



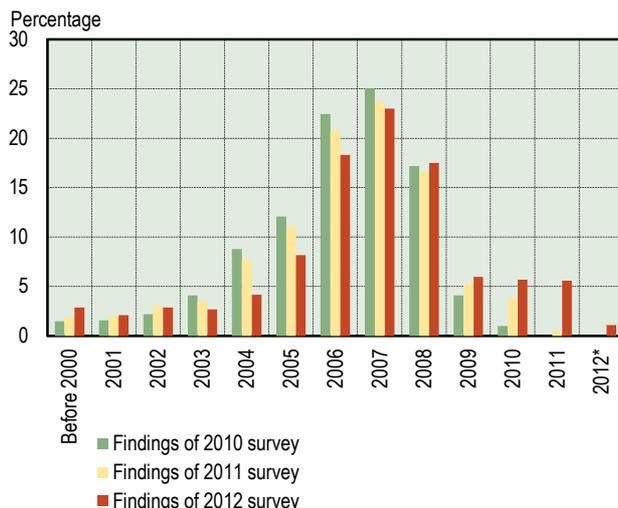
SURVEY OF HOUSEHOLDS WITH A HOUSING LOAN, 2012

The survey was commissioned by the Bank of Lithuania and conducted by Spinter Tyrimai, a market and public research company, between February to March 2012. The number of Lithuanian households with a housing loan from a bank, which were interviewed during the survey was 1005.

The data collected by the Bank of Lithuania show that 11.6% of households in Lithuania have taken a mortgage. An increase in the number of indebted households can be explained by two factors which complement each other: an increase in the number of individuals who were issued loans for house purchase and further decrease in the number of households in 2011. It should be noted that the number of households with consumer and other loans nearly halved during one year. (According to the data for the end of 2011, households with a consumer loan or other loan than for house purchase made up 17.5%, a decrease from 29.9% in a corresponding period in 2010.)

As can be seen in Fig. 1, housing loans issued during an economic upsurge in 2006 to 2008 made up the largest portion (about 59%) of total loans granted to the survey respondents. The number of loans issued in the first months of 2012 suggests a significant increase in lending at the beginning this year compared to the same period last year.

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



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

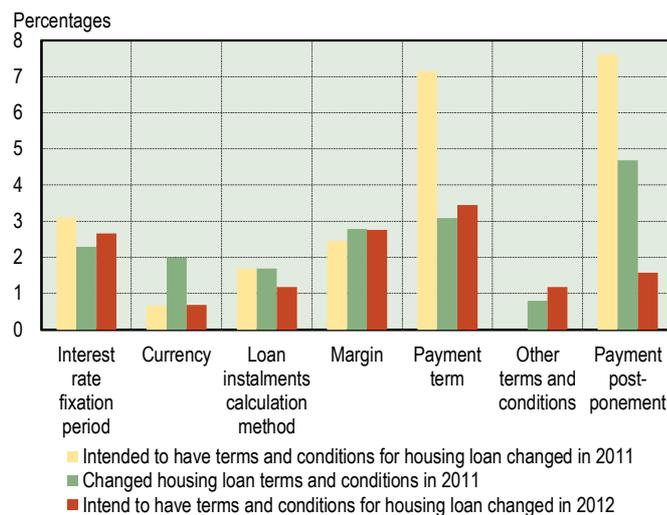
* Loans issued to respondents by March 2011.



MAIN REASONS FOR BORROWING

The majority of the survey respondents (96.6%) with a loan for house purchase said the need for their own housing was the main reason for borrowing. Positive income prospects and favourable bank lending conditions were the second and the third important reason for taking a housing loan. The growing importance of actual income increase and prospects for income growth in future show that households have become more responsible and have developed a more conservative approach towards their financial liabilities. A possible increase in real estate prices in future and viewing real estate as a good investment, as well as advice by other persons were insignificant when taking a loan for house purchase. The significance of personal income tax allowance is fading away naturally because of the higher number of respondents who have taken a loan in the period when the said allowance has no longer been available.

