

**REGIONAL CONFERENCE  
ON HOUSING FINANCE:**

**BUILDING HOUSING  
FINANCE IN CENTRAL AND  
EASTERN EUROPE:  
SHARING AND COMPARING**

**DECEMBER 10, 1999  
WARSAW**

Prepared for



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**SUMMARY AND OVERVIEW**

The Regional Conference on Housing Finance was a one-day regional workshop for policy makers and practitioners involved in housing finance and housing finance policy throughout Central and Eastern Europe (CEE), Russia, and the Newly Independent States (NIS). A group of countries with relatively advanced systems of housing finance, the Czech Republic, Hungary, Poland, Russia, and Slovakia shared their experiences with participants from Bulgaria, Romania, Albania, Armenia, and Kazakhstan.

The conference, which was co-sponsored by the United States Agency for International Development (USAID) and the Polish Banks Association (PBA), was the second portion of the closing events of USAID's Poland Housing Finance Program, undertaken on behalf of USAID by the Urban Institute Consortium (UIC).<sup>1</sup> On December 8 and 9, a final conference discussing the issues surrounding both private sector housing finance and public sector housing policies—"A Decade of Building Housing Finance in Poland: Challenges at the Outset of the New Century," was held to celebrate the achievements of nearly a decade of development of the Polish housing finance sector.<sup>2</sup> This conference was also sponsored by USAID and the PBA, and included the participation of the Housing Finance Project's other counterparts in Poland i.e., the Housing and Urban Development Agency, the Ministry of Finance, and the Foundation for Mortgage Credit. Most of the speakers for the Regional Conference and a number of the participants also attended this final conference on Poland, which allowed them the opportunity to assess the various actions important to achieving success in housing finance and to gain some perspective on the evolution of factors in the development process.

Keynote papers were prepared for both conferences. The Regional Conference keynote - "The Transition in Housing Finance In Central Europe and Russia: 1989 – 1999" – was prepared by Douglas Diamond, and describes and analyzes the evolution of housing finance in Poland, Hungary, the Czech Republic, Slovakia, and Russia

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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 Services, and numerous Polish, U.S., and European consultants. UIC is managed by Sally Merrill of the Urban Institute.

<sup>2</sup> Please refer to the companion final report for this conference: Sally Merrill, "Final Report: A Decade of Building Housing Finance in Poland: Challenges at the Outset of the New Century".



during the last decade.<sup>3</sup> The keynote papers for the Poland conference are “Poland: Housing Finance at the Millenium: An Assessment of Achievements and Outstanding Issues” prepared by Sally Merrill with the assistance of Edward Kozlowski, Piotr Karas, and Jacek Laszek, and “Global Models for Funding Housing: What Is the Best Model For Poland?” prepared by Michael Lea.

The Regional Conference sought to summarize the major themes of development in the more advanced participant countries – mainly Poland, Hungary, the Czech Republic, and Slovakia – in order to define common visions of the future development of housing finance, and to provide the other participant countries with lessons learned. The major themes included the institutional structure of housing finance in the advanced countries, the emergence of competition in housing finance, the role of funding from the capital market, the impact of subsidies on the mortgage market, and the role of the Buaspakassen – the contract savings system developed in Germany. These themes are clearly inter-related and a large part of the discussion centered around the competitive roles played by universal bank, mortgage banks, and contract savings systems, the best structure for mortgage banks, and the future of mortgage bonds, or other modalities, for funding housing finance from the capital market. In addition, the president of the EMF provided a commentary on the impact of the EU on the housing finance markets of its members and possible impacts in the transition countries.

The conference then turned to the participants from the southern tier countries. The key delegate from Romania presented an assessment of Romania’s problems in developing housing finance and the struggle of the government policy makers to devise a viable subsidy system in the face of high inflation and severe budget constraints. Delegates from Bulgaria, Albania, and Kazakhstan then discussed recent developments, which will hopefully launch broader housing finance development in their countries. The conference closed with suggestions on how to move housing finance forward to the next stage based on lessons learned from the experiences of the advanced countries.

