



The proposed model financial instrument combined with grant for Housing

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Stepping up financing investments in affordable housing

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Cohesion policy context





What is new?

The aim of the Model Instrument is to provide MAs with a toolkit to adapt to their needs and situation and help them to achieve the doubling of cohesion policy funds invested in housing, also by mobilizing and combining with EIB and NPBI resources.

- The main objective of the model instrument is to support investments for affordable housing by **mobilising additional public and private resources**
- Affordable and sustainable housing usually requires some form of **public support** to **primarily ensure affordability** for end beneficiaries and long-term financing needs to match housing units' duration.
- **Combinations of grants and repayable forms of finance – debt, guarantees, equity, quasi-equity** have been used in some MS to finance this sector so far and these can be **replicated and scaled up using EU Funds and EIBG financing** under the model instruments.
- Given the heterogeneity of the market across the EU, in terms of how housing is delivered, regulated, and funded, **the model instrument intends to propose a number of financing combination options that can be further tailored** as needed to the specific situation in Member States.



EU Cohesion Policy Funds Programme Contribution

EC will propose to *'inject liquidity into the market by allowing Member States to double the planned cohesion policy investments in affordable housing'*.

Member States may need to amend their existing programmes to allocate resources to support affordable housing.

The EU funding component for affordable housing is expected to be made available within the framework of :

- the regional, national programmes co-financed by the **European Regional Development Fund (ERDF)**. The investments will follow the CPR rules.
- other EU funds sources such as **Invest EU Member State compartment** for instance. The investments will follow the eligibility rules of the respective programs.



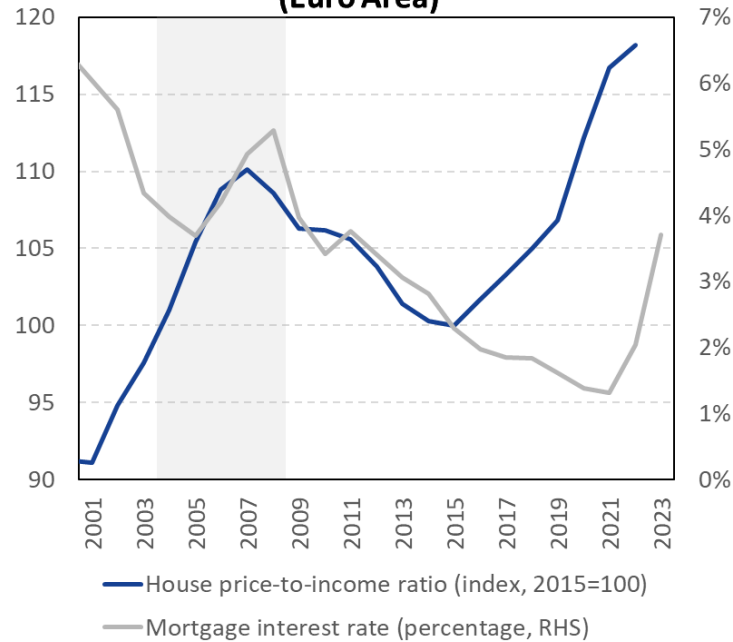
Affordable housing market failures and investment needs



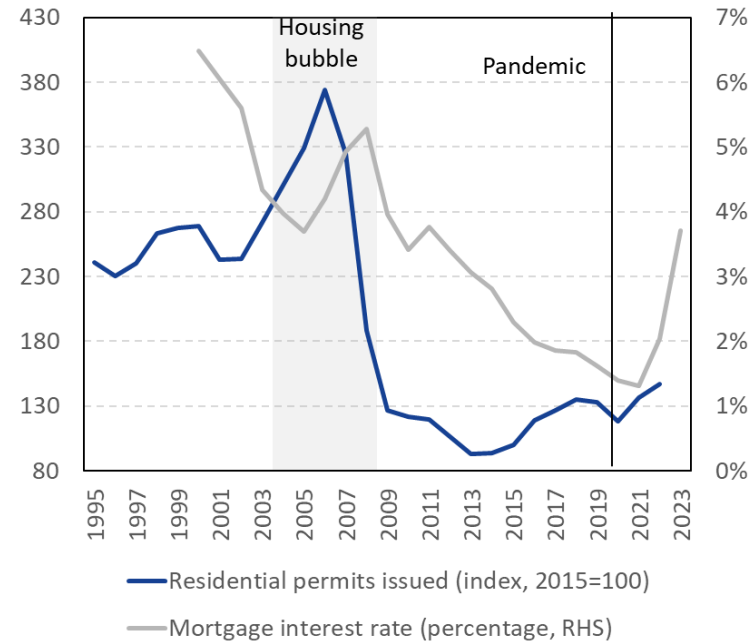


The housing crisis

House price-to-income ratio and mortgage rates (Euro Area)



Construction permits and mortgage rates (Euro Area)



→ the increasing gap between housing costs and incomes has an adverse impact on the functioning of the labour market and undermines competitiveness of the economy.

