



Verband der Privaten
Bausparkassen e.V.

Long term financing for housing in Europe

4th September 2015

Rio de Janeiro

Christian König



50th American Conference
on Housing of Union
Interamericana para la Vivienda



29th World Congress
of the International Union
for Housing Finance

Association of Private Bausparkassen

- representative of our members' interests (12 Bausparkassen) towards politics, administration and science
- in Berlin, Germany but also at EU level
- promoter of the idea of home ownership
- the voice of sound and sustainable housing finance



Aachener
BAUSPARKASSE AG

BHWA
Der Baufinanzierer der Postbank

Deutsche Bank Bauspar AG

Schwäbisch Hall
Auf diese Steine können Sie bauen

ALTE LEIPZIGER
ZUKUNFT BEGINNT HEUTE.

BSQ Bauspar AG
Beratung . Service . Qualität

Deutsche Bausparkasse
BADENIA

SIGNAL IDUNA
BAUSPAR AG


BKM
Bausparkasse Mainz

DebeKa Bausparkasse AG

Deutscher Ring
Wir erledigen das.

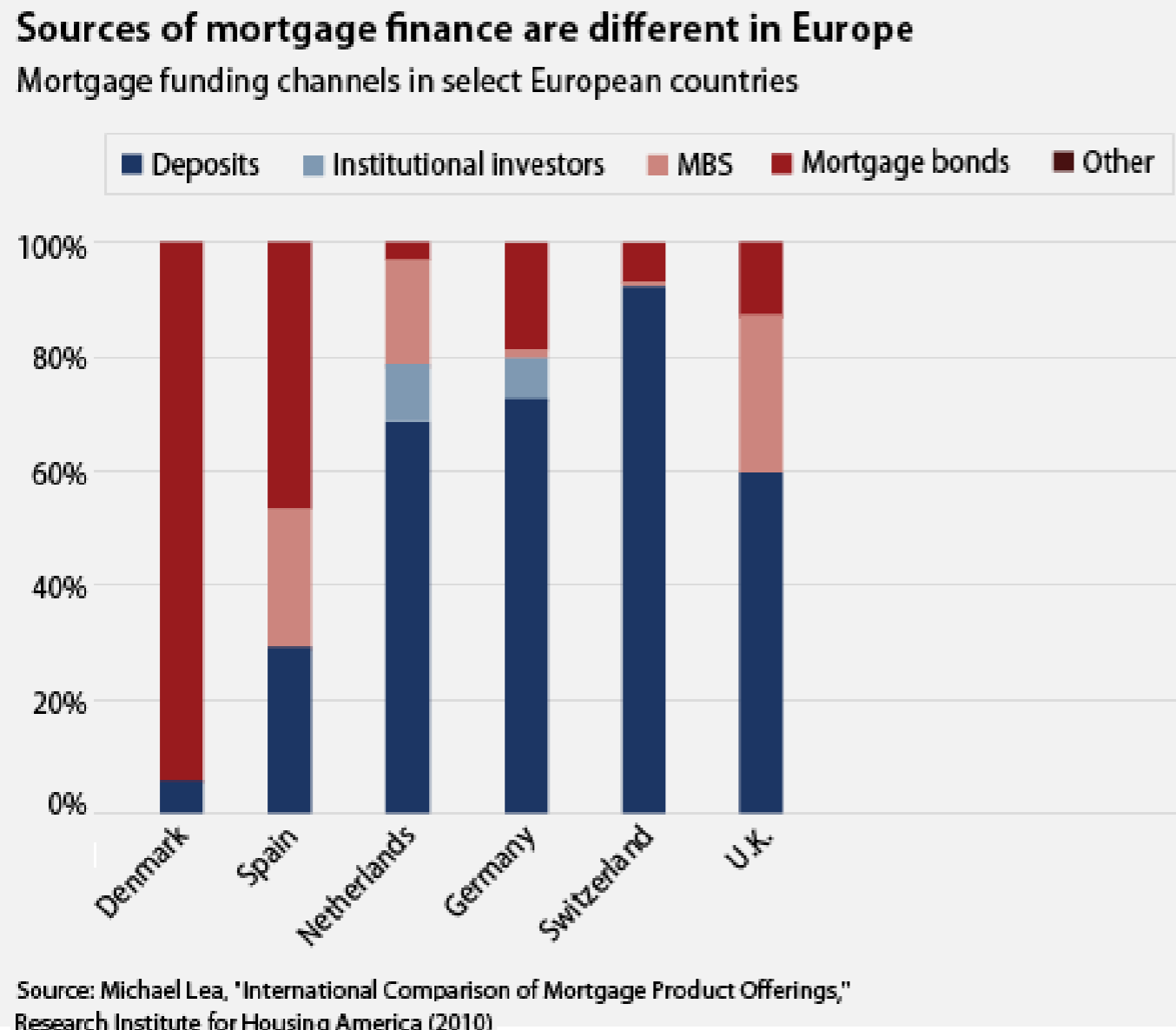
wüstenrot

Wüstenrot & Württembergische.
Der Vorsorge-Spezialist.

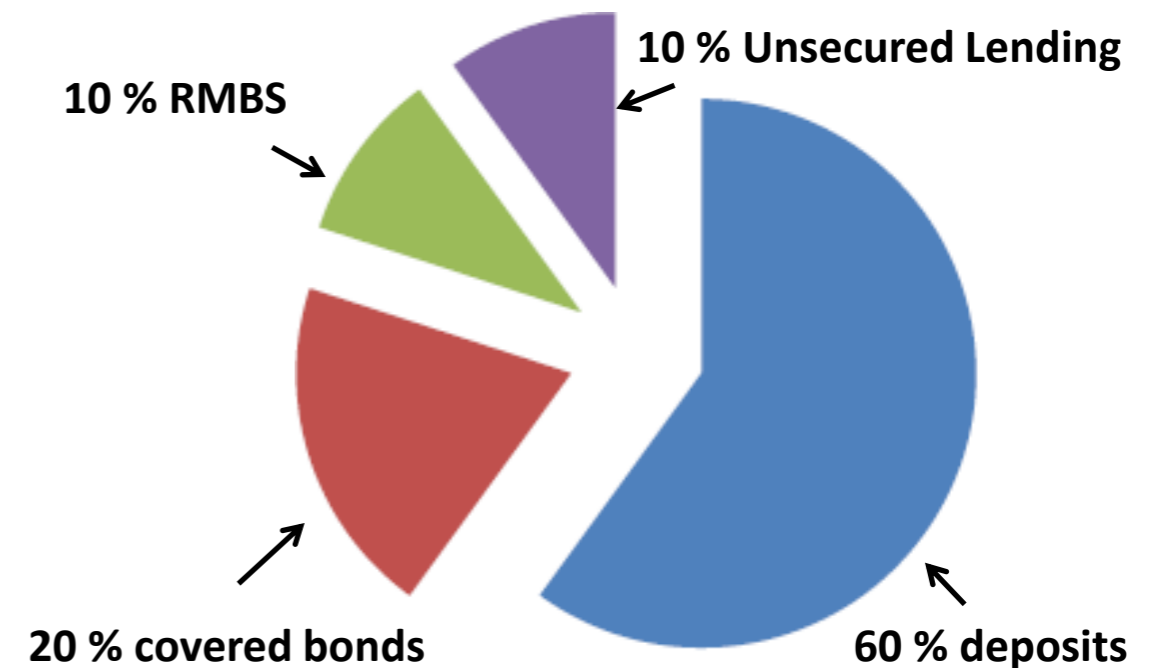
 **Verband der Privaten
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1. Funding and financing of housing loans in Europe

Funding of housing loans in Europe is as diverse as Europe itself



Funding of EU mortgage markets



Bank deposits account for the lion's share of all mortgage funding in virtually all European countries, including Germany, France, Switzerland, and the Netherlands.

1. Funding and financing of housing loans in Europe

Deposits are a stable source of funding

Deposits are an available and cheap source of funding . By comparison with other funding sources, deposits have proved to be a stable funding source – also in the global financial crisis.

