

Building & Loan Association Business since the early 1980s in Germany*

FOR building and loan associations in Germany, the 1980s were a period of profound but, in the event, successful adjustment to changes in overall economic variables, new competitive circumstances in the financial markets and altered underlying conditions governing the government promotion of saving for building purposes. In the course of these developments the building and loan associations' contribution to overall housing finance diminished somewhat. However, owing to the new, attractive contract savings schemes it offers, its active participation in "one-stop" financing strategies in conjunction with banks and insurance enterprises, and the establishment of new institutions, the building and loan association sector at present appears well equipped to play a major part in the growing financing tasks facing the housing sector within the enlarged Federal Republic and, moreover, to take due advantage of the future opportunities presented by the single European market. The present article¹ describes in detail the longer-term trends in building and loan association business, and also discusses the changes which have been observed in their balance sheets, with respect to new business, receipts and outpayments, as well as in their profitability.

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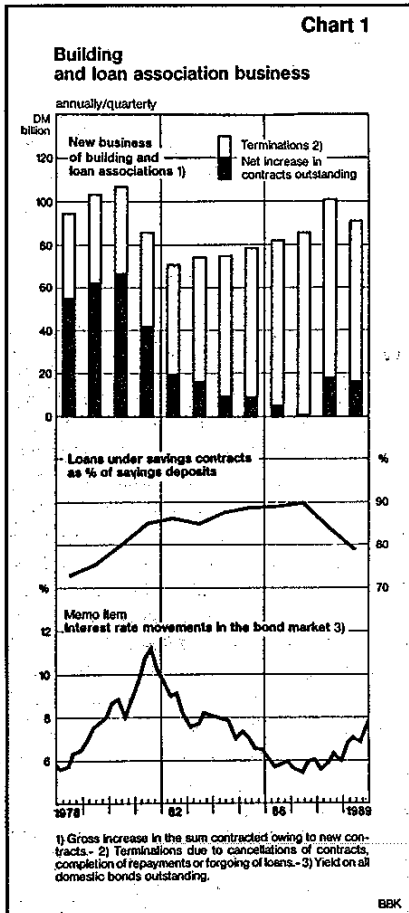
General Trends

At the beginning of the past decade, building and loan association business suffered some severe setbacks. The slowdown in overall economic activity, the falling or barely increasing real incomes of households and the further retrenchment of government promotion of saving for building purposes seriously affected new business and, with a certain time-lag, the inflow of savings to building and loan associations in the early 1980s. The subsequent improvement in the overall economic situation initially gave only a very moderate stimulus to saving for building purposes; the recovery which started in building and loan association business in 1983 long remained rather lacklustre. Compared with the other institutional investors, building and loan associations have, on balance, declined somewhat in importance over the past few years. Their share in the total volume of housing finance,² for example, fell from roughly one-half in the second half of the 1970s to an average of two-fifths in the 1980s. In the late 1980s, however, saving for building purposes picked up markedly. The relatively steady rise in new business, growing receipts and the gradual stabilisation and, most recently, even slight reduction of the waiting periods up to the granting of building and loan association loans suggest that the associations are back in step.

Building and loan association business has changed in various ways over the

past few years; accordingly, the institutions operating in this market segment have altered, too. In response to the decline in new business at the beginning of the past decade and the increasing cancellations of contracts, the associations have developed numerous new savings schemes. In this way they have tried to comply better with the diverse wishes of their increasingly interest-conscious customers, to attract new savers and, by generating higher receipts, to counteract the longer and longer waiting periods up to the allocation of building and loan association loans.

In addition to these adjustments of the traditional product range to the changing portfolio behaviour and diversified financing requirements of customers, a stronger tendency towards "multi-finance" or "one-stop" financing strategies has been discernable of late in building and loan association business. Many building and loan associations have forged financial links with universal banks and insurance enterprises, and most of the others supplement their product ranges by means of appropriate co-operation agreements. Conversely, in the field of saving for building purposes, universal banks and insurance enterprises have apparently identified new earning potentials and additional opportunities of broadening and deepening their customer relations. As a result, new building and loan associations have been set up; links through participating interests or co-operation agreements have virtually become



the rule nowadays. In the course of these structural changes in the financial services sector, competition between building and loan associations, universal banks and insurance enterprises — has intensified. Commercial banks and life insurance enterprises, for example, have increasingly taken to granting long-term loans for building purposes over the years. Moreover, banks and building and loan associations compete for deposits at favourable interest rates, and increasingly in the area of interim and bridging loans, too.

The fiercer competition among the suppliers of housing finance underlines not least the positive expectations regarding the future development potential of this seg-

ment of the financial market. Readiness to acquire residential property has increased again over the past few years. Moreover, the value of debt-free residential property as a cornerstone of personal provision for old age seems to be increasing. The substantial financial requirements in the field of housing construction in eastern Germany are opening up new growth opportunities. Building and loan associations will probably also benefit from some recently adopted amendments of the Building and Loan Associations Act. These aim, firstly, at stabilising the waiting periods up to the allocation of savings contracts with building and loan associations. For this purpose minimum allocation requirements have been introduced, so that the associations can use the funds accruing from accelerating new business only to a limited extent to shorten waiting periods; up to a maximum of 3% of savings deposits, additional receipts from a higher interest-bearing interim investment (in comparison with the immediate granting of a building loan) must be paid into what is known as a fund for safeguarding the building and loan association system ("Fonds zur baupartechnischen Absicherung"). This fund is designed to help offset the difference between the interest paid on resources which the associations have taken up in the capital market, for allocation to savers with them, at times of slackening new business and the interest received from building and loan association loans. Secondly, the amendments extend the functions of building and loan associations in several respects. For example, Parliament has eased building and loan associations' funding in the capital market by raising the maximum maturity of the bonds they issue from four years to five. At the same time, building and loan association loans may in future be used to finance dwelling rights in old people's homes. In addition, the limitation of the associations' business to the domestic market has been abolished in major ar-

eas. Building and loan associations may now operate outside Germany, too. They may acquire participating interests on a larger scale in an extended range of non-resident enterprises, and may grant loans secured by foreign land. This extension of their business scope has been designed, in particular, to help them gain a stronger foothold in the single European market. In this way they could put their operations on a broader basis, and offset any tendencies towards losses of market shares in Germany.