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<sup>3</sup> The keynote paper for the Regional Conference was prepared by Douglas Diamond, on behalf of USAID, during 1998 and 1999. The chapter on Russia was prepared by Nadhezda Kosareva and added to the paper for the Regional Conference.



## **Goals of the Regional Conference**

The long-term goals of the Regional conference are two-fold:

- To yield insights that can be used to advance the development of housing finance in CEE and NIS countries, especially with regard to lessons learned for transition countries in the initial stages of developing market-based housing finance systems.
- To encourage continuing communication within the region in this regard through developing a lasting professional network of housing finance practitioners and experts. The networking plan, supported primarily through a Website, features a Policy Advisory Group with representatives from all the countries attending the Regional Conference (please see below for a description of the networking system).

The process of building housing finance in many CEE countries has benefited less from the experiences of their neighbors than is desirable. Rather, the policy and lender professionals have looked to Western countries and donors for information and models.

Now that many of the building blocks are in place in the advanced countries of CEE, there appears to be a substantial amount of interest in learning about developments in these countries, particularly with regard to comparing problems and sharing solutions. The remaining challenges throughout CEE and NIS share a great deal in common. While there is still much to be learned from Western Europe and the United States, regional solutions are now especially important and pertinent. USAID and the Urban Institute Consortium are very interested in distilling those region-wide perspectives and experiences which are most useful, especially for the southern tier countries and others with major challenges remaining with respect to developing market-based housing finance systems.

In summary, the Conference was able to bring together members of the housing finance community from the most advanced countries with respect to their banking systems, macroeconomic progress, and specific features of their housing finance systems, Poland, Hungary, and the Czech Republic with delegates from countries who do not yet have all the building blocks in place. It is also hoped that the networking plan put in place following the Poland and Regional Conferences will assist those elsewhere in CEE and NIS.



## ***The Keynote Paper***

The Keynote report describes and analyzes the past and near-term prospects for housing finance in Russia and four Central European countries (the Czech Republic, Hungary, Poland, and Slovakia). The focus is on the policies, institutions, and forces shaping the market today, but the starting points and transition process are also covered.

There are three major conclusions about housing finance in the Central European countries. First, the four Central European countries described in the paper have addressed similar issues in developing the institutional structures for their new housing finance systems, although the roles of universal banks, mortgage banks, and contract savings systems differ in each country. Second, it appears that home buyers in Central Europe are so far unusually reluctant to borrow, even at subsidized low real rates, unless rates are subsidized below the return on bank deposits. However, the growth of the mortgage market seems to be accelerating in Poland. Third, the Bausparkassen-type institutions, which have been very popular, will not provide the sorts of public benefits expected. There is concern on the part of the author, however, that they may supplant mortgage banks or commercial banks as the primary housing lenders in all countries other than Poland; this is especially a concern in Slovakia.

The housing finance sector in Russia appears to have made greater progress towards market-based operation than the economy as a whole. Partially due to persistent USAID-funded technical assistance, the sector is poised to develop rapidly whenever the macroeconomic conditions grow more supportive of long-term lending. The system's structure differs from that in the CEE countries; the role of the commercial banks and the secondary market institutions more closely resembles the U.S. system than the European mortgage banks and Bausparkassen.

## ***Summary of the Keynote Address***

Representatives of the Conference gave opening remarks. Co-sponsors Michael Lee, who has been USAID's director of the Poland Housing Finance Project since its inception in October 1996, and Krzysztof Pietraszkiewicz, General Director of the Polish Banks Association, which has been a supportive counterpart for the program for two years. Douglas Diamond, the conference manager, then set forth the main themes of the conference. His slides are provided as Annex III. Mr. Diamond's presentation began





with a brief chronology of the development of housing finance in the Czech Republic, Slovakia, Hungary, and Poland from 1990 to the present. In summarizing the developments, he noted the commonalities of development across these four countries:

- Some degree of competition, with Poland and the Czech Republic having the most and benefiting with lower spreads, more mortgage products, and more marketing.
- Development of a mortgage banking system which can access funds from the capital market. The Czech Republic is most advanced in this regard, although it is not yet of much assistance to the sector, since mortgage bonds are not currently an attractive source of funding (as compared with deposits).
- Although all the countries have a system of subsidized contract saving, Mr. Diamond, (and UIC generally) feels that these are an inefficient and relatively costly method of subsidizing housing.

