

Housing Finance System

Slovak Republic

Workshop on Housing Finance in Transition Economies
Poland, 5-6 December 2002

1. Macroeconomic environment

From the point of view of the main macroeconomic indicators development in 2001 there was on one side an economy growth reflected in the employment growth, a moderate increase of real wages, a slowdown of consumer prices and producer prices growth, and a continuing growth of the business sector profitability. On the other side, the economic growth was accompanied by worsening of its structure, where the domestic demand became the main incentive, and at the same time the deficit of the foreign trade of goods and services has reached a relatively high level. It has proved that the introduced macroeconomic balance in the previous two years had only a temporary nature. In a year-to-year comparison there was a decline of the total and as well as core inflation in 2001.

The Gross Domestic Product development continued in the tendency of a gradual acceleration of the Slovak economy efficiency, however, under minimal modifications on its supply side. The basic branch structure of the Gross Domestic Product formation has not substantially changed in comparison with the previous year, although a long-term development tendency of market services strengthening at the expense of industry has remained on the same level. On the side of use the acceleration of economic growth was a result of an increased domestic demand.

A positive factor of the Slovak economy development in 2001 was the employment growth mainly influenced by market services. The situation on the labour market was complicated by a relatively high population growth at the productive age – it did not result in the unemployment decrease although there were more job opportunities in comparison with the previous year. The nominal wages growth dynamism accelerated in 2001 which - while the inflation was declining - reflected in a repeated growth of real wages after two years.

The Gross Domestic Product (GDP) in 2001 reached the amount exceeding 16,3 bill. USD (in constant prices) at a year-to-year change of 3,3 %. The unemployment rate reached the level of 18,6 % and the year-to-year inflation was 7,3 %. The average monthly employee wage in 2001 reached the amount of 286,- USD. During 2002 there has been a moderate improvement in the area of unemployment and inflation, while the

GDP is approximately on the level of a 3 % growth. The average monthly wage has increased up to 309,- USD (as to 30 June 2002).

2. The tasks of the state defined by the state housing policy concept and their implementation

As a result of social conditions in 1989 there were substantial changes in the area of the housing policy. There was actually a total attenuation in the housing construction as a consequence of the fact that the state stopped supporting the housing construction financing. To stop this unfavourable development the Government of the Slovak Republic adopted in 1995 the „Concept of the state housing policy till 2000“ where the main objectives of housing policy are set, and in connection to this the Government of the Slovak Republic adopted in 2000 the „Concept of the state housing policy till 2005 with a perspective to 2010“. These concepts determine the position of the citizen, municipalities and state in the area of housing provision. Within the market economy the responsibility for the provision of own housing is delegated to the citizen. The state and municipalities are to create suitable conditions for housing provision for citizens.

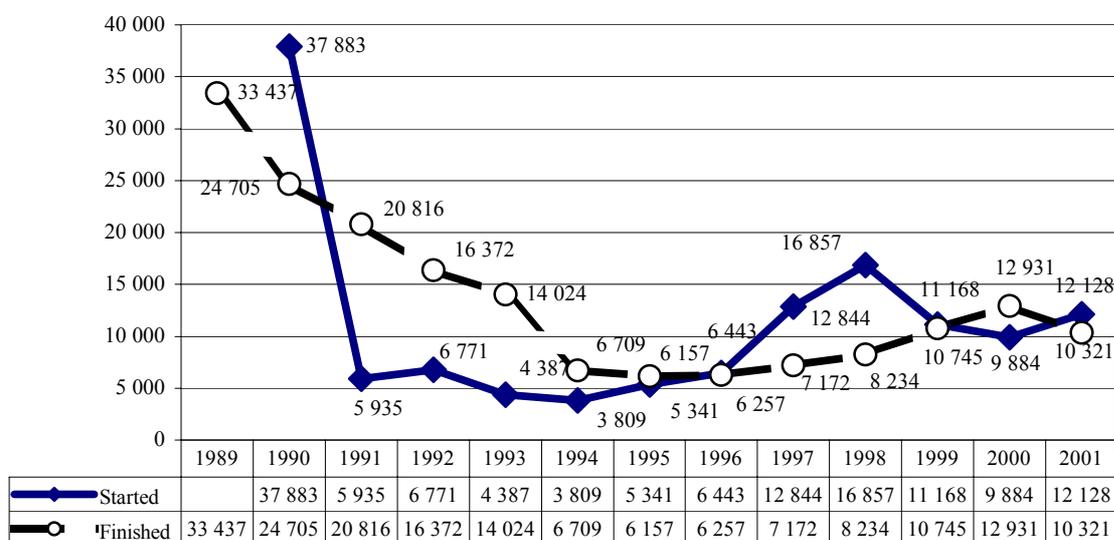
The provision of the territorial and planning preparation, provision of availability of building plots for housing construction, coordination and participation in housing development and connected technical infrastructure as well as the provision of housing conditions for socially dependent population groups also belong to the tasks of municipalities.