New Business and Contracts Outstanding

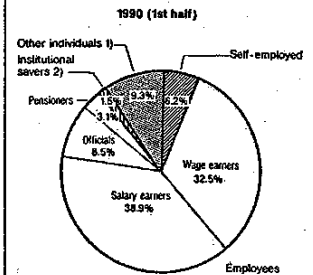
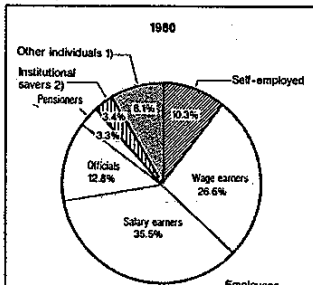
Unlike the situation in the case of earlier setbacks (such as have been not untypical hitherto in the course of a downturn in construction demand during the business cycle), the resilience of the building and loan association system seemed to have reached its limits in the early 1980s. Massive requests for outpayments could not be matched for years on end by a corresponding level of new business or by higher receipts. A prolonged period of stagnating or falling real estate prices made asset formation through the acquisition of residential property appear rather unattractive. At the same time, owing to the relatively high interest rate level, in-

Sum contracted in DM billion				
Period	Additions (new contracts entered into) 1	Terminations due to cancellation of contracts 2	Terminations due to completion of repayments or forgoing of loans	Net increase in contracts outstanding
1979	103.4	10.3	30.8	62.3
1980	107.4	12.7	27.9	66.8
1981	86.1	15.0	29.0	42.1
1982	71.1	51.3	19.8	15.6
1983	74.5	59.9	15.6	9.4
1984	75.0	65.6	9.4	8.9
1985	78.6	69.7	4.6	8.9
1986	82.3	77.7	0.8	18.1
1987	85.7	84.9	0.8	16.4
1988	100.9	82.8	16.4	0.1
1989	91.2	74.8	16.4	0.1
1989 1st half	39.8	39.7	0.1	16.3
2nd half	51.4	35.1	16.3	14.0
1990 1st half	47.9	33.9	14.0	

* Changes from previously published figures are due to corrections subsequently reported. — 1 Increases in the sum contracted count as new contracts. — 2 Source: Federation of Private Building and Loan Associations, and Office of Public Building and Loan Associations in the German Savings Bank and Giro Association. BfK

Chart 2

New contracts, by group of savers
Percentages of the total sum contracted



1) Housewives, infants, schoolchildren, students and persons not stating an occupation, including foreign savers - 2) Banks, enterprises, non-profit organisations, public authorities.

Investments in financial assets seemed to be a real alternative. In 1981 and 1982 building and loan associations registered dramatic slumps in the sums newly contracted (-19.8% and -17.4%, respectively). Admittedly, new business picked up again from 1983, but the drop in the increase in contracts outstanding (from DM 66.8 billion in 1980 to as little as DM 0.8 billion in 1987) gave some cause for concern. In the two subsequent years, by contrast, building and loan associations were able to achieve increases of an order similar to that of 1982 and 1983, and in 1990 a further improvement looks likely.

The above-described discrepancy between trends in new business and contracts outstanding was due to a major extent to premature cancellations of contracts. In the first half of the 1980s many construction projects were deferred, probably in view of the high capital market rates, which, although not affecting build-

ing and loan association loans as such, considerably raised the cost of other borrowed funds. In addition, temporarily uncertain labour market and income trends as well as the lengthening of the blocking periods for contracts with building and loan associations probably played a significant role. Finally, the progressive dismantling of government promotion of saving for building purposes (see table 4 on page 32) seems to have prompted particularly those savers who were interested only in an attractive return on their investment and not in an actual loan to cancel their contracts prematurely.

While the dramatic decline in new business gave way to a slow but sustained upward movement as early as 1983, the average sum contracted, which reached a temporary peak in 1981 (DM 34,500), fell, with minor fluctuations, by about one-tenth to DM 30,900 in 1988. It had risen again by mid-1990, to an average of DM 33,500, which roughly corresponded to the level of 1980. Against the background of housing construction prices which have gone up by approximately one-half since the end of the 1970s, this comes as a surprise and suggests that there have been some structural shifts in the field of housing finance. Many persons wishing to build a house did indeed have more recourse to other sources of finance, particularly during the low-interest-rate years in the mid-1980s when bank loans were offered on comparatively favourable terms. In addition, the wish to keep the waiting period up to the granting of the loan as short as possible was an argument in favour of entering into contracts involving smaller sums which could be saved comparatively quickly up to the minimum amount required for allocation. Moreover, measures such as the renovation or modernisation of existing dwellings, which are less expensive than the construction of new one or two family houses, increased

in importance. Finally, the rise over the past few years in the share of younger savers, who, owing to their comparatively low income, are entitled to government housing bonuses or tax credits, and hence choose saving for building purposes as a form of investment, has also contributed to the decline in the average sum contracted per saver.

In the case of employees (wage earners, salary earners, officials and pensioners), the decline in the average sum contracted was somewhat smaller than in the case of self-employed persons and other individuals (housewives, infants, schoolchildren, students, persons not stating an occupation). Their share in total new business rose to more than four fifths in the first half of 1990. They are thus more than ever the key target group of building and loan associations, and are of paramount importance for the development of the associations' business activities. Contrary to the general trend, institutional savers have markedly increased their average sum contracted since the early 1980s. These mainly comprise banks and housing enterprises, which initially enter into contracts with building and loan associations in their own name and later transfer them to natural persons. The share of contracts entered into by institutions has, however, traditionally been very low, and in the first half of 1990 it fell to 1.5%.

The Receipts and Capital Outpayments of Building and Loan Associations

Receipts

The downturn in new business at the beginning of the past decade and the declining growth of contracts outstanding until 1987 affected the relevant payment flows only with a time-lag. The long-term expansionary trend in overall receipts, for example, continued until 1983 (DM 43.3 billion), albeit at a slower pace (see

table 5 on page 33). Moreover, the subsequent slackening of receipts, which was inevitable (mainly because of the sluggishness of new business) was rather moderate. Already since 1987 building and loan associations have been receiving distinctly larger amounts again, and 1989 saw a new record level, at DM 47.3 billion. Judging from the figures available so far, receipts will probably be comparatively substantial in 1990, too.

The various components of receipts, however, contributed in very different ways to this trend. *Savings paid in* (gross) reached their all-time peak as long ago as 1979; their share in total receipts has since declined from roughly two-thirds to just over one half. Mainly because of swiftly rising repayments owing to premature cancellations of contracts, net savings paid in slackened more sharply. This variable, which over the longer term is extremely important for the development both of lending business and of the waiting periods up to the granting of loans, would probably have fallen even more if building and loan associations had not tried to boost inflows of funds by introducing new types of contracts. These included, for example, quick-saving schemes with higher inpayments of savings, and contracts offering more attractive interest rates on deposits as well as a number of repayment options for the borrower. In addition, the conditions for withdrawals and the variation options during the life of the contract were made more flexible, and there were also savings schemes involving additional insurance cover and a number of discount variants tailored to the individual tax situation of the potential borrower.