Market-based borrowing for housing has nowhere been widely accepted by consumers. However Poland where only about one-in-five purchasers of a new home now obtain a mortgage loan, has a higher rate of utilization than elsewhere, where transactions are likely to be all cash or a combination of cash and subsidies. The reasons for this low utilization are not fully clear. High real interest rates do not appear to be the major problem. Among the hypotheses which might explain the low demand for mortgage lending are the reluctance of households, previously accustomed to paying a very small fraction of income on housing, to now pay 25 to 30 percent of income on a mortgage loan; in addition, their willingness to borrow may currently be pre-empted by the demand for other consumer durables, particularly cars.

Finally, with regard to the main challenges to housing finance in CEE and NIS, Mr. Diamond notes the following:

- Completion of the process of bank privatization and rationalization.
- Expansion of the market through lower costs (improving efficiency and cutting margins), better marketing, more aggressive underwriting, and new products, such as home equity lending.
- Less low income lending by the public sector.
- Increased privatization of flats.
- Curtailment of the contract savings schemes by not increasing account size.
- Continuing to address the issues involved in access to the capital market and institutional investors.



## ***Summary of Issues Addressed by the Regional Speakers and Participants<sup>4</sup>***

In addition to the themes specifically cited in the agenda, several related themes were introduced. Thus, the list of issues discussed by the speakers and/or the panel chairs include the following:

- Competitive pressures in mortgage markets;
- The institutional structure of mortgage banks;
- The advantages and disadvantages of specialization;
- Funding through mortgage bonds;
- The role of the European mortgage federation; and
- The role of the Bausparkassen and other contract savings institutions.

### **Competitive Pressures in Mortgage Markets**

As discussed below with regard to lessons learned, the development of competition in the banking sector generally is one of the most crucial developments in proceeding to a market-based and cost-effective system. Competition in housing finance among lenders in CEE takes place primarily among universal banks, mortgage banks, and contract savings institutions (which generally benefit from government subsidies); the institutional configurations from country to country differ somewhat, however. At present, Poland and the Czech Republic have the most competitive markets. Universal banks dominate in Poland, where the mortgage banks are just now obtaining their licenses; thus in Poland, maintaining a level playing field between universal and mortgage banks is an important goal. In contrast, in the Czech Republic six mortgage banks compete for the real estate lending business primarily with each other and also with the contract savings institutions.

In Slovakia and Hungary, however, competition is less developed. In Hungary, the former state savings bank, Országos Takarékpénztár És Kereskedelmi Bank Rt. National Savings Bank (OTP), is still dominant; Mr. Csomos of the Land and Mortgage Bank in Hungary noted that OTP still holds over 90 percent of the mortgage loans. In Slovakia, Buaspaarkassen predominate, and, as discussed, may in fact limit the emergence of market-based lending.

Mr. Peter Cyburt of BRE Bank in Poland indicates that competition is likely to be strong among universal banks and the new mortgage banks in Poland. In several

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<sup>4</sup> Please refer to the Agenda for the Regional conference, presented in Annex I, which notes the themes and speakers for the conference. The speakers at the Regional Conference were from key financial institutions or in key positions in policy making. They were selected because they are both well informed about the experiences in their country and are in a position to discuss these issues with their fellow participants.



years, the excess liquidity now supporting the mortgage lending of the universal banks in Poland is likely to disappear. However, the current macroeconomic environment makes it difficult for mortgage bond funding to be competitive. (I would also add that the very large spreads between deposit rates and lending rates in Poland are also a key factor in making bond financing uncompetitive at present.) Mr. Pavelka of the CMMB Mortgage Bank in the Czech Republic, noted the intense competition among the six mortgage banks there, particularly among the top three, and emphasized the important role that marketing and good service could play in this situation.

