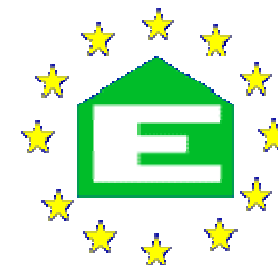


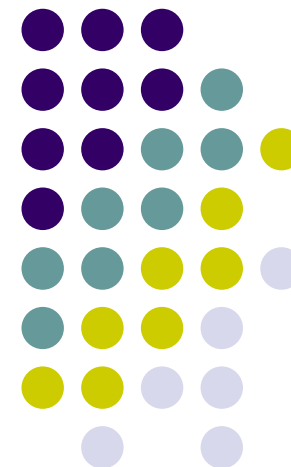
# Housing Finance in Poland

from the transformation in 1989/90 to present day



Jacek Furga

Polish Banking Association



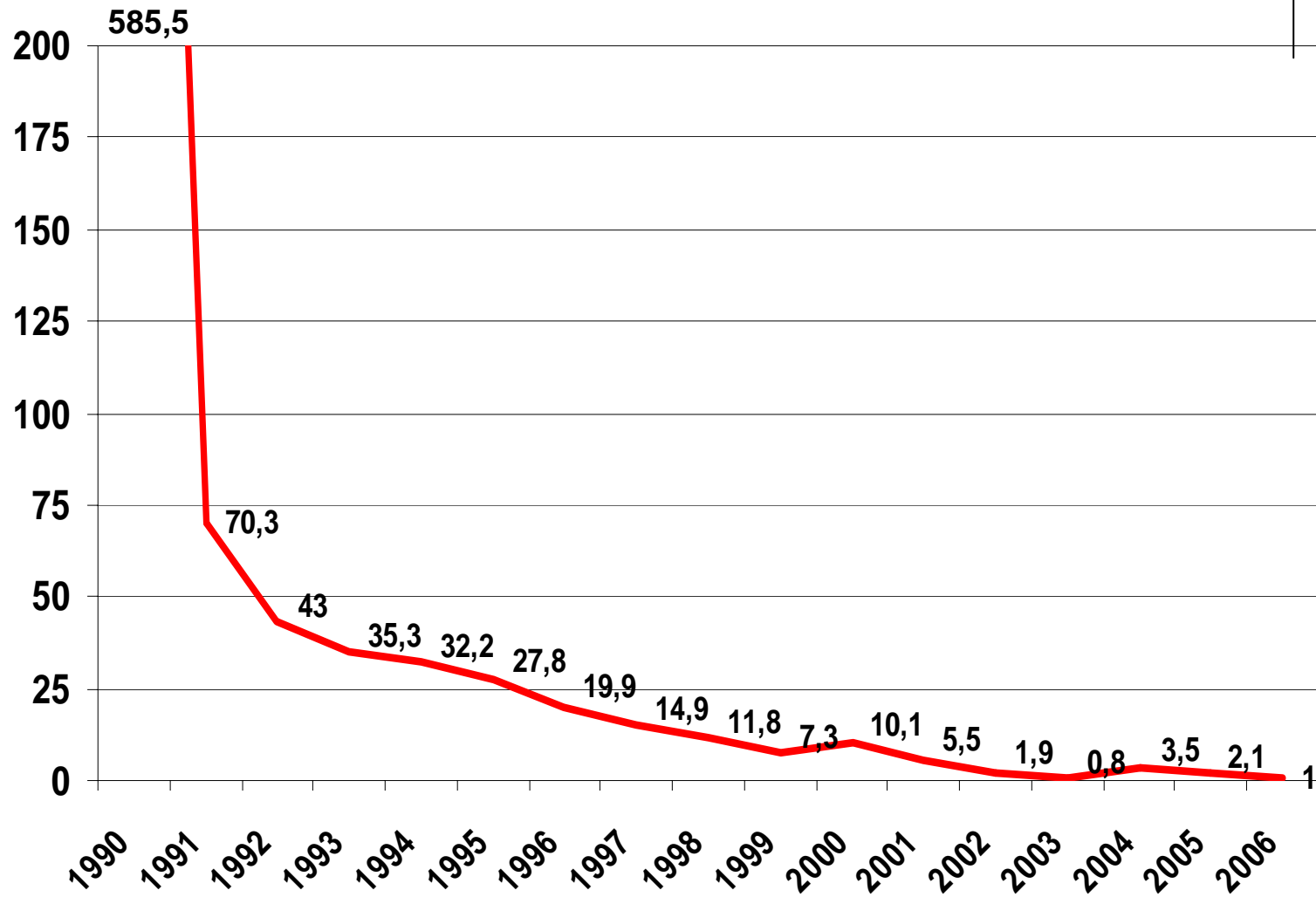
# Agenda

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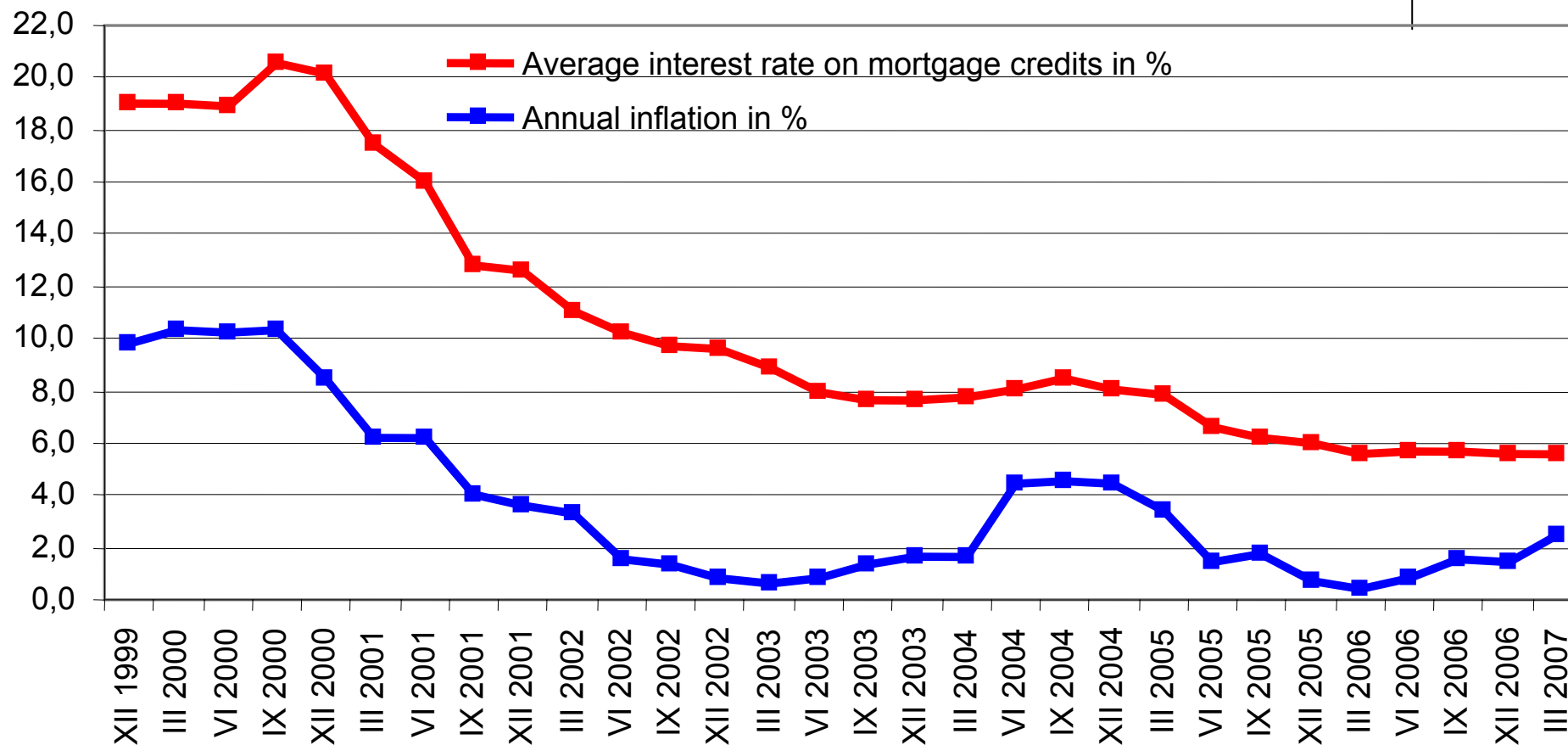
- **Development of the Polish Banking Sector**
- **History of housing finance and its promotion**
- **Today's financing offers**
- **Housing market**
- **Conditions and prospects for the ongoing development of the housing finance system**