However, the maturity mismatch and funding liquidity risk are issues. In order to moderate and reduce these risks, many European countries have well-established systems that make deposits „stickier“.

1. Funding and financing of housing loans in Europe

Most of these specific savings products are targeted to fund housing loans, such as:

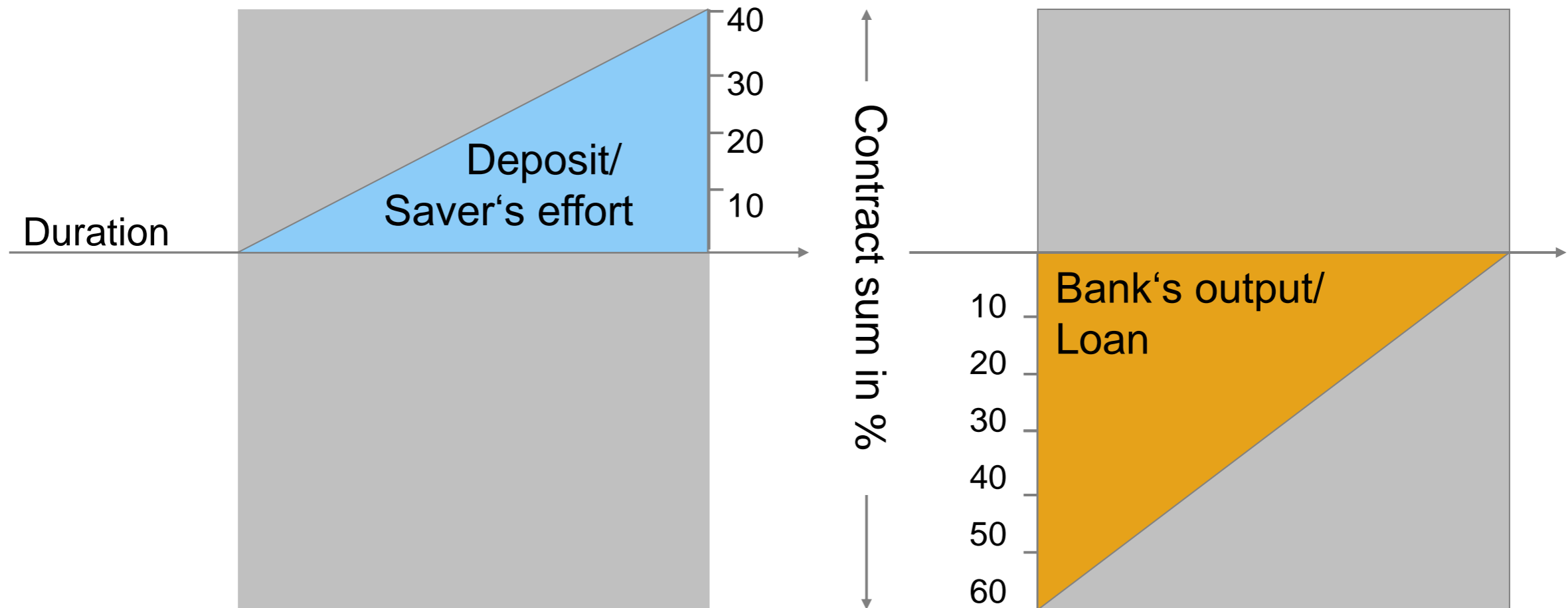
- **Bauspar contracts** (contractual savings for housing) offered by specialised credit institutions (Bausparkassen) in 8 EU countries (D, AT, CZ, LUX, HR, RO, SL, SLW)
- **Épargne logement** (contractual savings for housing, offered by french universal banks)
- **Livre A, livre bleu** (tax free savings product intended to finance social housing in France)
- **Libretto postale** (savings book to finance projects of public interest in Italy)
- **Individual Savings Account, SIA** (tax free savings product in UK)
- **Cuenta de ahorro vivienda** (savings account for acquiring home ownership, till 2013 in Spain)



The closed contractual savings system for housing (Bausparen) is the most widespread in Europe