Interest credited rose slightly until 1984 and since then has been running at the level of just over DM 3 billion. This presumably also reflects the pattern of savings schemes, which has become more complex over the past few years and, on balance, has resulted in higher interest payments. *Housing bonuses* received, by

contrast, have declined further. Their share in total receipts, which came to 10% in 1975 and still stood at 5% in 1980, is now relatively insignificant, at less than 2%. Nevertheless, saving with building and loan associations does benefit in relative terms from the present government promotional measures. An important factor in this connection is that saving for building purposes continues to be encouraged by a housing bonus, which was lowered to 10% in 1989 (see table 4 on page 32). Moreover, savers with building and loan associations are entitled to tax credits at a rate of likewise 10% on payments under

the German Personal Assets Acquisition Act. Both promotional instruments supplement each other, in that payments under the German Personal Assets Acquisition Act up to a maximum amount of DM 936 are encouraged through tax credits, and any contributions over and above this amount to a building and loan association by an employee through housing bonuses, up to a maximum of DM 800 for single persons and DM 1,600 for married couples. Incidentally, in 1990 (just as in 1983) the Federal Government launched a programme to cheapen interim loans which involves interest subsidies of 2.5 percentage points and has already been a great success; however, it must not be forgotten that, in view of the high degree of utilisation of construction capacities, the consequent additional stimulation of private demand for construction work will aggravate the price risks in this sector.

Repayments of building and loan association loans have been a mainstay of building and loan association business in recent years. They grew steadily until 1988 and actually contributed more than one half to total receipts in 1986 and 1987. This development, which seems surprising at first sight, was due, firstly, to the fact that the substantial loans allocated in the early 1980s (which, as mentioned above, imposed a heavy strain on building and loan associations' lending capacity owing to the slackening of new business) were entering the repayment stage, and generating exceptionally high return flows of payments to the building and loan associations. Secondly, the relatively low interest rate level in the second half of the 1980s probably prompted many borrowers to make early repayments. However, over several years the steep rise in repayments received largely offset the decline in inpayments of savings only in terms of accounting balances; in the somewhat longer term, after all, a sharply growing ratio of repayments to total receipts implies that future business opportunities are correspondingly

Table 2
New contracts, by group of savers*

Period	All groups of savers	of which				
		Total	Self-employed 1	Employees 1	Other individuals	Institutions 2
Sum contracted; DM billion						
1979	103.4	99.7	11.0	80.9	7.8	3.5
1980	107.4	103.5	11.0	84.1	8.4	3.7
1981	86.1	82.7	9.5	66.0	7.2	3.2
1982	71.1	69.0	8.2	54.0	6.8	1.9
1983	74.5	72.6	8.3	57.7	6.6	1.7
1984	75.0	73.5	8.0	58.8	6.7	1.4
1985	78.6	77.3	6.9	63.2	7.2	1.1
1986	82.3	81.1	6.4	67.0	7.7	1.1
1987	85.7	84.0	6.3	69.4	8.3	1.4
1988	100.9	99.4	6.6	81.8	11.0	1.3
1989	91.2	89.4	6.0	74.5	8.9	1.4
1989 1st half	39.8	39.1	2.5	32.8	3.8	0.6
2nd half	51.4	50.3	3.5	41.7	5.1	0.8
1990 1st half	47.9	47.0	3.0	39.6	4.2	0.7
% of all groups of savers						
1979	100	96.4	10.7	78.2	7.5	3.4
1980	100	96.3	10.3	78.2	7.8	3.4
1981	100	96.1	11.1	76.6	8.4	3.7
1982	100	97.0	11.5	76.0	9.5	2.7
1983	100	97.5	11.1	77.5	8.9	2.3
1984	100	97.8	10.6	78.3	8.9	1.8
1985	100	98.3	8.8	80.4	9.1	1.4
1986	100	98.4	7.7	81.4	9.3	1.3
1987	100	98.0	7.4	81.0	9.6	1.7
1988	100	98.5	6.5	81.1	10.9	1.3
1989	100	98.2	6.6	81.8	9.8	1.5
1989 1st half	100	99.3	6.3	82.4	9.6	1.4
2nd half	100	98.1	6.8	81.3	10.0	1.6
1990 1st half	100	97.9	6.2	83.0	8.7	1.5
Average sum contracted 3; DM thousand						
1979	34.0	32.9	54.8	31.9	26.6	240.7
1980	33.8	32.6	54.3	31.6	26.3	225.5
1981	34.5	33.4	59.3	32.2	26.4	219.6
1982	34.1	33.3	58.2	32.2	26.9	216.2
1983	33.3	32.7	55.7	31.6	26.4	212.5
1984	30.8	30.3	51.4	29.4	24.9	247.3
1985	31.3	30.9	48.1	30.5	24.8	278.2
1986	31.3	30.9	46.7	30.8	24.8	305.7
1987	31.1	30.6	47.1	30.5	24.7	268.0
1988	30.9	30.5	47.7	30.5	24.4	330.4
1989	32.6	32.1	54.9	31.9	26.5	366.4
1989 1st half	31.9	31.5	52.6	31.2	26.6	320.9
2nd half	33.1	32.6	56.7	32.4	26.4	405.2
1990 1st half	33.5	33.0	60.0	32.5	27.9	364.0

* Only new contracts for which the contract fee has been fully paid; increases in the sum contracted count as new contracts. — 1 Wage earners, salary earners, officials and pensioners. — 2 Banks, enterprises, non-profit organisations, public authorities. — 3 Based on sums contracted in DM million and on the number of contracts. BBk

curtailed. Fortunately, the better "synchronisation" of payment flows which has been discernible recently seems to be continuing among building and loan associations.

Capital Outpayments

Since saving with building and loan associations is, in principle, a self-contained financing system, the decline in the deposits received by the associations was bound to have an impact on capital outpayments, even though they remained at a high level until 1984 (DM 47.7 billion). At an average of DM 43 billion in the second half of the last decade, they were just over DM 4 billion lower than between

1980 and 1984.

At the same time, owing to the longer allocation periods and thus the mostly more substantial total inpayments by savers, the share of *allocated savings* deposits in overall capital outpayments increased almost continuously, to more than 40% in 1989 - an all-time record for a single year. In part as a mirror image of this, the importance of allocated building and loan association loans dropped slightly until 1986. In order to be able, even so, to satisfy their customers' demand for finance, building and loan associations granted more interim and bridging loans, which have to be paid for at market rates of interest and are usually taken up until the funds under the contract with a building and loan association are paid out. Following a record level in 1983 (DM 19.4 billion), this form of lending was run down in the further course of the 1980s, to a total of DM 12.1 billion at the end of the decade. Nonetheless, at times - for instance, in the years between 1983 and 1987 - such loans actually exceeded the level of building and loan association loans allocated. Owing to the gradual normalisation of building and loan associations' receipts and outpayments, the relative significance of building and loan association loans increased again in 1988 and 1989. In that period (in much the same way as ten years earlier) they accounted for roughly one-half of the newly granted loans.