→ In addition to affecting labour mobility, the current housing crisis also affects the right to stay where housing is inadequate.

Source: OECD, ECB, FRED. Notes: Mortgage interest rate as of end of the corresponding year. Last year available is 2022 for the house price-to-index ratio and permits. Residential permits issued refers to permits issued for the construction of dwellings and residential buildings for Euro Area (19 Countries).



The affordable housing market

The housing market in EU MS is characterized by a **rigid supply curve**, meaning that change in demand usually results in substantial change in price and little change in volume.

Regulatory and public intervention therefore need to **focus on housing supply**.

Affordable housing, particularly new build, is characterised by significant development costs but with a longer-term economic life of the assets.

In terms of financing, it therefore **usually requires some form of up-front public support** to moderate the ultimate costs for the target populations as well as longer term financing needs to match the economic life of the housing units.



Strong potential for FIs to play a role as part of the MS toolkit of interventions





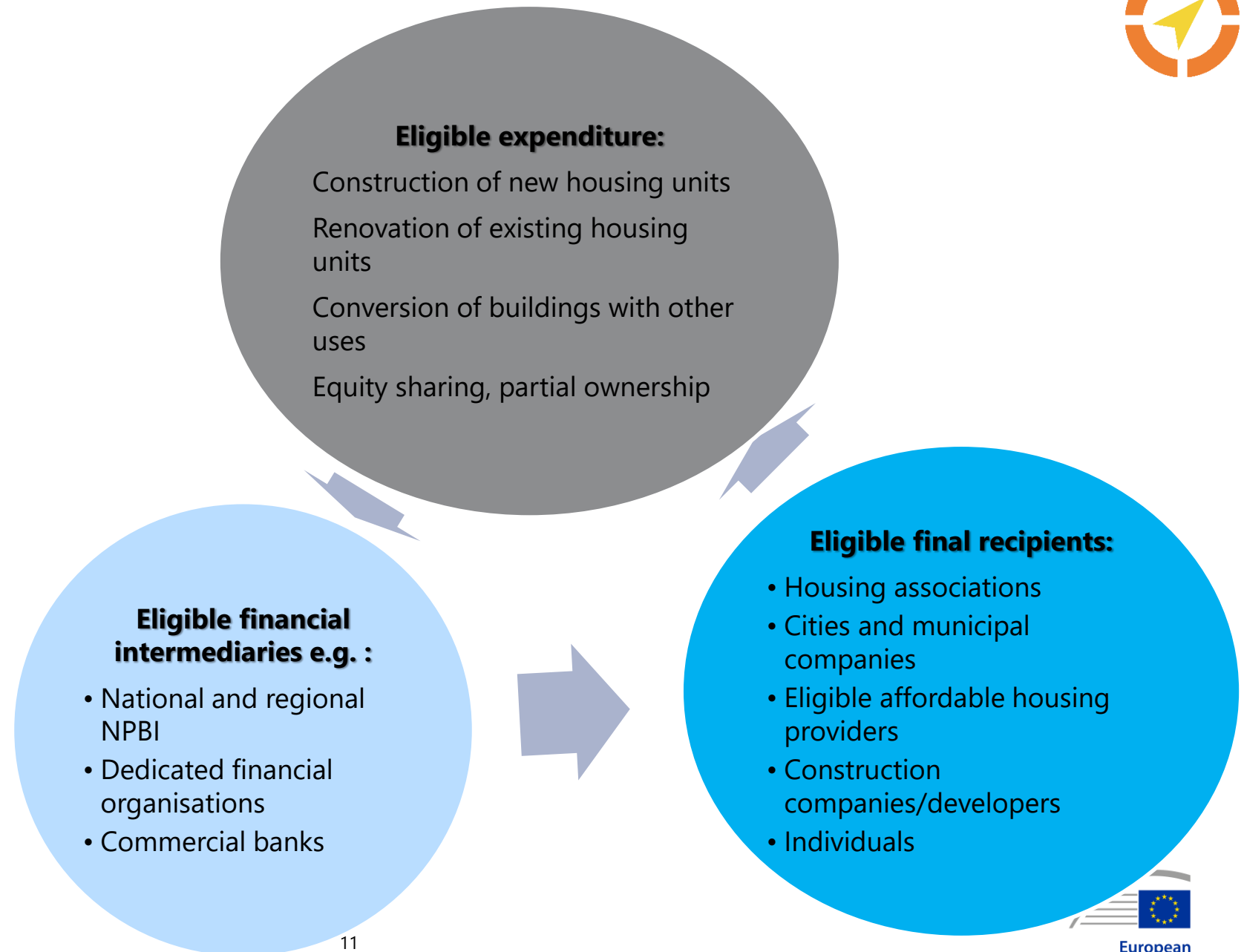
Eligibility rules





Eligibility and scope

- The model is flexible and does not attempt to serve one definition or give preference.
- For the time being the eligibility is guided by the current Regulation and the EIB eligibilities, aiming at maximum alignment between the both. Both may change over time in response to policy evolution.
- Future State aid framework will also impact abovementioned eligibilities.





