

**Association of Czech Building Savings Banks**

**Building Savings in 2007**

**2007**

A large, stylized green silhouette of a house with a gabled roof and a chimney on the right side. The house is positioned on the right side of the page, partially overlapping the text.



## A Year of Loan Records and the Congress

People have recently become accustomed to the fact that savings banks have been reporting record results with every passing year. The year 2007 was no different. The record results in 2007 were exceptional not only because of the numbers or amount, but due to the fact that these institutions completely fulfilled the actual sense and objective of building savings – the financing of housing. In 2007, savings banks provided clients 163 000 loans for housing amounting to CZK 72.5 billion that was used by clients not only for reconstruction and modernization but increasingly for the acquisition of new homes.

Despite this evident success, savings banks have sometimes still heard criticism and have been faced with unsubstantiated speculation concerning the possible changes in the benefits offered by building savings. There were even unsubstantiated statements claiming that building savings was not fulfilling its primary goal. One can only respond by claiming that the criticism stemmed from a shallow knowledge of the building savings system and that the claims are not supported by any true results or facts.

The fact that 2007 was a record year, while its results weren't surprising, is also demonstrated by historical data. Since 2003, savings banks have provided more than 155 thousand loans per year for housing needs. In its history, these institutes have already provided 1.46 million clients loans for housing amounting to more than CZK 333 billion.

When discussing the growth in loan transactions it is important to mention the dynamics of savings that make up the loan resources of building savings banks. The amount saved within building saving banks has been showing a slight increase even though a decline was predicted in previous years. Nevertheless the closely monitored indicator for the progress of balances on loan accounts has been continually growing. At the end of 2007, it reached 46.6 %, which represents a mid-year growth of a respectable 8.9 percent.

At the end of October, Prague welcomed participants to the XV European Federation of Building Societies Congress. We have devoted an entire chapter to this successful event, which is considered very prestigious for building savings banks.

Building savings has experienced a year of excellent results as well as demanding discussions, which thanks to their diversity and content, have contributed to the development of better housing in the Czech Republic.

For the Association of Czech Building Savings Banks

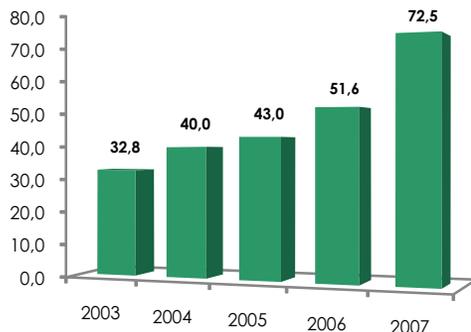


Vojtěch Lukáš, Chairman

## Building Savings Significantly Supports Housing

In 2007, building savings banks provided clients with CZK 72.5 billion in loans for housing. This figure is a full 40 % more than was provided in 2006 showing its largest growth in the last 5 years.

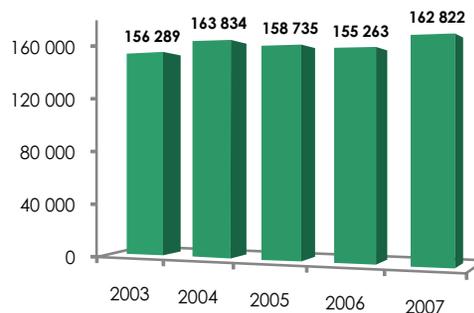
Loans Provided (in billions of CZK)



The indicator showing the number of loans provided documents the amount that people are using building savings. Last year building savings banks provided 162 822 loans amounting to CZK 72.5 billion.

The majority of these loans consisted of today's traditional bridging loans.<sup>1</sup> What is considered interesting is the fact that more than 155 000 loans have been provided per year for the last five years.

Number of Provided Loans



<sup>1</sup>Building savings loans that were used to pay off bridging loans (so-called bridges) are not included in the figures, as these are not used for the financing of housing. Including loans of this type would distort the statistics.

The data demonstrates that the amount of the average loan in 2007 amounted to CZK 445 385. This represents a mid-year increase of more than CZK 112 000, a 34 % increase.

The most loans were once again provided for reconstruction and modernization, with 46 % of loans being used for these reasons.

**What Building Savings is Being Used For (number of loans)**

New apartments and houses	23 339	14 %
Purchase of apartment or house	43 464	27 %
Reconstruction and modernization	74 800	46 %
Other	21 219	13 %

Building savings banks are the only loan-provision institutes that provide loans for housing for a wide array of housing needs at long-term favorable interest rates while developing financial resources.

Thanks to its characteristics, the loans provided by building savings banks fill the gap between mortgages and consumer loans.

The large number of loans provided demonstrates its accessibility to a wide array of the population and in this way emphasizes the social character of building savings.