### **The Institutional Structure of Mortgage Banks**

One of the main institutional issues that has arisen in CEE is the structure of mortgage banks—whether they should be structured as specialized institutions, as in Poland and Hungary, or can be embedded in a universal bank as is possible in the Czech Republic and Slovakia. Specialization, as stressed by Mr. Pavelka, permits concentration on mortgage lending, high quality service, quick solutions for complicated requests, and different combinations of mortgage products together with savings or insurance, for example. Mr. Diamond, however, was somewhat less sanguine about the future of mortgage banks, noting that while mortgage bonds may continue to exist as a means of funding, perhaps mortgage banks are not relevant in the long run.

Funding through Mortgage Bonds and Other Capital Market Funding. Capital market funding is in its infancy in the region. Although access to long-term funds is an important medium-term goal, funding is now largely done through deposits. Currently, throughout the region, it appears that funding through deposits is less costly than through the issuance of mortgage bonds, as noted for Poland above. Universal banks are quite liquid in several CEE countries; thus, deposit rates (and thereby spreads) can remain low. Even with a relatively small margin therefore (200 basis points, for example) mortgage bond has difficulty being cost-effective. Similarly, the Mortgage Fund in Poland, which is a liquidity facility providing wholesale funds to eligible mortgage products, is not cost-competitive at present. (I would suggest that this situation could change, however, as competition forces spreads to decrease and local investors become both more familiar with instruments such as mortgage bonds and look for alternatives to government paper.)

As discussed by Nadezhda Kosareva of the Institute for Urban Economics (IUE) in Russia, the Housing Mortgage Lending Agency (HLMA), which is also a liquidity facility, was established to provide refinancing of mortgage loans to enhance banks' liquidity. However, since this approach represents "on-balance sheet" funding (as does mortgage bonds and the Mortgage Fund mentioned above), banks retain all the credit risk. Although this is a common approach to funding, given the macroeconomic



conditions in Russia at present, the banks cannot predict nor price this risk and ruble-based mortgage lending is essentially at a standstill.

Finally, securitization, which is an alternative to mortgage bond funding and/or liquidity facilities (this can be described as “off-balance sheet” funding), has not yet been frequently discussed in the CEE countries. Only in Russia have plans for institutionalization of the securitization approach been initiated, but again, implementation must await greater stability.

### **The Impact of Subsidies on Mortgage Markets and the Role of the Bausparkassen and Other Contract Savings Institutions**

A wide variety of subsidy systems are represented in CEE countries, and subsidies have had, and still do have, a major role in funding housing. Subsidies have generally taken the form of interest rate reductions, tax credits, and grants or tax credits tied to contract savings systems. Throughout the region, debates over alternative subsidy systems have addressed some or all of the following Issues:

- The importance of subsidies in the system (and consequently the proportion of the government’s budget allocated to housing subsidies)
- Whether and how to target those most in need
- The cost and/or ease of subsidy delivery
- The efficiency of the response to the subsidy
- The degree of compatibility with a market-based housing finance system

Jozsef Hegedus, from Metropolitan Research Institute (MRI) in Hungary discussed the disadvantages of regressive subsidies in Hungary, and noted the high tax avoidance accompanying a housing subsidy system where over 30 percent of subsidies are conveyed through the tax system. One solution suggested by Mr. Hegedus was that local governments are better able to target subsidies, as opposed to the Bauspar system, for example, which is not targeted and aims at the middle class and higher.

Bausparkassen have been very important players in the mortgage markets of Slovakia and the Czech Republic for some years, and many savers are now eligible for mortgage loans. Bausparkassen also provide the institutional approach for contract savings in Hungary. In Poland, in contrast, the Bausparkassen legislation is more recent and may in fact be revoked; Poland has its own contract savings system, and is now in the process of modifying it. Herbert Pfeiffer, representing the First Construction Savings Bank in Slovakia (a contract savings institution), noted that while increased targeting is important and is being discussed in Slovakia, it is difficult to muster sufficient political support. He noted that Slovakia needs a better legal framework for



development of its housing finance system and strategic planning for its subsidy system. Jarmila Jurkovicova, from the Slovak Savings Bank, also emphasized that subsidies were a highly political issue, and thus policy makers face difficulties in designing effective systems.

