



Housing Finance in Germany

Stability throughout the crisis – What are the reasons?



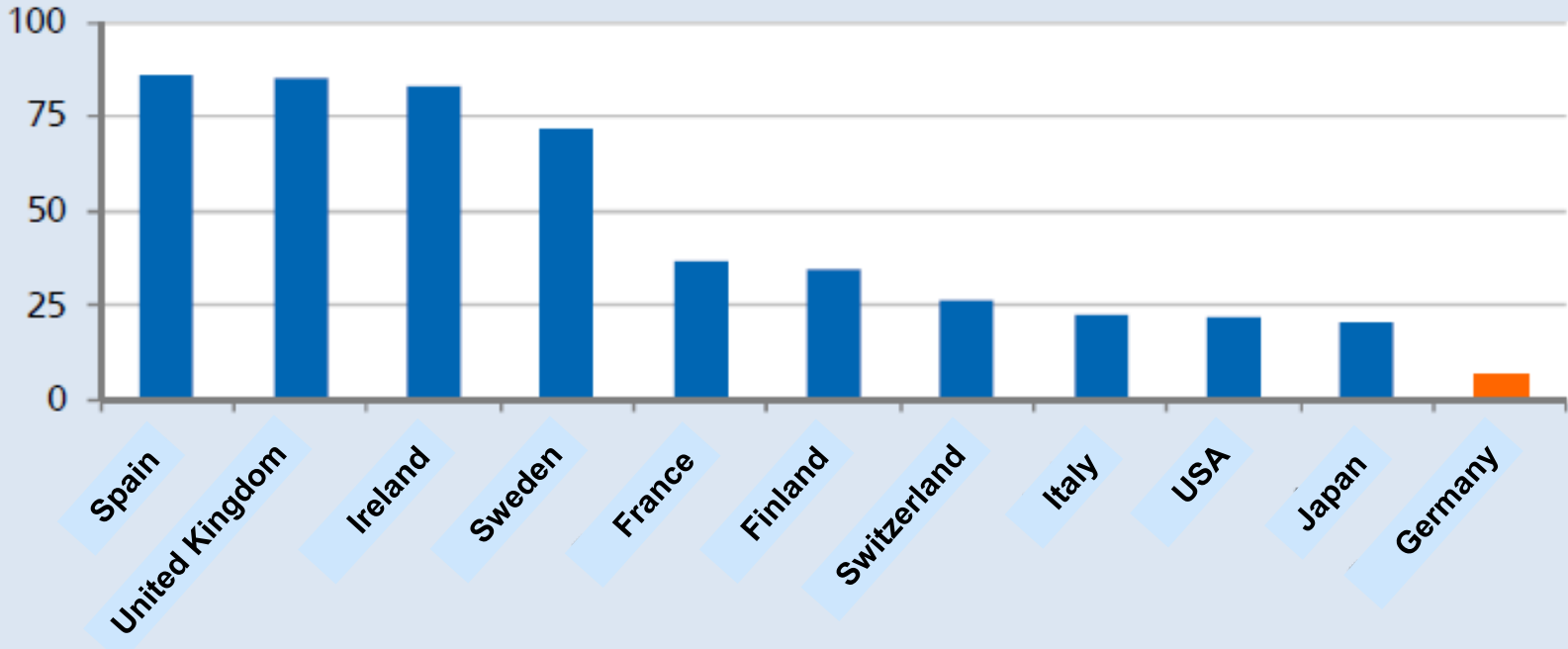
Klaus Oskar Schmidt

Member of the Board of Directors of Bausparkasse Schwäbisch Hall AG

Vienna, 7 June 2013

Narrowest fluctuation range since 1970 within OECD

Low fluctuation range of German real-estate prices
Standard deviation during the period between 1970 and 2012



