Bank Risk in Real Estate Finances in Poland

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Key words: risk, real estate finances, dwelling.

SUMMARY

The authors of the study have presented some of the problems of the banking sector involved in the financing of housing projects in the Polish real estate market. The study begins with a presentation of the Polish economy against those of some other European countries, to continue with the specific nature of investing and the risk sources in the housing market. In particular, the authors have attempted to identify the changes in the credit policies of banks that occurred in the wake of the latest global crisis. This was based on the authors' 2010 survey of 39 branches of 15 major banks, which offer products in the Polish market designed to finance projects in the real estate market.

SUMMARY

W opracowaniu autorki zaprezentowały wybrane problemy dotyczące funkcjonowania sektora bankowego zaangażowanego w finansowanie projektów realizowanych na polskim rynku nieruchomości mieszkaniowych. Rozważania rozpoczęto od scharakteryzowania polskiej gospodarki na tle wybranych krajów Europy, aby dalej przedstawić specyfikę inwestowania oraz źródła ryzyka na rynku nieruchomości mieszkaniowych. W szczególności starano się przedstawić zmiany w polityce kredytowej banków jakie nastąpiły w obliczu ostatniego światowego kryzysu. Są to wyniki autorskich badań własnych przeprowadzonych w 2010 r. w grupie 39 oddziałów 15 największych banków oferujących na polskim rynku produkty przeznaczone na finansowanie inwestycji realizowanych na rynku nieruchomości.

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1. INTRODUCTION

Real estate finances are tarnished by the global economic crisis of the first decade of the 21st century. Once again, the well-known proposition that too strong an involvement of the banking sector in the financing of property market projects, using sophisticated and not fully transparent financial instruments, can and often does lead to crises. Moreover, the real estate market is subject to business cycle fluctuations and can be especially volatile in the periods of boom and recession – and not without impact on the other sectors of the economy. These and other factors make real estate finances particularly risk-prone. The risk, through various transmission channels, may undermine the stability of the financial sector, or – as demonstrated by the latest crisis – of the global market. It seems a paradox that the greatest achievements of international integration, i.e. the free movement of capital, people and services, despite the unquestionable benefits, have generated certain threats of national and global dimension. What aggravates the problem is the fact that one of the consequences of the present financial slump is the global recession – the deepest since the Great Depression of the 1930s – and numerous countries will feel its effects for many years to come.

This is why scores of business theorists and practitioners all across the world are preoccupied with the problem of risk management, the financial risk in particular, trying to find effective tools and methods that will make various market segments safer and more efficient.

Economic turbulence, recurring with various force and frequency and differing in its geographic and sectoral reach, is at the time of critical, boundary conditions, a validator of various activities, solutions and regulation. These instruments, however, not infrequently prove to be incapable of standing the test of time and therefore need to be critically reviewed, as do the assumptions made and the solutions adopted. The usefulness of new, usually tighter regulation in a given market sector may also raise doubts as this may lead to overregulation, which is usually counterproductive.

The search for such tools is not made any easier by the fact that ever-increasing amounts of money are being spent by national governments to avert the bankruptcy of endangered financial institutions. The problem is that this is the money of taxpayers, who practically finance the losses generated by private banks. In this way the argument that banks make private profits, but state-owned losses finds its confirmation.

The authors of the study discuss selected problems of bank sector involvement in the financing of housing projects in the Polish real estate market. Some of the issues illustrate the credit policy changes that have occurred in response to the latest global crisis. The study is the result of the survey made by the authors in 2010 of 39 branch offices of 15 major banks, which provide financial products designed to fund investment in the Polish property market.

2. RESEARCH METHODS

The chief aim of the paper is to present the results of a survey concerning changes in the credit policies of banks offering mortgage and investment loans in Poland and their impact against the global turmoil in the financial sector.

In producing the paper, information from both secondary and primary sources was used. The secondary-source information includes first of all Polish and foreign books, professional and commercial press, Central Statistical Office (GUS) publications, legal acts as well as the latest reports concerning the housing market, housing loans, the financial market, or investment attractiveness of Poland for foreign investors, as assessed by the UNCTAD or Ernst and Young. Besides the secondary-source information, the paper also presents information obtained as a result of empirical survey; the survey results are presented in Chapter 5 of the paper.