The Balance Sheets of Building and Loan Associations

The slackening of the inflow of receipts and their subsequent gradual recovery, on the one hand, and the heavy demands made on lending capacity, on the other, left unmistakable marks in the balance sheets of building and loan associations, which only reflect net changes. After a

continuous rise until 1985, the *balance sheet total* of building and loan associations declined in the second half of the 1980s (see table 6 on page 34). Recently, however, a marked upward trend has been discernible again. In 1989 *savings deposits*, at DM 119.8 billion, were still lower than in 1983 (DM 125.3 billion), although there had been a distinct improvement in 1988 and especially in 1989. The share of savings deposits in the balance sheet total fell from more than four-fifths at the beginning of the decade to less than three-quarters. In this connection it must be borne in mind that this decline is only partly comparable with the conditions among universal banks. For, in contrast to "normal" bank deposits, saving for building purposes is a contractual form of saving and financing, with a

Period	Outpayments 1, 2					
	Total	Allocated savings deposits 1, 2	Building loans			
			Total	Allocated building loans 2	Interim and bridging loans	Other building loans
	DM million					
1979	47,255	16,265	30,990	14,248	16,673	69
1980	48,029	16,809	31,220	15,996	15,122	102
1981	48,913	17,169	31,744	16,590	15,045	109
1982	44,329	15,759	28,570	14,487	13,966	117
1983	47,473	14,991	32,482	12,969	19,425	88
1984	47,660	16,038	31,622	13,594	17,593	145
1985	44,533	15,965	28,568	13,307	15,077	184
1986	41,532	15,037	26,495	11,636	14,714	145
1987	43,329	16,367	26,962	12,758	13,969	236
1988	42,216	16,680	25,536	12,904	12,224	408
1989	43,359	17,536	25,823	13,299	12,997	427
1989 1st half	20,992	8,695	12,297	6,484	5,549	264
2nd half	22,367	8,841	13,526	6,815	6,548	163
1990 1st half	24,135	9,576	14,560	7,101	7,272	187
	Change from previous year in %					
1980	+ 1.6	+ 3.3	+ 0.7	+ 12.3	- 9.3	+ 47.8
1981	+ 1.8	+ 2.1	+ 1.7	+ 3.7	- 0.5	+ 6.9
1982	- 9.4	- 8.2	- 10.0	- 12.7	- 7.2	+ 7.3
1983	+ 7.1	+ 4.9	+ 13.7	- 10.5	+ 39.1	- 24.8
1984	+ 0.4	+ 7.0	- 2.6	+ 4.7	- 7.9	+ 64.6
1985	- 6.6	- 0.5	- 9.7	- 2.0	- 15.7	+ 26.9
1986	- 6.7	- 5.8	- 7.3	- 12.6	- 2.4	- 21.2
1987	+ 4.3	+ 8.8	+ 1.8	+ 9.6	- 5.1	+ 62.8
1988	- 2.6	+ 1.9	+ 5.3	+ 1.1	- 12.5	+ 72.9
1989	+ 2.7	+ 5.1	+ 1.1	+ 3.1	- 1.0	+ 4.7
1989 1st half	- 0.1	+ 2.4	- 1.8	- 3.8	- 0.7	+ 36.1
2nd half	+ 6.6	+ 1.7	+ 10.0	+ 5.1	+ 18.0	- 38.3
1990 1st half	+ 7.9	+ 8.3	+ 7.6	+ 4.2	+ 11.1	+ 14.7
	% of total outpayments					
1979	100	34.4	65.6	30.2	35.3	0.1
1980	100	35.0	65.0	33.3	31.5	0.2
1981	100	35.1	64.9	33.9	30.8	0.2
1982	100	35.5	64.5	32.7	31.5	0.3
1983	100	31.8	68.4	27.3	40.9	0.2
1984	100	33.7	66.3	28.5	37.5	0.3
1985	100	35.8	64.2	29.9	33.9	0.4
1986	100	36.3	63.7	29.0	35.4	0.3
1987	100	37.9	62.1	29.4	32.2	0.5
1988	100	39.4	60.6	30.6	29.0	1.0
1989	100	40.4	59.6	30.7	27.9	1.0
1989 1st half	100	41.4	59.6	30.9	26.4	1.3
2nd half	100	39.5	60.5	30.5	29.3	0.7
1990 1st half	100	39.7	60.3	29.4	30.1	0.8

* Changes from previously published figures are due to corrections subsequently reported. — 1 Excluding repayments on cancelled contracts. — 2 Excluding payments applied to settlement of interim and bridging loans. BBK

Table 4
Major changes in the government promotion of saving for building purposes since 1980 *

1980	The blocking period for savings contracts for building purposes is extended from seven years to ten. This affects savers who entered into a contract after November 12, 1980 and failed to use for housing purposes the money which they had paid in and had earned a bonus.
1982	The housing bonus rate is lowered from 18% to 14%. The dual promotion of employees' personal asset formation is abolished. (It is now promoted only by tax credits on employees' savings; the payment of a housing bonus in addition and claiming tax relief, as special expenditure, on deposits with building and loan associations are no longer possible.) The credits on employees' savings are reduced from 30% to 23% for asset-forming savings invested under the Housing Bonus Act or used for housing construction purposes under the terms of the Third Asset Formation Act. The promotion of saving for building purposes is extended to include the modernisation of a flat by its tenant.
1983	DM 555 million is made available for interest subsidies for the interim financing of savings contracts for building purposes. The subsidies are granted on loans of up to DM 80,000 (plus a further DM 15,000 for each eligible child). At least one-third of the contractual sum must have been saved at the time of application for the subsidy. The interest subsidy is granted for a period not exceeding four years; it amounts to 2.5 percentage points p.a.
1984	The blocking period for savings contracts for building purposes is reduced from ten years to seven. This affects all contracts which were entered into after November 1, 1984.
1989	The housing bonus rate is lowered from 14% to 10%. The additional bonuses for each eligible child are abolished.
1990	The possibility of claiming tax relief, as special expenditure, on deposits with building and loan associations is restricted to 50% of the amount involved. At the same time, however, the "prior deduction" is raised to DM 4,000 for single persons and DM 8,000 for married couples. Saving for building purposes is promoted within the framework of the new maximum amount (DM 936) fixed under the Personal Asset Acquisition Act. The income ceiling above which no housing bonuses are payable is raised to DM 27,000 for single persons and DM 54,000 for married couples. Tax credits on employees' savings are reduced from 23% to 10%. DM 500 million is made available for interest subsidies for the interim financing of savings contracts for building purposes which are not yet eligible for allocation. The subsidies are confined to loans not exceeding DM 80,000, plus DM 20,000 for each eligible child. At least one-third of the contractual sum must have been saved. The interest subsidy is granted for a period not exceeding four years; it amounts to 2.5 percentage points p.a. * The measures listed came into effect in the year under which they are shown. BBK

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long-term orientation. Admittedly, this means that depositors are less sensitive to changes in interest rates but, when the contracts mature and the loans are allocated, substantial sums are automatically due to be paid out and, in the final analysis, have to be compensated for by new business. "Prolongations", by contrast, are no doubt quite exceptional. The relatively good results achieved in the new business of building and loan associations in the late 1970s, for instance, which did not

continue in the ensuing period, were more or less inevitably followed in the 1980s by dramatic declines on the deposits side.

