



The Bauspar system in Europe: a success story

posiedzenie seminaryjne:

Kasy oszczędnościowo-budowlane
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Why Bausparen?

- Until 1980ies, consensus in Western world that there are financial intermediaries that support people with home ownership whose main business is to offer savings product for capital formation as well as mortgage lending
- Search for higher profits has misled the Savings & Loans in the United States and the Building Societies in the UK to take higher risks and to give up their old business model – with dramatic consequences: Savings & Loans and Building Societies are a mere shadow of their former selves
- The Bauspar industry accepts that their business model is low in risk and consequently offers lower yields – a right decision: in the financial crisis Bausparkassen were a haven of stability



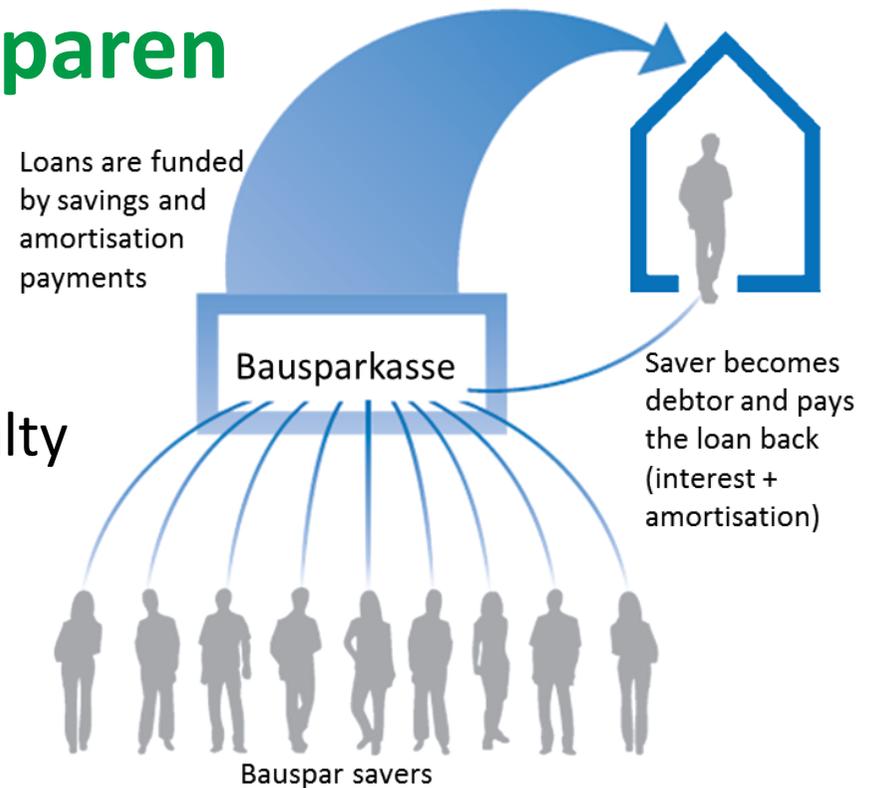
Bausparen: target-oriented saving

- Bausparen links a savings phase to the right to receive a housing loan
- Interest rates for loan and deposits fixed when contract is signed – they are usually below the market rates
- Waiving of interest in the savings phase is the “option premium” of the customer for the guaranteed low fixed interest rate in the loan phase; “option premium” makes Bauspar deposits particularly sticky



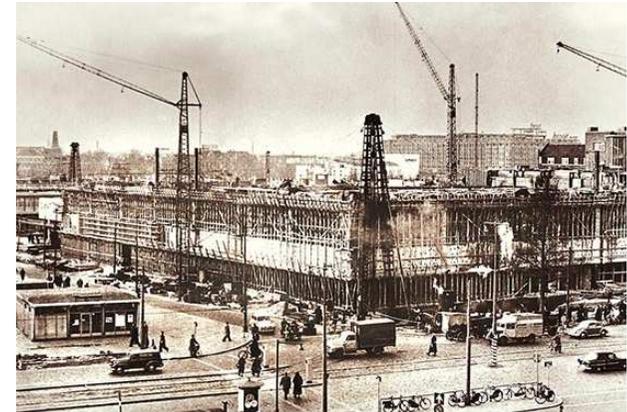
Basic principles of Bausparen

- Bauspar saver is **entitled** to take up the loan but **does not need to**
- Loans are with fixed interest and in local currency; no prepayment penalty
- Bauspar system relies exclusively on collective resources – disbursements for new lending equal sum of new savings and loan amortizations in any given period
- Bauspar system is only run by specialised credit institutions
- The special regulation and tight supervision ensure that safety is the top priority.



