

OPTIMAL USE OF PRIVATE FINANCE FOR SOCIAL AND AFFORDABLE HOUSING



The “private” financiers’ model of
public housing: MuniFin in Finland



1. Overview and context



MuniFin (*Municipality Finance Plc*) is Finland's leading provider of financial services to the municipal sector, wellbeing services counties (self-governing regions that took over the responsibility for organising healthcare, social welfare and rescue services as of 1 January 2023), and affordable social housing organisations. It plays a pivotal role in financing social and affordable housing, ensuring that municipalities and non-profit housing companies can access cost-efficient, long-term funding.

MuniFin's activities are closely aligned with the objectives of the Finnish welfare state. Approximately 95% of the capital required to develop new social housing developments comes from private financial institutions. In reality, MuniFin is the only private lender providing these loans to Finnish social housing providers. It operates under a cost-rent model, ensuring that housing rents reflect only the actual cost of provision, and it supports housing for a range of target groups, including low-income households, the elderly, and people with disabilities.

2. Governance and ownership



MuniFin is a credit institution 100% owned by the Finnish public sector:

- ➔ **53%** by Finnish municipalities and wellbeing services counties¹⁵,
- ➔ **31%** by the public sector pension provider Keva,
- ➔ **16%** by the State of Finland¹⁶.

It is guaranteed by the *Municipal Guarantee Board* (MGB)¹⁷, a public-law institution whose members include all municipalities in mainland Finland. MuniFin's credit ratings match those of the Finnish government, reflecting its low credit risk.

As a significant credit institution in the Finnish financial system, it is supervised jointly by the European Central Bank and the Finnish Financial Supervisory Authority.

3. Funding model



MuniFin is the main financier of affordable social housing production in Finland. It raises most of its funding on the international capital markets, issuing Green Bonds, Social Bonds, and conventional bonds. Its programmes are guaranteed by the Finnish Municipal Guarantee Board (MGB), which covers all MuniFin funding. Combined with Finland's sovereign AA/Aa1 ratings, this allows MuniFin to borrow at highly competitive terms and transfer the benefit to end-borrowers.

¹⁵ Self-governing regions that took over the responsibility for organising healthcare, social welfare and rescue services as of 1 January 2023.

¹⁶ MuniFin, (2025). *Get to know MuniFin*. <https://www.kuntarahoitus.fi/en/about-us/get-to-know-munifin>

¹⁷ MuniFin, (n.d.). *The Municipal Guarantee Board (the MGB) guarantees MuniFin's funding*. https://www.kuntarahoitus.fi/wp-content/uploads/2024/06/MGB-Guarantee-and-Finnish-municipalities_v2.pdf

Affordable housing is financed through two channels¹⁸:

- ➔ **Interest-subsidy loans**, granted by commercial banks or financial institutions (including MuniFin). These loans are guaranteed by the State of Finland and subsidised through the **Centre for State-Subsidised Housing Construction (Varke)**, which since March 2025 has taken over the functions of ARA. Varke nominates eligible non-profit housing providers, approves state guarantees, and supervises the housing stock.
- ➔ **Loans with municipal guarantees**, where municipally owned companies borrow directly from MuniFin without state interest subsidies. These loans benefit from a 100% municipal guarantee under the Local Government Act.

The use of both state and municipal guarantees significantly reduces funding costs. Since MuniFin operates on a commercial basis and borrowers remain liable for repayment, its debt is not consolidated into Finland's general government debt under the European System of Accounts. Guarantees are treated as contingent liabilities unless called.

4. Loan and investment conditions



Loans for affordable housing projects in Finland are typically granted with very long maturities — up to 41 years — reflecting the life cycle of residential buildings.

The security and guarantee arrangements depend on the borrower and loan type:

- ➔ Interest-subsidy loans are guaranteed by the State of Finland through the Centre for State-Subsidised Housing Construction (Varke), which also pays the interest subsidy.
- ➔ Loans taken directly by municipally owned housing companies from MuniFin do not benefit from a state interest subsidy but are backed by a 100% municipal guarantee under the Local Government Act.
- ➔ Collateral in the form of real estate securities may be required in certain lending arrangements, particularly where municipal guarantees are not available¹⁹.