Source: OECD

Structural factors have a stabilising effect

Balance between
property and rent

Municipal housing companies
and housing cooperatives

Financing and lending
practice



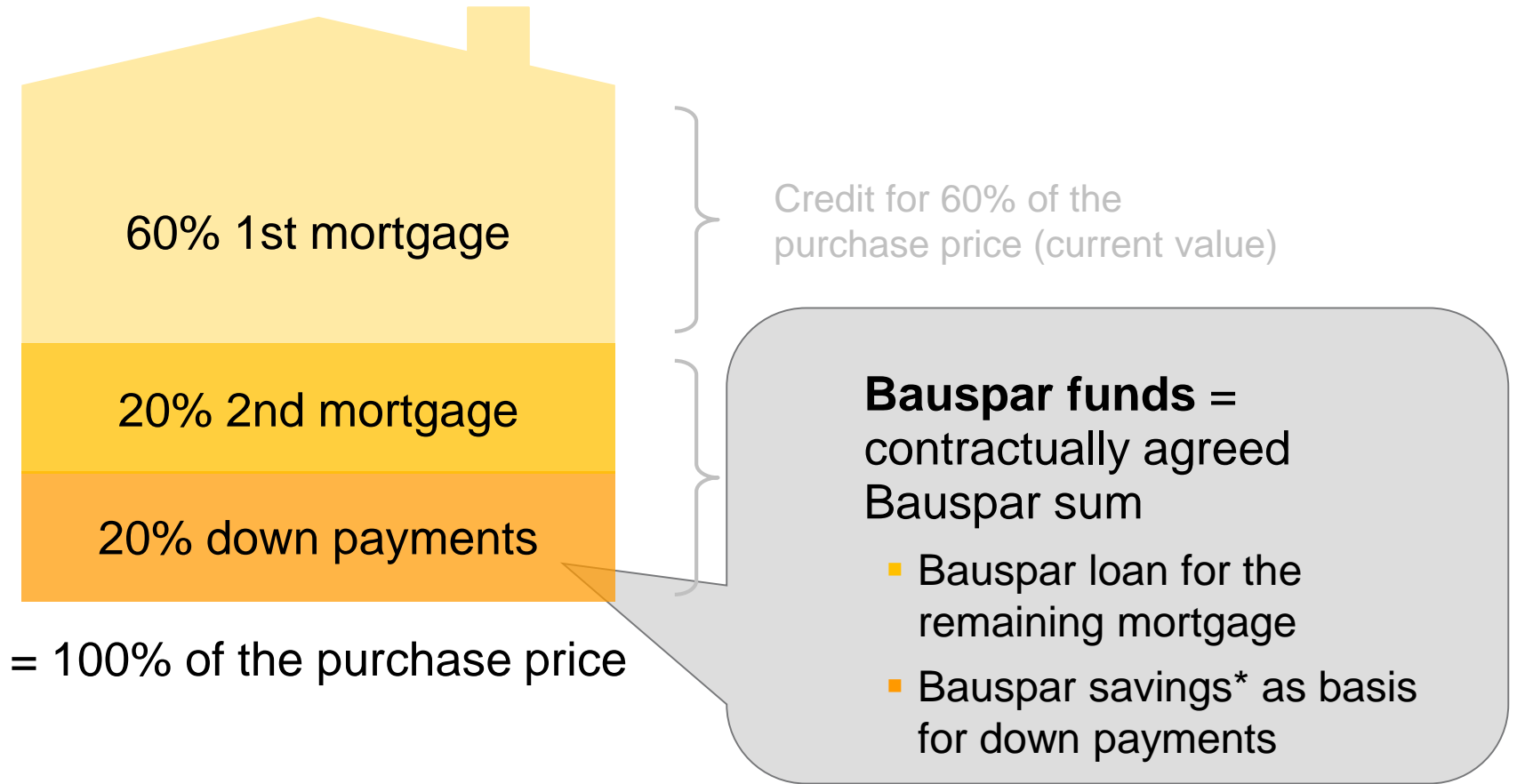
- Legal and regulatory **framework conditions**
- Security-oriented **financing culture** and **lending practice**
- Stable **refinancing** (Bauspar deposits, German covered bonds “Pfandbriefe”)

Key legal and regulatory elements

- You cannot walk away from your mortgage — delinquent borrowers are still liable
- Limited tax incentives for housing debt, mortgage payments are not tax deductible
- Government incentives to acquire own housing are tied to saving for it
- Mortgages have typically a fixed rate
- Strict rules on quality of covered bonds ensure continuous liquidity and comparatively low refinancing costs
- Close monitoring by consumer protection agencies

