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# Housing Finance Market in Poland

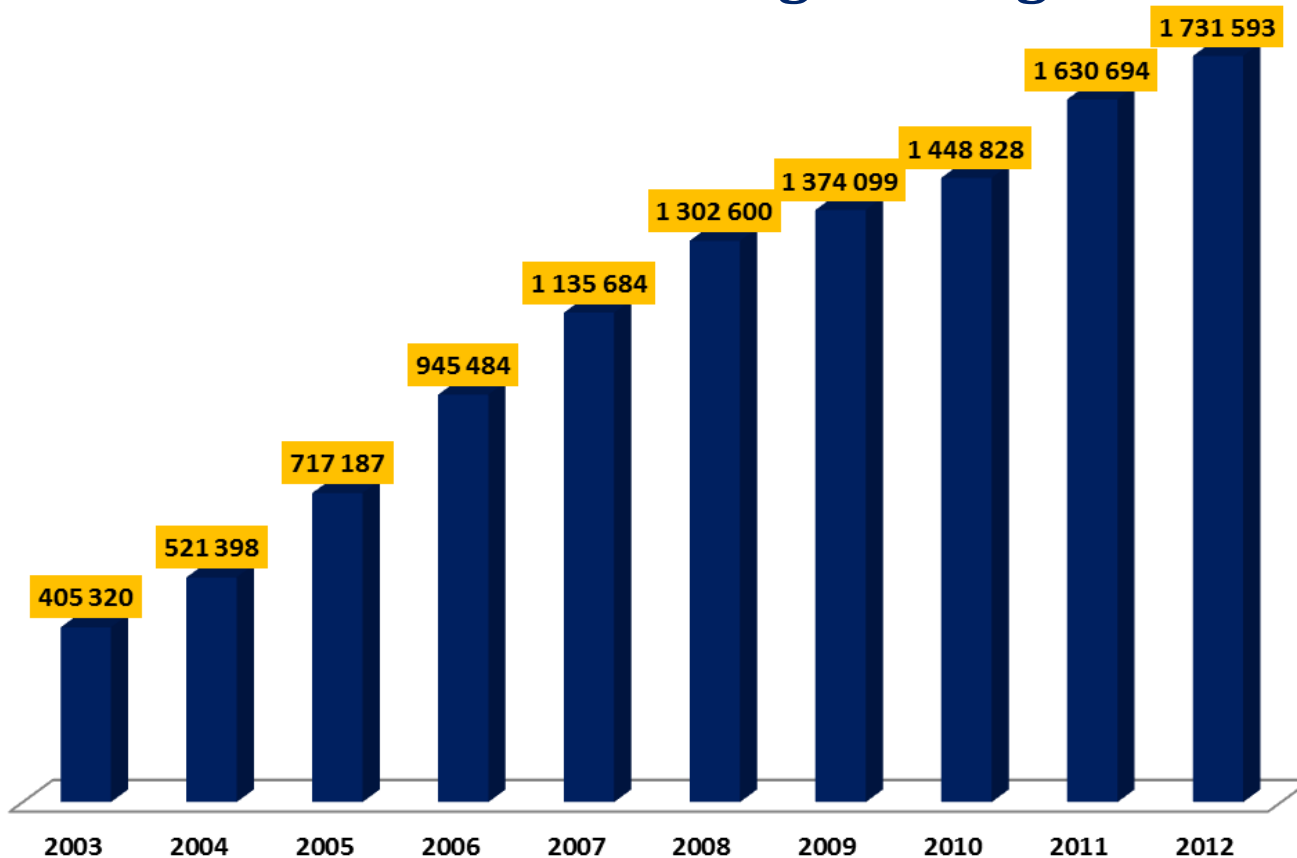
## Regulations & Initiatives

**Dr. Mieczysław Groszek**  
