



” New banks' lending policy
- about consequences of a pandemic
on the housing loan market

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AMRON CENTRE ANALYSIS

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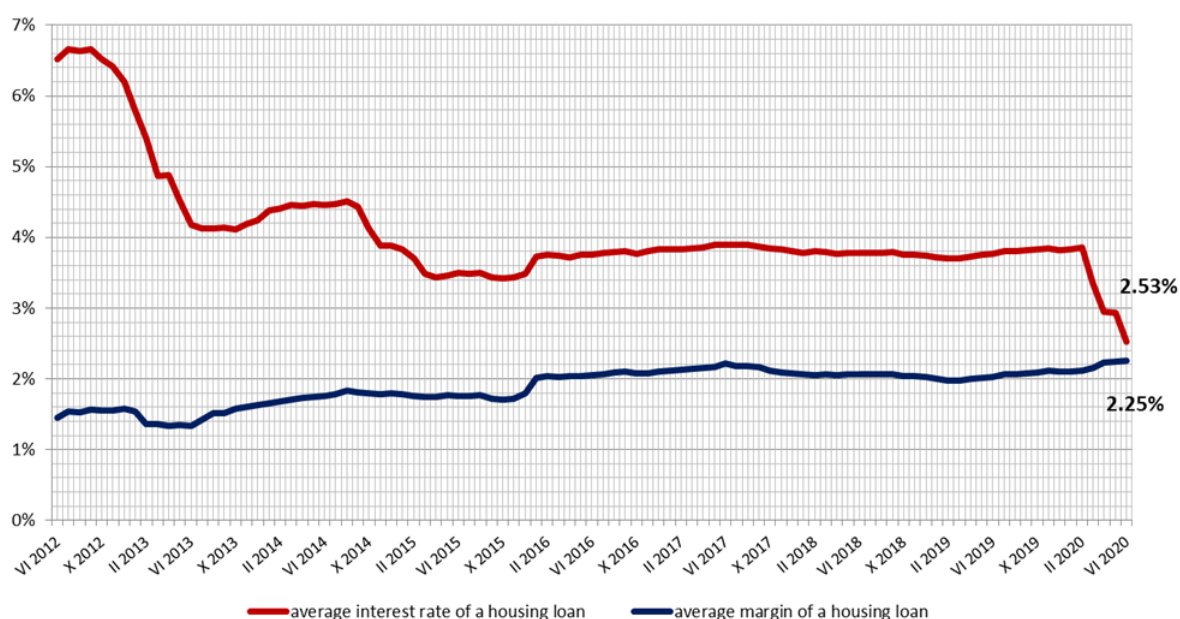
Quite recently, the housing market was booming and another record-breaking results were noted in mortgage sales. Increasing wages, stable situation on the labour market and low interest rates encouraged to purchase dwellings and take out housing loans. However, the appearance of the 'black swan' in March 2020 - the new coronavirus disease, changed the situation radically. Banks reacted immediately to the risk increase due to uncertainty about the economic effects of COVID-19 epidemic, and significantly tightened lending conditions in March. At present, the lockdown is over and interest in dwellings purchasing is slowly growing, but the reality is now quite different.

LOWER COST OF A HOUSING LOAN

Banks increased loan margins due to weaker forecasts regarding the economic situation of the country. At the beginning of June, the average margin of a model mortgage loan (in amount of PLN 300 000, at the LtV ratio of 75% and granted for the period of 25 years) amounted to 2.25%, which meant an increase by 0.13 p.p. comparing to February 2020, the last month before the pandemic.

However, the Monetary Policy Council reduced the basic interest rates of the National Bank of Poland three times (by decisions of March 17, April 8 and May 28 this year) by 140 basis points. Thus, the reference rate decreased from 1.5% to historically low level of 0.1%, and WIBOR 3M at the beginning of June 2020 amounted to only 0.27%. Consequently, despite the increase in loan margins, the average interest rate of a model housing loan amounted to 2.53% in June (by 1.32 p.p. less in relation to February) and instalments of PLN loans diminished to historically low levels. The instalment for a model loan (with assumptions mentioned above) decreased by approx. PLN 200 in comparison to February (from approx. PLN 1 600 to PLN 1 400 per month).

