

Germany's Bausparkasse Schwäbisch Hall

How the largest building-saving organisation in the world fits into the German housing finance system

Bausparkasse Schwäbisch Hall is the largest specialist housing finance organisation in the world operating the contract system, by which eligibility for a mortgage loan depends on a period of prior saving. The Schwäbisch Hall, based in the small town of the same name in Southern Germany, is part of the co-operative banking sector, one of the three banking sectors in the Federal Republic of Germany. The bausparkasse works with other parts of the co-operative banking sector to finance house purchase loans.

The Schwäbisch Hall in the context of the German Housing finance system West Germany has a somewhat complicated housing finance system. The German financial system as a whole can be divided into three sectors:

- (a) The big banks, the Deutsche Bank, the Dresdner Bank and the Commerzbank.
- (b) The savings banks and their affiliated central girobanks in each state.
- (c) The co-operative banks, together with their seven regional

banks and central bank, the DG Bank.

Similarly, there are three different types of housing finance institution, each of which is associated with a particular type of loan:

- (a) The bausparkassen provide low-interest loans, following a period of anticipatory savings, also at a low rate of interest.
- (b) The mortgage banks provide long-term loans which are financed by the issuing of long-term mortgage bonds. They are not deposit-taking institutions.
- (c) The big banks themselves, the co-operative banks and the savings banks, make short-term housing finance loans, often in anticipation of a bausparkasse loan becoming available.

The German system relies on a package being put together for the house purchase. Generally, the package will comprise a long-term loan from a mortgage bank, a short-term loan from the relevant deposit-taking institution and a bausparkasse contract. Obviously, the loan has to be put together by a single institution, hence the importance of links between institutions.

In some cases the links are on the basis of a working relationship, for example, between some of the commercial banks and one or two of the largest bausparkassen, but in other cases there is a more direct ownership interest, for example, the savings banks collectively own regional girobanks, which in turn control

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bausparkassen and own mortgage banks.

The Schwäbisch Hall is part of a co-operative banking network. The co-operative banks collectively own seven regional co-operative banks which in turn are the main shareholders in the national central bank, the DG Bank. The DG Bank owns the largest mortgage bank in the country and also, together with the regional co-operative banks, the Schwäbisch Hall Bausparkasse.

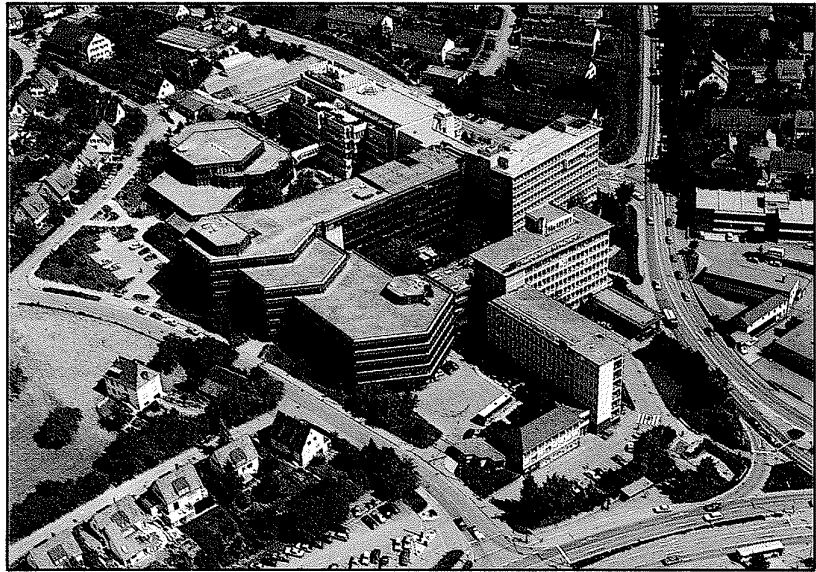
The Schwäbisch Hall is the largest bausparkasse in Germany, although it is only slightly larger than the second largest, the Beamten-Heimstättenwerk (BHW) which is jointly owned by the German Federation of Trades Unions and the Civil Servants Trade Union. These two bausparkassen are substantially larger than the third largest, the Wüstenrot, which is privately owned. These three bausparkassen are all significantly larger than any of the landes-bausparkassen, the public sector institutions owned by the central banks for the savings banks.

History

Bausparkasse Schwäbisch Hall was founded by a group of manual workers in Cologne in 1931, some seven years after the foundation of Germany's first bausparkasse, Bausparkasse Wüstenrot. It was originally entitled Deutscher Bausparer AG, and its head office was moved to Berlin in 1934, when co-operation with the central co-operative bank began. This co-operation intensified, until in 1941 it changed its name to Bausparkasse der deutschen Volksbanken AG.

In 1944, the head office was moved once more to Schwäbisch Hall, a picturesque town on the River Kocher in Württemberg, south-west Germany, a region referred to by the Germans as the classic homeland of the building-savings system.

Co-operation and capital consolidation with the co-operative banks and the Raiffeisenbanken



(rural co-operative banks) culminated in 1956 with the bausparkasse adopting its present name, Bausparkasse Schwäbisch Hall AG, Bausparkasse der Volksbanken und Raiffeisenbanken.