**Vice President of Polish Banks Association**



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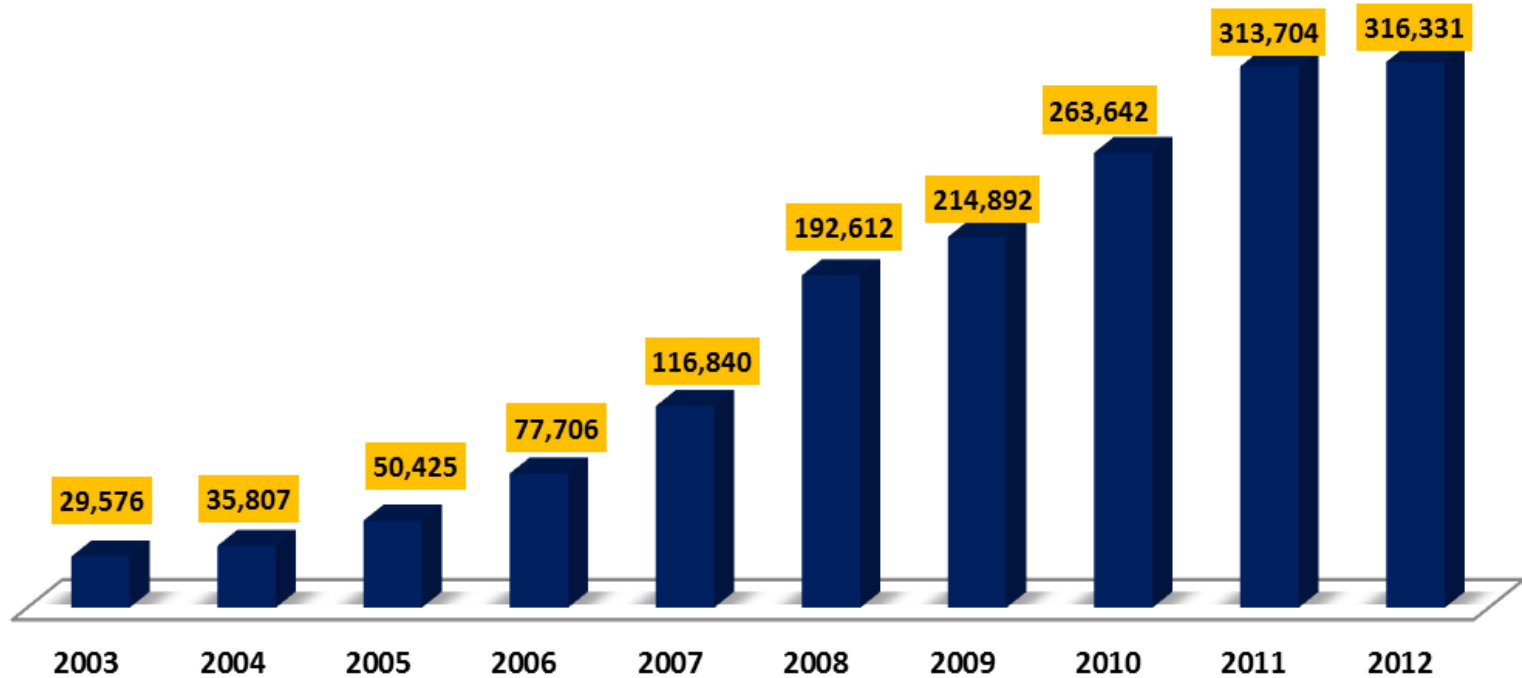
## Number of outstanding housing loans





