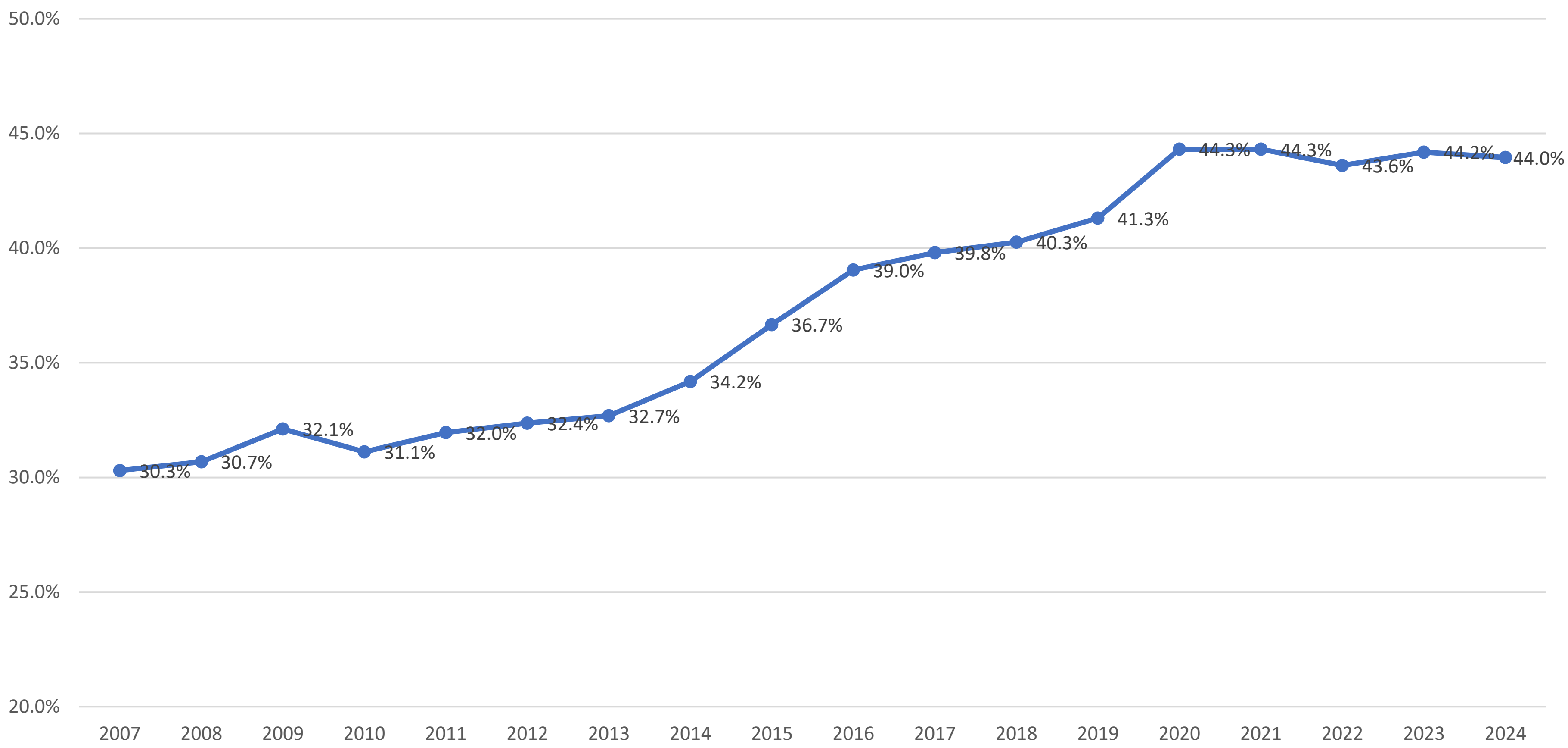
Source: OECD Local Data Portal

Source: OECD

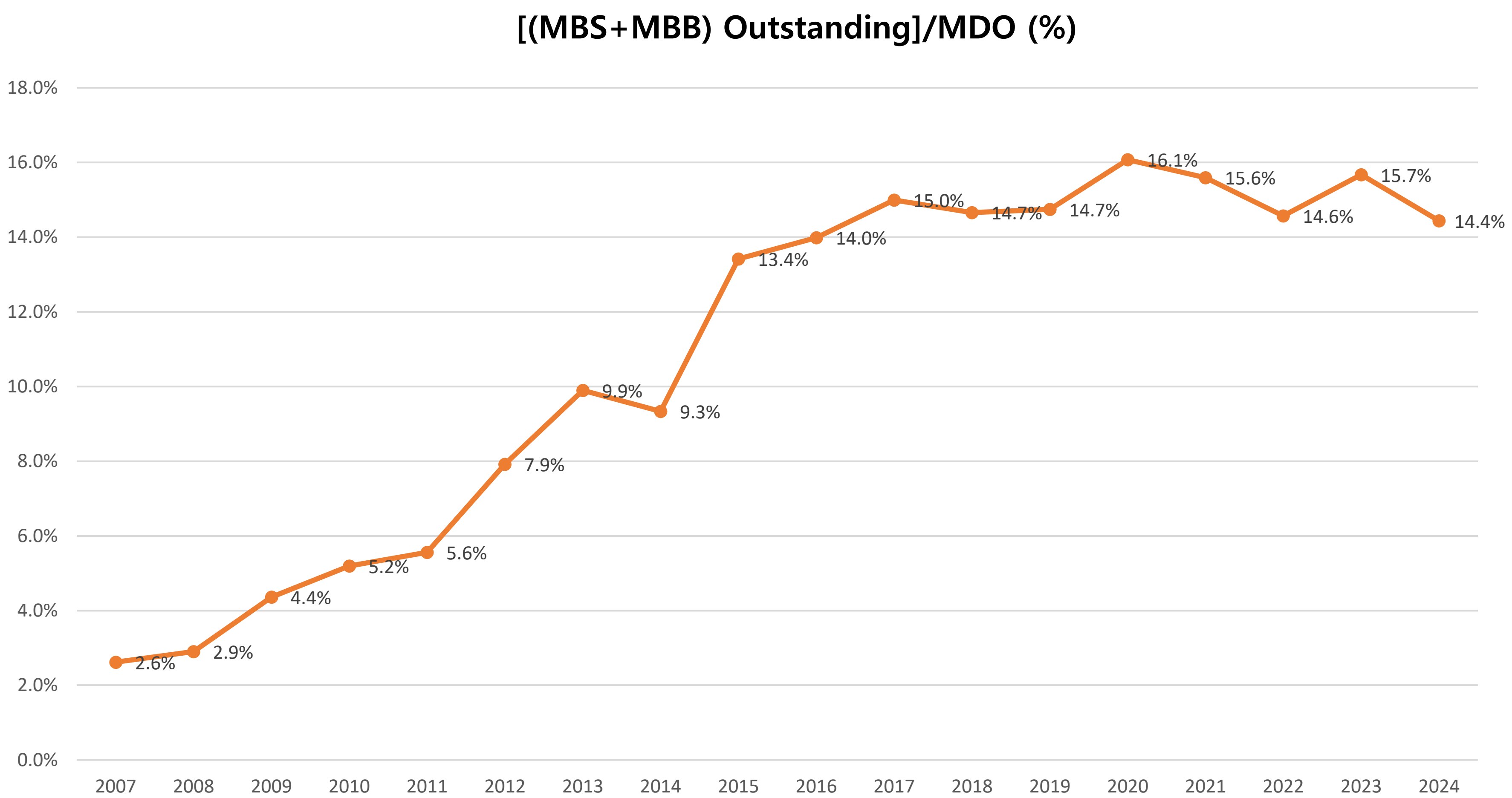
Mortgage markets in Korea and KHFC

- Residential mortgage markets took off following interest rate deregulation after the Asian Financial Crisis.
- Mortgage debt outstanding (MDO) to GDP ratio increased from 30% in 2007 to 44% in 2024, about the EU average.
- KHFC originates its own long-term fixed-rate fully amortizing mortgages through participating banks, and HF’s share in MDO is nearly 20%. It has played a pivotal role in transforming household debt structure from predominantly floating rate bullet loans to FRM.
- KHFC raises funds through securitization, issuing Mortgage-Backed Securities (MBS) in Korea and covered bonds overseas.
- The share of MDO securitized by MBS and covered bonds rose from 2.6% in 2007 to 14.4% in 2024, about the level of U.K.

