

**FINAL CONFERENCE OF  
USAID'S HOUSING  
FINANCE PROJECT:**

**A DECADE OF BUILDING  
HOUSING FINANCE IN  
POLAND**

**CHALLENGES AT THE  
OUTSET OF THE NEW  
CENTURY**

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Prepared by

Sally Merrill  
*The Urban Institute*

*Under Subcontract to Price  
Waterhouse Coopers LLP*



**THE URBAN INSTITUTE**

2100 M Street, NW  
Washington, DC 20037  
(202) 833-7200  
[www.urban.org](http://www.urban.org)

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## **FINAL CONFERENCE OF USAID'S POLAND HOUSING FINANCE PROJECT**

### **A DECADE OF BUILDING HOUSING FINANCE IN POLAND CHALLENGES AT THE OUTSET OF THE NEW CENTURY**

*From strategies to action plans*

#### **SUMMARY AND OVERVIEW**

This conference, organized by the Urban Institute and its Polish partner, the Cracow Real Estate Institute was the final conference of the Poland Housing Finance Project of the United States Agency for International Development (USAID), and was co-sponsored by the Polish Banks Association (PBA) and USAID. The two-day conference was held in Warsaw on December 8 and 9, 1999 and included over 200 speakers, discussants, and guests.

The conference provided a celebration of the achievements of the market-based housing finance sector in Poland. It represents the culmination of USAID-sponsored housing finance work in Poland, which has taken place over nearly a decade. More specifically, the conference embodies three years of intensive work in housing finance by the Urban Institute Consortium<sup>1</sup> (UIC), which itself built on previous USAID-sponsored work. The Urban Institute Consortium, directed by Sally Merrill, worked in close concert with the manager of USAID's housing finance program, Michael Lee, to assist both public and private housing finance. The Project developed close counterpart relationships with the PBA, the Ministry of Finance (MOF), the General Inspectorate (GINB) of the National bank of Poland (NBP), the Housing and Urban Development Agency (HUDA), and the Foundation for Mortgage Credit (FMC). The Cracow Real Estate Institute has served as the Urban Institute's partner in Poland since UIC began its work in October 1996. The consortium has also worked with numerous Polish experts in housing finance and housing policy, and with Polish bank training institutes, the Polish Association of Homebuilders, and the Polish Federation of Valuers' Associations.

The papers and discussions prepared for the conference were designed to draw on many of the issues previously addressed by UIC in the Poland program. A wide range of topics has been developed, including regulation and supervision, housing subsidies and tax reform, housing and the macroeconomy, the risks of commercial lending and international capital flows, public sector housing finance policies, dual indexed mortgages, mortgage insurance, the statutory lien, and information systems for appraisal. In addition, the conference introduced two new topics as representative of future issues: the impact of European integration on housing finance in Europe, and eventually in CEE, and the role of information technology (IT) as an important next step in increasing efficiency in Poland's housing finance system.

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<sup>1</sup> The Urban Institute Consortium is managed by the Urban Institute and includes the Cracow Real Estate Institute, Cardiff Consulting, and numerous Polish, U.S., and European experts.

The dual purposes of the conference were to enhance understanding of the progress made to date in housing finance and housing policy and to define future visions and target milestones for the beginning years of the next century. The considerable progress in developing a system of housing finance was discussed. The UIC program has been fortunate to be involved during the crucial period after the end of subsidised lending in 1996; since then, Poland has been moving toward a new era of competitive lending and an effective institutional and legal framework for the continued development of housing finance. More importantly, there was special emphasis on next steps, barriers to overcome, and visions of the future. While the primary emphasis was on private sector housing finance, the conference also discussed the Government's goals for its new initiatives in public sector housing policy.

The conference, which was opened by the U.S. Ambassador Daniel Fried, included speakers from Poland's universal and mortgage banks; representatives of key Polish government institutions, including the Ministry of Finance, and the Housing and Urban Development Authority; Urban Institute Consortium staff and consultants; the European Mortgage Federation; and the U.S. Mortgage Bankers Association.

Participants included Polish bankers, Polish Government representatives, representatives from USAID Washington as well as USAID Poland, and delegates from the World Bank, OECD, and the Polish American Enterprise Fund. Participants also included a number of the speakers and attendees of the Regional Conference on Housing Finance, a "sister" conference which was held in Warsaw the following day (December 10, 1999). This conference, which was also co-sponsored by USAID and the Polish Banks Association, was organized by UIC to convey lessons learned in the more advanced countries of Central and Eastern Europe (CEE) to those in the earlier stages of building market-based housing finance systems. Thus, speakers from Poland, Hungary, the Czech Republic, Slovakia, and Russia presented ideas and lessons to participants from Romania, Bulgaria, Albania, Kazakhstan, and Armenia.<sup>2</sup>

## **PRESENTATIONS AND DISCUSSIONS**

Please refer to the Agenda presented as an Annex to this report. The main themes discussed at the various conference sessions are briefly summarized below.

### ***Opening Remarks***

The conference was moderated by Michael Lee, director of the Poland Housing Finance Project for USAID, as noted above. Opening remarks were provided by Ambassador Daniel Fried, USAID Mission Director William Frej, Deputy Minister of

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<sup>2</sup> See the final report for the regional conference: Sally Merrill, "Regional Conference on Housing Finance: Building Housing Finance in Central and Eastern Europe: Sharing and Comparing", The Urban Institute, February 2000.



Finance Rafa<sup>3</sup> Zagorny, and Krzysztof Pietraszkiewicz, Director of PBA. The main messages emphasized by these opening speakers include the following:

- Housing finance has been transformed from a centrally planned, inefficient system to a dynamic and responsive industry.
- Successful transformation of housing finance depends on success in many other facets of development, including conquering high inflation, restructuring of the banking system, and the advent of a steady macroeconomic environment.
- Reform of housing finance is a long-term process. While much has been accomplished, a number of issues remain to be addressed.
- Housing finance in Poland, only very recently even contemplated in its new market-based context—is now a reality for numerous banks as well as for professional real estate organizations, appraisers, bank training institutes, and so forth. In addition, it is gradually growing in acceptance and demand from the Polish population.
- Public sector housing policy, however, is not yet able to follow a clear course of development. The revised housing policy program proposed by Deputy Prime Minister Balcerowicz has not been fully accepted by Poland's President, as only part of the overall tax reform package was signed into law just prior to the conference.

### ***The Keynote Papers and Keynote Presentations***

Two keynote papers were prepared for the conference by Sally Merrill, who discussed both the progress to-date and the remaining hurdles, and Michael Lea, who discussed four basic global models of accessing long-term funds from the capital market. The slides prepared for both keynote presentations are also included in the Annexes to this report. In addition, W<sup>3</sup>asys<sup>3</sup>aw Jan Brzeski, a key member of the UIC policy group and currently advisor to Minister Balcerowicz, bridged the present and future through a discussion of developing a specific action plan for the future.

In *“Poland Housing Finance at the Millennium: An Assessment of Achievements* Sally Merrill provides a quantitative and qualitative assessment of Poland's housing finance system—both its successes and areas remaining to be addressed—at the commencement of the year 2000.<sup>3</sup> The paper

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<sup>3</sup> Sally Merrill was assisted in this paper by Edward Kozlowski and Piotr Karas of CREI and Jacek Laszek of Bank Slaski. Most especially, UIC, together with PBA developed a bank survey designed to obtain detailed statistics on the banks' housing finance portfolios. Edward Kozlowski carried out this survey, and assisted by

concludes that Poland is now developing one of the most effective systems of housing finance among the transition countries. As recently as 1996, Poland had only 4 lenders and 653 million zloty of market rate mortgages. By mid 1999, over 30 lenders were active in the housing finance market, with over 3.9 billion zloty of market rate mortgages outstanding. In addition, although utilization of the housing finance system to purchase new homes is not yet large – by Western standards – in any of the CEE and NIS countries, Poland ranks first, with about one in five households using a mortgage loan for new purchase.

The paper looks at the evolution of housing finance in Poland and at the factors that have supported its development. An overview of the portfolio, the major lenders, and the characteristics of typical mortgage products are discussed, based on a survey of banks offering loans in housing finance. The efficiency of the system is analyzed through a variety of measures, including the spread (the gap between the mortgage lending rate and the cost of funds), “real” rates (the gap between the mortgage rate and intermediation efficiency” (the gap between the mortgage rate and the Treasury bill rate).

The report also assesses the major issues which remain to be more fully addressed as the system matures, including improved information systems to assist with analysis and management of risk, legislation which would maintain a level playing field between the universal banks and the emerging mortgage banks, and a reassessment of risk sharing, especially the proportion borne by the lenders, as the legal infrastructure and credit enhancement mechanisms evolve.

To date, all mortgage lending in Poland has been done by commercial banks. In his paper “*Global Models for Funding Housing: What is the Best Model for Poland?*”, Michael Lea notes that a lively debate regarding the introduction of alternative models for the provision of housing finance has emerged. Legislation authorizing creation of specialized mortgage banks and contract savings institutions (*Bausparkassen*) was passed in 1997. So far, only two mortgage bank licenses have been granted and there has been no lending activity, although this should commence during 2000. The *Bausparkassen* legislation may be rescinded in favor of restructuring Poland’s own contract savings system. In addition there has been discussion about securitization and an on-going role for the Mortgage Fund, a second tier refinance facility created in 1994.

The paper reviews the four major models for funding housing that are being discussed in Poland today: the universal banking model, the mortgage bank model, the contract savings model and the secondary mortgage market model. The review briefly describes each model, notes its strengths and weaknesses, and characterizes its relative importance in developed country housing finance.

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Piotr Karas, analyzed the data appearing in the report. This was a first-of-its kind-event: there has never been systematic information collected on market-based housing finance in Poland prior to this survey.





What should be the appropriate model for accessing funds for housing is a question not unique to Poland. Historically, many countries have created specialized institutions and special circuits for the funding of housing. Although such special circuits have been replaced in many countries, they are still important in several countries and continue to be introduced in both developing and transforming market contexts. The paper concludes with a view as to the likely evolution of housing finance in Poland in the early 21st century.

## **Conference Sessions**

### **Action Plan for the Next Decade**

Lech Gajewski, the head of PBA's Housing Finance Committee and chair of this session, addressed the important issue of how the three institutional approaches to housing finance in Poland – universal banks, mortgage banks, and the contract savings systems will fit together in providing mortgage finance. He notes that mortgage banks can provide liquidity to the system via mortgage bonds and predicted that universal banks would sell their receivables to the mortgage banks (even while servicing the portfolios). He favors contract savings schemes in order for households to build up equity and prove their credit worthiness.