# Trend of the inflation rate 1990-2006

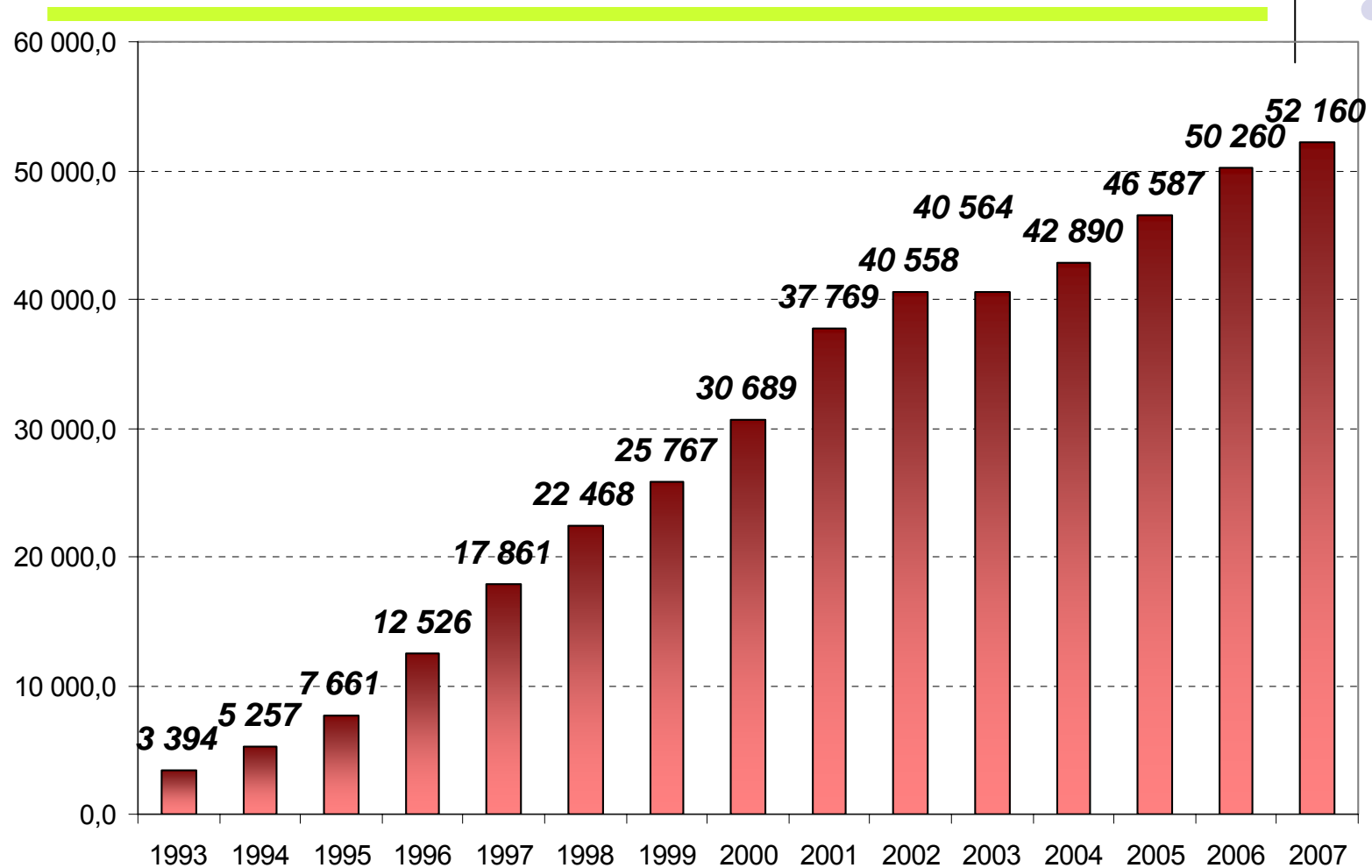


Source: GUS

# Average interest rate on mortgage credits and inflation

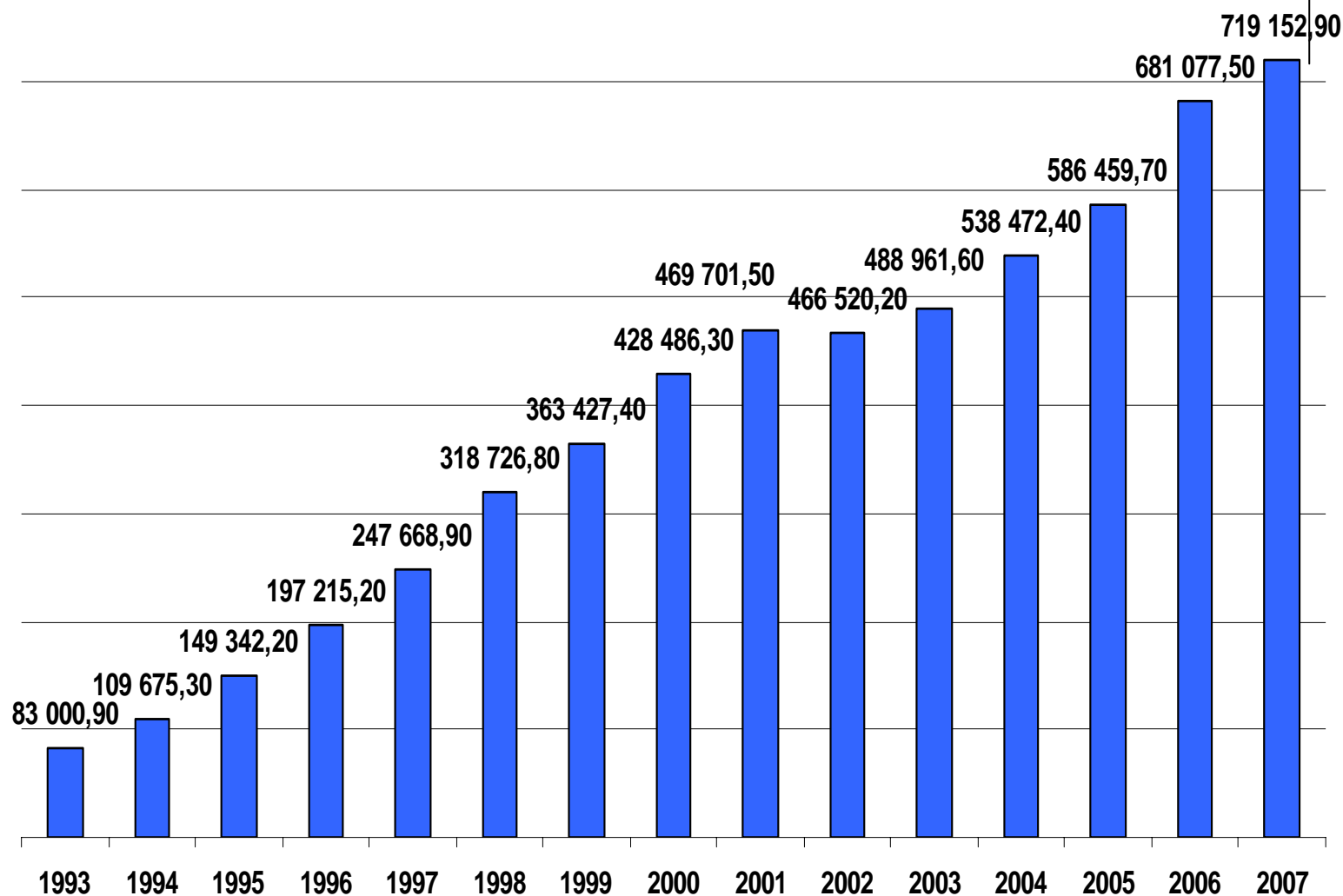


# Equity capital of the banking sector 1993-2007 (million PLN)



Source: NBP

# Net asset volume of the banking sector 1993-2007 (million PLN)



Source: NBP

# History of housing finance and promotion (0)



Economics

- ✓ Socialistic economy
- ✓ State-run building societies
- ✓ Closed circulation of budget funds
- ✓ Direct subsidies for housing finance

Banking sector

- ✓ Before 1990 only building societies (cooperatives) had access to long term fixed rate mortgages of the state-run mortgage credit monopolist PKO BP
- ✓ the mortgages with a 40 year maturity and an interest rate of 2,7% then were transferred to private persons who held a right of abode or a property title with the cooperative due to prior savings.



# History of housing finance and promotion (1)



Economics

- ✓ Transformation
- ✓ Extremely high inflation rates (above 100%)
- ✓ High interest rates on mortgages – about 70%

Banking sector

- ✓ Due to higher inflation rates in 1989/1990 the values of PKO credits became irrelevant for the cooperatives. When mortgage rates were converted to market conform rates, a generous capping of the maximum annuities was achieved by state-granted subsidies and the capitalization of excessive amounts.
- ✓ Private consumers were eager to find possibilities to redeem their credit amounts.





# History of housing finance and promotion (2)

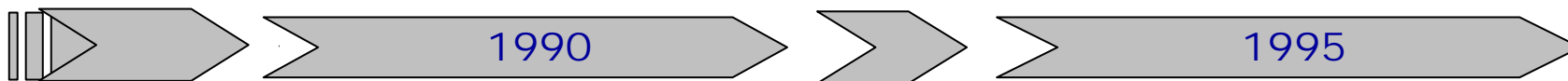


## Economics

- ✓ Slow decline of inflation rates to 30%
- ✓ Western institutions and credit institutions offer new housing finance systems in Poland.