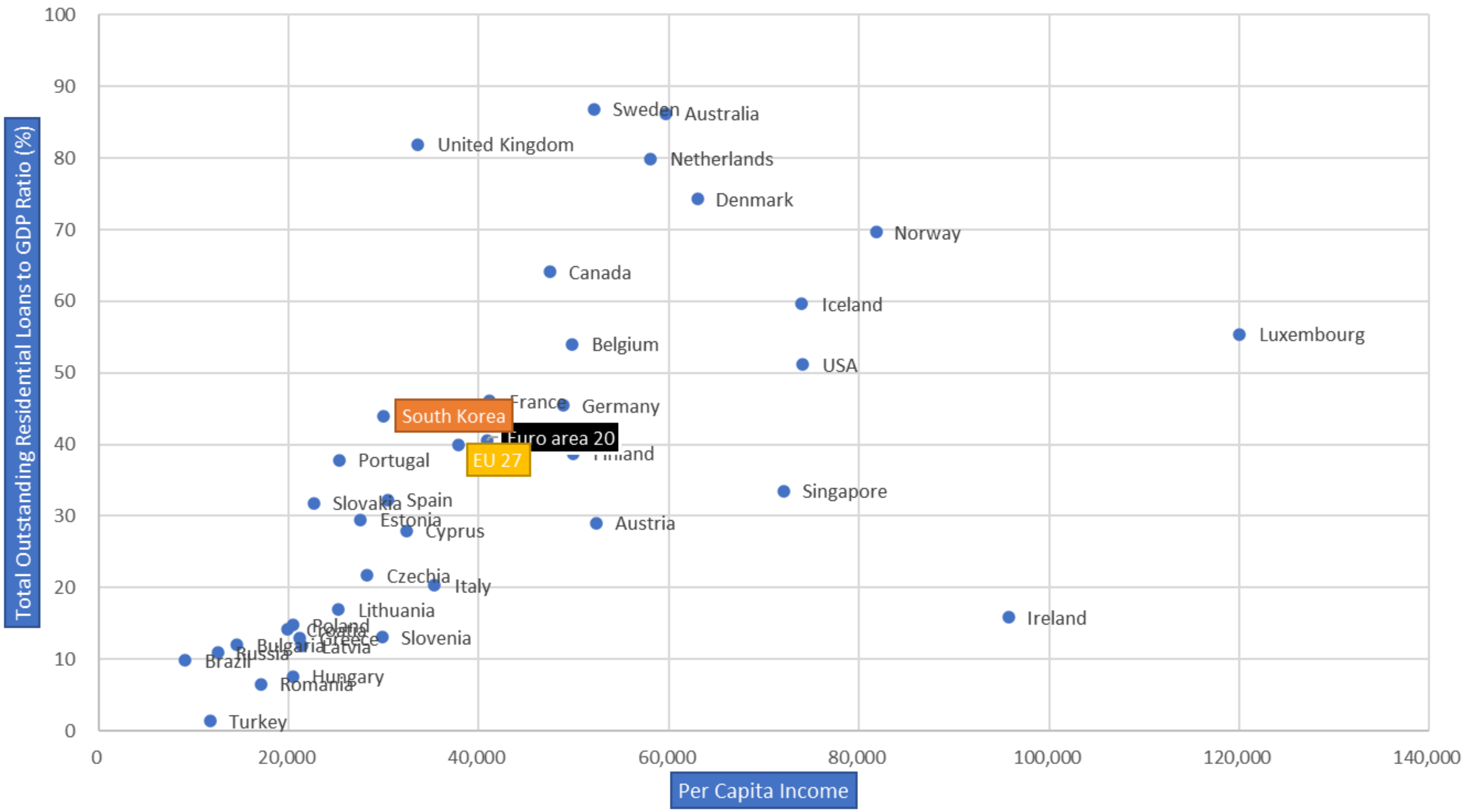
Growth of mortgage debt outstanding to GDP