Beyond borrower-level guarantees, all of MuniFin's funding is secured by the Municipal Guarantee Board (MGB), a joint municipal institution through which every Finnish municipality is jointly liable for MuniFin's obligations. This framework provides strong assurance to international investors, ensures continued market access at low cost, and allows MuniFin to pass on favourable loan terms to housing providers²⁰.

Loan terms — including repayment schedules, grace periods and other features — are tailored to the needs of individual housing projects. This flexibility enables both municipal housing companies and non-profit developers to secure long-term, sustainable financing for affordable housing.

¹⁸ MuniFin, (n.d.). *Affordable social housing sector*. <https://www.kuntarahoitus.fi/en/who-we-finance/affordable-social-housing>

¹⁹ MuniFin, (n.d.). *Affordable social housing sector*. <https://www.kuntarahoitus.fi/en/who-we-finance/affordable-social-housing>

²⁰ MuniFin, (n.d.). *MuniFin's guarantee and the Finnish public sector structure*. <https://www.kuntarahoitus.fi/en/for-investors/guarantee-and-the-finnish-public-sector>

5. Impact and performance



MuniFin finances nearly all state-subsidised housing in Finland, enabling the delivery of high-quality, affordable housing at stable rents.

By integrating sustainability objectives into its lending (via Green and Social Bonds), it also supports energy-efficient construction and renovation, as well as broader municipal infrastructure development. This aligns its activities with the EU Green Deal, the EU Taxonomy for Sustainable Finance, and the UN Sustainable Development Goals (SDGs).

6. Cooperation with EU/International Institutions



MuniFin's model is well aligned with EU policy priorities, particularly in promoting affordable housing, green investment, and municipal development.

While MuniFin primarily operates within Finland, its structure — publicly owned, municipally guaranteed, and capital-market funded — offers a model that could be replicated in other EU countries. Its framework also allows for potential partnerships with the European Investment Bank (EIB) or Council of Europe Development Bank (CEB) for blended financing packages or targeted investment programmes.

7. Advantages and disadvantages

OVERVIEW OF THE ADVANTAGES AND DISADVANTAGES OF MUNIFIN'S MODEL



ADVANTAGES

Legal nature: private credit institution with a singularly public purpose;

Publicly guaranteed and underwritten by municipalities.



DISADVANTAGES

Prerequisite of **governmental priority and guarantee;**

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Source: Own compilation. Housing Europe, (2025).

Note: This table is based on a synthesis of official documentation, financial reports, secondary analysis, including Housing Europe (2025). The identification of advantages and disadvantages reflects the institutional, legal, and financial characteristics of MuniFin as a municipally guaranteed credit institution. The evaluation is interpretative and focuses on the model's relevance for public investment in housing and infrastructure.

The success of MuniFin as a credit institution lies in the key public support (public guarantee); long-term vision; and reduced risk. Key considerations for another country in developing the model include the identification of an appropriate supervisory authority, such as the former Housing and Development Centre of Finland (ARA) whose responsibilities have been transferred to Varke/the Ministry of Finance or a National Promotional Bank, to monitor the institution's operations and ensure financial stability.

Challenges for implementation include the investment in capacity and skills, the development of clear regulation and transparency mechanisms, and the establishment of an ARA-type institution to provide supervision and support. Success factors are strong public support and guarantees, a long-term vision, reduced financial risk, and high levels of transparency.

8. Replicability and key success factors



Replicating the MuniFin model would require:

- ➔ A well-developed municipal governance framework.
- ➔ Legal capacity for municipalities to provide guarantees.
- ➔ An intermediary institution with the authority and technical expertise to raise funds on international markets.
- ➔ A regulatory and supervisory body similar to ARA to oversee state-subsidised housing.