Eligibility and scope

- A **minimum regulatory framework** should be in place to confirm the above conditions – this may be a **national policy** or regulatory framework; a **Strategic Local Plan** for Affordable and Sustainable Housing or equivalent **Sustainable Urban Development (SUD) Strategy**; or a **suitable governance framework** (eg. via a service contract, housing company governance or through the investment criteria of the FI itself).
- A **transparent fair and inclusive allocation mechanism** shall be in place for the allocation of affordable housing units to households. This would typically take account of income levels, disability, migration status, key workers etc. depending on **locally established needs and priorities**.
- **Final recipients:** citizens who, due to income or social constraints, are unable to secure housing at market condition or housing providers which provide housing to this group of citizens. The specific characteristics of the final recipients shall be defined at the level of the specific financial instrument and take account of local market context.
- Housing should be suitably located to **avoid urban sprawl** and provide proximity to local services, as **part of a suitable approved urban plan**.

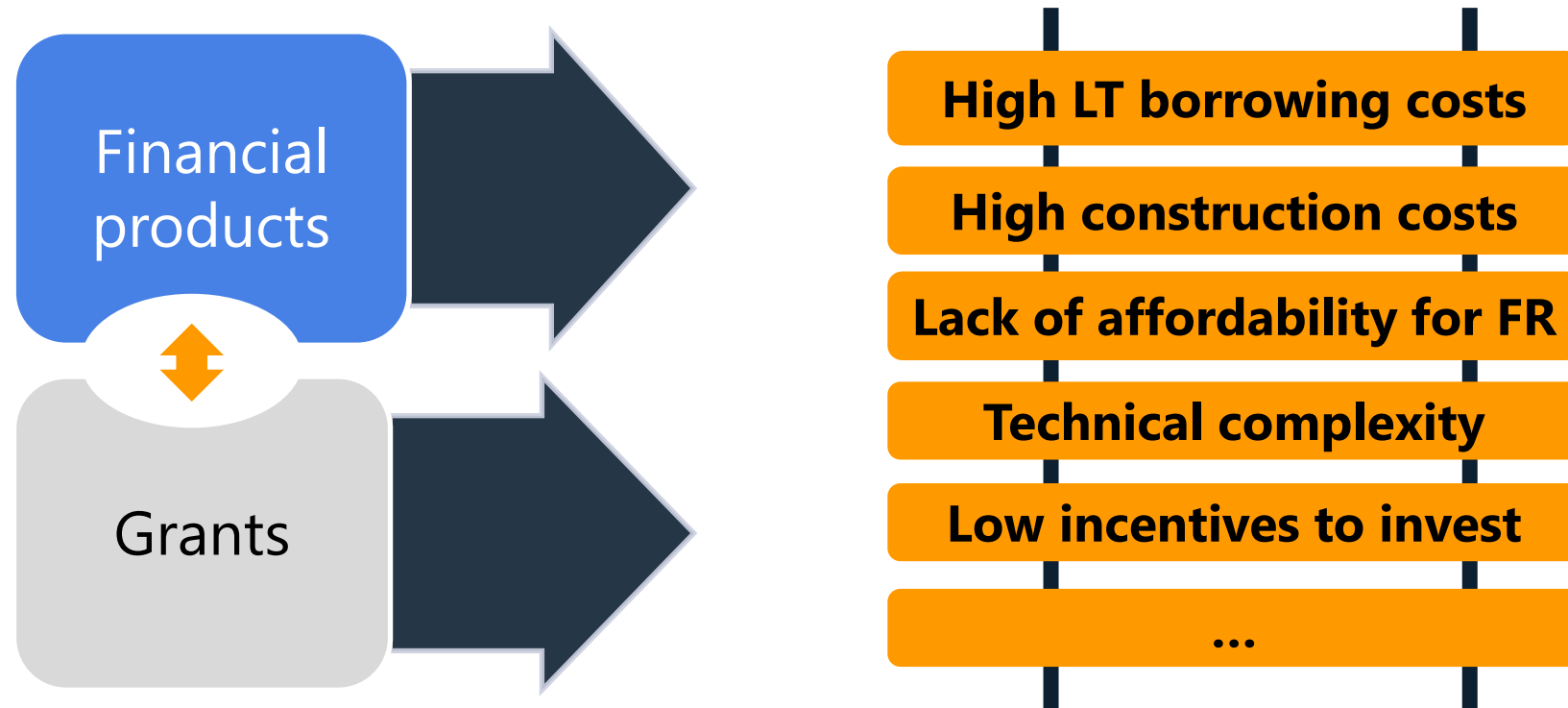


Financing options and delivery modes





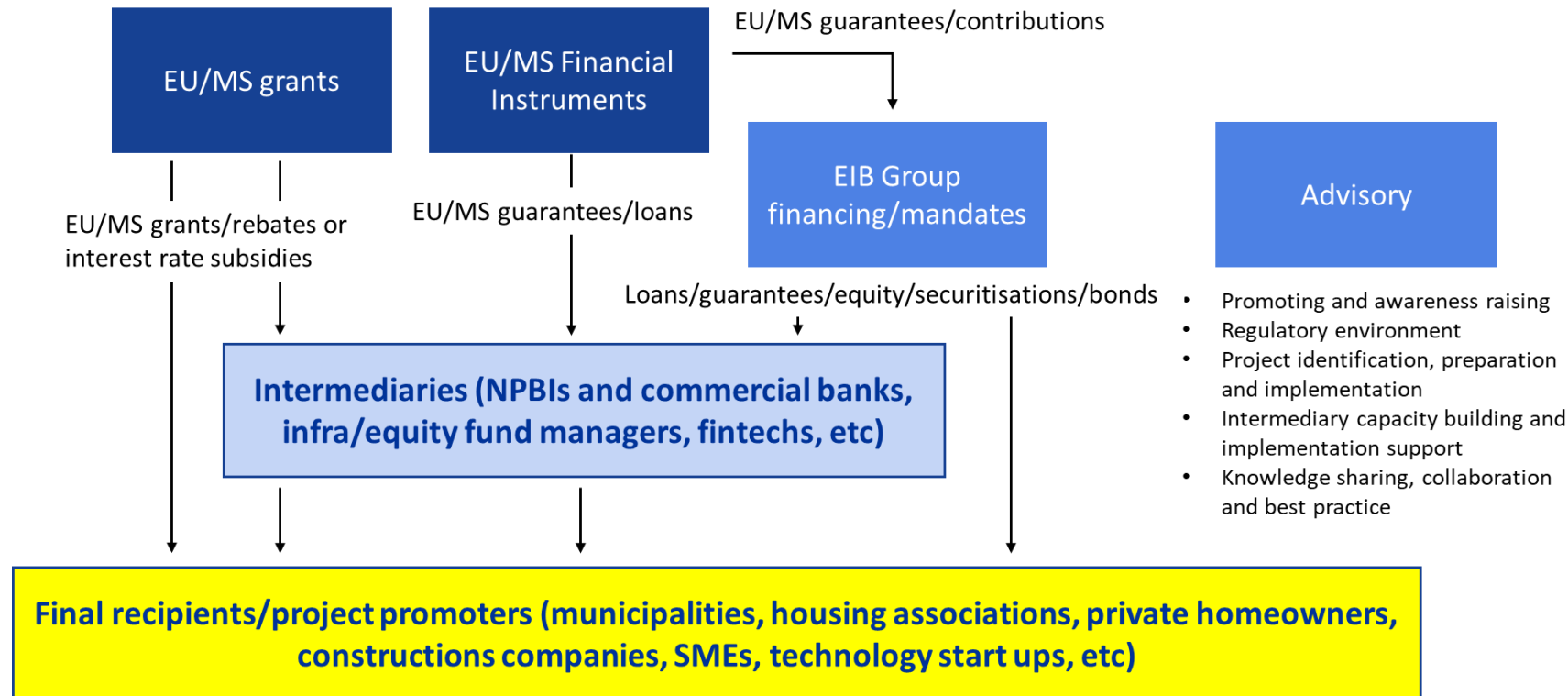
The rationale for combining financial instruments and non repayable assistance to address market challenges and barriers





Affordable housing financing systems vary across MS but they generally rely on some form of public support

Given the heterogeneity of the market across the EU, in terms of how affordable housing is delivered, regulated, and funded, a number of financing combination options are proposed and can be further tailored as needed to the specific situation in the Member States.





Financial products and grants' indicative typology

(Very) long term loans

LT loans are key to finance affordable housing assets given the latter long economic life. They may come with a grace period, low interest rates and collateral requirements to reduce the weight of debt servicing costs over project. Debt maturity may be over 30 years.

Guarantees

Guarantees can incentivise private lending with lower interest rates and collateral requirements and (much) longer tenors (20 years+). Lenders may specifically require guarantees in particular when borrowers have a limited liability company legal form and/or are subject to liquidation proceedings or to compensate for mortgages.

Subordinated loans

Subordinated debt can be used to provide patient capital to support construction activities. It can play a risk layered / equity like function and thus enable an easier access to senior debt financing.

Equity

Depending on the entity's legal status, own funds may be provided in different forms, i.e. corporate shares or specific participation arrangements. Provides stable and patient capital thus enabling LT borrowing and new projects development.