Share of mortgage debt securitized

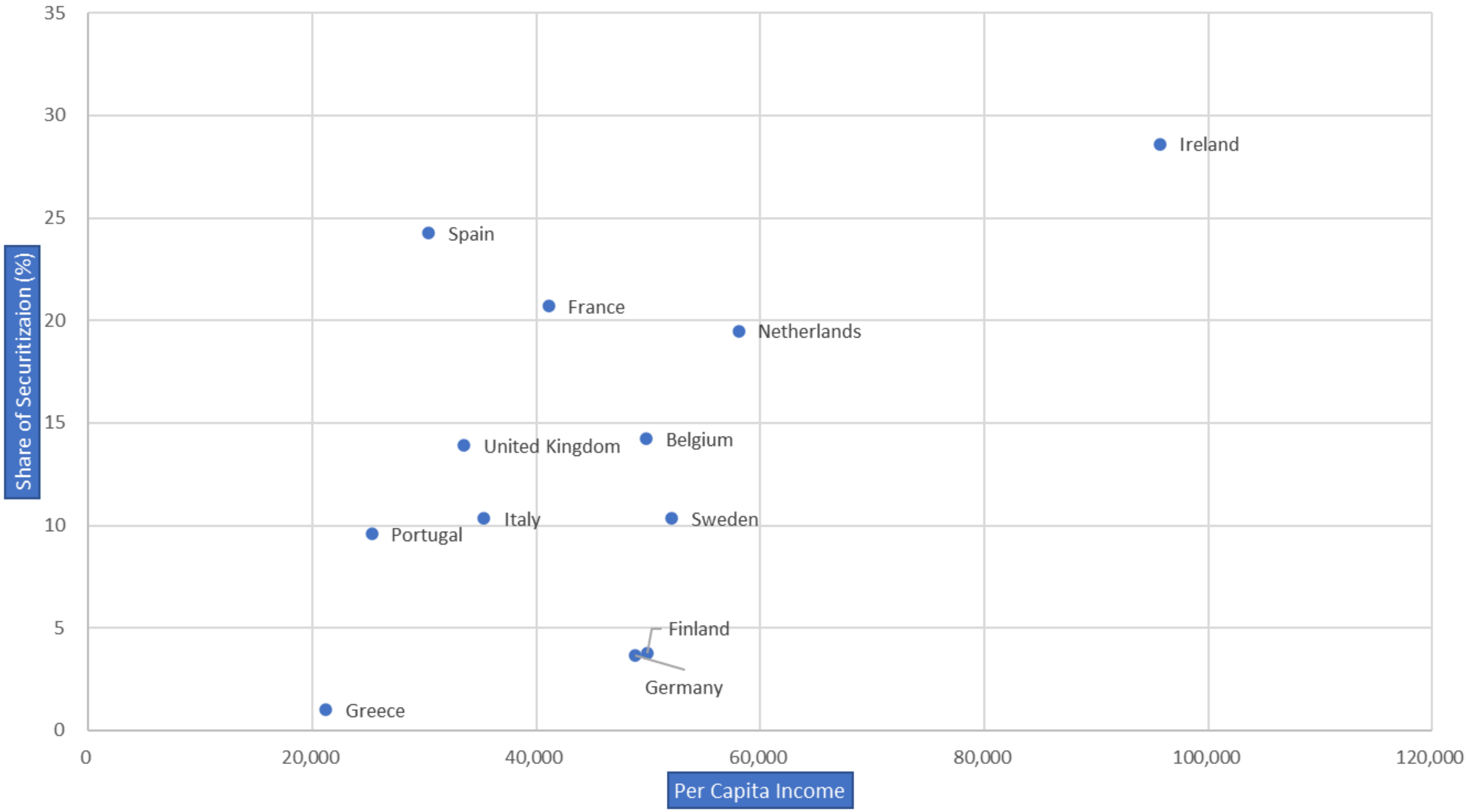


Housing loans outstanding to GDP



Source: Created from EMF data

Share of MDO securitized (2023)