Fig. 2. Prioritization of reasons for borrowing



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

STRUCTURAL INDICATORS FOR HOUSING LOANS

In Lithuania, average housing loan amount grew by LTL 1,000 compared with the findings of the 2011 survey to LTL 159,000. The highest amounts of housing loans to households were reported in Vilnius, where such loans on average make up LTL 212,000. In Klaipėda and Kaunas, the average loan amount was lower standing at LTL 194,000 and LTL 182,000 respectively. In other locations the average loan amount made up approximately LTL 101,000. Compared to the last year survey results, average housing loan amount increased almost in all locations, but the most notable growth was recorded in Klaipėda.

A strong correlation exists between monthly household income and loan amount. For households whose monthly income is above LTL 3,000, the average loan amount is over LTL 188,000. And for households whose monthly income is below LTL 3,000, the average loan



amount is smaller (about LTL 94,000). Compared to the results of a similar survey for March-April 2010, the average loan amount within both groups increased approximately by LTL 4,000 to 5,000.

An opposite trend however could be observed, if the Bank of Lithuania's statistical data for the housing loan portfolio were included. Although borrowing by households for house purchase intensified (the number of housing loans increased), they preferred taking lower loan amount (gross value of housing loan portfolio continued to shrink). A sizeable number of households most likely had used their savings or other assets to cover at least part of the value of acquired real estate.

The majority of the respondents or 52.5% have loans in euro, 46.1 % in litas, and only a small number have loans in other currencies.

An average housing loan maturity among the survey respondents was 25 years, an increase of two years compared with the results of the household survey results in the previous year. An average housing loan maturity was 26 years in Vilnius, 27 in Klaipėda, 24 in Kaunas, and 23 in other locations. Households with the highest income (above LTL 3000) borrowed at the longest maturity which was 26 years on average. It should be noted that a borrowing period and an average loan size are closely related. An average housing loan maturity for households with monthly income of LTL 2,000 to 3,000 was 23 years, and 22 years for households whose monthly income was below LTL 1,200.

The survey results revealed that nearly 62% of households preferred the annuity method to have their periodic payments calculated, and 33% preferred the linear method. 5% of the respondents reported they did not know what method was used to calculate their periodic payments.

HOUSING LOAN PAYMENTS

In the beginning of 2012, an average amount of disposable income for a working household member was LTL 1,850, a one-fourth decrease compared with the last year survey results. This change in the income level is opposite to the growth of an average net wage in 2011, (sole proprietorships included). The difference in trends could have formed due to the peculiarities of the sample selection process. However, the average income of a working member of a household with a housing loan continues to be higher than the country's average net wage.

The highest income, as reported by households with a housing loan, were received by professionals or white-collar workers (55%) who were followed by blue-collar workers (about 16.5%) and breadwinners in an executive position. Approximately 8.8% of households in Lithuania earn their living from their private business.



The survey results in line with statistical data released by the Bank of Lithuania show a decrease in the number of households which have financial liabilities other than housing loans. The last year survey results showed every fifth household had financial liabilities other than housing loans, a 2% decline compared to the results of the April 2012 survey. It was therefore a paradox that an average income share for loan repayment (22%) in households with a housing loan and other financial liabilities, including periodic payments for these liabilities, was almost by 1% lower than an average income share for loan repayment in households only with a housing loan. It should be noted that households with additional financial liabilities belong to a group of households with higher earnings (average income of a household with additional financial liabilities made up LTL 4,800).

Table 1. Housing loan instalments; principle amount and interest repayments (by location)

(LTL; per month)

	Vilnius	Kaunas	Klaipėda	Other locations	Lithuania
Payments* of housing loans	1 187	1 012	1 089	686	942
Principal repayments	646	517	528	373	502
Interest repayments	538	488	568	302	437

* As some respondents failed to split the housing loan repayment into principal repayment and interest repayment, the sum of these two components in the table did not match the size of housing loan repayment.

