

# Insights into the system of German Bausparen



# History of Bausparen

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200  
BC

Han dynasty in China: first mutual savings societies are formed.

1775

As a result of a housing shortage, the first building societies emerge in Great Britain.

1831

Formation of the first building society in the U.S.

1885

Germany: "Bausparkasse for everyone", formed by Pastor Friedrich von Bodelschwingh.

1921

Georg Kropp founded Wüstenrot, the oldest Bausparkasse still in existence, as "Society of Friends". In 1924 the first member is allocated a loan for building purposes.



# The basic idea of Bausparen I



1 person saves € 10,000 per year for 10 years



waiting period of 10 years



Year 1

10 savers



€ 100,000

Year 2

9 savers, 1 person  
repaying the loan



€ 100,000

⋮

Year 10

10 persons repaying  
the loan



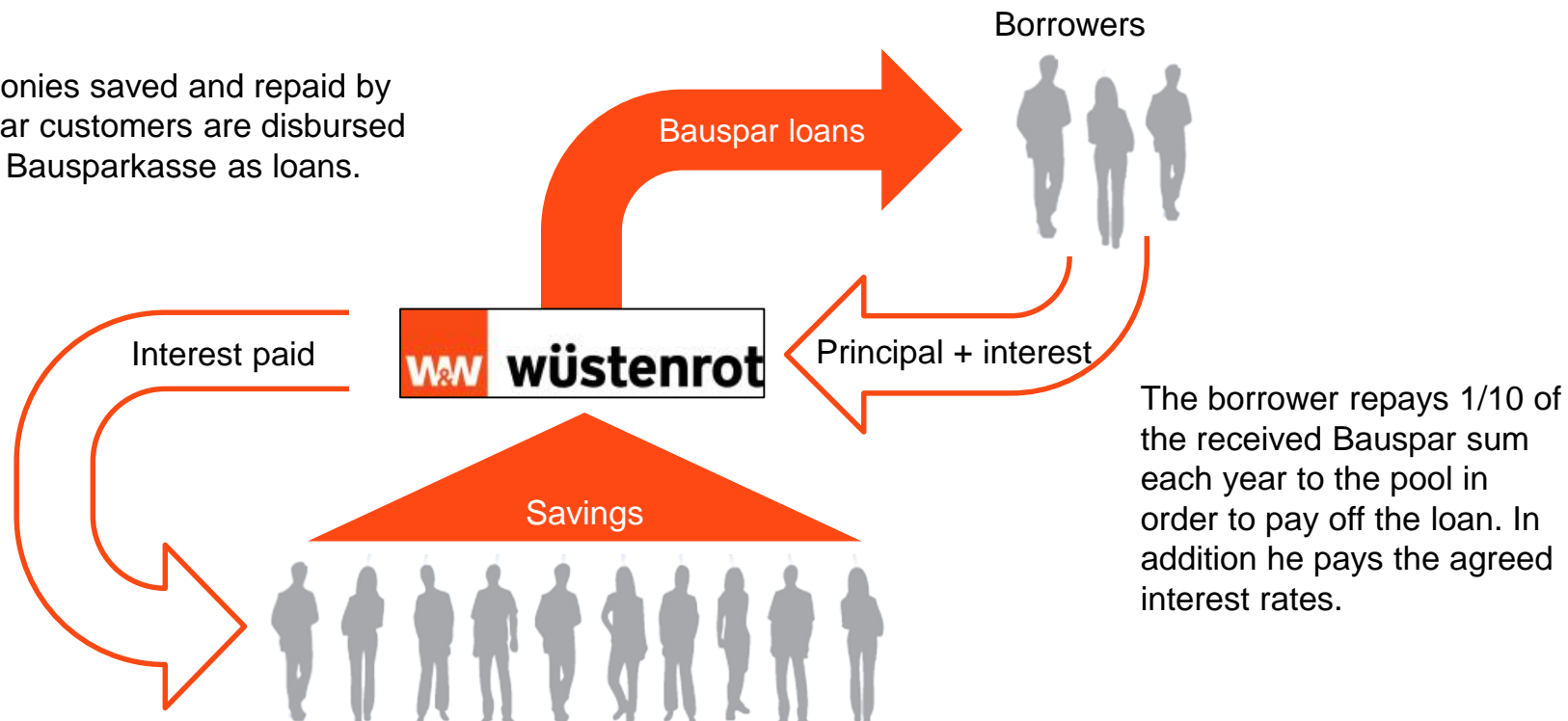
€ 100,000

Ø-waiting  
period of just  
5.5 years

- 10 potential home buyers each save € 10,000 per year for 10 years and pool their savings.
- Disbursement of € 100,000 to the first saver, meaning that the first home can be purchased after one year.
- Granting of further loans in the subsequent nine years, until all 10 savers have purchased their homes.
- By pooling all savings, the time needed to purchase a home is shortened considerably!
- Each individual benefits from his membership in the pool.

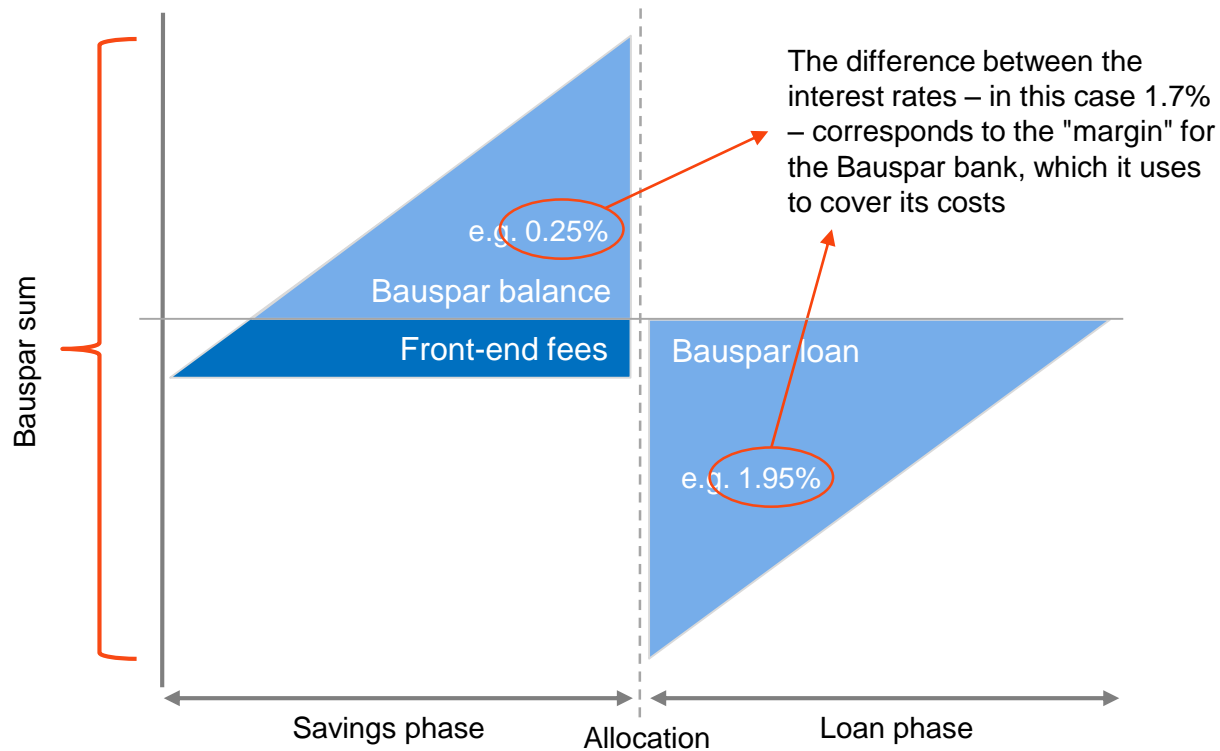
# The basic idea of Bausparen II

The monies saved and repaid by Bauspar customers are disbursed by the Bausparkasse as loans.