Financial products and grants' indicative typology

Interest rate / guarantee fee subsidy

These grants may be used to make LT financing available / affordable. This is key for affordable housing assets, which report by nature long term economic life and need to match it with adequate financing tenors with low interest rates.

Investment grant

This type of grant can cover development/construction costs, fund viability gaps and reduce ultimate rent levels.

Capital rebate

Capital rebates can be used to incentivize project timely completion and/or to certain performance level, while covering part of the investment costs.

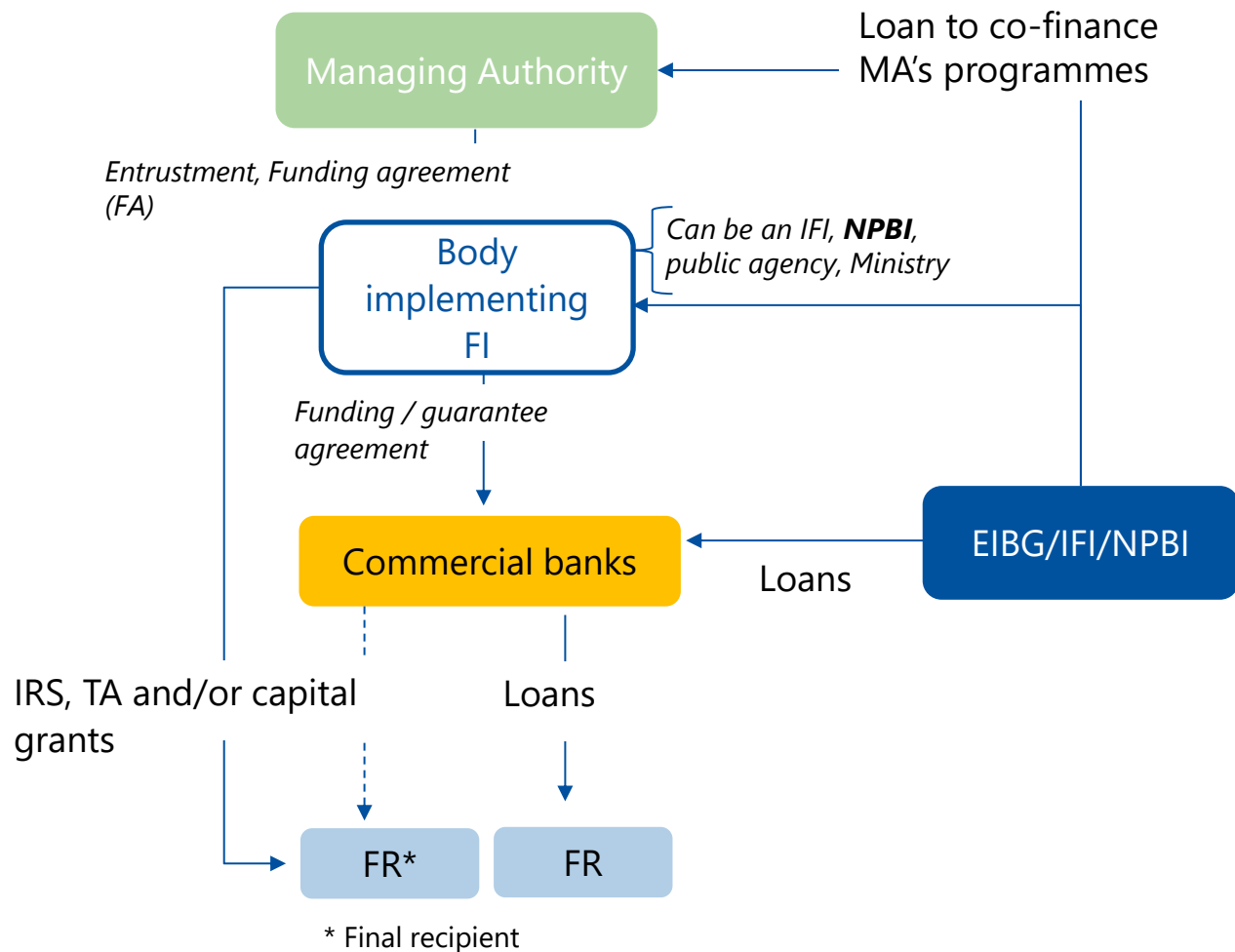
Technical support subsidy

This type of grant can be used to finance projects' design and preparation. This support may be key in projects employing innovative construction technologies



Option 1

Financial Instrument combined with grants in one operation



Financial Instrument combined with grants in one operation (Art. 58.5 CPR)

FI and grants provided by the body implementing the FI under FI rules

Depending on local needs, capital grants, rebates, IRS and/or technical support subsidies (directly link and necessary to FI)