Down payment - key to stable Housing Finance

The “Golden Rule” of housing finance in Germany



* or other savings

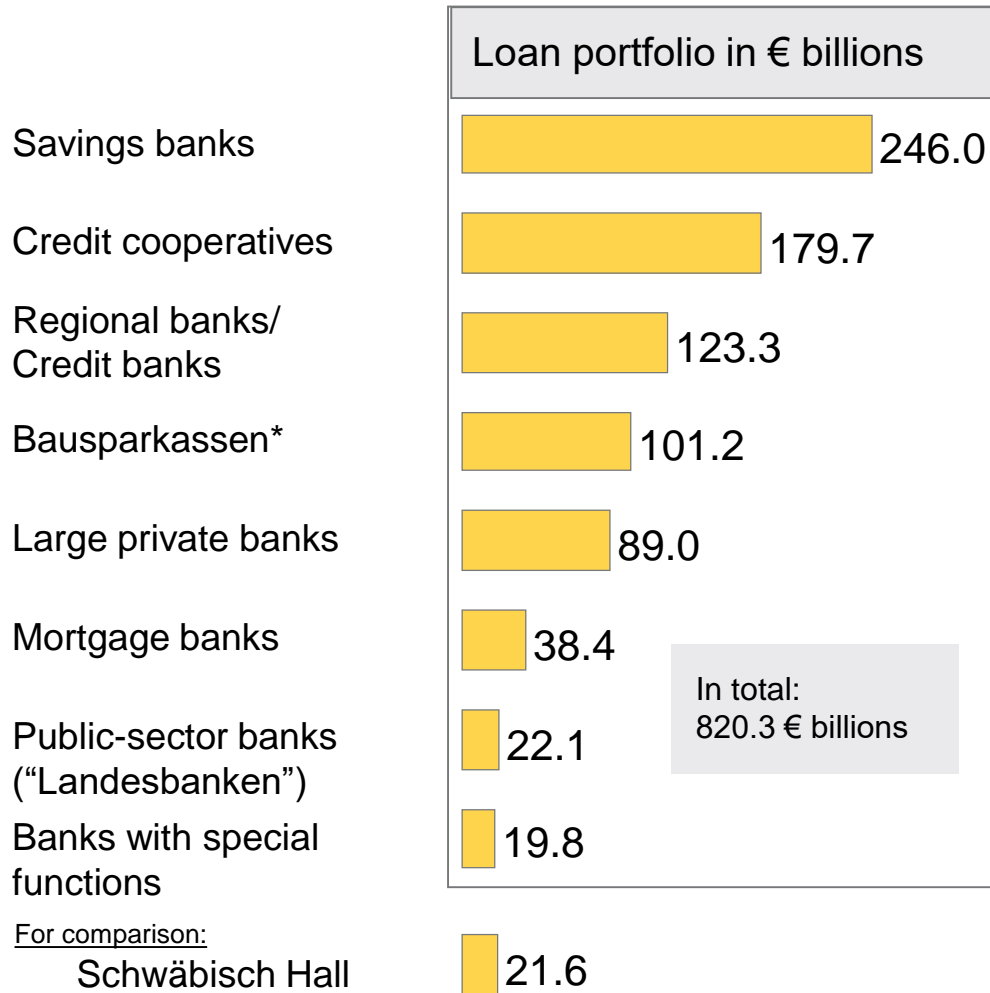
**Please find the video
„The power of WE“
as video file on this USB stick.**

Bausparkassen* with the same level of trust as Bundesbank

Trust in institutions or systems, respectively / Top box values

	October 2010	October 2011	Variation in % points
German Bundesbank	35%	23%	- 12
Bausparkassen*	25%	23%	- 2
European Central Bank	30%	17%	- 13
Insurance companies	17%	11%	- 6
Banks	18%	8%	-10

Bausparkassen* – an important lender in the market



Market description

- Total volume increasing to 820.3 billion euros (+1.8 % vs. 2011)
- New business volume stable: 192.6 billion euros (+0.1 % in comparison to 2011)