He then noted a number of barriers to the efficiency of the system, including:

- Problems related to mortgage bonds, such as including the cost of issuance, selecting the appropriate risk weighting, and their Lombard reserve status.
- Legal deficiencies, including the statutory lien (which has forced banks into short-term insurance) and the need for a level playing field.
- Instability in the legal framework, especially changes in the contract savings law and perhaps in the mortgage banking act.
- Organizational barriers, including poor title registration, the prepayment system of developers, weak valuation procedures, and high transaction and production costs.
- The need for more effective underwriting, and a hope that the credit bureau will soon provide more complete credit histories.
- The need for both IT and standardization in mortgage lending, the latter being especially needed for mortgage bonds.

Ms. Œleszyńska-Charewicz, director of GINB and the Project's key client at the National Bank of Poland, is an advocate of a rigorous system of regulation and



supervision of housing finance. She noted the need for detailed reporting by the banks and careful asset/liability management; GINB's supervisory system for housing finance is just now being finalized. The development of the Mortgage Banking Law in Poland and the licensing of mortgage banks has been a lengthy process in Poland, in part because the necessary legislation has had to be adopted specifically for Poland, and in part because, in the view of the Central Bank, the mortgage banks licenses must be very well prepared. Another important point is that universal banks should not view mortgage banks as a "way out" with regard to interest rate and liquidity risks.

Ms. Oleszyńska-Charewicz and the panel also discussed a number of other outstanding issues with regard to mortgage bonds:

- Whether issuance of mortgage bonds requires specialized institutions. It is her view that only the specialized mortgage banks should have the right to issue mortgage bonds.
- What the risk weights should be for mortgage bonds and whether and when Poland should come into line with eu policy on risk weighting issues.
- Whether and how mortgage portfolios can be transferred to the mortgage banks.
- Whether mortgage banks will tend to specialize in commercial real estate lending.

The panel discussion also turned to the possible future of securitization in Poland, noting that there are legal barriers, which must be eliminated for securitization to take place. It is also felt, however, that securitization may be of interest (in the future) to the universal banks.

Finally, the panel discussed a number of other issues as important elements of the action plan, including:

- The need for developing IT, better information to be obtained from the credit bureau, and standardization.
- The need for a level playing field.
- The needs for better asset/liability management and loan servicing, monitoring, and analysis.
- The need for an effective (and stable) contract savings system.



## **Seeking long-term Funding**

The panel on long-term funding followed the discussion of the keynote presentation on the four key global models of funding: deposits, contract savings systems, securitization, and mortgage bonds.

Douglas Diamond introduced issues in funding via mortgage bonds that have arisen in the Czech Republic and elsewhere, where the mortgage bank system is further developed than in the other CEE countries. Overall, it is apparent that mortgage bond funding is not yet competitive with funding from deposits in CEE. This is the case even in the Czech Republic, where mortgage bonds are tax exempt and where there have already been some mortgage bond issuances. Furthermore, in Slovakia, Hungary, and the Czech Republic, there is some concern that the contract savings system will “use up” the borrowing capacity, which will slow the development of the market-based housing finance institutions. Only one exception was noted thus far: Estonia has issued unsecured bonds on the Euro market (3 to 5 year bonds of investment grade quality).

A long discussion then ensued, raising many points important both to Poland and to the region, including:

- The extent to which mortgage banks would undertake both commercial and residential lending, or concentrate only on commercial (it was felt that they would do both).
- The need for a rating system for mortgage bonds, which will soon be important in Poland.
- The crucial issue of the rules surrounding the purchase of mortgage bonds by capital market investors (insurance companies and pension funds) and the need to relax the rules, now proposed in an amendment to the mortgage banking law which would allow 20 percent of assets rather than the current 5 percent to be held in mortgage bonds.
- The general need for debt instruments in addition to government paper, and how mortgage bonds could play an important role in this regard. It was noted that it was unsound, for example, for pension funds to invest only in government paper.
- A general discussion of the safety factors for mortgage banks, including further endorsement by Polish participants of specialization rather than having mortgage banking being undertaken by universal banks, specialization is viewed as a means of reducing risk. There is also support for strong regulation by GINB and the need for the cap on total issuance in relation to the equity of the mortgage bank. There was also discussion of the need to

improve the quality of appraisals and the problem of title registration, specifically whether simple manual solutions – versus a systemic fix - will be adequate in the short-run.

There was also a suggestion from the floor that risk weights on mortgage bonds could be reduced if they were 100 percent guaranteed by German banks; some panelists thought this was inappropriate since the goal was to develop the Polish market for mortgage bonds. Chairman Grudzinski concluded that if costs remain very high in Poland, mortgage banks would have no alternative but to refinance abroad, but that guarantee from parent banks was unsound from a long-term perspective.

Again, the discussants provided a reiteration of the issues surrounding the competitiveness of mortgage bonds. There is generally a consensus that deposit funding is currently cheaper in Poland. A related point is asset/liability matching – currently 3-year deposits can fund loans more cheaply than 3 to 5 year mortgage bonds; ultimately, however, it is desirable to have longer-duration mortgage bonds to support 15 to 20 year loans.

Finally, another question from the floor concerned the panel’s opinion about who would be served by the mortgage banks. Panel members replied that middle income households would definitely be served, and that the clients of mortgage banks and universal banks may differ. For example, DIMs could not be used as collateral for mortgage bonds.

In summary, the factors underlying the future success of mortgage bond issuance in Poland were reiterated, including a stable macroeconomic environment, falling interest rates, improved rules for investors, and bond rating. While there was agreement on the major issues, however, the time needed to solve the various problems was estimated with a large range: 3 to 5 years in the view of one discussant and 10 to 12 in the view of another. Importantly, however, the panel thinks mortgage bonds will eventually succeed.

## **Risks and Risk Management**

Extensive commentary and discussion again attended the risk panels.

Mrs. Œeleszyńska-Charewicz stressed that Poland’s real estate market was very much “under construction”. While Poland must use the experience of other countries and continue to develop competition and a level playing field, nothing can simply be imported from abroad for use in Poland without alteration. She reiterated the importance of a conservative approach to the development of mortgage banks. Protection of creditors is the main goal of the Act on Mortgage Banks. Mortgage banks must be subject to ongoing NBP control and must avoid exposure to risk in the future – whether it be market risk, interest rate risk, liquidity risk, operational risk, regulatory risk,



and so forth. With regard to the cover for mortgage bonds, they must be secured by the highest quality portfolio, following the rules set forth in the Act.

These issues all highlight the importance of appraisal and the definition of mortgageable value; properties must be appraised with regard to future value, which is much more important than market value. She notes that Regulation F, the directive issued by GINB to regulate appraisal principles, has caused much debate in Poland. Ultimately, the income method of appraisal must prevail over the cost approach because long-term mortgageable value must be something different than market value. A comment from the floor indicated that bankers may not yet understand Regulation F, and wondered whether there would be training sessions for valuers. Mr. Kalus, head of the Federation of Valuers' Association, then declared the willingness of the appraisers to collaborate in implementation of methodologies supporting the regulations. Finally, Mrs. Oleszyńska-Charewicz mentioned that the various UIC studies on regulation and supervision of appraisal helped show the complexity of the issues and the need for information databases, and thanked USAID for its help to NBP, banks, and appraisers alike.

Jacek Laszek offered the opinion that mortgage banks and universal banks will both compete and cooperate. Taking a long-term view of the development of the Polish mortgage market, he recalls that in 1991, PKO BP didn't even collect data on income. Risks differ in the current period, but for a variety of reasons have perhaps not fallen overall. Loans are now larger and of longer duration; risk has grown as the sector has expanded and banks have greater exposure. Construction lending, with its household prepayment situation, is especially risky. Prepayments have been volatile and the registration system still does not function. If the 54 banks now in operation in Poland all offered housing loans, price competition could unduly increase risk. Should NBP set prescriptive standards? Michael Lea notes the global trend away from prescriptive regulation to performance-based regulation – that is, the policies, procedures, and results of banks. With prescriptive regulation, rules can get set in stone and not allow adaptation to a changing market.

### **Risk and Information Technology**

Robert Pruett addressed issues in information technology – now an appropriate concern for a system at Poland's stage of development. A meeting held with PBA prior to the conference concluded that IT in the large banks is not yet ready to serve a mass market of mortgage customers, either with regard to servicing or managing the mortgage assets; the market is new, and only now has strategic thinking turned to the problem of whether to modernize existing systems or purchase new IT systems. The bankers agreed, however, that IT is a crucial ingredient for the future cost-effectiveness of the industry.



## **Global Issues: Poland, the Region, the EU, and the U.S.**

UIC considered that it was important to briefly discuss EU issues and worldwide trends at the Conference. There are at least three reasons for this: (1) increasing European competition in Poland, and an increasing number of alliances between Polish and European banks; (2) issues surrounding European integration, which will ultimately become increasingly important to Poland; and (3) the adoption by PBA of an increasingly international outlook in its contacts (Europe and the U.S., as well as the region). In this regard, UIC invited representatives of the European Mortgage Federation (EMF) and the U.S. Mortgage Bankers Association (MBA) to speak at the Conference.

Judith Hardt, director of the EMF, provided a brief overview of the structure and goals of the organization, which is primarily involved in prudential directives stemming from the Basle Accord (such as risk weights, capital directives), and EU-wide consumer protection issues (such as deposit guarantees). Ms. Hardt notes that there is no single EU market in housing finance, but rather competing interests and, historically, very different structures and different degrees of regulation and consumer protection. The EMU helps the region find a balance between stability and moral hazard, protection and competition, and cost and efficiency. The advent of the Euro, since it removes exchange rate risk and improves price transparency, was an important step toward increased integration. There are still many different institutional structures and Government policies across the region, however, and further integration awaits ongoing trends in competition and technology. Integration with the U.S. market, however, will not be rapid, as there are both cost and regulatory barriers to securitization.

In a similar vein, Deborah Erb, now director of a new international organization – Societas - noted that while there are a number of factors which suggest increased activity towards globalization, there is not yet a global market in housing finance but rather a number of regional markets. The U.S. Mortgage Bankers Association (MBA) began over a decade ago to undertake more initiatives with regard to sharing the experiences and methodologies of housing finance through international contacts and conferences. Understandably, given the U.S. market, many of the now-established relationships are in Mexico and Latin America. Initiatives in Asia and elsewhere have been begun, however. Thus, UIC asked the MBA to visit Poland and specifically the Polish Banks Association, to provide advice on organizational structure and goals, and this was facilitated under the USAID Project. The PBA is now involved with Societas, an internationally focused, non-profit, training institute recently launched by MBA. Mr. Pietraszkiewicz now serves on the Advisory Council of this organization, along with UIC manager Sally Merrill and UIC consultant Michael Lea, among other international personnel. Ms. Erb predicts a more truly global market in about 10 years.