The survey was conducted within a research project financed by the Ministry of Higher Education and Science, no. N N12 295235, titled: 'Conditions for Making Investments on the Real Estate Market' which was effected from April to July 2010 among major universal, mortgage and cooperative banks offering investment and/or mortgage loans for individual (retail) and corporate clients. The database of the banks was created on the basis of the Polish Banks Association members catalogue. The survey covered 30 Questionnaires sent by post were used for the survey. Before they were sent, consultations were held among academic staff and pilot studies were conducted in order to produce properly designed research tools. The questionnaires and covering letters from Nicolaus Copernicus University of Toruń were sent to the banks in March/April 2010, followed by phone calls and direct visits. As a result, 39 properly filled research questionnaires were returned by branch offices of 15 major banks in Poland. It should be noted, however, that the questionnaires were filled in mainly by universal banks, including PKO BP S.A. which has around a 30% share of the mortgage loan market, one mortgage bank (of the two operating in the Polish market) and one cooperative bank.

The research tool consisted of 15 questions, both open and closed ones. In the case of closed questions, the respondents had to tick selected answers or prioritise them, assessing their importance according to a predefined scale.

3. POLISH VERSUS OTHER EUROPEAN ECONOMIES

The 2010 the Polish economy saw a return to the situation preceding the economic slowdown of 2008-2009. What is more important, this was true of all the key areas of business activity, including the level of financing and investment in the property market. GDP in 2012 is expected to grow by between 3.5 and 4.3 per cent, which positively affects investment level forecasts also in the real estate market. Furthermore, the availability of EU funding and the organisation of the European Football Championship – Euro 2012 in Poland keep the investment activity of both commercial and public investors at a high level. Poland is also proving to be most successful in absorbing EU assistance funding.

Poland's attractiveness to investors is corroborated by the results of the latest United Nations Conference on Trade and Development – UNCTAD report, according to which Poland ranks sixth among the most attractive countries of the world in which to invest in 2011-2013 (UNCTAD 2011). According to UNCTAD rating, only China, the USA, India, Brazil and Russia are ahead of Poland. Experts indicate that such a good rating results from the relatively

good condition of the Polish economy during the global crisis, Poland being the only EU member state with a real GDP growth in 2009 (Eurostat 2010).
A similar view of Poland's attractiveness to investors is presented by the latest Ernst & Young 2011 report, which puts Poland among Europe's most attractive investment locations (Table 1).

Table 1. The top 10 European countries for foreign direct investment (FDI).

Rank	Country	FDI projects 2010	Change 2009-10
1	United Kingdom	728	7%
2	France	562	6%
3	Germany	560	34%
4	Russia	201	18%
5	Spain	169	-2%
6	Belgium	159	9%
7	Poland	143	40%
8	Netherlands	115	6%
9	Ireland	114	36%
10	Italy	103	3%

Source: Ernst & Young, Restart - European attractiveness survey (2011), p. 16.

The high domestic market capacity, well-qualified labour, political and economic stability and real GDP growth are Poland's chief assets, causing it to be perceived as a leader in Central and Eastern Europe in terms of attractiveness for foreign direct investment.