Co-financing provided at MA, HF, Fint and/or final recipient levels



Option 1

Financial Instrument combined with grants in one operation

Market failures/local

- Lack of market supply of finance for (smaller scale) affordable housing projects
- Needs for combined financing to develop solid pipeline of projects to increase housing supply
- Existing ERDF resources to be (re)programmed ; though the model is valid for other sources of public funds
- Existing NPBI or IFI willing to play a Holding Fund or specific Fund manager role
- NPBI and/or Banks willing to manage grants

Pros

- + e.g., provides grants in combination with repayable support under FI rules
- + offers a one stop shop to project promoters
- + Programme resources may - primarily or exclusively - be used for the grant component of the combined FI
- + IFI can provide funding to leverage the FI, in particular at intermediary level

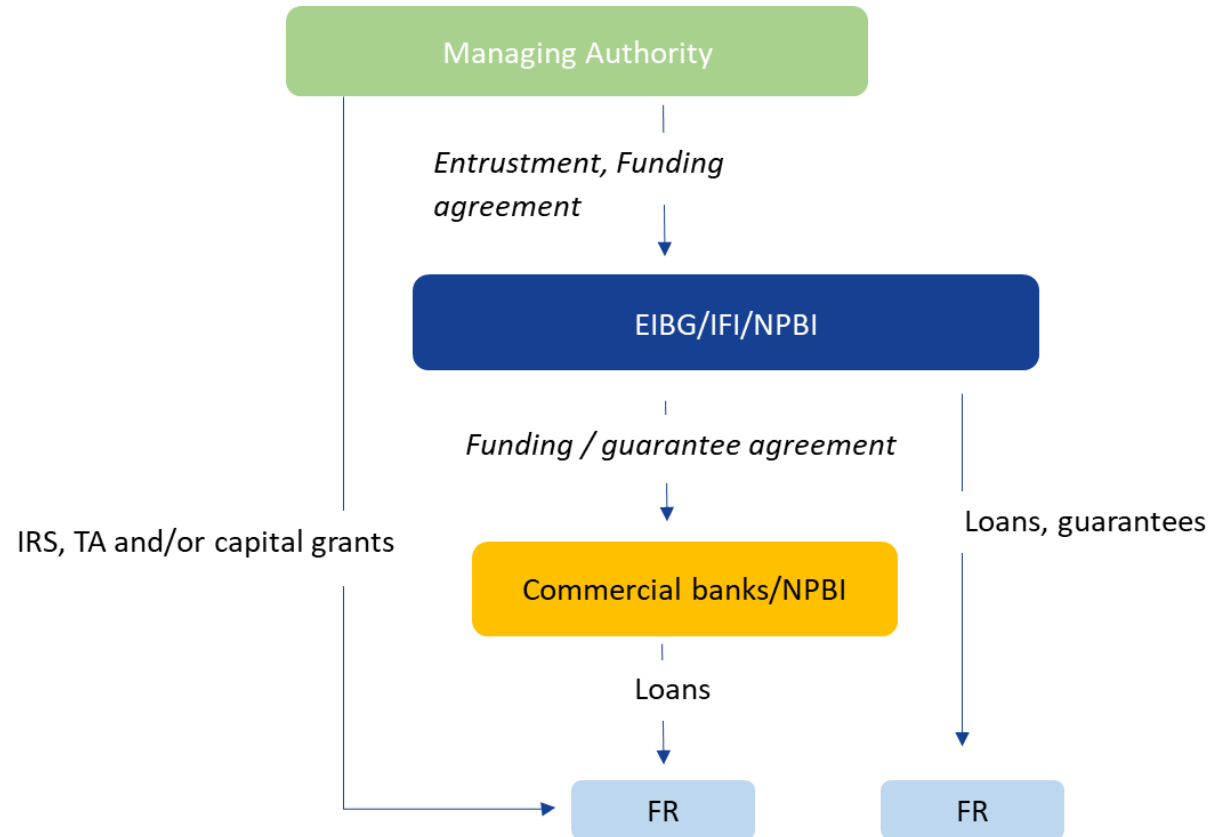
Cons

- Grants shall remain on average lower than the amount of investments supported by the financial product
- Public / private banks need to manage grants



Option 2

Financial Instrument combined with grants in two operations



Financial Instrument combined with grants in two separate operations (Art. 58.4 CPR)

FI and grants managed separately by MA and the body implementing the FI

Depending on local needs, capital grants, IRS and/or technical support subsidies (no capital rebate feasible)

Co-financing of the FI provided at MA, HF, Fint and/or final recipient levels

Structures designed for ERDF support but valid for all forms of EU/national funding and can be tailored to individual MS/regional needs



