



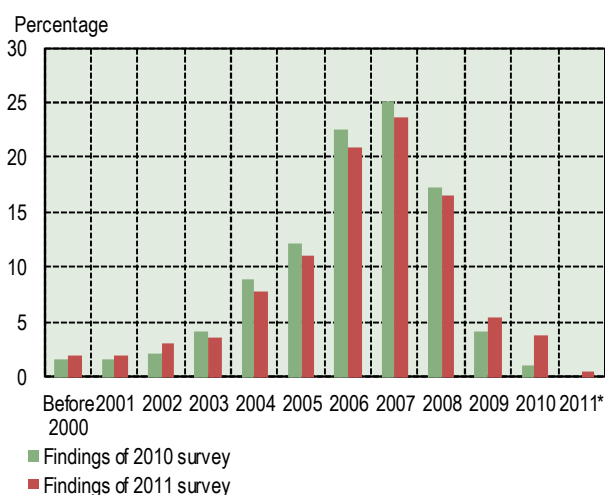
## **SURVEY OF HOUSEHOLDS WITH A HOUSING LOAN, 2011**

The Bank of Lithuania commissioned the survey conducted by Spinter Tyrimai, a market and public research company, between February and April 2011. The number of Lithuanian households with a housing loan from a bank, which were interviewed during the survey, was 995.

The data collected by the Bank of Lithuania shows 11.3 per cent of Lithuania's households are repaying housing loans. Despite the decline in the portfolio of housing loans to natural entities, which started in early 2009, the share of households with housing loans compared with the findings in a similar survey in 2010 remained unchanged due to a decrease in the number of households.

As shown in Fig. 1, around 61% of all the loans taken by the survey respondents were loans for house purchase issued between 2006 and 2008. The number of loans issued during the first months of 2011 suggests less intensive borrowing activity in the market early this year compared with the corresponding period a year ago.

**Fig. 1 Housing loans in a breakdown by year of issue**  
(compared to total number of issued loans)



Source: The household survey commissioned by the Bank of Lithuania.  
\* Loans issued to respondents by March 2011.

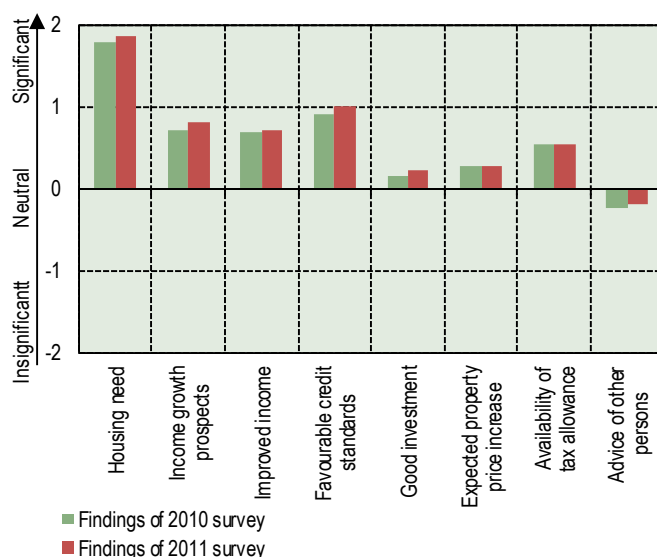
### **MAIN REASONS FOR BORROWING**

The need to buy their own home as the top reason for borrowing was reported by 99% of all the survey respondents that have obtained loans for house purchase. The second important reason for taking such loans as reported by respondents is acceptable credit standards, while the third and the fourth ones are income growth prospects and personal income tax allowance



availability. A possible rise in real property prices in future and thinking of property as good investment, as well as advice by other persons were reported as insignificant when taking a loan for house purchase. Availability of personal income tax allowance and advice by other persons turned out to be less important reasons among the borrowers between 2010 and 2011 compared with the overall average. However, acceptable bank credit standards and optimistic outlook regarding the growth of income in future were reported as being more significant reasons for borrowing. The above priorities regarding the reasons for borrowing show an improvement in households' perceptions related to future income and bank credit standards. This is expected to encourage households borrowing and lead to an easing of debt burden for households.