THE FUNDING MODEL OF SOCIAL HOUSING IN FINLAND

At present, about 95% of the funding required for a new social housing project is derived from a private loan*. These loans are then guaranteed by the state, de-risking them, and affording lower interest rates to Finnish social providers. In practice, though, there is only one financial institution in Finland that provides loans for new social housing; a publicly-owned 'private' bank called MuniFin. It raises capital for investment in social housing and other municipal projects by issuing bonds on financial markets. These bonds are given a guarantee by another organisation called the 'Municipal Guarantee Board' (Kuntien takauskeskus, KT), which means that MuniFin can borrow at very low rates. The KT uses the loans from MuniFin as collateral and can only guarantee loans issued by MuniFin. It has as a backstop the ability of local municipalities to raise taxes, meaning the KT has an AA+ credit rating. According to a 2023 review by the National Audit Office, the probability of the loan guarantee being invoked is low overall**.

At the same time, the ARA also provides an interest rate subsidy to help support the cost of repaying the loans from MuniFin. If the interest rate exceeds a given threshold (currently 2.3%), then the ARA will pay a subsidy. This is equal to 90% of the excess above 2.3% in the first year. However, this subsidy does decline over time, by 2.25 percentage points each year.

MuniFin does not regularly publish figures on its annual lending for the purpose of developing social housing, though data for 2020 showed that it lent €827m for new social housing, plus €195m in financing for new housing for people with special needs. While we cannot be sure how much MuniFin has invested in subsequent years, new social housing completions have held broadly stable since 2020, averaging around 8,000-9,000 units. This would imply that MuniFin's annual lending each year could also have remained close to the €1 billion mark. However, construction prices have also increased in the intervening years.

In terms of the interest rate subsidy. In the event that the interest rate on borrowing exceeds 2.3%***, then Ara also provided a subsidy in order to reduce repayment costs****. Ara managed the dispersal of funds, though they in fact originate from a separate state institution – *Valtion asuntorahasto* (VAR) – which was established in the 1990s to ensure that social providers could borrow at affordable rates of interest.

* The content of this section describing the use of private loans by social providers is a summary of the more detailed description included in: Housing Europe (2025). Unlocking Potential - A Comparative Analysis of Approved Housing Body Models in the European Union.

** Lahtinen, M., Eerola, E., Kuronen, M., and Ruonavaara, H. (2024). *Julkisestti tuetun asuntotuotannon merkitys ja kehittäminen 2020-luvulla [Role and Development of State-subsidized Housing Production in the 2020s]*. Publications of the Ministry of the Environment 2024:8.

*** MuniFin lending rates are tied to 12 or 6 month Euribor rates, plus the company-specific margin set by MuniFin. On aggregate, their margin is around 0.8%. In 2023, the aggregate interest rate offered by MuniFin to MHCs was around 3.8%. In other words, 2.3 percentage points was paid by the social housing provider, and 1.5 percentage points was covered by the Finnish state in the form of its interest rate subsidy, the dispersal of which was managed by Ara.

**** Until the 1st January, 2024 the threshold above which the subsidy was paid was 1.7%. However, the increase in rates as a result of the ECB meant that the threshold also had to increase. As a practical example, if the interest rate on a loan was 3%, then from the point of view of the social housing provider the interest rate is only 2.3%, with the excess 0.7 percentage points of the interest being covered by Ara, via the VAR fund.

THE FINANCING OF SOCIAL HOUSING, AND PUBLIC HOUSING SUPPORTS

TYPE OF FUNDING	% OF TOTAL	GENERAL COMMENTS
Private loans	95%	<ul style="list-style-type: none">● The state provides an interest rate subsidy; A public guarantee can also be applied
Own equity	5%	<ul style="list-style-type: none">● Reinvestments of surpluses by social providers
Other	Undefined	<ul style="list-style-type: none">● In certain, mostly urban, areas so-called 'start-up grants', which provides €3,000–€10,000 per new social dwelling built can be provided.● Bonus grants are also available for meeting certain extra criteria, such as using more sustainable forms of construction²⁴

Source: KOVA.

The research project which generated the findings and knowledge was funded by the Department of Housing, Local Government and Heritage in the frame of the Request for Tenders dated 30/07/2024 for the provision of research on social housing systems in the European Union.

Note: The above figures are for 'standard' social housing projects. As outlined below, grants are available for the development of homes for people with specialised needs, such as those with disabilities or other on-site care needs.



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