Table 2. Housing loan principal repayments (by income)

(LTL; per month)

Principal repayments	Household monthly income, LTL				Total
	up to LTL 1,200	1,201–2,000	2,001–3,000	More than LTL 3,000	
Minimum	25	14	30	24	14
Maximum	274	800	1 500	4 500	4 500
Average	111	244	343	589	502

At the end of 2011, average interest rate paid by households for a housing loan was 4.4%. According to the survey results the majority of respondents (52.9%) reported that their housing loans had an initial rate fixation of up to one year, 41.2% reported an initial fixation of over one year, while 6% of respondents failed to provide an answer.

Table 3. Housing loan interest repayment (by income)

(LTL; per month)

Interest repayments	Household monthly income, LTL				Total
	up to LTL 1,200	1,201–2,000	2,001–3,000	More than LTL 3,000	
Minimum	50	20	15	14	10
Maximum	287	820	1 150	2 263	2 263
Average	120	199	298	513	437

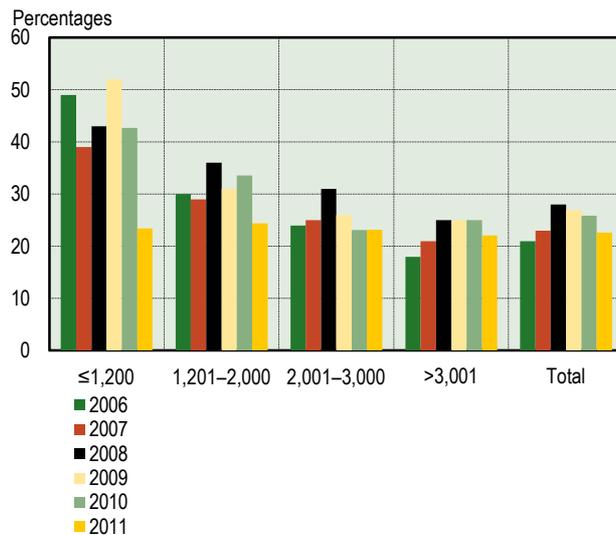


PERCEPTION OF HOUSING LOAN BURDEN ¹

Perception of current burden

In the beginning of 2012, an average share of household's income allocated for the repayment of its housing loan made up 22.6% of the household's disposable income, a slight decrease of 3.3 percentage points compared to corresponding period in 2011. The most significant decrease (by almost one fifth) in the income share for the repayment of housing loans was reported by households with income up to LTL 1,200. However, only a slight decrease was observed in the income share allocated for the repayment of housing loans by households from other income groups. The housing loan burden for households with lower income may have eased driven by low interbank interest rates (following the implementation of the accommodative monetary policy by the ECB) and by an increase in net wages and declining unemployment.

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



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

A decrease of 7 percentage points was recorded year on year in the number of households which reported that the housing loan was a very heavy burden for them. The most significant changes in households' reports were observed in Kaunas and Vilnius, and among households whose earnings were below LTL 2,000.

¹ Housing loan burden includes loan principal and interest repayments.

**Table 4. Perception of the housing loan burden (by location)***(percentage; the change in percentage points compared with the findings in the 2011 household survey is presented in square brackets)*

	Vilnius	Kaunas	Klaipėda	Other locations	Lithuania
Very heavy burden	37 [-1]	19 [-22]	39 [-1]	38 [-8]	35 [-7]
Small burden	45 [+5]	56 [+1]	45 [+1]	49 [+6]	48 [+4]
Not a burden at all	18 [-4]	25 [-21]	16 [0]	13 [+2]	17 [+3]

Table 5. Perception of the housing loan burden (by income)*(percentage; the change in percentage points compared with the findings in the 2011 household survey is presented in square brackets)*