**Fig. 2 Prioritization of reasons for borrowing**



Source: The household survey commissioned by the Bank of Lithuania.

### **STRUCTURAL INDICATORS FOR HOUSING LOANS**

The findings of the 2011 survey revealed that average housing loan amount in Lithuania increased by LTL 4,000 to LTL 154,000 compared with the findings of the 2010 survey. The highest amounts of loans for house purchase to households have been reported in Vilnius, where such loans on average make up LTL 210,000. In Kaunas and Klaipėda the average loan amount is lower standing at LTL 179,000. In other locations the average loan amount is approximately LTL 98,000.

It should be noted that an opposite trend can be observed if statistical data on the portfolio of loans for house purchase are taken into account: despite a more intensive borrowing by households for buying a home (a rise in the number of housing loans), households tend to borrow lower amounts (total value of the housing loan portfolio has continued to decrease). A



considerable part of households has likely used their savings and other assets to pay for the housing they have acquired.

Majority (54%) of respondents report they have taken euro-denominated loans, other (45%) say their loans are in litas, and only a small part answered they have taken loans in other currencies.

There is a strong correlation between monthly household income and loan amount. In case the household monthly income exceeds LTL 3,000, the average loan amount is above LTL 184,000, and when the family monthly income is below LTL 3,000, the average loan amount less than LTL 89,000. The average loan amount compared with the findings of similar survey conducted in March–April 2010 grew by LTL 2,000 for households with monthly income above LTL 3,000, but decreased by LTL 28,000 for households with monthly income below LTL 3,000.

An average term of loans obtained by respondents is 23 years. Compared with the findings of the previous year household survey, the average housing loan term is nearly by five months shorter. It is 25 years on average in Vilnius, Kaunas and Klaipėda, and 20 years in other locations. Households with the highest monthly earnings (above LTL 3,000) tend to take loans with the longest term, which is on average 24 years; it should be noted however that the loan amount and average term are closely related. The average term of housing loans is 20 years for households with monthly income between LTL 2,000 and LTL 3,000, and 23 years for households with monthly income below LTL 1,200. Also, it should be noted that the term of housing loans for households with the lowest income has grown by 3.5 years.

The survey findings showed that two thirds of households preferred the annuity method and 30% preferred the linear method for their periodical installments to be calculated. Meanwhile, 7% of respondents say they do not know what method is used to calculate their periodical installments.

## **HOUSING LOAN INSTALMENTS**

A working member of a household earns on average about LTL 2,459 of disposable income. A decrease of 3% compared with the last year survey findings. The income level change is similar to the average net wage decrease in 2010, sole enterprises included. Nonetheless, the average income of a working member in a household with a housing loan is 1.5 times higher than the country's net wage average.

The main breadwinner (the one whose income is the highest) in households with a housing loan is reported to be an educated professional or a white-collar worker (59%), blue-collar worker (around 21%) or to run his (her) own business (10%). In around 9% of households in Lithuania, the breadwinner works in an executive position.



One fifth of the households also have additional financial liabilities other than housing loans. The average share of households' income, which is allocated for paying off housing loan and additional financial liabilities, made up 34% and is more than 8 percentage points higher compared with the average share of income of households only with a housing loan, which is allocated for loan repayment. It should be noted that additional financial liabilities are reported by households with higher income (on average the income of a household with additional financial liabilities is above LTL 4,300).

**Table 1 Housing loan installments; principal and interest repayments (by location)***(LTL; per month)*

	Vilnius	Kaunas	Klaipėda	Other locations	Lithuania
Housing loan instalments*	1,319	1,150	1,056	695	1,006
Principal repayments	688	656	488	395	540
Interest repayments	631	494	569	300	466

\* As some of respondents have failed to report about splitting of their housing loans into principal and interest repayments, the sum of the latter two repayments is not equal to the household loan instalment.