## **The Government's Vision of the Housing Market**

Minister Najnigier noted that the fate of the Government's new policy initiatives for housing, which, among other things, were designed to consolidate progress toward a housing subsidy system which is better targeted and more consistent with market-based housing finance, are now uncertain and offer a complex policy problem.<sup>4</sup> Ewa Bonczak-Kucharczyk noted that since Government expenditures on housing are not expected to increase private housing finance in increasingly important. As the Government does not view the level of new construction as adequate, subsidies were to be targeted at specific groups who, with loans and cash, could then afford modest homes and would boost demand accordingly. Rental housing is also increasingly important to market functioning. Irena Herbst provided a 10-year review of the developments in housing policy, emphasizing that the role of the State is now simply to help sustain private activity and seek maximum efficiency in its subsidy policies. She projects that with help from mortgage banks and the contract savings system, improvement in the housing sector should occur within 4 to 5 years. Edward Kozlowski described the important changes in public policies, especially in regards to the housing allowance program, noting the Simulation Model developed by CREI and UI to address the affordability issues surrounding rent increases and the current use of this model by HUDA.

Sally Merrill offered her thanks to both HUDA and the Ministry of Finance for engaging in such a productive dialogue over housing policy reform over the last three years. The most important aspects of the debate are not the details of specific proposals, but rather the principles underlying an effective market system, integrated with an effective subsidy system. These principles include a framework of policy development based on effective demand (rather than simply "need"); support to both homeownership and the rental market; provision of incentives for rent reform; subsidies that are well targeted; subsidies that complement and promote private housing finance; and the provision of more information, analysis of housing trends, and monitoring of subsidy systems.

The panel answered questions from the floor on a number of topics, including reform of the rehabilitation tax relief program to make it more effective with regard to capital repair; the need for better databases for HUDA; the goals of the TBS program; the need for action by gminas on rent reform; and a clarification that mortgage bonds did not involve subsidized loans.

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<sup>4</sup> Revised subsidy policies were proposed in 1999, which were consistent with the GOP's tax reform proposals, which targeted middle and lower income households, and which addressed lingering problems such as rent control. The proposed GOP program also offered support to both homeownership and the rental sector and sought better targeting and transparency in subsidy policy. However, the fate of the revised housing program, although approved by the Cabinet in mid-1999, is now unknown, as Poland's President rejected certain portions of the tax reform proposals which are integral to implementation of key aspects of the new housing program.

Mr. Najnigier provided final conclusions with regard to Government policy: that the State should play only a supporting role in the housing sector; that housing expenditures are not now a high priority of the State; that macroeconomic conditions largely determine the success of the housing market; that gminas should increase rents, but have not yet done so; and that the specific policies for the future are now uncertain.

### **Conference Conclusions: The Action Plan**

Michael Lee closed the conference with advice for the long-term development of the system. He reminded the audience that housing finance was not a sprint but rather a marathon. A mature system will never be in a “steady state”, but always engaged in a process of evaluation and change. Poland, however, has reached the stage where it can enter this evolutionary process—the market has taken over and the system is healthy, competitive, and innovative. Now, however, a pragmatic approach is needed, as well as more cooperation and liaison. Legislative stability is greatly needed at this point. Universal and mortgage banks have mutual needs, and alliances should be formed to affect changes, which will be beneficial to all. As noted by Mr. Gajewski, PBA is in accord with this action plan for future development.

Finally, as evident from the discussion of the presentations in section 2.0 above, the basic issues and themes were reiterated by many speakers and panels, and addressed both mortgage and universal banks and barriers to efficiency, whether legal, informational, or legislative. Thus, the details of the action plan seem clear from the proceedings of the conference.

## **PRESS COVERAGE OF THE CONFERENCES**

This section provides a summary of the media coverage for this Conference and also for the Regional Conference described in Section 1.0. Annex IV lists the specific press articles and TV coverage.

### ***Press Coverage***

The content of the articles varied from positive assessments of the housing finance program to biased opinions about the American vision of the development of housing finance in Poland.

“Prawo i Gospodarka”, a financial daily, which was also a patron of the events, presented USAID activity in Poland and a history of housing finance program in an interview with W. Frej and M. Lee. They highlighted achievements of the program, which established foundations of effective system of housing finance in Poland. “Prawo i Gospodarka” discussed legal and organizational barriers that hinder the development of housing finance market in Poland. Apart from USAID program, the article discussed



“Gazeta Wyborcza” published an article in which it underlined the USAID role in assisting development of housing finance in Poland. It assesses the development of Polish housing finance sector positively. It mentions USAID consultant M. Lea and quotes M. Lee on the role of TBSs in Poland. The article also features an interview with M. Lee posing difficult questions such as “Why are so few houses being built in Poland” and “How many people can really afford their own

An article in the economic magazine “Boss” is devoted strictly to regional conference. It discusses housing finance in the Czech Republic and the future role of mortgage bonds in Poland. It mentions several times the Urban Institute and Douglas.Diamond.”Warsaw Business Journal”, a magazine covering Central and Eastern Europe published an interview with William Frej, USAID mission director. Mr. Frej said high interest rates, lack of property tax and subsidized communal residences are major obstacles for development of the residential financing market in Poland. The article describes USAID’s activity in housing finance sector, especially mortgage training program for professionals and government officials. The author writes about the future of USAID offices in the region and Mr. Frej himself. The name of USAID has been mentioned 12 times in this very article.

The former communist daily “Trybuna” published an article about the Regional Conference. The critical opinion is summarized in a sentence: “the average citizen cannot afford even a downpayment to buy a one-room flat”. They think US consultants opinions are unrealistic and the worst thing, they claim, is the fact that they advise the Deputy Prime Minister Balcerowicz. The same daily is even more critical in its article

Gazeta Bankowa” utilized the materials received at press conferences in larger articles devoted to wider economic issues.

## **CONFERENCE CRITIQUE**

Overall, the Conference achieved a great deal of what it set out to do. The current state of the housing finance system in Poland has now been well publicized. The important issues and outstanding problems facing future development of housing finance in Poland were thoroughly documented and actively discussed. Poland’s successes have contributed to a better understanding of the necessary steps to reform of housing finance, which benefited understanding of lessons learned at the subsequent Regional Conference.

In two respects, however, the Conference could have achieved greater success: (1) a confirmed sense of consensus among Polish bankers and policy makers on a more detailed Action Plan and (2) a more fruitful discussion of public sector housing finance.



## **Consensus**

UIC had planned to utilize a traditional Polish approach to consensus building the Komisja Wnioskowa – or literally the conclusions committee, which UIC called the Consensus Committee. It is customary to form such committees at major conferences in Poland; the Committee assembles prior to the closing of the conference to prepare a manifesto of their view of the main conclusions, which is then presented at the close of the conference. In contrast, UIC had hoped to form a committee well prior to the conference to discuss an approach to an action plan. It had been hoped that a high level of consensus could be reached among UIC, PBA, the Consensus Committee, and USAID on the following items:

- The General Conference Concept;
- The Conference Agenda And Speakers
- The Importance Of Public Housing Finance Decisions (And The Macro-Economy) In Supporting Housing Finance
- The Future Action Plan For Housing Finance

Overall, consensus was achieved with regard to the first two items on the list. Extensive discussions were held among UIC, PBA, USAID, and government officials with regard to the conference agenda and the speakers. The last two items, however, were implemented less well than desired.

First, the proposed Consensus Committee never really came into being in the manner desired. For one thing, the GOP officials in HUDA and MOF responsible for the revised housing policies were extremely busy preparing the reform package itself. Thus, the time period before the conference was thus not an ideal period in which to try to engage in discussion over a detailed action plan. Instead, various conference organizers met midway through the second day of the conference to discuss the action plan. On the basis of this discussion and the panel discussions themselves, Michael Lee prepared a final statement regarding the action plan. In summary, however, the hoped-for level of detail regarding consensus and an ongoing action plan were actually “revealed” by the conference discussions, as noted above.

## **Government Policies**

HUDA and the Ministry of Finance certainly agreed on the third point in the consensus list above: the importance of public housing finance decisions (and the macro-economy) in supporting housing finance. The proposed housing policy reform program did, in fact, integrate public and private housing finance in a more effective and thorough than previous policies. However, the rejection of that portion of the tax package which had the most impact on the housing reforms had only just occurred before the conference. Alternative plans and proposal were not yet drawn up. As a result, a discussion of the complementarity of public and private housing finance and

the potential impact of the revised homeownership subsidy policies on the demand for housing finance, was difficult to carry out.

## **NETWORKING IN CENTRAL AND EASTERN EUROPE AND NIS**

Networking and building consensus on major themes are important products of regional exchange and of USAID's and other donors' efforts to develop effective, market-based housing in CEE and NIS. To this end, the Poland Housing Finance Project has developed a Dissemination and Networking System, which has five main elements:

- An English Website
- A Polish Website
- A Regional Professional Network
- Publication of printed Project Reports in English
- Publication of printed Project Reports in Polish

The Websites, in English and in Polish, form the core of the dissemination plan. They include the full range of housing policy and housing finance reports and issues which were addressed by the Poland Housing Finance Program and provide links to numerous professionals and institutions which make up the regional network. The Websites are designed as a resource for public, private, and independent persons and institutions interested in housing finance issues. This includes public sector housing policy officials, formal bankers associations, individual banks and bankers, and research and consulting institutions, as well as USAID and other donors active in the region.

An Advisory Panel was established for the Regional Conference, noted above, with representatives from Poland, Hungary, the Czech Republic, Slovakia, and Russia. This Panel was initiated to assist with finalization of the agenda and the goals for the Regional Conference. This Advisory Group has now been expanded to cover at least all the countries represented at the Regional Conference. Permission to post the names, e-mail addresses, and other contact information is now being sought from these individuals and from other institutions. It is hoped that this group expands into a permanent source of expertise in housing finance and that the Website can serve as at least one path of communication.

- The English Website can be found at: [www.polandhousingfinance.org](http://www.polandhousingfinance.org).
- The Polish Website can be found at: [www.kin.cc.pl/polhusfin](http://www.kin.cc.pl/polhusfin).

