

**Savings models, managed
by deposit taking banks,
in which housing finance
techniques are available**

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Sustainable Housing belongs to the most important political Fields of a national Economy

- Housing is decisive for social stability, health and development of the population as for quality of life
- Housing is supported by all developed countries by very complex systems of indirect and direct subsidies

The Political System Must Recognize the Significance of the Housing Sector to the Economy

- **As a driving force for:**

- economic growth and employment
- social stability
- prosperity and quality of life

.... and make housing policies a top priority

KEY COMPONENTS OF HOUSING POLICIES

- **Revival of public and private housing sectors**
- **Renovation**
- **Modernisation**
- **New construction**
 - * **Rental**
 - * **Ownership**
- **Maintenance**
- **Administration of housing**

No game without rules

A

- **customized**
- **balanced and**
- **effective**

legal framework is the prerequisite for

- **the institutional framework and**
 - **the financial framework**

Basic legal framework for Housing Finance Institutions

Lending Business is a Risk Business. To manage the Risk and to create the basement of a Housing Finance Capital market requires:

- **an effective Landregister**
- **the legal possibility to utilize a hypothecary pledge or a collateral**
- **a centralized register for:**
 - **every type of loan**
 - **for every guarantor**
 - **lease contracts**

and a strong

- **supervisory function over the dedicated financial institutions**

No Creation of an Effective Capital Market Without Eliminating Separate Ownership Titles for Property and Buildings

- Seizure and execution rights for real estate on which construction has taken place only exist today when the height of the building exceeds 30 cm above ground level
- Banks cannot use building plots as security - no possibility to make use of land if the debtor builds on it
- The following principle must apply:
 - **Land owners should own everything on their property which is immovable**