**Table 2 Housing loan principal repayments (by income)***(LTL; per month)*

Principal repayment	Household monthly income				Total
	Below LTL 1,200	LTL 1,201–2,000	LTL 2,001–3,000	Above LTL 3,000	
Minimum	40	40	45	17	17
Maximum	560	820	1,200	3,300	3,300
Average	227	317	349	638	540

In late 2010, average interest rate paid by households for a housing loan was 4.60%. According to the survey, majority of respondents (56%) reported the initial fixation period for the interest rate on their housing loans was up to 1 year, and nearly 35% of respondents said it was over 1 year, while less than one tenth of the respondents failed to answer the question.

**Table 3 Housing loan interest repayments (by income)***(LTL; per month)*

Interest repayments	Household monthly income				Total
	Below LTL 1,200	LTL 1,201–2,000	LTL 2,001–3,000	Above LTL 3,000	
Minimum	10	17	10	10	10
Maximum	820	1,400	950	4,000	4,000
Average	200	265	280	559	466

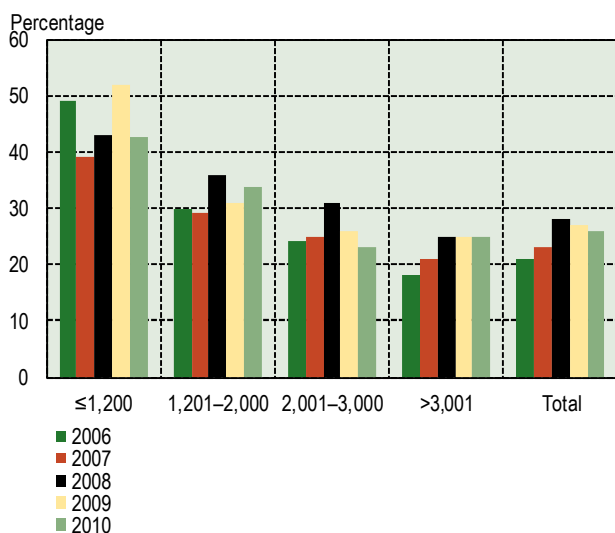


## PERCEPTION OF HOUSING LOAN BURDEN <sup>1</sup>

### Perception of current burden

In 2010, the average share of a household's income, allocated for the repayment of its housing loan made up 26% of the household's disposable income, a slight decrease (by 1 percentage point) compared with the data for 2009. The most significant (about 18%) decrease in the share of income for the repayment of housing loans is reported by households whose monthly income is less than LTL 1,200. However, only a slight decrease is observed in the share of income allocated for the repayment of housing loans of households from other income groups. The ECB's easy monetary policy that led to lower key interest rates and an increase in net wage that started in the middle of 2010 are likely the major drivers behind a decrease in housing loan burden for households, especially for those with lower income.

**Fig. 3 Household income share allocated for repayment of household loan**



Source: The households survey commissioned by the Bank of Lithuania.

The number of households that reported the housing loan being a very heavy burden went down by 3 percentage points compared with the previous year. The most significant changes in the households' reports are observed in Kaunas, Vilnius and among households with income below LTL 2,000.

<sup>1</sup> Housing loan burden includes loan principal and interest repayments.

**Table 4 Perception of housing loan burden (by location)***(percentage; the change in percentage points compared with the findings in the 2009 household survey is presented in square brackets)*

	Vilnius	Kaunas	Klaipėda	Other locations	Lithuania
Very heavy burden	38 [-5]	41 [-4]	40 [-5]	46 [0]	42 [-3]
Small burden	40 [-1]	55 [+9]	44 [+1]	43 [+1]	44 [+1]
Not a burden at all	22 [+6]	4 [-5]	16 [+5]	11 [-1]	14 [+2]

**Table 5 Perception of housing loan burden (by income)***(percentage; the change in percentage points compared with the findings in the 2009 household survey is presented in square brackets)*

	Household monthly income				Total
	below LTL 1,200	LTL 1,201–2,000	LTL 2,001–3,000	Above LTL 3,000	
Very heavy burden	41 [-4]	55 [+10]	46 [+5]	39 [-4]	42 [-1]
Small burden	47 [+7]	36 [-11]	41 [-5]	48 [+2]	46 [0]
Not a burden at all	12 [-3]	8 [+1]	13 [-1]	13 [+2]	12 [+1]

