

**Association of Czech Building Savings Banks**

# **Building Savings in 2008**

**2008**





**[www.dcss.cz](http://www.dcss.cz)**

## Dear friends,

statistics from the beginning of 2008 suggested a promising year for building savings. These expectations eventually materialised despite the peaking financial crisis and starting economic crisis. The crisis – how many times we have heard about it. Yet building savings proved its viability and we achieved another record-high results in 2008, especially due to the first half of the year. Loans amounting to 73.6 billion CZK in total helped tens of thousand of households improve their living conditions. What more could we wish for?

It would be naïve to expect that the crisis would not affect building savings, especially by undermining consumer demand. The last quarter of 2008 showed deceleration in credit dynamics. However, in comparison with other segments, which suffered smaller or bigger declines, building savings proved its fundamental advantage - strong resilience to developments of the rest of the market.

At a time when many governments around the world implement fiscal packages amounting to tens or hundreds of billions of dollars to rescue their economies, the Czech economy is benefiting from its previous clean-up of the banking sector. Building savings was then introduced as a stable system with stabilising effects in the commercial banking sector. The benefit the government grants to savers to support accumulation of financial resources albeit in small increments, has helped many households obtain

credit even at a time when many countries report a deadlock situation due to a credit freeze. Building savings banks have no reason to reduce their offer. They have sufficient resources to continue providing loans. In addition, interest rates on building loans are fixed from the moment of signing a contract on building savings.

An increase in the share of building savings in the total amount of household savings by more than 10 percentage points is also positive as it proves that building savings with its increasing dynamism fulfils its primary role – to provide home-building loans under favourable conditions in as big volume to as many people as possible.

Nevertheless, building savings banks are banks by definition, although specialised, and their fundamental obligation is to manage client money with due care. It cannot be ruled out that building savings banks will have to respond to the developments of the economic environment in some way to ensure credit repayment. This is because loans are provided from other clients' deposits.

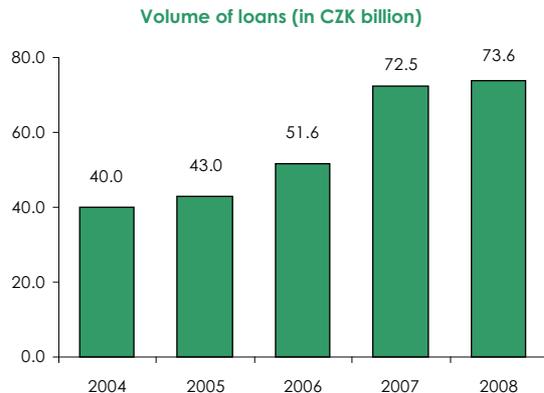
After a takeover of the Hypo savings bank by Raiffeisen savings bank, the Association will have five members.



Vojtech Lukas, Chairman of the Board

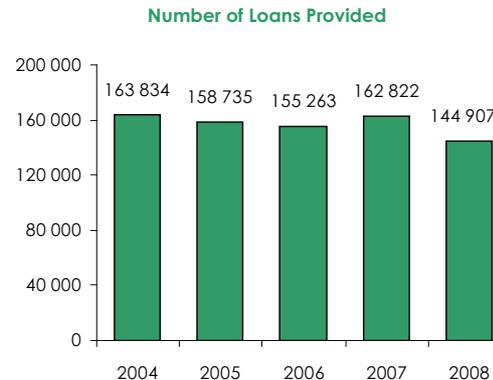
## Loans – a way to finance housing needs

Building savings banks provided 73.6 billion CZK to clients in loans designated solely to finance housing needs, which represented a 1.6% growth over exceptionally successful year 2007.



While the volume of credit provided to clients documents the amount of money spent on housing, the number of loans shows how many people were able to solve their housing needs thanks to building savings.

In 2008, building savings banks provided 144 907 loans. Despite a slight year-on-year decrease in the number of loans, building savings remains the most preferred way of financing housing needs.



The statistics do not include standard building loans that were used to refinance bridging loans. Their inclusion would distort the figures because those loans were not used to finance housing needs per se.

The data show that an average loan in 2008 amounted to 508 230 CZK, which represents a year-on-year increase by 62 845 CZK, or 14%.

The biggest number of loans – 45% in 2008 – continue to go towards refurbishment and modernisation.

#### Purpose of loans provided by building savings banks (number of loans)

New flats and family houses	19 783	14 %
Purchase of a flat or family house	38 856	27 %
Renovations and modernisation	65 032	45 %
Other	21 236	15 %

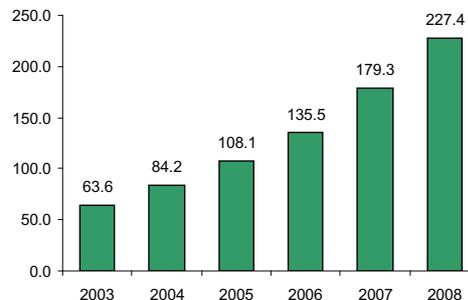
Loans provided by building savings banks are advantageous especially for refurbishment and modernisation purposes because they do not lay excessive administrative burden on the client while offering a highly competitive interest rate as compared to other credit options available on the market.

