

BAUSPAREN IN EUROPE



A savings and finance
system and its benefits

Many people dream of owning their own home, but worry about how to finance it.

Of course, if your income is high enough, you can easily save towards a down payment on a house or flat, and getting a loan from a bank is usually not a problem. But for those with modest incomes it is more of a challenge. Or they worry about being able to repay a mortgage. How can it be made easier for people to cross the threshold to their very own four walls?

There is a savings scheme popular in many European countries that gives people greater flexibility and a way to help themselves. It is known as bauparen.

Bauparen can be an effective supplement to existing credit products. It has many advantages for customers, credit institutions, the economy, the state and society.



Bausparen – what does it mean?

Bausparen is based on the idea of “help for self-help”. Put simply, a number of people join together and agree to pay a monthly amount into a common savings fund. By pooling their money, individuals can amplify their own resources. When one out of the group is ready to build or modernize a dwelling, she or he gets a loan from this fund. The repayments made on this loan flow back into the fund. Savers and borrowers have a lot of flexibility in tailoring their payments to suit their ability to make monthly installments. Moreover, since this is a closed system, it is independent from capital markets and their fluctuations.

How does bausparen work?

Customers agree with their credit institution on a contract sum which is known as the bauspar sum. Once they have saved 40 to 50 percent of this amount, the contract is considered ready for allocation or pay-out. Customers can receive their paid in savings plus the remaining 50 to 60 percent of the contract sum as a loan for real estate financing at a favorable rate of interest.

Benefits for customers

- **Customers build up savings.**
This means that less credit is required for the purchase or modernization of a dwelling. Therefore the interest and repayment burdens are lower. When the customer’s risk is lower, investing in one’s own home becomes more tangible.
- Customers plan with **greater certainty.**
The interest rate on the loan portion of the bauspar sum is fixed from the outset. It remains at the fixed level, even if market interest rates should rise significantly in the meantime.

- Bausparen is **very flexible**.
For example, a bauspar loan can be repaid at any point — even in full — without incurring any fees.
- The favourable interest rate also applies to **smaller modernisation projects** — in a borrower's own home as well as a rented one.

Benefits for credit institutions

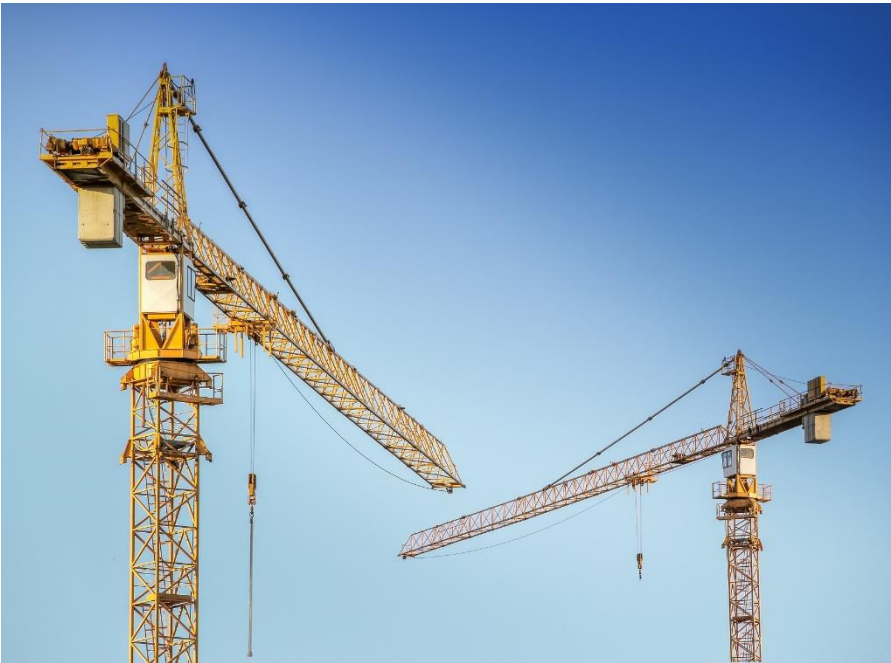
- The bauspar loan is typically **part of an overall financing package**.
The financing credit institutions have more certainty that borrowers can service their loan. This is not only because borrowers build up savings for a sizeable down payment, but with the savings period customers have proven that they are able to save part of their income. This facilitates creditworthiness checks, improves the risk structure of the loans granted and opens up new customer groups.
- Customers who save money consistently over a period of years are usually **loyal customers**. This offers banks opportunities for cross-selling other financial products.