**ANNEX I  
CONFERENCE AGENDA**

**A DECADE OF BUILDING HOUSING  
FINANCE IN POLAND**

**Challenges at the Outset of the New Century**

**FROM STRATEGIES TO ACTION PLAN**

**Hotel Marriott, Warsaw: December 8–9, 1999**

**DAY 1: BUILDING ON SUCCESS**

**Introductions (9:00 – 9:45)**

Deputy Minister of Finance Rafał Zagorny

U.S. Ambassador Daniel Fried

Director of U.S. Agency for International Development, William Frej

Director of Polish Banks Association Krzysztof Pietraszkiewicz

**Keynote Address (9:45 – 10:40)**

**Diagnosis of the Sector: Major Achievements and Hurdles**

Sally Merrill

**From Diagnosis to Action Plan for the Next Decade**

Władysław Jan Brzeski

**Coffee (10:40 – 11:00)**

**Action Plan for the Banking Sector for Next Decade (11:00-12:30)**

Chair: Lech Gajewski

Panel: Ewa

Marek Sadowski, Joanna Wardzińska,

Leszek Trojnar, Mirosław Kowalski

Lech Gajewski: "Key Tasks for the Mortgage Lending Industry in Poland"

Commentary from Panel Members

Questions and Discussion

**Lunch (12:30 – 1:30)**

**Keynote Address: Funding and Efficiency: Global Models (1:30 – 2:00)**

Michael Lea

**Seeking Long-term Funding (2:00 – 4:00)**

Ryszard

Jach, Michael Lea, Douglas Diamond (Cardiff Consulting), Irena Herbst, Piotr Cyburt (BRE)  
Douglas Diamond: "Regional Experience with Mortgage Funding"  
Piotr Cyburt: "Mortgage Bond Issues"  
Leszek Trojnar: "Universal Banks and Long Term Financing."  
Adam  
Commentary from Panel Members  
Questions and Discussion

## **Coffee & Tea**

## **DAY 2: RISK MANAGEMENT IN THE MORTGAGE MARKET; GLOBALIZATION; ROLE OF THE GOVERNMENT IN BUILDING AN EFFECTIVE HOUSING FINANCE MARKET**

### **Risks and Risk Management in the Real Estate Financing Sector (9:00 – 10:00)**

Chair: Irena Herbst

Panel: Ewa

Jacek Łaszek,

Irena Herbst

Ewa Œleszyńska-Charewicz: "NBP Regulatory Policy for the Housing Finance Sector."

Jacek

Commentary from Panel Members

Questions and Discussion

### **Risk Management and IT (10:00 – 11:15)**

Chairman: Raymond Struyk

Panel: Robert Pruet, Andrzej Jankowski, Sally Merrill, Adam Góral, Michael Lea

Robert Pruet: "Information Technologies, US Experience."

Adam Góral: "Polish IT Products for the Mortgage Industry."

Commentary: Andrzej Jankowski

Questions and Discussion

## **Coffee (11:15 – 11:45)**

### **Global Issues: Poland, the Region, the EU, and the U.S. ( 11:45 – 12:45)**

Chairman: Paweł Pniewski

Panel: Judith Hardt, Deborah Erb, Michael Lea

Judith Hardt: "How Will EU Integration Impact Poland's Housing Finance."

Deborah Erb: "Globalization in the Mortgage Market."

Commentary from Panel Members

Questions and Discussion

**Lunch (12:45 – 1:45)**

**The Government's Vision of the Housing Market: Challenges and Tasks (1:45 – 3:40)**

Chairman: Sławomir Najmierz

Panel: Ewa

Irena Herbst, Władysław Jan Brzeski,

Sally Marrill

Ewa Bończak-Kucharczyk: "Vision for the Housing Policy for Next Decade."

Grażyna Grzyb: "Resources for Public Financing of the Housing Sector."

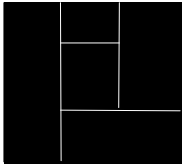
Comments from Panel Members

Questions and Discussion

**Conference Conclusions: From Strategies to Action (3:40 – 4:20)**

Lech Gajewski and Michael Lee (USAID)

**Coffee & Tea**



**THE URBAN INSTITUTE**



**CRACOW REAL ESTATE  
INSTITUTE**

## ANNEX II LIST OF SPEAKERS

NAME	ORGANIZATION
Rafa <sup>3</sup> Zagorny	Deputy Minister of Finance
Daniel Fried	United States Ambassador to Poland
William Frej	Director, USAID/Poland
Krzysztof Pietraszkiewicz	Director, Polish Banks Association
Sally Merrill	Manager, Poland Housing Finance Project, The Urban Institute Advisor to Minister of Finance
Lech Gajewski	Director, Slaski Bank
Ewa	President, Bank Supervision Agency
Marek Sadowski	Deputy Director, Legal Department, Ministry of Justice
Joanna Wardzińska	Vice-president, BISE
Miros <sup>3</sup> aw Sochaczewski	Director, Housing Department, PKO BP
Miros <sup>3</sup> aw Kowalski	Director, Bank of Industry and Trade
Michael Lea	Cardiff Consulting Services, Inc
W <sup>3</sup> odzimierz Grudziński	President, BISE
Sven-Torsten Kein	Member of the Board, Rheinhyp-BRE
Agnieszka	President, Foundation for Mortgage Credit
Leszek Trojnar	Director, PKO BP
Ryszard Jach	Vice-president, OFE- Skarbiec- Emerytura
Douglas Diamond	Consultant, The Urban Institute
Piotr Cyburt	Rheinhyp-BRE Bank Hipoteczny
Adam Michoń	Vice-president, Commercial Union Polska
Jacek Łaszek	Advisor, Bank Slaski
Raymond Struyk	Doradca w Urban Institute
Robert Pruett	RP Consulting
Andrzej Jankowski	Doradca w Banku Gospodarstwa Krajowego
Adam Góral	General Director, Comp Rzeszów S.A.
Pawe <sup>3</sup> Pniewski	Advisor, Commission for European Union Integration
Judith Hardt	Director, European Mortgage Federation
Deborah Erb	Director, MBA International
S <sup>3</sup> awomir Najnigier	President, Urban Development, Housing Department
Ewa	Vice-president, Urban Development, Housing Department
Irena Hrebst	President, National Housing Foundation
Grażyna Grzyb	Ministry of Finance
Michael Lee	Advisor, USAID/Poland



**ANNEX III**  
**LIST OF CONFERENCE ATTENDEES**

<b>LAST NAME</b>	<b>FIRST NAME</b>	<b>ORGANIZATION</b>
Bald	W. Łukasz	LG Petro
B <sup>1</sup> czyńska	Katarzyna	Knight Frank
Bernstein	Steven	U.S Department of Housing and Urban Development
Blunt	Alistair	LGPP
B <sup>3</sup> achnio	Ma <sup>3</sup> gorzata	Henry & Butcher
Bondarczuk	Jolanta	Bank Gospodarstwa Krajowego
	Ewa	HUDA
Brzeski	W <sup>3</sup> adys <sup>3</sup> aw Jan	Ministry of Finance
Burgess	Brian	Henry & Butcher
Chatsild	Peter	Lang LaSalle
Chojecka	Ewa	Kredyt Bank S.A.
Choynowski	Janet	Prime Property
Couderq-Kubas	Agnieszka	Couderq & Kubas Oncor International
Cyburt	Piotr	Rheinhyp BRE Bank Hipoteczny S.A.
Czaplicka	Irena	Bank Gspodarki ywnoœciowej S.A.
Czyżewska	Aleksandra	LGPP
D <sup>1</sup> browski	Marek	Polish Real Estate Fund
D <sup>ê</sup> bska	Monika	Knight Frank
Diamond	Douglas	Urban Institute Consortium
Dmytrow	Danuta	Miê dzynarodowa Szko <sup>3</sup> a Bankowoœci i Finansów (Katowice)
Drabikowski	Bartosz	Ministry of Finance
	Agnieszka	Mortgage Credit Foundation
Dybu <sup>3</sup> a	Micha <sup>3</sup>	The World Bank
Erb	Deborah	Mortgage Banks Association
Frej	Anne	Arthur Andersen
Frej	William	USAID
Fried	Daniel	US Embassy
Furga	Jacek	Hypo Bank Polska S.A.
Gabriel	Jolanta	European Bank for Reconstruction and Development
Gadomski	Marek	Amerbank
Gajewski	Lech	Bank ŒEI <sup>1</sup> ski
Getka	W.S <sup>3</sup> awomir	CHF/CIM
G <sup>3</sup> adysz	Grzegorz	Condominium Development Project
Gozdek	Marcin	Bank Handlowy S.A.
Góral	Adam	Comp S.A.
Gram	Manfred	Hypo Bank Polska S.A.
Gromiec	Ma <sup>3</sup> gorzata	Fundacja Warszawski Instytut Bankowoœci
Grudziński	W <sup>3</sup> odzimierz	BISE
Grzyb	Grażyna	Ministry of Finance
Hardt	Judith	European Mortgage Federation
Hegedus	Jozsef	MRI, Hungary
Herbst	Irena	Bank Gospodarstwa Krajowego
Horn	Steve	USAID
Jach	Ryszard	OFE Skarbiec - Emerytura
Jakubiszyn	Krzysztof	Chairman of EU Committee of PBA
Jankowski	Andrzej	Bank Gospodarstwa Krajowego