4. THE NATURE OF INVESTING IN THE PROPERTY MARKET

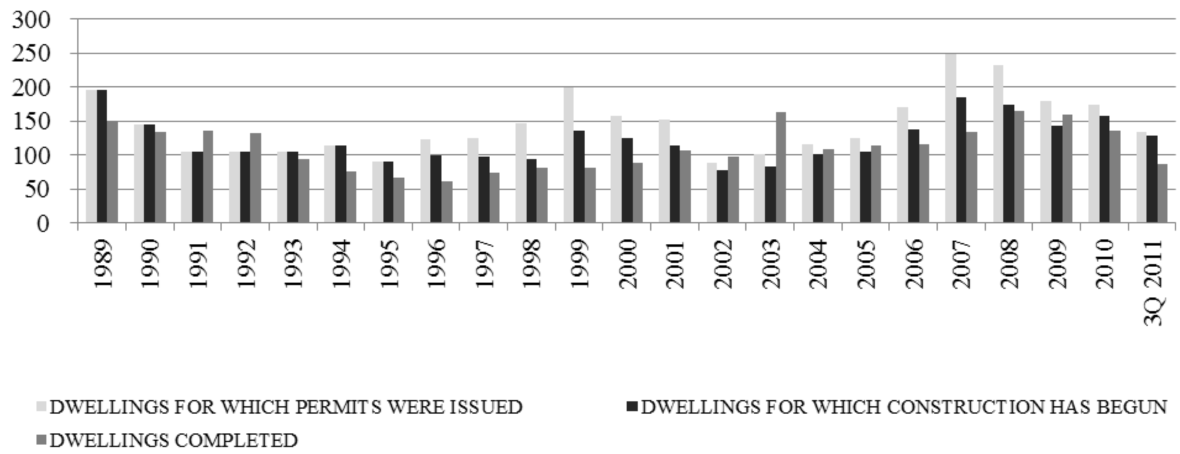
The search for the optimum – given the prevailing economic conditions – capital allocation causes assets to migrate between various market segments and across administrative borders, which has actually globalised the economy. Investors, acting on their own behalf or on behalf of asset owners, make investment decisions with two fundamental economic parameters in mind: the return on the capital engaged and the risk that every business decision entails.
A possible investment line is the real estate market, which is a segment of the financial market and where the item transacted is not actually the property itself, but the titles to it – a fact often stressed by people with expert knowledge of the problem (Foryś 2007; Bryx 2007; Kucharska-Stasiak 2006). The scale and the level of interest in property market investments are a result of many factors, an important one being the current attractiveness of investment alternatives (competitive market segments), like securities, gemstones or art objects. A frequently observed phenomenon – also recently – of scores of panic-stricken investors withdrawing from a market segment and transferring the assets held to other segments causes great turmoil. The effects of such disruptions are difficult to assess since, apart from their financial dimension, they have a severe social, political and environmental impact. It should be noted that it is the speculative capital that usually makes a quick market entry or exit, with its short-term capacity to generate high profits, but also high-risk exposure. Assets invested in the property market, on the other hand, take a relatively long time (at least a few years) to produce a return. This is especially true of new construction, often connected with lengthy procedures to secure compliance with existing regulation and obtain the necessary permissions and licences that the project requires, both at the stage of construction and

operation (Siemińska 2011).
The strong interconnection that exists between the construction sector and the whole economy of a country has always been highlighted. The sector is its driving engine, causing many other business areas to thrive. A slowdown in the building sector, on the other hand, is often treated like a barometer portending a less favourable business outlook. The general economic conditions and more precisely – the business cycle stage – largely determine whether a property investment is likely to be a success or a failure.
In the relatively short (only 20 years – since 1989) history of the market economy in Poland, three conspicuous business cycles can be identified in the residential property sector (NBP, Raport o sytuacji na rynku… 2010):

- the 1990s – the cycle triggered by the transformation of the sector, especially the end of the supremacy of housing cooperatives and the emergence of private developers;
- the turn of the 20th and 21st centuries – the next cycle resulting mainly from the deferred demand-side reaction in the housing market;
- late 1st decade of the 21st century – property market closely tied to the banking sector.

In the rapidly changing business environment, the investor making various investment decisions at a given time has to be aware of the risk involved and the possible need to modify choices – which in extreme cases may mean withdrawing from a project altogether. During the economic slowdown of the turn of 2008 and 2009, many investors – both individual and corporate, including developers – grossly reduced the scale of, postponed or abandoned the projects previously planned in their investment strategies. Others had to sell – often at a reduced price – projects at various stages of their advancement, or to accept a takeover by a stronger entity.
These phenomena, exemplified by the Polish property market, are reflected in the Central Statistical Office (GUS) information on the number of dwellings completed, dwellings under construction and dwellings for which permits had been issued between 1989 and 2011 (Graph 1).

Graph 1. Number (in thousand) of dwellings completed, under construction and dwellings for which building permits had been obtained between 1989 and 2011 in Poland.



Source: GUS, Budownictwo - wyniki działalności w 2011 r. (2011), Warsaw, GUS, www.stat.gov.pl.