## Banking sector

- ✓ The introduction of tax deductability for acquisition and production costs in 1992 created an simple subsidy instrument.
- ✓ Foundation of the new commercial banks
- ✓ Privatization of former state-owned banks in cooperation with western banks
- ✓ In 1992 the first market conform credits were originated in foreign currency (Polish-American Mortgage Bank PAM-Bank).



# History of housing finance and promotion (3)

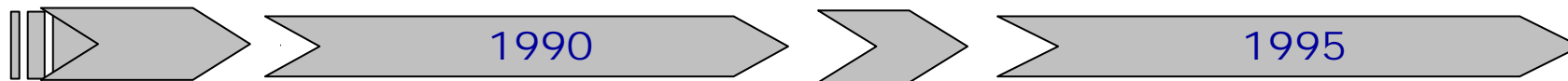


## Economics

- ✓ Slow decline of inflation rates to 30%
- ✓ The Worldbank project – mortgage funds

## Banking sector

- ✓ With the assistance of USAID and EBOR a mortgage fund was created in 1993 which was to make the competitor PKO BP to originate market conform, double indexed credits. The fund was managed by a newly founded housing development bank, the Bud-Bank SA.
- ✓ At the same time PKO BP introduced a similar DIM credit type, „Alicja“, and, due to quite competitive conditions by virtue of its governmental status, remained a dominating bank (with a market share of 90%) on the mortgage market.



# History of housing finance and promotion (4)

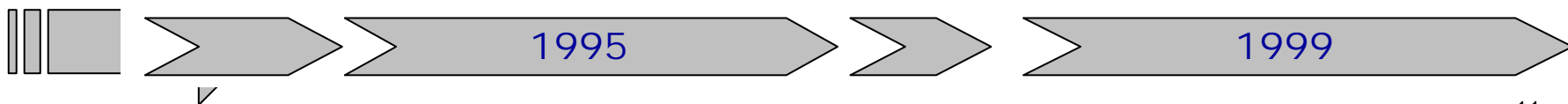


## Economics

- ✓ New housing finance and promotion systems
- ✓ Inflation rate cut back to 13%

## Banking sector

- ✓ The federal housing fund KFM was created in 1995 by the national development bank BGK and fed yearly by the national budget.
- ✓ The fund was created by the law on the forms of housing promotion of October 26th, 1995.
- ✓ KFM finances the housing societies, credits for TBS, subsidies for private persons in the course of additional promotion systems, such as fixed rate mortgages, credits for thermal insulation, etc.



# History of housing finance and promotion (5)

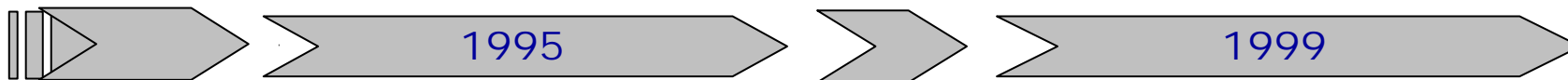


Economics

- ✓ New finance and promotion systems
- ✓ The mortgage law of October 27th, 1997
- ✓ The Bausparkassen-law of June 5th, 1997

Banking sector

- ✓ The TBS-system of charitable apartment building
- ✓ Foundation of housing societies – similar to the French  
Epargne Logement
- ✓ Creation of Bausparkassen according to the German model
- ✓ Foundation of mortgage banks according to the German model



# Housing Societies

## New business

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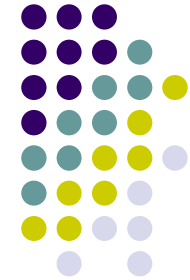


	1996	1997	1998	1999	2000	2001	2002
<b>PEKAO S.A.</b>	19.190	10.662	7.615	11.375	6.035	1440	
<b>ING Bank Slaski SA</b>	X	1.000	4.000	2.700	1.300	600	
<b>BPH SA</b>	X	1.311	5.300	9.091	2.937	573	
<b>Together</b>	<b>19.190</b>	<b>12.973</b>	<b>16.915</b>	<b>23.166</b>	<b>10.272</b>	<b>2.613</b>	<b>114</b>

# Contracts in the first year

## Bausparkassen and Housing Societies

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	Foundation of the first Bausparkasse	Contracts in first year	Population	Percentage
<b>Slovakia</b>	<b>16.11.1992</b>	<b>56 Tsd.</b>	<b>5 400 Tsd.</b>	<b>1.037 %</b>
<b>Czech Rep.</b>	<b>08.09.1993</b>	<b>206 Tsd.</b>	<b>10 300 Tsd.</b>	<b>2.000 %</b>
<b>Hungary</b>	<b>16.05.1997</b>	<b>210 Tsd.</b>	<b>10 200 Tsd.</b>	<b>2.058 %</b>
<b>Poland</b>	<b>21.10.1996</b>	<b>21 Tsd.</b>	<b>38 000 Tsd.</b>	<b>0.055 %</b>

# Housing Societies vs. Bausparkassen according to Worldbank experts

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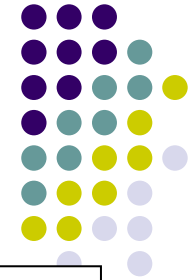
**„The Housing Societies‘ Program is intended to create affordable mortgage credits for lower income customers, but had become an escape route for high income groups to save income taxes. Moreover, the Housing Societies‘ mortgage credits were more difficult to obtain than mortgages provided by commercial banks and, hence, did not present any solution to the housing problem. Inaccurate legal regulations resulted in an illiquid system without necessary regulations for supervision.”**

.....

**„The Bausparkassen-system, which had been approved due to the intense lobbying of the German Bausparkassen, would have worse consequences. The construction of this system and the experiences in the Czech Rep. and Slovakia show that such a model will, over the years, waste all the funds that have been allotted to the promotion of housing, although having only a minimal effect on residential construction. In the relevant literature the Bauspar system is also called the „expensive intermediate” or the „controlled financial pyramid“.**

**The author has been a Worldbank staff member in Warsaw for many years; citation published in October 2006.**

# History of housing finance and promotion (6)

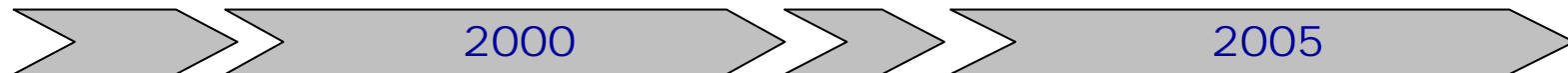


## Economics

- ✓ Reduction of inflation rates from 10% to 2%
- ✓ New expert foreign developers on the market
- ✓ Renewal of the mortgage bank law

## Banking sector

- ✓ Regrouping of new lendings in the market from Zloty to US\$ and € and later mainly to CHF
- ✓ Promotion of fixed rate financings only in Zloty
- ✓ Increasing competition between commercial banks
- ✓ Decline of interest margins from 7% to 3% and commission fees from 5% to 2%
- ✓ Creation of professional marketing and consulting firms
- ✓ 2001 reform: abolishment of the tax deductability and replacement by an interest tax deductability system.





# History of housing finance and promotion (7)

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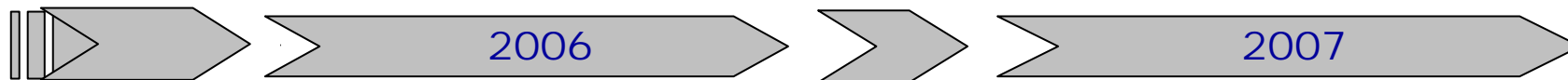


