

Contract savings and the role of the Crédit Agricole in France

Tax advantages, and a State bonus, help to make the French épargne logement system an attractive proposition

THE French system "épargne-logement" is now more than 20 years old. It has proved to be a very important one for the French nation with savings currently worth FF250 billion, loans of over FF130 billion at the end of 1984, and FF43 billion of loans outstanding for housing finance and 22% of such loans granted in 1984.

The success of this scheme is largely because of the benefits available to individuals with below average means. It is also due to the fact that the French are always very keen to take advantage of any system which will help them become owners of a property. Since this has been offered to them, 10,550,000 accounts have been opened by individuals and 4,300,000 loans have been granted.

Accounts and house saving plans

There are two basic products: an account épargne-logement and a plan épargne-logement. Although the purpose is the same, they cater to different individuals needs and are offered on slightly different terms. Banks and other co-operative credit institutions, such as Crédit Agricole, are all entitled to offer to their customers an account épargne-logement or a plan d'épargne-logement, as long as they have obtained recognition by an official body.

It was in 1965 that the French Gov-

ernment offered the initial elements of the system, the comptes d'épargne-logement. Their aim, which was new at the time, was to offer the purchasers loans at low interest rates, provided they invested a certain amount of money regularly for a certain number of years.

The loan, which is for the sole purpose of financing the borrower's main home, is granted only after he has invested for at least 18 months. It can be used towards the purchase of a brand new house, an old building, or just to improve or convert a property.

Financially the product is particularly attractive:

- the amounts saved are tax free
- a bonus, paid by the State and equal to the interest received during the investment period, is granted to the beneficiary. It cannot, however, exceed a ceiling which is at the moment FF7,500 and can only be paid if a loan has been asked for and granted
- the interest rate on that loan is well below the normal one
- the interest rate paid today on an account épargne-logement is 2.75%. This percentage can go to 5.50% if the bonus is taken into consideration.

In 1969, this very successful scheme was enhanced to allow a

wider range of opportunities to the customer: the "plan d'épargne-logement" was launched which required a four year minimum saving period. In 1981 this was extended to five years with the possibility of getting the money back after three or four years. Today, the return on the plan épargne-logement is 6%, and the loans granted in connection with these savings are at an interest rate of 6.32%.

Attractive loans

The objective of the plan or account épargne-logement is the same: to finance the main home, although at the end of 1985, and depending on certain conditions, it could be used for the financing of a second home.

Besides the attractive low interest rate, the French épargne-logement loans have other favourable characteristics. They can be used to finance anything as long as it is related to housing, whether it is for a purchase or a conversion and this for a duration of two to 15 years. A ceiling is, however, set to the amount of the loan: from FF150,000 for those issued from an account épargne-logement, to FF400,000 for those granted at the end of a plan.

Within these limits, the maximum amount of the loan is calculated according to a formula which takes

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into account, first, the duration and the timing — whether monthly, quarterly or annually — of the reimbursements and the length of time that the customer has had the account. It also takes into account the interest received during the saving period, multiplying it by 1.5 for the loans granted from an account and 2.5 for the loans granted from a plan.

A positive balance sheet

The épargne-logement has very rapidly become an essential part of housing finance in France. Today more than half the houses bought as main homes and conversions are financed in this way. Because the saving funds are far larger than the loans granted, the money available is channelled into institutional schemes connected to housing finance. These are closely regulated and would include commercial loans with an interest rate ceiling directed to certain designated areas, mortgages, bills of exchange negotiable on the mortgage market, bonds issued by the Crédit Foncier de France.

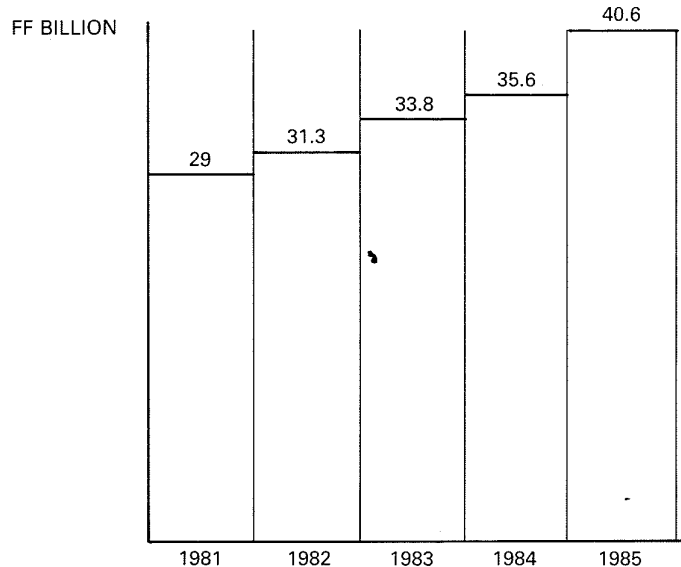
Overall, the saving system benefits refurbishment of housing stock. 27% of the funds raised in this way are used for buying new houses, 31% for improvement of the home and 42% for buying old houses. ■

Crédit Agricole: the major housing finance lender

A traditional lender in the agricultural field — which is still its main business — Crédit Agricole has aimed to become, in the past 20 years, a bank for individuals. This evolution has led Crédit Agricole to provide, in a natural and expanding way, housing finance. Today, more than half of its medium-term and long-term (more than two years) are granted for housing.

Thus, in 1985, loans totalling FF41 billion were made to 392,000 borrowers; at the end of the year, the loans outstanding in the financing of property were worth FF220 billion. Crédit Agricole accounts for more than one third of bank activity in the housing finance market.

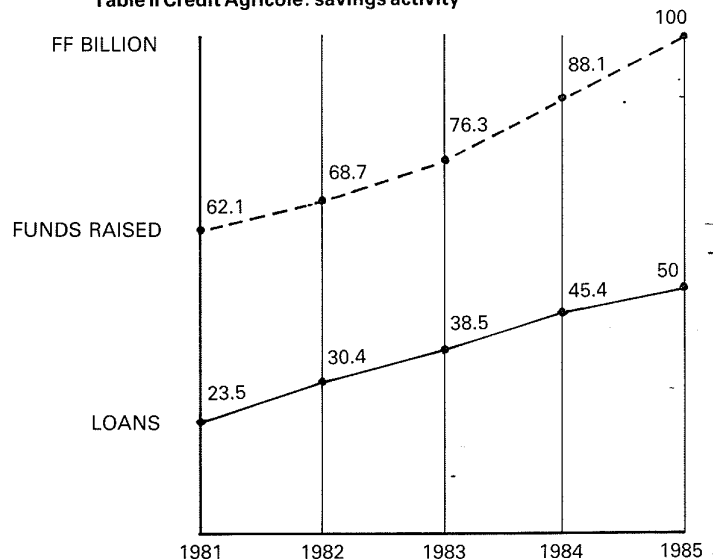
Table 1 Crédit Agricole: loans outstanding



Crédit Agricole uses all the financing techniques available in France at the moment: conventional loans (No 1 in France with FF20.3 billion), épargne-logement loans (FF14.7 billion) subsidised loans to enable customers with a small income to become owners with an attractive interest rate (FF2,1 billion) and traditional loans (FF3,5 billion).

In the épargne-logement itself, Crédit Agricole has 35% of the market of the fund raising and 37% of the lending of funds.

Table II Crédit Agricole: savings activity



Note: At end-1985 there were FF7.56 to the dollar.