



Savings as Part of Sound Housing Finance

**Mag. Herbert Pfeiffer
President of the
European Federation of Building Societies**

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The housing sector plays an important role in the economy of countries

- On average, up to 20% of the GDP per annum is created by the housing sector in UNECE countries
- The annual expenses for housing per household are the largest personal budget item in all UNECE countries
- At the same time, housing is the biggest asset of wealth for most homeowners

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**A functioning Housing Finance Technique (HFT)
is the precondition to gain the qualitative and
quantitative effects of the housing sector**

The creation of sustainable housing belongs to
one of the most important areas of a national
economy



Available systems worldwide

◆ **Bank based**

◆ **Market based**

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What went wrong – US crash in detail



Systemic failure of US housing finance system – the market crashed in 2007

- High LTV (100% +) and “exotic” (e.g. negative amortisation) loans were very common
- No proof of income or ability to repay
- Very high indebtedness of households

- Securitisation of loans made it possible for lenders to sell all risks to the market, so that they did not care for the quality
- Before the crisis, 70% of all loans were securitised and sold worldwide
- When interest rates rose, house prices declined and the securitised loans turned toxic



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No lessons learnt

- US housing finance system nationalised but no real reform in sight
- World Bank continues to promote the failed US system
- Risky products for vulnerable customers are still recommended
- Equity is still neglected as important element in the housing finance mix



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The key requirement for a HFT is its capability to mobilize as much funds as possible for housing loans „ ... it always begins with savings“

$$\text{GDP} = C + \boxed{I + (\text{Exp} - \text{Imp})}$$

↓
Savings

$S > I \rightarrow (\text{Exp} - \text{Imp}) \text{ positiv}$
 $S < I \rightarrow (\text{Exp} - \text{Imp}) \text{ negativ}$

Without savings no sustainable housing finance techniques

At the end of the day, somebody has to save to finance the investments of the others.

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Contractual savings for housing across the globe

Various incarnations of contractual savings systems across the globe:

- Latin America and Asia: statutory provident funds
- Europe: the Bauspar system and the open épargne logement system.
- Asian, African and Latin American transition countries: microfinance for housing

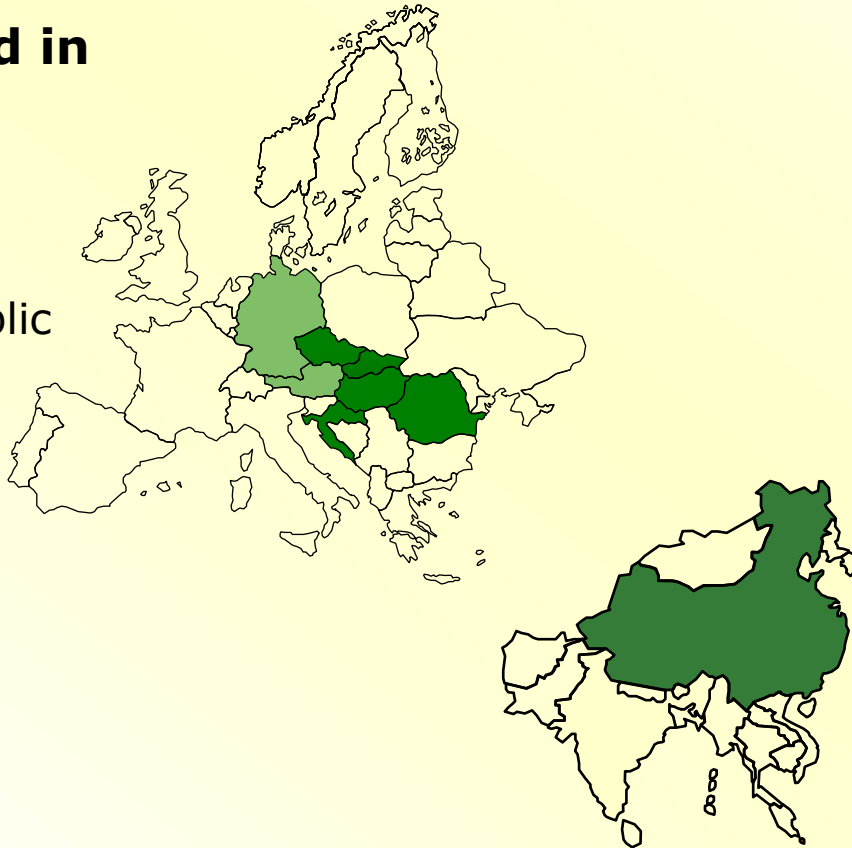




Countries with Bauspar system

Implemented in

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



Under discussion in

- Russia
- Poland
- Belarus
- Azerbaijan
- Armenia
- South Africa
- Vietnam
- Thailand
- Nigeria
- Chile
- Switzerland

