

Housing finance beyond subprime
Munich, 18th may 2010

Second session

The impact of the financial crisis worldwide:

The Spanish case and the "Cajas de Ahorros"



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SUMMARY

- **The Spanish Savings Banks, “Las Cajas”**
- **Macroeconomic approach of the Spanish Real Estate market**
- **The role of “Cajas” in housing finance**



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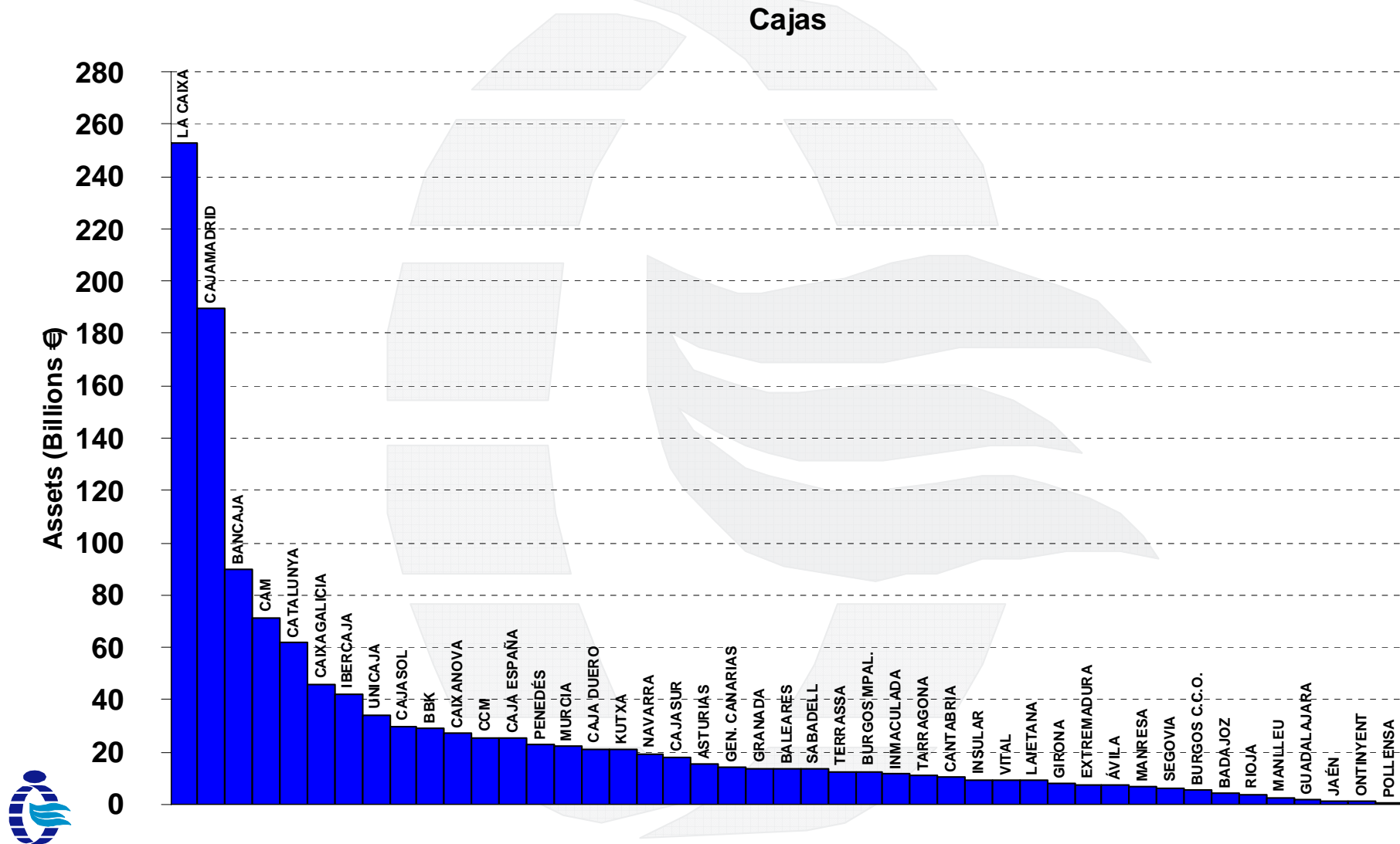
The Spanish Savings Banks, “Las Cajas”

- Cajas are financial institutions, allowed to provide all kinds of financial services: banking, investments, payments...
- Cajas are totally independent from each other.
- Cajas compete at the same level as other players in the Spanish financial system.
- They fiercely compete against each other: the main competitor of a Caja is always another Caja.
- Cajas are allowed to open branches anywhere. There are no territorial limitations.
- There is no centralizing organism.
- CECA is an Association that represents Cajas, and their partnership is free (all of them are associated).
- CECA also offers financial and technological services to Cajas, but they are free to use them or not.
- Cajas only cooperate in technical and operative matters, never in commercial matters



The Spanish Savings Banks, “Las Cajas”

- Cajas are not an homogeneous group, neither for their size, nor for their specialization model.



The Spanish Savings Banks, “Las Cajas”

- Spain has a very competitive financial market, with three types of institutions.
- The Spanish network of banking branches is one of the largest in the world, 1 branch per 1.000 inhab.

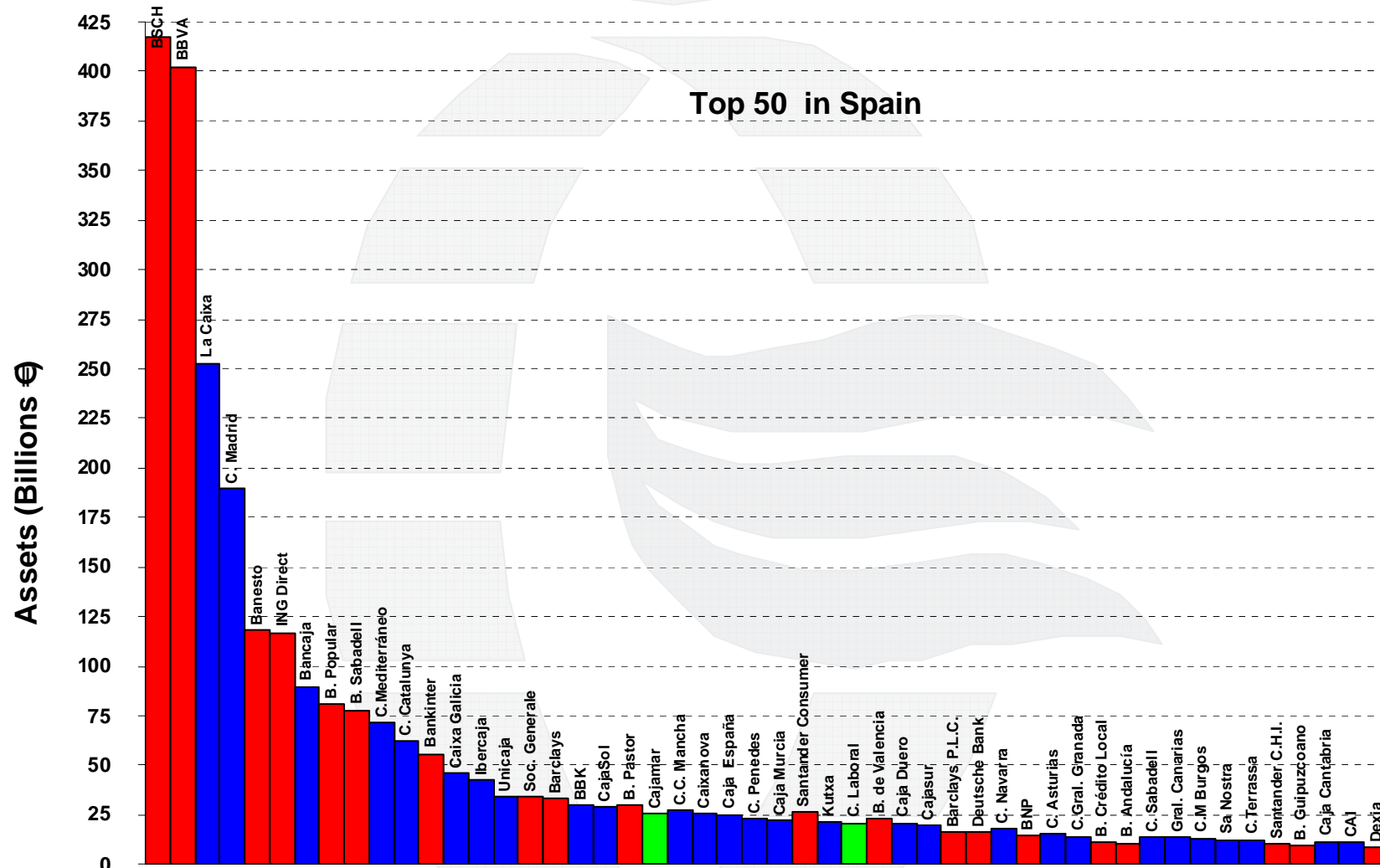
BASIC FIGURES Spanish Banking System 2009

	Cajas	Commercial Banks	Cooperative Banks
Number	45	153	81
Employees	132.339	115.129	20.940
Branches in Spain	24.198	14.840	5.043
Branches abroad	55	65	-
Total Assets (<i>Billions</i> €)	1.273	1.671	116
Concentration (% 5 largest)	53%	68%	57%



The Spanish Savings Banks, “Las Cajas”

