

# OPTIMAL USE OF PRIVATE FINANCE FOR SOCIAL AND AFFORDABLE HOUSING



**The German Bausparkassen model**



# 1. Overview and context



Bausparkassen are credit institutions whose objective is to accept deposits (Bauspareinlagen) from customers (Bausparer) and to grant loans (Bauspardarlehen) from these aggregate savings to other customers for housing finance activities. Only these building societies are authorised to conduct the business (Bauspargeschäft)<sup>44</sup>. The bausparkassen are so-called **specialised institutions since they deal exclusively with financing of housing**.

Unlike in many other countries where building societies have declined, the Bausparkassen remain central to housing finance in Germany and Austria, where they provide a significant share of residential mortgage loans. Housing cooperatives in Germany often establish their own Bausparkassen within their institutions, thus functioning as savings schemes for members.

The system is characterised by fixed, below-market rates on both savings and loans. This closed circuit of savings and loans insulates members from financial market volatility and guarantees predictable financing conditions.

Special regulation and close supervision are essential to their success. In Germany, Bausparkassen are defined under the German Banking Act and the Bausparkassen Act as specialised credit institutions, operating under strong prudential oversight to build trust among savers and secure long-term resources for housing loans.

Comparable systems exist in Austria, Croatia, Czechia, Hungary, Slovakia, and Kazakhstan<sup>45</sup>.

## 2. Governance and ownership



In Germany, *bausparkassen* are either **privately owned, or publicly owned by federal or provincial governments**. German Landesbausparkassen<sup>46</sup> are public savings and loans banks which operate at the sub-national level and focus on low-interest residential mortgage loans. All Bausparkassen operate under banking law and require a license from BaFin, Germany's federal financial supervisory authority<sup>47</sup>.

## 3. Funding model



Their system involves closed-contract savings and loan circuits, where **loans are funded by long term savings and amortisation payments**. Bauspar loans are funded by contractual savings schemes, typically of **seven years, which can be complemented by government savings and tax incentives**. Such loans are **long term, have fixed predictable interest rates** and typically complement other loans financing home purchase<sup>48</sup>.

<sup>44</sup> Bausparkassen Act, 18/6903 § 1 (2015). [https://www.bausparkassen.de/wp-content/uploads/2025/04/Bausparkassen\\_Act\\_20160613.pdf](https://www.bausparkassen.de/wp-content/uploads/2025/04/Bausparkassen_Act_20160613.pdf)

<sup>45</sup> UNECE & Housing Europe, (2021). #Housing2030 Effective policies for affordable housing in the UNECE region, p. 72. [https://unece.org/sites/default/files/2021-10/Housing2030%20study\\_E\\_web.pdf](https://unece.org/sites/default/files/2021-10/Housing2030%20study_E_web.pdf)

<sup>46</sup> LBS website: <https://www.lbs.de/>

<sup>47</sup> Association of Private Bausparkassen, (2025). Legal background. <https://www.bausparkassen.de/en/bauspar-system/legal-background/>

<sup>48</sup> UNECE & Housing Europe, (2021). #Housing2030 Effective policies for affordable housing in the UNECE region, p. 72. [https://unece.org/sites/default/files/2021-10/Housing2030%20study\\_E\\_web.pdf](https://unece.org/sites/default/files/2021-10/Housing2030%20study_E_web.pdf)

## RATIONALE FOR USING SAVINGS SCHEMES TO PROVIDE FINANCE FOR HOUSING



### ARGUMENTS IN FAVOUR



### ARGUMENTS AGAINST

Provides a **source of mortgage finance for low and middle-income home buyers** who may not be able to secure this finance elsewhere

This measure **does not benefit the lowest income households** which cannot afford to save and service mortgages.

The requirement to save prior to borrowing is a good indicator of the **ability to successfully repay debt**. Therefore, the rate of default on contract savings schemes funded mortgages is low.

This measure may precipitate credit rationing because **new mortgages can only be granted when sufficient savings are available to fund them**.

Enables **counter cyclical provision of housing finance** when the ability of the banks and governments to provide this funding is limited. This proved to be particularly useful during the credit crunch.

Contract savings schemes are **likely to require government subsidies to generate adequate funding** for mortgages. This accentuates the regressive tendencies in this model.

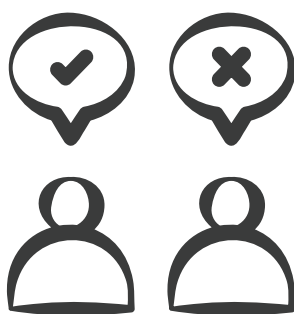
This model is **particularly useful in countries where the banking system and mortgage finance market is underdeveloped**.