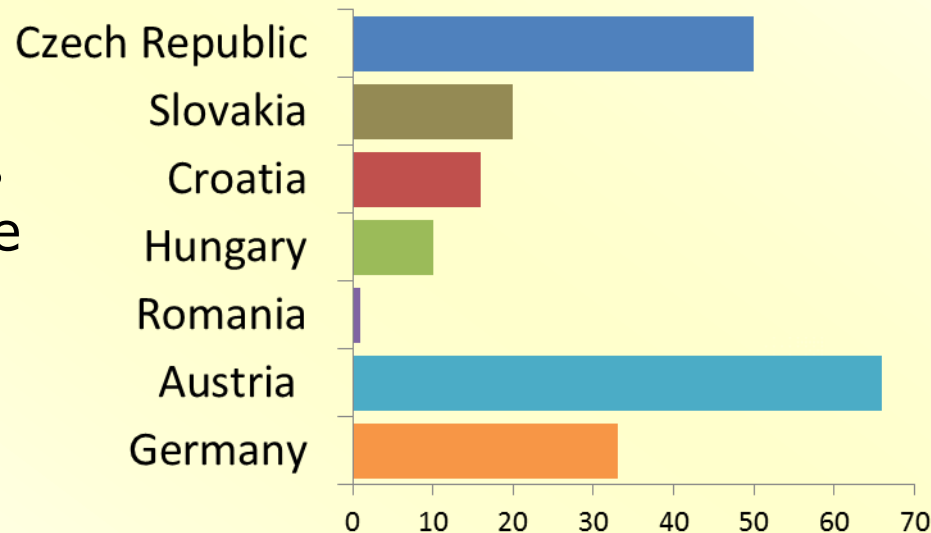
The interest in Bausparen increased after the crisis

Bausparen in Central and Eastern Europe



There is still market potential:

Bauspar savers
as a percentage
of population:



And more countries show rising interest in Bauspar system as they recognize after the crisis the economic and social advantages of a closed housing finance system that offers mortgages in local currency with fixed interest rates.

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The high ownership rate in transforming economies promotes the demand for small loans

- This high demand for renovation loans can be satisfied by Bausparen ideally. Mortgage banks are not prepared to provide small loans.
- This is a strong contribution to the general housing infrastructure.

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The fundamental trend in housing is the growth of modernisation, repair and maintenance

- it helps to utilize the higher labor intensity of modernization for the promotion of employment
- it can reduce input of land and material in comparison to new construction
- modernization is accompanied by improving energy conservation

Another major trend is higher costs and prices in the housing sector

- land is often more expensive than construction
- this makes new housing affordable only to max. 10% of the population

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Bausparen – a success story

Bausparen has a long tradition:

- First savings collectives for housing documented 200 B.C. in China
- Europe: Kettley's Building Society in Birmingham, England, 1775
- First modern Bausparkasse in Germany: 1924

Basic principle:

Together as a group, the individual savers achieve their objective of purchasing a house much faster than if each were to fend for oneself → **help for self-help**

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How Bausparen works

- ◆ Bausparen is a closed deposit taking system almost independent from the capital market
- ◆ The depositors create with their savings the refinancing source for the construction loans
- ◆ The higher the saving efforts the more money is available in the lending phase

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Ten Families are heading for new flats

..... Situation without CS

- ◆ each family saves every year a constant amount during ten years. After ten years each family has all the necessary funds collected to start construction

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Ten Families are heading for new flats

