

# MORTGAGE LENDING IN POLAND 2009-2011



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by Intelace Research  
March 2009

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## Methodological note

# EXECUTIVE SUMMARY – RETAIL MORTGAGE IN POLAND - 2009

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- **Deficit of residential real estate.** Deficit of residential real estate is still one of key social problems in Poland. Around 38 million inhabitants or 14 million households live in ~12 million populated dwellings, meaning a gap of up to 2 million dwellings. The existing housing stock is on average old and frequently lacking basic amenities. As a result the perspectives on demand side for residential real estate remain very strong. However, the key to market growth is today house affordability. The recent explosion of prices resulting from combined: strong demand, easy credit and limited supply, pushed house prices extremely high and led to current standstill on both new and existing real estate markets
- **Evolution of mortgage lending.** The supply of mortgage lending remained stable up to Q3 2008, when the inter-bank market was hit hard by disappearing liquidity and shortage of FX funding. As a result many major mortgage lenders have rapidly tightened lending conditions and increased margins and fees substantially. Few banks withdrew FX-denominated products while others almost stopped any new mortgage lending. Thanks to very favourable Q1-Q3 2008, in FY2008 banks managed to sell ~ PLN 57 bn in new mortgage loans, a 2 % increase vs.2007. However, the number of new contracts dropped vs. 2007 by ~8% to 286 thousand
- **Quality of mortgage lending and risks ahead.** During 2008 the quality of mortgage loans continued to improve and the NPL ratio fell to 0.5% for FX-loans and to 1.8% for loans in local currency. Unfortunately the sudden depreciation of local currency against Swiss franc, observed in Q4 2008 and Q1 2009, together with increasing unemployment is likely to produce higher NPL ratios in 2009. As of now, this trend is not expected to grow to the levels known from other developed markets since most of mortgages are not very big in value, they typically finance the first dwelling of the owner, and finally the government is planning temporary lifelines for mortgage debtors losing their jobs
- **Future opportunities.** Increasing wealth of individuals, growing economy and the deficit of residential real estate are factors that are still valid and are expected to drive the demand for real estate and mortgage lending in future. In mid-term perspective a significant price correction (20-30%) seems unavoidable since the number of new completions is on record high. The possible adjustment of prices in 2009/2010 is likely to stimulate demand for real estate and revive mortgage lending. Intelace Research expects that mortgage lending portfolios of banks will keep increasing through 2011, when it will reach PLN 275 bn in nominal terms

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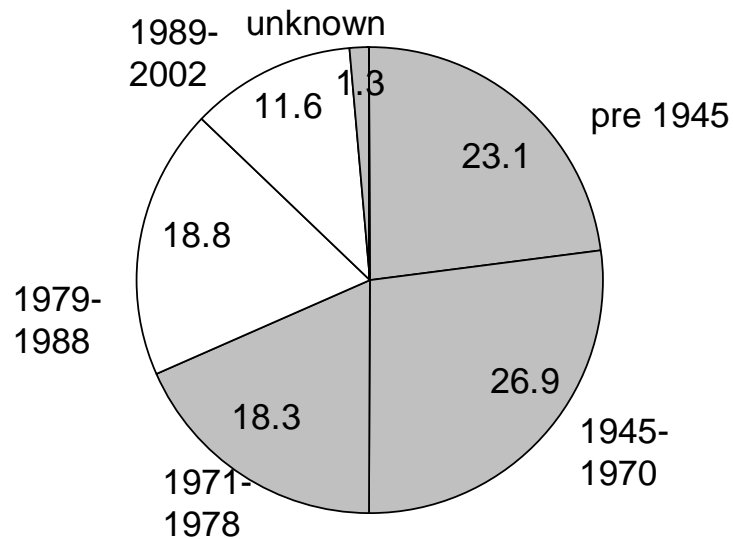
# THE HOUSING STOCK IS OLD. ALMOST 50% POPULATION HAS STILL TO SHARE THEIR ROOMS

