

The German Savings and Loan System for Construction (Bausparsystem)

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Since the war, the German savings and loan societies for construction (Bausparkassen) have helped to finance nearly eleven million housing units in the Federal Republic of Germany. During this period, they have paid out to their customers a total of more than DM 900 thousand million for the construction of new housing, the acquisition of dwellings, as well as for modernization and restoration work, the conversion and extension of existing housing units, and the acquisition of building land.

Today, they administer 27.1 million building-savings contracts representing a total contract amount of DM 940 thousand million. At the end of 1990, the combined total assets of all 34 German Bausparkassen amounted to more than DM 168 thousand million. At present, 17 million German citizens have taken out one or more building-saving contracts with a Bausparkasse (Bausparvertrag). In the "old" Federal Republic of Germany every third citizen above the age of 18 is a saver with a Bausparkasse (Bausparer).

In 1990 alone, in the "new" Federal Repub-

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lic of Germany 3.4 million contracts representing a total contract sum of DM 121,1 thousand million were concluded, and building-saving loans to the amount of DM 49,8 thousand million were paid out to savers. The German Bausparkassen thus represent by far the largest group of institutions involved in financing of dwellings in the Federal Republic of Germany. Three out of four newly constructed housing units in detached or semi-detached houses are today financed partly by a Bausparkasse.

A SELF-CONTAINED FINANCING SYSTEM

This strong position of the Bausparkassen in the Federal Republic of Germany is primarily due to the particular character of the German building-saving system (Bausparsystem).

In contrast to almost all other countries, and in particular to the Anglo-Saxon countries, the German savings system with a Bausparkasse is based on a self-contained financing system. Based on the amalgamation of savers to form a self-help community, this system is independent of the capital market and its interest rate fluctuations. The savers with a Bausparkasse undertake a contractual obligation to make regular savings contributions to joint funds, from which they receive the amount subscribed for under the contract according to a system of priorities (allocation). The amount cov-

ered by a contract with a Bausparkasse (building-saving sum) is made up of the savings accumulated by a saver in the funds of a Bausparkasse (building-saving deposits) (40 % to 50 % of the building-saving contract) and the contractual building loan (Bauspardarlehen) (i.e. the difference between the amount covered by the contract with a Bausparkasse and the savings actually accumulated by the saver in

Table 1: Amount Paid Out by the German Bausparkassen for housing construction

Year	Amount Paid Out in Billion DM.
1955	1.6
1960	4.1
1965	9.0
1970	19.2
1975	29.9
1980	48.1
1985	44.4
1990	49.8

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the funds of the Bausparkasse). This type of savings and loan system for construction is characterized by the identity of saver and borrower. The saver remains a creditor of the Bausparkasse until he has been paid the savings he has accumulated in the funds of the Bausparkasse, but once the building loan has been allocated to him, the saver turns into a debtor of the Bausparkasse.

Upon conclusion of the contract, the saver with a Bausparkasse acquires a legal claim to a building-saving loan. The low interest rate of this loan is fixed over the entire life of the loan and is virtually unrivalled by other competitors: it may be 4.5%, 5%, 6% or 6.5%, depending on the tariff. It is totally independent of capital market developments. Interest rate escalation clauses and variable exchange rates do not exist in the building-saving system. Thus, anyone considering a building project has a clear basis for calculation right from the beginning. During the saving period, the savings accumulated by the saver are credited with an interest rate which is fixed at 2.5%, 3%, 4% or 4.5%, depending on the interest rate which will be charged during the loan pe-

riod. The saver with the Bausparkasse can make use of the loan - which is granted exclusively for housing purposes - as soon as he is eligible for allocation, that is once the following conditions have been fulfilled: the minimum savings period, the minimum savings balance of 40% to 50% of the amount subscribed for under a contract with a Bausparkasse, and the target qualification figure, which depends on the overall funds available. The contractual amount subscribed for initially, which is equal to the savings at the time of allocation plus the amount of the loan entitlement, is then paid out to the saver. After it has been allocated, the loan is repaid by the saver within a stipulated period.

The German Bausparkassen offer a great variety of tariffs, which differ by their interest rates as well as their savings and/or repayment rates, enabling every saver to choose a method of financing tailored to suit his own individual circumstances. The maturity of the loans varies between around 6.5 and 18 years, depending on the tariff.