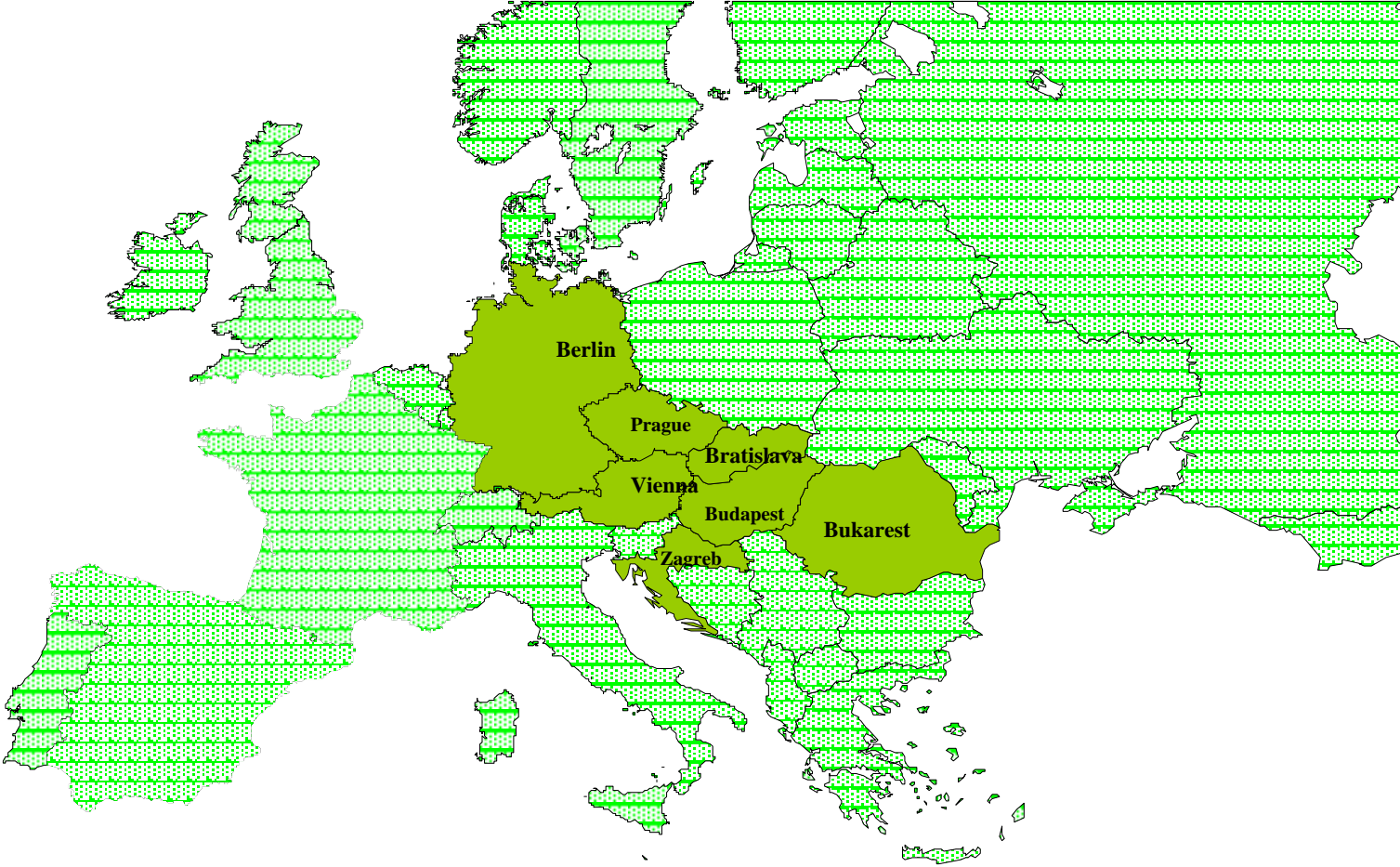
Legal areas to be improved

- Land Register Law
- Commercial Code
- Civil Code
- New Law to protect investments of individuals in new housing con.
- Mandatory condominium Association in housing ownership law
- Princip of cost covering rent
- Standardised specifications in construction industry as a prerequisite for tenders
- Revision of technical norms and standards
- Creating a new industry sector for housing management
- Non profit housing sector for social housing

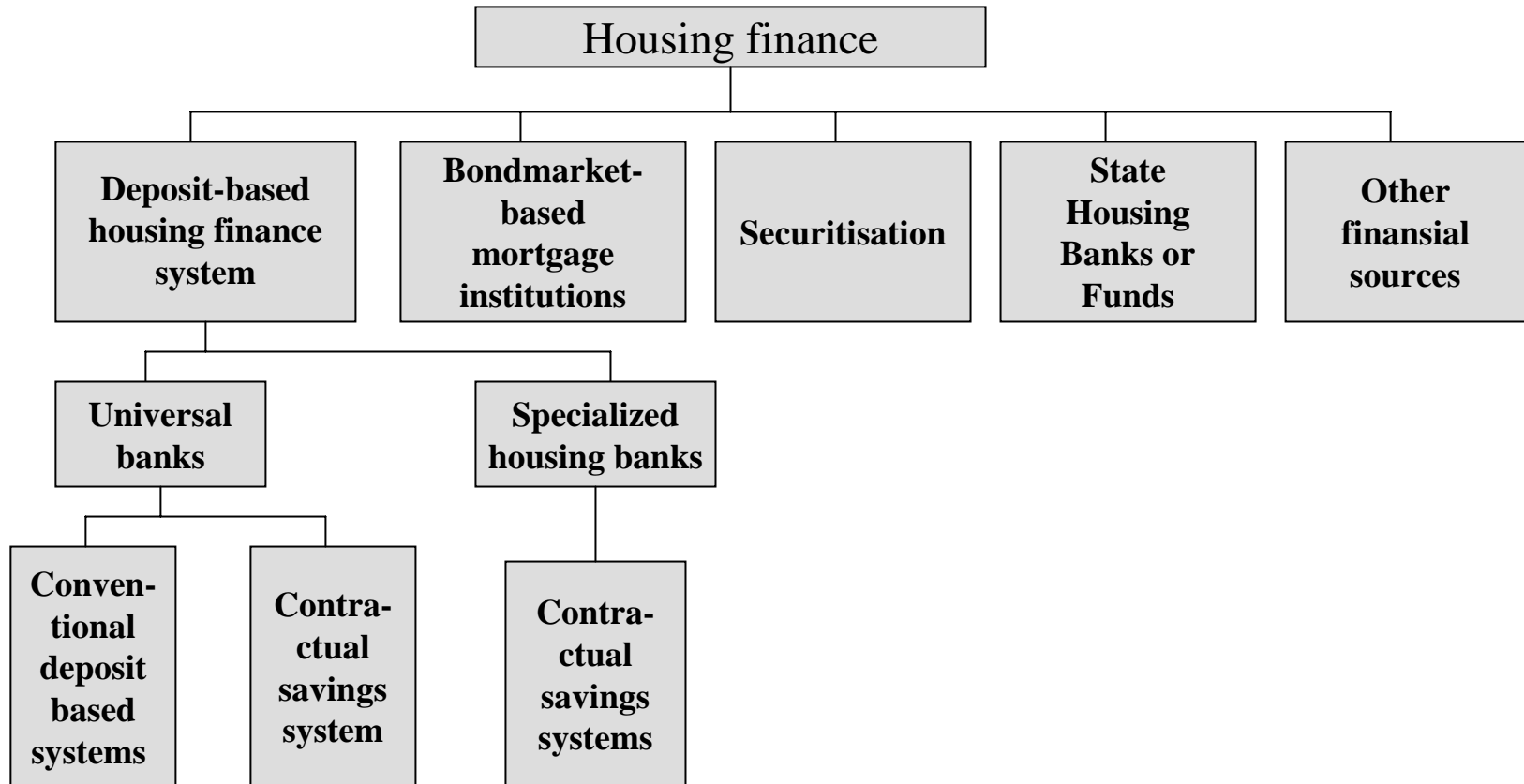
“Civilized life in a free-market economy is not easier because of the higher level of prosperity, but because of the order and security that is brought about by formalized ownership titles.”