**How Many People Owe Money to Building Savings Banks?**

In 2007, the total balance of loan accounts increased to CZK 179.3 billion, 38.9 billion of which was provided as building savings loans. The remaining 140.4 billion was provided as bridging loans, which gradually "transforms" into a building savings loan as people continue to save. The mid-year balance of loans increased by 32.4 %.

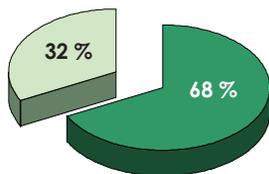
The balance of loan accounts represents the amount people owe to building savings banks. Even though this number is more than 100 billion it is important to emphasize that the morale of these clients is considered to be the highest on the financial market.

Thanks to the system of progressive saving the client can realistically verify his own financial opportunities during the saving phase and when the loan is being repaid this money is actually put towards paying off the loan instead of towards a savings account.

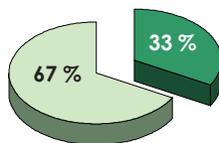
## A Firm Pillar for the Financing of Housing

According to statistics, two-thirds of the clients use building savings for housing loans. Thanks to the market segmentation in question, building savings has a 33 % share of the total market of housing financing in terms of amount.

Comparison in numbers



Comparison in amount



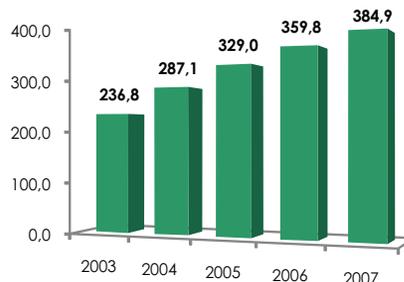
	Building Savings	Mortgages
Number	162 822 (68 %)	77 915 (32 %)
Amount (bn. CZK)	72,5 (33 %)	147,6 (67 %)

Building savings bank loans also played an important role in the building of apartments. In 2007, 41 650 new apartments were completed; building savings banks provided 23 339 loans for the building of apartments and homes amounting to 56 %.

## Client Deposits – Resources for Loans

In order to provide loans, the building savings banks use the client's deposits. Following a change in the act in 2003 the system has been recording a gradual decrease in clients, which corresponds to a decrease in the growth of the amount saved.

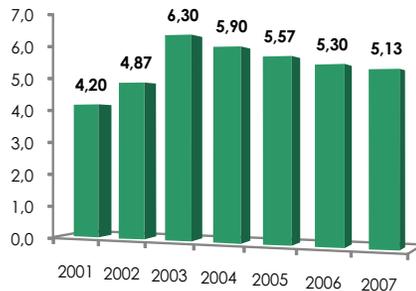
The Development of Client Deposits (in billions of CZK)



Decreasing the maximum amount of state funding per contract per calendar year from CZK 4 500 to CZK 3 000 also had other effects.

Clients with contracts in the year 2003 used forward buying, which increased state expenditure on building savings for several years. At the same time the number of clients has been gradually decreasing since 2004, as the new conditions have shown not to be motivating enough for some; the market is also considered to be partially saturated. The decrease in number of clients has truly been gradual and has not shown to be a risk for the stability of the system.

**Number of Contracts in the Saving Phase (in millions)**



In 2007, building savings banks closed 579 730 new contracts for a total target amount of CZK 170 billion. A further 282 376 existing building savings contracts increased their final target amount by CZK 71.3 billion.

**The Development of Newly Closed Contracts Including Those That Have Been Increased (in millions)**

Year	2001	2002	2003	2004	2005	2006	2007
Number	1.52	1.63	2.49	0.68	0.79	0.83	<b>0.86</b>
Change	24 %	7 %	53 %	-73 %	16 %	5 %	<b>4 %</b>

The system has been gradually absorbing the parametric shock brought on by amendments to the act. The immense decrease experienced between 2003 and 2004 has been gradually compensated each year by the growth in the number of closed contracts. In 2008 the minimum statute of limitation will have expired for state funding declaring those contracts closed in 2003. The subsequent development will be crucial when assessing the consequences of the amendments to the act.

**The Proportion of Loan Accounts Will Increase**

An indicator of the building savings system efficacy, which is monitored very closely, is the proportion of loans to savings. This is the only coefficient that reflects the amount that was truly provided by building savings banks to its clients in the form of a loan using the money deposited.

In countries where building savings have just recently accessed the market, the banks must first develop adequate resources, which will be subsequently utilized for loan provision. This explains why the proportion of loans to savings is low from the beginning. The dynamic growth begins with time.

