

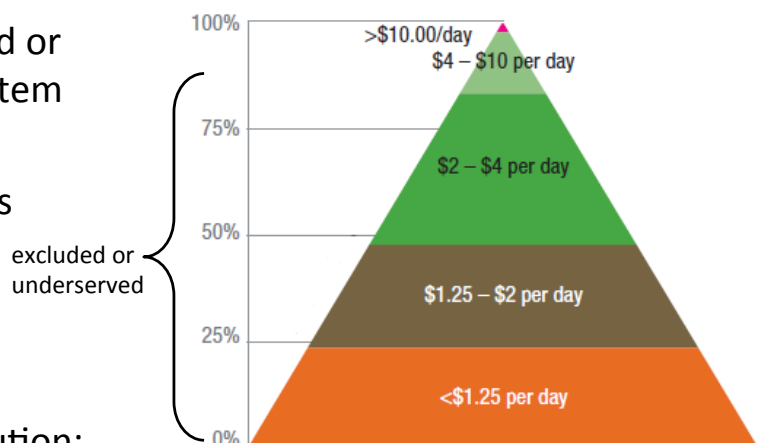


Promoting affordability, accessibility and stability: contractual savings for housing

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Access to finance: a big challenge

- Majority of population in developing countries excluded or underserved by financial system
- Good financial system design enhances inclusion and makes loans more affordable
- Financial sector stability needs to be considered
- „Financial innovation“ no solution: additional costs, key challenges not tackled
- Lack of long term funds major challenge: availability of several different funding channels recommended; consider implementation of contractual savings systems



General suggestions for improving the system of housing finance

- Disengage development of the housing finance sector from policies aimed at subsidising housing for the greater social good
- Saving and lending for housing has to be at positive real interest rates allowing for a reasonable margin for lenders
- The basis for contractual savings systems is macroeconomic stability (single-digits rates of inflation) and special regulation
- Access to credit means for most people better housing and a much better security of tenure

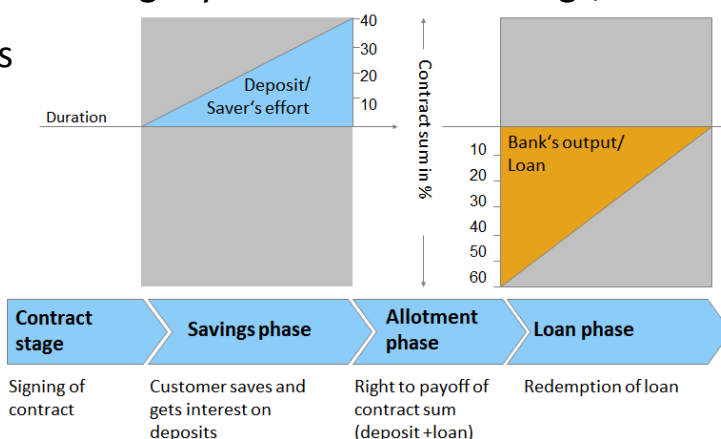


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Contractual savings for housing: the basic idea

- Some of the poor people are net savers
- Personal sector is the obvious sector to encourage as primary source for house-purchase loans: tapping this source will make more affordable housing loans available
- Simple logic of contractual savings systems: first the savings, then the loan
- Housing finance systems in industrialised countries arose out of mutual savings clubs; contractual savings systems continue to be common and successful in Europe



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Contractual savings systems promote affordability & accessibility

- At the signing of the contract, interest rates for the loan and deposits are fixed; interest rates are usually below markets rates.
- Loans are in local currency
- Savings period supports formation of equity for down payment
- Strong credit signal through savings phase
- Contractual savings systems are run by specialist institutions which can promote housing finance better than general institutions
- Small loan amounts available without surcharge
- Bauspar loans are second lien loans and leave space for a first mortgage
- No prepayment penalty

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Contractual savings systems promote stability

- Link of promise of a loan at a predetermined fixed rate of interest with a long-term savings option reduces risk of maturity mismatch
- Anti-cyclical business model: Loans are disbursed not in tandem with boom-bust-cycles but when customers have finished their savings phase
- Deposit-taking allows for seamless scaling of business and is less vulnerable in times of crisis than wholesale funding
- Contractual savings institutions as new players in the market increase competition
- Contractual savings institutions can promote deepening of the financial system, if they invest excess liquidity in save fixed income instruments
- Contractual savings institutions can offer products similar to microcredits but are part of the normal regulated financial system

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