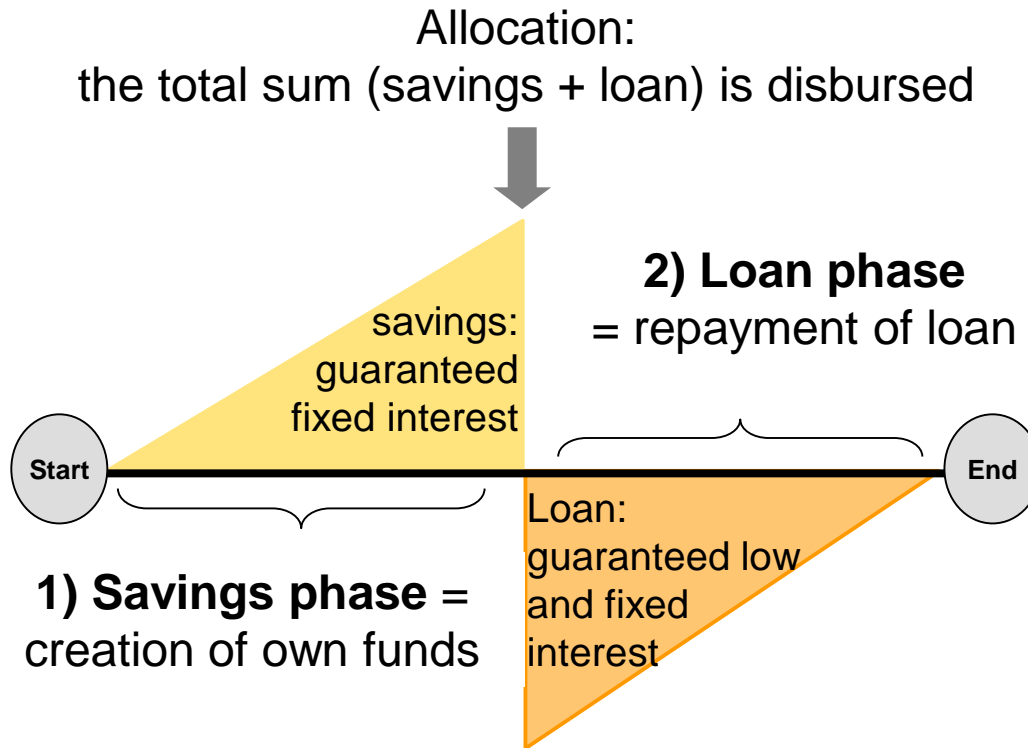
Trends

- New construction with significant increase (4.8 % more housing permits granted in 2012)
- Increases in all housing property segments (new construction, modernisation, acquisition of existing property)
- "Energiewende" (energy efficiency)
- Age-appropriate living

Basis: Housing loans issued to employed and other private persons, illustrated for financial groups with a loan portfolio of at least 10 billion euros
 Source: German Bundesbank, bank statistics; own calculations



“Bausparen”* provides a substantial funding base



- Clients agree on a specific Bauspar sum and save in monthly instalments
- Once 50% of the Bauspar sum is saved, the client is allocated a loan of another 50%
- Interest and amortization are paid in monthly instalments