1. Funding and financing of housing loans in Europe

The general principle of Bausparen



Conclusion of contract

Customer saves and gets interest on deposits

Right to payoff of contract sum (deposit + loan)

Redemption of loan



1. Funding and financing of housing loans in Europe

Unique selling point of Bauspar contracts:

- Interest rates for loan and deposits fixed at conclusion of contract
- Fixed interest rates on deposits and loans are usually below capital market rates
- Waiving of interest in the savings phase is the “option premium” of the customer for the guaranteed low fixed interest rate in the loan phase; “option premium” makes Bauspar deposits particularly sticky
- **Bausparen has many advantages:**
- Bausparen is flexible and offers many options for the customer
- Long-term fixed interest rates on deposits and loans
- Saving regularly means more equity means smaller loans means less risk
- No prepayment penalty
- Small loan amounts common and without surcharge
- Bauspar savers save considerably more (low substitution effect) and are wealthier
- Bauspar savers achieve the goal of home ownership earlier than non-Bauspar savers
- Bauspar loans are second lien loans leaving space for a first lien



2. Effects of the crisis to different funding models

Deposits: Bank runs in the UK (Northern Rock), the Netherlands (DSB Bank) and Iceland

ABS/MBS: Market is still moribund; Draghi: “dead market”, ECB decided in September 2014 to buy ABS

Covered Bonds: No defaults in financial crisis, but ECB intervention (CB purchase programmes) in 2009, 2012 and 2014; ECB-President Trichet (2009): “The idea is to revive the market, which has been very heavily affected, and all that goes with this revival, including the spreads, the depth and the liquidity of the market.”



2. Effects of the crisis to different funding models

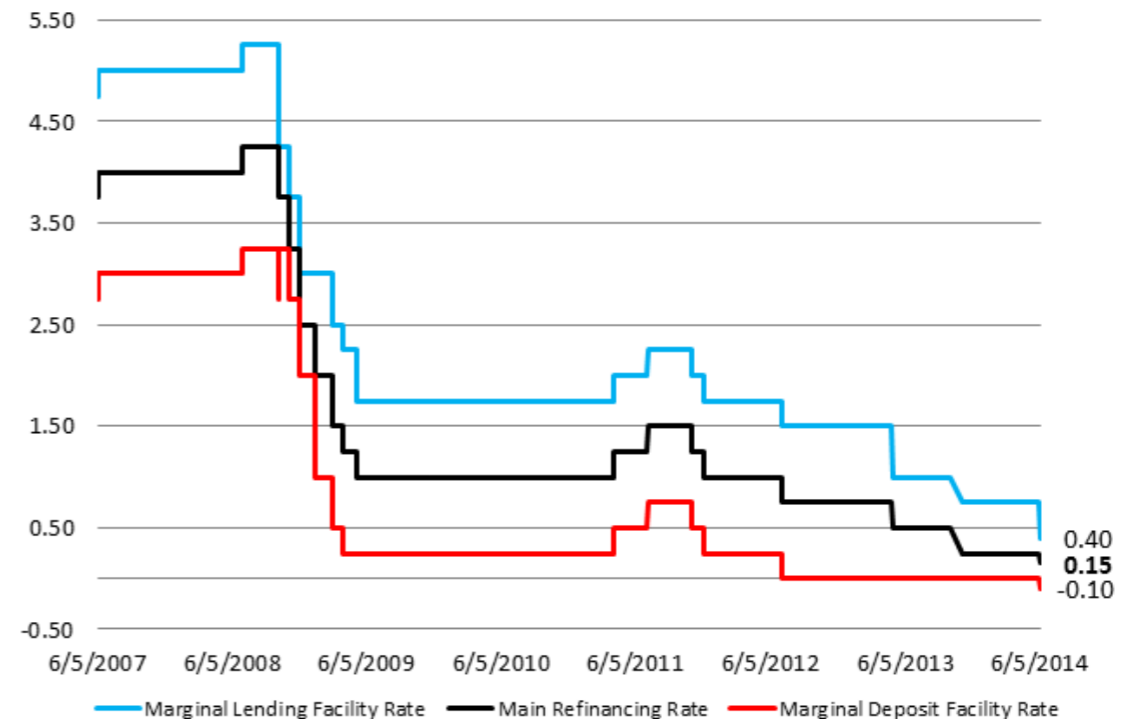
Negative side effects of the ECB's policy