Hernando de SOTO - 1993

Until now construction saving is successfully implemented in most neighboring countries to Slovakia



Housing Finance



Construction Savings was introduced in Slovakia in 1992 - At a Later Date in Czech Republic, Hungary, Croatia and Romania

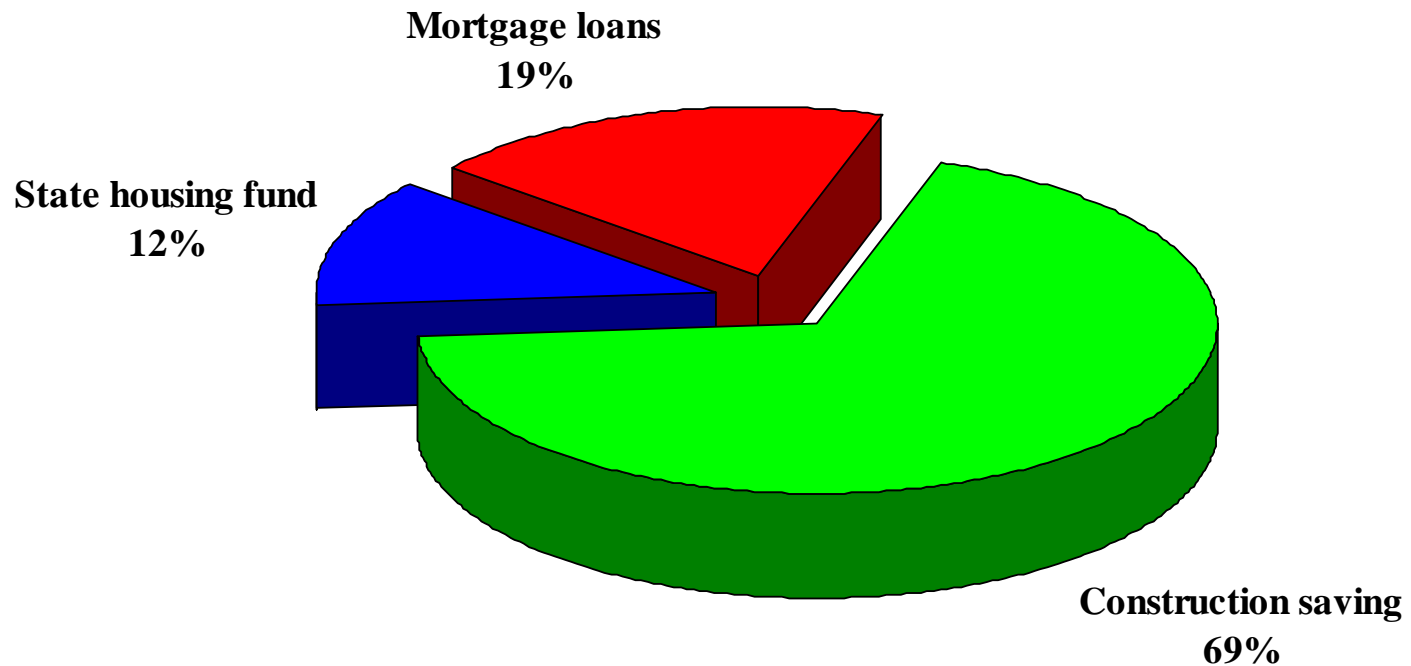
- The Bausparkassen system was adopted
- Construction Savings has proven to be an effective refinancing instrument, even under the most difficult conditions
- Basis for a Construction Savings System is a specialized law