CHART 1. AVERAGE MARGIN AND INTEREST RATE OF A HOUSING LOAN



* mortgage loan in amount of PLN 300 000, LtV ratio - 75%, lending period - 25 years

source: AMRON Centre based on banks' credit offers



SUSPENSION OF LOAN REPAYMENTS

Instalments will decrease in a few months, when the repayment schedule is changed. Those borrowers, who already have financial problems, may benefit from banks' offer to postpone repayment of housing loans for a period of up to 3 or 6 months. This possibility provides an actual support for borrowers who have lost the job and financial stability, but it should be remembered that this solution is not for free, because the amount of the remaining loan instalments will increase or the total loan repayment period will be extended.

According to data of Credit Information Bureau as of May 25, 2020, 130 thousand borrowers have already postponed repayment of instalments.

HIGHER OWN CONTRIBUTION

Low interest rates encourage to take out housing loans, but on the other hand the situation on labour market is uncertain and several large banks, trying to protect themselves against the negative effects of a pandemic, have decided to increase the minimum own contribution. Bank Pekao increased the required own contribution to 15% (previously 10%), PKO BP and Pekao Bank Hipoteczny - from 10 to 20%, and ING Bank Śląski, BOŚ Bank and BPS grant loans for only 70% of the property value (previously 80%). The own contribution in BNP Paribas, Citi Handlowy and Bank Pocztowy remained at the level of 20%.

Certainly, it is still possible to finance the purchase of real estate by a mortgage loan with a 10% downpayment, but the number of banks with such offer is much smaller than 3 months ago and the lending criteria are more stringent. Currently, only 5 commercial banks grant such mortgage loans: Alior Bank, Credit Agricole, mBank, Bank Millennium and Santander Bank Polska. However, most banks require additional conditions, for example Santander Bank Polska offers housing loans with only 10% own contribution exclusively to its current customers, other customers can get a loan with 20% downpayment.

TABLE 1. MINIMUM OWN CONTRIBUTION IN JUNE 2020

| Bank | Minimum own contribution |
|-----------------------|--------------------------|
| ING Bank Śląski | 30% |
| BOŚ Bank | 30% |
| BPS | 30% |
| PKO BP | 20% |
| Pekao Bank Hipoteczny | 20% |
| BNP Paribas | 20% |
| Citi Handlowy | 20% |
| Bank Pocztowy | 20% |
| Pekao | 15% |
| Alior Bank | 10% |
| Credit Agricole | 10% |
| mBank | 10% |
| Bank Millennium | 10% |
| Santander Bank Polska | 10% |