Option 2

Financial Instrument combined with grants in two operations

Market failures/local

- Lack of market supply of finance for affordable housing projects
- Larger scale housing investment projects, with grant needs that can be addressed via specific grant calls
- Needs for grants possibly above 50% of investment costs
- Existing ERDF resources to be (re)programmed; though the model is valid for other sources of public funds
- No NPBI/bank willing to manage grants

Pros

- + less constraints on grant amounts vs. FI, (provided no double-financing of investments)

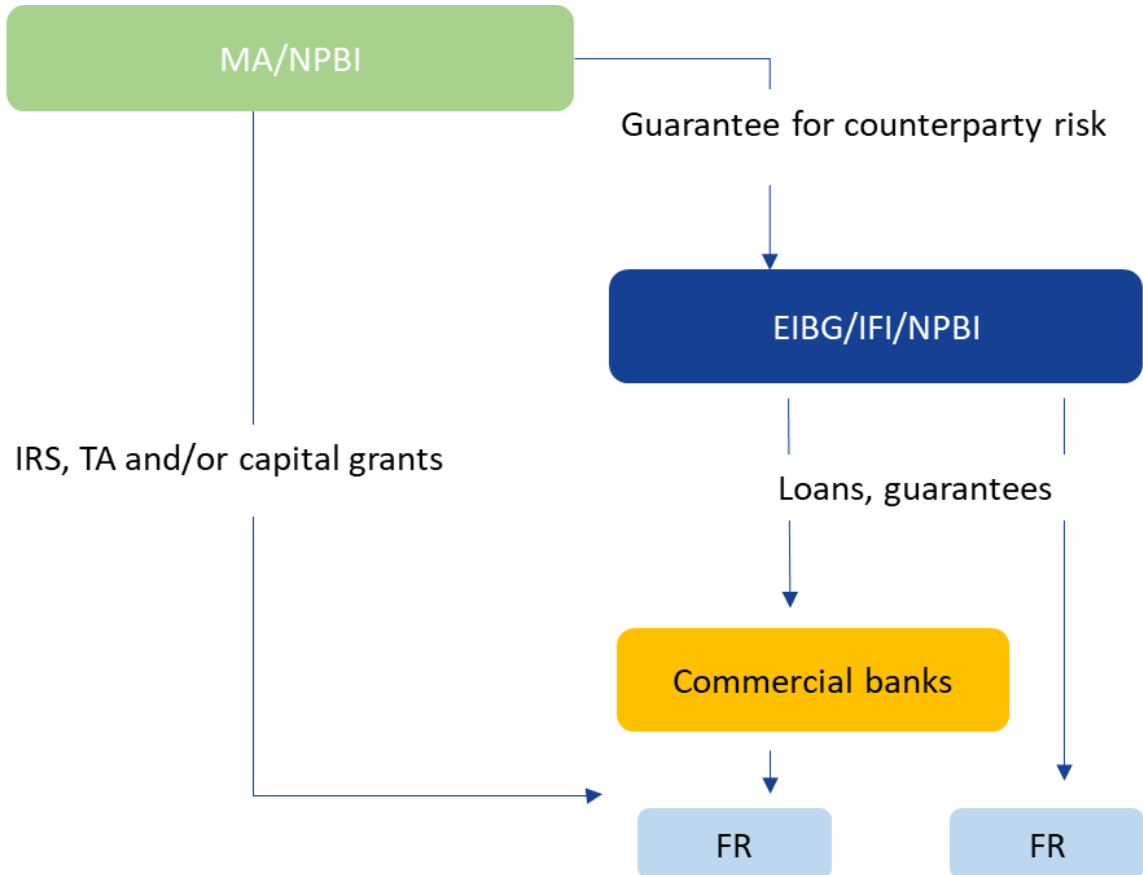
Cons

- More complicated customer journey
- Final beneficiaries need to apply separately to (i) the banks for FI support and (ii) to grant calls by MA
- Need for strong coordination of grants and FI process and timing
- Two different sets of rules apply



Option 3

Guarantee instrument combined with grants and IFI/NBPI funding



EU central / SMF guarantee FI

Grants provided separately by MA

Combination of the grants and loans at final beneficiary level for the same affordable housing investment projects

Final recipients are eligible to grants in case they borrow from EIB/IFI NPBI directly or via financial intermediaries



Option 3

Guarantee instrument combined with grants and IFI/NBPI funding

Market failures/local

- Need for improved market financing conditions of affordable housing investments
- Need for guarantee for IFI / NBPI to address nascent sector / risky projects & borrowers / specific financing conditions (no collateral, very long tenors...)
- Both for smaller scale projects financed via financial intermediaries or larger scale projects financed directly by IFI/NBPI

Pros

- + relies on existing lending capacity of IFI/NBPI, which can improve lending conditions/support new/riskier projects thanks to the guarantee
- + leverage effect
- + if EU central instrument, State aid consistency may be ensured
- + grant available only to repayable financing final recipients
- + less constraint on grant amounts vs. FI