Compared with savings deposits, loans under saving contracts grew much more vigorously, or, since the middle of the past decade, have diminished less sharply. The resultant exceptionally high pressure

on the associations emerges very clearly if the two variables are juxtaposed. This ratio rose from 80% in the early 1980s to the "critical" value of 90% in 1987. By 1989 the extreme pressure on the building and loan associations' lending capacity had relaxed markedly, as they were again receiving more savings (+2.5%) while the level of the corresponding loans continued to decline (-3.6%). The temporary disproportion between loans and deposits under savings contracts compelled building and loan associations to lengthen the waiting periods up to the outpayment of their loans. This in turn markedly impaired the attractiveness of this form of housing finance. After all, from the savers' point of view, the longer and hardly predictable waiting periods made the basis of calculation of building finance schemes involving loans under savings contracts less reliable. Moreover, in many cases it was necessary to take up interim loans which had to be paid for at market interest rates and were therefore expensive. This eroded the key advantage of saving with building and loan associations, viz. the right to a junior mortgage loan at an interest rate which is low and fixed over the whole term of the contract. Particularly in the first half of the decade, building and loan associations met the massive demand for funds partly by granting more short-term interim and bridging loans. Relative to the balance sheet total, the importance of building loans under savings contracts therefore temporarily diminished.

As a result of the drifting apart of lending and deposit business in the traditional core area of their business, building and loan associations were increasingly compelled to raise additional borrowed funds in the market in order to maintain their capacity to provide finance at any time. At just over 14% of the balance sheet total in 1989 and in the first half of 1990, compared with roughly 10% at the beginning of the decade and barely 6% in 1970, "borrowed funds" have assumed increasing importance over the longer term. They mainly

Period	Savings paid in (gross) pe	Repayments on cancelled contracts	Savings paid in (net) (col. 1 less col. 2) pe	Interest credited	Housing bonuses received	Repayments of building loans pe. 1	Total receipts (cols. 3 to 6)
	1	2	3	4	5	6	7
DM million							
1970	13,659	1,204	12,455	1,019	1,643	2,832	17,949
1971	15,370	1,493	13,877	1,181	2,079	3,456	20,593
1972	218,525	1,456	217,069	1,317	2,499	4,361	225,246
1973	19,000	910	18,090	1,558	2,532	4,992	27,572
1974	19,052	944	18,108	1,786	3,126	5,974	28,994
1975	20,241	1,173	19,068	1,959	3,205	7,399	31,641
1976	22,070	1,659	20,411	2,210	2,285	8,861	33,767
1977	23,678	2,199	21,479	2,407	1,899	10,029	35,814
1978	25,707	2,202	23,505	2,576	1,907	11,641	39,635
1979	27,863	2,408	25,455	2,779	1,965	12,119	41,861
1980	27,437	2,750	24,687	2,835	2,028	12,119	41,769
1981	27,134	3,077	24,057	3,101	2,039	13,414	42,611
1982	25,822	3,570	22,252	3,226	1,973	14,855	42,308
1983	26,248	4,309	21,939	3,367	1,162	16,849	43,307
1984	23,541	4,979	18,562	3,419	993	17,778	40,752
1985	22,135	5,760	16,375	3,379	935	19,423	40,112
1986	21,862	6,404	15,458	3,314	909	20,446	40,126
1987	23,012	6,815	16,197	3,238	888	21,743	42,066
1988	24,468	3,905	20,563	3,230	896	21,975	46,664
1989	25,001	2,952	22,049	3,340	863	21,006	47,258
Change from previous year in %							
1971	+12.5	+24.0	+11.4	+15.9	+26.5	+22.0	+14.7
1972	+18.3	-2.5	+21.2	+11.5	+20.2	+26.2	+21.4
1973	+2.6	-37.5	+6.0	+18.3	+17.3	+14.5	+9.2
1974	+0.3	+3.7	+0.1	+14.6	+6.6	+19.7	+5.2
1975	+6.2	+24.3	+5.3	+10.2	+2.5	+23.9	+9.1
1976	+9.0	+41.4	+7.0	+12.2	-28.7	+19.8	+6.7
1977	+7.3	+32.5	+5.2	+9.9	-16.9	+13.2	+6.1
1978	+8.6	+0.1	+9.4	+7.0	+0.4	+16.1	+10.7
1979	+8.4	+9.4	+8.3	+7.9	+3.0	+0.1	+5.6
1980	-1.5	+14.2	-3.0	+5.6	+3.2	+3.9	-0.2
1981	+11.9	+11.9	-2.6	+5.7	+0.5	+10.7	+2.0
1982	-4.8	+16.0	-7.5	+4.0	-3.2	+10.7	-0.7
1983	+1.6	+20.7	-1.4	+4.4	-1.6	+13.4	+2.4
1984	-10.3	+15.5	-15.4	+1.5	-13.8	+5.5	-5.9
1985	-6.0	+15.7	-11.8	-1.2	-5.8	+9.3	-1.6
1986	-1.2	+11.2	-5.6	-1.9	-2.8	+5.3	+0.0
1987	+5.3	+6.4	+4.8	-2.3	-2.3	+6.3	+4.8
1988	+6.3	-42.7	+27.0	-0.2	+0.9	+1.1	+10.9
1989	+2.2	-24.4	+7.2	+3.4	-3.7	-4.4	+1.3
% of total receipts							
1970	76.1	6.7	69.4	5.7	9.1	15.8	100
1971	74.6	7.2	67.4	5.7	10.1	16.8	100
1972	73.4	5.8	67.6	5.2	9.9	17.3	100
1973	68.9	3.3	65.6	5.7	10.6	18.1	100
1974	56.7	3.9	60.6	6.2	10.8	20.6	100
1975	64.0	3.7	60.3	6.3	10.1	23.4	100
1976	65.4	4.9	60.5	6.5	6.8	26.2	100
1977	66.1	6.1	60.0	6.7	5.3	28.0	100
1978	64.9	5.8	59.3	6.5	4.8	29.4	100
1979	66.6	5.8	60.8	6.5	4.7	27.9	100
1980	65.7	6.6	59.1	7.0	4.9	29.0	100
1981	63.6	7.2	56.4	7.3	4.8	31.5	100
1982	61.0	8.4	52.6	7.6	4.7	30.1	100
1983	60.5	9.9	50.6	7.8	2.7	38.9	100
1984	57.8	12.2	45.6	8.4	2.4	43.6	100
1985	55.3	14.4	40.9	8.4	2.3	48.4	100
1986	54.4	16.0	38.4	8.3	2.3	51.0	100
1987	54.7	16.2	36.5	7.7	2.1	51.7	100
1988	52.9	8.4	44.1	6.9	1.9	47.1	100
1989	52.9	6.2	46.7	7.1	1.8	44.4	100

* Changes from previously published figures are due to corrections subsequently reported. — 1 Special repayments received are not included. —

2 Including a statistical increase of DM 250 million. — pe Parity BBk estimated.

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Major items in building and loan association balance sheets * **Table 6**