Contract savings mortgages may be insufficient to cover the full costs of home purchase and borrowers **may need to secure an additional "top up" loan**.

Savings schemes can provide a **low-cost source of funding for social housing which is not on the government balance sheet**.

The contract savings model of using short-term funds from savings to fund long-term mortgages has inherent risks and therefore **requires strong regulation to ensure its long-term stability**.

Source: UNECE & Housing Europe, (2021)<sup>49</sup>.



<sup>49</sup> UNECE & Housing Europe, (2021). #Housing2030 Effective policies for affordable housing in the UNECE region, p. 60. [https://unece.org/sites/default/files/2021-10/Housing2030%20study\\_E\\_web.pdf](https://unece.org/sites/default/files/2021-10/Housing2030%20study_E_web.pdf)

## 4. Loan and investment conditions



Bauspar loans are financed exclusively through contractual savings and amortisation payments, creating a closed-circuit system in which savers later become borrowers and repay with interest and principal.

Interest rates on deposits and loans are generally below market levels. Low interest in the savings phase acts as an *option premium* for securing a guaranteed, fixed and affordable loan rate later. This feature makes Bauspar loans “sticky,” ensuring stability regardless of market fluctuations<sup>50</sup>.

Contracts usually last around seven years in the savings phase, after which borrowers access long-term, fixed-rate loans. These are often combined with other instruments, such as KfW promotional loans or commercial mortgages, to finance home purchases.

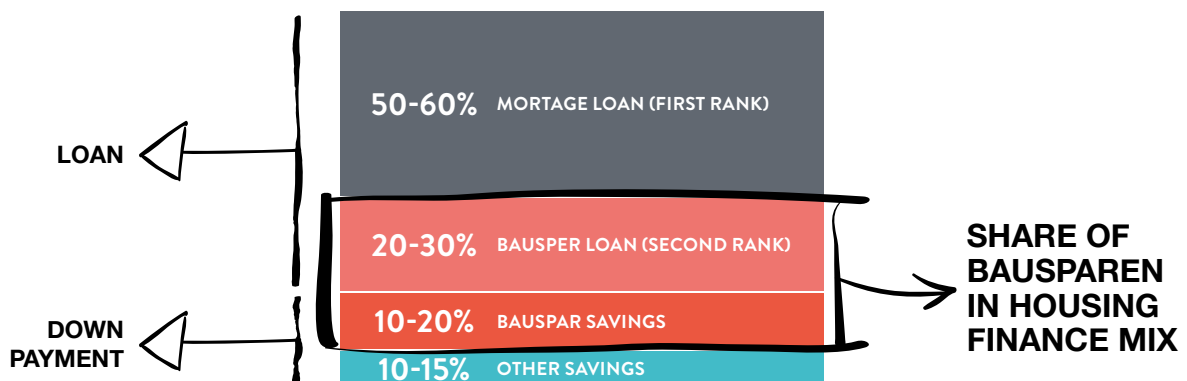
Advantages include:

- ➔ Increased equity through regular savings, reducing loan risk;
- ➔ Flexibility, with no prepayment penalties;
- ➔ Suitability for small, second-lien loans;
- ➔ Early homeownership, as Bauspar savers accumulate more than non-participants<sup>51</sup>

Overall, the model offers predictable, low-cost finance, complementing broader housing policies and supporting financial stability for households<sup>52</sup>.

### BAUSPAREN: A COMPLEMENTARY PRODUCT

Housing finance in Germany usually consists of three tiers. Bauspar loans are in the second rank.



Source: Weinrich, M. (2020)<sup>53</sup>.

<sup>50</sup> Weinrich, M. (2020). *Contractual Savings for Housing „Bausparen“: A Proven System of Housing Finance*. [PowerPoint Slides]. [https://www.housingfinance.org/wp-content/uploads/2020/04/6\\_1\\_Weinrich.pdf](https://www.housingfinance.org/wp-content/uploads/2020/04/6_1_Weinrich.pdf)

<sup>51</sup> Weinrich, M. (2020). *Contractual Savings for Housing „Bausparen“: A Proven System of Housing Finance*. [PowerPoint Slides]. [https://www.housingfinance.org/wp-content/uploads/2020/04/6\\_1\\_Weinrich.pdf](https://www.housingfinance.org/wp-content/uploads/2020/04/6_1_Weinrich.pdf)

<sup>52</sup> UNECE & Housing Europe, (2021). *#Housing2030 Effective policies for affordable housing in the UNECE region*, p. 72. [https://unece.org/sites/default/files/2021-10/Housing2030%20study\\_E\\_web.pdf](https://unece.org/sites/default/files/2021-10/Housing2030%20study_E_web.pdf)

<sup>53</sup> Weinrich, M. (2020). *Contractual Savings for Housing „Bausparen“: A Proven System of Housing Finance*. [PowerPoint Slides]. [https://www.housingfinance.org/wp-content/uploads/2020/04/6\\_1\\_Weinrich.pdf](https://www.housingfinance.org/wp-content/uploads/2020/04/6_1_Weinrich.pdf)



## 5. Impact and performance



Bausparkassen remain a central pillar of Germany's housing finance system, providing a **counter-cyclical and stable source of capital** that has proven especially valuable during periods of crisis, such as the 2008 financial downturn.