	Household monthly income, LTL				Total
	up to LTL 1,200	1 201–2 000	2 001–3 000	More than LTL 3,000	
Very heavy burden	29 [-12]	32 [-24]	46 [0]	33 [-6]	35 [-7]
Small burden	52 [+5]	54 [+18]	42 [+1]	49 [+1]	48 [+2]
Not a burden at all	19 [+7]	14 [+6]	12 [-1]	18 [+5]	17 [+5]

Almost 30% of respondents reported they delayed any loan or utilities payment at least once within 12 months. Delays were reported mainly in paying utilities (19%) and other services (7%) or a housing loan (11%). Periodic housing loan instalments and payments for other financial liabilities were considered important by households and they did their best not to delay them. Most often the delay was caused by increased household expenses (20% of respondents), lower household income (19%), and a job loss (5%). The number of respondents who were at least once late to make any loan or utilities payments declined by 3 percentage points compared to the results of previous year survey. A decreasing number of households who delayed paying loan instalments or other payments showed that less households were facing financial problems.

Table 6. Share of households late in paying housing loan instalments or making other payments (by income)*(percentage; the change in percentage points compared with the findings in the 2011 household survey is presented in square brackets)*

	Household monthly income, LTL				Total
	up to LTL 1,200	1,201–2,000	2,001–3,000	More than LTL 3,000	
Housing loan instalment	5 [-10]	20 [0]	19 [+1]	16 [+2]	11 [-4]
Other loan instalments	1 [-5]	4 [-2]	9 [0]	7 [0]	7 [0]
Utilities payments	10 [-14]	28 [+4]	25 [+2]	18 [-1]	19 [-2]

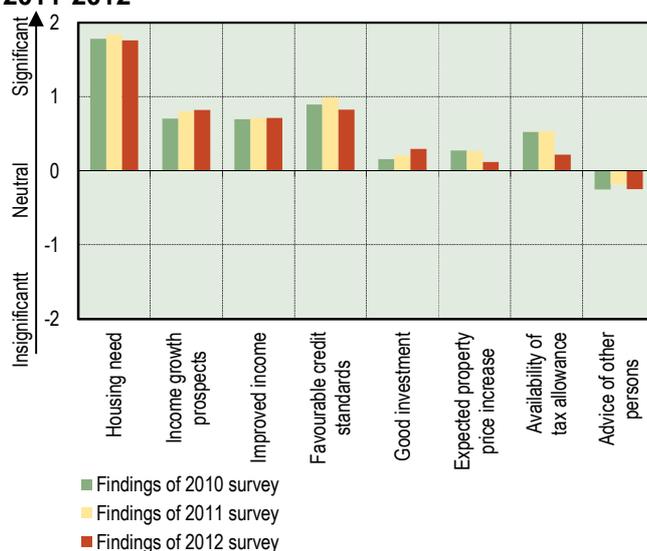
The number of households who had their housing loan repayment terms and conditions changed in 2011 decreased notably to make up 17%. The number of respondents who changed their loan terms and conditions decreased further by 5 percentage points compared to the number of respondents who had promised to do this during the previous year survey. Households reported they had their loan repayment period changed more often compared to previous periods when postponement of the principal repayment was more popular. However, it



should be noted that less households asked for changing their housing loan repayment terms and conditions compared to the number of households who intended to do this in the beginning last year. But loan currency, margin and other conditions were changed more often than intended. Separate households had changed more than one condition in their housing loan payment agreement.

About 14% of households intend to apply to banks in 2012 for changes to their housing loan repayment conditions, a decrease of 3 percentage points compared to 2011. Respondents said they mainly intended to ask for the revision of their loan repayment period, margin, fixation of interest rates, and the loan principal repayment postponement. These plans and expectations may be related to less strict credit risk assessment and a decrease in margins for borrowers.