- There are 28 Cajas among the 50 largest Spanish banking institutions

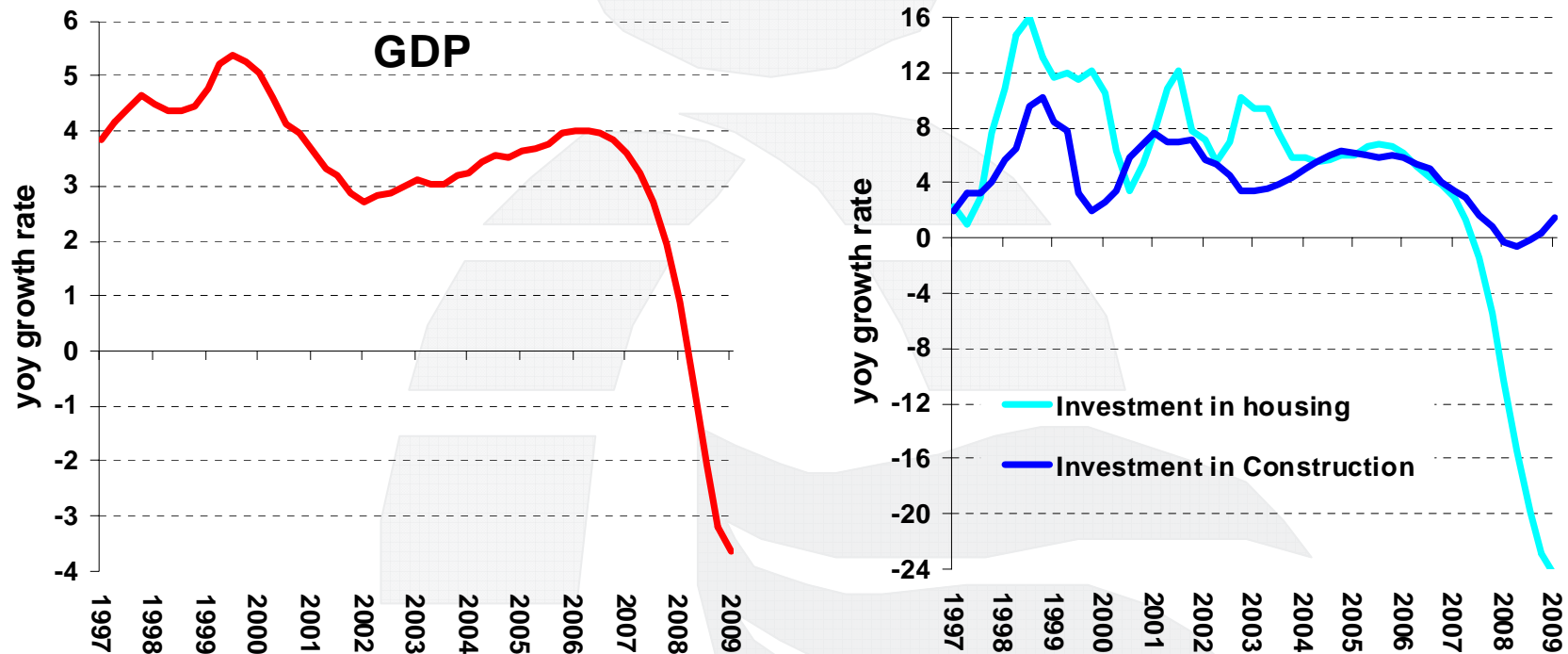


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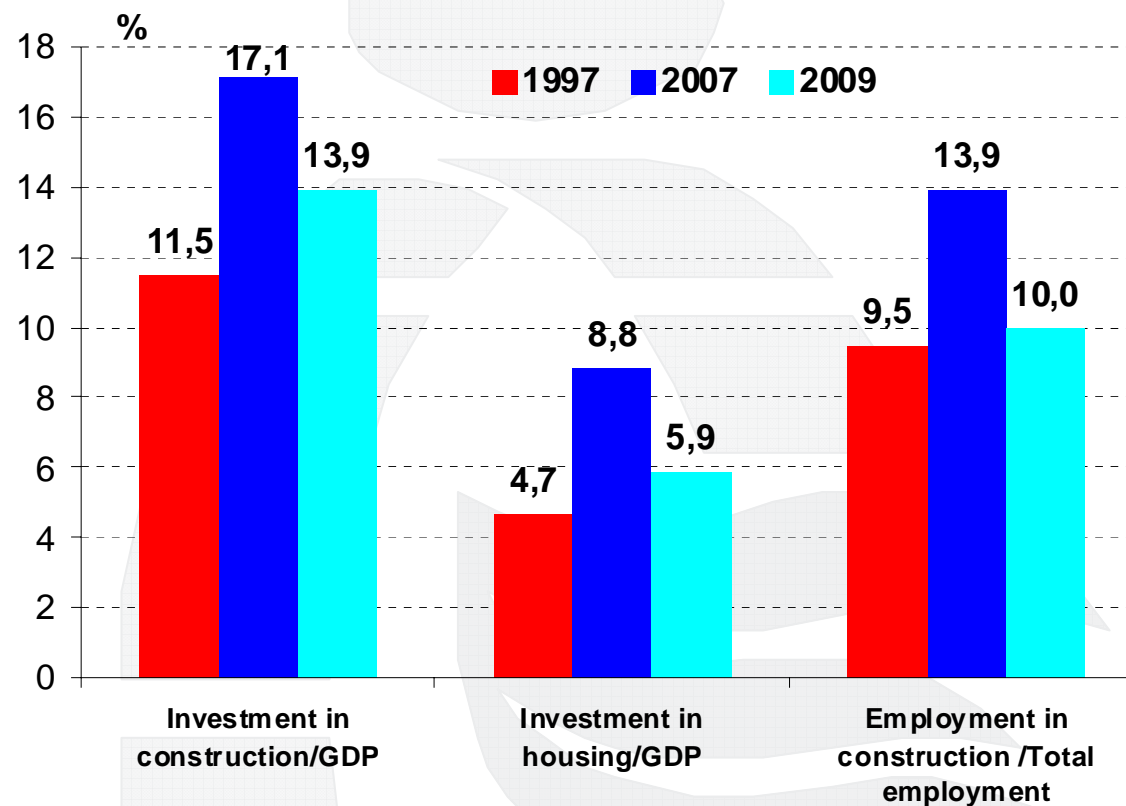
Macroeconomic approach of the Spanish Real Estate market



- From 1997 to 2007, the Spanish economy grew an average rate of 3.5%, but investment in construction almost doubled that figure, fostered by housing investment.
- Since 2007, investment in housing started an adjustment process, that happened to be more severe than previously expected, due to the combination of internal and external factors.
- The GDP fell by 3.6% in 2009, and the prospect for 2010 is -0.7%.



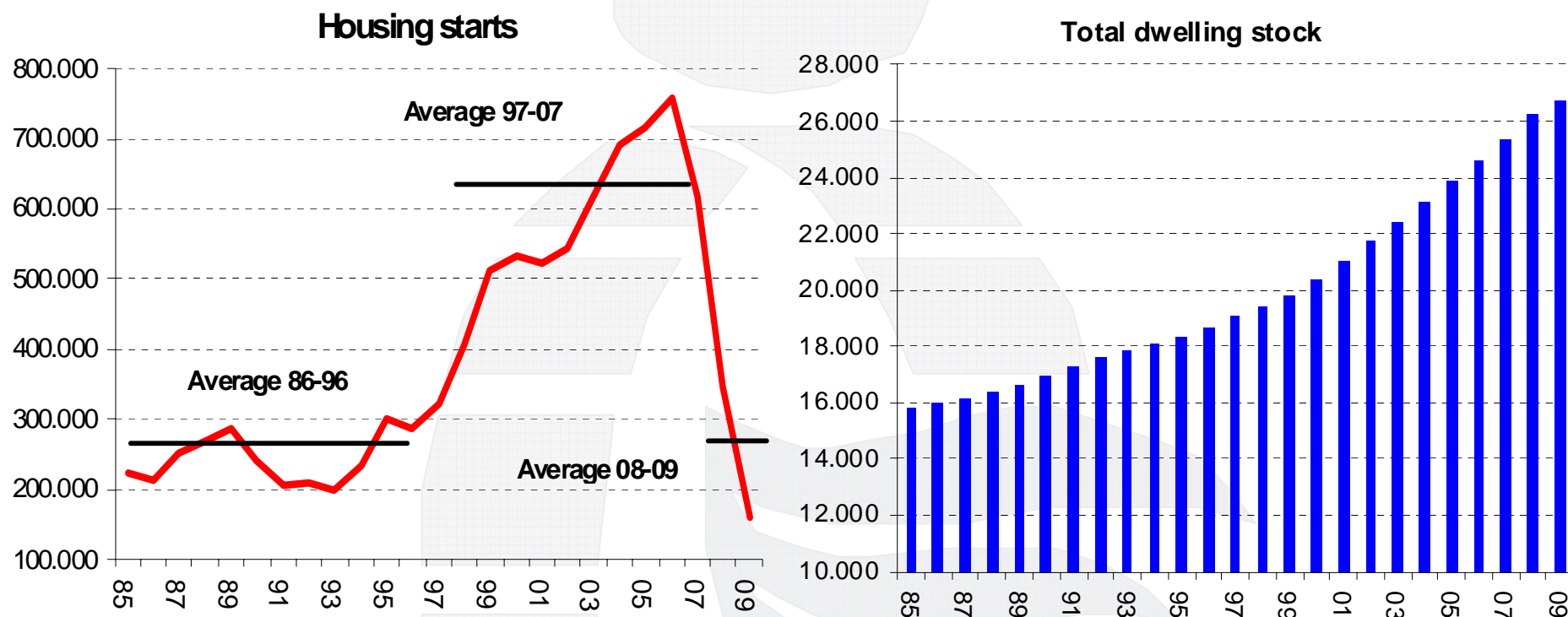
Macroeconomic approach of the Spanish Real Estate market



- There are two very different periods in the development of construction and housing.
- From 1997 to 2007, investment in construction increased its participation in GDP in 5.6 p.p., investment in housing in 4,1 p.p., and employment in construction in 4,4 p.p.
- During the last two years, they decreased by 3,2 p.p., 2,9 p.p. and 3 p.p. respectively.