LAST NAME	FIRST NAME	ORGANIZATION
Jaszczot	Krzysztof	USAID
Jurek	Kazimierz	Urząd Miasta Kraków
Jurkovicova	Jarmila	Slovak Savings Bank
Sven-Torsten	Kain	Rheinhyp-BRE Bank Hipoteczny
Kalus	Andrzej	Polska Federacja Stowarzyszeń Rzeczoznawców Majtkowych
Kamiński	Witold	"Wspólnota Mieszkaniowa" Stowarzyszenie
Kamiński	Krzysztof	Center of Housing Initiatives
Kanigowski	Krzysztof	GINB
Kantecki	Antoni	Foundation of Banking Education & Research
Karac	Piotr	CREI
Kawalec	Stefan	Bank Handlowy w Warszawie S.A
Kernan	Jim	PricewaterhouseCoopers
Kirejczyk	Kazimierz	REAS
Korniowicz	Jan	IGM
Kosiński	Romuald	Bank Gospodarki ywnocciowej
Kowalski	Ryszard	Ministry of Finance
Kowalski	Marek	Polish Banks Association
Kozowski	Edward	CREI
Kroker-Jachiewicz	Magorzata	Kredyt Bank S.A.
Kruszyński	Mirosław	Urząd Miejski w Ostrowie Wielkopolskim
Krzywicka	Agnieszka	PAHB
Kudac	Zbigniew	GE Bank Mieszkaniowy
Kudroń	Stanisław	HUDA
Kuhn	Pavel	Czech Saving Bank
Laskowski	Włodzimierz	GE Bank Mieszkaniowy
Laskowski	Andrzej	Polish Chamber of Building Industry and Commerce
Lea	Michael	Cardiff Consulting
Lech	Andrzej	Fundacja Warszawski Instytut Bankowoci
Lee	Michael	USAID
Lee	Robert	GE Mieszkaniowy
Lumpkin	Stephen	DAFFE/OECD
Łaszek	Jacek	Bank Œl'ski
Łepkowski	Mikołaj	USAID
Machlejd	Michał	Bank Gospodarki ywnocciowej
Malasek	Jacek	IGPIK
Marszałek	Janusz	Polski Fundusz Nieruchomoci
Merrill	Sally	Urban Institute
Michalak	Arkadiusz	Habitat Consulting Office
Michnikowska	Katarzyna	Healey & Baker
Michoń	Adam	Commercial Union Poland
Mokosiewicz	Krzysztof	Bank Gospodarki ywnocciowej
Murat	Teresa	BIG Bank Gdański S.A.
Najnigier	Sławomir	HUDA
Narozny	Paweł	Ministry of Finance
Papieł	Renata	Akademia Ekonomiczna w Krakowie
Pazura	Ryszard	Bank Gospodarstwa Krajowego
Pfeiffer	Herbert	Slovakia, First Construction Savings Bank
Pieczkowski	Maciej	Bank
Pietrasik	Adam	PW ASMA
Pietraszkiewicz	Krzysztof	Polish Banks Association

		Komisja Polityki Przestrzennej, Budowlanej i Mieszkaniowej
Watson	Anna	Prime Property
Wieczorek	Andrzej	Państwowy Fundusz Nadzoru Ubezpieczeń
Wiesiołek	Piotr	Bank Ochrony Środowiska
Wnuk	Tadeusz	Górnośląski Bank Gospodarczy
Woodward	Richard	CASE
Zagórny	Rafał	Ministry of Finance
Zawadzki	Eugeniusz	Parliament
Zawłak	Marek	HUDA

\* Articles pending publication:

1/ "Home and Market"- report from the conference to be published in March/April

Rynek zamówień publicznych" , economic periodical, - report from the conference to be published in March

3/ "Gazeta Wyborcza", Cracow – article about Mortgage Fund : a "human factor" interview with P.Karas, CREI consultant, a borrower from Cracow, and a lender , Cracow based bank was made by the Gazeta Wyborcza branch in Cracow, but not been published yet ( journalist: G.Strzebonski)

**\* Conference materials utilized in articles in the following magazines:**

- 1/ Businessman magazine
- 2/ Murator
- 3/ Wspólnota
- 4/ "Gazeta Bankowa"

**\* TV programs:**

- 1/ Panorama – short interviews with Deputy Minister of Finance Rafał Zagórny, PBA Director Krzysztof Pietraszkiewicz, US Ambassador Daniel Fried ( showed on Dec.8)
- 2/ Polsat – report from press breakfast/ press conference; short interviews with W.J.Brzeski, Michael Lee, PBA Director, Krzysztof Pietraszkiewicz ( showed on Dec 8, 9 )
- 3/ WOT – short interviews with Jacek Łaszek, Edward Kozłowski, Krzysztof Jaszczó ( showed on Dec.20).

**ANNEX V**  
**SLIDE PRESENTATION FOR SALLY MERRILL**



# Poland: Housing Finance at the Millenium

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As Assessment of Achievements and  
Outstanding Issues

Sally Merrill, Edward Kozlowski, Jacek  
Laszek, Piotr Karas



# Poland's Successes

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- Poland may have the most effective system of housing finance among transition nations
- Competition is effective and growing
- Mortgage portfolio grown 6-fold from the end of 1996 to mid-1999
- More purchasers use mortgage loans than in other transition countries

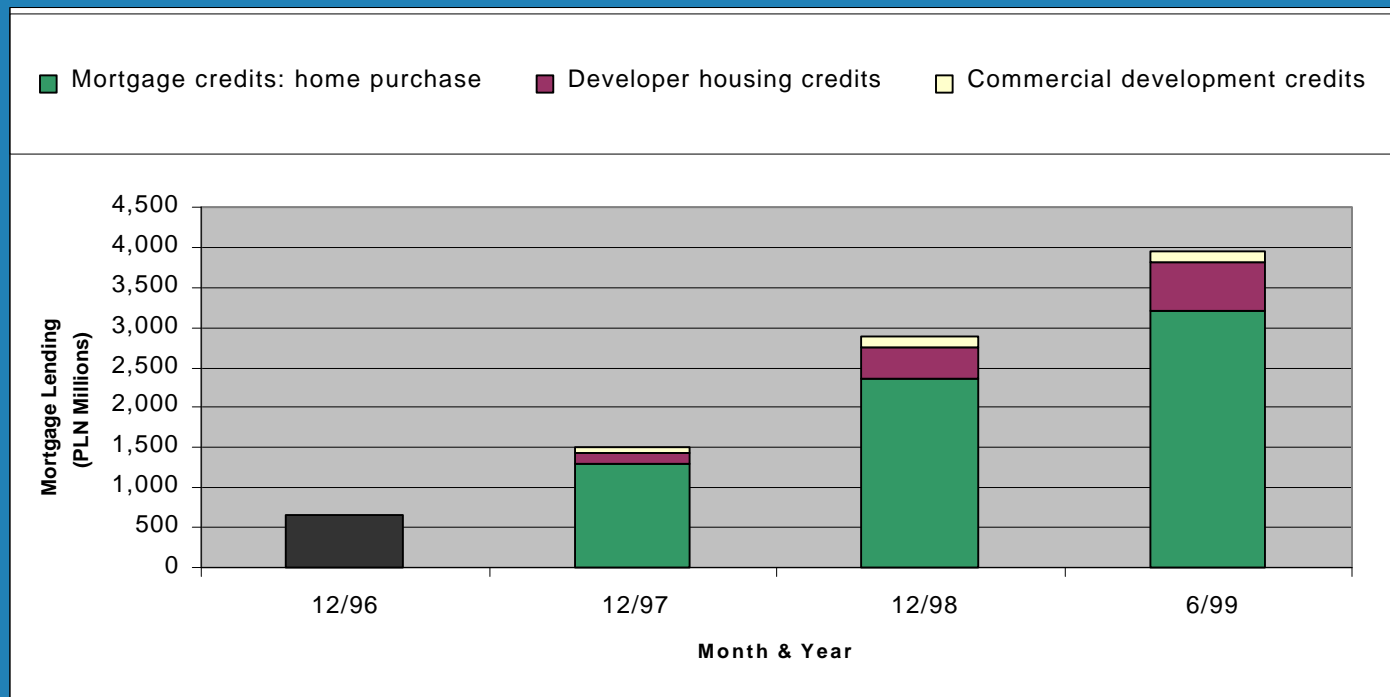




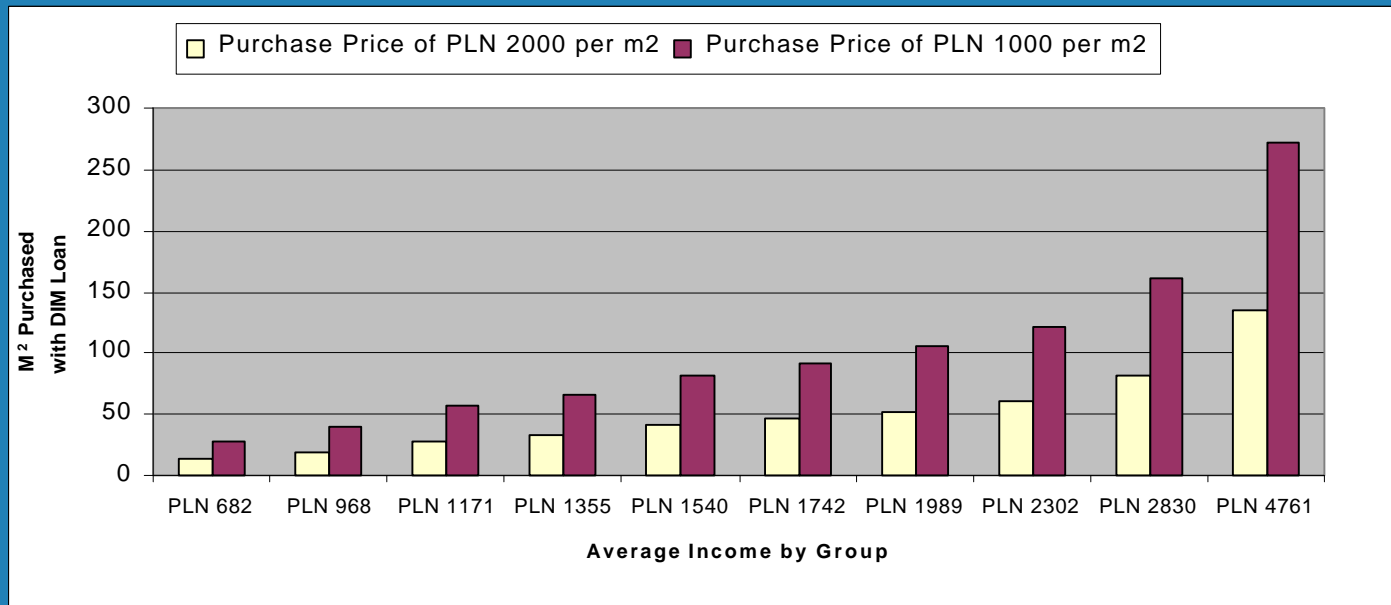
# Poland's Keys to Success

- ⊗ Banking sector reform
- ⊗ Effective macroeconomic policies
- ⊗ Growing competition
- ⊗ Innovative mortgage products
- ⊗ Strong support institutions (PBA, NBP)
- ⊗ Technical assistance and global outreach

# Growth in Mortgage Lending



# Affordability: How a Loan Helps





# Efficiency Criteria for Housing Finance in Transition Nations(1)

- Competitive structure
- Adequate legal and administrative framework
- Variety of loan products and terms
- Increasing utilization of housing finance
- Public subsidy policies compatible with market-based housing finance



