Bausparen
Contractual Savings for Housing
A sustainable way to finance housing

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Contractual Savings in Germany

15 bausparkassen operate in Germany:

10 private bausparkassen:

- Nationwide business operation
- Mostly subsidiaries of commercial banks or insurance companies
- Market share of 64% (number of contracts in new business)
- Association of Private Bausparkassen as representative

Verband der Privaten Bausparkassen e.V.

5 public sector bausparkassen:

- clearly separated regional areas of business
- owned by the regional savings banks associations and/or Landesbanken (state banks)
- Market share of 36% (number of contracts in new business)
- Association of Public German Bausparkassen as representative

LBS
Bausparkasse der Sparkassen

Key figures of Bausparen in Germany 2022

Number of contracts (portfolio)	22.7 million
Bauspar sum (portfolio)	929.6 billion EUR
Number of new contracts	1.4 million
Bauspar sum of new contracts	92.3 billion EUR
Disbursements for housing	40.5 billion EUR
Savings received	27.5 billion EUR

Contractual Savings for Housing: the Fundamentals

Fundamentals :

- Propensity to save exists also among lower income households
- Completion of savings phase is linked to the right to receive a loan
- Fixed interest rate for the deposit and the loan determined when the contract is concluded

Contractual Savings for Housing (CSH): the Basic Principle

- Loans are funded only by savings and amortisation payments ➡ closed circuit
- Special regulation and tight supervision
- Excess liquidity can be invested only within narrow limits ➡ safety of savers is the top priority
- **Long-term nature of CSH:**
  - ➡ **forward looking tariff policy key to success**
  - ➡ **simulation of savers collective important instrument**

Contractual Savings for Housing: How it Works – the Traditional Product

Interest rates for deposit and loan are fixed when the contract is concluded.

Closing fee to be paid for administrative + distribution costs

Contractual Savings for Housing: How it Works – the Advance Loan

1. The customer receives a loan of € 100,000 for which only interest is paid. At the same time, the customer signs savings for housing contract with a contract sum of € 100,000 and starts to pay in regular savings installments.
2. When the minimum savings amount is reached, the customer receives the contract sum of 100,000 Euro. This money is used to pay back the advance loan in full.
3. The customer pays principal and interest for the CSH loan until it is fully repaid.

Contractual Savings for Housing: The Perfect Solution for Every Challenge

Financing for modernization	Financing for purchase	Follow-up financing
Smaller financing volumes with shorter durations and total interest rate security. Repayable anytime without prepayment penalty.	Large financing volumes with long durations up to 30 years. Usually combination of contractual savings for housing product and normal mortgage loan. Total interest rate security.	Contractual savings for housing products are also perfectly suited for a predictable follow-up financing.

Contractual Savings for Housing: a Complementary Product

Contractual Savings for Housing: the Advantages

Unique selling point of contractual savings for housing:

- Interest rates on deposits and loans fixed and usually below capital market rates
- Waiving of interest in savings phase is “option premium” of customer for guaranteed low fixed interest rate in loan phase – option premium makes bauspar deposits “sticky”

Advantages of contractual savings for housing:

- Unlocks savings of lower income households for funding
- Regular savings efforts as proof of creditworthiness
- Higher down payment = less risk
- Attractively priced small loans
- No prepayment compensation
- CSH savers save considerably more (low substitution effect)
- Functions in informal environments
- Flexible and successful business model; systems exist for more than 100 years

Interest rate stability in times of volatile market interest rates

Bauspar loan rate clearly below market mortgage rate

- As interest rates for bauspar loans are determined when the contract is concluded, savers that finish their savings phase today can profit from bauspar loan rates that are clearly below market rates
- Favourable bauspar loan rates are still available for newly conlcuded contracts

Changed interest rate landscape has caused a bauspar boom

Development of bauspar business in Germany:

Contract sum of new business in billion Euro

Disbursed new bauspar loans in million Euro

Contractual Savings for Housing: the Simulation Model

Contractual savings institutions use simulation models for managing the savers collective, for operational planning, for the implementation of risk-bearing capacity and sensitivity analyses. It is therefore of central importance for product policy, collective management and integrated corporate planning. Simulation models are also of key importance for the financial supervision.

Major determinants for simulation model:

Internal:

- contract portfolio (collective)
- postulated customer behavior

External:

- money market yield curve
- planned new business

Contractual Savings: Cross-Selling Opportunities

Contractual savings institutions are usually part of a corporate group. In Germany, private banks, insurance companies, savings banks or cooperative banks own them.

Contractual savings contract as important cross-selling anchor:

- Product for whole life cycle
- Customer service gains plenty of information through various contract stages
- Targeted placement of secondary products is easier
- Customers get excellent counselling from a single source

➢ Cross selling quotas higher for contractual savings customers

Contractual Savings: Role for Specialised Credit Institutions

Bausparkassen are deposit taking credit institutions and fall under the German Banking Act and European Banking Directive. There are no specific EU rules for contractual savings institutions.

Legal framework for contractual savings for housing in Germany:

For an unofficial English translation of the Bausparkassen Act and Regulation please scan the adjacent QR

German Bauspar Act

Regulates contractual savings institutions (Bausparkassen) as specialised credit institutions; limits business to contractual savings for housing and granting of certain other housing loans, very limted investment activities, no payments services or other banking business allowed.

German Bauspar Regulation

Stipulates ceilings and rules for the investment of available funds and the granting of other housing loans that are not contractual savings for housing loans.

German Housing Savings Bonus Act

Regulates amount and eligbility criteria (income ceiling) of the government savings bonus paid to bauspar contract savers.

Bausparen worldwide

Dedicated bausparkassen laws exist in:

- Germany (1885),
- Austria (1925),
- Slovakia (1992),
- Czech Republic (1993),
- Hungary (1997),
- Romania (2004),
- Croatia (1998) and
- Kazakhstan (2003)

In addition, bauspar contracts have been offered for a long time in Luxembourg and China (since 2004) without a specific bausparkassen law.

Contractual Savings in challenging environments

- Contractual Savings was introduced after the fall of the Iron Curtain in Central and Eastern Europe and later (2003) in Kazakhstan.
- The starting conditions were challenging in these countries. Private construction financing was rare, and high inflation curbed the population's willingness to save. In Slovakia, for example, interest rates of more than 20 percent made loans unaffordable for citizens. Inflation was high and volatile (1992: 10%, 1993: 23%, 1994: 13%).
- Nevertheless, bausparkassen were very successful in these countries. Being independent of capital markets, they could offer attractively priced mortgage loans and quickly gained a high market share.
- Smart and sustainable product design and collective management as well as savings bonuses offered by governments supported bausparkassen in their success

Contractual Savings in challenging environments

- Success of Savings and Credit Cooperative Societies (SACCOs) shows the potential for contractual savings for housing. SACCOs are popular in African countries such as Kenya, Uganda, Tanzania, Ghana, and Rwanda. These member-owned cooperatives play a vital role in fostering financial inclusion, promoting a culture of saving, and providing accessible credit facilities to their members. Contractual savings for housing institutions work along the same principles and values.
- A sound legal basis, sustainable system design, and government commitment are the basis for success not only under challenging conditions.

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