Period	Balance sheet total	Liabilities			Assets				Cash in hand and bank balances 1	Securities	Memo item Capital (incl. published reserves under §. 10, Banking Act)
		Savings deposits	Other deposits and borrowed funds	Total	Building loans						
					Loans under savings contracts	Interim loans	Other building loans				
DM million											
1970	46,886	40,809	2,708	34,700	24,012	9,988	690	9,356	1,373	1,282	
1971	53,632	48,199	3,095	39,051	28,243	10,066	742	11,370	1,466	1,491	
1972	62,098	2 53,524	3,748	45,493	34,586	10,044	863	12,531	1,741	1,744	
1973	70,435	61,682	3,537	56,500	41,635	13,167	1,698	10,886	1,737	2,092	
1974	77,686	67,829	3,763	62,369	49,736	10,994	1,639	12,124	1,849	2,385	
1975	86,952	75,818	4,364	68,200	55,375	11,297	1,528	13,969	3,281	2,573	
1976	94,906	82,950	4,432	75,172	60,357	13,628	1,167	13,335	4,751	2,990	
1977	102,153	89,457	4,528	83,260	65,378	16,648	1,036	11,878	5,220	3,318	
1978	111,223	96,650	5,775	91,870	70,696	20,283	891	11,874	5,733	3,586	
1979	121,932	104,289	7,858	104,784	78,940	24,955	889	10,121	5,378	4,364	
1980	132,501	110,525	10,585	116,722	88,804	26,925	993	9,558	4,526	4,429	
1981	142,979	115,825	14,708	127,998	99,673	28,358	967	9,028	3,980	5,705	
1982	149,655	120,753	15,238	134,235	104,464	29,760	1,011	9,435	3,837	6,927	
1983	155,392	125,275	15,938	140,278	106,743	32,403	1,132	8,356	4,587	6,551	
1984	160,937	124,749	20,038	146,233	109,711	35,291	1,231	7,895	4,516	6,872	
1985	160,984	122,563	21,734	146,933	109,115	36,579	1,239	6,839	4,781	7,344	
1986	158,103	119,763	20,437	144,039	106,915	35,872	1,252	6,626	4,656	7,563	
1987	156,107	116,031	19,281	140,224	104,458	34,222	1,544	7,475	5,642	7,950	
1988	156,550	116,825	20,424	132,462	98,686	31,553	2,301	12,281	5,026	8,216	
1989	161,034	119,779	22,819	130,791	95,016	32,270	3,505	13,243	14,230	8,446	
1989 1st half	156,504	115,320	21,401	129,978	95,100	31,073	2,805	12,056	12,081	6,387	
2nd half	161,034	119,779	22,819	130,791	95,016	32,270	3,505	13,243	14,230	8,446	
1990 1st half	163,077	119,136	23,208	133,029	94,785	34,302	3,942	11,366	15,900	8,666	
Change from previous year in %											
1971	+14.4	+13.6	+13.9	+12.5	+17.6	+ 0.7	+ 7.5	+21.5	+ 6.8	+16.3	
1972	+15.8	+15.2	+21.5	+16.5	+22.5	- 0.2	+16.3	+10.2	+18.8	+17.0	
1973	+13.4	+15.2	- 5.6	+24.2	+20.4	+31.1	+96.8	-12.3	- 0.2	+20.0	
1974	+10.3	+10.0	+ 6.4	+10.4	+19.5	-16.5	- 3.5	+10.4	+ 6.4	+14.0	
1975	+11.9	+11.5	+15.0	+ 9.3	+11.3	+ 2.8	- 6.8	+15.2	+7.4	+ 7.9	
1976	+ 9.1	+ 9.7	+1.6	+10.2	+ 9.0	+20.6	-22.3	- 4.5	+44.8	+16.2	
1977	+ 7.6	+ 7.8	+ 2.2	+10.8	+ 8.3	+23.6	-12.7	-12.4	+ 9.9	+11.0	
1978	+ 8.9	+ 8.1	+27.5	+10.3	+ 8.1	+20.4	-14.0	+ 1.7	+ 9.8	+ 8.1	
1979	+ 9.6	+ 7.9	+36.1	+14.1	+11.7	+23.0	- 0.2	-14.8	- 6.2	+ 6.2	
1980	+ 8.7	+ 6.0	+34.7	+11.4	+12.5	+ 7.9	+11.7	- 5.6	-15.8	+21.6	
1981	+ 7.9	+ 4.8	+38.9	+ 9.7	+11.1	+ 5.3	- 2.6	- 5.5	-12.1	+28.8	
1982	+ 4.7	+ 4.3	+ 3.6	+ 4.9	+ 5.9	+ 1.4	+ 4.6	+ 4.5	- 2.1	+ 3.9	
1983	+ 3.8	+ 3.7	+ 4.6	+ 4.5	+ 2.2	+12.7	+12.0	-11.4	+17.7	+10.5	
1984	+ 3.6	- 0.4	+25.7	+ 4.2	+ 2.8	+ 8.9	+ 8.7	- 5.3	- 1.5	+ 4.9	
1985	+ 0.0	- 1.8	+ 8.5	+ 0.5	- 0.5	+ 3.6	+ 0.6	-13.4	+ 5.4	+ 6.9	
1986	- 1.8	- 2.3	- 6.0	- 2.0	- 2.0	- 1.9	+ 1.0	- 3.1	- 2.2	+ 3.3	
1987	- 1.3	- 3.1	- 5.7	- 2.6	- 2.3	- 4.6	+23.3	+12.8	+21.2	+ 5.4	
1988	+ 0.3	+ 0.6	+ 5.9	- 5.5	- 5.6	- 7.8	+49.0	+64.3	+60.0	+ 2.8	
1989	+ 2.9	+ 2.5	+11.7	- 1.9	+ 3.6	+ 2.3	+52.3	+ 7.8	+57.7	+ 2.8	
1989 1st half	- 0.0	- 1.3	+ 4.8	- 1.9	- 2.5	+ 1.5	+21.9	- 1.8	+33.8	+ 2.1	
2nd half	+ 2.9	+ 3.9	+ 6.6	+ 0.6	- 1.1	+ 3.9	+25.0	+ 9.8	+17.8	+ 0.7	
1990 1st half	+ 1.3	- 0.5	+ 1.7	+ 1.7	- 0.2	+ 6.3	+12.5	-14.2	+11.7	+ 2.6	
% of balance sheet total											
1970	100	86.6	5.8	74.0	51.2	21.3	1.5	20.0	2.9	2.7	
1971	100	86.1	5.8	72.8	52.6	18.8	1.4	21.2	2.7	2.8	
1972	100	86.2	6.0	73.3	55.7	18.2	1.4	20.2	2.8	2.8	
1973	100	87.6	5.0	80.2	59.1	18.7	1.3	15.6	2.5	3.0	
1974	100	87.3	4.8	80.3	64.0	14.2	2.1	15.6	2.4	3.1	
1975	100	87.0	5.0	78.4	63.7	13.0	1.7	16.1	3.8	3.0	
1976	100	87.4	4.7	79.2	63.6	14.3	1.3	14.1	5.0	3.2	
1977	100	87.6	4.4	81.4	64.0	16.4	1.0	11.4	5.1	3.2	
1978	100	86.9	5.2	82.7	63.5	16.3	0.8	10.7	5.2	3.2	
1979	100	85.5	6.4	85.9	64.7	20.5	0.7	8.3	4.4	3.0	
1980	100	83.4	8.0	88.1	67.0	20.3	0.8	7.2	3.4	3.3	
1981	100	81.0	10.3	89.6	69.0	19.9	0.7	6.3	2.8	4.0	
1982	100	80.7	10.2	89.7	69.8	19.2	0.7	6.3	2.6	4.0	
1983	100	80.6	10.3	90.3	68.7	20.9	0.7	5.4	3.0	4.2	
1984	100	77.5	12.5	90.8	68.2	21.9	0.7	4.9	2.6	4.3	
1985	100	76.1	13.5	91.2	67.8	22.7	0.7	4.2	3.0	4.6	
1986	100	75.8	12.9	91.1	67.6	22.7	0.8	4.2	2.9	4.8	
1987	100	74.4	12.4	89.8	66.9	21.9	1.0	4.8	3.6	5.1	
1988	100	74.6	13.0	84.7	63.0	20.2	1.5	7.8	5.8	5.2	
1989	100	74.4	14.2	81.3	59.0	20.1	2.2	8.2	8.8	5.2	
1989 1st half	100	73.7	13.7	83.1	61.4	19.9	1.8	7.7	7.7	5.4	
2nd half	100	74.4	14.2	81.3	59.0	20.1	2.2	8.2	8.8	5.2	
1990 1st half	100	73.1	14.2	81.5	58.1	21.0	2.4	7.0	9.8	5.3	