Role of Bausparen in the past

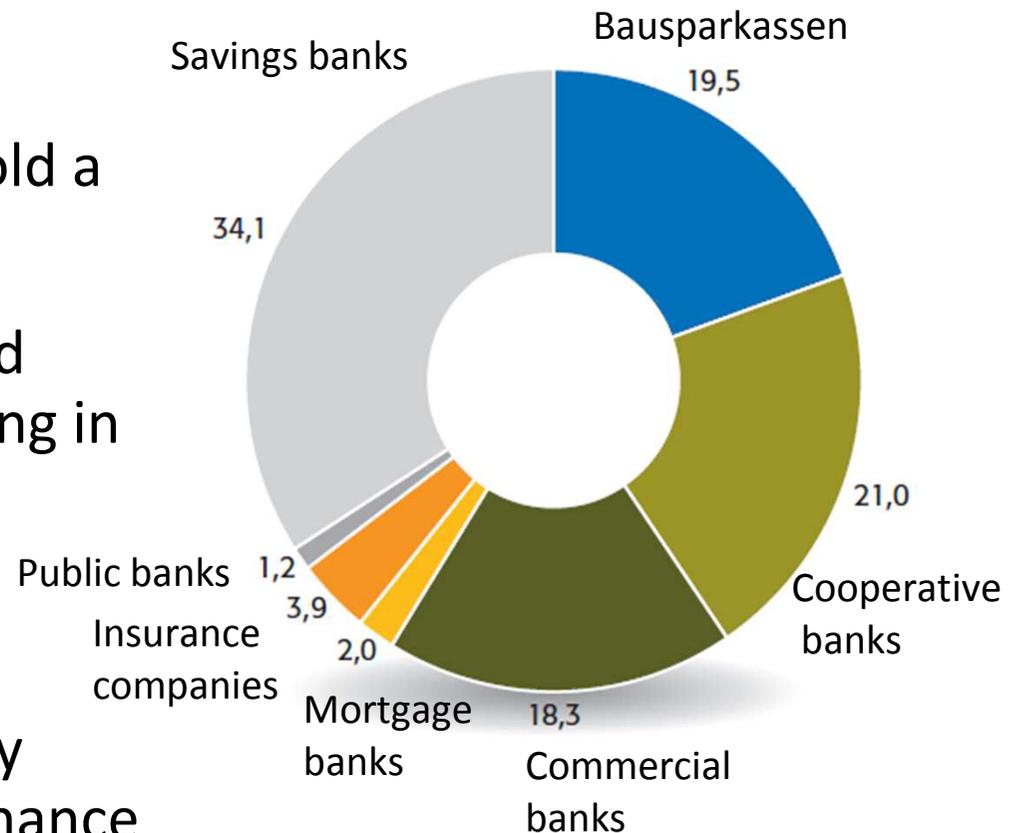
- Rebuilding Europe in the 1950ies was a real challenge – funding was limited and expensive
- Bauspar institutions played a key role in the reconstruction of housing in this period – institutional framework for help for self-help
- Bauspar institutions offer secure mortgage loans with fixed interest rates in local currency



Role of Bausparen today

- Bausparen very popular in many European countries
- 6 of 10 Austrians and 4 of 10 Czechs as well as Germans hold a Bauspar contract
- Bauspar institutions disbursed 32,4 billion Euro in new lending in 2014 in Germany – making them the third largest market participant
- 1000 billion Euro disbursed by Bausparkassen for housing finance in Germany since 1948