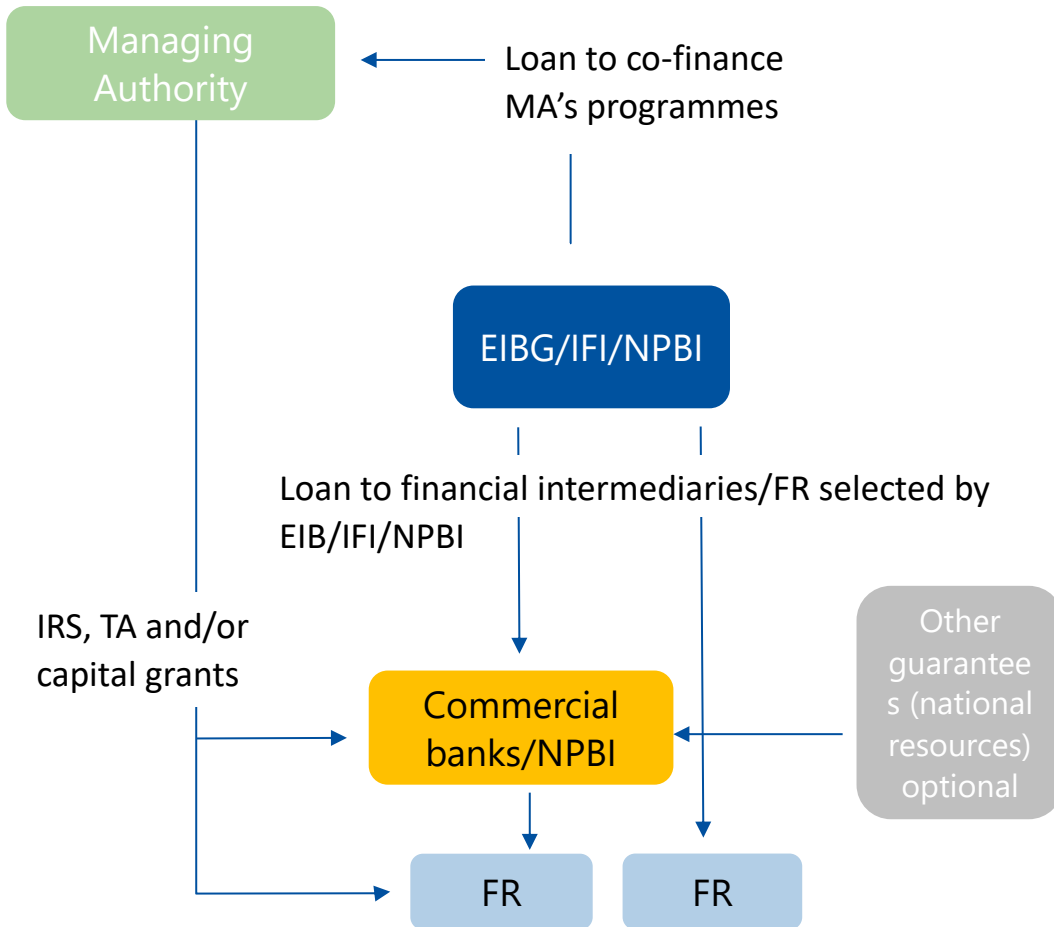
Cons

- Need for strong coordination of grants and FI process and timing
- Two different sets of rules apply to grants and repayable financing



Option 4

Combination of grants and IFI/NPBI funding



Non-financial instrument option

Repayable financing provided by EIB/IFI/NPBI, who also selects financial intermediaries/final recipients

Grants provided separately by MA

Final beneficiaries will be eligible for the MA grant programmes under the condition that they also borrow from EIBG, IFIs and/or NPBIs (or intermediary banks financed by them).



Option 4

Combination of grants and IFI/NPBI funding

Market failures/local

- Needs for to enhance market financing conditions of affordable housing investments with non-repayable support
- MA with limited resources available and/or with little experience with FI
- Existing IFI/NPBI financing offer to affordable housing
- Both for smaller scale projects financed via financial intermediaries or larger scale projects financed directly by IFI/NPBI

Pros

- + relies on existing lending capacity of IFI/NPBI –
- + grant available only to repayable financing final recipients
- + less constraint on grant amounts vs. FI

Cons

- Need for strong coordination of grants and FI process and timing
- Two different sets of rules apply to grants and repayable financing



Conditions for implementation





Conditions for implementation

- Activities / reflections currently ongoing:
 - Market study to identify investment needs and barriers in MS
 - Clarification of eligibility rules for ERDF/other EU Funds
 - Reflections on revised State aid approach (DG COMP)
 - Fi-compass support to set up and design of FIs (through MSS support)
 - Enhanced coordination/combination with grants



What do MS/MA need to allocate more of their Cohesion funding and increase the supply of affordable housing?





Thank you!

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