Macroeconomic approach of the Spanish Real Estate market



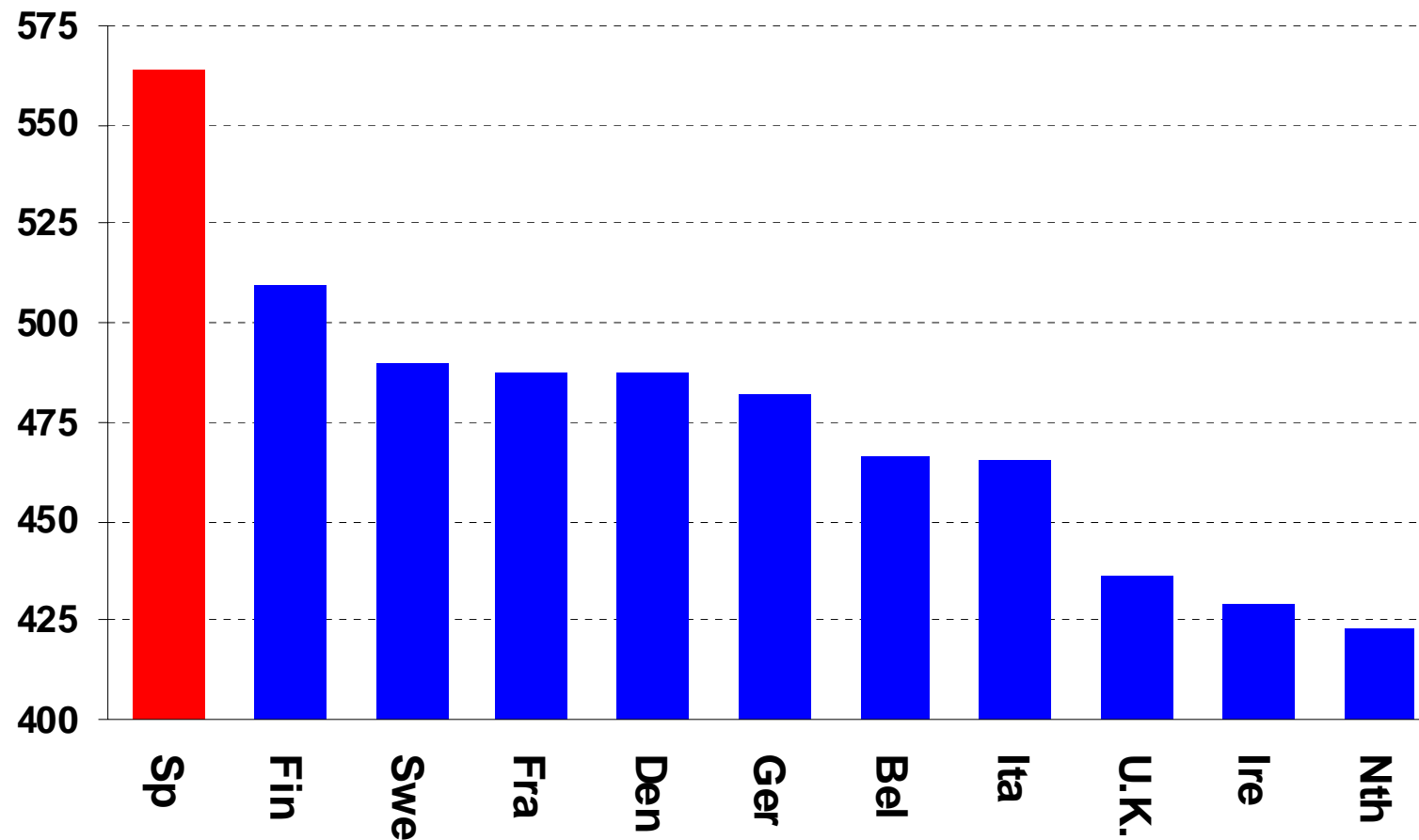
- During the housing boom, the average number of housing starts more than doubled with respect to the earlier decade, reaching more than 700 thousands in 2007. During the recession period, we've returned to figures of 86-96, reaching the bottom in 2009, with less than 200 thousands.
- Total dwelling stock has increased sharply over the last decade, reaching 1.56 dwellings per household in 2007.



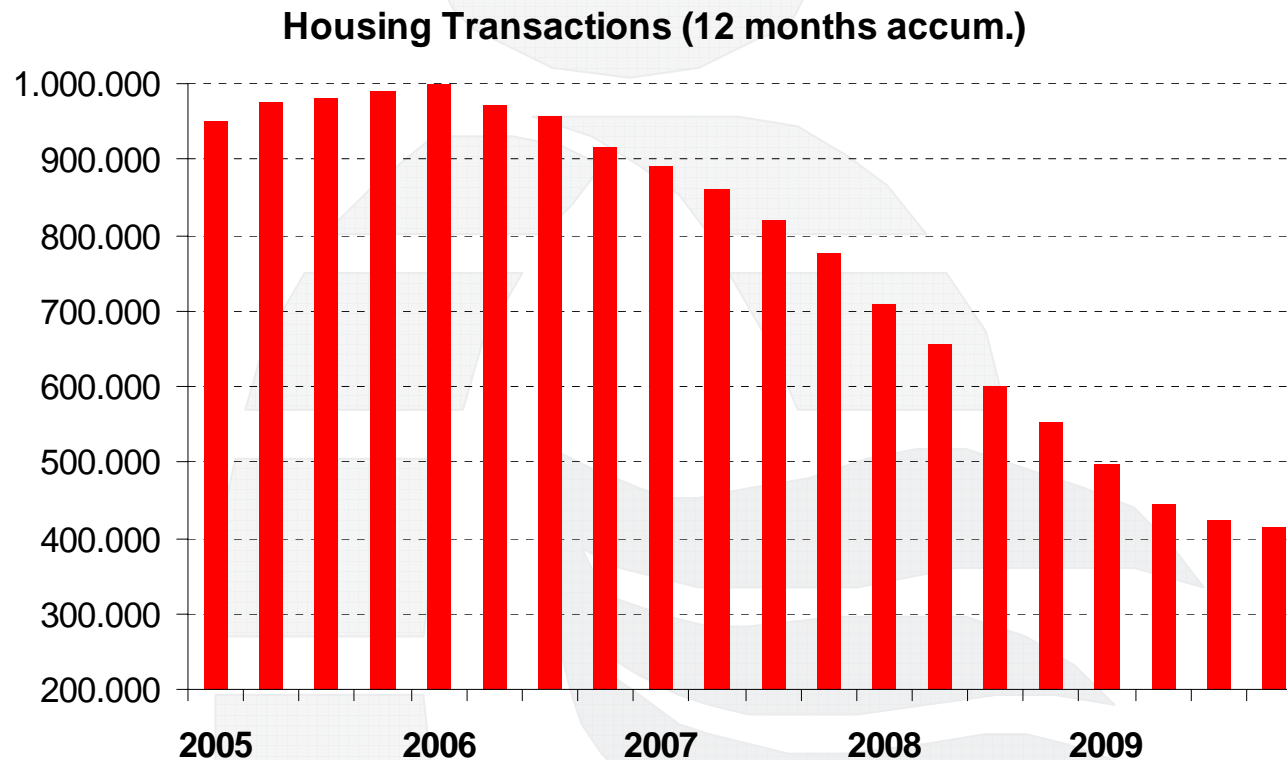
Macroeconomic approach of the Spanish Real Estate market

- Spain is the first country in Europe by dwellings per inhabitant.

Dwellings per 1000 inh.



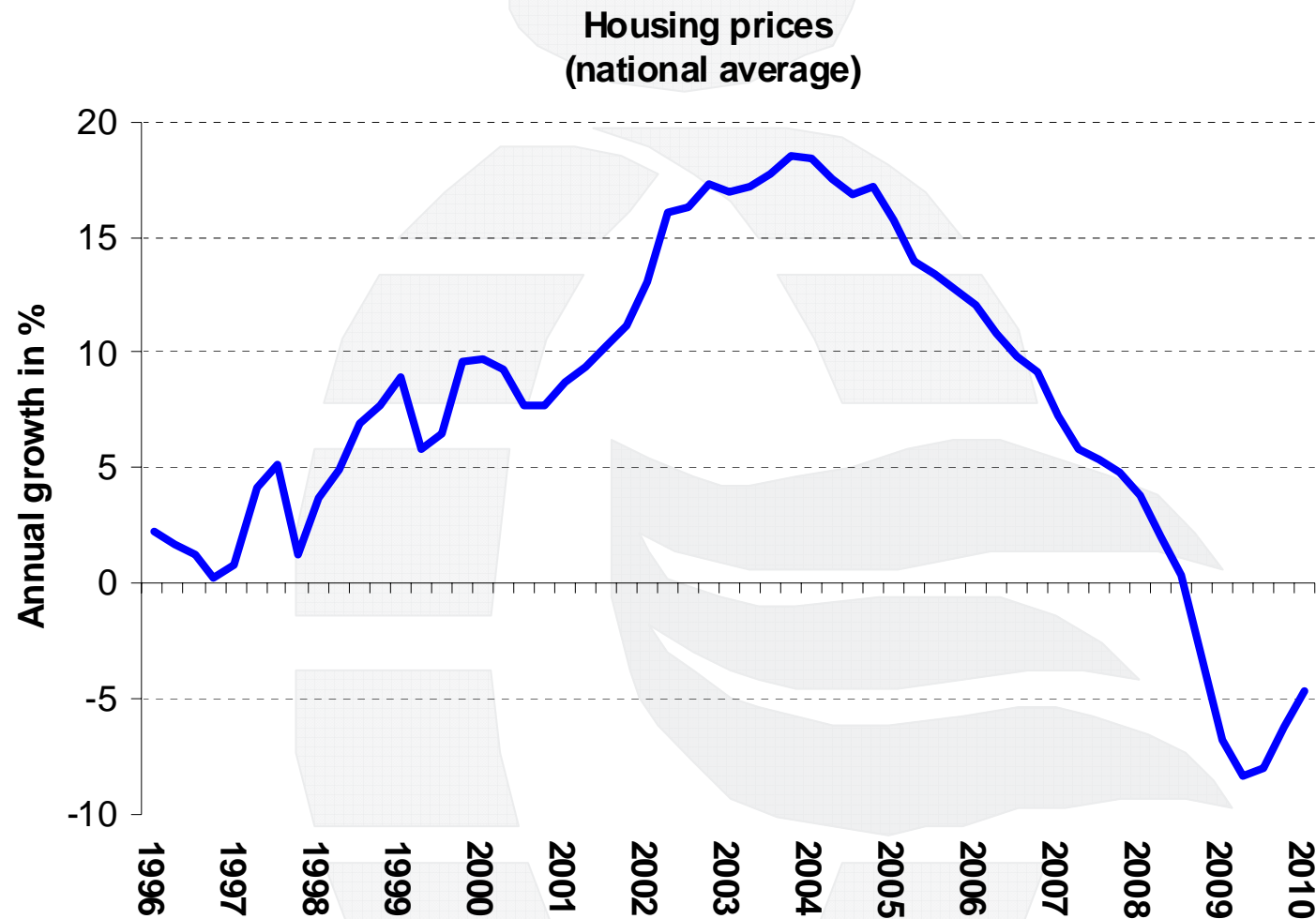
Macroeconomic approach of the Spanish Real Estate market



- After achieving 1 million transactions at the beginning of 2006, demand for housing started to decelerate as accessibility ratios began to rise, due to higher prices and higher interest rates.
- Housing transactions declined sharply since the second part of 2007, combined with the effects of the financial crisis.



