

FIG Working Week 2012
Knowing to manage the territory, protect the environment, evaluate the cultural heritage
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BANK RISK IN REAL ESTATE FINANCES IN POLAND

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The aim of the article

The aim of the article is to present the changes in the credit policies of banks offering mortgage and investment loans in Poland and their impact against the global turmoil in the financial sector.

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Presentation outline

- (1) Polish versus other European economies
- (2) The nature of investing in property market
- (3) Sources of investment risk in the housing market
- (4) Credit policies of banks on real estate finances in Poland – survey results

Polish versus other European economies

Table 1.

The top 10 European countries for foreign direct investment (FDI).

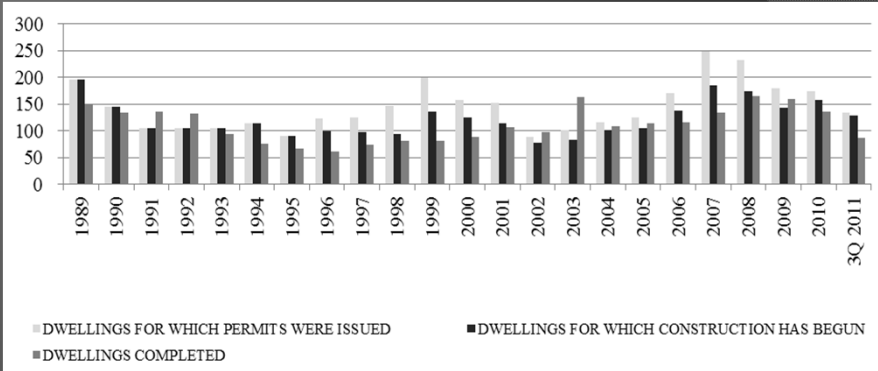
Rank	Country	FDI projects 2010	Change 2009-10
1	United Kingdom	728	7%
2	France	562	6%
3	Germany	560	34%
4	Russia	201	18%
5	Spain	169	-2%
6	Belgium	159	9%
7	Poland	143	40%
8	Netherlands	115	6%
9	Ireland	114	36%
10	Italy	103	3%

Source: Ernst & Young, Restart - European attractiveness survey (2011), p. 16.

The nature of investing in the property market

Graph 1.

Number (in thousand) of dwellings completed, under construction and dwellings for which building permits had been obtained between 1989-2011 in Poland.



Source: GUS, Budownictwo - wyniki działalności w 2011 r. (2011), Warsaw, GUS, www.stat.gov.pl.

Source of investment risk in the housing market

Macroeconomic

(e.g. the population growth, a decrease in per capita GDP, unemployment rate, socio-demographic situation, laws, financial and fiscal regulation, interest and exchange rate levels and fluctuations, institutional)

Mesoeconomic (sectoral)

Microeconomic

(e.g. financial liquidity, project size and concept, the technology applied, the environment impact, the public mood, legal aspects of the project, profitability of the building concept, location)

The results of the survey

The results of the research confirm the concurrence between the availability of housing loans and the level of risk.

Major factors influencing the changes introduced in 2008-2009 are:

- changes in the economic situation in the global market;
- changes in the domestic economic situation and the related risk;
- decisions and regulations of NBP (National Bank of Poland) and Polish Financial Supervision Authority,
- current and forecast capital standing of the bank.

Criteria of the credit ability of potential clients:

- higher revenue thresholds for the potential clients of the banks;
- preference for clients with regular income;
- (upward) adjustment of monthly costs of living per single member of the family and the running costs of a property approved as collateral;
- borrower's minimum contribution as a pre-requirement for considering the loan application;
- accurate documentation of the level of the so-called 'disposable income'.

The results of the survey – cont.

Table 2.

Changes in the level of the LTV ratio in the banks under survey in 2008–2010 (%).

Loan currency	Banks' decision concerning LTV ratio:		
	lower	higher	no change
PLN	37	29	34
CHF	35	35	30
Euro	38	38	24

Source: Prepared by authors on the basis of the results of the survey.

Table 3.

Non-performing loans (PLN billion) and their share (%) in the credit portfolio of banks in 2007-2011.

Non-performing loans	Measured in	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	March 2011
total	PLN bn	22,0	2,6	24,9	34,1	35,1
	%	5,1	4,5	6,0	7,2	7,8
of which:						
housing loans	PLN bn	1,4	2,0	3,2	4,9	5,4
	%	1,2	1,0	1,5	1,8	2,1

Source: UKNF, Reports of Polish Financial Supervision Authority from the years 2007-2011, www.knf.gov.pl

Measures and initiatives to maintain and improve the financial stability of the banking sector:

- implementation of Basel III regulations,
- recommendations of Polish Financial Supervision Authority which have the power of recommendations used in the Polish banking sector, in particular:
 - Recommendation T;
 - modification of Recommendation S II;
- application of stress tests;
- use of reliable, quality methods of credit ability assessment of the borrower,
- improvement in the efficiency of bank receivables collection standards;
- harmonisation of regulations concerning the functioning European guarantee institutions,
- implementation of special solutions and programmes facilitating financial assistance in purchasing a family's first dwelling.

The final conclusion

The changes in credit policies of numerous banks caused:

- lower availability of housing/mortgage loans for retail clients and in consequence a decrease in effective demand for dwellings,
- developers have to reduce the scale of projects or abandon, or exit a project by reselling it before it is completed.

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