Volume and Effects of the Quantitative Easing program

- Since March 2015 the ECB purchases **€ 60 billion** in assets – sovereign bonds, covered bonds, ABS – each month until at least September 2016
- In total, the ECB is going to pump a staggering **1.1 trillion Euros** into the financial sector
- Since October 2014 ECB bought up to 69.7 billion Euro (\$75.5 billion) of covered bonds which is around 15 % of the market. Effects: the market for covered bonds is distorted, spreads artificially compressed, private investors crowded out
- ABS Purchase programme was not able to initiate material recovery in eurozone securitisation

ECB interest rate development

- Zero interest rate environment poses great threat to deposit based credit institutions, pension funds, insurance companies, and at the end consumers and pensioners
- Makes saving increasingly unattractive
- Damages saving culture and fosters a „debt society“



Source: Bloomberg, as of 6/5/14. Past performance is not indicative of future results.



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3. Reaction by European law makers

Creation of a Banking Union

- Single Supervisory Mechanism with transfer of the supervision over all relevant banks of the Euro-Zone to the ECB
- Reform of the deposit guarantee schemes of 28 Member States
- Common rules on recovery and resolution for credit institutions
- Creation of a European Resolution Authority and a European Resolution Funds for systemic relevant banks



3. Reaction by European law makers

Harmonisation of deposit guarantee systems within the EU

- Deposits are secured by national deposit guarantee systems up to 100.000 € per depositor and bank
- In case of default of a bank, depositors get their deposits back in 7 working days
- Deposit guarantee schemes need to accumulate 0.8 % of the deposits in the relevant Member State within the next 10 years
- Total amount of deposits in the EU 6495 billion Euro
- Total amount of deposits in Germany 1973 billion Euro
- German deposit guarantee scheme needs to be filled up till 2025 to 15,7 billion Euro



3. Reaction by European law makers



Regulating mortgage credit at EU level (28 Member States)

Directive 2014/17/EU on on credit agreements for consumers relating to residential immovable property

- Standardised pre-contractual information
- Standards for advertisement for mortgage credits
- Possible right of early repayment in so called cases of accidents of live
- Standards for mortgage advice
- Disclosure of fees and provision for intermediaries
- No contingent fee for intermediaries
- Change of loan currency if FX loans fluctuation of more than 20 %
- Cooling off period or right of withdrawal
- Rules for mortgage credit intermediaries (liability insurance, minimum knowledge, registration)

3. Reaction by European law makers

LTV (loan-to-value), LTI (loan-to-income), DTI (debt-to-income) limits

Some countries have or introduced LTV limits,



- **Germany:** no general limit, but mortgages serving as cover for covered bonds 60% LTV limit, for Bauspar loans 80% LTV limit



- **Netherlands:** reduction of LTV limit by one percentage point each year from 103% now to 100% in 2018



- **Sweden:** since 2010 LTV limit 85%



- **Finland:** from July 2016, LTV limit 90% (95% for first-home purchases)