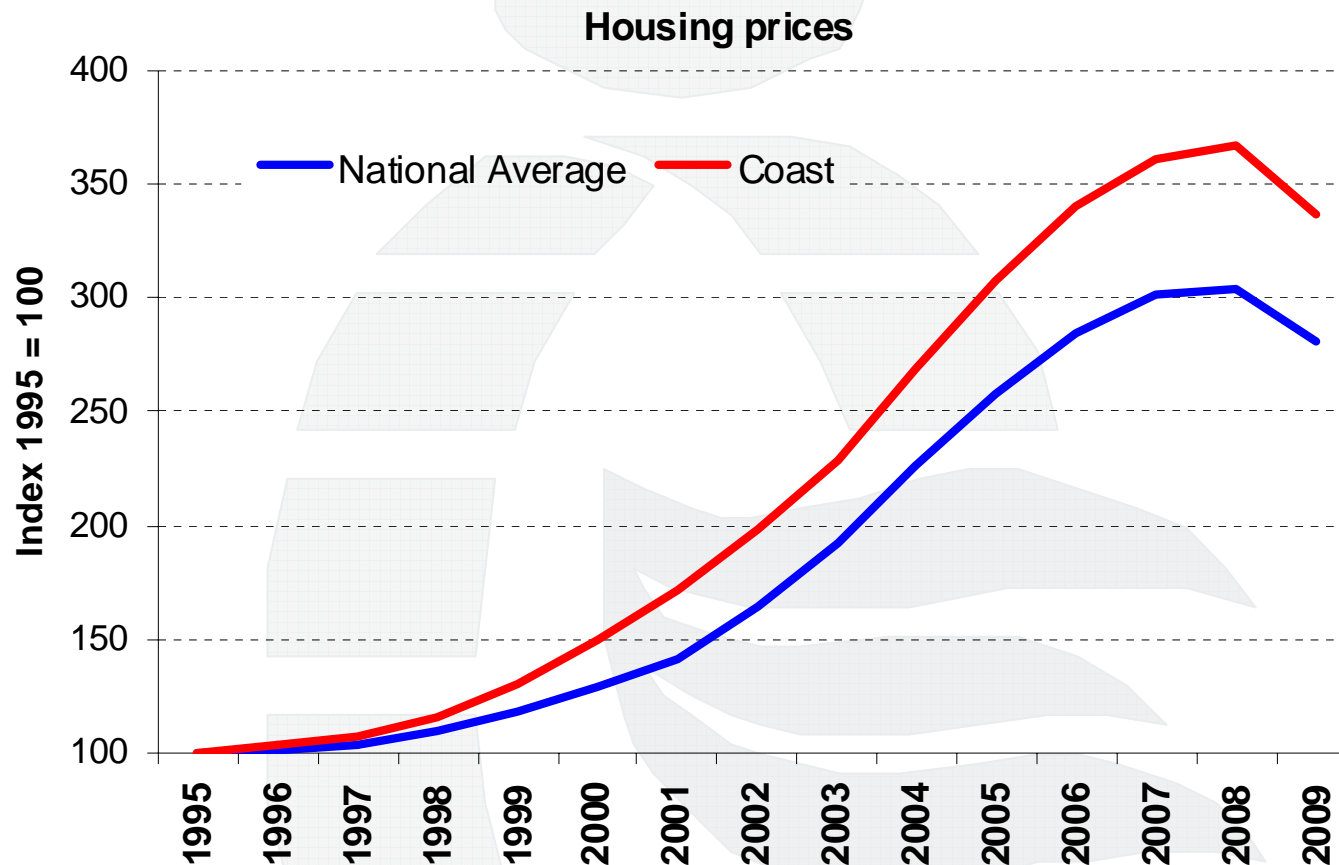
Macroeconomic approach of the Spanish Real Estate market



- Prices grew at an average rate of 12% during the expansionary period, and started to decline in 2008, by nearly 10% at the end of 2009.



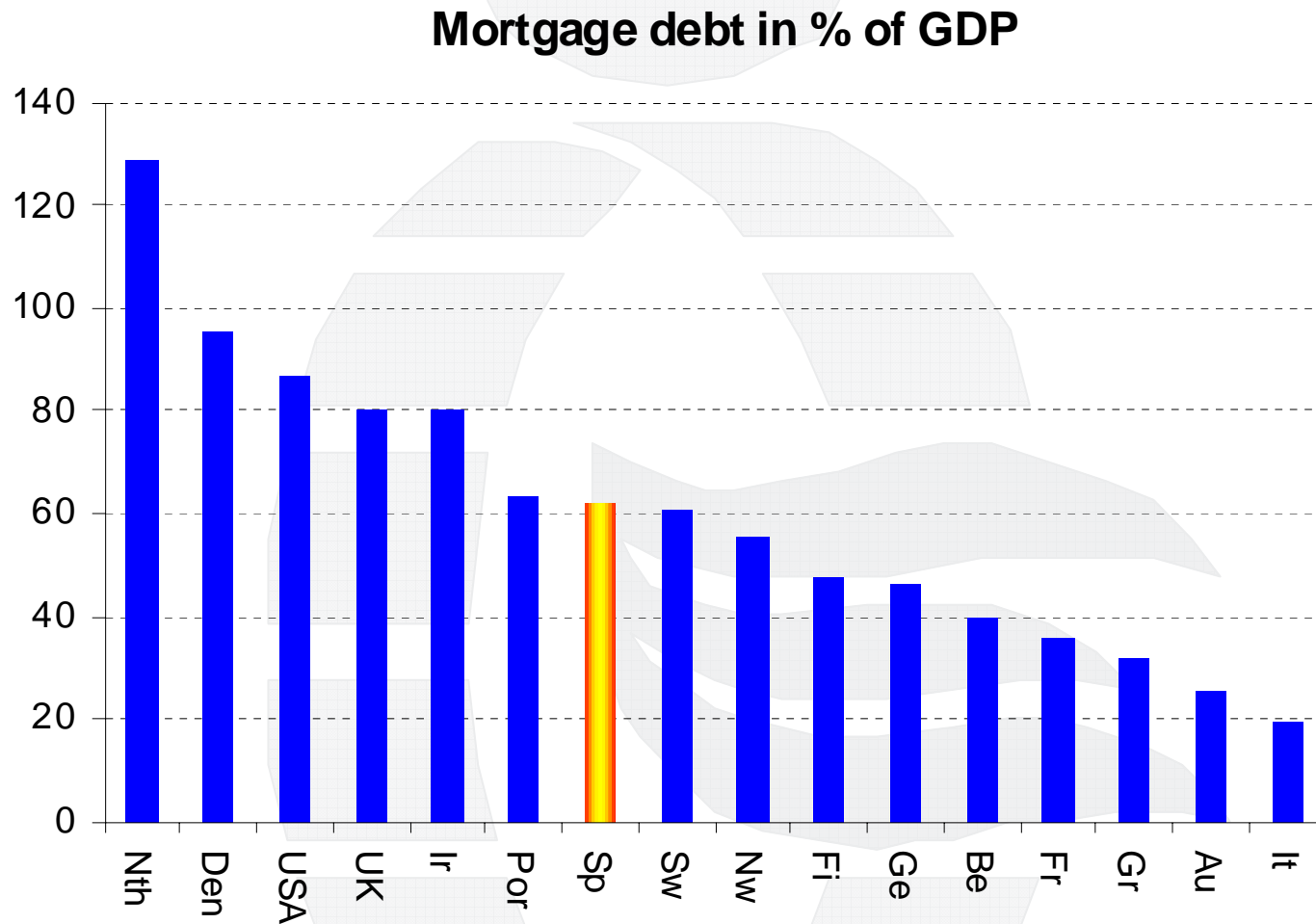
Macroeconomic approach of the Spanish Real Estate market



- From 1995 to 2009, houses tripled their prices in national average, and even more those houses located in the coast
- In 2009 the price level was similar to 2006, and the fall from its highest level was 10%.



Macroeconomic approach of the Spanish Real Estate market

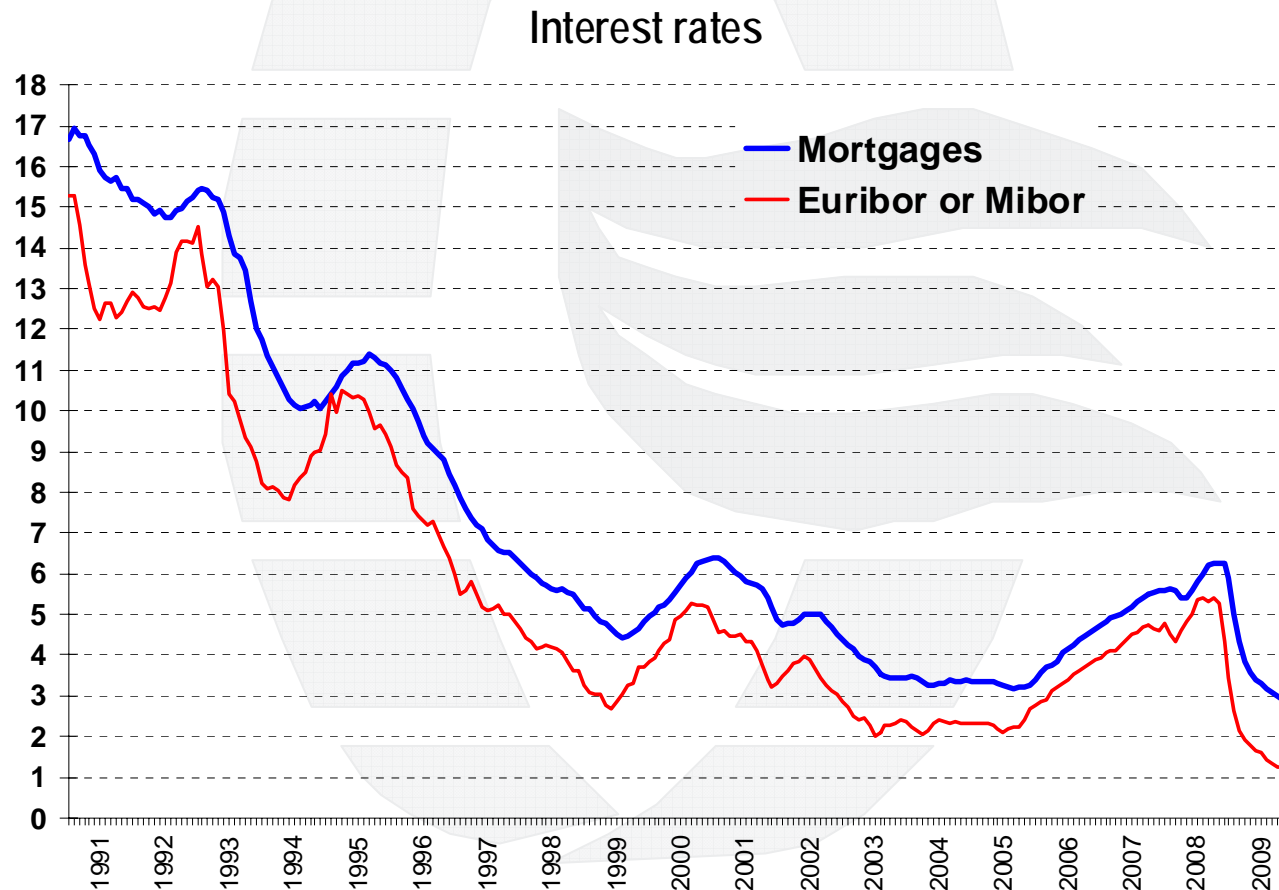


- Mortgage credit represents more than 60% of GDP in Spain, doubling the ratio registered in 1996. However, it is still lower than in many other European countries.