Construction Savings has become an important element on the financial market in SR

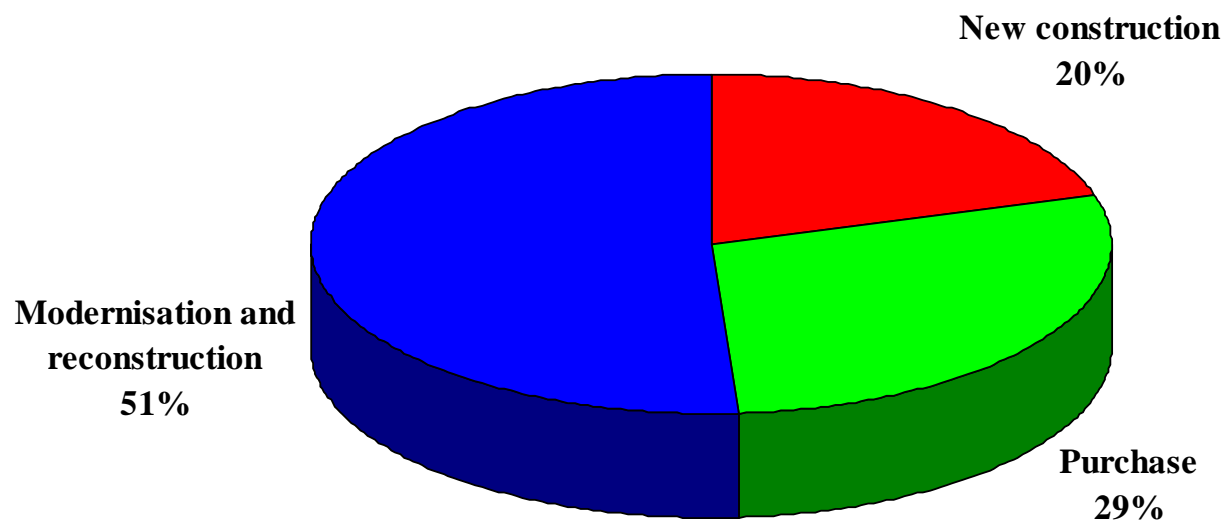
- construction savings banks have attracted about 2,6 million clients
- the accumulated funds are already significantly contributing to
 - home improvements
 - construction of new houses and apartments
 - privatization of public housing facilities

Housing finance in Slovakia 1993-2003

Constructive saving is the main source of housing finance in Slovakia



Financial volume by purpose 1993 - april 2004



Preconditions of implementing Housing Finance Techniques:

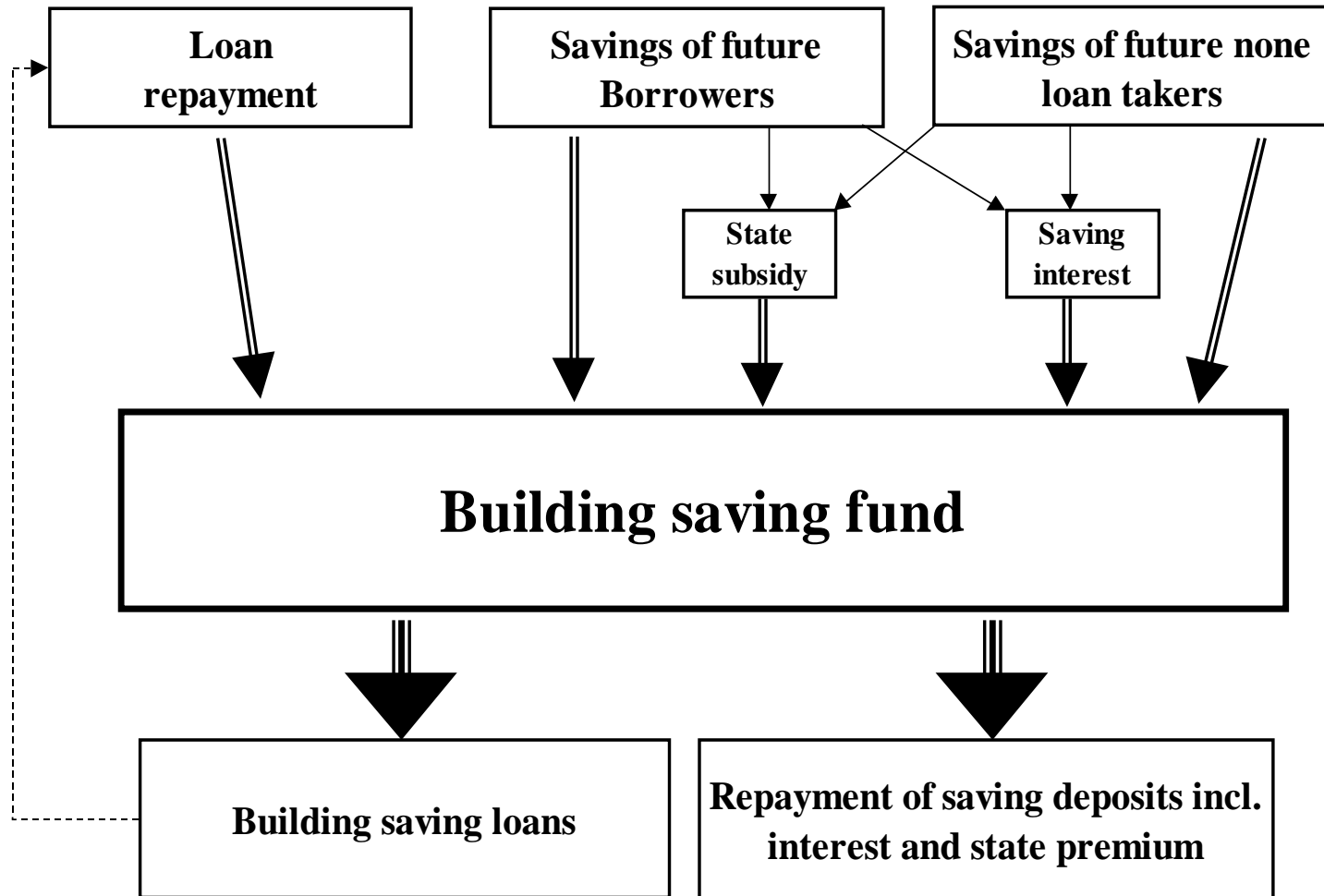
Constraction Savings:

- the creation of a specialized law which regulates the activities of a Construction Savings Bank to protect the customer**
- Supporting the Capital mobilization phase (saving Phase) by granting a limited premium (75 Euro in SK p.a.)**

How Construction Savings works

- CS 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 more saving efforts the more money available in the lending phase

**The reason for the Success of building saving is and was,
that it works independent from the financial market**



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

Ten Families are heading for new flats

..... financed with the help of CS

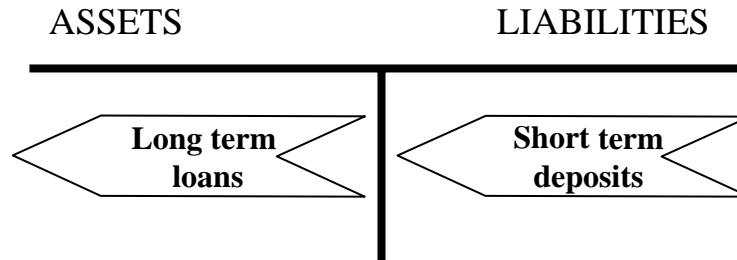
- the saving efforts of all these families are creating the CS-collective. Already after the first year one family can take a loan. After the second year the second family can take a loan. After ten years all families have a new home.