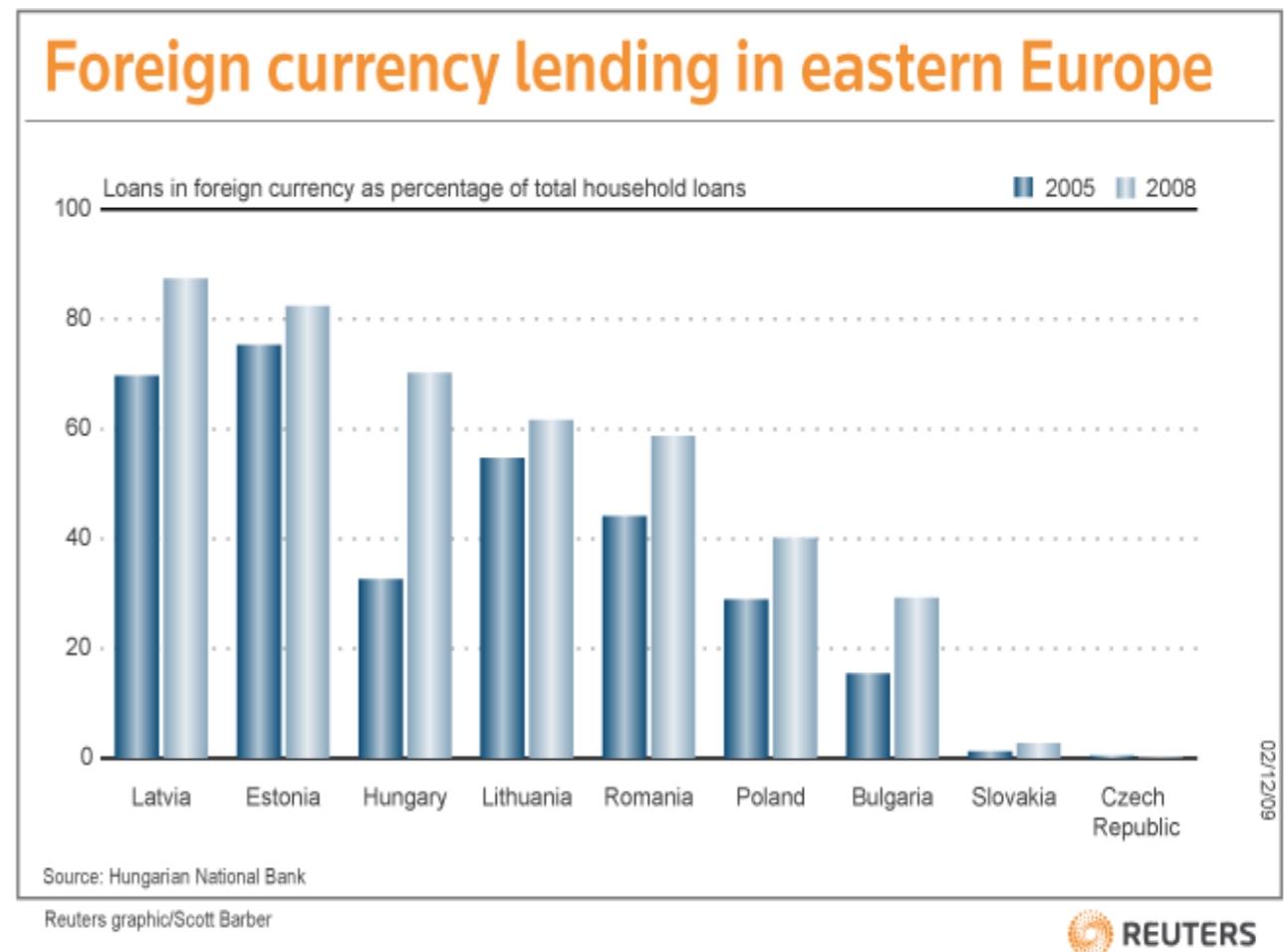


- **United Kingdom:** since May 2015, LTI limit 4.5 times a borrower's income

3. Reaction by European law makers

Measures to protect consumers with foreign currency loans

- **EU law:** Specific information for FX loans, right to change FX currency if currency fluctuation of more than 20 %
- **Austria:** New very strict rules on credit worthiness assessment for FX loans
- **Hungary:** New FX loans are prohibited, mandatory conversion of FX loans in 2015 into Forint loans with exchange rate fixed by government and reduction of amortisation rate
- **Poland:** Right to convert the FX loan to Zloty for a specified group. 33% of CHF-mortgage borrowers would qualify. Polish banks will have to absorb 90% of the FX loss on conversion of CHF-mortgages to zloty (under discussion, law passed the Sejm, the lower house of parliament)



Any questions?

Thank you for your attention

**Association of Private
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