

Press release

Berlin, July 24th, 2008

Welcoming Mr. Barack Obama

– The Association of Private Bausparkassen had been warning against dubious financing methods in 2005 already –

Today, the private Bausparkassen are welcoming the American presidential candidate Mr. Barack Obama by publishing a special welcoming note in the Berlin issue of a German newspaper. Therein they ask him to apply his slogan “Change. Yes we can.” to housing finance as well. “Presently” as to Mr. Andreas J. Zehnder, Chairman of the Association of Private Bausparkassen “hundreds of thousands of American families are facing serious financial distress due to the housing crisis.” Its repercussions have also spread to Europe and even to Germany.

To Mr. Zehnder’s judgement, however, the crisis is not an economic coincidence but due to the system itself. Only recently (see July 14th press release) the Association pointed out that in the US almost every second mortgage is granted without equity. Many so called average wage earners, who actually could not afford these 100% loan-to-value (LTV)-financings, were misled by taking out these adjustable rate mortgages (ARMs).

“These dubious financing methods”, according to Mr. Zehnder, “were considered a miracle cure to speed economic growth and were foreseen for implementation in the EU.” Original plans by the EU commission to establish a European unit housing financing method serve as evidence. London Economics, which was assigned by the commission, had argued for subprime markets according to those in the US. Indeed, in December 2007 the commission put the brakes on and abstained from an EU Directive. However, no one can guarantee that these plans vanish into thin air forever.

In fact, the EU commission has assigned London Economics to look into the business model of the so called non deposit lenders. It is in the commission’s

interest to know which legal prescriptions might avoid their implementation. As to Mr. Zehnder, “these pseudo-banks don’t refinance loans via deposits but by securitizing them. They have played an inglorious role in the US. All and sundry should by now have realized that it would be irresponsible to jeopardize sound European or German financing methods.”

The published note also brings up the World Bank’s role. In addition to US and UK Banks it has also paved the way for such dubious kinds of financing. “Other methods to finance homeownership, such as the Bauspar system have virtually been demonized by the World Bank.”, says Mr. Zehnder, “especially when these methods were linked to federal subsidy schemes.” Though, the US subprime crisis serves as evidence for the importance of equity based financing systems. In contrast to the US system, the German model is based on guaranteeing financial safety. All German credit institutions apply strict lending and credit ratings. “Bausparkassen, being special credit institutions, serve as an important safety feature regarding equity and interest rate guarantee.” stressed Mr. Zehnder. Building up equity by benefiting from Bauspar contracts, hence, deserves to be subsidized – and even more because only a small stimulus is needed to generate a much greater economic effect. US politics, in contrast, are still counting on tax deductions and tax exemptions. “The American taxpayer is to compensate for this multi-billion luxury”, as Mr. Zehnder points out.

The published note adds to quite a set of activities the Association had started even long before the US housing bubble burst. Its numerous activities show the great extend to which the Association takes this topic seriously. In addition to frequent press conferences, the Association took, amongst others, the following measures:

- Press release “Construction without equity? – Negative long range effects on the economy”, October 2006 (see newsletter “Wohnen in Deutschland”, issue 3/06)*
- Study release “The US mortgage market’s crisis” by Hans-Joachim Dübel, December 2006 & press conference, shortly before the IKB-debacle in July 2007* (see newsletter “Wohnen in Deutschland”, issue 02/07*)

- Press releases regarding US housing finance methods and corresponding plans of the EU commission, June 28th*, July 18th*, August 2nd*, 2007* & April 8th & July 14th, 2008*.
- Press releases of the European Federation of Building Societies, July 19th** , September 13th, 2005**, November 14th, 2006**, August 28th** , September 1st** , October 24th** , December 7th** , December 18th, 2007** & April 22nd, 2008**.
- More articles may be found in the issues 03/07*, 04/07*, 01/08* & 02/08* of the Association's newsletter "Wohnen in Deutschland".

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* Available in German at www.bausparkassen.de

** Available in English at www.efbs.org