Economics

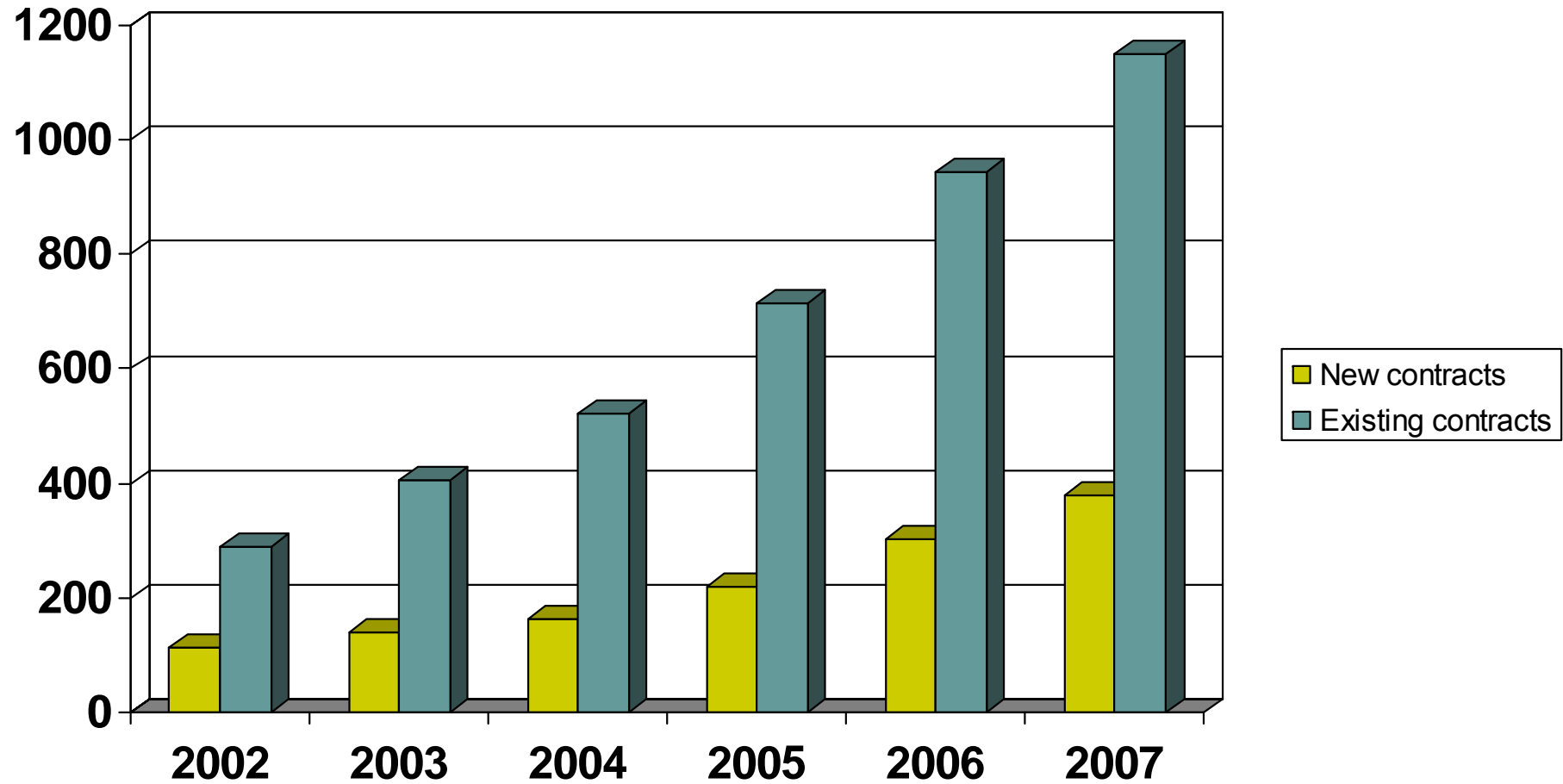
- ✓ Stabilized inflation rates of about 1%
  - ✓ Credit-boom
  - ✓ New restrictions of the credit industry by the banking supervision
- GINB

Banking sector

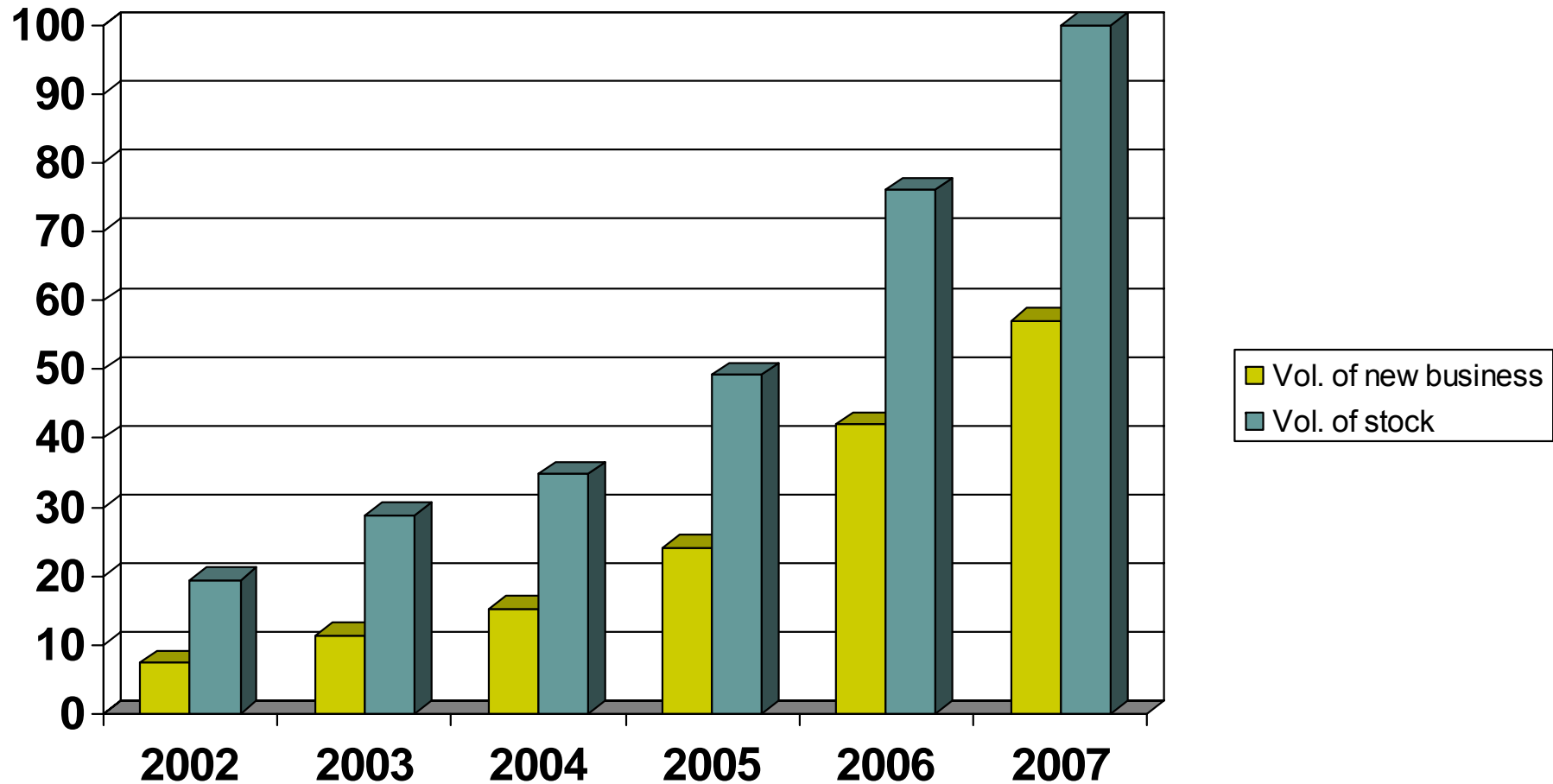
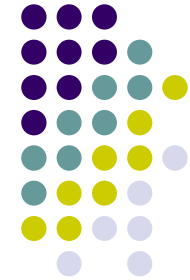
- ✓ Ruinous competition between commercial banks
- ✓ The share of refinancings exceeds 30% of new business



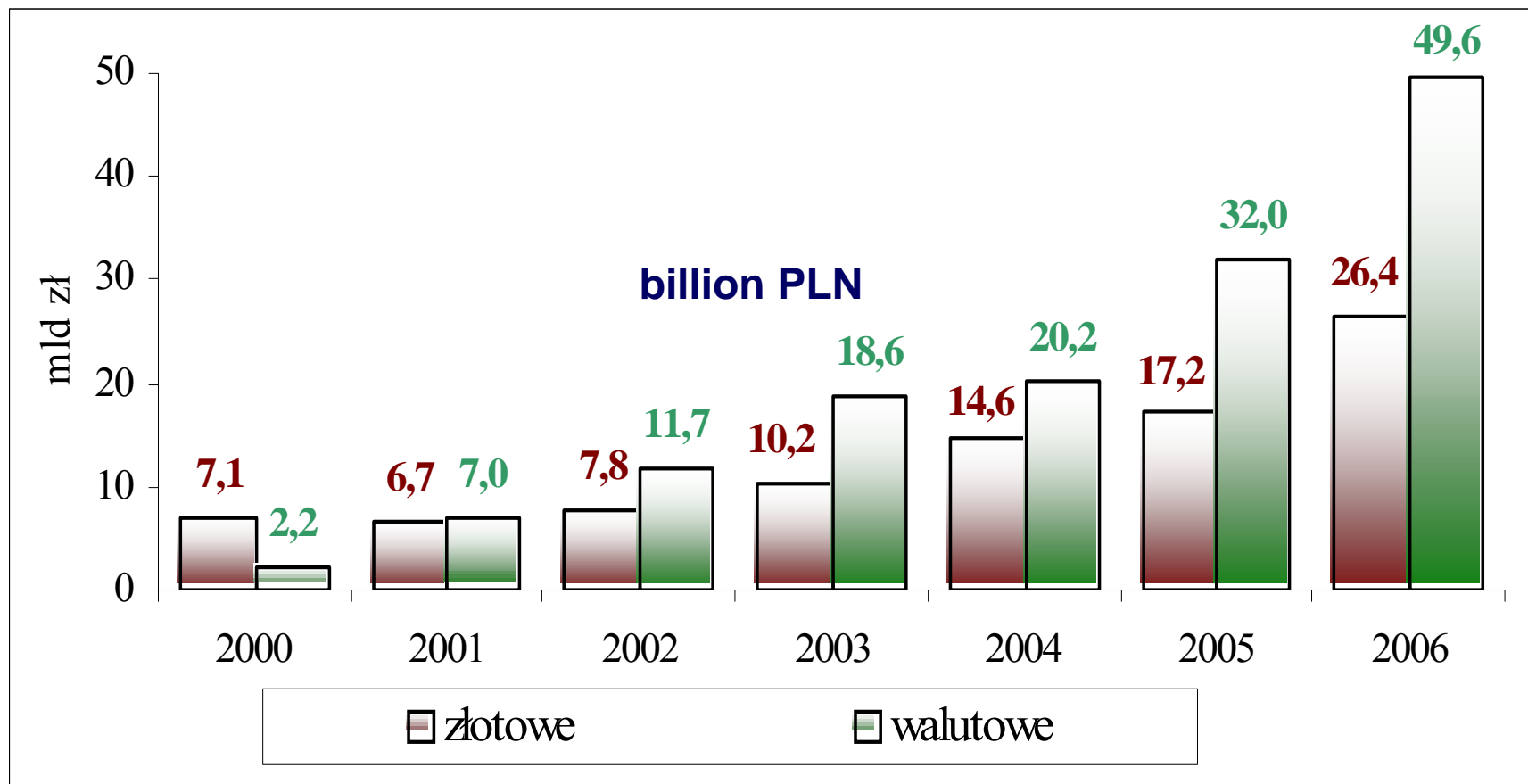
# Mortgage loans: new business and stock (in thousand)