..... financed with the help of CS

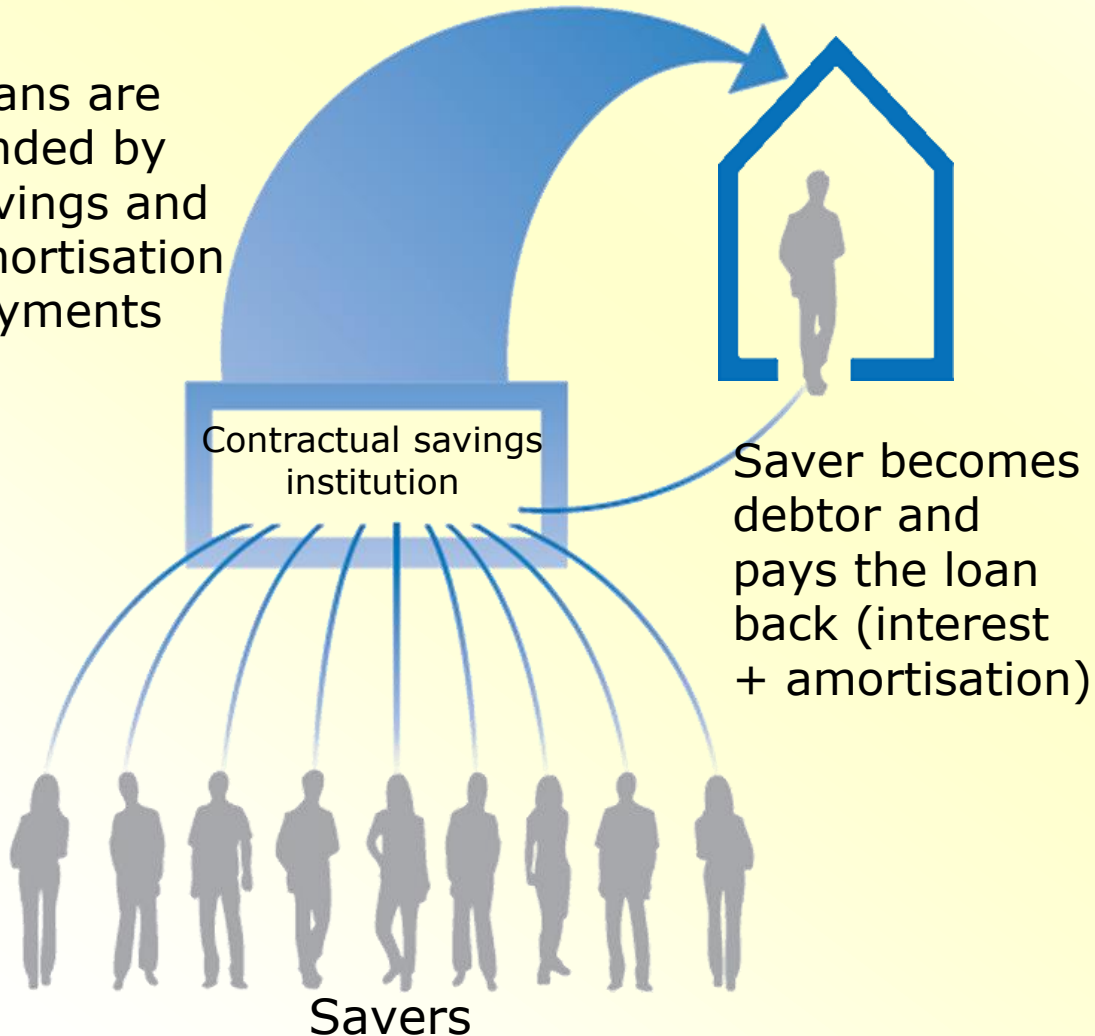
- ◆ the saving efforts of all these families are creating the CS-collectiv. Therefore already after the first year one family can take a loan. After the second year the second family can take a loan. After ten years all the families have a new home.

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How Bausparen works – the basic idea