Benefits for the economy

- **A greater sense of security** amongst credit institutions results in **higher investments**. More orders for the local construction industry benefit the national economy as a whole.
- Bausparen has a **stabilising effect on the economy**. Low-interest bauspar loans are particularly in demand when funds from the capital markets are scarce and expensive. The construction industry tends to lack orders when capital markets are tight, but because bauspar loans are uncoupled from the situation on the financial markets these loans have an anti-cyclical effect.

Benefits for the state and society

- By empowering new customer groups who would not otherwise have dared to finance their own property, the state will have access to **additional sources of revenue**. This benefits society.
- Bausparen helps to **stabilise financial markets**. The accumulation of savings and fixed-rate loans in the national currency mitigate a variety of risks
- Many bauspar customers use their bauspar loans for renovations that improve energy efficiency. This helps the state to achieve **ambitious climate protection targets**.



Bausparen in Europe

People in Europe already benefit from the advantages of bausparen in eight EU member states: Austria, Croatia, the Czech Republic, Germany, Hungary, Luxemburg, Romania and Slovakia.

In total, there are almost 40 million bauspar contracts in these countries amounting in total to more than one trillion euros. Where bausparen is well established, the housing finance system should be more resilient. This has proved to be the case over successive economic and financial shocks including the last financial crisis.

The position in the eight states where bausparen operates is as follows:



In **Austria** there are around 4.5 million bauspar contracts for 8.7 million inhabitants. This means that more than one out of two Austrian citizens is a bauspar customer. With a financing volume of over 3 billion euros per year, the bauspar institutions contribute a significant proportion of the total housing finance requirement.



Bausparen was introduced to **Croatia** in 1998. Since then bauspar institutions have established themselves as important providers of housing finance. Their share of the total market is over 20 percent. Today, every tenth inhabitant has a bauspar contract.



Bauspar products were first introduced to the **Czech Republic** in 1992. The market has developed particularly successfully there. Today, two in five Czech citizens have a bauspar contract. Last year around 78,000 bauspar loans were granted with a volume equal to almost 2 billion euros.



Germany has the largest number of baupar customers with a total of approximately 28 million contracts. The baupar system can look back on a long success story in Germany. Every year over 30 billion euros are paid out to finance housing. This makes baupar institutions one of the largest financing groups for housing finance.



Hungarians have been able to conclude baupar contracts since 1997. Almost every tenth inhabitant has one. Every third euro invested in residential construction comes from a baupar contract. The importance of bauparen has increased in the wake of the crisis in foreign currency denominated lending. This is because baupar loans are only granted in the national currency. Foreign currency risks are thereby avoided.



Bauparen has been possible in **Luxemburg** since 1977. Today every fourth citizen of Luxemburg is a customer of a bauparkasse. The baupar system is an important contributor to housing finance in the country.



Romania is the latest country in Europe to introduce bauparen. First introduced there in 2004, bauparen will need time to build on the successes found in other countries. Nevertheless, there is great potential for it in Romania, and it can certainly play an important role in housing finance in the future.



Bauparen has been available in **Slovakia** since 1992. Today, every fifth Slovakian citizen has a baupar contract. With a financing volume of more than 600 million euros annually, bauparen is a central pillar of housing finance in the country.

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