## Inhabited dwellings structure\*

in percent, 100% = 11.6 million

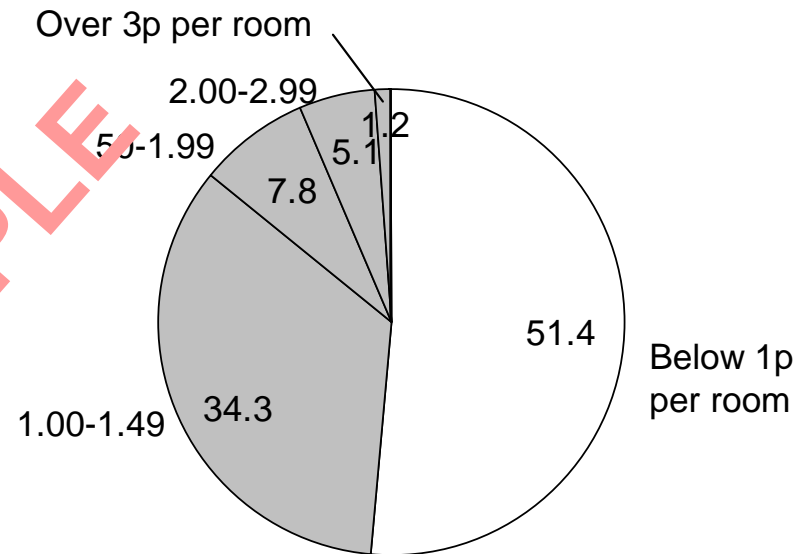
**2002 CENSUS**

### By the year of construction



Most dwellings relatively old

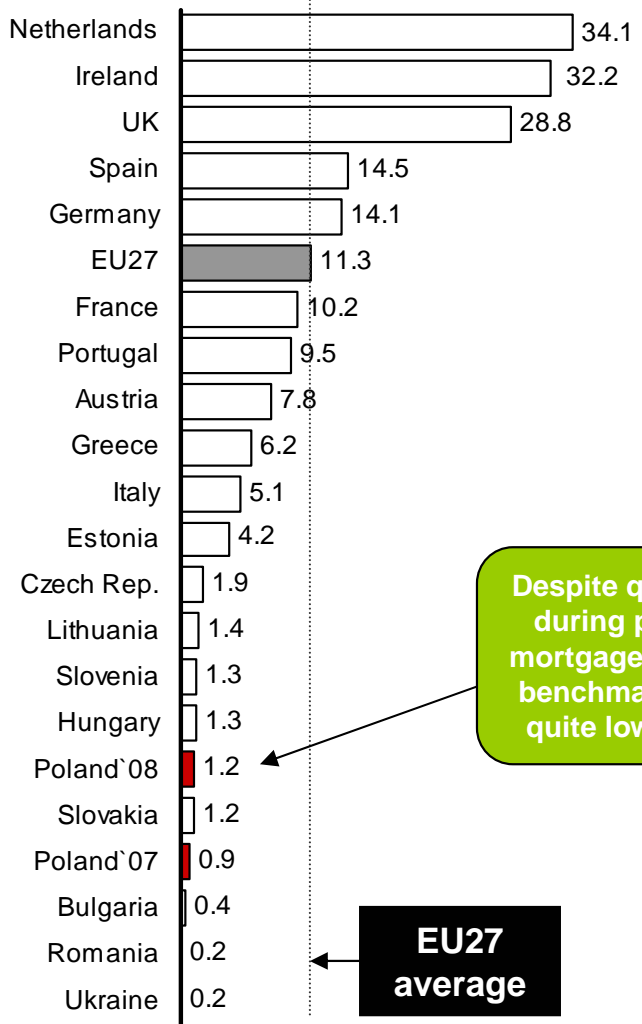
### By the average number of people per one room