Macroeconomic approach of the Spanish Real Estate market

- The sharp decrease in interest rates after the entrance in EMU has boosted mortgage credit growth.
- More than 95% of credits for house purchase are conceded at variable rates, with an average differential of 0,75 -1 p.p. from 2005 to 2008.
- This differential has now risen to 1,5 - 2 p.p.



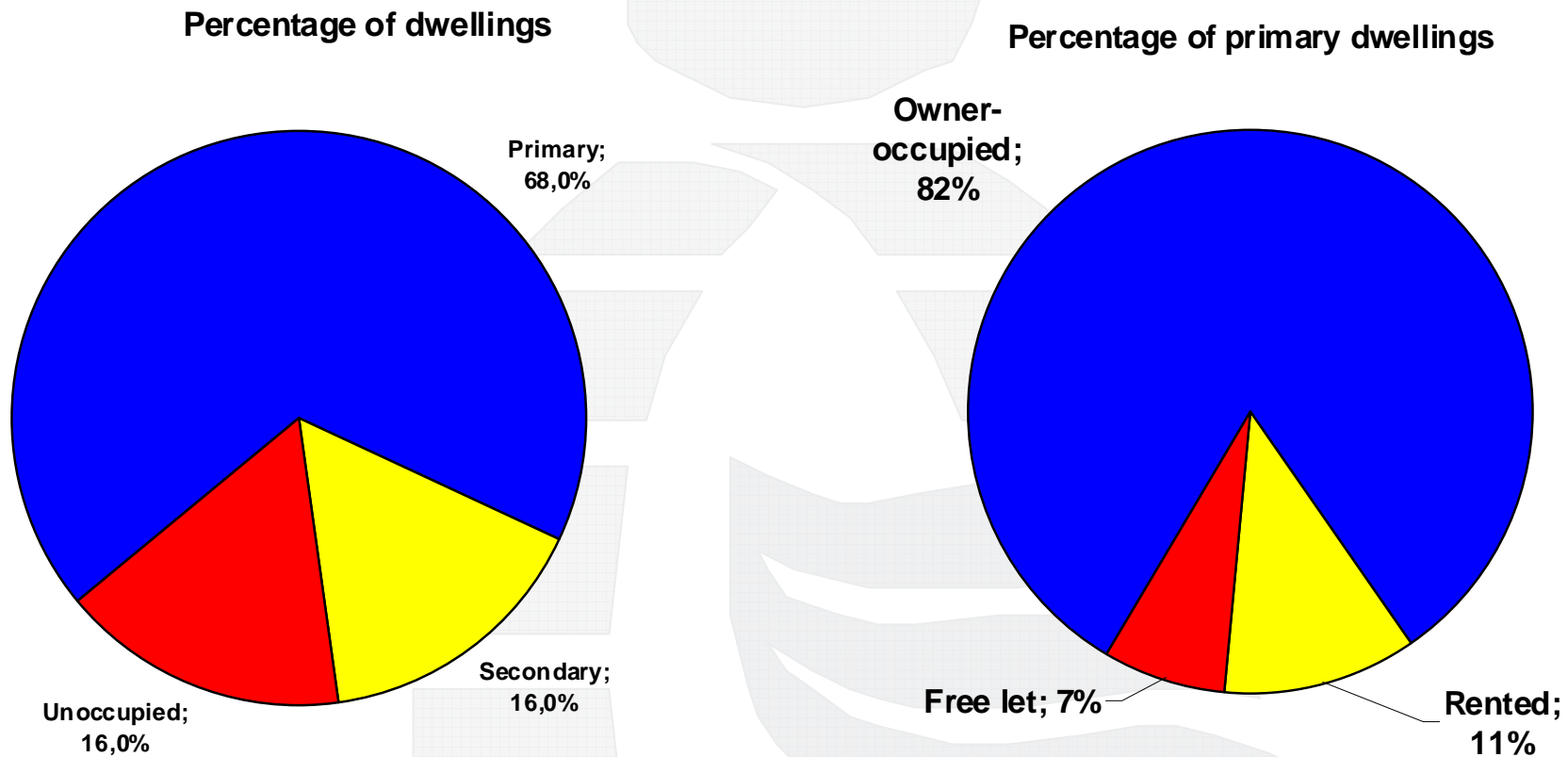
Credits for house purchase

	(In years)	1996	2009
Average new credits term		14,8	23,5
Average credit portfolio term		8,1	14,8

- The enlargement of loans' terms has favoured housing credit growth.
- In 1996, the average new loans' term was close to 15 years, while in 2009 it was 23,5 years.
- As a consequence, the average credit portfolio term has grown from 8 years in 1996 to 15 in 2009.
- The LTV ratio for new credits in 2009 was 56% and only 10% of new credits have a LTV over 80%.



Macroeconomic approach of the Spanish Real Estate market



- In Spain, primary dwellings represent a 68% of the total ...
- ... and more than 80% of primary dwellings are owner-occupied.



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The role of “Cajas” in housing finance

CAJAS' AGGREGATED ASSETS (December 2009)

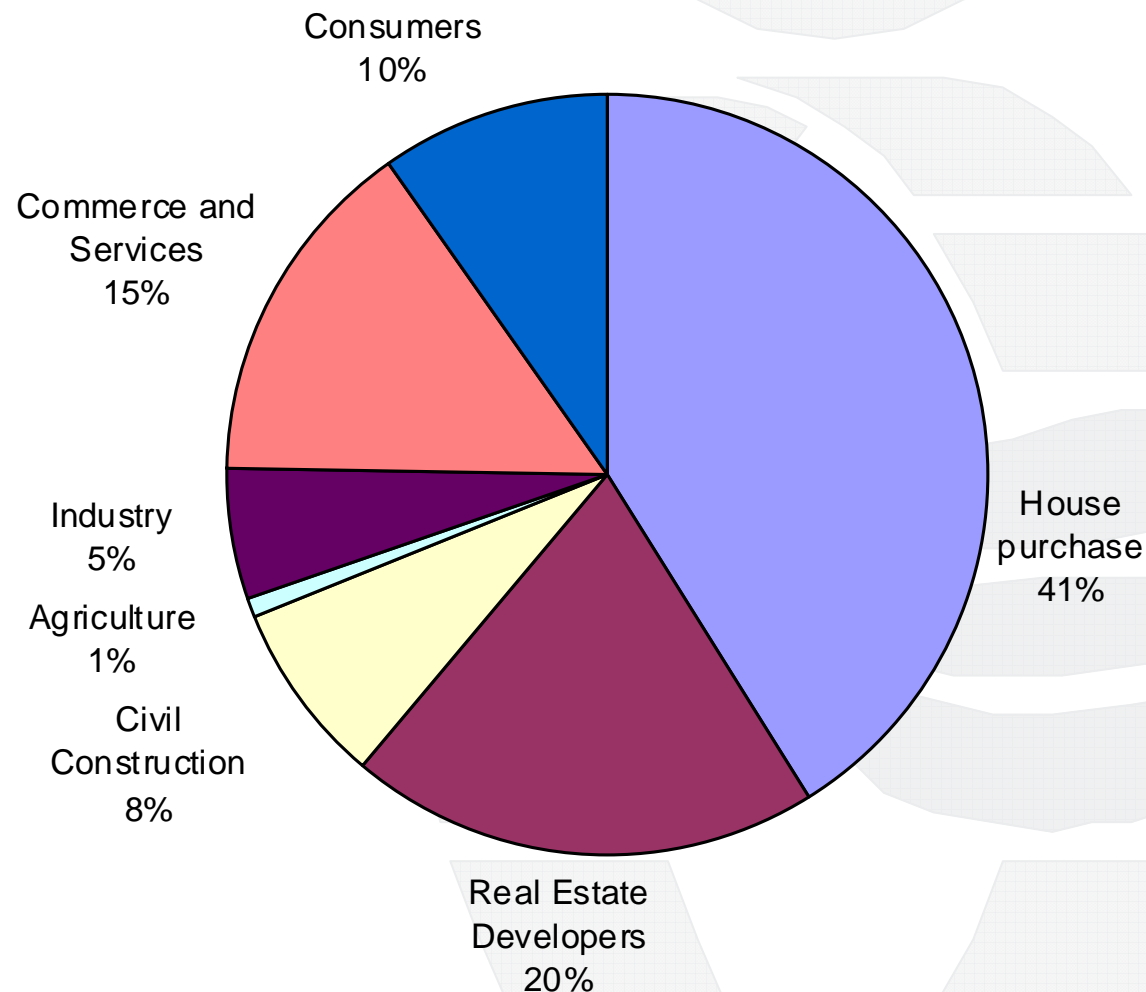
	Billion €	Structure (%)	YoY rate
Interbank Deposits	79,5	6,2	4,2
Loans and Credits	900,6	70,3	-1,1
Mortgage loans	599,2	46,8	-0,1
Other credits	301,4	23,5	-3,2
Financial Assets	214,6	16,8	19,2
Debt Securities	166,1	13,0	23,6
Equities	14,7	1,1	7,9
Holdings	33,7	2,6	5,4
Other Assets	86,1	6,7	19,7
TOTAL ASSETS	1.280,7	100,0	3,4

■ Cajas' Investments are mainly oriented to Credits...

■ ...and Mortgage Loans represent 47% of total Balance...