# Mortgage loans: new business and stock (in billion PLN)



# Mortgage loans: stock (in Zloty and in foreign currency)



Source: GINB

# Today's financing offers (1)

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- **LTV up to 130 % (DomBank)**
- **Valuta: CHF and PLN with margin < 50 bp**
- **Zero-option loans:**
  - no closing fee
  - no appraisal costs
  - no prepayment penalty
- **Depending on the property and/or the loan amount the bank waives appraisal (e.g. Deutsche Bank PBC)**
- **Maturity up to 50 years (Bank Millennium), until the age of 100 of the borrower (Nordea Bank)**

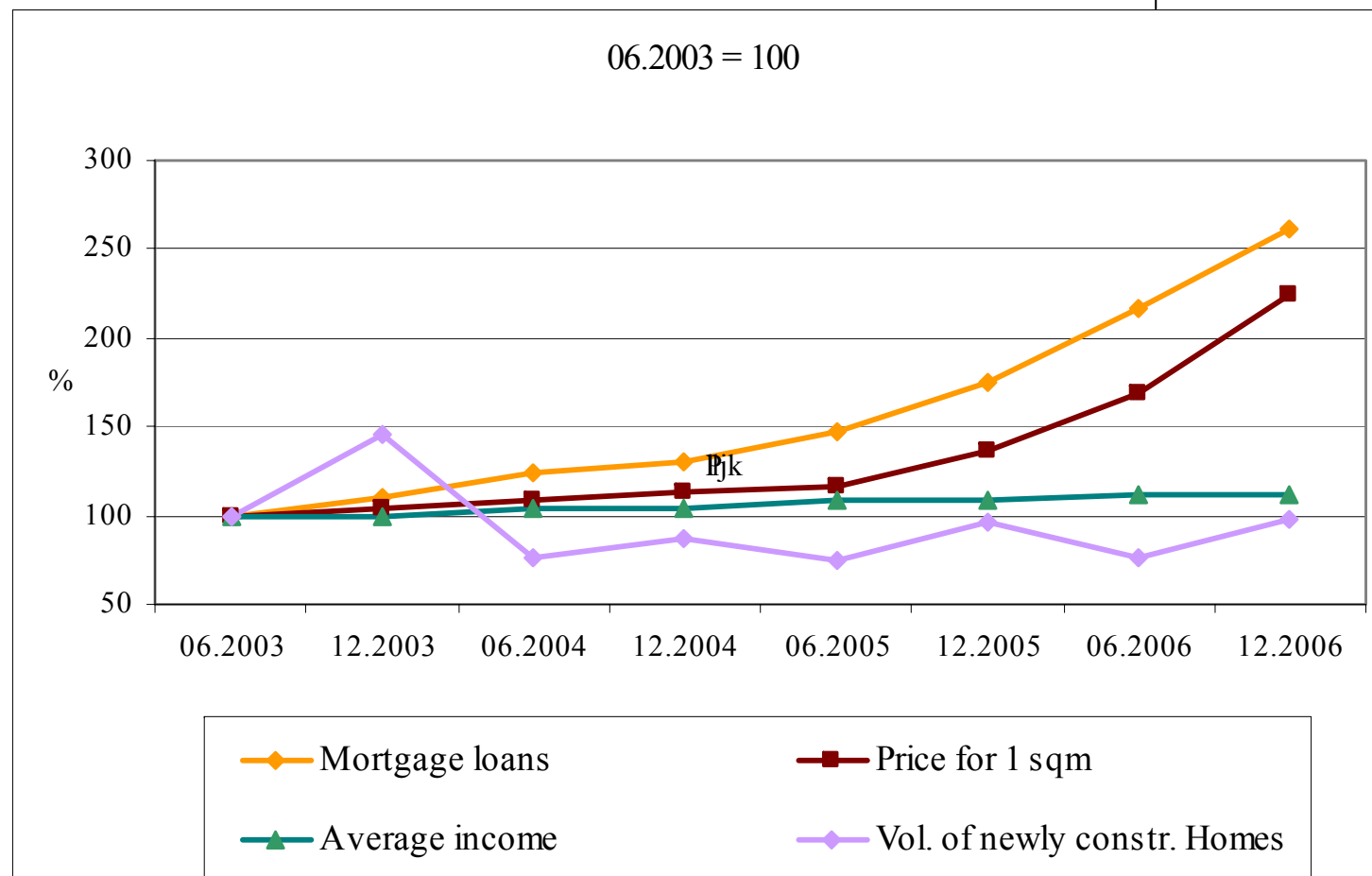
## Today's financing offers (2)

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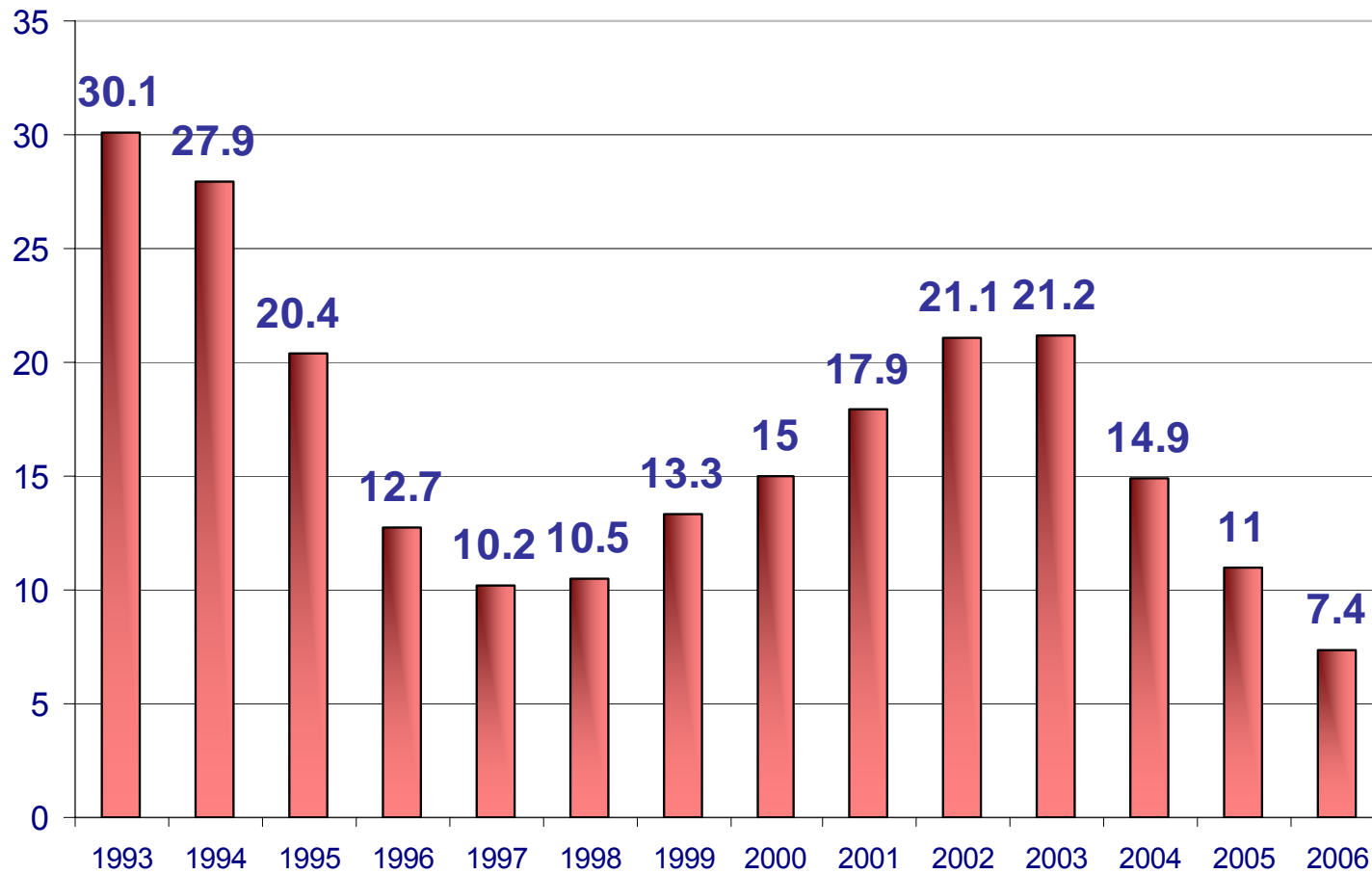
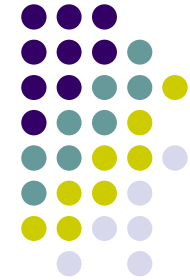