A good example is the **Spar- und Bauverein Dortmund<sup>54</sup>**, a cooperative that manages around **11,700 dwellings for 20,000 members**, supported by a **savings volume of €93 million**. Members contribute through cooperative shares (currently €1,278), and the institution operates under full banking regulation, requiring a licence from BaFin.

Beyond Dortmund, **47 housing cooperatives across Germany run their own savings institutions**. Together, they manage long-term savings contracts amounting to **€1.68 billion**, with an average of **€5,032 saved per member**. These deposits serve as a reliable financial resource for construction, modernisation, and maintenance projects, reducing dependence on capital markets and commercial banks.

For members, the benefits are twofold: stable and affordable rents thanks to favourable loan conditions, and improved housing quality supported by a steady flow of cooperative investment.

## 6. Cooperation with EU/International Institutions



Although primarily national in scope, the German Bausparkassen system is relevant in a wider European context:



- ➔ Similar contractual savings models exist in Central and Eastern Europe (e.g., Czechia, Hungary, Slovakia).
- ➔ In Germany, Bausparkassen often collaborate with promotional banks (e.g., KfW) and benefit indirectly from EU-backed funding streams supporting climate and housing objectives.



<sup>54</sup> Große-Wilde, F.B. (2019). *Spar- und Bauverein Dortmund*. [PowerPoint slides].

## 7. Advantages and disadvantages

### OVERVIEW OF THE ADVANTAGES AND DISADVANTAGES OF SAVING INSTITUTIONS

 ADVANTAGES	 DISADVANTAGES
This is a closed-contract savings and loan circuit model.	They are defined as specialised credit institutions and should comply with the German Banking Act and the Bausparkassen Act.
Enables counter cyclical provision of housing finance when the ability of banks and governments to provide this is limited.	This model does not benefit the lowest income households which cannot afford to save and service mortgages. Other types of housing (such as municipal housing) should be developed in parallel.
This model is particularly useful in countries where the banking system and mortgage finance market is underdeveloped.	—

Source: Own compilation. Housing Europe, (2025).

Note: This table was designed based on a qualitative synthesis of literature and policy analysis, notably *Housing Europe* (2025). The assessment criteria for advantages and disadvantages were selected to capture financial, operational, and social policy dimensions relevant to housing finance.

**One of the main implementation challenges lies in the need to establish dedicated regulations and robust supervisory mechanisms to ensure the model's long-term stability. Its success relies on maintaining a closed-circuit housing finance system that limits risk and operates under a clear and reliable regulatory framework. Consistent oversight is essential to build and sustain savers' trust, encouraging long-term savings that will ultimately enable participants to access affordable housing loans.**

## 8. Replicability and key success factors



### Replication of the German model requires:

- Introduction of **closed-circuit savings and loan finance**, with strict regulation.
- Establishment of **special legislation** (e.g. Bausparkassen Act in Czechia).
- **Strong supervisory capacity** (e.g. BaFin oversight in Germany).
- Long-term incentives (e.g., tax advantages) to attract savers.
- Parallel development of other housing types (e.g., municipal housing) to serve those excluded from Bauspar loans.

#### Key success factors:

- ➔ Closed-circuit funding with reduced risk.
- ➔ Strong public trust in the system.
- ➔ Clear social mandate and complementary role alongside promotional banks like KfW

## THE FINANCING OF SOCIAL HOUSING, AND PUBLIC HOUSING SUPPORTS IN GERMANY

TYPE OF FUNDING	% OF TOTAL		GENERAL COMMENTS
	MUNICIPAL HOUSING COMPANIES	COOPERATIVES	
Promotional Banks	50-70%	50-70%	50-70% e.g., Landesförderbanken; KfW
Own Equity	~ 20 %	Undefined	Both MHCs and Cooperatives should build up surpluses over time to help support investments in new construction (and renovations)
Direct Grants	~ 5-10%	~ 5-10%	One-off regional subsidies or land contributions
Commercial Banks	Undefined	Undefined	Typical mortgage loan from a commercial bank. Cooperatives usually prefer to use funds from their own credit institutions
Members' Savings (Spareinrichtung)	N/A	~ 25%	Capital provided at low rates of interest from special savings institutions attached to the cooperative housing sector
Sale of cooperative shares (tenant equity)	N/A	~ 25%	It is standard practice for cooperatives to seek an equity contribution from their tenants to co-finance development

Source: The research project which generated the findings and knowledge was funded by the Department of Housing, Local Government and Heritage in the frame of the Request for Tenders dated 30/07/2024 for the provision of research on social housing systems in the European Union.