The task of the state is in particular to regulate economic tools to support the housing development and to gradually regulate the particular law in order to eliminate the existing development barriers, unsystematically acting regulations and to continuously bring the legislation into compliance with the EU law.

The system of economic tools for the support of the housing development anchored in the legislation is being gradually created. These tools helped to revive the housing construction but so far the requirements of the population in the area of housing construction have not been met. After the initial start in 1996 - 1998 there was an

attenuation of the housing construction in 1999 and 2000 as a result of a lack of available funds and the economic situation in the Slovak Republic as well. This decline then reflected with a shift of two years in the decrease of finished flats in 2001. The available data confirm that since 2001 the dynamism of flats being started and finished has repeatedly increased.

Development of number of flats being started and finished



In the first half of 2002 8.452 flats were started and 5.655 flats finished.

As far as the ownership forms concerns it is obvious that the main part of flats construction is performed within the private ownership. In 1998 74,7 % of flats were finished and 80,6 % flats started within the private ownership. In 1999 83,1 % of flats were finished and 87,0 % flats started within the private ownership and in 2000 even 91,5 % of flats were finished and 87,6 % flats started within the private ownership. In 2001 the finished flats within the private ownership represented 86,6 % and the started flats 77,4 %. It is a significant change of the construction structure in comparison with the period before 1990 where only one third of flats were finished within the private ownership and the two other thirds were represented by cooperative flats and state flats.

At time of the census of population, houses and flats to 26 May 2001 the Slovak Republic had 5.379.455 inhabitants and 1.665.536 permanently inhabited flats. This means that according to the census there were 309,6 permanently inhabited flats per 1.000 inhabitants in the Slovak Republic.

According to the census of population, houses and flats to 26 May 2001 the average total flat area was 83,9 m² and the average residential flat area 56,1 m². The average total flat area per 1 inhabitant was 26 m² and the average residential flat area 17,5 m². In 2000 within the finished flats the average floor flat area reached approximately 135 m² and the average residential flat area ca 82,5 m². This development is a result of a high share of flats being started in houses.

Flat provisions per 1.000 inhabitants in the Slovak Republic are comparable with the level in the transition countries but they are significantly behind the developed countries of the Western Europe where this indicator in 2000 ranged from 400 to 500 flats per 1.000 inhabitants.

At present it is possible to assume that in the Slovak Republic there is a lack of 200.000 flats and thus legislative and economic conditions need to be established in order to gradually extend the scope of flats being finished and to finish 5 to 6 flats per 1.000 inhabitants in the Slovak Republic in the horizon about 2010.

3. Privatization in the housing sector and ownership relations

At the census of population, houses and flats in 2001, of the total number of the permanently inhabited flats there were 820.042 flats in houses (49,2 %) and 845.494 flats in blocks of flats (50,8 %). The housing cooperatives possessed 247.977 flats (29,3 %) and citizens possessed 442.387 (52,3 %) of the total number of flats in blocks of flats (apartment houses) and the remaining part was represented in particular by municipal and state flats.