- **Credits with deferment of amortization**
- **Deferment of repayments – once a year for a maximum of 6 months and up to 3 times during the whole maturity**
- **Refinancing loans – simple procedure and automatically increasing credit sum by factor x 1,35 - Santander Consumer Bank**
- **Consolidation credit – clearance of all liabilities with other banks – repayment of mortgage loans, auto credits, consumer credits and credit card debts.**
- **Mortgage credit line**

## Growth dynamics of credits for housing, property prices and income



# Quality of credit portfolios – NPL share



Source: NBP

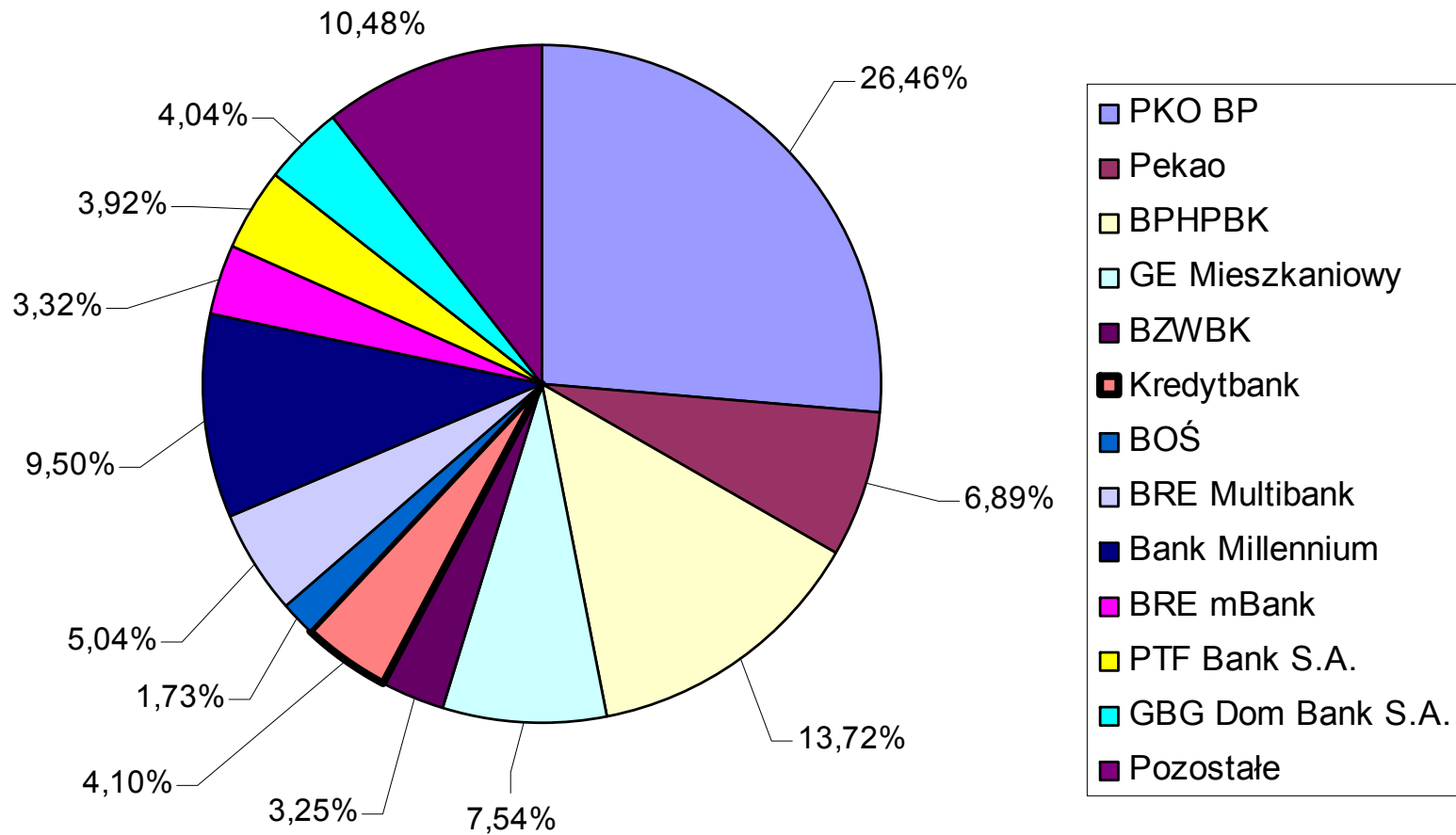
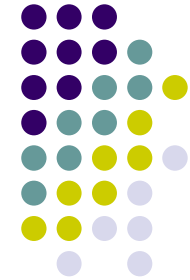


# Boom ?

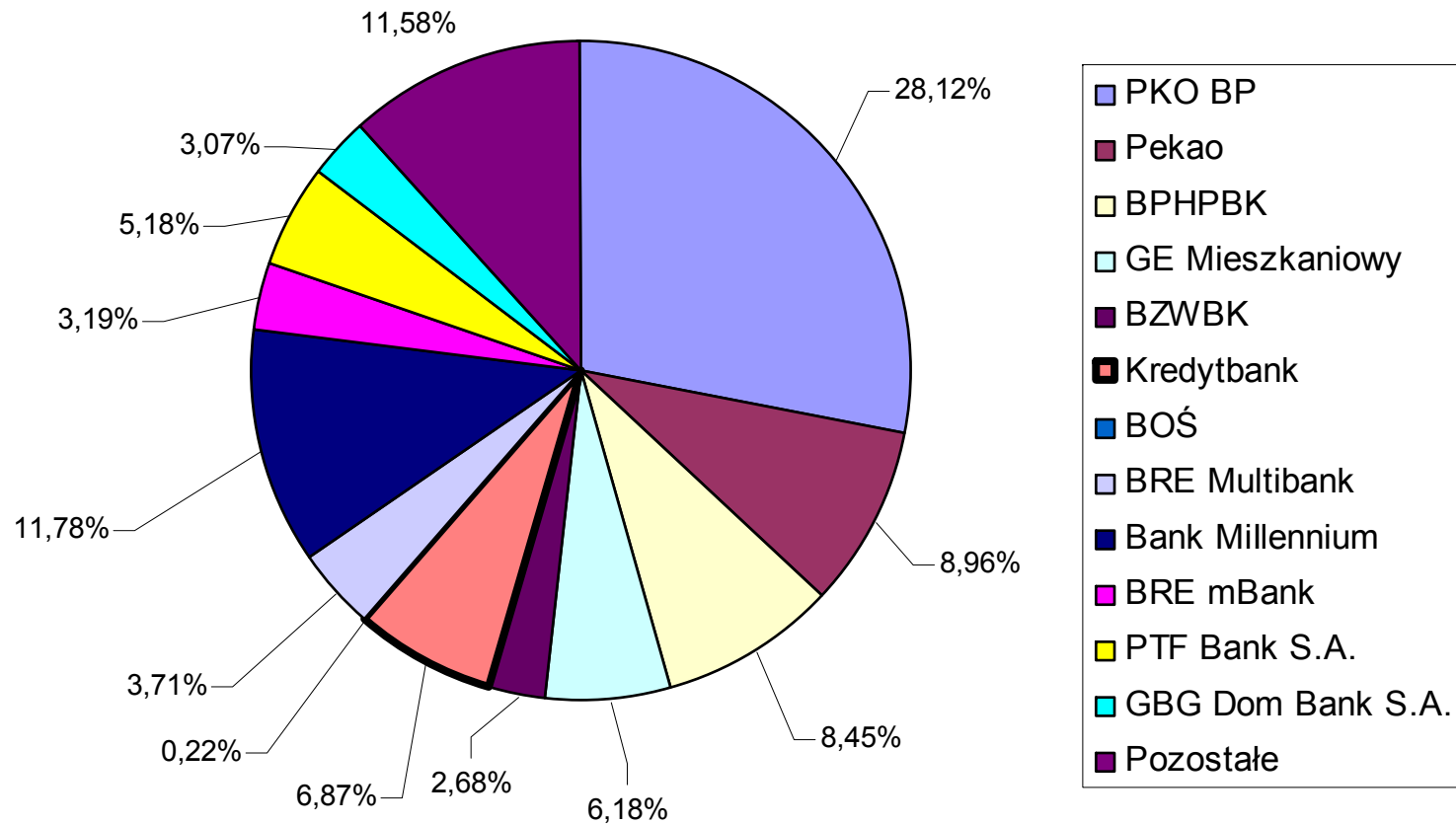
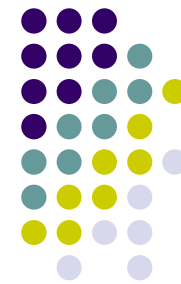