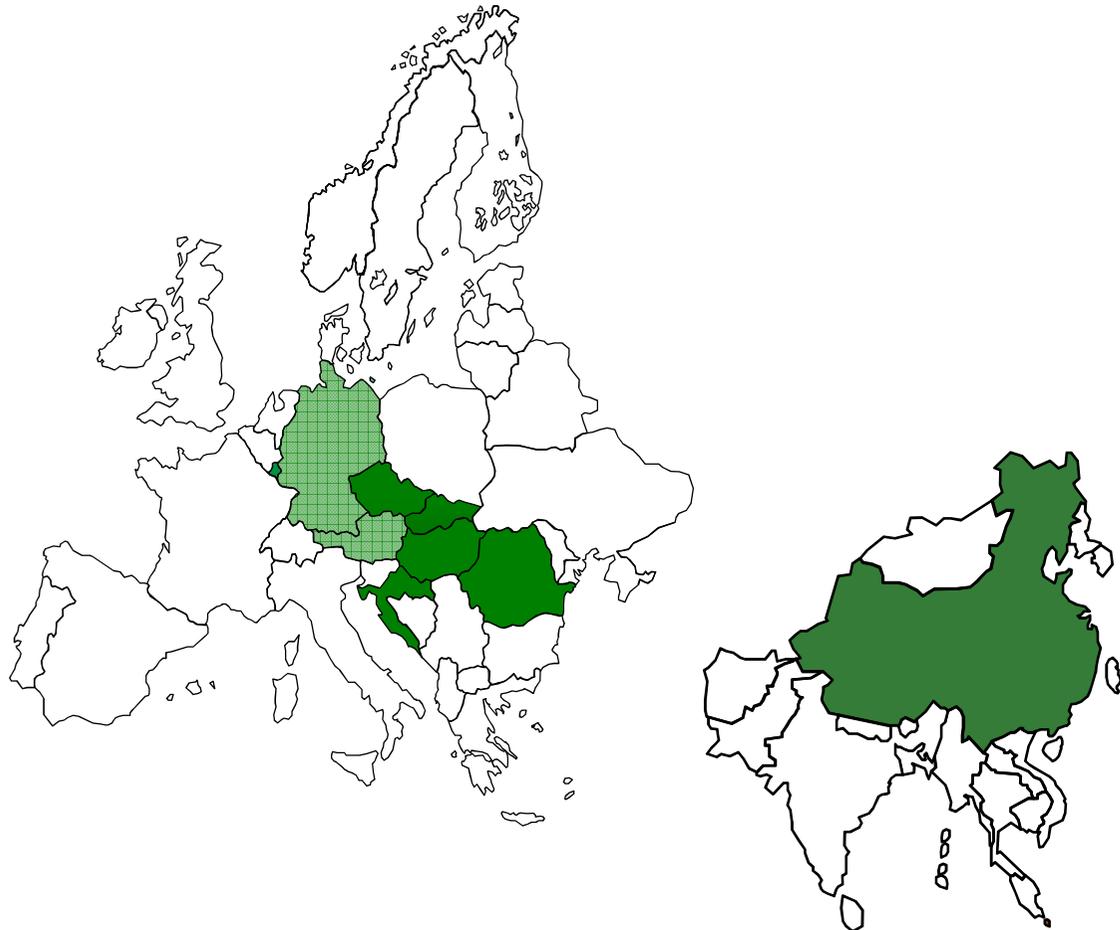
Market share new lending for housing in Germany in %, 2014



Bausparen in the world

Implemented in

- Austria
- China
- Croatia
- Czech Republic
- Germany
- Hungary
- Kazakhstan
- Luxembourg
- Romania
- Slovakia



Bausparen in Central and Eastern Europe

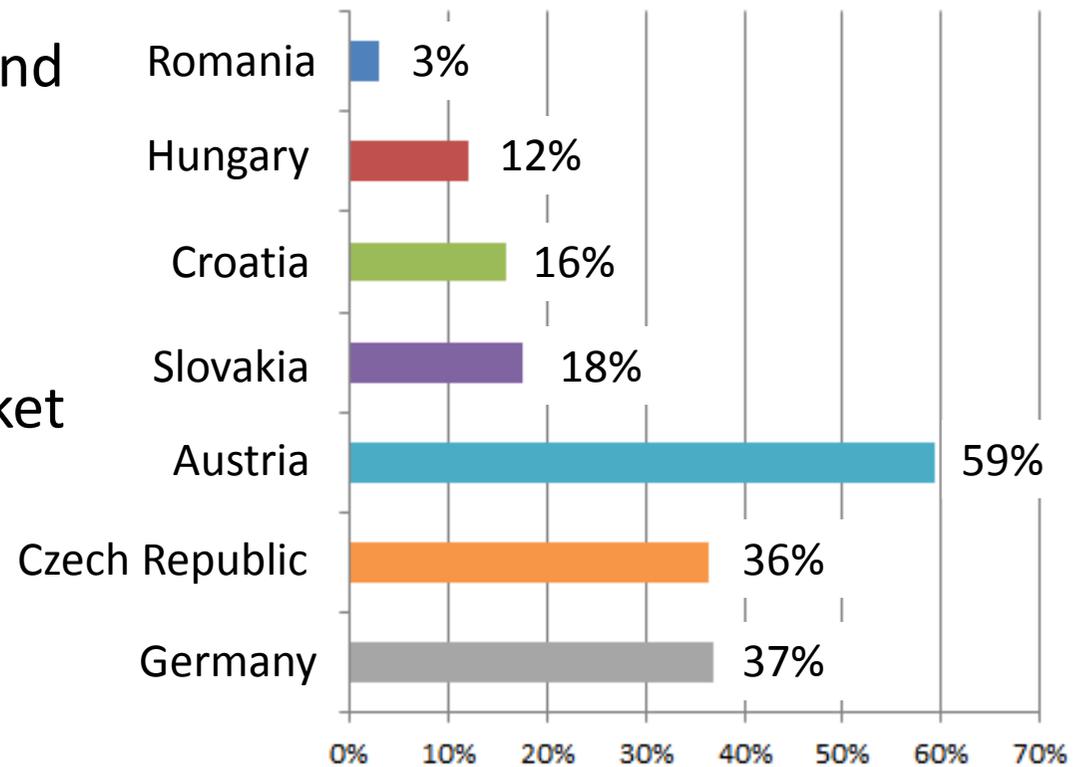
- Since 1992 18 Bausparkassen have been created outside of the „traditional“ countries Germany and Austria
- More than 16 million new customers demonstrate their success
- Bausparen is a perfect product to meet the challenge of the necessary refurbishment of the existing building stock