* Changes from previously published figures are due to corrections subsequently reported. — 1 Including registered bonds. — 2 Including a statistical increase of DM 250 million. — 3 From December 1973 including

minor amounts of loans for purposes other than building. — 4 Including a statistical decrease of DM 165 million.

consist of deposits by banks; only about one-quarter is accounted for by deposits by non-banks. Moreover, building and loan associations may in principle raise funds by issuing bearer bonds. With a few exceptions, however, this form of refinancing has been relatively insignificant

over the past few years. Initially, most building and loan associations ran down their own bank balances. In 1988 and 1989, by contrast, these liquid funds rose to roughly 8% of the balance sheet total. This might be an indication that, after the painful experience of earlier years, build-

ing and loan associations wished to build up certain liquid reserves, in order to be able to cope better with possible tensions in the "collective" building and loan association system and to safeguard its lasting viability. Similar considerations will probably have led to the increased purchases of securities by building and loan associations since 1988. Their share in the balance sheet total had risen to almost 10% by mid-1990, against no more than 3% in most of the preceding years.

The Profitability of Building and Loan Associations

The business climate, which was severely clouded over a lengthy period, is also reflected in building and loan associations' profit and loss accounts. Their profit for the year (after tax), for example, had fallen, with fluctuations, to as little as DM 274 million, or 0.18% of the volume of business³ by 1988; this was the lowest relative value ever recorded for a single year (see table 7 on page 35). In 1989, by contrast, the profit for the year rose again to DM 485 million, or 0.31% of the volume of business. There is some evidence that the trend towards a lasting deterioration in the profitability of building and loan associations has now been arrested. In 1989, for example, building and loan associations registered considerably higher relative profits than mortgage banks (0.18%), although this figure was admittedly below that for all banks⁴ (0.20%). Building and loan associations' rate of return on capital employed fell to an average of 7.5% p.a. between 1981 and 1989 (against 10.8% p.a. between 1976 and 1979).⁵ As a result, building and loan associations fell markedly behind mortgage banks and all banks, which have achieved an average rate of return on capital of 15.8% and 16.7%, respectively, in the past nine years.

The terms and conditions for building and loan associations' deposit and lending

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Financial year	Net interest received	Net fees and commissions received	Administrative expenses ¹	Operating result (col. 1 plus col. 2 less col. 3)	Excess of other receipts over other expenses ²	Profit for the year (col. 4 plus col. 5)	Memo item Average annual balance sheet total
	1	2	3	4	5	6	7
DM million							
All building and loan associations							
1980	3,408	493	2,437	1,464	— 283	1,181	126,142
1981	3,908	272	2,544	1,636	— 1,127	909	136,666
1982	4,148	563	2,621	2,090	— 1,325	765	144,840
1983	4,246	352	2,710	1,888	— 1,361	527	151,344
1984	4,314	365	2,655	1,824	— 1,071	753	156,630
1985	4,272	342	3,004	1,610	— 1,166	444	158,699
1986	4,073	338	3,038	1,373	— 915	458	157,244
1987	3,677	472	3,027	1,322	— 850	472	155,163
1988	3,685	450	3,064	1,071	— 797	274	155,183
1989 p	3,766	587	3,161	1,192	— 707	485	156,465
Private building and loan associations							
1980	2,235	309	1,590	954	— 102	1,056	83,060
1981	2,541	158	1,678	1,021	— 662	359	90,597
1982	2,671	428	1,699	1,400	— 730	670	96,347
1983	2,738	277	1,775	1,240	— 872	368	101,075
1984	2,792	292	1,874	1,210	— 605	605	105,265
1985	2,799	257	2,016	1,040	— 747	293	107,859
1986	2,659	229	2,033	865	— 575	290	106,657
1987	2,521	371	2,054	636	— 498	340	105,093
1988	2,363	372	2,081	654	— 495	159	105,513
1989 p	2,368	506	2,149	725	— 357	368	106,592
Public building and loan associations							
1980	1,173	184	847	510	— 385	125	43,082
1981	1,377	114	866	615	— 465	150	46,069
1982	1,477	135	922	600	— 535	165	48,493
1983	1,508	75	935	648	— 489	159	50,269
1984	1,522	73	981	614	— 466	148	51,365
1985	1,473	85	988	570	— 419	151	50,840
1986	1,414	99	1,005	508	— 340	168	50,587
1987	1,356	101	973	484	— 352	132	50,070
1988	1,322	78	863	417	— 302	159	49,650
1989 p	1,398	81	1,012	467	— 350	117	49,873
% of average balance sheet total							
All building and loan associations							
1980	2.70	0.39	1.93	1.16	— 0.22	0.94	
1981	2.86	0.20	1.86	1.20	— 0.83	0.37	
1982	2.86	0.39	1.81	1.44	— 0.91	0.53	
1983	2.91	0.23	1.79	1.25	— 0.90	0.35	
1984	2.75	0.23	1.82	1.16	— 0.68	0.48	
1985	2.69	0.21	1.89	1.01	— 0.73	0.28	
1986	2.59	0.21	1.93	0.87	— 0.58	0.29	
1987	2.50	0.30	1.95	0.85	— 0.55	0.30	
1988	2.37	0.29	1.97	0.69	— 0.51	0.18	
1989 p	2.40	0.38	2.02	0.76	— 0.45	0.31	
Private building and loan associations							
1980	2.69	0.37	1.91	1.15	— 0.12	1.27	
1981	2.80	0.18	1.85	1.13	— 0.73	0.40	
1982	2.77	0.44	1.76	1.45	— 0.82	0.63	
1983	2.71	0.27	1.76	1.22	— 0.86	0.36	
1984	2.65	0.28	1.78	1.15	— 0.58	0.57	
1985	2.59	0.24	1.87	0.96	— 0.69	0.27	
1986	2.48	0.22	1.90	0.81	— 0.54	0.27	
1987	2.40	0.35	1.95	0.80	— 0.48	0.32	
1988	2.24	0.35	1.97	0.62	— 0.47	0.15	
1989 p	2.22	0.48	2.02	0.68	— 0.33	0.35	
Public building and loan associations							
1980	2.72	0.43	1.97	1.18	— 0.89	0.29	
1981	2.97	0.25	1.86	1.34	— 1.01	0.33	
1982	3.04	0.28	1.90	1.42	— 1.10	0.32	
1983	3.00	0.15	1.86	1.29	— 0.97	0.32	
1984	2.97	0.14	1.91	1.20	— 0.91	0.29	
1985	2.90	0.17	1.95	1.12	— 0.82	0.30	
1986	2.79	0.19	1.98	1.00	— 0.67	0.33	
1987	2.71	0.20	1.94	0.97	— 0.71	0.26	
1988	2.66	0.16	1.98	0.84	— 0.61	0.23	
1989 p	2.80	0.16	2.03	0.93	— 0.70	0.23	