4. Social housing policy

The social housing policy is reflected in the following two areas:

- state support in the housing stock use,
- state support in the housing construction development.

Within the first area the Act on housing bonus was adopted which at present still corresponds to the centralist approach of the state economy management and financing. For the following period in the connection to the public administration reform and decentralization of powers to the regional self-government authorities it will be necessary to amend the act to bring it in compliance with the system usually implemented in the EU countries.

Within the area of state support in the housing construction development some support tools were adopted which are focused on all population groups regardless of their income. However, within the social housing policy there were only limited possibilities to get a flat for population groups with lower income, in particular for young families. The housing construction in this area is carried out only with the substantial participation of state subsidies. The actually stopped the construction of rental flats caused by a strict deregulation of rent represented a permanent economic loss for the owners of rental flat stock. This deformation was eliminated on 1 February 2001. For these reasons it was possible neither to develop the construction of special housing forms (in particular the first housing for young people, the so called start-up flats), housing for older citizens in custody service homes, nor the flats of a lower standard for citizens who do not pay rent and for inadaptable citizens.

To create more appropriate conditions for the housing construction support for citizens with low income further laws have been recently adopted creating a scope for the regulation of this area; it is in detail described in the next part of this material.

5. Housing construction financing

Economic systems were gradually created and improved to finance the housing construction. Simultaneously with these systems the state supported the rental flats construction and flat technical infrastructure by its direct subsidies. As it follows from the previous part the state is gradually taking further measures which directly or indirectly support the housing construction.

From the point of view of the housing construction financing the state support can be divided into two areas:

- a) a direct support area
- b) an indirect support area.

5.1 Direct support area

The direct support can be further divided into:

- a) housing construction financing systems
 - housing savings
 - mortgage loans
 - State Housing Development Fund (hereinafter referred to as „SHDF“)
- b) housing construction financing support programs
 - subsidy programs
 - bank guarantees program

Housing construction financing systems

Housing savings

The area of housing savings in the Slovak Republic is regulated by the Act on housing savings. The keystone of the housing savings is the collection of financial means in the housing savings fund by clients of housing savings banks and their usage for the

needs of housing construction via housing loans. The housing savings in the Slovak Republic is a closed system independent of the development on the money and capital markets.

Housing savings banks operating in the Slovak Republic

Name	Operation since
Prvá stavebná sporiteľňa, a. s.	1992
VÚB Wüstenrot, a. s.	1993
ČSOB stavebná sporiteľňa, a. s.	2000