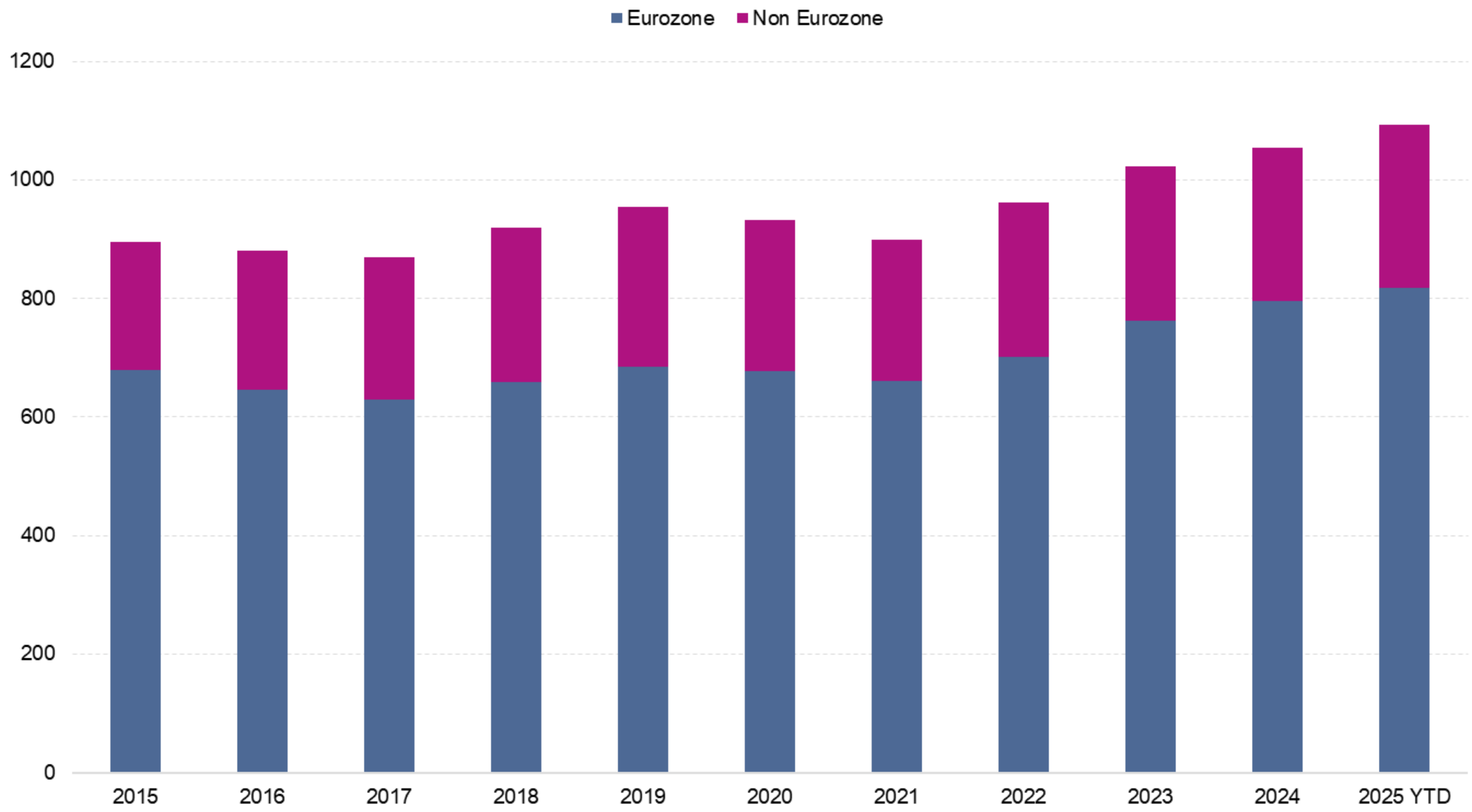
Source: Created from EMF data

Covered Bonds – A Global Solution

- Covered bonds offer a secure funding channel, bridging banks and capital markets.
- Their dual recourse structure enhances investor confidence and market resilience.
- Originating in Europe about 250 years ago, covered bonds have built a reputation as a high-quality liquid asset and proved their strength during the 2008 crisis.
- In 2010, KHFC has adopted the covered bond model to diversify funding sources to international capital markets and to strengthen Korea’s housing finance system.
- KHFC issued the first social covered bonds from Asia in 2018, and has become a significant non-European issuer in the European covered bond market. It is committed to expanding its operation.
- In this process, Korea has drawn on the standards, supervisory practices, and transparency framework accumulated in Europe to refine its own system and expand communication with investors.