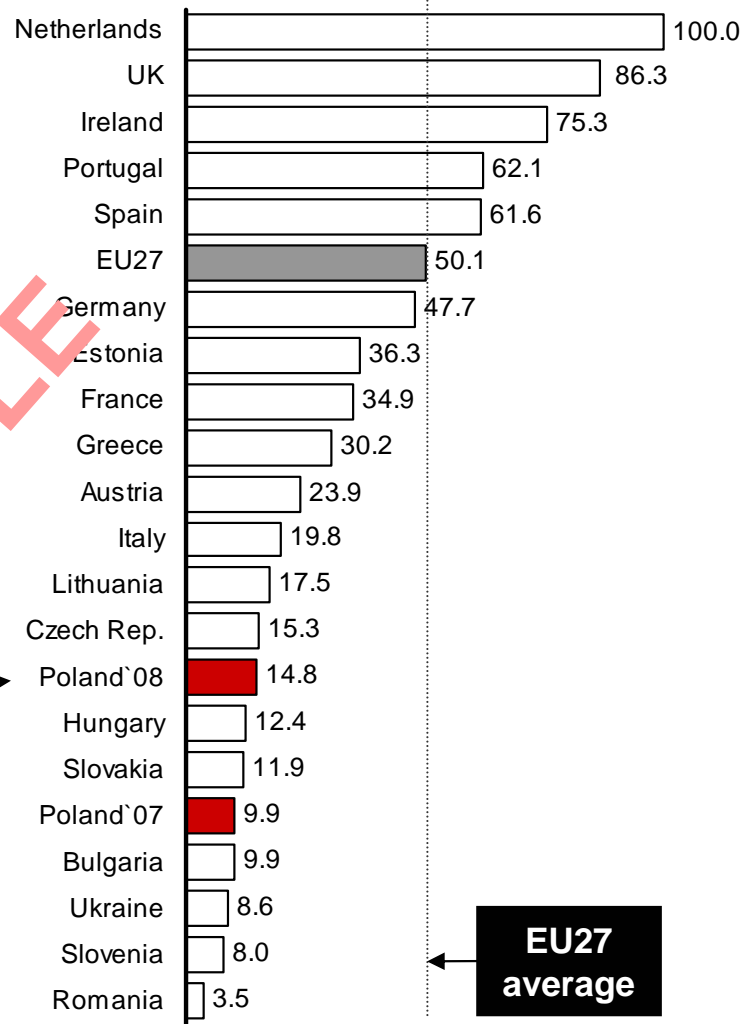
Almost 50% of people need to share their room

# IF COMPARED TO MOST OF EU COUNTRIES, MORTGAGE PENETRATION BENCHMARKS ARE STILL LOW IN POLAND

**Residential mortgage debt per capita, 2007**  
thousand EUR



**Residential mortgage debt/GDP ratio, 2007**  
percent



Despite quick growth during past years mortgage penetration benchmarks are still quite low in Poland