Almost 33% of respondents pointed out that they were at least once late in paying housing loan installments within the last 12 months. Most often households were late to pay for utilities (21%) and other services (17%). Meanwhile, housing loan installments or payments for additional financial liabilities were considered by households very significant, and household did their best to make them on time. Of all the respondents 15% reported about delayed payment of their housing loan installment at least once and 7% confessed about delayed installments for other loans. The most common reason of such delay was a decrease in household income (24% of respondents), an increase in household expenditure (19%), and loss of job (6%). The number of respondents that were at least once late to make their housing loan installment dropped by 3 percentage points compared with the findings of the survey last year. A decreasing number of households late in paying loan installments or making other payments shows that less households are facing financial problems.

**Table 6 Share of households that delayed paying loan installments or making other payments (by income)***(percentage; the change in percentage points compared with the findings in the 2009 household survey is presented in square brackets)*

	Household monthly income				Total
	below LTL 1,200	LTL 1,201–2,000	LTL 2,001–3,000	Above LTL 3,000	
Housing loan installment	15 [-30]	20 [-6]	18 [-4]	14 [-3]	15 [-3]
Other loan installments	6 [-16]	6 [-3]	9 [+1]	7 [-6]	7 [-4]
Utilities payments	24 [-37]	24 [-3]	23 [-1]	19 [-4]	21 [-3]

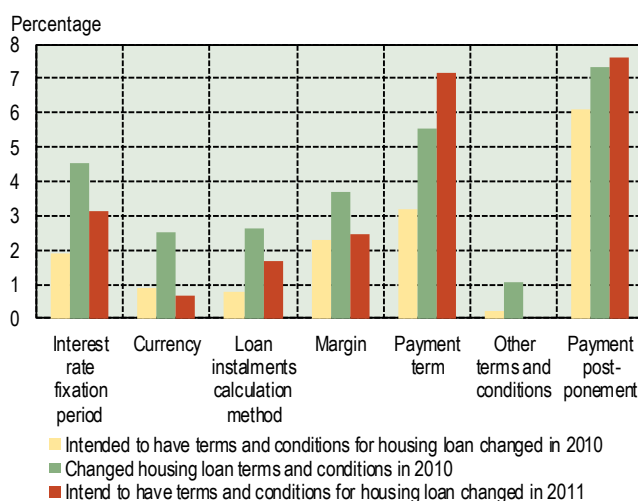
In 2010, 22% of households (nearly the same percentage as last year) that participated in the survey reported their housing loan repayment terms and conditions have been changed. The number of respondents for whom the loan repayment terms have been changed grew by 9 percentage points compared to the number of respondents who had promised to do it during the



previous year survey. Most often, households has their principal repayment postponed or the loan repayment period, the loan interest fixation period, and the bank margin changed. In some cases households have changed more than one term in their housing loan agreement. In 2010, the biggest changes were observed in the number of those willing to change the loan interest rate fixation period (increased by 2 percentage points) and those willing to change the loan currency (decreased by 2 percentage points). Complicated financial situation and lower household income most likely prompted households to apply to banks with a request to extend their loan term or postpone the principal repayment.

In 2011, around 17% of households report they intend to apply to banks asking to change their housing loan payment terms and conditions, a 4% decrease compared to 2010. The survey respondents say they intend to request for postponement of the principal payment, extension of loan payment term or change of interest rate fixation period and the bank margin.

**Fig. 4 Housing loan payment terms and conditions that were changed or intended to be changed in 2010-2011**



Source: The household survey commissioned by the Bank of Lithuania.

The housing loan burden perception by majority of respondents may have been affected by the saving instruments and reserves they have, as these help to ease the housing loan burden during contingencies. Of all survey respondents 85% reported holding at least one saving instrument. Out of which 34% said holding some savings at home and (or) a deposit with a bank, 9% admitted having invested in investment funds and (or) holding securities, and 9% reported having invested in real property. It should be noted that more than 70% of the respondents who reported having at least one saving instrument earn more than LTL 3,000 per month.

