# Bausparen conquers the world

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### Structure of Presentation

The basic idea of the Bauspar system

- Bausparen today one idea for millions of people
  - The role of government subsidisation
- Benefits of Bausparen
  - One system three beneficiaries
- Bausparen worldwide
  - From Europe to the rain forest
  - The significance of Bausparen in emerging economies
- Conclusions and outlook

## The basic idea of the system

Example: 10 potential home buyers with annual saving rates of 10.000 per buyer and year. Purchase price per home: 100.000

#### □ WITHOUT a Bausparkasse

Each buyer has to wait **10 years** until he can buy his home

#### □ WITH a Bausparkasse

- When all these persons pay their rates into a common account, one of them can buy a home after only one year, only the last person has to wait for 10 years.
- The average waiting period will be reduced from 10 to 5,5 years

## The basic idea of the system

#### □ The principle of solidarity

- First foundation of a savings society <u>1775</u> in Birgmingham: "Ketty's Building Society"
- In Germany, the first building society was founded in 1885 by pastor von Bodelschwingh "Bausparkasse für jedermann" (Bausparkasse for Everybody)

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## The basic idea of the system

#### □ A closed system

 Only those persons who <u>saved money would reveide</u> a loan

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No interest during the savings period — <u>low</u> interest rate during the loan period











## Role of government subsidisation

Interest rates are below market rate

- Savers get low interest for their money
- Borrowers pay below market interest-rate for loan

□ In order to encourage more people to save money at a Bausparkasse → state subsidisation

- Additional loans can be granted
- Waiting period can be reduced
- Attracts people with no need for a loan

## Government Subsidies 2004

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	D	Α	SK	CZ	н	RO
Subsidisation (%)	8,8 %	3,5 %	15 %	15 %	30 %	30 %
Subsidisation (/a)	45	35	60	90	275	180
ølncome ()	2700	1843	345	522	490	180
% of income	1,7 %	1,9 %	18 %	18 %	56 %	100 %

## Benefits for the customer

#### Saving period

- Fixed interest rate guaranteed by the contract
- Optional additional savings besides regular rates
- Governmental subsidisation
- Option to call a loan at pre-specified terms
- After contract period: free availability of the savings

#### One of the safest investments with an excellent return

## Benefits for the customer

#### Loan period

- (Low) interest rate is fixed already by the savings contract
- Optional special repayment rates besides the regular rates
- No interest risk and therefore independence of the capital market during the entire repayment period
- Equal repayment rates easy planning

#### The safest and most efficient way of housing finance

## Benefits for the national economy

Bausparen helps to provide housing for the population by their own initiative

Bausparen contributes to a continuous growth of home ownership and therefore to steady building activity - >each Euro in the system is used for housing

□ The loss rate in Bauspar loans is extremely small.

One of the most important financing tools !!!

## Benefits for the state

 $\Box$  (Nearly) everyone is entitled to subsidisation

Government subsidies help to save:

- Good return on savings for the saving persons due to the subsidies
- Low interest rate for borrowers

As a loan is often funded by several saving persons, more people can enjoy subsidies as compared to direct subsidisation

One of the most efficient methods to support home ownership



## Achievements in Czech Republic Bausparen has existed since 1993 **6** Bausparkassen are responsible for 6.3 million savings accounts (62 of the market%): 8.3 billion € □ More than 685,000 loans are being administrated: 2.0 billion € 2003: 156,000 Bausparkassen loans and 31,000 mortgages were granted

## Achievements in Hungary

Bausparen started 1997

2 Bausparkassen are responsible for 924,000 savings accounts (9 % of the market):
 440 million €

140,000 customers used their saved money or a Bausparkassen loan for renovation or property acquisition

2003: about 6 % of the governmental homefinancing subsidy was spent on Bausparkassen

## Bausparen in Europe

TOTAL CUSTOMERS ~ 45 Mio.						
□ Hungary:	1997	0.9 mill. contracts				
🗆 Croatia:	1998	0.5 mill. contracts				
Czech Republic:	1995	6.2 mill. contracts				
Slovakia:	1992	1.2 mill. contracts				
🗆 Austria:	1925	5.1 mill. contracts				
Germany:	1920	33.0 mill. contracts				

# Conclusions and outlook Bausparen started in China and Romania in 2004 The introduction of Bausparen is being discussed in

- Kazakhstan
- Bulgaria
- Russia
- India

## **Conclusions and outlook**

- The principle of Bausparen has worked in Europe for over 100 years.
- It increases housing affordability for the low and middle income groups.
- □ There is an increasing demand for housing.
- Many apartments and houses need renovation.
- Home ownership is of growing importance for old age provision.

## **Conclusions and outlook**

Hence:

The importance of Bausparen is going to increase. 3