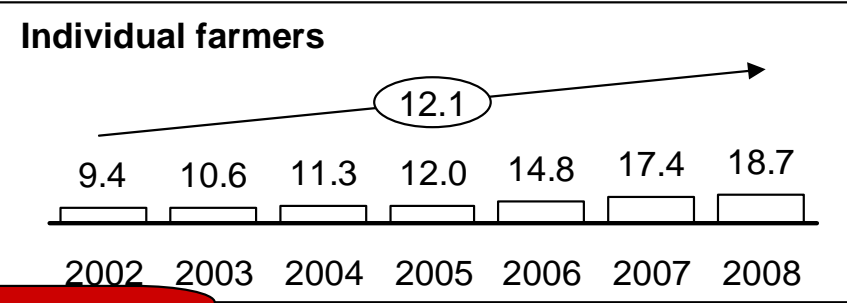
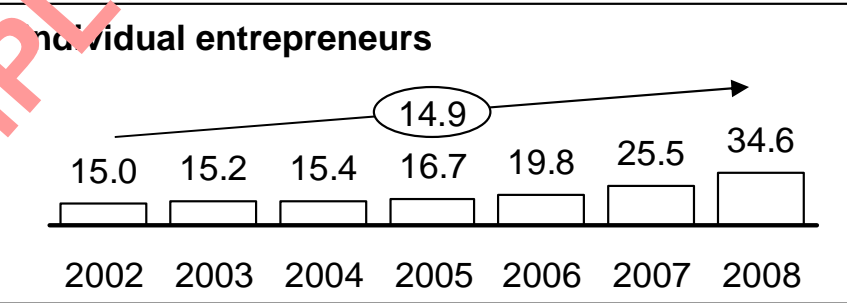
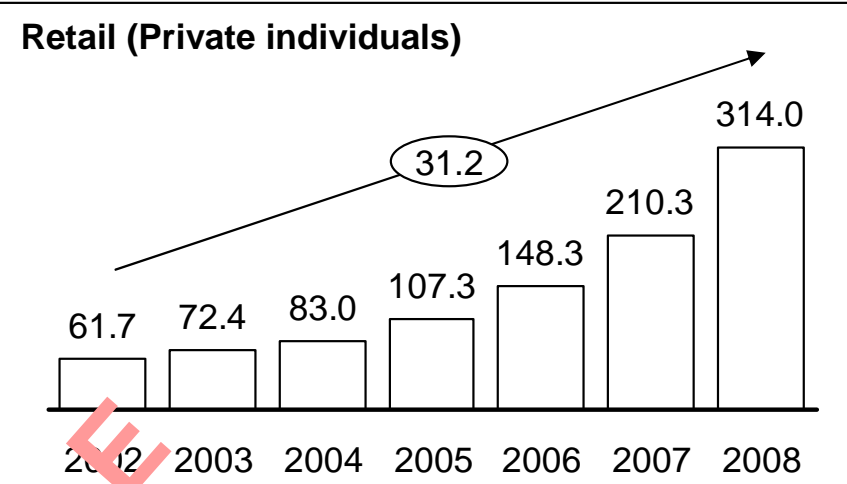
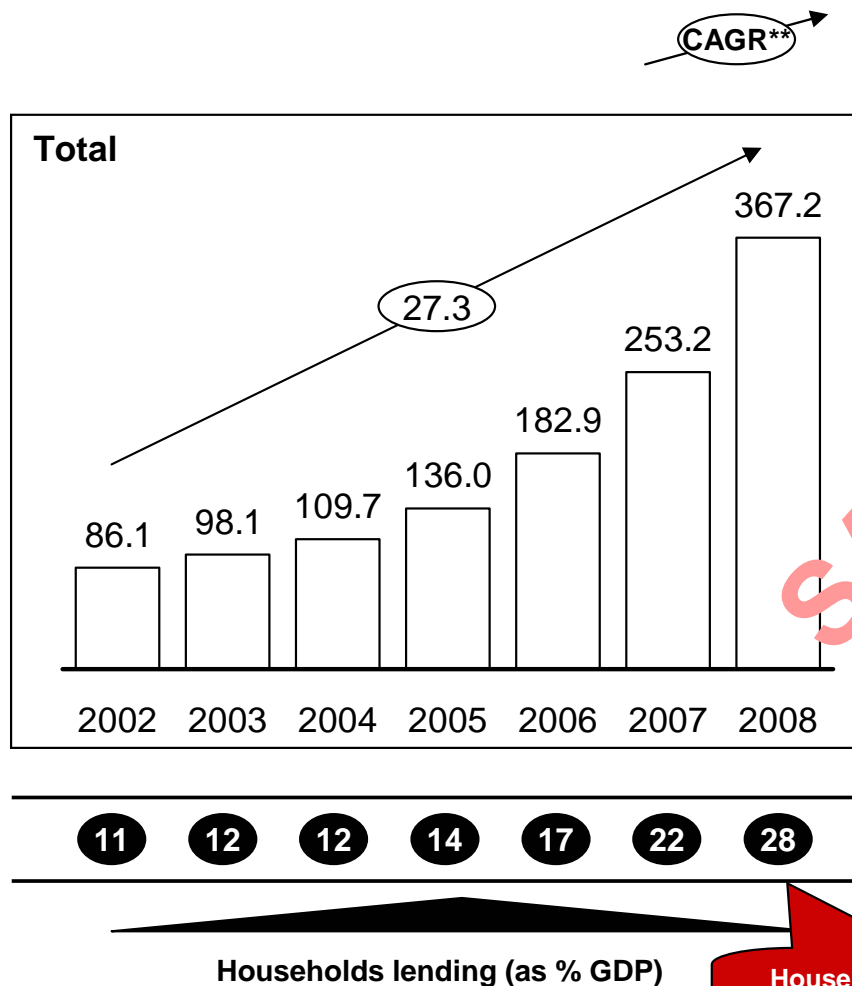
**EU27 average**

**EU27 average**

Mortgage Lending in Poland, 2009-2011

# HOUSEHOLDS LENDING ACCELERATED IN 2007 AND 2008

**Total debt of households by groups\*, 2002-2008**  
 PLN billion, percent



**Household debt in relation to GDP jumped to 28% in 2008**

\* All types of loans, Households including individual entrepreneurs and farmers  
 \*\* Compound Annual Growth Rate  
 Source: NBP, Intelace Research



