

Construction Saving Banks in the Czech Republic

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Vocabulary

- German: Bausparen
- Czech: Stavební spoření
- English: Construction Saving System or Building Society or Contractual Saving System or Bauspar System etc.

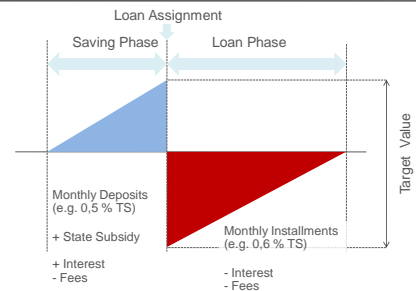
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Overview

- What is the Construction Saving?
- State subsidy
- Waiting period
- Typical terms
- Act on Construction Saving
- Bridging loans
- Market overview

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What is Construction Saving?



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Why Construction Saving?

- **Objective** is to provide favourable housing finance
- **Implementation**
Profitable saving + Cheap Loan

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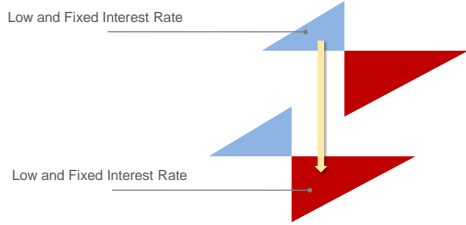
Idea

- Customer can get a loan with low and fixed interest rate (Construction Saving Loan)
- To get a loan, the customer has to save deposits for certain period
- Deposits of customers in the saving phase are used for granting loans to customers in the loan phase

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Low and Fixed Interest Rates

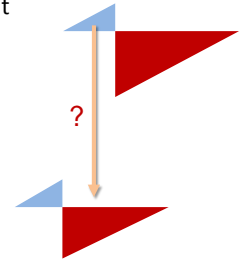
Deposits of customers in the saving phase are used for granting loans to the "older" customers



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Resources

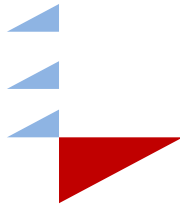
- Are the deposits sufficient to cover loans?
- If the loans are bigger and/or "longer" than deposits, then additional resources are necessary



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Solution: Friendly Customers

- Customer can only save deposits without using the loan
=> Friendly Customers
- Friendly Customers help collect deposits



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State Subsidy

- Low interest rate is not attractive for saving!
- => State subsidy attract Friendly Customers!

Low interest rate
+ State subsidy

TOTAL: interesting yield for customer

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STATE SUBSIDY

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State Subsidy

Amount

- 10 % of the new deposits
- up to CZK 2000 per year per customer

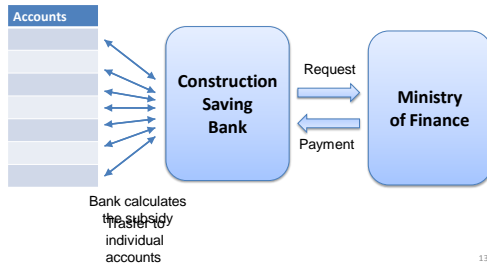
Requirements

- Saving phase 6 years or longer
- or using loan for housing purposes
- for natural persons only

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State Subsidy

- State subsidy is arranged by bank



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WAITING PERIOD

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Waiting for a Loan

Loan can be assigned, when

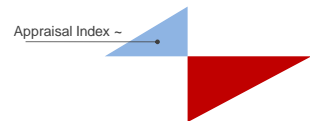
- Customer is saving (at least) for 2 years
- Balance on the saving account reached given limit (usually about 40 % of TV)
- Appraisal Index reached given limit

These conditions are crucial for maintaining the equilibrium between deposits and loans!