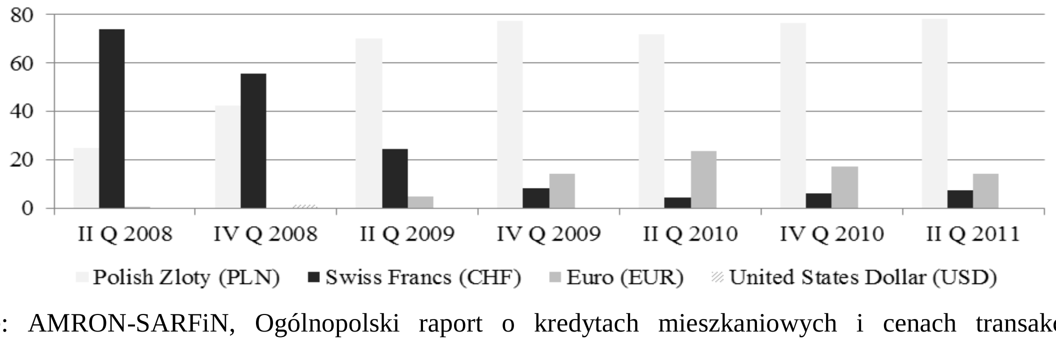
5. SOURCES OF INVESTMENT RISK IN THE HOUSING MARKET

The main sources of risk for property market investment (concerning new constructions and investment in existing properties) can be:

- macroeconomic;
- mesoeconomic (sectoral);
- microeconomic, generating risk that is connected with a specific property and the entities involved in a transaction.

An evidence of how powerful the influence of macroeconomic factors of the global market can be is provided by the effects and the extent of the global crisis of mid-2007, the main cause of which, according to specialists, was the American market of mortgage loans (subprime). Other macroeconomic risk sources in the property market can also be the population growth, a decrease in per capita gross domestic product (GDP), unemployment rate (Lorenz et al., 2006) and the existing socio-demographic situation, which directly affect the demand side of the property market and the market for loans. Important risk-generating elements of investment environment are the existing laws as well as financial and fiscal regulation, especially for foreign investors. Their investment activities must also comply with the provisions of international cooperation agreements (Karaszewski 2009), so it is exposed to the risk of inadequate knowledge of the specifics of the host country. Another important source of risk is the degree of availability and diversification of capital, directly affecting demand fluctuations, but also the stability of the financial sector. Its stability – a foundation of the proper functioning of financial markets – has seriously been undermined in many countries by the widespread use of short-term deposits for long-term financing of property market projects. This causes a maturity mismatch of cash inflows and outflows connected with the credit operations of banks, upsetting the financial stability and encouraging fraudulent behaviour, and consequently – a crisis of confidence in the whole financial sector.
Interest and exchange rate levels and fluctuations in both national and international markets are further factors of great significance for the investor's risk, especially in a market in which, like in the Polish market, foreign currency loans prevail. At the end of 2010, nearly 64% of housing loans in the retail market were denominated in foreign currencies (NBP, Raport o stabilności…2010). An interesting phenomenon, typical of the 2008-2011 period, has been a change of decision about the currency of new mortgage loans made by bank clients as the exchange rates and the risk involved changed. This was immediately reflected by the currency composition of such loans, which is clearly demonstrated in Graph 2.

Graph 2. Currency pattern of new housing loans in 2008–2011 (%).



Source: AMRON-SARFiN, Ogólnopolski raport o kredytach mieszkaniowych i cenach transakcyjnych nieruchomości (2/2011), p. 7, Warsaw, AMRON-SARFiN.

The currency risk problem has recently appeared not to be a Polish speciality only, but an issue in the Baltic states, Hungary, Rumania, Ukraine, Bosnia and Herzegovina and Greece as well. The excessive credit boom as well as public debt and considerable trade and balance of payments deficit in these countries is, in the eyes of the International Monetary Fund, the consequence of large-scale financing by banks of currency denominated loans to households with foreign loans. "The global currency crisis has demonstrated that if domestic banks depend too heavily on external finance, the sources of funding for a significant proportion of credit operations may suddenly disappear, the impact of which may be even stronger as the national currency depreciates." (UKNF, Informacja UKNF dotycząca…2010). This hazard became a reality in Poland in the autumn of 2008, following the ill-famed collapse of Lehman Brothers, and triggered off a period of great volatility of the Polish currency. If this is accompanied by rising interest rates, all the borrowers are painfully hit by soaring repayment instalments. Developments in Poland and elsewhere have demonstrated that many bank clients are unaware of the risks that the currency products offered on the market entail.