## Efficiency Criteria (2)

- Information systems, databases, & analysis
- Adequate measurement of risk
- Adequate pricing of risk
- Adequate sharing of risk
- Regulation and supervision of risks specific to housing finance



# Measuring Efficiency

- Spreads & Real Rates
  - lending rates vs. deposit rates
  - lending rates vs. inflation
- Intermediation Efficiency: “Institutional, transactional, subsidy, and risk allocation arrangements with lowest total cost of providing housing credit”
  - lending rates vs. Government paper

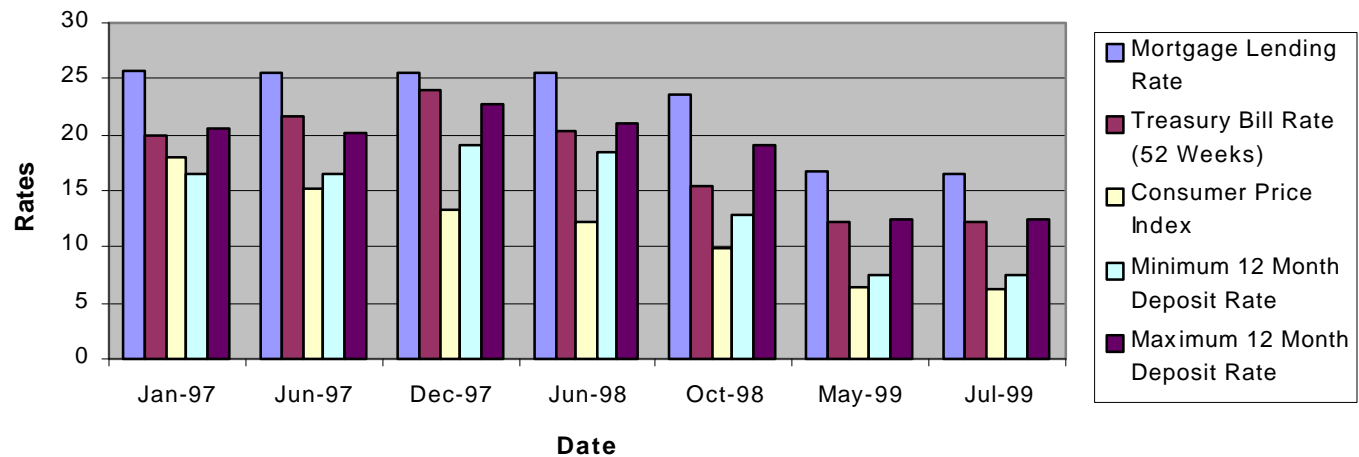


# Gap Analyses

- How do lending rates compare with the cost of funds?
- How do lending rates compare with Treasury bill rates?
- How do lending rates compare with inflation?
- How does Poland compare with the U.S. and Europe?

# Interest Rates

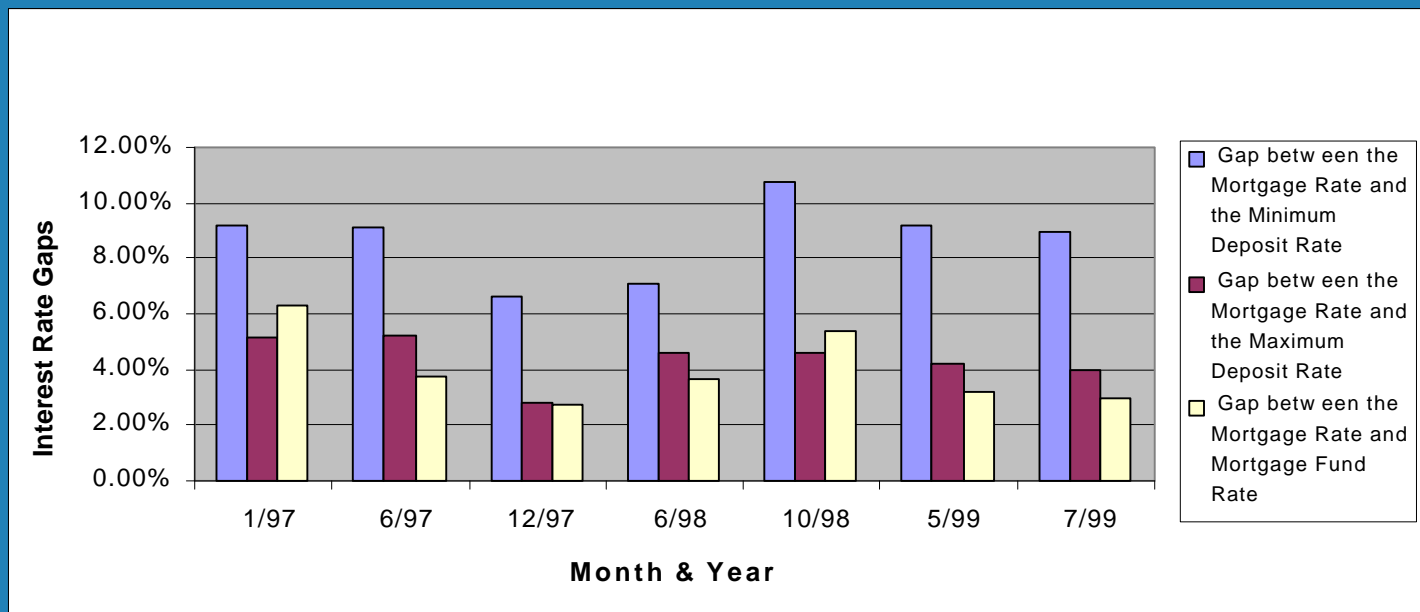
## Comparison of Interest Rates



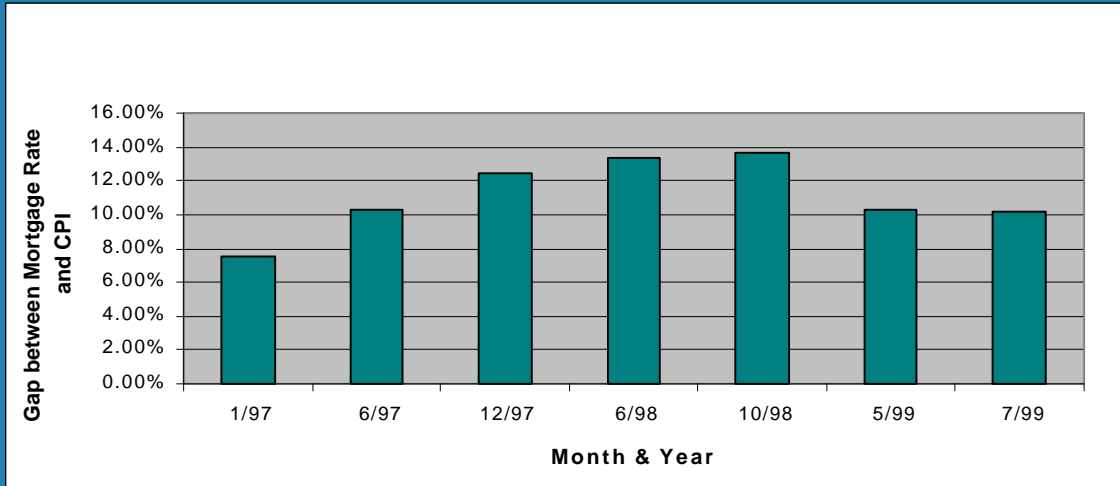




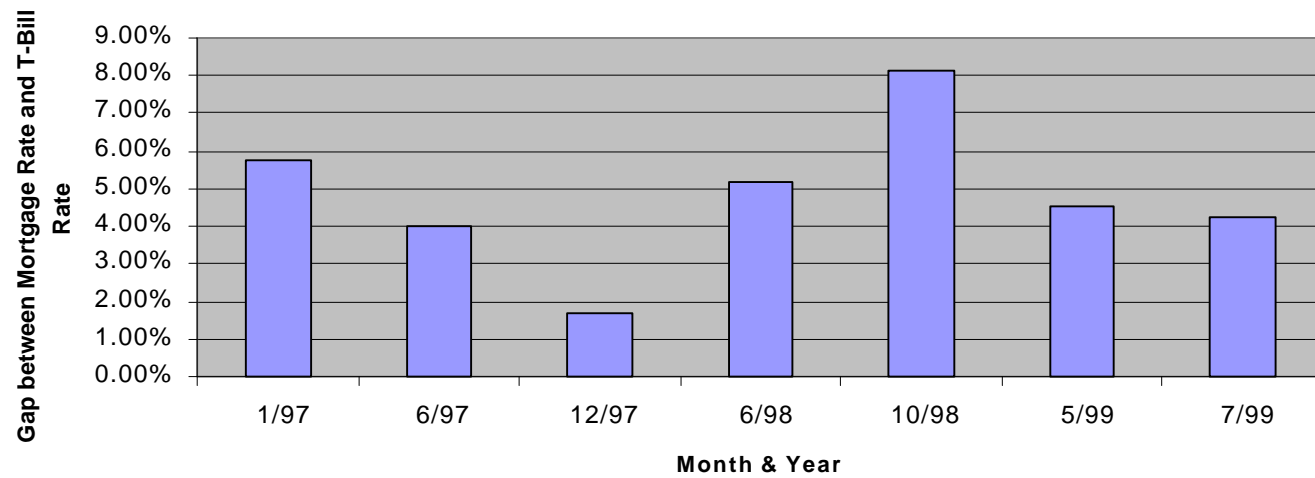
# Spreads/Relative Cost of Funds



# "Real Rates"



# Intermediation Efficiency





# Issues in the new Millenium

- Institutional Structure
  - funding housing finance
  - level playing field
- Global Evolution of Housing Finance
- Risk Management
  - improved regulation and supervision
  - risk management and analysis
- Increasing Utilization of Housing Finance: a public/private partnership



# Key Issues for Efficiency

- Better operational efficiency
- Better risk sharing among banks, households & others
- Better risk analysis & management
- Banks/PBA
- GOP legal reforms
- consumer attitudes
- private sector
- GOP, banks, and PBA

# Risk Management & Analysis

Type	Macro	Legal	Credit	Liquidity
Banks		A,M	A,M	A,M
PBA	A	A	A	A
GINB	A,M	A,M	A	A
HUDA	A	A		
Research Institution	A	A	A	A
MOF	A,M	A,M		

M = manage

A = analyze



# Key Questions for Utilization

- Macroeconomics
- Lower real rates
- Marketing & consumer services
- Best use of public funds
- Government
- Banks & Government
- Banks
- National Government, Gminas, & Households