Note: These figures are quite approximative, and it must be taken into account that the level and forms of public subsidies vary from region to region<sup>29</sup>.



**In Germany, a complex system has been put in place, diversifying public and private sources for housing policy.**

Firstly, in the case of public funds being used, different rules for ‘housing with a public task’ are applicable. In the case of replication of this public support, the given country should take into consideration that in Germany there is a difference introduced between **rental tenures with and without a public task**.<sup>55</sup>

Secondly, as seen through the case of Bausparkassen, housing cooperatives can act as finance institutions and use their respective **cash reserves which are sustained by rent collection, or turn to independent credit institutions** that offer different products:

- ➔ **Fixed loans:** loans with fixed interest periods of 5, 10 or a maximum of 25 years. The entire term of the loan secured by a land charge normally amounts to 25 or 30 years.
- ➔ **Flexible/referenced loans:** these loans are much less popular, and the interests are adjusted either according to the discretion of the financial institution or according to the Euro Interbank Offered Rate (EURIBOR) Index.
- ➔ **Mixed products:** i.e. combinations of life insurance and final maturity loan.
- ➔ **Building loan contract (Bausparvertrag):** the customer and the building society agree on a savings agreement, by which the customer is obliged to pay instalments in part (or in total) into the savings programme at a fixed rate for an average period of 8 years. After that time the customer has the right to receive the balance from the savings programme if its amount cannot cover the financing costs for a building, the building society grants the customer a building loan (by using the money from other building loan contracts which are still in progress).<sup>56</sup>
- ➔ **Hire and purchase plan (Mietkauf):** it could be of interest, particularly for those whose creditworthiness does not convince the banks and for those who are not able to come up with the 20% to 30% of their own equity. According to the respective tenancy contract, the tenant has a right to purchase the rented dwelling after a decided period of time, usually 5 to 20 years. This contractual solution can apply both to already existing dwellings and to prospective dwellings yet to be built. However, this model is considered, to be controversial, especially the consumer protection associations. In general, the following arguments are being raised: According to financial figures, the option of a hire and purchase plan is normally more expensive than a regular loan from a bank. Moreover, it is necessary to be very cautious, as far as the contractual obligations of the tenant are concerned, because very often the landlords seek, in advance of the purchase, to transfer all the ownership-obligations onto the tenant.

Finally, KfW (public institution) offers **state supported low-interest loans for housing and energy** programmes and is connected to the Federal Ministry of Finance.<sup>57</sup>

KfW **provided funds totalling EUR 111.3 billion in 2023 alone**. Of this amount, 33% was used for climate and environmental protection. Its financing and promotional services are aligned with the United Nations' Agenda 2030 and contribute to the achievement of the 17 Sustainable Development Goals (SDGs).

As a national promotional bank, KfW is **able to fund itself** for very good conditions on the capital market and then pass these loans on to private customers, businesses, non-profit organisations and local authorities at an affordable rate. This is partly **due to the guarantee from the German Federal Government**, but also due to the good reputation that KfW has established in our more than 60 years of reliable work on the capital markets.

Source: The research project which generated the findings and knowledge was funded by the Department of Housing, Local Government and Heritage in the frame of the Request for Tenders dated 30/07/2024 for the provision of research on social housing systems in the European Union.

<sup>55</sup> Regulated by Housing Subsidy Law (Wohnraumförderungsgesetz, WoFG); Basic Law (Grundgesetz, GG) Article 14, Article 28; Regional (State) Housing Laws and Municipal regulations such as zoning regulations, building permits for affordable housing, and exercise of the right of first refusal (Vorkaufsrecht) on property sales.

<sup>56</sup> Corenlus, J. and Rzezniak, J., (2014). *TENLAW project: National Report for Germany*, p. 11. [https://www.uni-bremen.de/fileadmin/user\\_upload/fachbereiche/fb6/fb6/Forschung/ZERP/TENLAW/Reports/GermanyReport\\_09052014.pdf](https://www.uni-bremen.de/fileadmin/user_upload/fachbereiche/fb6/fb6/Forschung/ZERP/TENLAW/Reports/GermanyReport_09052014.pdf)

<sup>57</sup> Fördermittel Deutschland, (2024). *Development banks -- Kreditanstalt für Wiederaufbau*. <https://www.foerdermittel-deutschland.de/foerderbanken/>



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