# Value of outstanding housing loans (PLN Mio)

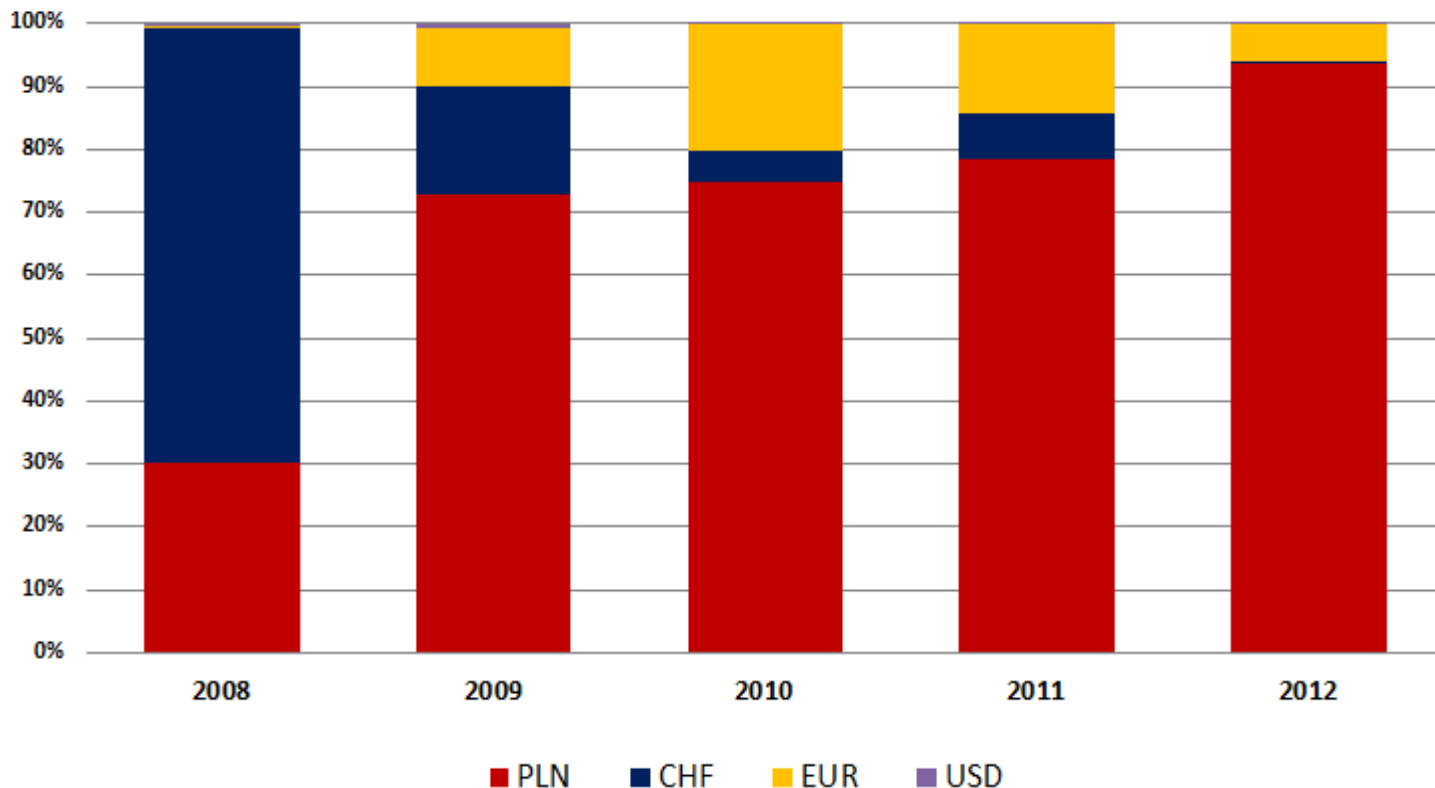
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# Currency structure of newly granted housing loans