The quickness in which the system transforms from the resource cumulation phase to the loans phase also has a significant effect on the development of housing standards in society. The Czech Republic has recorded a rapid increase in the demands for financing of housing. Building savings banks have always been and will continue to be prepared to satisfy these demands, which can also be seen by statistics.

#### The Development of the Proportion of Loans and Savings

Year	2003	2004	2005	2006	2007
Proportion (in %)	26,9	29,3	32,8	37,6	46,6
Increase (in %)	1,2	2,5	3,5	4,8	<b>8,9</b>

In 2007, the proportion of loans to savings increased by 8.9 percentage points and reached a total of 46.6 %. With respect to the estimated future development of savings and loans we expect a similarly dynamic growth in the next year.

In other words the amount of money provided as loans will grow and the amount in savings will stagnate or may even decrease.

The large increase in coefficient indicates that Czech building savings has transformed into the stable loan phase. These banks are now providing more money for loans than the amount being saved by clients.

#### The Role of Friendly Clients

The friendly client is a term, which describes a building savings bank client that only saves money instead of utilizing any loan products. The role of this type of client for the functioning of the system is irreplaceable, as the average loan recipient borrows more money from a building savings bank than the average client saves. This means the building savings bank must secure an adequate inflow of money (resources for loan provision).

The friendly client however is not a patron. Thanks to state funding he is able to save his money well and can also provide his money for several years to those clients within the system wanting to acquire a loan. This can be identified as the active mechanism of the building savings system.

The motivation for clients to set aside consumption for several years includes the safe interest rates of the client's savings and state funding, which is paid out following the completion of the minimum savings time of 6 years. During the duration of the building savings contract the client's plans can certainly change and may therefore utilize the loan if the need arises.

The total annual amount provided by state funding, or in other words the impact to the state budget, is already much less than the amount provided in loans, which is considered the money that has been invested into housing. As the total amount of state funding gradually decreases and the amount of loans provided each year increases, this proportion will also increase in the years to come.

### Historical Benefits of Building Savings

In its history Czech building savings banks have provided 146 million loans amounting to more than CZK 333 billion. In the past years the annual number of loans provided has never fallen below 155 000, which is proof of the long-term accessibility of loans.

Clients have already closed 11.6 million contracts, 17 % of whom have already increased their target amounts mainly to achieve a higher amount of financing of their housing needs.

#### 2007 In Summary

- Loan transactions in terms of amount reached a record CZK 72.5 billion. 162 822 loans have been provided. The average amount of loan provided was more than CZK 445 000.
- 46 % of the total amount of loans provided (74 800) have been used for reconstruction and modernization of housing.
- From 2004 the number of closed contracts has been gradually increasing. In 2007 alone 579 730 new contracts were closed and a further 282 376 contracts increased their target amount.
- The proportion of loans to savings has increased by 8.9 percentage points reaching 46.6 %.
- Two thirds of those clients borrowing money for housing have selected building savings.

## International Congress in Prague

What did the XV European Federation of Building Societies (EuBV), which took place in Prague on October 24th to 26th, bring?

A special topic concerning the U.S. mortgage market crisis was mentioned by housing financing experts throughout the congress. Thanks to the magnitude of the U.S. market the crisis is not viewed as a catastrophe for the U.S.A. but will still influence hundreds of thousands of American households. Even though this mortgage system differs from the European system it is essential to consider the reasons for the occurrence of this crisis and learn from it.

Considering this negative experience it is therefore perplexing that some European Commission experts have actually recommended the American model of financing to European countries. They are suggesting that banks and financial institutions could provide loans to even low-income citizens more willingly as well as providing money for both real estate acquisitions and for consumption purposes at up to 120% of the security value of the real estate. On the other hand Andreas J. Zehnder, Executive Manager of EuBV, came up with the idea of protecting consumers from indebtedness of this kind by involving various organizations and consumer protection associations.

The European population is progressively getting older. This is a demographic development and the consequences of this fact are expected to appear in the housing sector and evidently in its financing. Are banks or in other words building savings banks prepared for this development? Are banks and building savings banks capable of responding to the specific demands of their clients?

These questions do not only refer to senior citizens. Today's younger clients have already made requests mainly in the sector of comfort services and the sector of modern technology that goes hand-in-hand with it. Try and recall the technology used in banks 20 years ago. Are we able to imagine where this constantly increasing development will actually lead us in 20 years' time? Let's ask about the role the building savings banks have played and will continue playing in today's development as well as in future development.

What about the question of state funding and the actual amount of it? The amount the government provides in state funding of building savings is relatively low in comparison to the benefits it offers. It is always much better and cheaper for countries to provide financial support to well-functioning systems than to rescue problematic banks or to resolve the unpleasant impacts on the client, who was not successful in completely managing the financing of his housing.