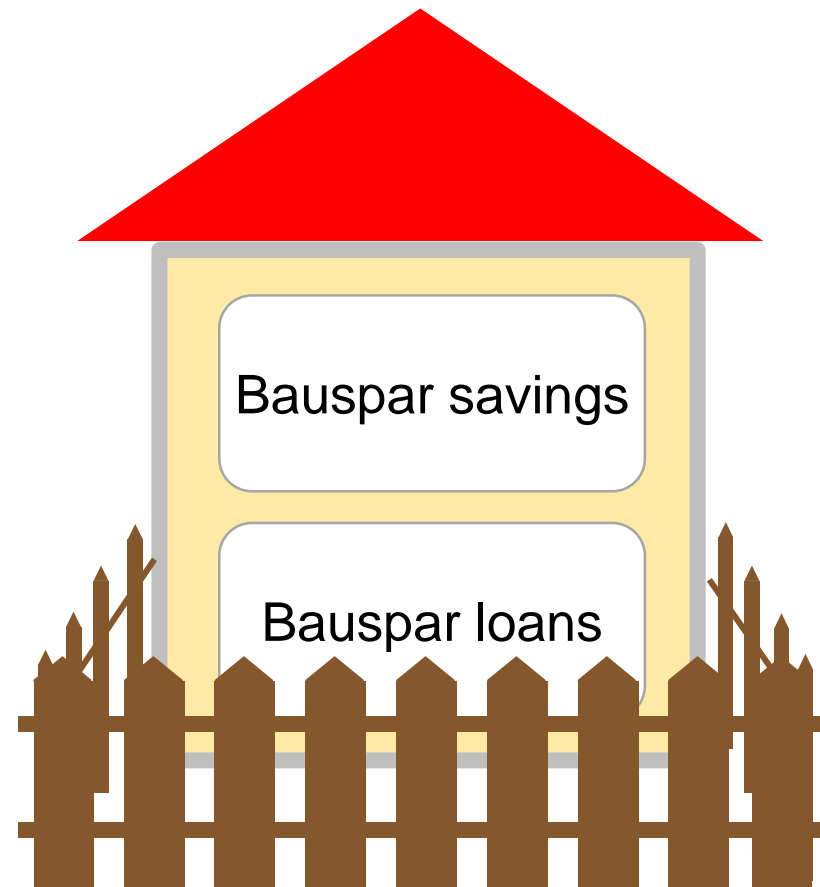
50 TUSD + 50 TUSD = 100 TUSD in total are disbursed

Bausparen* – lower credit risks despite 2nd rank

- **Down payment is a risk buffer** in the case of decreasing real estate prices
- **Fixed interest rates** and **constant instalments** for the whole maturity
- Clients become **predictable borrowers** since they have saved regularly
- **Pay back period** of the loan app. 10-12 years