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Appraisal Index

- Special index, created by every single construction saving bank
- Appraisal Index is proportional to area in the diagram of deposit



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Assignment vs Payout

- Loan must be assigned, before paid out
- Assignment does not substitute credit process, customer must prove his/her credibility!
- Assignment is (extra) special step in construction saving banks, important for maintaining the equilibrium between deposits and loans

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TYPICAL TERMS

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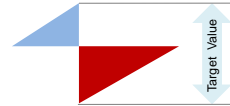
Typical Terms – Saving Phase

- Interest Rate : 1.0 – 1.5 % p. a.
- Deposits cca 0.5 % of TS monthly
- Extra deposits are allowed
- Underwriting Fee: 1 % of TV
- Account Fee: CZK 300 / year
- State subsidy

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Typical Terms – Construction Saving Loan

- Volume of loan is up to difference
Target Sum – Balance of Deposits
- Interest Rates: 4.0 – 5.0 % p. a.
- Installment: 0.5 – 0.8 % of TV monthly
- Account Fee: CZK 300 / year
- Early Repayment is allowed



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ACT ON CONSTRUCTION SAVING NO 96/1993 COLL.

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Purpose of the Act

- The main objective is to help housing finance
- Hence the state subsidy is determined
- And conditions are set, in order to ensure its best possible utilization

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Interest Rates

- The customer is entitled to get a loan (under given circumstances)
- Interest rates (both for saving and loan phase) must be negotiated in the contract
- Interest rates must be fixed
- Spread between loan and saving interest rates may not exceed 3 percentage points

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Exception to Fixed Interest Rates

- If the saving phase is longer than 6 years
- AND the customer denied offer of the bank to take a loan
- THEN bank is allowed to adjust deposit interest rate
- Protection of bank from interest rate risk
- Protection of customers waiting for loan

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Regulation of Fees

- Account fees for saving phase must be in the contract
- Fees can be fixed or can be based on some existing index (inflation rate e.g.), but may not be changed arbitrarily

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Regulation of Activities of the Banks

- Construction Saving Bank is limited in its activities to Construction Saving
- Deposits of the customers is Construction Saving Bank allowed to use:
 - for granting housing loans
 - to buy state bonds or obligations of banks
 - to buy mortgage bonds

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Housing Purposes

- Act determines Housing Purposes
- Loans granted by Construction Saving Banks can be used only for these Housing Purposes

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Housing Purposes

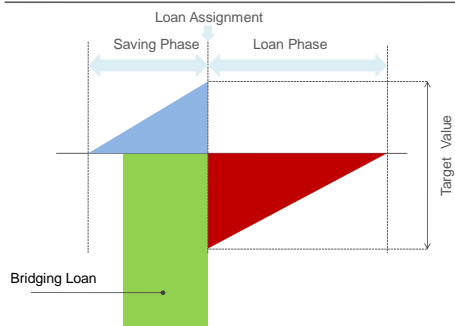
- Construction of new house or flat
- Reconstruction of house or flat
- Purchase of house or flat and / or land
- Membership in Housing Cooperative
- Connection to distribution network
- Repayment of loan used for above listed purposes

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BRIDGING LOANS

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Bridging Loan



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Bridging Loan

- Can be granted without waiting period (even simultaneously with construction saving contract)
- Must be related to Construction Saving Contract
- Volume may not exceed Target Value

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Bridging Loan

- Is not so favourable as proper Construction Saving Loan
- Interest Rate is not regulated (no 3% spread)
- Early Repayment is usually not allowed
- Yet the bridging loans are widely used.