As an investment loan period is usually long, loans are commonly granted on a floating rate basis, making the risk of rising debt service burden for borrowers highly probable, and consequently causing the deterioration of the credit portfolio of the lenders. Furthermore, it is the experience of many banks in mature economies that the quality of the credit portfolio deteriorates as repayment periods continue. It may happen that mortgage loans in Poland – so far the best repaid loan type (AMRON-SARFiN 2010) – will gradually impair the quality of bank portfolios.

The sources of risk for real estate investment can also be of institutional nature. The an experiences of the present global crisis demonstrate that many national and supranational regulators including financial supervisors are not very effective in handling the financial risk. Recent developments have once again revealed the fact that there are no systemic, transparent and manageable bankruptcy systems, especially when large financial organisations are concerned. This may create fraud opportunities and generates costs that are excessively high and socially unacceptable. We have just seen the belief that some entities are "too big to fail" shattered and this is why a more effective architecture of financial supervision is being sought, especially at supranational level.

Institutional risk sources also include the rating agencies carrying the stigma of moral hazard. They have failed to perform properly their role of unbiased judges of the quality and reliability of financial products as well as of entities, including investors, applying for bank loans. The latest turmoil in the global economy has revealed a serious crisis of confidence in both the agencies and their methods and procedures of credibility rating (Crockett, et al. 2003).

In identifying sectoral – mesoeconomic – sources of investment risk we should remember that the housing market is the one that is relatively least affected by business cycle fluctuations, mostly because dwellings have no substitutes and are treated as common goods.

As has been said before, macroeconomic hazards of real estate investment are the ones pertaining to a specific investment project and the entities involved. They are connected with financial liquidity, project size and concept, the technology applied (architecture/type of construction, fit-out, structural condition, plot situation - including the degree of innovation, safety and security in the design, construction and operation phases), the environmental

impact (natural environment in particular), the public mood (the level of acceptance or non-acceptance of the project by the local community), project implementation environment and the legal aspects (notably contractual) of the project as well as profitability of the building concept (space efficiency, operating costs) (Lorenz et al., 2006; Hutchison et al., 2007).
Another microeconomic hazard connected with property market investment is the choice of the project location. Decisions in this area entail the so-called planning risk, resulting from insufficient knowledge of the planned use of an estate or the changes in the local plan.
It is generally accepted that investment risk is greatest at the stage of identification of project goals by the investor and deciding on the implementation of a project. The consequences of such a choice are automatically transferred to the next stages of the project cycle, so the more resources the investor allocates to the project, the greater the risk of making a loss.

6. CREDIT POLICIES OF BANKS ON REAL ESTATE FINANCES IN POLAND – SURVEY RESULTS

Business models and credit risk management used by banks until recently have had to be revised due to the global economic crisis. An example of this in financing projects in the Polish real estate market is the changes in credit policies of numerous banks, which have tightened the criteria and verification methods of credit applications and decided to reduce sales levels or withdraw certain financial facilities from the market. These restrictions result, among others, in:

- lower availability of housing/mortgage loans for retail clients, thus a decrease in effective demand for dwellings or other premises. The retail client has to make adjustments to his/her housing decisions, e.g. buy a smaller dwelling as the credit line has been reduced, or scrap the housing plans altogether if the bank refuses a loan;
- developers having to scale down projects or abandon them altogether (especially housing projects), or to exit a project by reselling it before it is completed; undercapitalised developers may sometimes be subject of acquisitions or take-overs;
- many banks withdrawing foreign currency loans from their portfolios or having to insure mortgage loans, verify valuation of collateralised estates and enhance debt recovery, whether done by in-house or external agencies.