- **Client history** is transparent
- NPLs on a normal level but **high recovery ratios**
- **Low default rates** as a result

Bauspar regulation ring-fences the whole Bauspar system

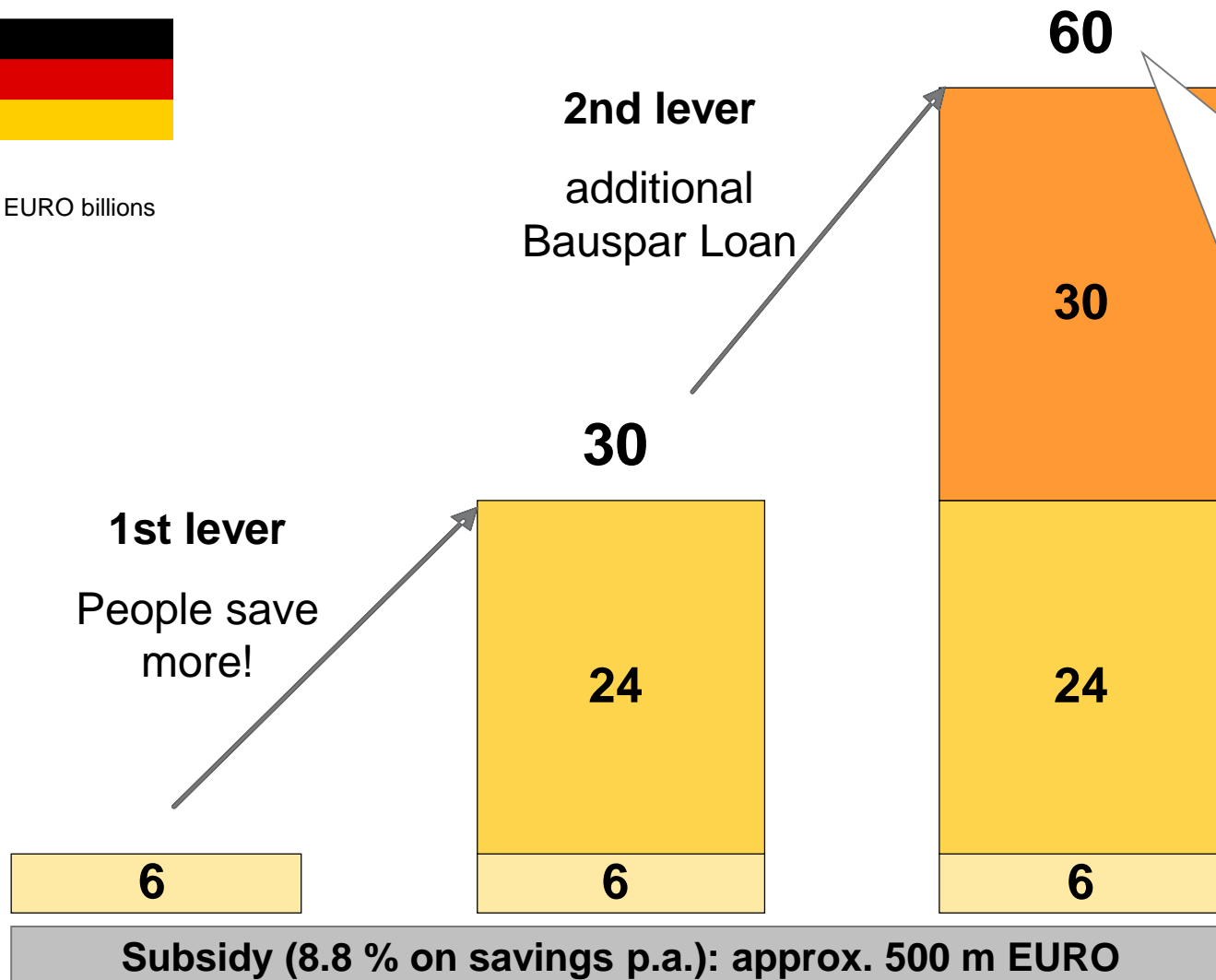
- Special financial institutions - legally independent
- Ring-fencing of the deposits
- Restricted in their investment possibilities
- Restricted in their business activities, e.g. no investment banking activities