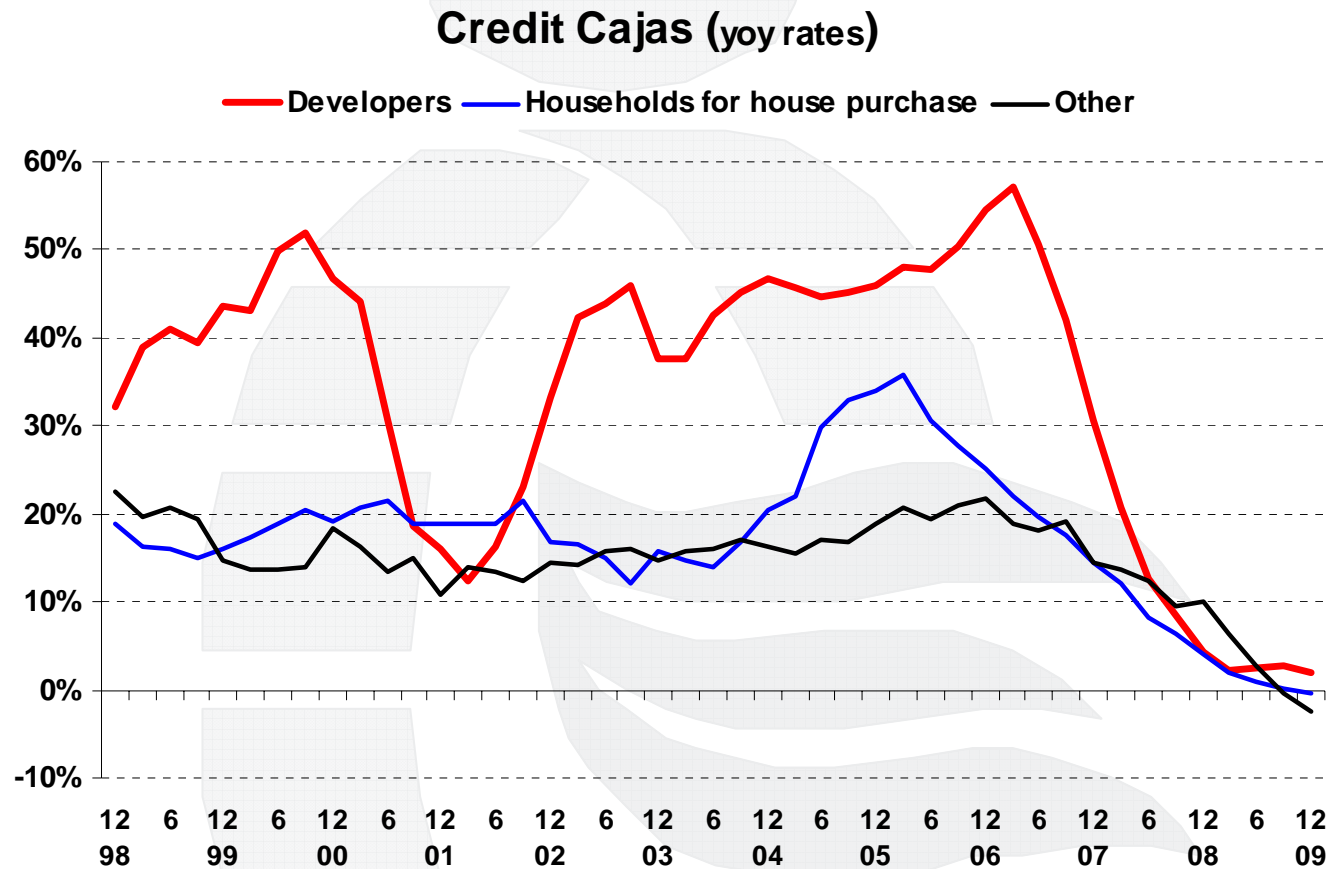
The role of “Cajas” in housing finance



- 41% of Cajas' Credits in 2009 were conceded to households for house purchase, ...
- ... 20% for Real Estate developers ...
- ... and the rest, to consumption and service companies' financing.



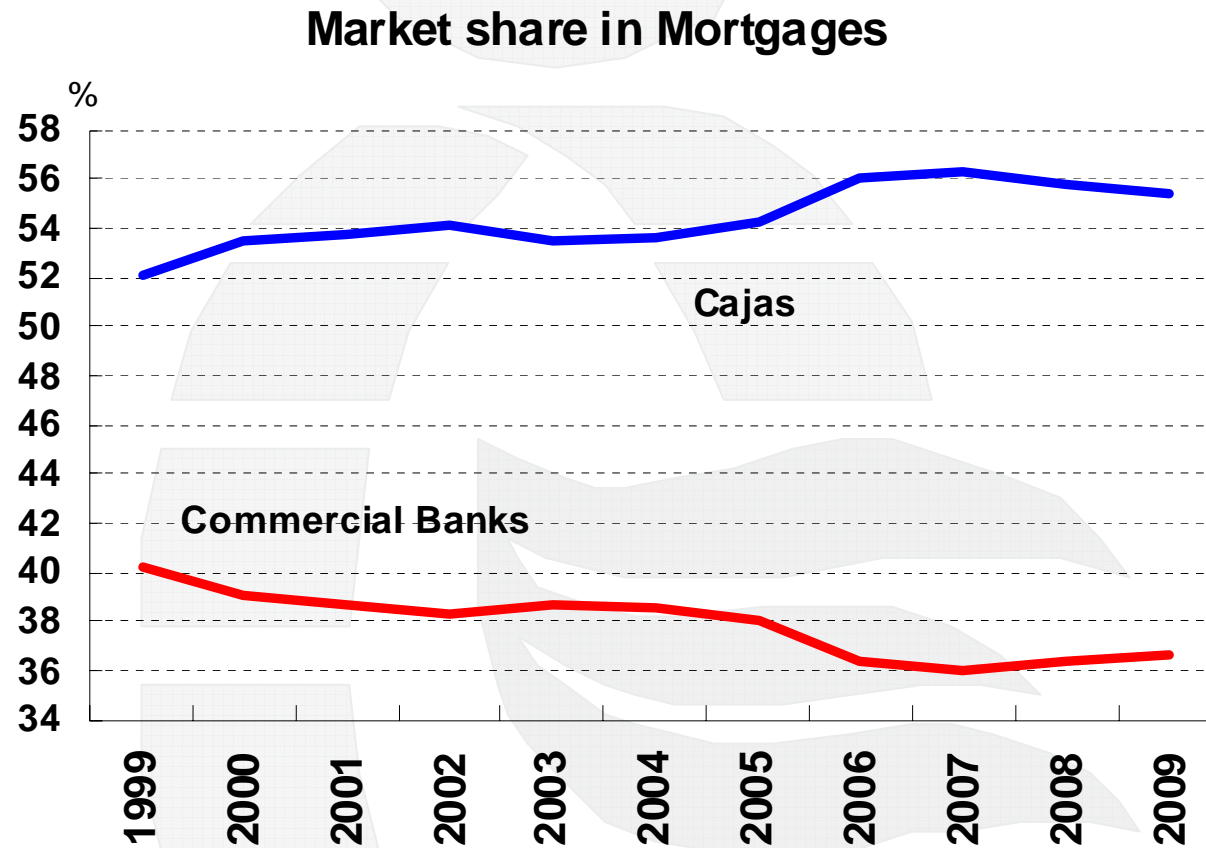
The role of “Cajas” in housing finance



- From 1998 to 2007, the annual average growth rate of credits to developers was 40%, 20% to households for house purchase, and 16% for other credits.
- In 2009, the growth rates were: 2 % for developers, -0.5 % for house purchase and -2.5 % for other credits.



The role of “Cajas” in housing finance



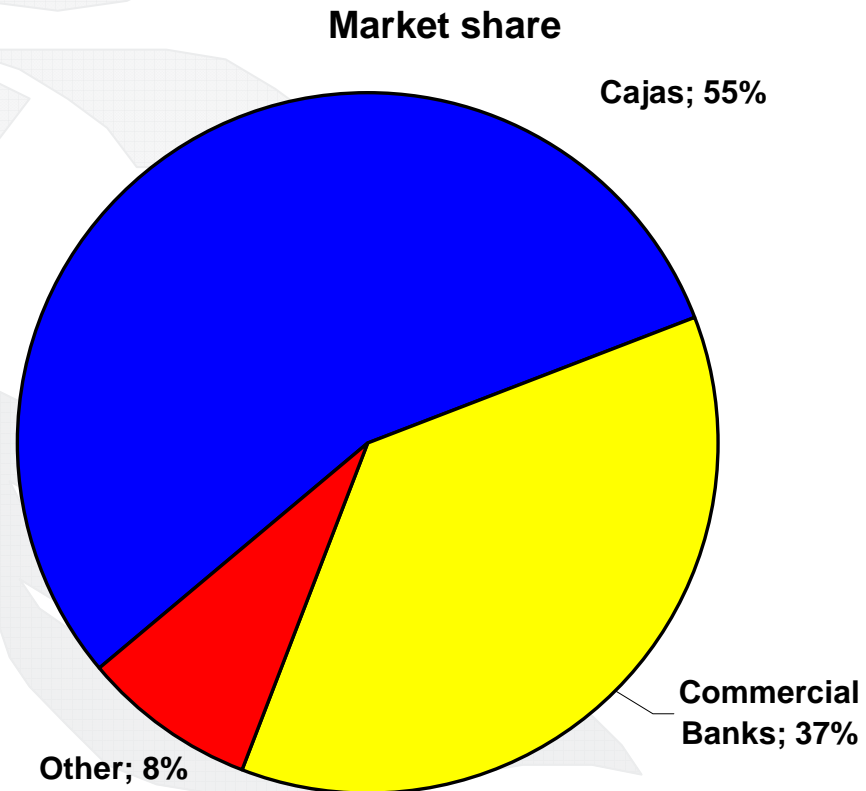
- Cajas increased their market share in mortgages from 1999 to 2007 (56%), but they have lost one point since 2007.