- ➔ **Being part of a community of Bauspar customers enables savers to purchase a home more quickly than if they saved individually.**
- ➔ **Bauspar balances are invested with the utmost security: Bauspar banks are not allowed to invest in equities or structured products.**

# The principles of Bausparen



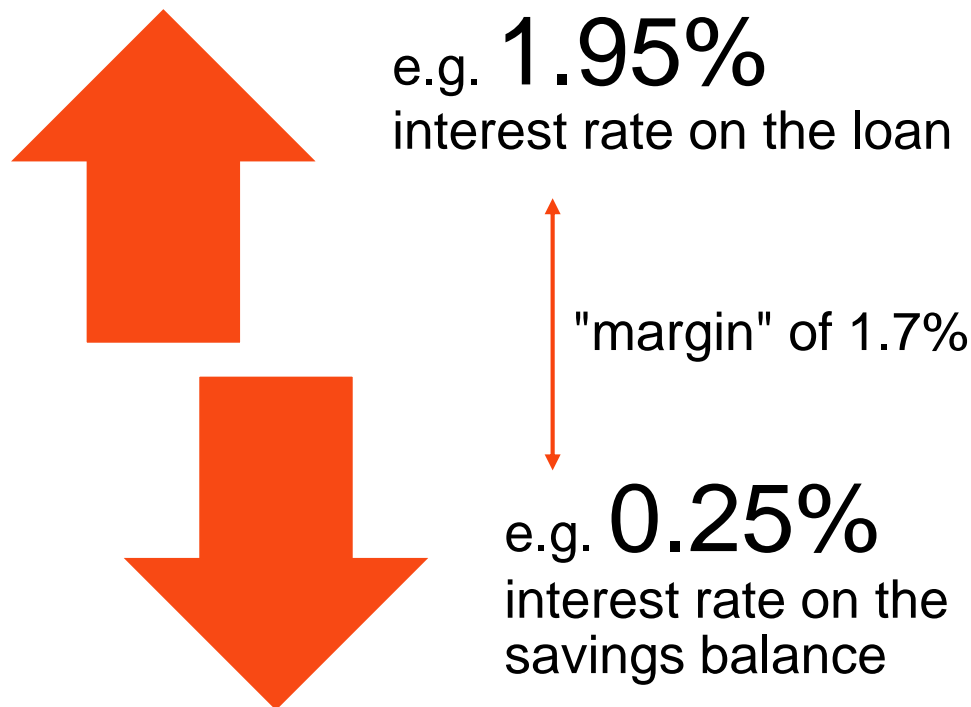
The Bauspar customer saves for several years at a low interest rate.

By receiving a lower payment of interest during the savings phase, the Bauspar customer is entitled to a loan with a lower interest rate, which the Bauspar bank disburses at the time of allocation together with the amount saved.







# Unique selling proposition of a German Bausparkasse

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- Bauspar customers **receive a low interest rate** on their savings balances.
- This enables the Bauspar bank on the other hand to offer **Bauspar loans at low interest rates**.
- By contrast, given the same margin, a "normal" bank is not in a position to offer loans with such low interest rates, as they have to pay their savings customers a higher rate of interest.