Fig. 4. Housing loan payment terms conditions that were changed or were intended to be changed in 2011-2012



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

The housing loan burden perception by the majority of respondents may have been affected by saving instruments and savings available to them, as these help to ease the housing loan burden during contingencies. Of all survey respondents 87% reported holding at least one saving instrument. Out of which 63% said holding assets in pension funds, about 43% admitted having life insurance coverage, more than one quarter reported holding a bank deposit, and one fifth said they had some savings at home. It should be noted that more than 90% of the respondents who reported having at least one saving instrument earn more than LTL 3,000 per month. A household often has more than one saving instrument.

Expected burden changes

When looking at household reports regarding housing loan burden during next 12 months one can see increasing number of households who say that housing loan burden would cause no or



only a slight concern. This shows improved financial situation and better assessment prospects in future. 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 next 12 months (by location)

(percentage; the change in percentage points compared with the findings in the 2011 household survey is presented in square brackets)

	Vilnius	Kaunas	Klaipėda	Other locations	Lithuania
Of a very big concern	37 [-3]	32 [-7]	36 [-3]	36 [-9]	36 [-6]
Of a slight concern	48 [+6]	51 [-7]	50 [+1]	47 [+4]	48 [+2]
No concern	15 [-3]	17 [+14]	14 [+2]	17 [+5]	16 [+4]

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

(percentage; the change in percentage points compared with the findings in the 2011 household survey is presented in square brackets)

	Household monthly income, LTL				Total
	up to LTL 1,200	1,201–2,000	2,001–3,000	More than LTL 3,000	
Of a very big concern	28 [-17]	33 [-12]	45 [+4]	34 [-8]	36 [-7]
Of a slight concern	54 [+14]	50 [+3]	42 [-3]	49 [+2]	48 [+2]
No concern	18 [+3]	17 [+9]	13 [-1]	17 [+6]	16 [+5]

HOUSING PRICE FORECAST

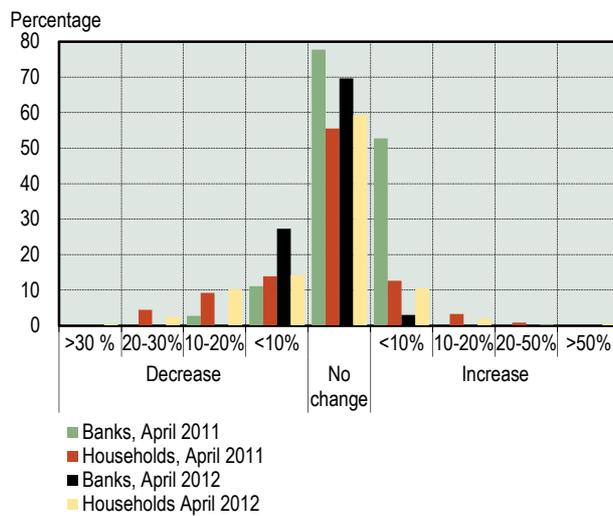
The survey participants reported the loan-to-value ratio for their loans was on average 71%, i.e. no change was observed year on year. The analysis of the loan-to-value ratio for various income groups revealed a trend, according to which the higher the household's disposable income, the higher loan-to-value ratio. This trend is opposite to the results observed in previous year. The loan-to-value ratio for loans extended to the lowest income (below LTL 1,200) households makes up on average 70%, whereas the average loan-to-value ratio for loans taken by households with income higher than LTL 2,000 declined to 72%. It should be noted that almost 13% of respondents reported their loan-to-value ratio to be 100%. In case of insolvency, the collateral submitted by these households may be insufficient to pay off undertaken liabilities, which eventually may pose additional 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 who had obtained higher than the average loan amount (LTL 213,000 on average) with a longer than average maturity (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 showed that 13% of respondents (17% during the 2010 survey) expected housing prices to decline in Lithuania within the next 12 months, 60% expected them to stay unchanged, and 27% expected them to grow. A decline



compared to 2011 was observed in the number of households who believe the property prices would go down in the coming years, as opposed to the number of those who said that real estate prices would to stay unchanged. Compared to the results of the bank lending survey in 2012, the households' view was close to that of banks regarding the real estate price developments.

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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