ASOCIACE ČESKÝCH STAVEBNÍCH SPORITELN

Association of Czech Building Savings Banks

Vodičkova 30, 110 00 Praha 1

Telephone: +420 224 422 093

E-mail: [tajemnik@acss.cz](mailto:tajemnik@acss.cz)

Internet: [www.acss.cz](http://www.acss.cz)



Na těchto základech můžete stavět

Vinohradská 3218/169, 100 17 Praha 10

Telephone: + 420 225 221 111

Fax: + 420 225 225 999

Internet: <http://www.cmss.cz>

E-mail: [info@cmss.cz](mailto:info@cmss.cz)



Vinohradská 180/1632, 130 11 Praha 3

Telephone: + 420 224 309 111

Fax: + 420 224 309 112

Internet: <http://www.burinka.cz>

E-mail: [burinka@sscs.cz](mailto:burinka@sscs.cz)



Bělehradská 128, 120 21 Praha 2

Telephone: + 420 222 824 111

Fax: + 420 222 824 113

Internet: <http://www.mpss.cz>

E-mail: [info@mpss.cz](mailto:info@mpss.cz)



Specialisté na bydlení

Koněvova 2747/99, 130 45 Praha 3

Telephone: + 420 271 031 111

Fax: + 420 222 581 156

Internet: <http://www.rsts.cz>

E-mail: [rsts@rsts.cz](mailto:rsts@rsts.cz)



Janáčkovo nábřeží 41, 150 21 Praha 5

Telephone: + 420 257 092 200

Fax: + 420 257 092 149

Internet: <http://www.wuestenrot.cz>

E-mail: [kontakt@wuestenrot.cz](mailto:kontakt@wuestenrot.cz)



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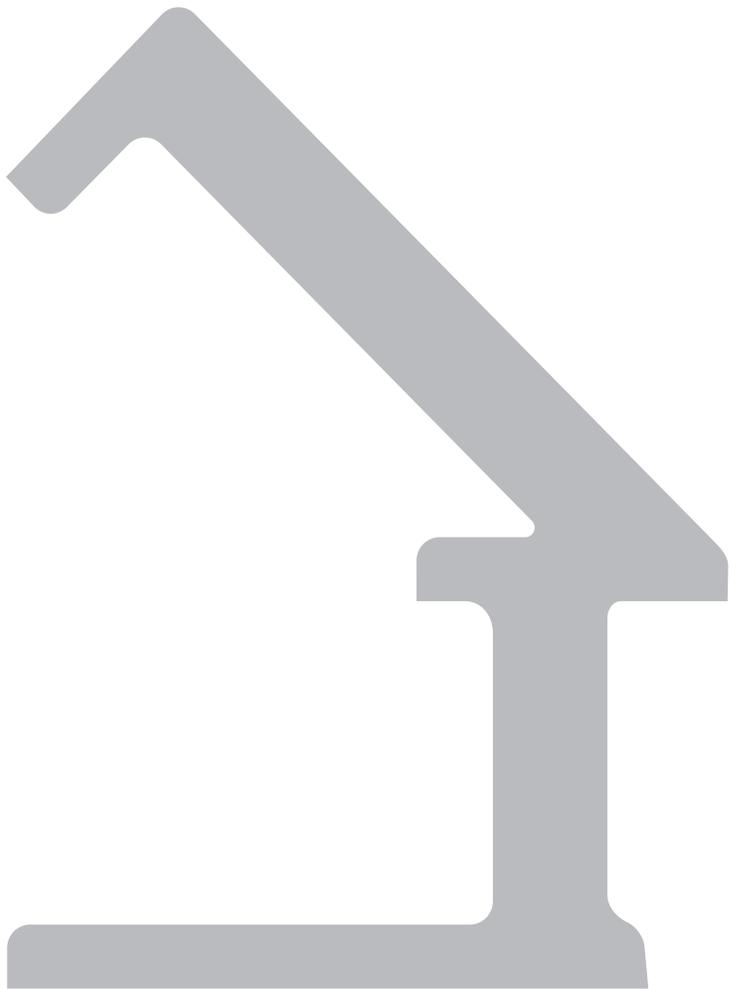
Senovážné náměstí 27, 110 00 Praha 1

Telephone: + 420 222 878 111

Fax: + 420 222 246 550

Internet: <http://www.hypos.cz>

E-mail: [hypos@hypos.cz](mailto:hypos@hypos.cz)



**Association of Czech Building Savings Banks**

Vodičkova 30 110 00 Praha 1  
Telephone: +420 224 422 093 GSM: +420 607 912 574  
E-mail: [tajemnik@acss.cz](mailto:tajemnik@acss.cz)  
Internet: [www.acss.cz](http://www.acss.cz)

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