	2002	2003	2004	2005	2006
Volume of New Business (billion PLN)	7.4	11.3	15.2	24.2	42.0
Volume of stock (billion PLN)	19.5	28.8	34.8	49.2	76.0
Volume of refinancings		2.0	9.2	9.8	15.2
New credits (Tsd.)	112	141	162	218	302
Stock (Tsd.)	290	405 (25)	524 (43)	717 (25)	945 (74)
Recently constructed homes (Tsd.)	97.6	162.7	108.1	114.4	114.1
Marriages (Tsd.)	191.9	195.4	191.8	206.9	226.2

# Market shares according to balance sheet totals



# Market shares according to number of credits



# Housing market (1)

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- **Biggest market in Central Europe**
- **Young population**
- **Slowly growing housing market, unable to satisfy demand**
  
- **Consequences:**
  - **Excess demand**
  - **Property speculations by national and foreign investors**
  - **Exploding prices**
  - **Financings mainly in foreign currency (CHF)**
  - **Exploding demand for housing financings**

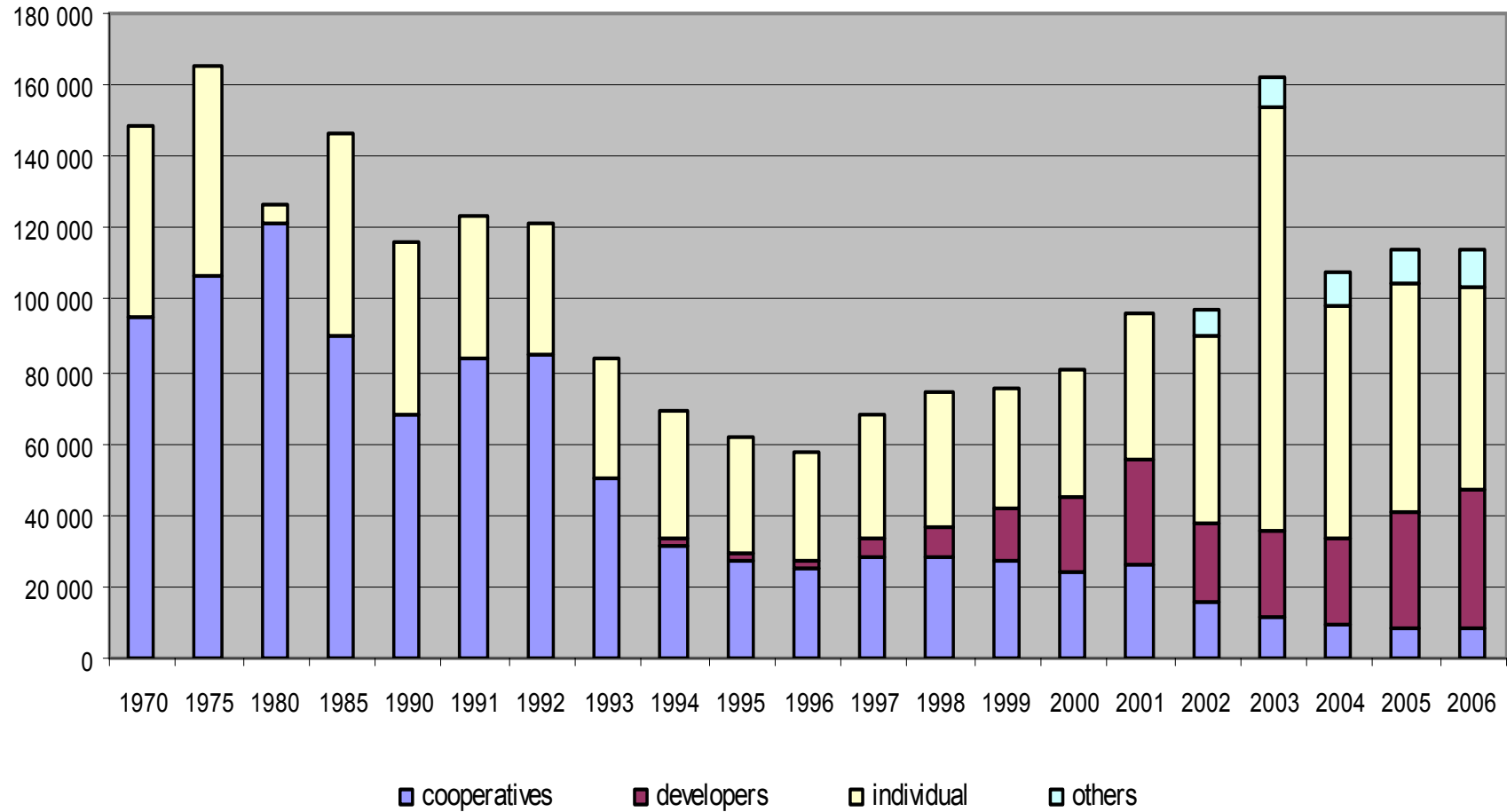
# Housing market (2)

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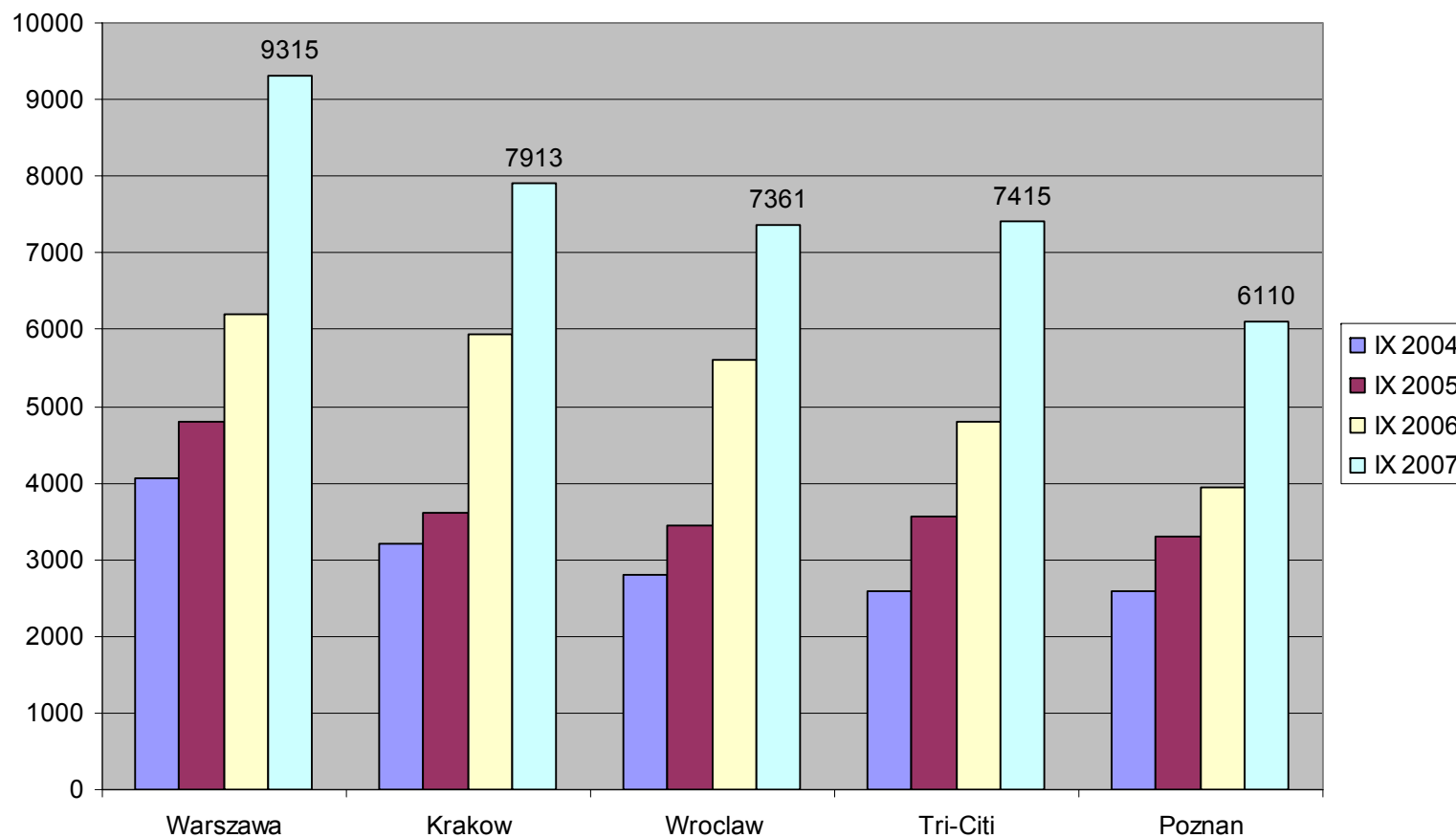