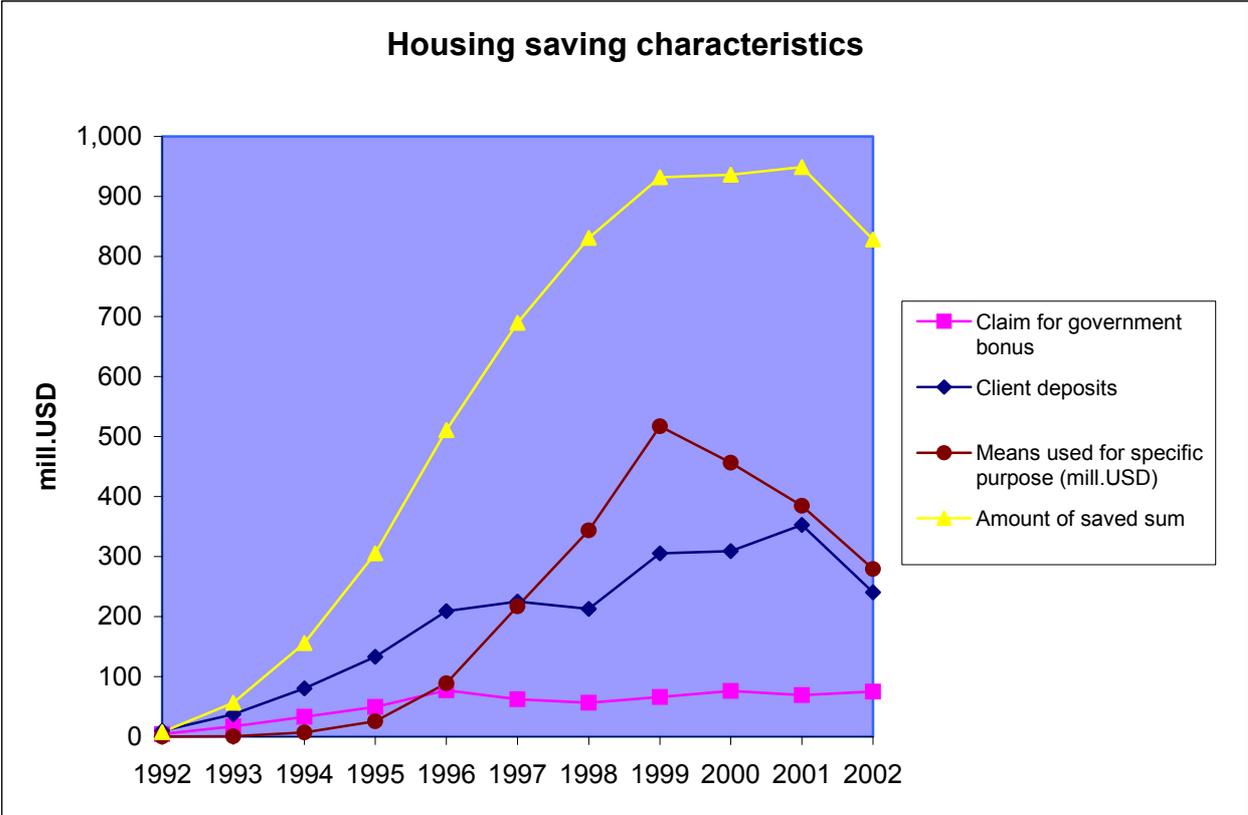
The housing savings fund consists of deposits of housing savings clients (hereinafter referred to as “housing saver”), interest on deposits, state budget contributions (hereinafter referred to as “government bonus”), repayments of credits already extended and other sources.

The housing savings may be carried out only by a bank established as a joint stock company which was given a licence to operate as a bank and if the operation of this bank lies in housing savings (hereinafter referred to as “housing savings bank”). Beside the main operation, which consists of accepting the deposits from housing savers and extending housing loans to its clients, a housing savings bank may provide guarantees to another bank for housing loans, mortgage credits or municipal credits, it may accept deposits from banks, make deals for own account with mortgage bonds, municipal bonds, government bonds including government treasury bills or treasury bills of the National Bank of Slovakia, and provide consulting services connected with housing savings.

Interest is paid on deposits of housing savers. A housing savings bank is thus obliged to determine interest rates on deposits and interest rates on housing loans so that the difference between them does not exceed 3 %. Interest rates on deposits and interest rates on housing loans may not be changed within the duration of a housing savings contract.

According to legal regulations in effect a housing saver may be a natural person (individual) with a permanent residence within the territory of the Slovak Republic who concludes a housing savings contract with a housing savings bank or in favour of whom a housing savings contract is concluded, a legal person (corporate body) with a place of business within the territory of the Slovak Republic or a natural person – entrepreneur with a permanent residence within the territory of the Slovak Republic who concludes a housing savings contract with a housing savings bank.

The housing savings starts by concluding a contract between a housing saver and housing savings bank on a contractually agreed target amount. This amount consists of deposits from a housing saver, interest, government bonus, housing loan and other sources. After meeting the contractually agreed conditions a housing saver is entitled to get a housing loan. A housing saver may set up a claim for a housing loan, withdraw his deposit and use it without a claim for a housing loan or keep on saving.



Remark – year 2002 as to 30 september

A housing saver gets a housing loan if he/she meets the contractually agreed conditions and terms of housing savings (amount of saved sum, saving period) and if he/she meets the conditions of economic return of the housing loan. The amount of a housing loan is equal to the difference between a target amount and saver's deposits, including interest, government bonuses and other sources.