**State aim:
to finance new housing and home
improvements with savings of
construction savings depositors attracted
by the state premium**

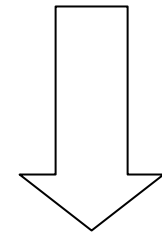
THE MAKROECONOMIC FUNCTION OF THE BANKING SECTOR IS TO MOBILIZE CAPITAL FROM OVER LIQUID SECTORS TO SECTORS WITH A DEMAND FOR FINANCIAL RESOURCES



Term: 18 years



Term: 6 years



Interest rate risk

- If the deposit interest rate is smaller than the loan interest rate and the capitalmobilization especially at small interest margins is not hurt by interventions in the CS-model, the GAP position is balanced.

Transformation of terms

- **Liquidity risk** can be managed only, when outflowing deposits are being replaced by new deposits equal or greater the outflowing deposits
- As long as deposit interest rates plus state premium are higher as interest rates of primary deposits and there are no further limitations for the saver beside the minimum saving periode of 6 years, the liquidity risk is GAP balanced.

Mobilization of deposits:

- Attraction of deposits with the help of the State premium
- Min.saving periode 6 years
- low deposit interestrates
- tax incentives

**Today the CS´system has
some 98 % of the deposits
transferred to loans**

Optimal Loan Conditions in Slovakia

- Loan terms of 8 to 20 years after two- year waiting period
- Interest rates are fixed at 3%, 4%, 4,7%, 4,75%, 5%, 6% and 7 %
- Interim Loans available at 6,5 % - 7,99%
- Collateral: Less than 300,000 SKK - 1 guarantor
Over 300,000 SKK - mortgage conditions
- no Limitation of the amount of Loan

Benefits of construction savings

Construction savings:

A Deposit Taking Housing Finance System like CS 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.

- **CS is a life time saving concept for renovation construction and repair, which works at stable conditions independent from the capital market, based on the initiative of the individuals**

Benefits of construction savings

- continued

- CS is increasing the savings ratio and supports building up equity of the individual, without raising the interest rates**
- CS is shifting short term savings to long term loans at stable conditions and at interest rates below or max. 6%**
- CS loans have a low default rate, 0,56 % in SK, because regular savers are paying back regularly and punctual**

Benefits of construction savings

- continued

- The investment of the state by encouraging the saving process by a limited state premium is generating abundant qualitative and quantitative effects to the state budget, which exceed the expenses by far.**
- CS was invented in the times of economic depression and is so tailored to the needs of a developing economy.**

Recommended steps for implementation of different housing finance systems in an transition economy

Objective



Bauspar system

- macroeconomic reforms implemented
- reform of legislation under way
- banking sector reform under way

Mortgage

- functioning legislation on title and mortgages
- capital markets structures have been introduced

Mortgage backed security system

- capital markets allow for derivative forms of financing
- well-functioning legislation on property and banks

Viable and efficient housing finance market

Housing Finance is in all countries supported by the state by different sets of state incentives

- Indirect subsidies like:
 - a. exemption from state tax and federal tax
 - b. exemption from capital adequacy
 - c. access to money of the national bank at the same conditions of the state government
 - d. lower VAT tax rate
 - e. income tax deductions
 - f. implicit state guarantees (state = owner)

Housing Finance is in all countries supported by the state by different sets of state incentives - continued

- Direct subsidies like:
 - a. state premium for Construction Savings**
 - b. interest rate subsidy**
 - c. Cash grants**
 - d. Low interest rate loans of the state**
 - e. State guarantees**
- where the state has not sufficient funds available, especially in after war scenarios, massive international financial help is needed