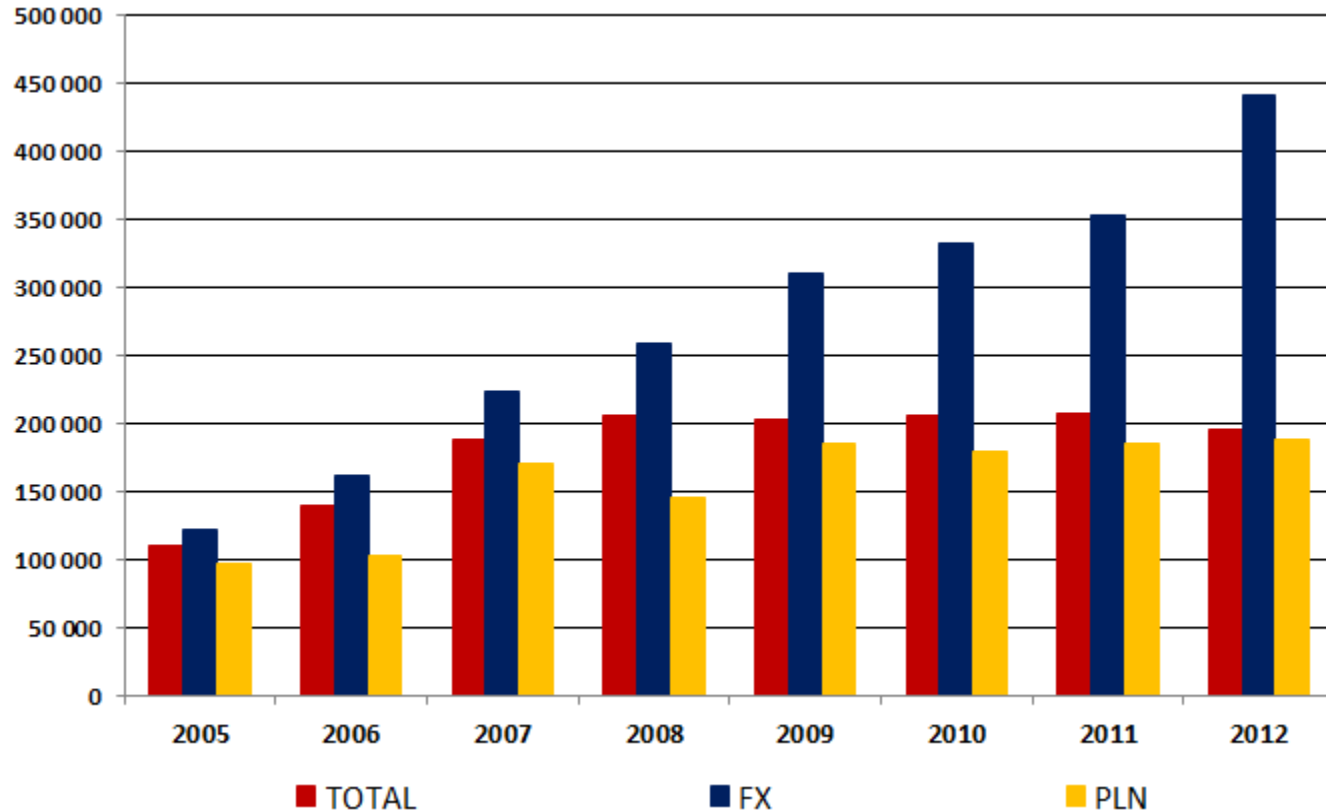
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# Average value of a housing loan (in PLN)

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## Risks related to mortgage portfolio (1)

- Immature mortgage portfolio due to short credit history
- Large share of currency loans in total mortgage portfolio
- Large proportion of loans with high LtV ratio and long maturity
- Excessive product concentration in several banks
- Unsatisfactory refinancing structure of long-term mortgage loans
- Risk concerned with subsidised loans granted under the government programme *'Family on its Own'*
  - increase of monthly instalments after termination of interest subsidy