The text below discusses the results of the survey conducted by the authors in 2010 of changes in credit policies of banks involved in real estate finances in the Polish market at a time of greater economic hazard (Siemińska 2011).
The survey results confirm the concurrence between the availability of housing loans and the level of risk. In the period covered by the survey, banks introduced drastic risk management changes, involving, among others, the selection of new possible clients according to parameters never applied before and affecting their credit ability such as the sector in which the client is employed or the applicant's family situation. And with the growth of non-performing loan portfolios, the banks tightened the criteria for verifying loan applications, while some of the products have been temporarily withdrawn from offer.
Major factors influencing the changes introduced in 2008-2009 are:

- changes in the economic situation in the global market;

- changes in the domestic economic situation and the related risk;
- decisions and regulations of NBP (National Bank of Poland) and Polish Financial Supervision Authority, tightening the criteria concerning banking sector stability and reliability including credit ability assessment of both retail and corporate clients;
- current and forecast capital standing of the bank.

Other important factors shaping loan policies of banks financing the Polish primary real estate market are changes in the level of competitiveness of other banks together with the dynamic of demand for housing loans.

Of all the banks surveyed, 82 per cent admitted that in 2008–2009 verification procedures of loan applications from retail and corporate clients were tightened, mainly through stricter scrutiny of information and documents presented by the applicant. To perform the control, banks use – often concurrently – various databases, such as Credit Information Bureau, Bank Register of Unreliable Clients, or Inter-bank Economic Information – Classified Documents.

While considering loan applications, automatic data processing systems (using scoring methods), so called credit calculators, or ratings are more and more often applied. These operations in case of some of the banks are enhanced by direct on-site inspections. These are designed to check the credibility of the personal information provided by the applicant and about the property to be collateralised. It should be pointed out that more and more bankers see the need for more reliable and accurate real estate appraisal, thus besides the said inspections, banks increasingly often have to commission real estate valuation by licensed appraisers.

In their efforts to ensure the quality and reliability of their due diligence procedures, at the turn of 2009, banks (in addition to activities presented above) started to apply more restrictive assessment criteria of the credit ability of potential clients, such as:

- higher revenue thresholds for the potential clients of the banks;
- preference for clients with regular income (therefore single persons or those earning their wages/salaries abroad are not positively assessed by the banks);
- (upward) adjustment of monthly costs of living per single member of the family and the running costs of a property approved as collateral, taken into consideration during credit ability assessment;
- borrower's minimum contribution as a pre-requirement for considering the loan application;
- accurate documentation of the level of the so-called 'disposable income', i.e. the amount left after of all the costs of living have been deducted.

The above-mentioned borrower's minimum contribution required when applying for a bank loan should usually amount to 20-30% of the value of the real estate to be credited. The situation has clearly changed since 2007 and early 2008, when many banks offered loans of up to 100% value of the property or even more (120%, 130%), which was one of the elements of how attractive the bank's offer was to the market.

The above-mentioned steps, taken by the banks at a time of increased economic hazard, have been reflected by higher loan costs due to increased margins and commissions charged by the banks. These the client must add to the total loan amount applied for, thus increasing the level of the debt. Furthermore, the restrictions introduced and the scope of information required for the application to be examined and the loan to be awarded significantly delay the decision and the drawdown of loan instalments.

When we look more closely at measures taken by the banks in view of the dynamic changes in the levels of credit risk, we notice that some of the banks have decided to remove foreign currency loans from their offer, especially Swiss-franc denominated loans, offering loans in domestic currency only. The former generate a risk that is too high, therefore unacceptable in the current situation.

The results of the survey also reveal there is no single approach of the banks to applying LTV (Loan to Value) ratio for credit risk management. The opinions of the responding banks vary: irrespective of the currency of the loan, every third bank on average decided to lower the LTV ratio, another third decided to raise it, while the remainder decided not to change it in the period in question (cf. Table 2).

Table 2. Changes in the level of the LTV ratio in the banks under survey in 2008–2010 (%).

Loan currency	Banks' decision concerning LTV ratio:		
	lower	higher	no change
PLN	37	29	34
CHF	35	35	30
Euro	38	38	24

Source: Prepared by authors on the basis of the results of the survey.

Bearing in mind the above mentioned information we should add that the whole banking sector in Poland witnesses an increase in the share of housing loans with high LTV ratio (above 80%). With a long repayment period and the reintroduction by some banks after 2009 of housing loans denominated in foreign currency, the level of credit risk should be monitored carefully.

Moreover, in 2004-2010 the share of housing loans in the assets of most banks increased dynamically, thus making these loans a key element of their offer. Therefore the quality of their credit portfolio, highly dependent on numerous factors, will to a large extent be decisive for the financial standing of the banks.