The government bonus as a support of state in this area makes 25 % of the annual deposit of a housing saver but not more than an amount determined by the Act on state budget for the particular budget year. For this year the Act on state budget determines the maximum amount of the government bonus per 1 housing saver to the amount of 93,- USD. The provision of the government bonus to a housing loan and housing policy has the intention to establish conditions for collecting available long-term financial means of population from which long-term credits with lower interest rates could be granted. The amount of the government bonus in the Czech Republic and Croatia is the same as in the Slovak Republic, i.e. 25 %, in Germany 10 % and in Austria 4,5 %. However, in the late 60's the government bonus in these two countries was yet higher than 30 %.

The maximum amount of the government bonus in the Slovak Republic – 93 USD – is lower in comparison with the other countries of Eastern Europe: In the Czech Republic and Hungary it makes approximately 150 USD and in Croatia 170 USD. The total state expenditure on the government bonus in the SR per 1 inhabitant in 2001 reached the amount of 14 USD which is less than in the Czech Republic (30 USD) and Austria (19 USD). In Germany, Hungary and Croatia this kind of expenditure is lower mainly for the reason of a substantially lower share of housing savers in the total number of inhabitants. From the abovementioned characteristic of the selected countries it results that the adjustment of basic parameters of the housing savings in the Slovak Republic (amount in %, maximum amount per 1 saver) remains within the scope of the comparable transition economies.

The government bonus is yearly provided to a housing-saver – natural person only upon one housing savings contract during the period of savings. In the case, when a housing-saver has concluded more housing savings contracts, the government bonus may be provided only upon one of them.

A housing-saver may use the target amount, if a part of it also consists of a granted housing loan, for financing housing needs in the Slovak Republic. A concrete possibility of disposal of funds acquired from housing savings is the acquisition of the ownership of a flat, house or block of flats (apartment block), the construction, extension, superstructure, in-building or modification of a house or block of flats or modification of a flat, modernisation and maintenance of a flat, block of flats or house, acquisition of the ownership of a building plot for the purposes of the construction of a house or block of flats, acquisition of the ownership of a plot on which a house or block of flats is already located, acquisition of the ownership of non-dwelling spaces in a block of flats for the purpose of the conversion of non-dwelling spaces into a flat, conversion of non-dwelling spaces into a flat, the payment of the share to a housing co-operative for the purpose of acquisition of a flat, and payment of the commitments (liabilities) related to the above mentioned purposes.

The proportion of the volume of granted housing loans to the volume of received deposits of housing-savers makes 98% in two housing savings banks, i.e. in Prvá stavebná sporiteľňa and VÚB Wüstenrot (in the case of the ČSOB housing savings bank, the proportion is low by reason of its short-term existence in the market, and its first 6-year savings cycle has not yet passed). It means that 98% of deposits received from the housing-savers, including the government bonus support, are paid in the form of housing loans for housing purposes. In Germany it makes 95% to 100%, and in the Czech Republic this proportion is approximately 30%.

As the consequence of an increase of the state budget deficit, the Slovak Republic is currently forced to implement measures to stabilize the budget income and expenditure. Such changes are likely not to avoid also the field of housing savings where the Ministry of Finance of the Slovak Republic has prepared a draft amendment on housing savings in order to decrease the percentage of the government bonus to 20 per cent and the maximum amount to USD 81. The above-mentioned draft has been approved by the government and submitted to the National Council of the Slovak Republic.

In advanced economies (Germany, Austria, France, U.S.A) with long-term experience of the housing savings the impact of this system on the overall economy is rated and may be summarised as follows: Additional savings reduce the consumption what has the beneficial effect on prices (inflation rate); continuous cumulation of long-term savings and linked granting of housing loans has the strong stabilisation impact on the economy as a whole (*en bloc*); the state supports the transformation of the short-term savings to the long-term savings and investments through the government bonus; the housing savings system creates the housing demand relatively independently from the development of the market interest rates and cyclical motions; housing loans have the beneficial effect on the construction industry and related industries of the economy; the private housing construction creates a relatively large number of jobs compared to other industries of economy; the housing construction sector employs all goods (commodities) dedicated for housing what favourably impacts on the economic growth.