The high overall number of loans is a witness of their accessibility for a wide range of household and highlights a social character of building savings.

### Credit Account Balance Continues Growing

The total amount on client credit accounts grew by 27 percent year-on-year in 2008 to reach 227.4 billion CZK. Out of this figure, bridging loans represent nearly 185 billion and regular loans 43 billion.

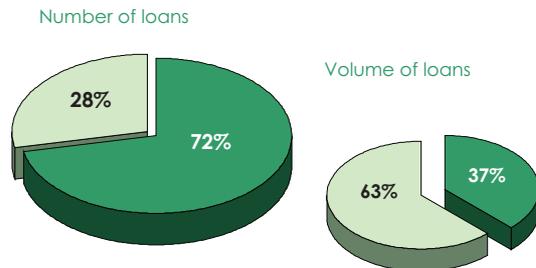
Credit balance (in CZK billion)



Clients owe building savings banks more than 200 billion CZK. We should stress that payment discipline is very good among savings banks clients as compared to the rest of the credit market. This is due to the fact that clients are able to verify their financial possibilities during the saving phase.

## The Most Popular Loan for Housing

Statistics show that in 2008, 72 % of people who needed a loan to finance their housing needs took it from a building savings bank. These loans being generally smaller than mortgages, building savings accounted for 37 % of total volume of housing credit.



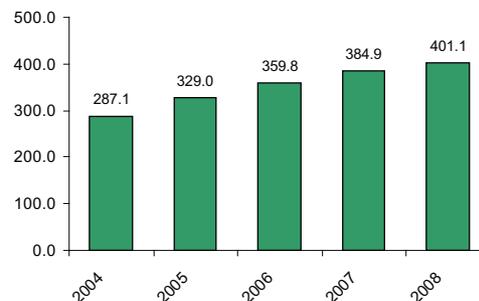
	Building Savings	Mortgages
Number	144 907 (72 %)	571 65 (28 %)
Volume (CZK billion)	73.6 (37 %)	123.1 (63 %)

In 2008, construction of 38 383 flats was completed. Building savings banks provided 19 783 loans to finance new flats and houses in part or in full, which represents 51.5 percent of the new construction.

## Where Does the Money for Loans Come From?

Every loan provided to a client requires several other clients who only save and do not take credit (so-called "friendly clients"). The building savings bank uses the deposits as a source for credit provision.

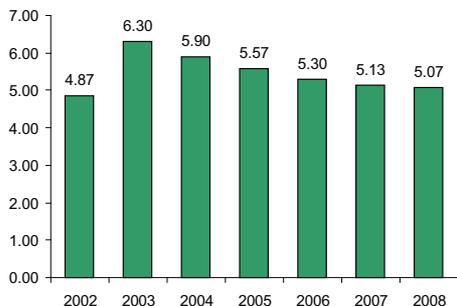
Client deposits (in CZK billion)



Amendments to the law which came into effect on January 1st, 2004 led to a substantial increase in the number of clients towards the end of 2003. This caused an uneven development in the number of contracts. Building savings banks are still dealing with the effects of this spike as they are seeing an increased number of contracts terminated after the end of the savings phase. This puts a strain on building savings banks to find the necessary resources to cover the continuing demand for loans.

State support is a stabilising factor that stimulates deposits, i.e. inflow of financial resources.

**Number of contracts in the savings phase (in millions)**



Building savings banks concluded 705 463 new contracts in 2008 with a combined target amount of 217.8 billion CZK. Existing clients increased the target amount of 335 571 contracts by a total of 93.6 billion CZK.

**New contracts (including target amount increase)**

Year	2002	2003	2004	2005	2006	2007	2008
Number <sup>1</sup>	1.63	2.49	0.68	0.79	0.83	0.86	1.04

<sup>1</sup>in millions

The statistics shows that after a one-off peak in 2003, the number of new contracts kept at approximately the same level in the following years as in 2008.

**Credit/Deposit Ratio Continues to Grow**

An important indicator of the performance of the building savings system is a ratio between the volume of credits and deposits. This shows what portion of deposits building savings banks provided to clients in loans.

**Development of the credit/deposit ratio**

Year	2003	2004	2005	2006	2007	2008
Ratio (%)	26.9	29.3	32.8	37.6	46.6	56.7
Change (%)	1.2	2.5	3.5	4.8	8.9	10.1

In 2008, the credit/deposit ratio grew by 10.1 percentage points to 56.7 percent. The growth of the ratio in the past years is a witness that Czech building savings has reached a stabilised loan stage.

Over the past few years, building savings banks have been lending more money than clients deposit. Yet they have sufficient resources to provide standard loans under the law as well as bridging loans that clients have been using to a large extent in order to quickly secure financing for their housing needs.