- **Construction**
  - Concentration on urban areas
  - Many expensive prestige projects
  - Real estate shortage
  - Above average price increases (market overheating)
  - Strong GDP growth
  - Strong demand for housing financings
- **High ownership rate**

# Newly constructed homes



# Property price development in big Polish cities 2004-2007 (PLN/m<sup>2</sup>)



# Milestones in the development of the Polish mortgage industry

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- Law on covered bonds and mortgage banks
- Abolishment of the coercive mortgage
- Electronic title register
- Economic growth
- Decreasing interest rates
- Expectation of increasing property prices
- The banks' liberalization of credit policies



# Conditions for the ongoing development of housing finance in Poland

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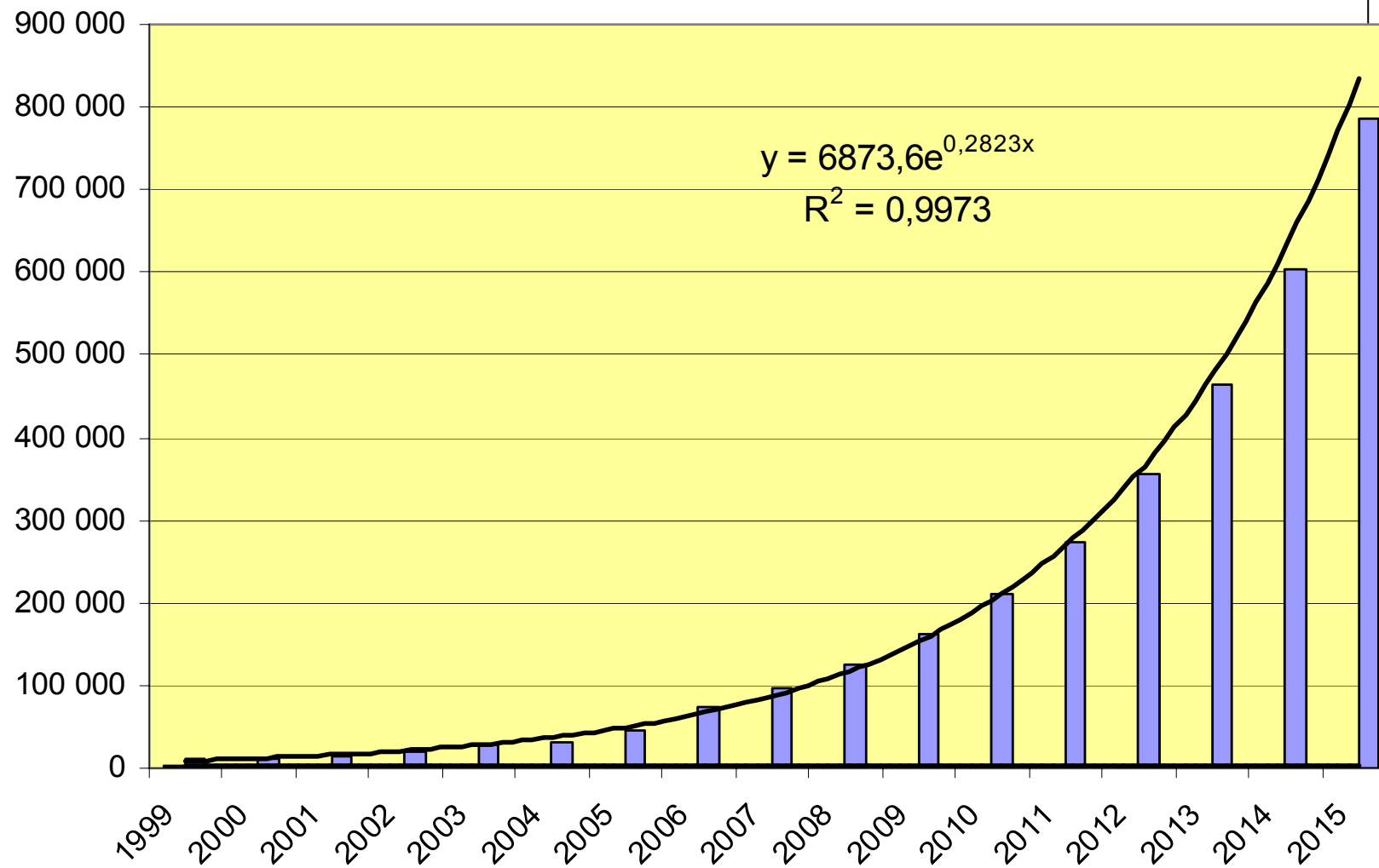


- Enhancing the quality of credit bureaus
- Establishment of the land charge
- Renovation of the law on mortgage banks
- Establishment of the Bauspar system and a subsidy scheme
- Legal determination of the developer's activities

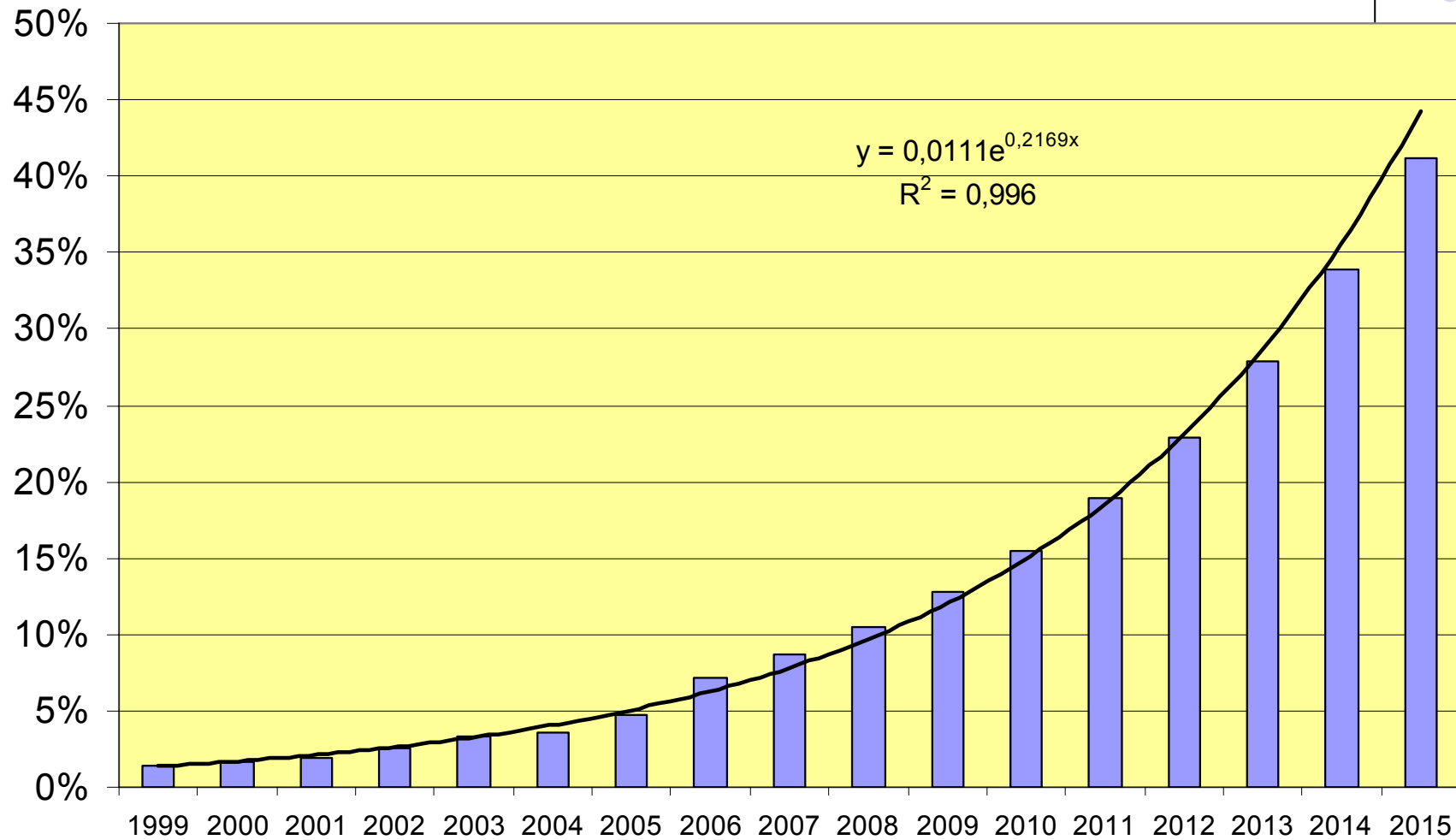
# Mortgage debt forecast



(million PLN)



# Mortgage debt forecast / GDP in %





Thank you for your kind attention!

**Jacek Furga – Vice-President  
of Management Board  
Centre for Banking Law and Information**

**[jacek.furga@cpb.pl](mailto:jacek.furga@cpb.pl)**