The goals and form of subsidization of housing has recently been the subject of much debate in Poland, as revisions to the form and goals of the housing subsidy system have been integral to Government plans for restructuring the tax system. One of the goals that Poland had sought for its housing subsidies was better targeting, as discussed by W.J. Brzeski, who is real estate advisor to Minister Balcerowicz. Mr. Brzeski discussed Poland's original contract savings system, which is lodged in Poland's universal banks, as contrasted with the Bauspar system, which depends on new, for-profit institutions. Under any circumstances, however, contract savings systems can pose both liquidity and budgetary risks. In response to these concerns, the Bauspar legislation is likely to be rescinded in Poland and the original contract savings system modified.

Finally, Mr. Diamond expressed concern that the Buasparkessen can drain away demand for market-based loans, and will thus retard the development of market institutions. As noted, this is certainly a concern in Slovakia, and also in the Czech Republic. Mr. Diamond and the UIC generally, support the view that contract savings systems are an inefficient, costly, and regressive system for delivering housing subsidies.

### **Comments on the European Mortgage Federation (EMF)**

Judith Hardt, President of the EMF, provided both conferences with comments on the impact of the EU on Housing Finance and the role of the EMF. Ms. Hardt noted that the Euro has in fact done more for the integration of mortgage credit across Europe than legislative initiatives; the Euro has contributed to a convergence of interest rates and of course reduces exchange rate risk. It is still the case that housing finance systems in the EU differ very widely in both institutional structure and even "psychological" approach. The contrast of the market-oriented United Kingdom (U.K.) model, where conversion of building societies and mutuals to commercial banks, with the German mortgage bank model, the conservative foundation of which is the concept of long-term sustainable value, is a case in point. A good legal framework, effective property rights, and effective valuation procedures were noted as foundations of effective housing finance systems in Europe, no matter what their particular institutional structures and approaches to funding. She also notes that the recent experiences of Greece, Spain, and Portugal in developing their housing finance systems may be the most relevant among the EU to the CEE and NIS regions.



## **Comments by Participants from Romania, Bulgaria, Kazakhstan, and Albania**

Minister Laszlo Borbely of Romania described both his countries' current difficult macroeconomic situation and the response of the National Housing Agency to devise a subsidy system, partially externally financed in order to reduce costs. Romania is now undergoing the last stages of a very major effort in bank restructuring and privatization, and has passed a mortgage law to support a housing finance system. Although more aspects of the legal and administrative framework remain to be put in place, many of the commercial banks are anxious to expand consumer lending, including for housing, and could benefit from the experiences in the region.

From Bulgaria, Ivan Iskrov, Roseximbank and Tzveta Dimitrova, the Institute for Market Economics noted Bulgaria's success in the battle against inflation. Also, while the state savings bank still has a near monopoly on housing loans, four Bulgarian banks are interested in competing; lack of liquidity remains a problem, however. Bulgaria is thus preparing legislation necessary to support a secondary market type institution in order to access the capital market. (I would suggest that this must await further development of the primary market, however.) Alexander Boichenko, president of Lariba Bank in Almaty, notes that the bank has a small starting portfolio in housing loans, the only housing lending apparently being undertaken at the moment; the bank would like to issue mortgage bonds to secure enhanced funding. Finally, Arben Jorgii from the Savings Bank of Albania noted the major problems facing the housing market, in part due to large rural-to-urban migration, and the lack of the legal and administrative framework necessary to support a housing lending system.

### ***Lessons Learned: Lessons from the Development of Housing Finance in Poland, Hungary, and the Czech Republic Provided to the Southern Tier***

The conference closed with a discussion of the major lessons learned.<sup>5</sup> There are many. The following list is an attempt to summarize those that are most germane and important. The list is based on issues raised at the Poland and Regional Conferences, the work in housing finance undertaken by UIC in Poland, and other work supported by USAID in the region. The themes can be summarized under several headings, including the macroeconomic environment; the emergence of a market-based system and effective competition through restructuring of the banking system and development of supportive government housing subsidy policies; and the development of the institutional, legal, and administrative framework for housing finance.