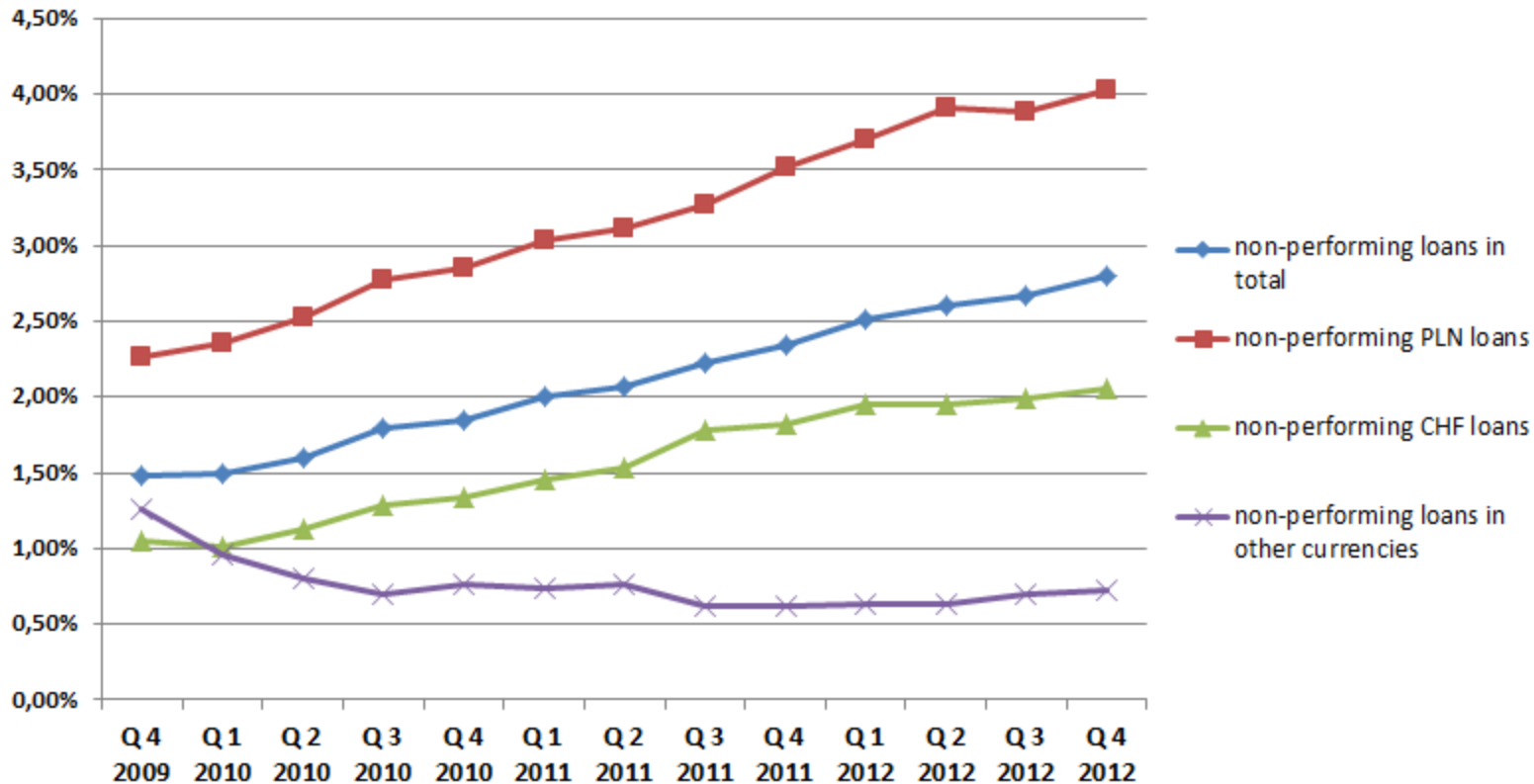
## Risks related to mortgage portfolio (2)

- Poor quality of estate valuation, databases on real estate market and information on borrowers financial standing
- Very little experience in a process of risk mitigations based on mortgage insurance
- Cyclical nature and relatively low liquidity of real estate market
- Strong geographical concentration of transactions (mostly big cities with dominant role of capital city of Warsaw)
- Little experience in management of large mortgage portfolios and no good solutions for possible stress situations
- Too fast mortgage loans development – possible destabilisation of macroeconomic equilibrium



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# Mortgage loans default rate