# SO FAR THE REGULATORY CHANGES BY KNF\* HAD A LIMITED REAL EFFECT

## REGULATORY RESTRICTIONS CONCERNING MORTGAGE LOANS IMPOSED ON BANKS BY KNF\* (2006-2009)



	Time: July 2006	December 2008	expected early 2010
<b>Key changes:</b>	<ul style="list-style-type: none"> <li>• Calculation of client's ability to repay a FX-denominated loan more rigorous taking into consideration cumulative effects of possible unfavourable interest and exchange rate evolution</li> <li>• Loans in the local currency are to be offered by banks as the first choice and as preferred option</li> <li>• Extensive simulations with various scenarios need to be presented by the bank and accepted by the client prior to signing a loan contract</li> </ul>	<ul style="list-style-type: none"> <li>• Banks need to inform clients about existence of foreign currency spreads (buy vs. sell rates) and consequences – increased cost of the loan</li> <li>• Banks need to enable clients to repay fx-denominated loans in original currency of the loan</li> </ul>	<ul style="list-style-type: none"> <li>• Required increased collateral (10-20%) on long-term fx-denominated mortgage</li> <li>• Stricter, permanent monitoring of loan and collateral value</li> <li>• Only 50% of client's net income will be recognised as maximum monthly payment (on all loans combined)</li> </ul>
<b>Results:</b>	<ul style="list-style-type: none"> <li>• Initially recommendation affected the way banks calculated client's ability to repay the loan in FX</li> <li>• Regulation failed to curb explosive growth of FX mortgage loans</li> </ul>	<ul style="list-style-type: none"> <li>• Limited impact on the market – possible limiting of fx spreads in extreme situations only</li> <li>• Cases of clients repaying loans in original currency are reported by media</li> </ul>	<ul style="list-style-type: none"> <li>• -</li> </ul>

Mortgage Lending in Poland: 2009-2011

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Our company is specializing in value-added research services and tailored business intelligence solutions.

Through our customized research services we help our clients to better understand their consumers, competitors and overall market dynamics.

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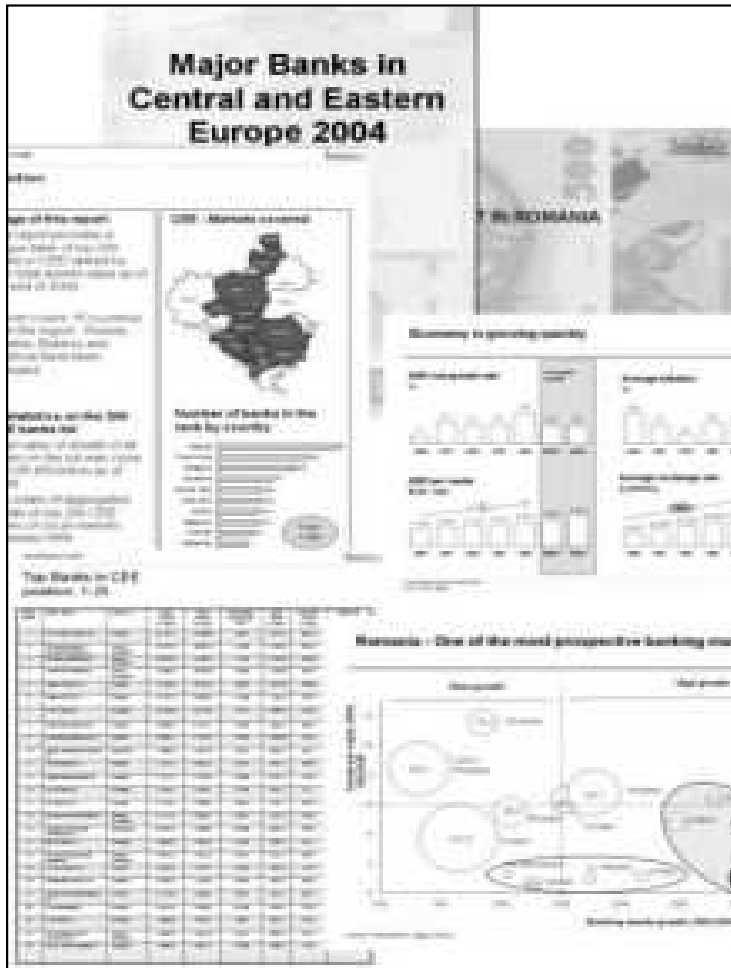
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