Structure and organisation

The DG Bank owns 34.75% of the share capital of the Schwäbisch Hall, with the seven regional co-operative banks owning the remainder. At the end of 1985 share capital was DM388 million. Its supervisory board and executive board (the two-tier board structure is common in West Germany) comprise representatives of the co-operative movement, reflecting the ownership of its share capital.

At the end of 1984 Bausparkasse Schwäbisch Hall employed 3250 persons in head office and elsewhere, 1170 of whom were "in the field" employees whose job was to counsel building-savers in their area, and to liaise with local co-operative banks.

Since the early 1980s, Bausparkasse Schwäbisch Hall has placed greater emphasis on its close connections with the co-operative banks and has endeavoured to increase them. By the end of 1985, savings and loans

products were marketed and serviced through some 19,800 branches of co-operative and Raiffeisen banks in over 1000 districts in all 12 of West Germany's states. This was reckoned by Bausparkasse Schwäbisch Hall to be the densest customer network of any bausparkasse.

Such co-operation is of great importance in order that the Bausparkasse Schwäbisch Hall can maintain its share in a more competitive and shrinking housing finance market (it is estimated that the population of West Germany will be 60.3 million in 1990, declining to 58.9 million in 2000). A staggering 97% of all Germans over the age of 14 have at least one bank or savings bank account, and on average some 35% have different accounts with "linked" financial institutions — Bausparkasse Schwäbisch Hall emphasises the fact that an above-average 48% of its customers also have accounts with linked co-operative banks, rising to 65% in the 14 to 19-year-old age group.

The young building-savers market is given particular emphasis, and of the 630,400 new building-savings contracts worth DM19.6 billion

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entered into by Bausparkasse Schwäbisch Hall in 1985 (a 15.5% increase over 1984), about one-third were made with customers under the age of 25 years.

Close co-operation between Bausparkasse Schwäbisch Hall and the co-operative banks is seen as not only a competitive weapon against other bausparkassen linked with financial institutions (the principal rival being the Bausparkasse Wüstenrot/Allianz coalition), but also against competition presented by links between the savings banks and the landesbausparkassen (public-owned bausparkassen). In fact, in the early 1980s the bausparkassen as a whole were seriously worried by the fact that the savings banks/landesbausparkassen were making serious in-roads into their market by offering attractive building-savings packages linked to savings banks accounts.

The Bausparkasse Schwäbisch Hall reacted by strengthening its own ties with the co-operative banks, in par-

Assets and Liabilities, End-1985

Liabilities	DM m	%	Assets	DM m	%
Contract savings deposits	28,173	85	Contract loans	30,210	91
Other borrowed funds	2,506	8	Other financial assets	2,778	8
Other liabilities	974	3	Property & equipment	186	1
Stocks, reserves & dividends	1,568	5	Other	26	—
Total	33,200	100	Total	33,200	100

Development of Business, 1976-85

Year	New Contracts 000	Savings Deposits DMm	Total Assets DMm
1976	507	15,016	16,228
1978	626	18,028	19,843
1980	776	22,000	25,629
1982	493	25,991	29,753
1984	554	28,274	33,980
1985	596	28,174	33,206

Source: Annual Report.

ticular through public relations (they are joint publishers of the monthly magazine *Mosaik*), the marketing of savings and loans products, and the training of staff in the field. These ties

have been strengthened by the setting up of an extensive computer network between the Bausparkasse Schwäbisch Hall and its many co-operative bank counterparts.

The co-operative banking system

The co-operative banking system accounts for 28% of personal sector deposits and is a major force in the German financial system. At the bottom layer of this system are the 3660 local co-operative banks. Most of these are very small and between them they have little more than 15,000 branches. Collectively, they have over 10 million shareholders. The co-operative banks provide a full retail banking service to individuals and have a particularly strong agri-

cultural base.

At the end of 1985, the co-operative banks had mortgage loans outstanding of DM27 billion, savings deposits of DM168 billion and total assets of DM419 billion.

Most of the individual co-operatives belong to one of seven regional co-operative central banks. These banks between them had total assets at the end of 1985 of DM76.8 billion.

The regional co-operative banks have 68.5% of the equity of the Deutsche Genossenschaftsbank,

better known as the DG Bank. This carries out the functions of central bank and liquidity manager for the regional banks. It links the co-operative banking system to the domestic and international markets and is represented in the world's major financial centres.

Directly, or through subsidiaries and affiliates, the DG Bank enables the local co-operative banks to offer members a comprehensive service.

One subsidiary of the DG Bank is the Deutsche Genossenschafts-Hypothekenbank AG. This is the largest mortgage bank in West Germany with total assets of DM30.5 billion at the end of 1985. Its loan portfolio totalled DM28.8 billion, of which DM14.6 billion was in the form of mortgage loans.

The DG Bank owns 34.75% of the equity of the Schwäbisch Hall Bausparkasse, most of the remaining equity being owned by the co-operative banks. ■

Key Statistics: Germany Co-operative Banking System

No of credit co-operatives	3600
Shareholders in credit co-operatives	10.3 million
Assets of credit co-operatives	DM 23.3 billion
Assets of seven regional co-operative banks	DM 76.8 billion
Assets of DG Bank	DM 67.2 billion
Assets of DG Bank Group	DM107.3 billion
Assets of co-operative bank system	DM507.7 billion
Equity capital of co-operative bank system	DM 19.8 billion

Source: DG Bank Annual Report.