The role of “Cajas” in housing finance

House financing 2009 in Spain

	Billions €
Cajas	609
Commercial Banks	403
Other	88
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Total	1.100

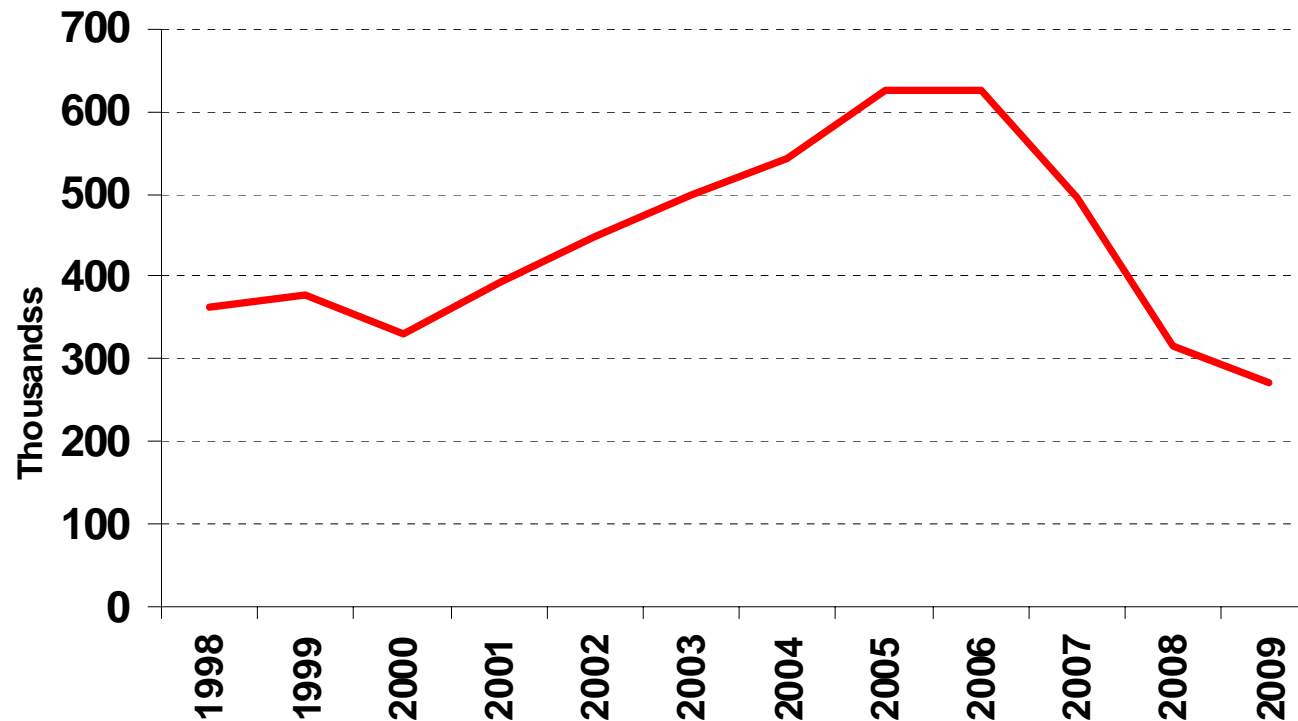


- In 2009 Cajas kept a market share of 55%, well over Commercial Banks' (37%).



The role of “Cajas” in housing finance

Cajas: New mortgages

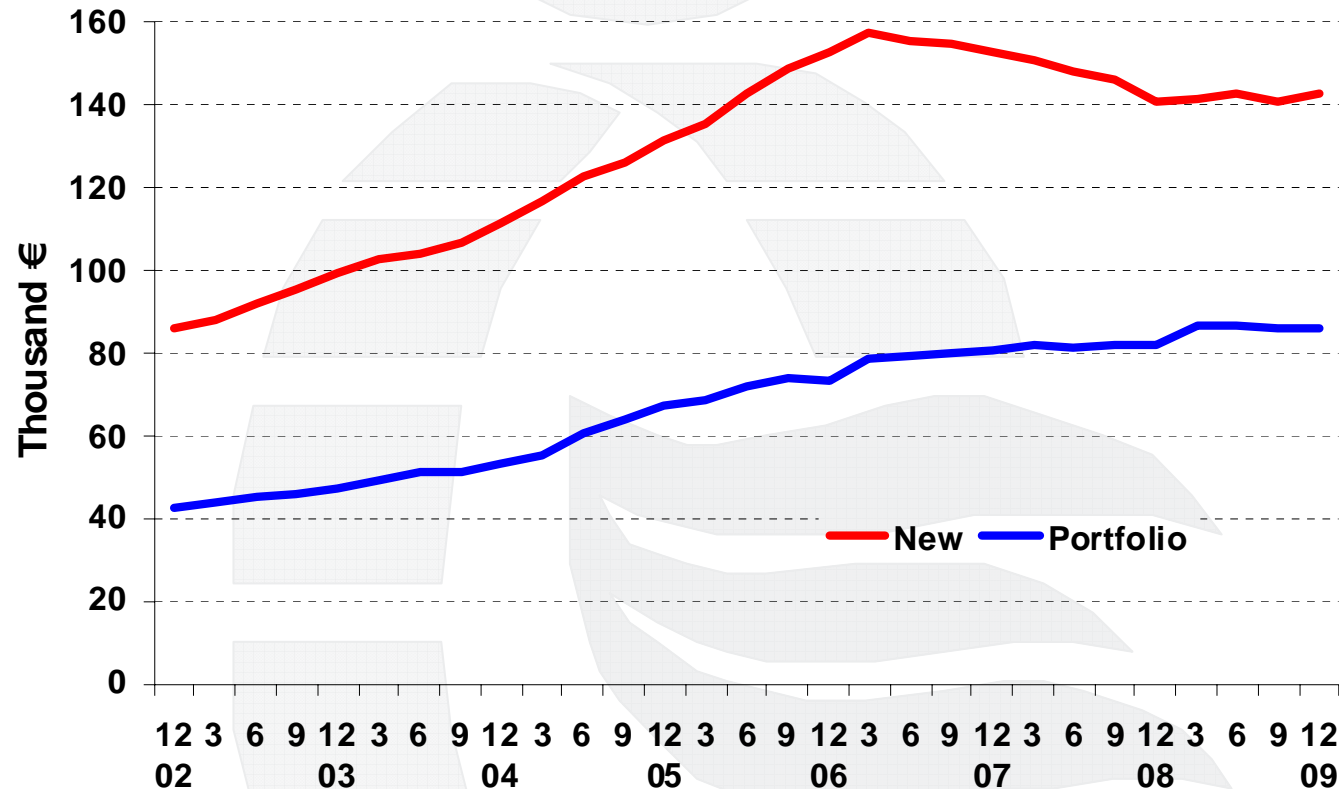


- New mortgages conceded by Cajas reached a high of more than 600 thousands in 2005 and 2006 ...
- ... and then initiated a falling trend, until a minimum of 270 thousand in 2009.



The role of “Cajas” in housing finance

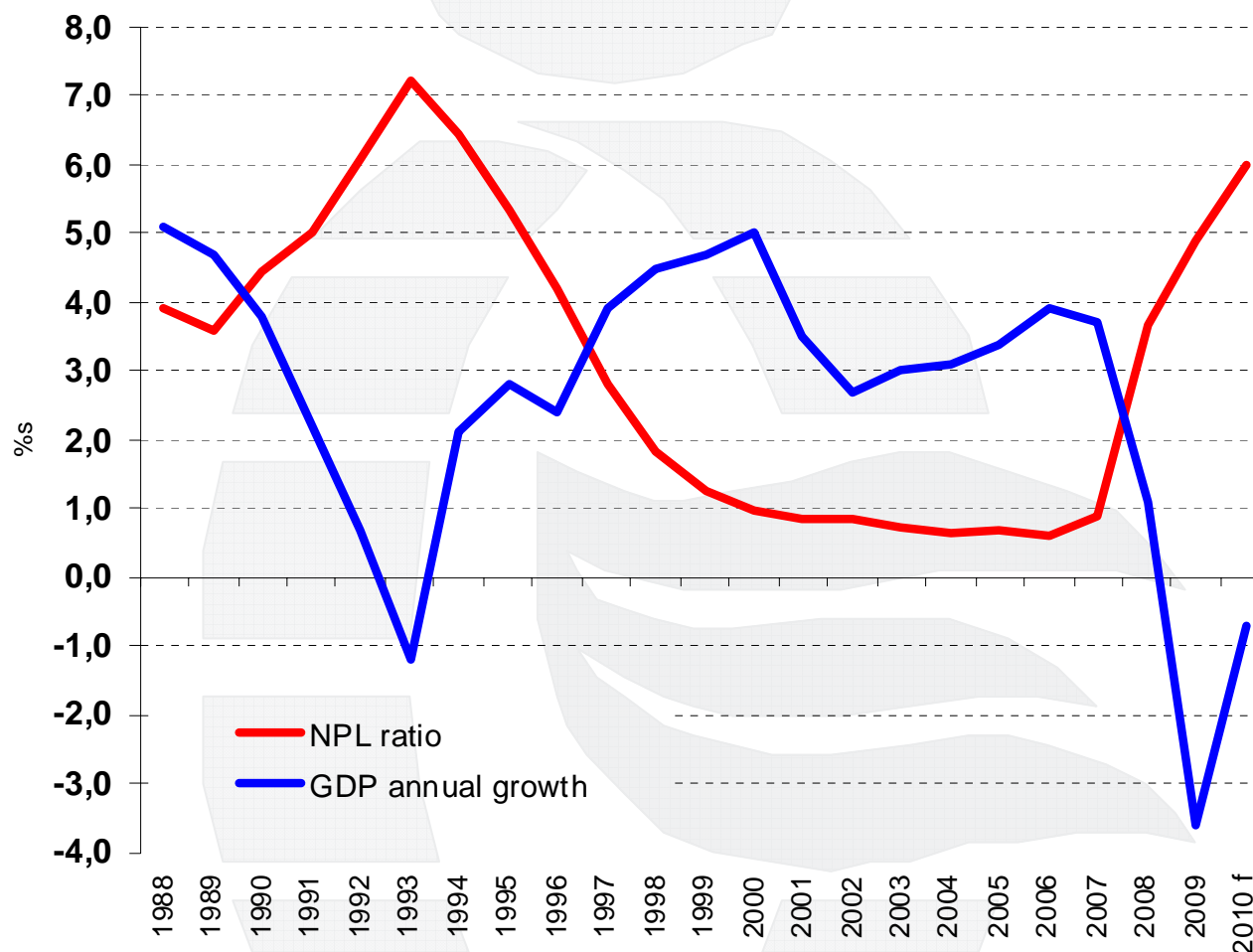
Cajas' housing credits: average amount



- The average amount of Cajas' new credits for house purchase almost doubled between 2002 and 2006, to 160 thousand €, reflecting rising prices and improvement in financing conditions. In 2009 it decreased to 140 thousand €.
- The average credit balance in Cajas' portfolios is slightly over 80 thousand €, from 40 thousand € in 2002.