#### **Macroeconomic Stability:**

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<sup>5</sup> Please also refer to Doug Diamond's slide in Annex III for a list of lessons learned.



- Macroeconomic policies, which lead not only to falling inflation but also, importantly, to a decline that proceeds on a steady course.
- The gains to financing housing from lower inflation generally far exceed the level of funds that could be expected from government subsidies.

#### Competition and Banking Sector Reform:

- Reform of the banking sector, which helps propel the overall financial sector towards a modern, market-based, competitive system.
- Maintaining a level playing field across whatever types of institutions are active in the housing finance market. Competition among market-based institutions is crucial, whether they be universal banks or mortgage banks.

#### The Framework for Housing Finance:

- A legal and administrative framework supportive of property rights, titling and registration, mortgage lending, foreclosure, privatization of public units, and numerous related transactions.
- Various types of dual index mortgages (DIMs) have a mixed record. They have proved to be successful in Poland in an environment of falling rates. In these circumstances, DIMs can considerably enhance the affordability of mortgage loans.

### ***Government Housing Policies and Reforms***

- Housing subsidy policies must be compatible with the expansion of market-based housing finance.
- Deep loan subsidies encourage large amounts of lending because taking out loans is cheaper than spending own savings.
- There is little evidence that shallow loan subsidies have much of an impact on the number of loans, but may have some on the size of the loan.

### ***Conference Critique and Suggested ways Forward***

A one-day regional conference was, in the opinion of this author, far too short to do justice to the level of interest in housing finance in the region, and the importance



and applicability to the southern tier of the experiences, lessons learned, and remaining problems in the advanced transition countries. As a consequence, the conference was unduly rushed in each of the scheduled sessions, and the “time keeper” had to keep reminding both speakers and participants in question and answer sessions to bring the discussions to a close. More importantly, however, there was insufficient time for regional participants to express their country’s major problems in housing finance and to receive more detailed expressions of advice and lessons learned from others.

The problems in housing finance development noted by the participants from Romania, Bulgaria, Kazakhstan, and Albania, give testimony to the important role that the experiences of Poland, Hungary, the Czech Republic and others can play in assisting their neighbors. The major problems, which tended to be emphasized by most of the southern tier countries, include at least the following:

- Domination of a state-owned savings bank
- Lack of competition
- Lack of a legal and administrative framework
- Lack of liquidity
- Lack off mechanisms for capital market funding
- High inflation and both high and volatile interest rates

As a consequence of the relevance of the lessons learned to the main obstacles cited above, it is hoped that further region-wide conferences and workshops can take place. In addition, however, the Poland Housing Finance Project, has prepared a Dissemination and Networking Plan, discussed briefly below, to help promote long-lasting contact among regional experts.

### ***The Networking Plan and the Policy Advisory Group***

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.

Prior to the Regional Conference, an Advisory Panel, with representatives from Poland, Hungary, the Czech Republic, Slovakia, and Russia was initiated to assist with finalization of the agenda and the goals for the conference. This Advisory Group is now in the process of being 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).



## ANNEX I

### AGENDA

#### REGIONAL CONFERENCE ON HOUSING FINANCE

#### *Building Housing Finance in Central and Eastern Europe: Sharing and Comparing*

DECEMBER 10, 1999  
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#### **8:30-9:00 Welcomes by USAID and Polish Banks Association**

*Michael Lee*: USAID Poland

*Krzysztof Pietraszkiewicz*: Polish Banks Association

*Viviann Gary*: USAID Washington

#### **9:00-9:30 Introduction: Regional Trends in Housing Finance.**

A review of policies and trends across the region, with an emphasis on what seem to be the larger issues on the horizon and the potential for learning from each other. The issues raised will form the topics of the sessions during the day and thus there will not be questions after this session.

*Douglas Diamond*, Housing Finance Consultant, The Urban Institute Consortium (UIC) and Conference Moderator

#### **9:30-10:20 Competitive Pressures in Mortgage Markets**

The invisible hand of competition can cause rapid advancement in housing finance, including innovation in mortgage design, changes in underwriting standards, and narrowing in gross margins. Poland and the Czech Republic seem to display the most competition. Why and what have been the impacts?