¹ Excluding other taxes. — ² Including taxes on income, earnings and net income, and including other taxes. — p Provisional.

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business are fixed on a long-term basis upon the conclusion of the contract, and as such are independent of changes in interest rates. As long as the associations' new business expanded steadily (apart from minor declines which lasted

only for short periods), a continuous improvement in profitability was thus to be expected. In the 1980s, however, the balance between incoming and outgoing payments was lastingly disturbed. Admittedly, building loans, which had risen to a

record level, caused *net interest received* (the main income component of building and loan associations) to soar to DM 4.3 billion in 1984. In the ensuing period, however, it fell markedly again, as building and loan associations were less and less able to use low-interest contractual funds to grant higher-yielding interim loans. Instead, they had to have more recourse to relatively expensive borrowed resources. It was not until 1989, when savings deposits (which were partly likewise invested in higher yielding assets) increased markedly, that building and loan associations were able, for the first time for five years, to raise their net interest received slightly (+2.2%) and to expand their interest margin fractionally (from 2.37% to 2.40%).

After some major losses in the preceding period, building and loan associations have been able to raise their net fees and commissions received again since 1987. This probably owes something both to the increase in the amounts covered by the contracts and to the above-mentioned efforts in the direction of "one-stop" financing strategies. Relative to the volume of business, net receipts in this area in 1989, at 0.38%, were running at almost the same level as in 1982 (0.39%). Although the relative contribution of net fees and commissions received to overall profit has increased somewhat over the past few years, it continues to be relatively low, at 13 1/2 % of overall earnings. *Administrative expenses* grew rapidly during the 1980s and, at 2.02% of the volume of business in 1989, were higher than in any of the preceding years. Apparently the more difficult overall competitive situation has compelled building and loan associations to accept ever-higher operating and personnel expenses. The variety of the savings schemes offered, which has probably made contract administration more costly, seems to have tended to push up expenses as well. As a percentage of the volume of business, the *operating result* of building and loan associations averaged 1.02% between 1981 and

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"Sites and Services and Subsidies, The Economics of Low-Cost Housing in Developing Countries," The World Bank Economic Review, January 1987. Their analysis compares the interest rate to the rate of inflation during the year of the appraisal.

² For example, studies of agricultural credit policies have shown that the provision of concessional credit can never successfully offset other distortions in the economy, and in fact, such policies can easily lead to more concentrated distributions of wealth and income. See Claudio Gonzalez-Vega, *Cheap Agricultural Credit: Redistribution in Reverse*, in Dale Adams, Douglas Graham, and J.D. Von Pischke, *Undermining Rural Development with Cheap Credit*, Westview Press Boulder, 1984.

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Pacific" which we hope will point the way for Bank assistance in the 1990s.

EMERGING THEMES IN ADB'S ASSISTANCE

Three themes have been common to the Bank's assistance to the housing sector since its inception:

- (1) support for programs focussed on the poor;
- (2) institutional strengthening; and
- (3) achievement of sector-wide financial replicability.

The ADB's assistance for the housing sector in the 1990s is likely to involve the following:

- (i) a continuation of in-situ upgrading and sites and services programs, with a greater role for community-based organizations, NGOs and private firms.
- (ii) the development of efficient land markets and local governmental institutions;
- (iii) the development of market-oriented housing finance institutions capable of mobilizing savings from the private sector;
- (iv) assistance for sector studies, feasibility studies, institutional strengthening, training, workshops and seminars focussed on the policy and operational aspects of the sector. ■

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1989, compared with 0.54% for mortgage banks and 0.84% for all banks.⁶ The excess of other receipts over other expenses has consistently improved over the past few years. When interpreting these results, it must be borne in mind that taxes are also included in this "extraordinary" account. Since legally dependent building and loan associations do not show their tax expenses separately but include them in "other" expenses, for the sake

of uniformity the taxes paid by the other building and loan associations have also been included in this item.

Despite the above-mentioned pressure on their profits, building and loan associations further increased their *own funds* in the 1980s, too, by ploughing back substantial parts of their profit for the year. In 1989 building and loan associations' capital averaged roughly 5.3% of their volume of business. That was distinctly more than in the case of mortgage banks (2.5%) and other banks (3.6%). All in all, building and loan associations thus seem to be well equipped at the beginning of the 1990s to assume a major financing function in connection with the upswing which has got under way in housing construction, even though they will probably not be able to resume their old role, fostered as it was by substantial government promotion. ■

NOTES

¹ The last article published on this subject was "Recent developments in building and loan association business" in Monthly Report of the Deutsche Bundesbank, Vol. 35, No. 4, April 1983, p. 25.

² In this context, this is understood to mean aggregate borrowing by the housing sector (as defined in the capital finance account) plus outpayments of allocated savings deposits.

³ The statistical term "volume of business" used here - and customary in analyses of bank balance sheets - is identical with "balance sheet total" in the case of building and loan associations.

⁴ Excluding building and loan associations.

⁵ The year 1980 is disregarded here, because the relatively high profit for the year was primarily due to the fact that private building and loan associations had to release major amounts of general loan-loss provisions in a manner affecting the profit and loss account.

⁶ Excluding building and loan associations.