Table 3 shows the quality of the credit portfolio of the whole Polish banking sector with particular attention paid to non-performing housing loans.

Table 3. Non-performing loans (PLN billion) and their share (%) in the credit portfolio of banks in 2007-2011.

Non-performing loans	Measured in	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	March 2011
total	PLN bn	22,0	2,6	24,9	34,1	35,1
	%	5,1	4,5	6,0	7,2	7,8
of which:						
housing loans	PLN bn	1,4	2,0	3,2	4,9	5,4
	%	1,2	1,0	1,5	1,8	2,1

Source: UKNF, Reports of Polish Financial Supervision Authority from the years 2007-2011, www.knf.gov.pl

The information for the whole of Poland presented above is corroborated by the survey. It appears that thanks to a prudent approach to credit policy, the banks' loan portfolios are relatively secure. The share of non-performing and bad loans in the total volume of loans

amounted to 1% to 6-7%, depending on the bank.
According to a Polish financial supervisor (Polish Financial Supervision Authority) capital adequacy of Polish banking sector since 2009 has improved thanks to the powerful strengthening of the capital base of the banks. This has contributed to a greater stability of the Polish banking sector and improved the sector's liquidity ratio from 11.2% at end of 2008 to 13.8% at end of 2010, and to 13.5% in mid-2011. In the period covered by the survey, all the banks had the liquidity ratio above the legally required level (UKNF, Polski rynek finansowy… 2010), i.e. 5 m € for merchant banks and 1 m € for cooperative banks (cf. Table 4).

Table 4. Capital adequacy of Polish banking sector in 2007–2011

Specification	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Aug. 2011
In-house funds (PLN bn)	61.8	77.6	90.0	100.6	107.1
Total capital requirement (PLN bn)	40.7	55.5	54.2	58.3	63.5
Liquidity ratio (%)	12.1	11.2	13.3	13.8	13.5

Source: UKNF, Polski rynek finansowy w obliczu kryzysu finansowego w latach 2008–2009 (2010), p. 57, Warsaw, UKNF; UKNF, Reports of Polish Financial Supervision Authority 2007-2011, UKNF, www.knf.gov.pl.

However, despite the improved current situation of the Polish banking sector, a significant capital base must be maintained due to the said level of risk on the banks' balance sheets, and still prevailing difficult global conditions which may cause turmoil in financial markets.
Despite a general opinion on the relatively good condition of the Polish economy, particularly against the background of other EU countries, various measures and initiatives are taken in order to maintain and improve the financial stability of the banking sector involved in real estate finances. These include in particular:

1. implementation of Basel III regulations in the form of countercyclical stabilisers of fluctuation (Kluza 2010; Pruski 2010) and solvency buffers, meaning that there is a duty maintain to an adequate safe, basic capital which would provide for normal functioning of the banks within 30 days without threatening their liquidity (Group of Governors and….2010);
2. recommendations of Polish Financial Supervision Authority which have the power of recommendations used in the Polish banking sector, in particular (ZBP 2010; Ratajczyk 2010):
   - Recommendation T which came into force in 2010, concerning risk management of retail exposures, particularly the obligation for information exchange among banks about the standing of their clients and the level of LTV ratio when granting foreign currency loans. The information exchange also refers to quantitative permitted limits of expenditures to revenues ratio amounting respectively to 50% for clients with average revenues, and 65% for those with revenues above the national average;
   - modification of Recommendation S II concerning the mortgage exposure aims first of all at limitation of mortgage loans in foreign currencies down to permitted 50% share in credit portfolios of banks, and accepting a maximum 25-year-long repayment period at assessing credit ability of the bank's client;

3. application of stress tests aiming at verification of 'stress resistance' of the tested entities (banks included) in crisis situations (NBP, Raport o stabilności… 2010). These tests are treated as early warning systems used in the process of risk monitoring;
4. use of reliable, quality methods of credit ability assessment of the borrower, since the quality of credit portfolio practically depends on these methods;
5. improvement in the efficiency of bank receivables collection standards, which requires comprehensive legal and organisational changes, also at international level;
6. harmonisation of regulations concerning the functioning European guarantee institutions (i.e. Bank Guarantee Fund in Poland), consisting in unification of, *inter alia*, waiting period for return of money secured by the guarantee (7 days as a target date) in the guaranteed amount, up to 100 thousand €, and covering deposits of all the entrepreneurs with guarantees;
7. implementation of special solutions and programmes facilitating financial assistance in purchasing a family's first dwelling, addressed to selected groups of beneficiaries, e.g. Polish programme 'Family on their Own' (Ustawa o finansowym wsparciu…2006). It is worth mentioning that regulations of this type are dynamic, changing in time, and highly dependent on current economic priorities and the condition of the national budget.