### Historic Value of Building Savings

In their 15-year history, Czech building savings banks have provided 1.6 million loans in excess of 407 billion CZK in total. Clients have concluded 12.6 million contracts. 18 percent of them increased the target amount during the savings phase in order to obtain more money to finance their housing needs.

### Summary of 2008

- Building savings banks provided 144 907 loans amounting to record-high 73.6 billion CZK in total. The average amount per loan exceeded 508 thousand CZK.
- 45% of the loans (65 032) were used to finance renovations and modernisation
- The number of new contracts has been growing since 2004. In total, 705 463 contracts were closed, and the target amount raised on additional 335 571
- The credit/deposit ratio increased by 10.1% points to 56.7%
- 72% of people who used credit to finance their housing needs took a loan from a building savings bank

## State Support and Clients in the Saving Phase

The building savings system requires a certain number of clients to be depositing money without taking a loan so that there are sufficient resources to provide credit to those who need it. Those deposits create a pool for provision of loans to those who fulfil criteria stipulated by the law and use the loan to finance their housing needs. An incentive for people to deposit money without taking a loan is state support.

Repeated discussions about an appropriate amount and meaningfulness of the state support for building savings raise a question what the state achieves by providing the support:

- secure and stable source of financing of housing needs that generates hundreds of billions of crowns in the form of housing loans;
- incentive for citizens to purposefully accumulate real financial capital with delayed consumption;
- stable part of the banking sector that is resilient to market fluctuations (crises);
- tax multiplication effect from the loans that generates significant revenue for the state budget exceeding the cost of the state support, although with a time shift.

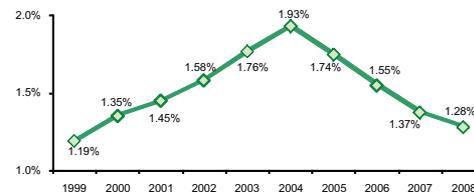
Security of deposits with a fixed interest rate and the state support paid after a set period of time (6

years) motivates clients to delay consumption. At the same time, the client can change plans any time during the term of the contract and take a loan.

The total annual amount of state support is an order of magnitude smaller than the total amount of credit. The annual amount of state support has been decreasing for several years in absolute terms as well as as a percentage of total state budget expenditure.

In effect, building savings has been generating an increasing volume of loans while representing a decreasing burden for the state budget.

**Building savings support as a percentage of state budget expenditure**



The chart shows that support for building savings currently represents a smaller burden for the state budget than in 2000.

## 15 Years of Building Savings

24 October 1991 – Helmut Geier, member of the board of Wüstenrot Bausparkasse Salzburg presented home-building savings when paying a visit to the Czech Minister of Finance.

11 November 1991 – Czech Ministry of Finance submitted a draft law on building savings and a draft of general business terms for home-building savings.

25 February 1993 – Czech Parliament passed Act No. 96/1993 Coll., on building savings and state support for building savings.

1993 – Four building savings banks were launched in the Czech Republic: AR-stavební spořitelna, a.s. (since 1998 Raiffeisen stavební spořitelna a.s.); Českomoravská stavební spořitelna, a.s.; Wüstenrot-stavební spořitelna a.s.; and Všeobecná stavební spořitelna, a.s. (since 2005 Modrá pyramida stavební spořitelna, a.s.). They concluded 210 000 contracts that year.

1994 – Two new building savings banks enter the market: Stavební spořitelna České spořitelny, a.s. and HYPO stavební spořitelna a.s. By the end of the year, more than half a million Czech had a building savings contract. The building savings banks established the Working Association of Czech Building Savings Banks that was later renamed to the Association of Czech Building Savings Banks. The main mission of the organisation is to support and promote building savings.

1 July 1995 – Act No. 83/95 Sb. – an amendment to the law on building savings and state support to building savings. It introduced stricter conditions for the use of savings before the expiration of the mandatory saving period, allowing only their use for housing needs even if the client takes a loan.

1995 – Building savings banks introduced bridging loans to finance housing needs. The number of clients exceeded one million.

1998 – Demand for housing loans continues growing. More than 100 000 loans were provided that year.

2001 – There were more contracts per capita in the Czech Republic than in Germany and Austria, countries where building savings has a long tradition. The number of loans exceeded half a million.

2003 – New amendment drafted to reduce the state support. The number of new contracts in 2003 exceeded 2 million. The total number of building savings contracts including loan contracts reached a record-high 6.8 million. After ten years of the existence of building savings in the Czech Republic, the number of loans and their volume sky-rocketed. Building savings became an important and integral part of the Czech financial market.

2004 – Building savings increasingly delivers on its primary role – to provide means to finance housing needs as a combination of savings and credit.

2005 – The Association of Czech Building Savings Banks transforms itself from an informal organisation to a legal entity.

2007 – Czech capital Prague hosted the 15th Congress of the European Federation of Building Societies.

2008 – Raiffeisen stavební spořitelna merged with HYPO stavební spořitelna. The number of building savings banks in the Czech Republic decreased to five.



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