Mortgage loans

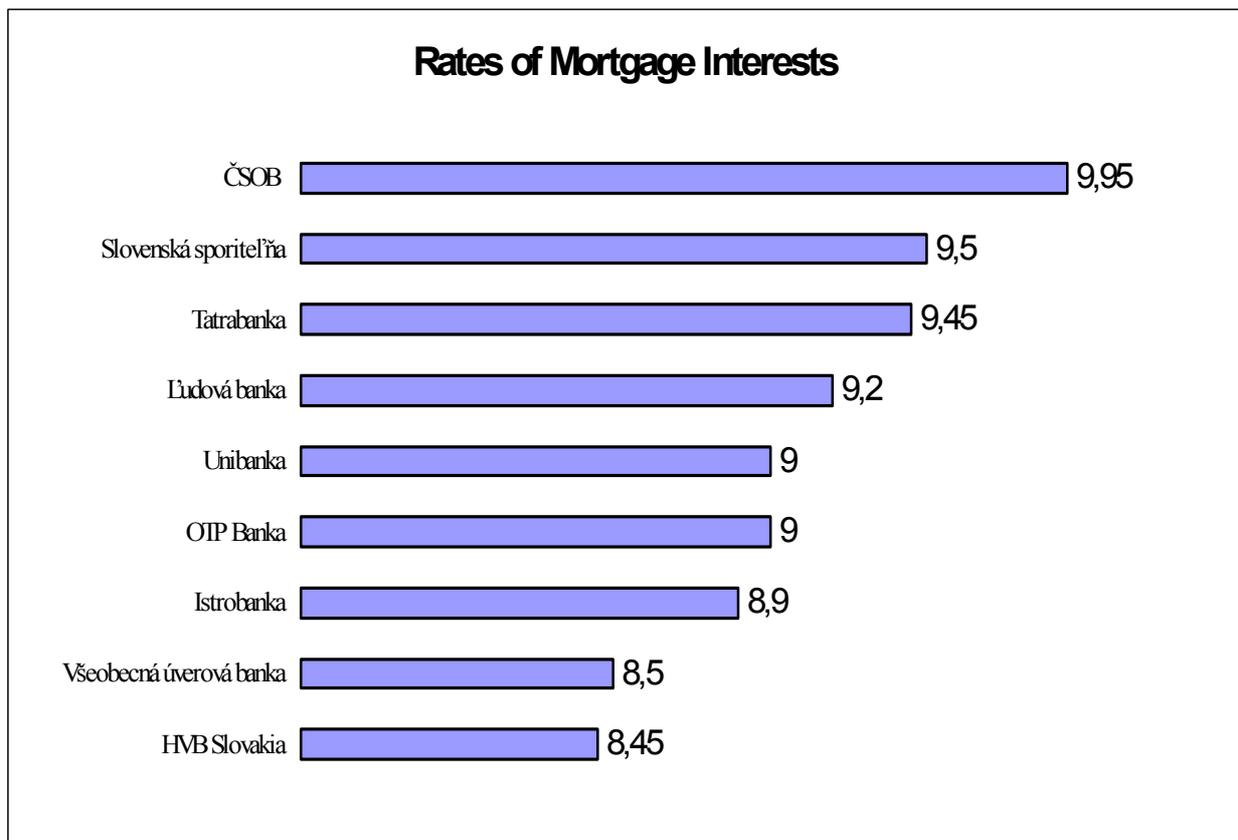
In the Slovak Republic, the mortgage banking is provided by the Act on Banks. Commercial banks with a licence to transact mortgage business may grant mortgage loans (to issue mortgage backed bonds) and may grant municipal loans (issue municipal bonds).