(1) *Piotr Cyburt*: Poland, BRE Bank

(2) *Frantisek Pavelka*: the Czech Republic, Czecho-Moravian Mortgage Bank

Chair: *Michael Lea*: Housing Finance Consultant, UIC

#### **10:20-10:40 Coffee Break**

#### **10:40-11:40 Is Capital Market Funding Needed?**

There has been much talk about mortgage bonds and securitization. A participant from Hungary will speak on the experience with respect to the choice between deposits and bond funding. A participant from Russia will speak on the difficulties of getting banks on the one side and investors on the other to be interested in a secondary market.

(1) *Jozsef Csomos*: Hungary, Land and Mortgage Bank

(2) *Nadezhda Kosareva*: Russia, Institute for Urban Economics

Chair: *Raymond Struyk*, The Urban Institute, Budapest

## **11:40-12:00 The Impact of the EU on Housing Finance among EU Members and on the Transition Countries**

*Judith Hardt*, Director, European Mortgage Federation

## **12:00-1:00 Lunch**

### **1:00-1:45 The Impact of Subsidies on Mortgage Markets**

Subsidies can greatly affect the use of market-rate finance, both positively (interest rate reductions) and negatively (low-rate state or employer loans, Bausparkassen, lump-sum subsidies). Such impacts are large in Hungary and Slovakia and a participant from each will talk briefly about the situation there, and what the political and market dynamics are.

(1) *Jozsef Hegedus*: MRI, Hungary

(2) *Jarmila Jurkovicova*, Slovakia, Director, Department of Credits for Individuals, Slovak Savings Bank

Chair: *W.J. Brzeski*, Poland, Office of the Deputy Prime Minister

### **1:45-2:30 The Role of Bausparkassen**

Slovakia is experiencing the first large scale lending under a maturing Bauspar system. Based on that, what can be said about the impact of Bausparkassen systems, either German or Polish-style, on the development of market-rate finance? Will it replace it or supplement it? What are their impacts as housing subsidies?

(1) *Herbert Pfeiffer*: Slovakia, First Construction Savings Bank

(2) *W.J. Brzeski*, Poland, Poland's Experience in Shaping its Own Contract Savings System

Chair: *Douglas Diamond*

## **2: 30 - 2: 45 Coffee**

### **2:45 - 4: 30 Closing Session: Dr. Diamond and the Audience**

(1) Mr. Diamond will lead the audience in talking about two topics:

- The challenges facing lenders in the countries with already developed housing finance systems, and
- The lessons learned for those countries now beginning the process

(2) *Laszlo Borbely*: Romania, State Secretary, Ministry of Public Works and Territorial Planning

Discussion will be organized by issue, not country. Additional participants from other CEE and NIS countries will be asked to formally participate.

## ANNEX II

### Regional Conference on Housing Finance

#### Participants

Country	Name	Position	Address	Phone/Fax/Email
Armenia	Sirekon Ohanian	Head of the Department of Urban Development and Natural Resources at the Secretariate (PM's office)	Republic Square Government Building #1 375010, Yerevan, Armenia	Tel: 52 88 94 (office); 53 38 36 (home); Fax 151-089
Albania	Djana Laha	Director of Mortgage Lending, Savings Bank of Albania S.A.	rr. Deshmoret e 4 Shkurtit, No. 6, Tirana, Albania	Tel: 355-42-24540 or 22669 Fax: 355-42-300-13
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## ANNEX III

### Slides for the Keynote Presentation at the Regional Conference Douglas Diamond

#### *Challenges to Housing Finance in Central Europe*

- 1 Finish the process of bank privatization and rationalization.
2. Expand the market:
  - Marketing and cutting costs and margins
  - More aggressive underwriting
  - Need stronger loan recovery
  - Home equity lending
  - Less low-rate state lending
  - More privatization of flats
3. Restrain the building societies
  - No increases in maximum account size
4. Build funding bridges to institutional investors
  - Mortgage bonds, in or out of comm. banks
  - Securitization, on or off balance sheet

#### *Why the low Demand for Housing Finance?*

- 1 A majority of homebuyers have access to significant cash resources.
  - Outstanding debt on the housing stock is negligible
  - Population growth is negligible, most have access to large housing equity.
2. Are high real interest rates the problem?
  - Interest in borrowing does not appear to be very sensitive to real rates. Amount per loan rises with lower rates.
  - Borrowing does respond to negative real rates.