**Expected burden changes**

With regard to housing loan burden perception by households within the next 12 months, households say they do not expect any changes in their housing loan burden. The analysis of the housing loan perception by different income groups revealed some significant changes only among households earning less than LTL 2,000 per month.

**Table 7 Perception of housing loan burden within the next 12 months (by location)**

(percentage; the change in percentage points compared with the findings in the 2009 household survey is presented in square brackets)

	Vilnius	Kaunas	Klaipėda	Other locations	Lithuania
Of a very big concern	40 [-1]	39 [-6]	39 [-4]	45 [+1]	42 [-1]
Of a slight concern	42 [-1]	58 [+8]	49 [+7]	43 [-2]	46 [0]
No concern	18 [+1]	3 [-2]	12 [-3]	12 [+1]	12 [+1]

**Table 8 Perception of housing loan burden within the next 12 months (by income)**

(percentage; the change in percentage points compared with the findings in the 2009 household survey is presented in square brackets)

	Household monthly income				Total
	below LTL 1,200	LTL 1,201–2,000	LTL 2,001–3,000	Above LTL 3,000	
Of a very big concern	45 [-12]	45 [-12]	41 [-6]	42 [+7]	43 [+4]
Of a slight concern	40 [-3]	47 [+13]	45 [+2]	47 [-1]	46 [-1]
No concern	15 [+15]	8 [0]	14 [+4]	11 [-6]	11 [-4]

**HOUSING PRICE FORECAST**

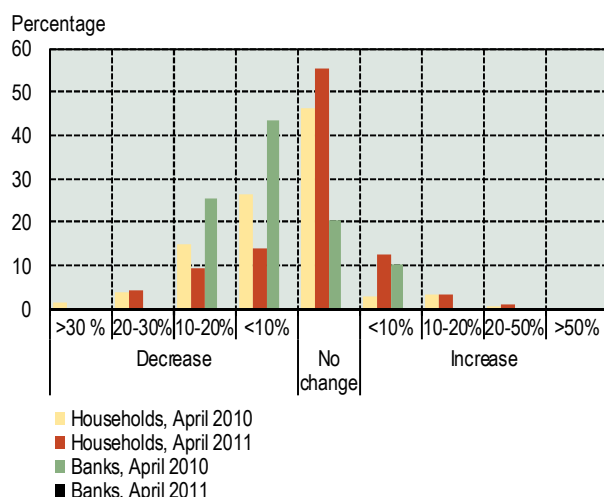
The survey participants reported the loan-to-value ratio for their loans was on average 71%. The analysis of the loan-to-value ratio for various income groups revealed a trend, according to which the higher the household's disposable income, the lower loan-to-value ratio. The loan-to-value ratio for loans extended to the lowest income (below LTL 1,200) households makes up on average 78%, whereas the average loan-to-value ratio for loans taken by households with income higher than LTL 2,000 is lower and makes up 71%. It should be noted that almost 13% of respondents reported their loan-to-value ratio to be 100%. In case these households are insolvent, the collateral submitted by them may be insufficient to pay off the undertaken liabilities, which eventually may pose threat to the banking system, in particular when the value of the collateral is going down. It should be noted that the highest loan-to-value ratio was reported by households the amount of loan obtained by which is higher than the average loan amount (LTL 235,000 on average) with a longer than medium term (29 years on average).

The survey respondents when asked about the price developments regarding the most frequently used collateral (housing) within the next 12 months said they expected the housing prices to grow on average by 1%. The survey findings show 17% of respondents (48% during the 2009 survey) expected housing prices to decline in Lithuania within the next 12 months,



44% expected them to stay unchanged, and 28% expected them to grow. The number of optimists among households which believe the property prices are to rise and the number of those who believe the property prices are to stay stable in the nearest future went up compared with the findings of the similar survey in 2010. The majority of respondents forecast the housing prices to increase between 0% and 10%. Households were fairly unanimous in their views regarding the property price developments compared to the bank lending survey in October 2010.

**5 Fig. 5 Breakdown of expectations regarding housing price developments within next 12 months**



Sources: The Bank of Lithuania commissioned household survey and the Bank of Lithuania conducted bank lending survey.

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