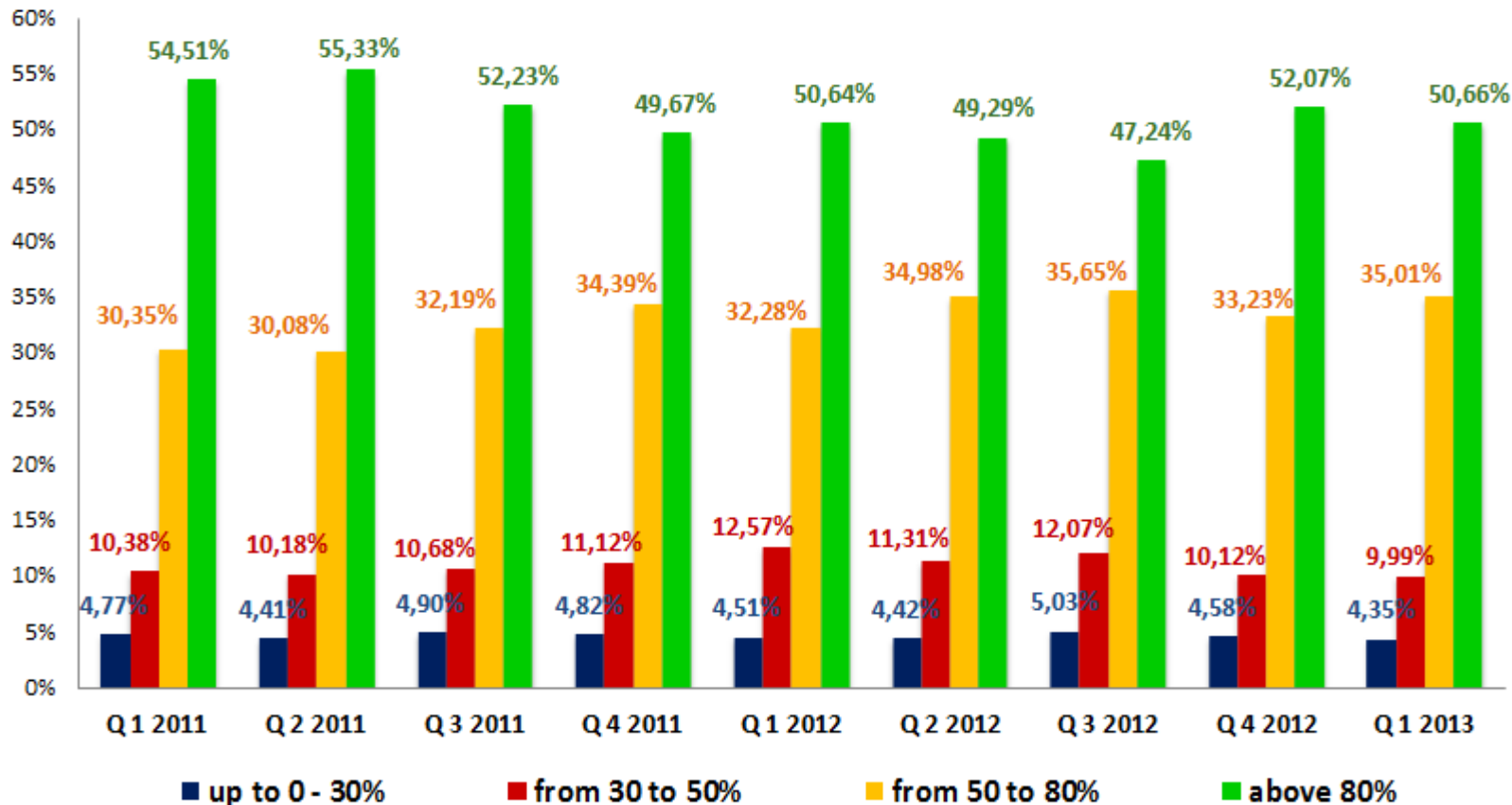






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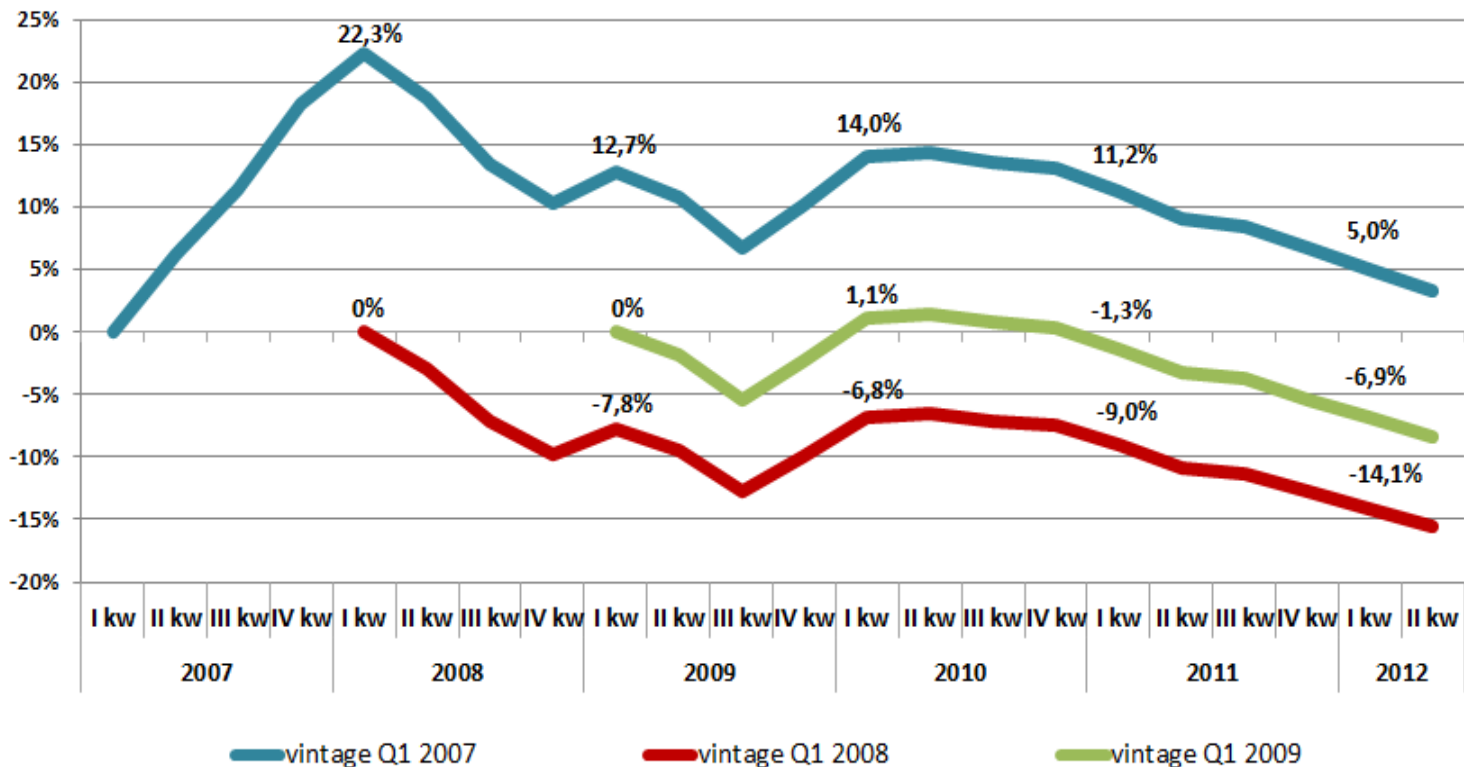
## Structure of LtV ratio of newly granted loans





# Changes in mortgage collateralals value of loans granted in Q1 2007, Q1 2008 and Q1 2009 (flats located in Warsaw)

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## Reasons for necessary regulatory improvements in mortgage finance

- No self-regulations practices in banking sector
- Strong competitive pressure
- Limitation of influence of monetary policy instruments on interest rates
- Increase in system risk that may effect in stress situations
- Destabilisation on real estate market and decrease in housing affordability for individuals
- Limitation of market practices, which may result in negative percept of Polish banks, Polish financial system and the whole economy



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## Financial Supervision Authority's response on identified risks

- New Recommendation T on retail credit risks, amendments to Recommendation S on mortgage loans and amendments to Recommendation J on databases on real estate market implemented in purpose to improve the risk management practices:
  - New creditworthiness assessment rules for individuals
  - Limitation of maximum level of LtV ratio
  - Obligatory verification and monitoring of collateral value during the whole loan period
- Amendments to FSA Resolution No. 76/2010 - 100% risk weight for mortgage loans in foreign currency
- Other steps and improvements of FSA are being considered