A COMPREHENSIVE RANGE OF FINANCING METHODS OFFERED

Financing possibilities are also available to those customers who are not entitled to a loan under a savings and loan contract with a Bausparkasse but who need the money because, for example, they have spontaneously decided to buy, restore or modernize a house or an apartment.

Credit institutions, i.e. both banks and Bausparkassen, offer financing facilities to such customers who require immediate access to capital. They offer to make the funds available required to accumulate the necessary amount of savings or to prefinance a savings and loan contract with a Bausparkasse which has not yet been allocated. Such loans are offered at a market rate of interest. Moreover, they are free from redemption and are repaid out of the savings funds of a Bausparkasse once the savings and loan contract for construction has been allocated.

One of the characteristic features of the German financing system for housing is that it combines various elements regarding the available methods and financing institutions, while the customer is at the same time only involved in one single, very simple procedure. He will normally receive an "all-in-one" offer. Such a package comprises, for instance, a share of up to 35 - 40 % of the "appropriate costs" of a house in the form of a fixed-interest rate loan, which is refinanced via the capital market through the issue of mortgage bonds ("Pfandbriefe"). A further share of 25 % to 30 % is financed by the Bausparkassen. The remaining funds are provided by the saver's own capital (including savings accumulated by him in the funds of a Bausparkasse). 100 % loans are unusual in Germany.

All of the larger groups of credit institutions - particularly savings banks, cooperative banks and commercial banks - offer such "all-in-one" packages, which include savings and loan contracts with a Bausparkasse. In fact, a bank, a Bausparkasse, a Mortgage Bank, and an

Table 2: Financing of Housing Construction by Institutional Investors in 1990 (Funds of the Banks and the Public Sector not ascertainable)

Financing Institution	Total Amount Paid Out for Housing Construction	
	Million DM	%
Bausparkassen	49,841	44.2
Mortgage Banks	22,370	19.8
Savings Banks	31,691	28.1
Life Insurance Companies	8,812	7.8
Funds of the Institutional Investors	112714	99.99

insurance company are often united in one group of such institutions or have concluded an agreement for regular cooperation. The advantage, which this system of combined suppliers has for the customer, is that he will only have to compile the required documents once. He has to submit only one application for a loan, which will only be examined once. The customer creates only one mortgage (the very flexible "charge on land" (Grundschuld)), and he often only has one contact-partner for the entire correspondence and transactions, who will also pay out the actual loan and undertake collection transactions at a later date. The advantage this system offers to the borrower is its flexibility and the broad choice the borrower has between

- various methods of financing, ranging from methods based on long-term fixed interest rates to those based on variable interest rates,
- early debt clearance or loans free from redemption,
- insurance against possible risks by including insurance schemes,
- the possibility of taking advantage of all tax concessions granted for taking out life insurance contracts as well as building-saving contracts, and
- easy help to overcome any arising difficulties.

STATE INCENTIVES

The State encourages the accumulation of capital by granting bonuses or tax advantages to building-savers. The saver with a Bausparkasse can choose which type of incentive he prefers. He may receive a bonus of 10 % of the savings accumulated annually up to savings of DM 800 (single persons) and DM 1,600 (married couples), provided that his taxable income is below a certain level (DM 27,000 for single persons, and DM 54,000 for married couples). If he meets these requirements, the saver may alternatively deduct his savings instalments

from his taxable income as special providence scheme expenditures. Moreover, the State encourages contractual saving activities with a Bausparkasse or other financial institution under the Equity Participation Law by granting a savings bonus to employees.

ADVANTAGES OF THE GERMAN CONTRACTUAL SAVINGS AND LOAN SYSTEM FOR CONSTRUCTION

The decisive advantages of the German contractual savings and loan system for construction are to be found in the consistency of the system. This means that:

- Financing through a contractual savings and loan system with a Bausparkasse is independent of capital market developments.
- The interest for the building-saving loan is fixed right from the beginning at a low rate which hardly any competitor can match.
- The builder or buyer does consequently not undertake any risks regarding interest rate fluctuations.
- The financial burden is clearly calculable from the outset.
- In contrast to many other countries, where high interest rates have almost brought housing construction activities to a standstill, the low interest rate on loans granted by a Bausparkasse in the Federal Republic of Germany has helped to keep the financial burden at a justifiable level for the builder or buyer, respectively, even at times when capital market interest rates are extremely high.
- The relatively high continuity of payments made by the Bausparkassen results in a continuous development in the field of housing construction. Thus, in 1981, for instance, more than 220,000 housing units

were completed in owner-occupied houses or condominiums despite high capital market interest rates, which sometimes exceeded 13 %.