All the instruments facilitating regulatory processes that have been mentioned here and which are applicable to real estate finances need adequate calibration, which is not an easy task in view of the fact that they have to be of supranational nature.
To recapitulate:

– during the latest few years in Poland we have seen the growing importance of investment in the housing sector which through its strong connections with the banking sector significantly affects the economy. This trend is continuing at the present, decline stage of the business cycle;
– in recent years (2004 - 2008) a rapid increase in the level of housing loans granted chiefly by universal banks was the main cause of the housing boom, accompanied by excessive optimism of bankers, developers and purchasers;
– currently, during the period of slump in the demand in the Polish housing market, there is a pool of ca 46 thousand unsold dwellings; also, in various local markets there is a visible structural mismatch between the demand and the supply, both in primary and secondary markets (NBP, Raport o sytuacji… 2011). This mismatch concerns the size structure of dwellings, in the first place. Compared with what is really needed, there are too many dwellings of considerable size, and consequently – the price. Clients have less money to spend than they initially thought they would have (because with the growing restrictions of banking supervision, banks are granting smaller loans), and are looking for smaller dwellings. This is a problem for developers, too, who are left with large dwellings in hand: some of them have decided to redesign them, converting large apartments into smaller ones, more easily marketable in the present situation.

7. CONCLUSION

The selected aspects of real estate finances presented in this paper are merely a contribution to a broader debate on recommendations and solutions designed to enhance the security of financial systems both domestically and globally.

With the economic crisis of the first decade of the 21st century, the first step towards the recovery of the banking sector is undoubtedly a return to healthy foundations of its functioning, based upon reliable capital and information resources. These should be supported by efficient legal and organisational infrastructure, and real responsibility for decisions taken at every tier of management. The direction and efficiency of these activities are very important particularly today, in the period of e-banking, fierce competition as well as quasi-banking institutions - the phenomena which impair the transparency of transactions, additionally blurred due to their instantaneous nature caused by e-access (Kania and Rosiński 2007).

From the Polish economic perspective, the situation is not made any easier by the fact that because of the ownership structure of the banking sector, strategic decisions of banks are and will be made first of all at the level of international groups. This means that with the need for cost and risk reduction, they may try to narrow the scope of their operations down to sales functions, which may practically mean diminution of the Polish banking sector to niche areas (Kwaśniak 2010).

Moreover, while progress has been made in Poland in terms of prudence in the regulations for the banking sector, we observe no progress in the housing policy. For many years, there have been no significant housing programmes among the priorities of the Polish economy. The only major project "A Family Home of Your Own" ("Rodzina na swoim"), under which mortgage interest charged by banks in the first eight years of repayment could be refunded by the Treasury, is expiring in 2012.

In conclusion of this discussion we should observe that each sector of the economy, both the banking sector and the real estate market inclusive, need not only legal and organisational changes but also, if not most of all, a change of attitudes. More and more is being said about Corporate Social Responsibility (CSR), the legitimacy of which and the need of its application are particularly obvious in boundary economic condition. It can clearly be seen in practice that various problems of the banking sector involved in the financing of the real estate market are connected with the phenomena of asymmetry of information and moral hazard, which without strict supervision and appropriate regulation will foil even the best institutional and legal solutions. On the other hand there is always a real danger of overregulation and hindering desirable initiatives, unfortunately often accompanied by excessive expansion of many institutions. Bogle vividly compares them to an extending and terribly costly 'food chain' of finance and investment, depleting the value produced by the real economy. Rephrasing the well known quote from Winston L.S. Churchill, J. Bogle states: 'never was so much paid for so little', thinking about the main causes of the current financial turmoil (Bogle 2009).

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