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# Polish banks are much more 'dependent' on quality of mortgage loans portfolio than banks in most EU countries

## Share of mortgage loans – as for the end of 2009 (in %)

	in banks' assets:	in GDP:
Estonia	28,7	44,5
Litwa	23,1	22,7
Portugalia	21,3	66,0
<b>Polska</b>	<b>19,2</b>	<b>17,0</b>
Hiszpania	19,1	62,5
Słowacja	17,4	15,0
Holandia	17,1	66,4
Czechy	16,4	19,1
Szwecja	16,2	51,9
Grecja	13,8	28,5
Niemcy	13,0	39,9
<b>UE</b>	<b>12,1</b>	<b>43,1</b>
Węgry	11,7	15,8
Bułgaria	11,4	12,7
W. Brytania	10,5	63,4
Francja	10,0	37,6
Irlandia	8,3	67,4
Włochy	7,6	18,4
Austria	7,0	26,5
Belgia	6,9	23,5
Rumunia	6,6	4,9

Current share of mortgage loans in banks' assets amounts to approx. 24% (in 2004 - nearly 7%), however in several banks it amounts to or exceeds 50%

Current share of mortgage loans in Polish GDP amounts to approx. 20%-21% (in 2004 it was nearly 4%)

In 2005-2011 there was observed the sharp increase in share of mortgage loans in banks' balance sheets and in the whole Polish economy

Source: Report on EU banking structures, ECB 2010/own calculations



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## Initiatives of Polish Banks Association (1)

- Credit Information Bureau (BIK) - borrowers' credibility database and credit scoring system
- Polish Federation of Valuers' Association and Polish Bank Association initiative – valuation standard for mortgage collaterals
- Committee for Real Estate Finance – market-support and housing think-tank
- The PBA special working group for secondary mortgage market



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## Initiatives of Polish Banks Association (2)

- Industry-wide databases developed by the PBA:
  - AMRON – real estate transaction prices and values
  - SARFiN – on mortgage market
- Long-term saving system (Bausparen) – new attempt:
  - Preparation of Bauspar-law for Polish Parliament
  - Polish President's support
  - Cooperation with German Association of Private Bausparkassen



## Regulations & Initiatives – Credit Risk

- FSA Recommendations:
  - “F” on mortgage lending value
  - “J” on data bases of real estates - new version dated September 2012
  - “T” on relations with customer – new version dated March 2013
  - “S” on mortgage loans risk management – to be published by the end June 2013
    - FX loans
    - Creditworthiness assessment up to 30 years (previously 25)
    - 30 year amortization period
    - DTI adjusted to bank’s credit risk appetite
    - Acceptable LtV – 80% -90%
    - Mortgage insurance required by law on equity lower then 10-20%





## Regulations & Initiatives – Funding/ Liquidity Risk

- FSA Working Group on long-term mortgage portfolio refinancing instruments
- Basel III / FSA and PwC Research (2011)
  - 14/44 commercial banks would not meet LCR minimum
  - 150% - the average LCR for 44 commercial banks
  - 11/44 commercial banks would not meet NSFR minimum
  - 107% - the average NSFR for 44 commercial banks
  - 6,15% - the average leverage ratio for 44 commercial banks
  - CET1 – 12,2% (11,% after funds adjustment)
  - Tier1 Liquidity Ratio 11,0% (decrease by 2%)



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## Regulations & Initiatives – Legal and Administrative

- Ministry of Finance – Stabilisation Fee
- FATCA
- New Deposit Guarantee Scheme
- Consumer Credit Act (based on Consumer Credit Directive)
- Escrow accounts for developers' projects
- Electronic title registration system
  - Title transfer – mortgage portfolio transfer
- Government initiative: no licensing for real estate brokers and facility managers (in future valuers also)



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thank you for your attention  
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