# Bausparen offers protection against increasing interest rates

	Bank loan Fixed interest rate for 10-15 years	Advance loan of the Bausparkasse Interest rate fixed for the entire term
At the end of the term	 Risk of changes in interest rates	 No interest-rate risk
Scenario 1: Interest rate rises	 Payments increase	 No change
Scenario 2: Interest rate falls	 Payments decrease	 No change, <u>but</u> option to repay part of the loan at any time

 **Bausparen offers risk-averse customers fixed interest-rates as well as fixed instalments over the entire term.**

# Home financing without Bauspar contract

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Loan of  
€ 100,000

- Interest rate of 2% over a term of 15 years
- Initial annual amortisation amount of € 1,000
- Annual instalment: € 3,000

End of term  
after 15 years

- Outstanding balance approx. € 82,700 - only a small amount amortised!
- Interest changes to 3% after the end of the term
- Annual instalment now € 3,480 with unchanged amortisation amount

- With bank loans, the outstanding balance is subject to the risk of changing interest rates.
- Considerably higher payments can jeopardise the debtor's financial capacity.
- With Bausparen, the interest rate is fixed for the entire term of the loan, with the option to make unscheduled repayments in any amount.



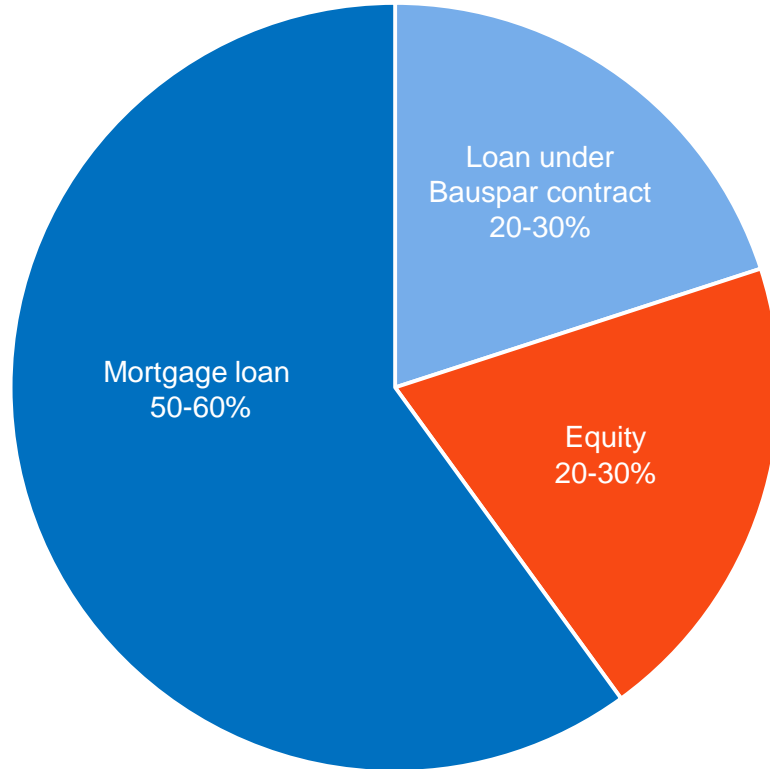
# Allocation to the individual Bauspar customer

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- The Bauspar customer concludes a contract for the desired Bauspar sum, thereby undertaking to save between 0.3% and 1.0% of the agreed sum each month.
- Once 40% or 50% of the sum has been saved and the savings balance has existed for a sufficient period of time, the customer has acquired a right to a special Bauspar loan. The loan is normally disbursed in the amount of the difference between the Bauspar sum and the Bauspar balance. The Bauspar customer can thus draw down the entire Bauspar sum for home financing.
- For the order of allocation, a valuation index is calculated for each Bauspar customer from the savings sum and the savings duration. Bauspar customers with the highest valuation index have the first claim to allocation of the Bauspar sum (time-by-money system).
- Allocation normally occurs once the minimum savings sum has been reached or shortly thereafter. The precise time depends on the amount of the financing resources of the Bausparkasse. Financing resources consist of savings contributions, amortisation payments on granted loans, interest on balances, and housing subsidies.