Poland has achieved remarkable  
success

A concerted approach to information  
and analysis, risk-sharing, a level  
playing field, and broad market  
incentives -- by both banks &  
Government - will consolidate this  
progress

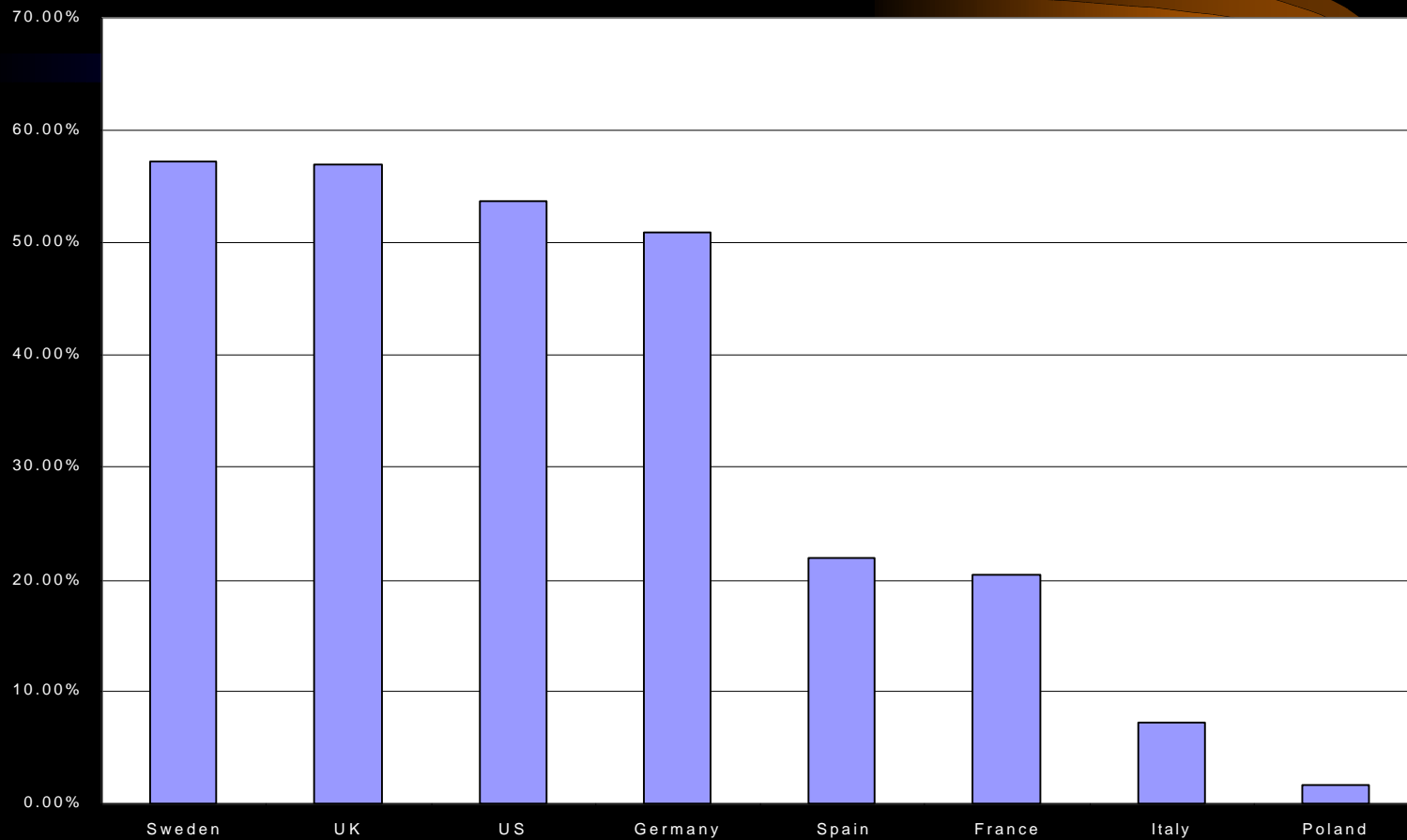
**ANNEX VI**

**SLIDE PRESENTATION FOR MICHAEL LEA**

# *Housing Finance in Poland: Current Status*

- During the Last 3 Years There Has Been an Upsurge in Interest in Housing Finance
  - # banks making mortgage loans has increased from 4 in 1996 to over 30 today
  - lending volume has doubled each of last 4 years
- But Housing Loans as a Share of Banking Assets and the Size of the Economy Are Small
  - Only 1% of banking assets
  - Only 1.6% of GDP

# *Relative Mortgage Market Size*



# *Models for Provision of Housing Finance in Poland*

- Over the Past Few Years Creation of New Mortgage Institutions or Funding Models Has Been Proposed
- *Question: What Is the Appropriate Model?*
- Purpose of This Presentation is to Review the Major Housing Finance Models, Point Out Their Strengths and Weaknesses and Assess Their Role in the Future Development of Housing Finance in Poland

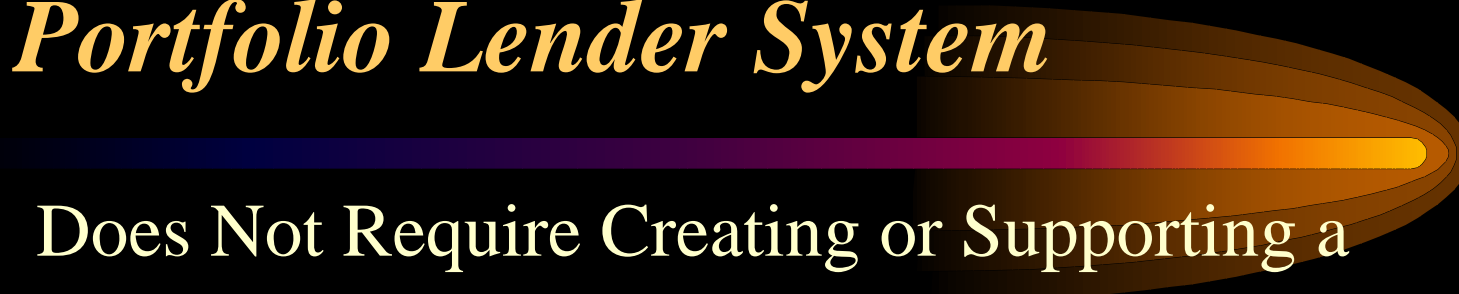
# *General Rules About Borrowing Models from Other Countries*

- Has the Model Been Tested by Adversity?
- Has the Model Been Protected From Competition?
- Did the Model Have Government Support?
- Does the Model Require Legal, Cultural or Technological Conditions You Don't Have?

# *Banks and Housing Finance*

- Traditionally Banks Have Not Been Major Sources of Funds for Housing
  - Business and payments focus
  - Concern about liquidity risk inherent in funding long term loans with short term deposits
- Recently, Banks Have Become Major if Not Dominant Providers of Housing Finance
  - Loss of traditional business
  - Increased retail orientation
  - Improved ability to manage funding risk

# *Strengths of Diversified Portfolio Lender System*



- Does Not Require Creating or Supporting a New Type of Institution
  - Banks have been privatized and are competitive
- Better Diversification of Risks
- Ability to Cross-sell Other Financial Products
- Diversified Funding Sources
  - Deposits
  - Bonds and MBS



# *Weaknesses of Diversified Portfolio Lender System*

- Lack of Focus
  - Marketing, risk management
- May Be “Fair Weather” Lenders
- Reliance on Retail Deposits May Limit Product Type and Asset Allocation
  - Prefer variable rate loans
  - May limit % of assets to manage liquidity risk
- Some Banking Systems Have Experienced Problems Due to Housing Lending

# *Housing Finance Provision by Banks in Poland*

- Rapid Recent Growth Indicates Strong Interest in Market (still only 1% of assets)
  - Both demand and supply should improve as economy stabilizes
- Lack of Long Term Funds a Constraint
  - Could issue bonds but at higher cost than deposits
- Credit Risk Concern
  - Lack of information on borrowers, properties and weak legal status of the mortgage

# *Mortgage Bank Model*

- Specialized Portfolio Lenders Funded With Mortgage Bonds
  - Specific and extensive regulation
  - Conservative loan underwriting
- Investors Have Priority Claim on Collateral in Event of Bankruptcy
- Bond Is Liability of Issuer
  - Credit enhancement by capital of issuer
  - Assets remain on balance sheet

# *Strengths of Mortgage Bank System*

- Specialized Institutions May Be Viewed as Lower Risk to Investors
  - More transparent
  - Separate and specialized regulatory focus
- Specialized Institutions May Be More Focused on Market (no alternatives)
- Ability to Tap Capital Market Funding
  - Source for longer term, fixed rate funds
- Tested Model in Europe
  - 200+ Years in Germany, Scandinavia

# *Weaknesses of Mortgage Bank System*



- Requires New Type of Institution and Legal/Regulatory Framework
- Will Investors View Specialized Mortgage Banks as Lower Risk?
  - Diversified institutions do not have “all eggs in one basket”
  - Mortgage not viewed as strong collateral
    - But statutory lien priority eliminated

# *Mortgage Banks in Poland*

- Mortgage Banks in Poland
  - Growing private pension and insurance funds
  - But these investors need regulatory approval to invest
- Do We Need Mortgage Banks to Issue Mortgage Bonds?
  - Is Credit Enhancement by Mortgage Bank Superior to that of Commercial Bank
    - Importance of foreign partners
  - Additional Costs of Separate Institution
    - The French “Virtual” Mortgage Bank

# *Contract Savings for Housing*

- CSH Programs Make Housing Loans Contingent on Completing a Savings Plan
- Savings Phase
  - Contract to save specified sum
  - Required savings period is usually 3+ years
  - Interest rate fixed, below market rate on other savings
  - Contract may contain a savings subsidy
    - Bonus interest when contract is fulfilled
    - Preferable tax treatment

# *Contract Savings for Housing (con'd)*



- Loan Phase
  - Loan a second (i.e., supplemental) mortgage
  - Interest rate is fixed at a spread over savings rate, below market rate on other loans
  - Loan amount a specified multiple of amount saved
  - Guaranteed future loan availability is option to obtain loan at predetermined interest rate
  - Timing of availability can vary -- may be contingent on funds availability



# *CSH in Poland*



- Two Systems
  - *kasa mieszkaniowa* system: Fund run by banks with tax deduction for savings
  - *kasa budowlane* system: Specialized institutions offering CSH with lump sum grant from govt