Bauspar penetration in Europe

- In Austria, Czech Republic and Germany Bausparen has a high market penetration
- Croatia, Hungary, Romania and Slovakia offer still market potential

Penetration level:



Penetration level: Total Number of Bauspar contracts/ number of inhabitants in %



Market share of Bauspar loans in 2014

Country	New lending for housing of Bausparkassen in billion Euro	Market share of Bausparkassen in new lending for housing
Germany	32,4	19,5%
Croatia	0,096	16,2%
Romania	0,022	1,36%
Slovakia	0,533	10,5%
Czech Rep.	1,35	21%
Hungary	0,4	27,6%



Bauspar system: a stabilising factor

- Countries with a well matured Bauspar system were less affected from disruptions in housing and housing finance markets in the wake of the financial crisis
- Bauspar systems were able to disburse more loans when other credit institution were reluctant to lend to sound borrowers
- Bauspar system was not affected by the crisis; strict and special regulation ring-fences the whole Bauspar system



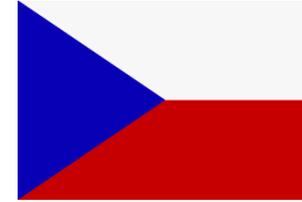
Example: Germany



- 2008 was one of the best years for the Bauspar industry – while the rest of the financial industry was crumbling. The Bauspar system disbursed housing loans worth 40,9 billion Euro (2014: 32,4 billion Euro) and had a market share in new lending of 30,2% (2014: 19,5%).
- Bauspar system was able to attract also in unstable times and times with low interest rates many savings: Bauspar deposits increased within 3 years (2008-2011) by 20 billion Euro or 16%.
- The large reservoir in Bauspar deposits enables Bausparkassen to provide all customers readily with cheap housing loans when interest rates and the demand for Bauspar loans rise again .



Example: Czech Republic



- New lending by mortgage banks contracted from 123 billion CZK in 2008 to 71 billion CZK in 2009 – a decline of 43%
- New lending by Bausparkassen contracted only by 10% from 74 billion CZK to 66 billion CZK.
- Consequently, the market share of the Bauspar system rose from 37% in 2008 to 48% in 2009
- Without the contribution of the Czech Bauspar system, the supply of money to the housing and construction sector would have been reduced much more noticeably and the financial crisis would have impacted economic stability much more.
 - Funding remained mainly local
 - Virtually no foreign currency loans were made for mortgage lending



Example: Hungary



- Bauspar penetration was before crisis much lower than in Czech Republic or Germany
- Market share of Bauspar system in new lending was only 1% in 2008, also because the Bauspar institutions were reluctant to enter the ruinous price competition with banks offering mainly foreign currency loans
- Outstanding mortgage debt denominated in foreign currency was about 75% in 2008
- In the wake of the financial crisis, the Forint plunged in value against the Swiss Franc, Euro and Yen causing loan costs to spiral for private households



Example: Hungary (continued)



- Hungarian government decided for compensation to foreign currency borrowers and phasing out of foreign currency loans; prohibition of new foreign currency loans
 - Banks in Hungary face losses of around 4 billion Euro
 - Outstanding mortgage debt denominated in foreign currency decreased till 2015 to almost 0%
 - Banks drastically reduced their lending activity for housing finance from 842 billion HUF in 2008 to 101 billion HUF in 2013 – a drop of 88%.
- Bauspar institutions strengthened their position: In 2015, their market share was 29% and they disbursed 105 billion HUF in new housing loans



Example: Hungary (continued)



- Share of nonperforming loans in total outstanding mortgage loans:
 - Loans disbursed by Bauspar institutions: 1,3% (2015)
 - Other normal loans denominated in HUF: 15,3% (2015)
 - Foreign currency loans: 19% (before conversion, end of 2014)



Positive effects of Bausparen

- Bauspar systems support the formation of private capital
 - Housing savings bonus attracts wide population groups which are otherwise unlikely to save
 - Down payment very important part in home buying process
- Real estate important for old-age provision
 - Own house functions like automatised savings process
 - Homeowners in same income strata wealthier than tenants
- Bauspar systems contribute to economic stability
 - Anti-cyclical business model
 - Fixed-interest loans in local currency
 - Stabilising function proven again in global financial crisis



Thank you for your attention!



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