EUR Benchmark Covered Bond Outstanding (in €bn)

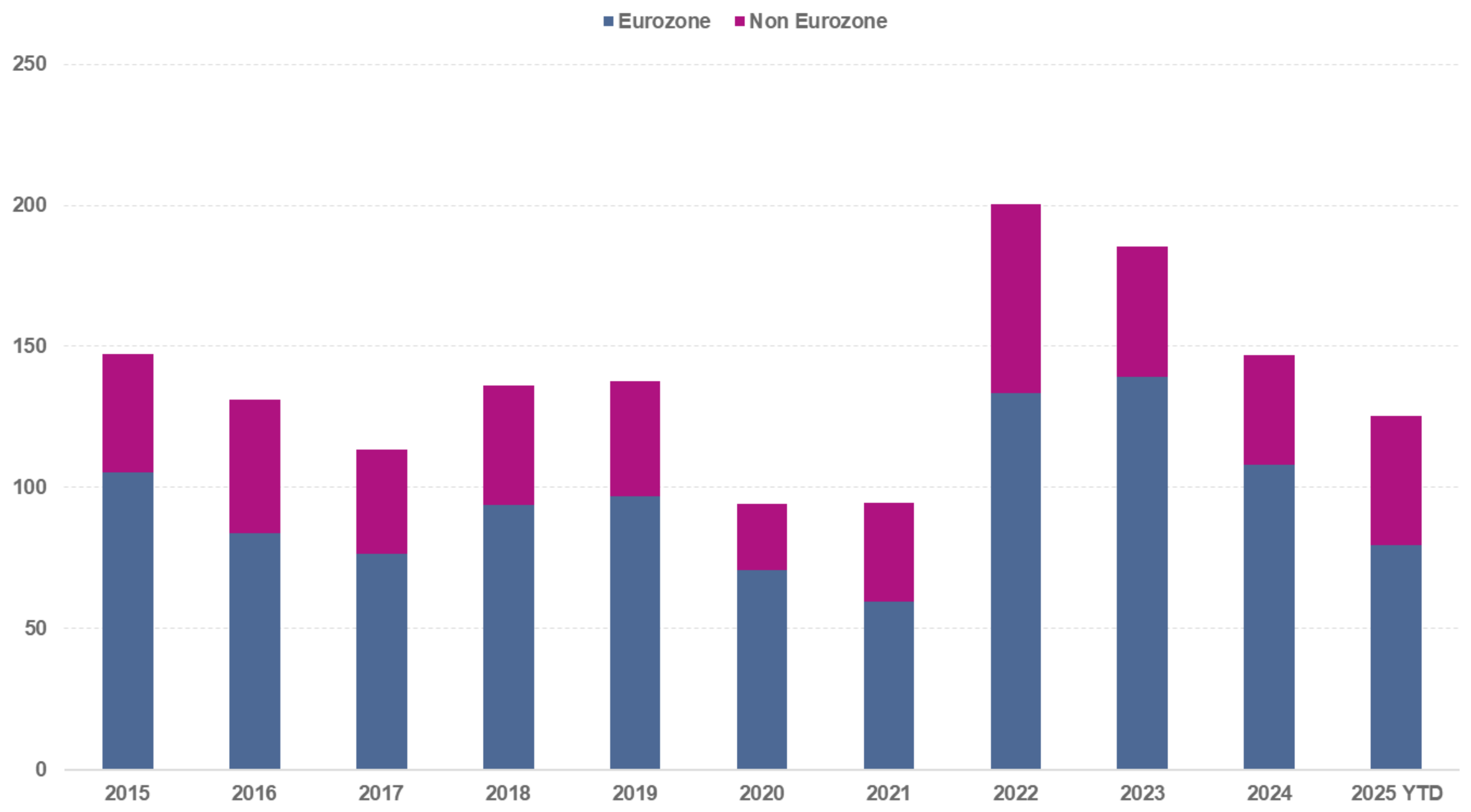
Bonds issued in Euro of 500 million and above , public transactions only



Source: Bloomberg

EUR Benchmark Covered Bond Issuance per year (in €bn)