Savers with a Bausparkasse contribute an average of around 40 % of the cost of financing their houses from their own capital funds. This relatively high share of capital funds is mainly the result of the system of accumulating savings under a building-saving contract. The share of capital funds they can invest is significantly higher than that of persons who do not save with a Bausparkasse and constitutes - together with the building loans granted at a fixed low rate of interest - a certain insurance against risk, which should not be underestimated. Consequently, the number of problem cases, i.e. those cases in which the builder or buyer, respectively, runs into financial difficulties, is far smaller with the Bausparkassen than with the other credit institutions. As a result, the accumulation of capital funds via contractual savings and loan schemes with a Bausparkasse is deliberately encouraged by the State in the Federal Republic of Germany, even though some restrictions have had to be made in past years within the framework of cutbacks in public expenditure.

A SOUND METHOD OF FINANCING

With the existing form of official encouragement of owner-occupied housing in the Federal Republic of Germany valid since 1st January 1987, the Federal Government has taken a deliberate decision against the possibilities of deducting interest on loans from taxable income. The advantages are granted independent of the extent of outside financing. The encouragement of contractual saving not only provides the builder or buyer with a much sounder method of financing, but is at the same time considerably cheaper and more effective for the State than the encouragement of debt.

The prerequisite for an adequate basis of capital funds is usually the accumulation of an appropriate amount of savings over a

their duties, can we expect an approximation of standards between the eastern and western parts of Germany.

Ladies and Gentlemen, this concludes my remarks. I thank you for your hospitality and for giving me the opportunity to speak to you about these very important matters in Europe. ■

NOTES

¹ EC countries: Belgium, Denmark, France, Greece, Germany, Holland, Ireland, Italy, Luxembourg, Portugal, Spain, and the UK

² EFTA countries: Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland

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certain period of time. On average, persons who build or acquire their own house or condominium in the Federal Republic of Germany accumulate savings over a period of around 7 years. The fact that the average age of builders or buyers currently ranges between 37 and 38 years is not due to the obligatory period of saving required under the building-saving system, because many of the savers with a Bausparkasse are young people between the age of 18 and 25 years who might very well become the owner of their own house or apartment at the age of 25 to 30 years. Quite frequently, other factors constitute an obstacle:

- Since the period of vocational training in the Federal Republic of Germany is usually longer than in many other countries, many young people only start to earn a reasonable income relatively late, and consequently also start their own family fairly late (the average age of marriage is 30 years for men and 27 years for women).
- The quality requirements as for owner-occupied houses or apartments in the Federal Republic of Germany are probably among the highest in the world, ranking second after Switzerland. People prefer to save up more money over a longer period of time rather than be forced to compromise in their demands.
- As a result of these high quality requirements, housing costs are very high by international standards.
- In contrast to most other countries, over the coming years a large number of capital assets in the Federal Republic of Germany will be transmitted by succession for the first time since the end of the war. In future, it will thus be possible to acquire real estate more easily and at an earlier stage.

Over more than four decades, the German building saving system has given impressive proof of its efficiency. The system requires efforts from the individual (savings), while the support granted by the State in the form of premiums or tax reliefs has to be considered as "help for self-help". Thus, as an "integrated contract system", the German savings and loan system for construction is also particularly well suited for the financing of owner-occupied housing in developing countries (this has been confirmed by numerous inquiries and requests for information made recently by these countries). This system might be useful for a developing country if its population is encouraged to acquire owner-occupied housing by saving up a sound amount of own capital funds rather than a system under which the builder or purchaser of an owner-occupied house or apartment is encouraged to run up high debts without having saved up any money at all*. The experience gained by the German Bausparkassen has shown that those who are prepared to cut down on their demands regarding consumer goods in order to accumulate a certain amount of savings are also better able to raise the financial instalments for the payment of interest and the redemption of their loans.

THE BAUSPARKASSEN MARKET

Up to now 34 Bausparkassen are working in Germany. 21 Bausparkassen are privately organized. They are legally independent and nationwide. In addition to these there are 13 Landesbausparkassen, which are public law entities and generally a department of a Landesbank, operating in a regional area. The private institutions are dominating this market with a market share of 75 %.

* The high rates of inflation prevailing in many developing countries are by no means an obstacle to the process of contractual saving. Ways and means can be found which prevent the saver from having to run after the prices with his saving instalments. ■