Bausparen fuels growth and jobs especially in Housing



in EURO billions



Potential investments in housing

generate 1.4 – 1.6 times more in terms of GDP growth

and 100 jobs in housing generate additional 100 jobs in other sectors

Win-win situation for all parties

Clients

- Long-term affordable house financing
- Helps to develop financial prudence
- High degree of flexibility

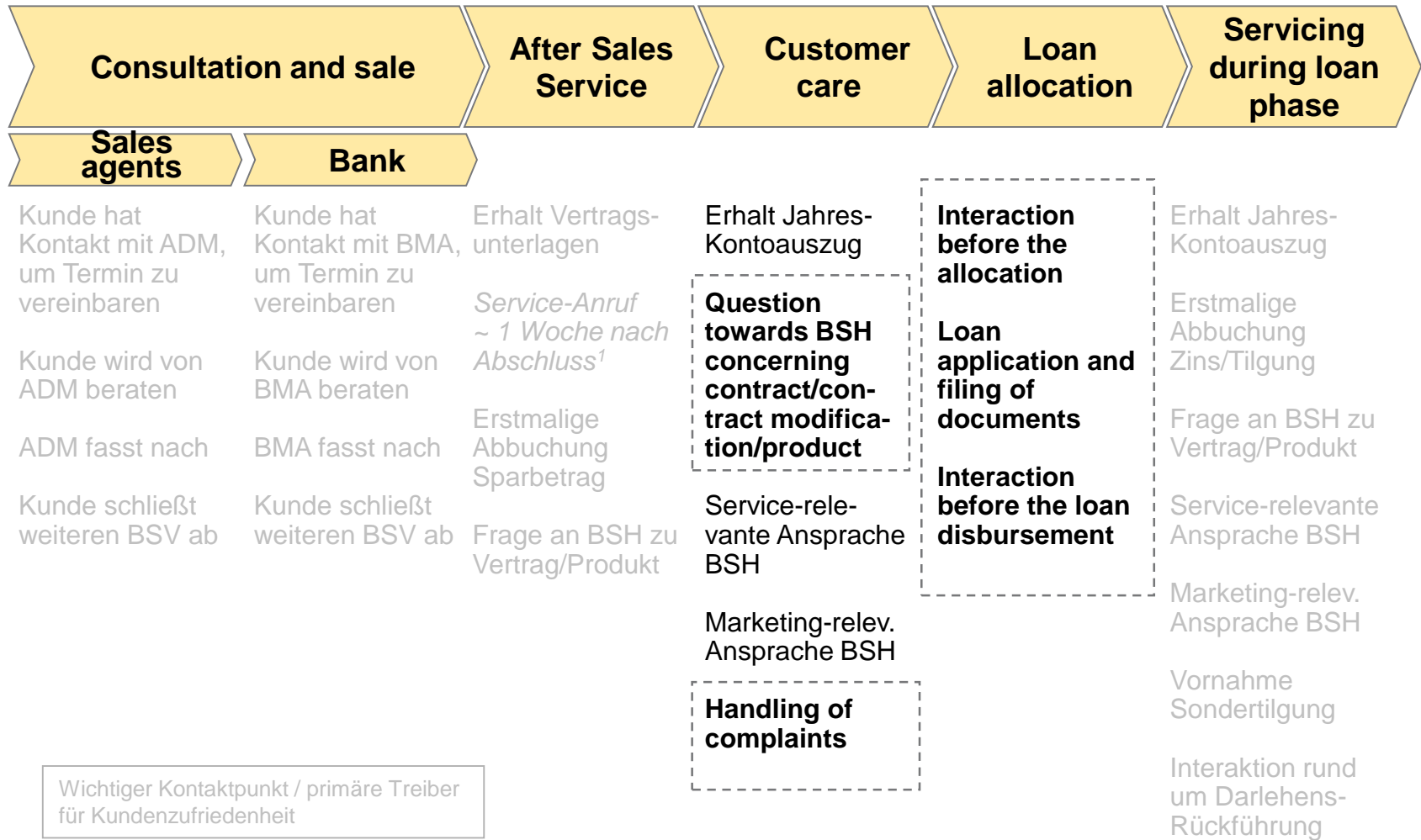
Institutions

- Lower risk: lower level of Non-Performing Loans (NPL) and high recovery ratios
- Continuous liquidity of refinancing market

Government

- Mobilizing savings and investments for housing
- Stability in Housing Finance
- Stability and crisis-resistance of the financial sector

Important client contact points



Wichtiger Kontaktpunkt / primäre Treiber für Kundenzufriedenheit

Significance of contact points has been validated by market research

Six reasons for Bausparen*

1. Bausparen helps develop financial prudence
2. Bausparen enables low interest rates, also for small loans
3. Bausparen reduces credit risks
4. Bausparen can be smartly combined with mortgage loans
5. Bausparen mobilizes savings for housing
6. Bausparen is safe and stabilizes the financial sector

Bausparen = Contractual Savings for Housing (CSH)

Bausparkasse Schwäbisch Hall in the world

Slovak Republic Population 5.4 m	Czech Republic Population 10.2 m	Hungary Population 9.8 m	Romania Population 22.7 m	China Population 42 m	
<p>Bratislava – PSS Set-up: 1992</p>   <p>PRVÁ STAVEBNÁ SPORITELŇA Základný kameň Vašej budúcnosti.</p>	<p>Prague – ČMSS Set-up: 1993</p>   <p>Českomoravská stavební spořitelna Na těchto základech můžete stavět</p>	<p>Budapest – FLK Set-up: 1997</p>   <p>Fundamenta Lakáskassza Alap, amelyre építhet</p>	<p>Bucharest – RBL Set-up: 2004</p>   <p>Raiffeisen Banca pentru Locuitorii Cine pune deoparte, are parte.</p>	<p>Tianjin (HQ): Population 13 m Set-up: 2004</p> <p>SGB</p>   <p>中德住房储蓄银行 Sino-German Bausparkasse</p>	<p>Chongqing*: Population 29 m Set-up: 2011</p> <p>SGB*</p> 
Europe				*Branch	

International markets 2012:

3.3 million Bauspar customers

3.7 million contracts in total (53.2 billion euros contractual sum)

Bausparen – THE POWER OF WE – A Principle of Solidarity

Friedrich Wilhelm Raiffeisen:

*“What is not
possible for the individual,
is achievable together”.*

(1886)



Thank you for your attention