- 3 Maybe households are not willing to pay a substantial -cost for housing.
- Not comfortable with spending 25-30 percent of their current income on housing
  - Willingness to borrow is being pre-empted by purchases of other consumer durables, especially automobiles.

*Commonalities of Structure*

1. All have some degree of competition in the provision of conventional mortgage finance. Poland and Czech Republic have the most and benefit from it with lower spreads and more marketing and products.
2. All have some kind of mortgage banking system. In no case, does H make any difference yet, because mortgage bonds are not an attractive source of funding. Open question of whether they need to be issued by a separate institution?
3. All but Poland has a system of subsidized building societies. They appear to be a costly, inefficient and ineffective method of subsidizing housing.
4. Nowhere has market-based lending for housing been fully accepted by consumers. Eighty percent or more of transactions continue to be all cash or cash and subsidy.

## SUMMARY OF TRANSITION IN HOUSING FINANCE IN CENTRAL EUROPE

Year	Czech Republic	Slovak Republic	Hungary	Poland
1990	Private rentals restituted; little housing	Private rentals restituted; little housing	Deep subsidies to mortgage lending	Deep subsidies to cooperative finance
1991	privatization; low-rate lending continues	privatization; low-rate lending continues	continue; real amount eroded by	continued; little privatization
1992	Deep subsidies ended; mortgage lending ends	Deep subsidies ended; mortgage lending ends; Building Societies law	inflation; housing privatization accelerates	End of deep loan subsidies; DIM introduced; tax deduction for housing investment
1993	Building Societies law			Economic recovery begins; mortgage competition appears
1994	Economic recovery begins; housing construction starts to increase; right to alternative shelter modified.	Economic recovery begins	Deep subsidies end; 4-3-1 subsidy, tax deduction; DPM introduced; economic recovery begins; Rental Law passed, ending rights to shelter	
1995	Mortgage bank law; mortgage lending starts again, w/ competition; new municipal rentals started	Mortgage lending starts again; completion of uncompleted municipal rentals; housing construction starts to rise.	New deep non-loan subsidies; borrowing falls off	New deep subsidy for non-profit/municipal rentals
1996	4% subsidy on loans for new housing	State Housing Fund, 1% state loans; mortgage bank law	Building Societies law	
1997	0% state loans	Requirement of alternative shelter modified; mortgage competition appears	Mortgage bank law; mortgage competition appears	Building Societies law; mortgage bank law
1998	Tax deduction of mortgage and Bauspar interest			
1999		6% subsidy on all mortgages	Mortgage banking starts	Building Societies law revised

*Preliminary Lessons for Countries Less Advanced in HF Transition*

1. Facilitating development of market-rate housing finance will not have immediate macroeconomic benefits, simply because few people will use it.
  - Borrowing at positive net cost is a habit that must be learned.
  
2. Major benefits from housing finance can be attained quickly in the middle and later stages of transition if proper supply-side preparations have been made.
  - Strong and competitive banks
  - Adequate legal and financial infrastructure
  - Active marketing
  
3. Subsidies can help or hinder market development.
  - Deep loan subsidies encourage large amounts of lending because taking out loans is cheaper than spending own savings
  - There is little evidence that shallow loan subsidies have much of an impact on number of loans, some on size of loan.
  
5. The evidence is overwhelming that Bausparkasse schemes are a very inefficient housing subsidy.
  
6. The usefulness of specialized mortgage banks and secondary market mechanisms in these countries is an unresolved question.
  
7. Experience with neutralizing high inflation through various "inflation-neutral" mortgage designs has been mixed.