source: AMRON Centre based on banks' credit offers



TIGHTENED LENDING CONDITIONS

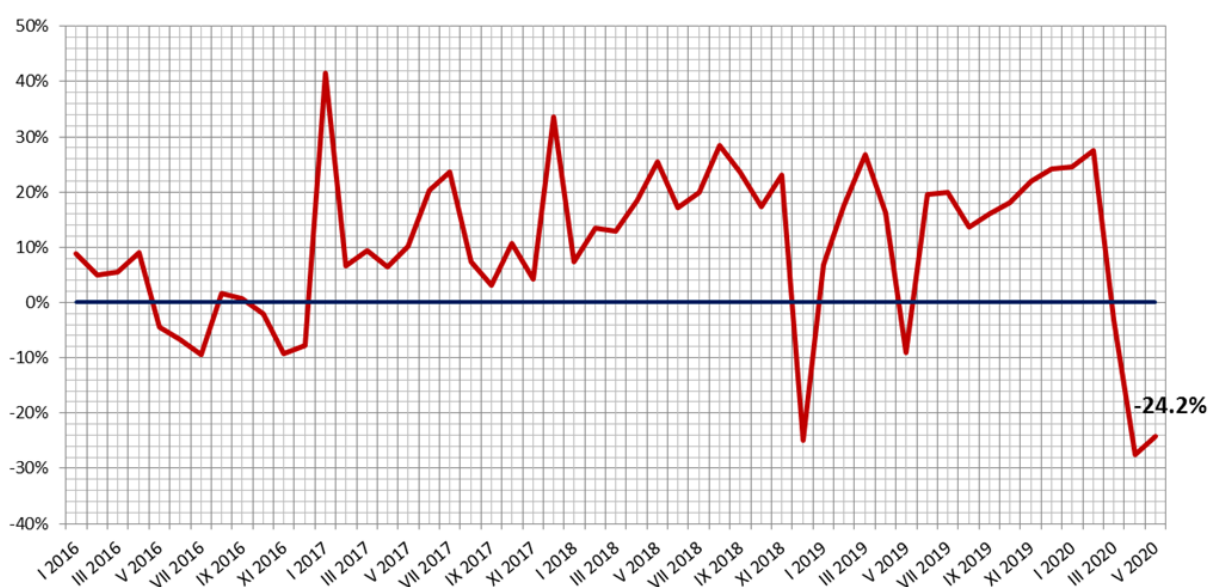
Concerned about the economy standing and the solvency of borrowers, banks, in addition to increased own contribution requirements, also became more conservative in creditworthiness calculations. The requirements for granting mortgage loans for persons running own business or employed under a civil contracts or fixed-term contracts have been tightened, some banks even do not accept such forms of employment. Particular attention is also paid to the sector of borrowers employment. Economic sectors most affected by pandemic (e.g. hospitality, tourism, transport, gastronomy) are presently on the increased-risk list, and people employed in those sectors have limited access to housing loan.

The loan interest rate is lower, but access to mortgage loans is more difficult. If such stringent criteria for new housing loans are not eased, the housing demand may decrease, because some potential buyers will not be able to get financing.

DECLINE IN DEMAND

The first negative consequences of the COVID-19 attack on the housing loan market were already visible in March this year. Many buyers withdrew from the transaction because they lost their creditworthiness or it decreased significantly. Lockdown, tightening of banks' lending policy and deterioration of the situation on the labour market resulted in housing loans demand (expressed as the value of BIK Index - Demand for Housing Loans, informing about the annual value changes of applied housing loans) decrease in April 2020 by 27.6% in comparison to the same month of the previous year. According to AMRON Centre data, the number of concluded loan agreements diminished by 20.7% in April (yearly), and the value decreased by 11.3%. In May, a slight improvement was recorded - BIK Index amounted to -24.2%, i.e. by 3.4 p.p. more than in April, however, it is far too early to forecast whether this means a return to the upward trend.

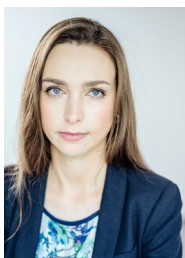
CHART 2. HOUSING LOANS DEMAND (ANNUAL RATES)



source: BIK



May was the first month of stepwise reducing the restrictions implemented by government to stop the spread of COVID-19. Consumer confidence was improved by defrosting the economy, government support in the form of anti-crisis shield and the possibility of temporarily postponing the loan repayment, however, job insecurity and fear of the future is still strong. On one hand, housing loan costs are record-low, there is no attractive possibilities of investing and inflation is high, but on the other hand people are afraid of losing their jobs and access to housing loans is difficult. It is therefore difficult to say, which side will prevail and what the housing market will look like in the post-COVID time. It will depend on whether the second wave of pandemics will return in the autumn, how long the period of postponing purchases will last, how much and how fast the level of unemployment rate and inflation will increase, and finally how much the money supply will be increased by the government and the NBP.



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AMRON Centre

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