Bonds issued in Euro of 500 million and above , public transactions only

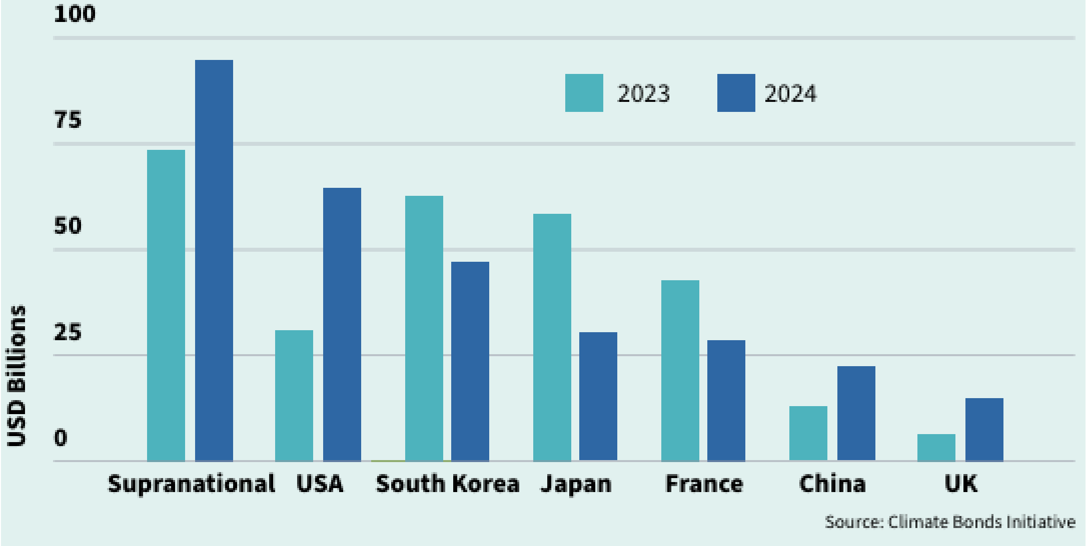


Source: Bloomberg

Social and Green Covered Bonds – A Strategic Tool

- KHFC has been an active issuer of social covered bonds in Europe, and recognized by several awards.
- Green covered bonds finance projects that meet environmental and energy efficiency criteria, such as energy-efficient housing and eco-friendly renovation, contribute to global sustainability efforts.
- KHFC is virtually the only lender of green mortgages in Korea and plans to issue green covered bonds.
- Our green mortgages have lower delinquency and prepayment rate and the underlying green homes operate on smaller energy bill.
- These bonds will support Korea's climate goals and attract ESG-focused investors.

Issuance of social and sustainability bonds



Climate-Bonds-Initiative_Global-State-of-the-Market-Report_May-2025.pdf

KHFC, a winner of sustainable debt awards 2025

The Need for International Cooperation

- The current housing finance challenges are global in nature—no country can tackle them alone.
- KHFC proposes three pillars for cooperation:
  - **Sustainable Finance:** Joint development of green instruments and standards
  - **Financial Stability:** Sharing risk mitigation strategies and regulatory best practices
  - **Knowledge Exchange:** Building networks for policy dialogue and innovation, ways to tap new technologies
- Collaboration is essential to build resilient and inclusive housing systems worldwide.

Advancing Sustainable Finance Together

- We need to take sustainable finance to scale.
- Harmonizing ESG standards and certification processes is key to scaling sustainable finance.
- KHFC aligns its green bond framework with international guidelines, including ICMA and EU taxonomy.
- By working together, institutions can unlock capital for climate-smart housing and demonstrate global solidarity.
- Sustainable finance is not just a technical issue but also a moral imperative.

Strengthening Financial Stability

- Global financial stability requires coordinated action across borders as national capital markets become more connected.
- A stable housing finance system is foundational to economic and social well-being.
- ECBC and regulatory bodies play a vital role in promoting transparency and resilience of the secondary mortgage markets.
- KHFC's experience with guarantees and MBS might shed light on drawing a blueprint for market stabilization.

Promoting Knowledge Exchange

- KHFC aims at strengthening partnerships and collaboration with housing finance institutions in the U.S. and Europe as well as international organizations.
- We signed an MOU with EMF-ECBC in February 2025.
- These partnerships facilitate the sharing of data, policy insights, and technical expertise.
- KHFC invites ECBC and its members to deepen collaboration through joint research, training, and pilot projects.
- Together, we can build a smarter, more inclusive housing finance ecosystem.

Concluding Remarks

- Housing finance must evolve to meet the needs of both the current and the future generations—affordable, sustainable, and inclusive housing.
- KHFC is committed to balancing domestic responsibility with global engagement, as a humble learner, steadily improving alignment with international standards, and a transparent partner sharing its experiences with the global community.
- We stand ready to work with partners and stakeholders to build a cooperative framework for resilient housing finance.
- Let’s turn global challenges into shared solutions.
- Seville is an ideal place to reconfirm our commitment to joint endeavor, navigating the great transition together.