Loans are funded by savings and amortisation payments



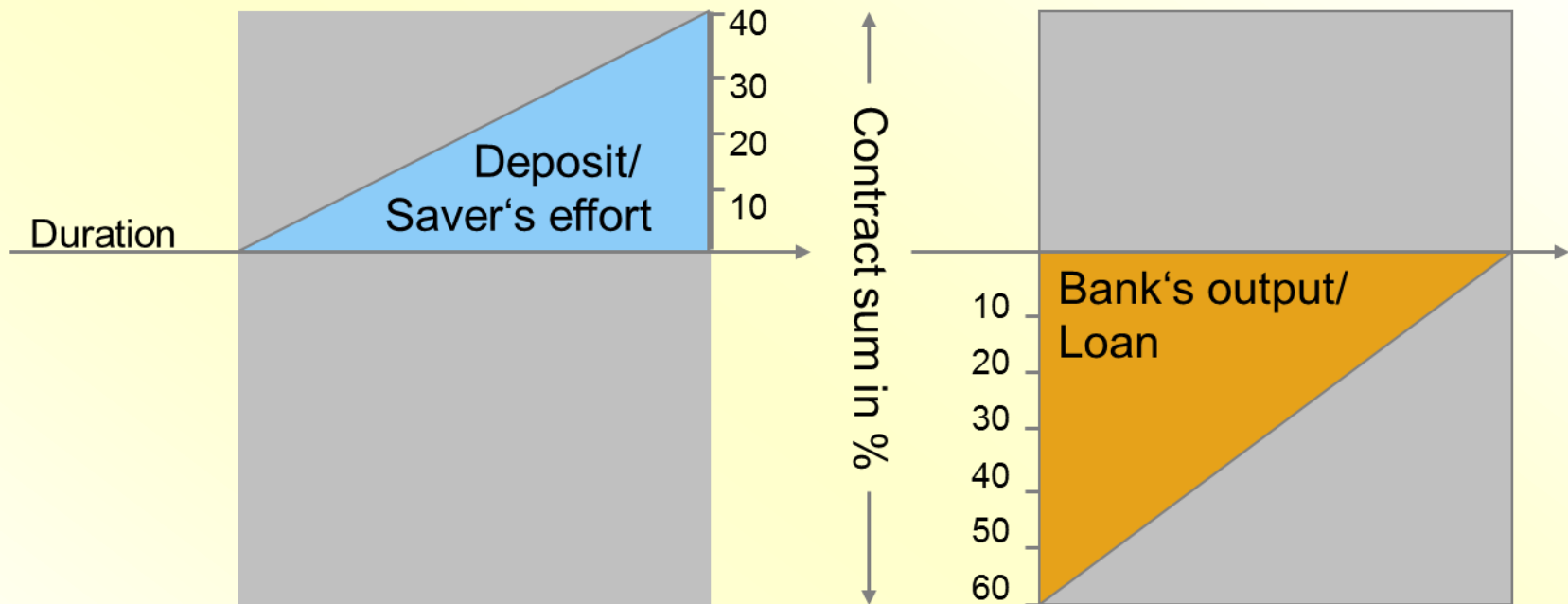
Loans are usually funded only by savings and amortisation payments → closed circuit

Special regulation and tight supervision

Excess liquidity can be invested only within narrow limits (gilt-edged investments) → safety is the top priority.



Bausparen the process in detail



Conclusion of contract

Customer saves and receives interest on deposit

Right of payoff of contract sum (deposit + loan)

Redemption of loan



The Bauspar system: a better and sustainable solution for the needs of lower and middle income families

Benefits for individuals with low & middle income

Building up equity

The promotion of savings supported by a state premium leads to equity increase and building up assets on a wide basis

Fixed interest rates

Fixed interest rates make the system transparent and calculable

Long term loans

Long term loans up to 30 years. Transformation of short term savings to long term loans for sustainable housing

Also small loans for renovation

Helps to maintain a healthy housing stock and supports sustainability

Locale currency

No currency exchange risk

Cost efficient system

Specialisation, slim structures dedicated to the savings and loan process results in high cost efficiency

Covers the whole country

Contractual savings institutions work without expensive branch offices by building up a network of sales agents which cover the whole country not only big cities

Sustainable housing



Benefits of Bausparen

A Deposit Taking Housing Finance System like Bauparen is in the developing phase of a national economy the most effective technique and offers benefits to the customer, the construction industry and the state

- Bauparen is a lifetime savings concept for construction, renovation and repair and to secure living conditions at retirement.
- The system is transparent. Baupar institutions do not carry out any other business except providing housing loans.

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Benefits of Bausparen

- The customer knows exactly for what his money is used for, unlike in commercial banks.
- It works in stable conditions independent from the capital market, based on the initiative of individuals.
- Bausparen is increasing the savings ratio and supports building up equity of the individual, without raising the interest rates.

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Benefits of Bauparen

- The promotion of Bauparen is the first step in setting up long term borrower/lender relations.
- Bauparen promotes a countrywide economic upswing and jobs.
- Bauparen is cheaper for the state budget as an uncapped tax deduction model for loan interest.
- The budgetary income exceeds the amount of a savings bonus

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Benefits of Bausparen

- Small loan amounts possible
- Improvement of existing housing stock
- For a better and sustainable solution for the needs of middle and lower income families.

BAUSPAREN CREATES SUSTAINABILITY

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**Thank you for
your attention!**

Contact details

**European Federation of
Building Societies**

Herbert Pfeiffer
Rue Jacques de Lalaing 28
1040 Brussels
Phone: 0032/2/231.03.71
Email: info@efbs.org

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