# Ideal financing mix

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- The lending limit for Bauspar financing is 80% of the Bauspar sum.
- Banks normally lend up to 90% of the property's mortgage lending value.
- For borrowers with high creditworthiness, the entire purchase price can even be financed. However, only those loans below 60% of the mortgage lending value get the best terms. The interest rate rises as the percentage increases.
- For this reason, 20-30% of the financing amount should be covered by equity. This also includes the balance under a Bauspar contract.

 **Bausparen is an important part of the financing mix.**

# Advance loans with a Bauspar contract

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The customer has found his dream home – but he doesn't yet have enough savings in his Bauspar contract. In this case, Bauspar banks offer future home owners so-called “advance loans”:

- The potential home buyer takes out a loan from a bank and at the same time concludes a Bauspar contract. He uses the loan to immediately finance his building project. With the monthly instalments that now begin, he pays the interest on the loan and at the same time the savings instalments for the Bauspar contract. Capital accumulation benefits and employee savings bonuses can also be used to contribute to this special form of Bauspar contract.
- Initially, the loan is not amortised. This begins when the Bauspar contract is ready for allocation.
- The saved capital is transferred to the bank to repay the initial loan. The builder continues to make his monthly instalment payments, but now for amortising the loan portion of the Bauspar contract.

 **Advance loans under Bauspar contracts allow for immediate financing.**

# Bausparen is highly attractive even in low-interest environment

- Focused accumulation of **equity**.
- **Guaranteed fixed low interest rate** for the loan: Secure calculation basis over the entire term of the contract; no risk of changes in interest rates, in contrast to normal bank loans. Here, risk of a change in the interest rate normally after 10 years.
- Government supports Bausparen with the **housing subsidy** and the **employee savings bonus**. Since November 2008, also **Riester-subsidised** home savings products are possible.
- Bausparen offers a high degree of **flexibility**: No-cost repayments are possible at any time, up to premature repayment in full without any penalty.
- The loan is secured in the land register with a **subordinated position**.



# Government Bauspar subsidy

Home building and private home ownership are high-ranking objectives of economic and social policy. For this reason, the government supports the commitment of Bauspar customers and provides a variety of subsidies to help them.



	Housing subsidy	Employee savings bonus
Subsidy rate	8.8%	9%
Savings cap (single)	€ 512	€ 470
Savings cap (married couple)	€ 1,024	€ 940
Subsidy (single)	€ 45.06	€ 42.30
Subsidy (married couple)	€ 90.11	€ 84.60
Income cap (single)	€ 25,600	€ 17,900
Income cap (married couple)	€ 51,200	€ 35,800

# Statutory bases for Bausparen

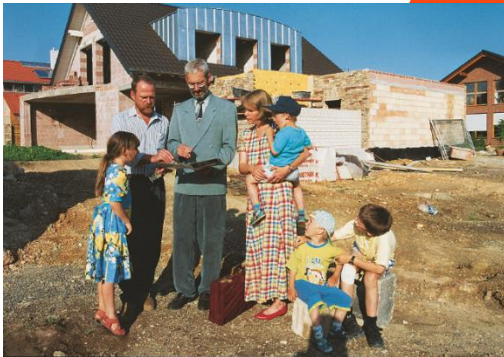
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**BaFin**  
**(Federal Financial Supervisory Authority)**

**Banking Act**  
**(Kreditwesengesetz, KWG)**

**Home Loan Bank Act**  
**(Bausparkassengesetz, BspkG)**

**Home Loan Bank Regulation**  
**(Bausparkassen-Verordnung, BspkV; BGB)**



# Importance of Bausparen since 1945



Bausparen is important for creating home ownership and for private retirement schemes. Since the end of World War II, German Bauspar banks have provided more than € 1.3 billion for home financing.



This means that more than 13 million homes, including 9 million new homes, were co-financed using home loan savings funds.



One out of every two German households has at least one Bauspar contract - a total of 26 million people. Each year, 650,000 young people under the age of 25 concluded a Bauspar contract.



This does not include all loans, that are used for renovations and modernizations or for purchasing building plots.