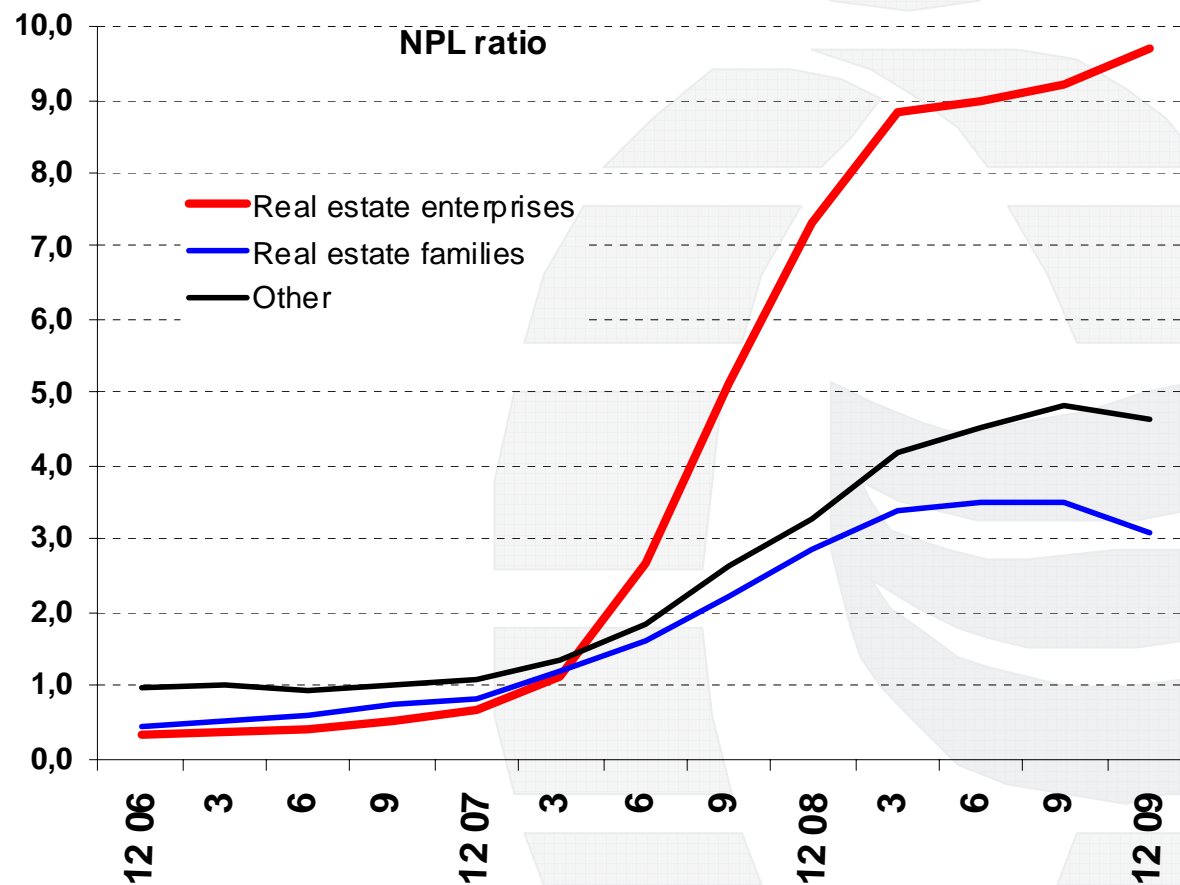
The role of “Cajas” in housing finance



- The delinquency ratio is highly correlated to GDP growth.
- After eight years with delinquency ratios under 1%, it increased sharply in 2009, to 4.9 %, and the forecast is 6% at the end of 2010.



The role of “Cajas” in housing finance

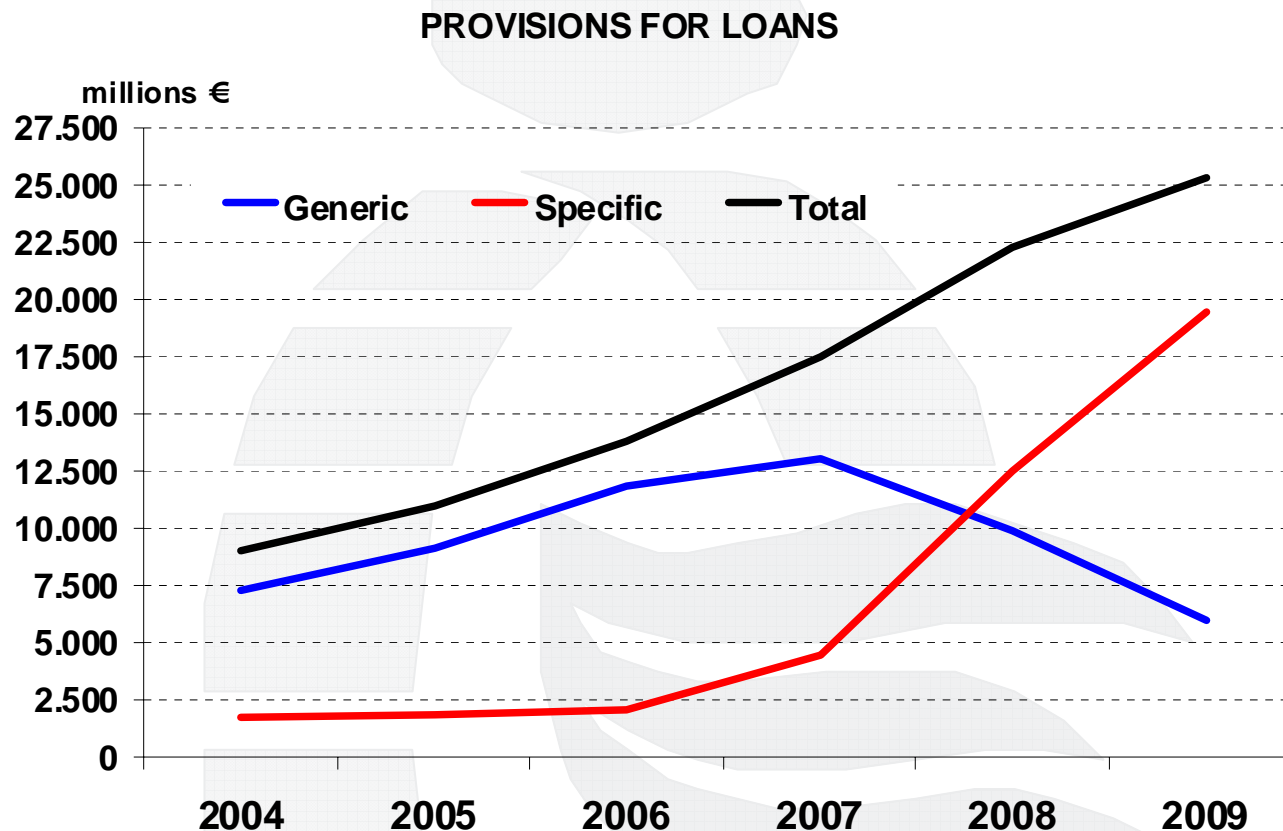


■ Despite being traditionally low, NPL ratio in Real Estate enterprises segment has shown the biggest increase since 2008...

■ ...more than doubling housing purchase's rate.



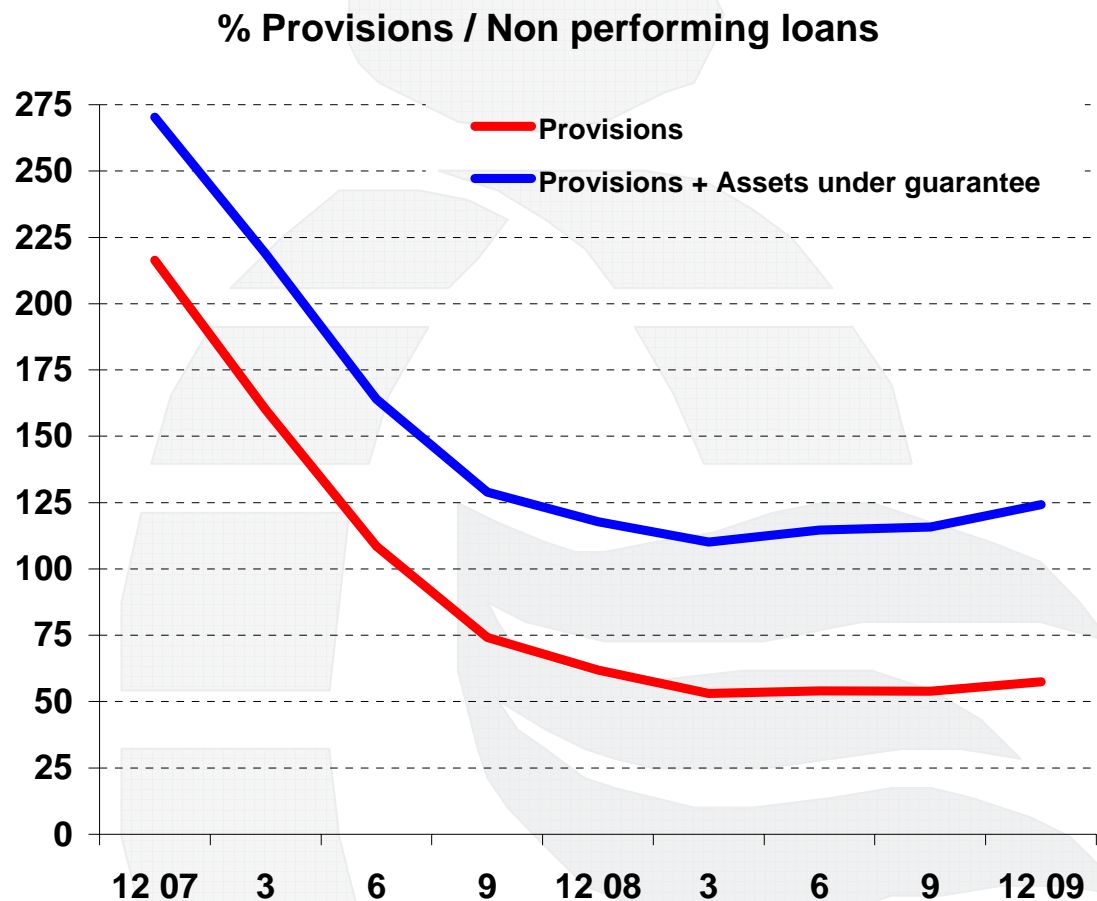
The role of “Cajas” in housing finance



- Conservative policy of Bank of Spain has traditionally obliged Spanish entities to make important endowments to face possible future problems.
- Cajas have more than 25 billion € in provisions for loans.
- Specific endowments, made as soon as delinquency appears, have grown notably in 2009. Generic ones, made when credit is granted, fell during last year.



The role of “Cajas” in housing finance



- Taking into account the value of assets under guarantee, as well as provisions, non performing loans' coverage ratio rises to 125%, ...
- ... so the vast majority of Cajas will maintain their solvency and financing capacity levels in the next years.





Thank you for your attention



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