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MARKET OVERVIEW

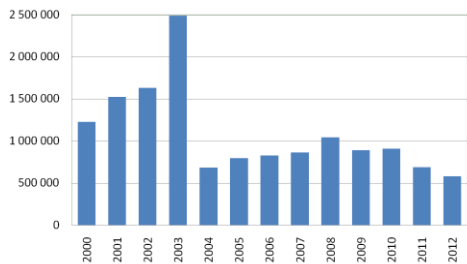
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Construction Saving Banks in the CR

Name	The most significant shareholders
Českomoravská stavební spořitelna, a.s. (ČMSS)	Československá obchodní banka, a.s. (55 %) Bausparkasse Schwäbisch Hall AG (45 %)
Modrá pyramida stavební spořitelna, a.s. (MPSS)	Komerční banka, a.s. (100 %)
Raiffeisen stavební spořitelna a.s. (RSTS)	Raiffeisen Bausparkassen Holding GmbH (90 %) Raiffeisenbank a.s. (10 %)
Stavební spořitelna České spořitelny, a.s. (SSČS)	Česká spořitelna, a.s. (95 %) Bausparkasse der österreichischen Sparkassen AG (5 %)
Wüstenrot – stavební spořitelna a.s. (Wüstenrot)	Wüstenrot & Württembergische AG (55,92%) Wüstenrot Verwaltungs- und Dienstleistungen GmbH (43,50%)

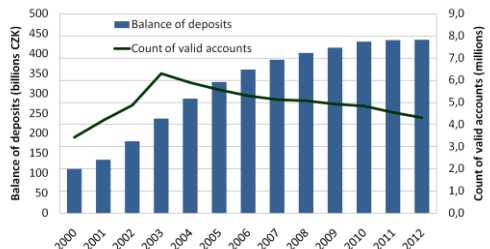
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Number of new contracts

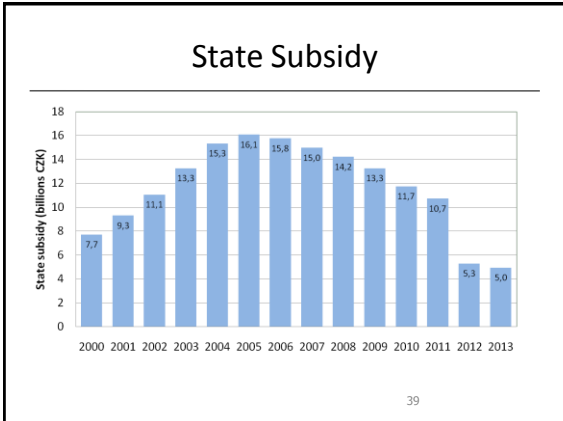
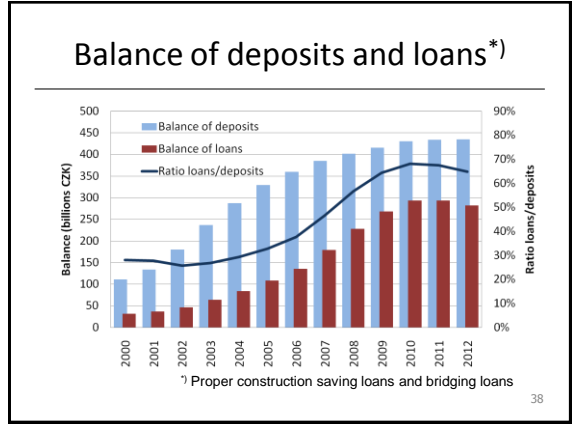
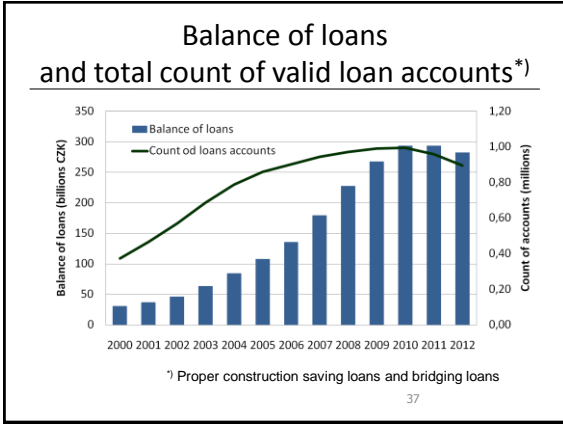


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Balance of deposits and total count of valid accounts



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END

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