## *Strengths of CSH*

- Dedicated Pool of Funds for Housing
  - Attractive (below-market) loan rate
- Reduced Credit Risk
  - Savers signal low risk through savings behavior (ability to save => ability to repay)
- Guarantee of Loan is Savings Incentive
  - Encourages savings discipline
  - May increase aggregate savings

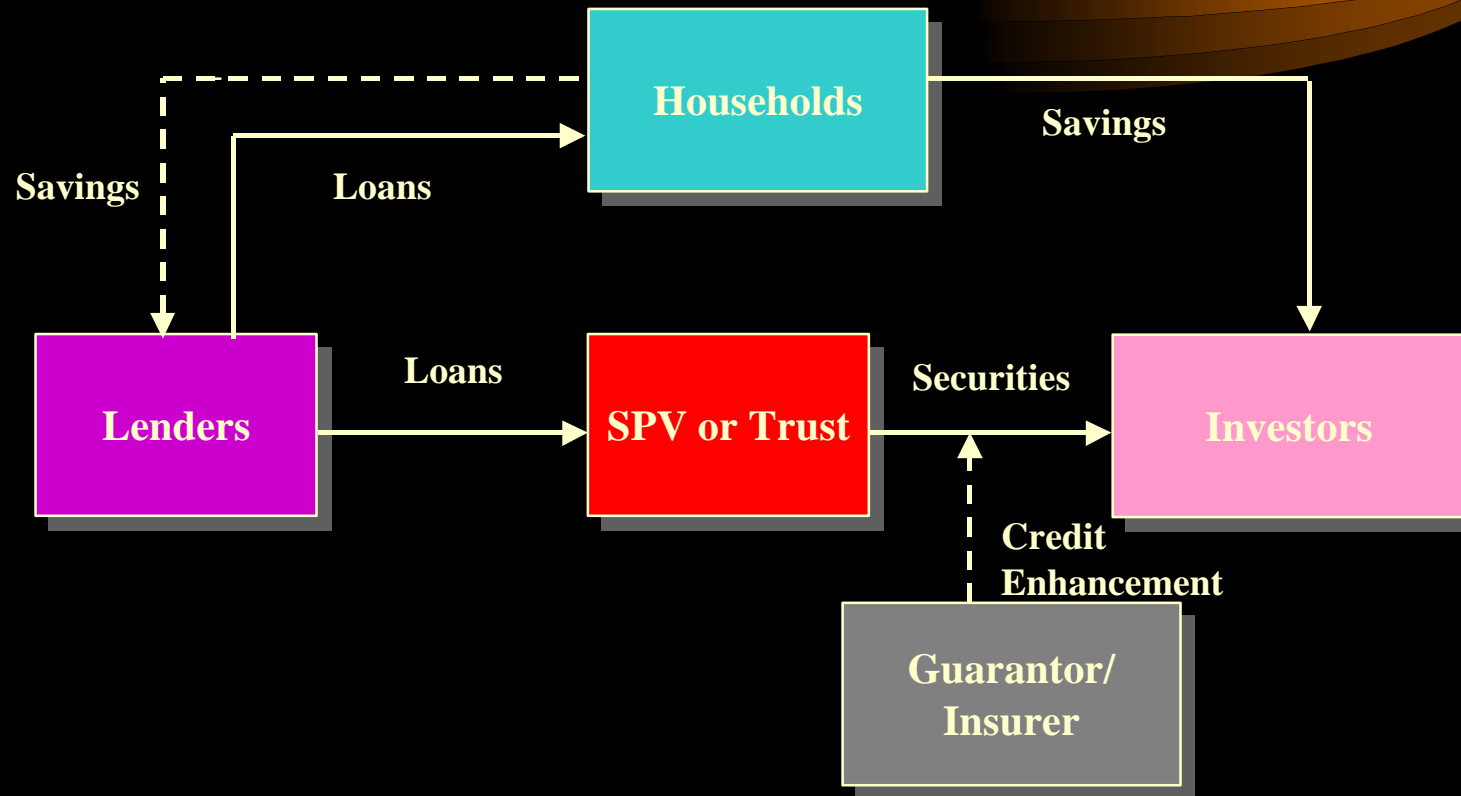
# *Contract Savings in Poland*

- **Subsidy Dependent Systems**
  - *kasa mieszkaniowa* tax subsidies regressive
  - *kasa budowlane* subsidies quite high: 1%+ of government budget and untargeted
    - Government can subsidize savers directly
    - Administrative cost may be higher
- **May Delay Development of Broader Housing Finance System**
  - Supplemental system (inflation erodes value)
  - Defer purchase to qualify for subsidy

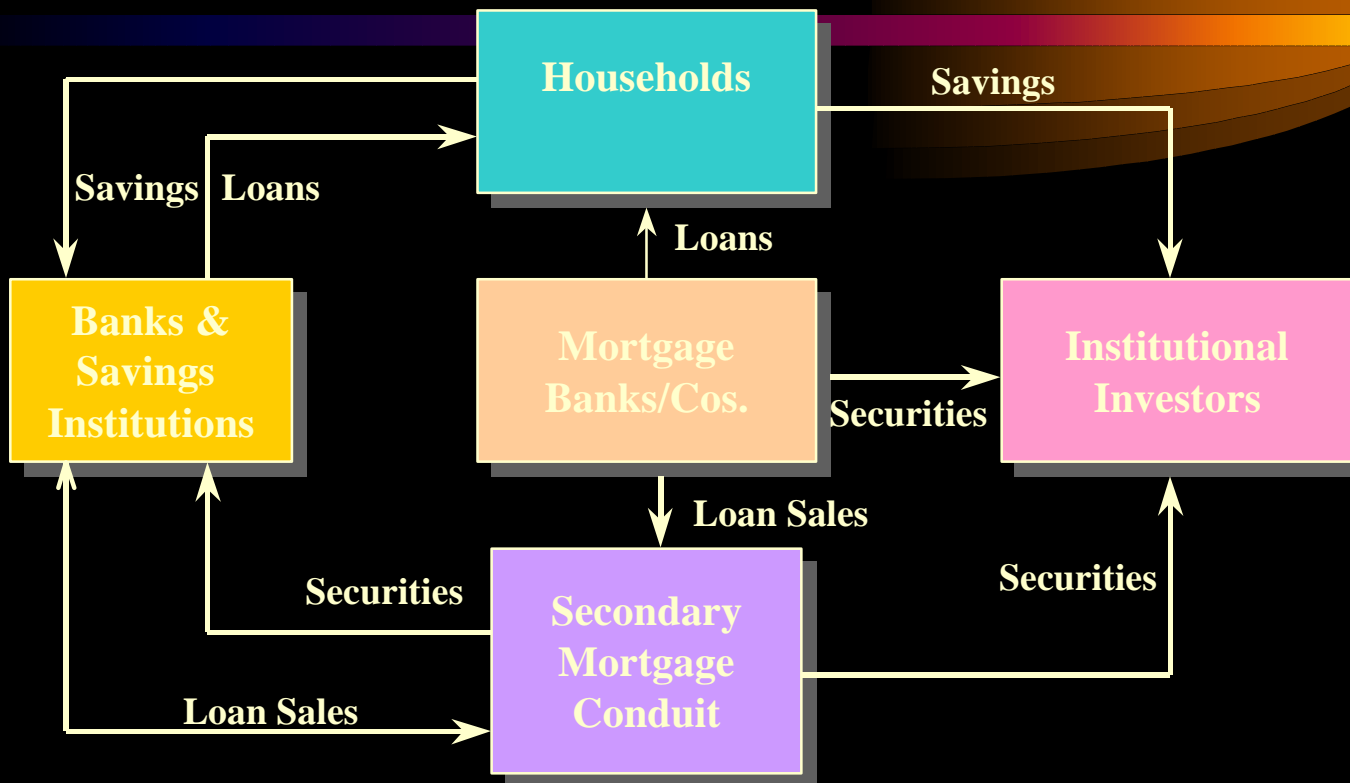
# *Secondary Market Model*

- Secondary Markets Transfer Existing Claims (new or seasoned loans)
- Secondary Market Mechanisms
  - Direct sale of loans/MBS
  - Conduits (purchase loans, issue pass-through securities)
- Types of Instruments
  - Whole loan sales
  - Mortgage-Backed Securities

# *Secondary Market Direct Sale*



# *Secondary Market Conduit*



# *Secondary Market Prerequisites*



- Primary Market Infrastructure
- Legal and Regulatory Infrastructure
- Capital Market Infrastructure
- Credit Enhancement Mechanism

# *Strengths of Secondary Market System*



- Method to Tap Capital Markets
  - Source of long term and fixed rate funds
- More Effective Funding Risk Management
  - Capital market source of long term funding
  - Necessity to sell=>better pipeline risk management
- Greater Competition in Origination
- Greater Efficiency through Specialization



# *Weaknesses of Secondary Market Model*

- Requires New Legal/Regulatory Framework
- Requires Well Developed Primary Market
  - Degree of standardization, info, servicing capabilities
- Requires Credit Enhancement
  - MBS not guaranteed by issuer
  - Investors depend on third parties to originate and service
- Requires Established Capital Market
  - MBS more complex instruments than government bonds

# *Is Poland Ready for a Secondary Mortgage Market?*

- Primary Market Still in Development
  - Lack of standardization, volume
- Investor Base Being Created
  - Pension and insurance funds logical investors
- Legal and Regulatory Infrastructure Not in Place
  - Trusts, Transfer of Ownership, Regulatory treatment of securities
- Are There Motivated Sellers?
  - Relatively expensive source of finance
  - No significant capital constraints

## *Liquidity Facility Alternative*

- Secured Lender, Centralized Bond Issuer
  - Minimal credit risk: Lend on over-collateralized basis or purchase on recourse
- Can be Simpler Model than True Secondary Mortgage Market
  - Only requires transfer in event of default
  - Can issue simpler, more standardized securities
- Mortgage Fund in Poland a Proto-type
  - Lack of demand for funds
  - Legal issues regarding security of liens

## *Summary*

- There Is No “Ideal” Housing Finance Model
- The Appropriate Model Will Depend in Large Part on the Pre-conditions in a Country
  - Primary market conditions
  - Legal and regulatory environment
- Appropriate Model Must Be Sustainable on Economic Fundamentals -- Not Government Support
- Goal: Efficient and Stable Housing Finance System
  - Efficiency: Low spreads, competition, variety
  - Stability: Plentiful supply of funds through econ. cycle
    - Need diverse sources of funds