Banks with the licence to transact mortgage business

BANKS	DATE OF GRANTING THE LICENCE	DATE OF THE START OF ACTIVITIES
Všeobecná úverová banka	Jun1997	October 1997
HypoVereinsbank Slovakia	December 1997	November 2000
Slovenská sporiteľňa	December 1997	July 1999
Istrobanka	November 1998	3 rd quarter of 1999
Tatrabanka	January 2000	October 2000
Bank Austria Creditanstalt	October 2000	merger with HypoVer.
ČSOB	November 2001	April 2002
Unibanka	May 2002	July 2002
OTP Banka	August 2002	
Ľudová banka	October 2002	

The mortgage loan is a loan with maturity of at least four years and maximum thirty years, secured by the right of lien established upon domestic real estate. The mortgage loan may be used for the acquisition of domestic real estate or its part, construction or modification of completed structures, maintenance of domestic real estate, or repayment of a granted loan (that is not a mortgage loan) used for the above-mentioned purposes.

The municipal loan is a loan with maturity of at least four years and maximum thirty years, secured by the right of lien established upon real estate owned by a municipality or real estate owned by a regional territorial unit (VÚC). Banks grant this kind of the loan for the acquisition of domestic real estate, construction, modification of completed structures, and maintenance of domestic real estate and other structures in order to use them for public service purposes.



The National Bank of Slovakia appoints a mortgage controller to each mortgage bank, to supervise the conduct of mortgage transactions in the scope provided by the Act on Banks and Act on Bonds.

The state aid in the field of the mortgage banking is implemented through the provision of a government bonus to a mortgagor who is a natural person. The government bonus is a percentage by which the rate of interest set in a mortgage loan contract is reduced by the Government. The percentage amount of the government bonus may not be changed over the entire maturity of the mortgage loan set in the mortgage loan contract. The percentage amount of the government bonus for contracts concluded in individual calendar years is laid down in the State Budget Act for the respective fiscal year. In 2002 the government bonus is set out for 4.5% (in 1999 – 2000 it was 6 %, in 2001 – 5 %). The government bonus is granted only upon one mortgage loan contract, from the amount of a mortgage loan not exceeding USD 58 140 per one housing unit. In October the Ministry of Finance has prepared the draft of State Budget Act for the year 2003 with the governmental bonus only 3,5 %. Until the introduction of a government bonus for mortgage loans a volume of granted mortgage loans had been negligible compared to other commercial activities of banks.

The real growth of the mortgage banking system has been registered since 1999 when a 6-per-cent government bonus was introduced. During the last nine months the commercial banks have registered almost 70% increase in the volume of loans granted. Compared to the total volume of mortgage loans granted up to date, it makes nearly one half. The number of loans has also increased on the year-to-year basis. The development of mortgage and municipal banking you can see in Annex 3.

An increased interest in this kind of loans is linked to the extension of the number of subjects that grant such loans and to the repeated decrease in the amount of the rate of mortgage interests.

State Housing Development Fund

The State Housing Development Fund was established by the law governing its position and conditions of granting the government aid in order to extend and enhance the housing stock. Subsidies from the State Housing Development Fund (hereinafter referred to as “SHDF”) in the form of an advantageous long-term loan and non-recurring bonus are granted for the construction of a flat in a block of flats or house, if appropriate, construction of social service facilities, thermal protection of a block of flats or house, if appropriate, modification of a completed structure of a block of flats or house, remedy of static defects of a block of flats and for the purchase of a new structure of a flat.

Overview of SHDF expenditures granted for the extension and enhancement of the housing stock

MILL. USD							
Indicator	1996	1997	1998	1999	2000	2001	Total
Subsidies for the extension and enhancement of the housing stock	8,0	39,0	82,1	38,3	79,3	85,7	332,4
of that: - loans	7,8	32,0	65,1	29,7	68,6	85,1	288,1
- non-recurring bonus	0,3	7,1	17,2	8,6	10,6	0,6	44,3

During the period from 1996 to 2001 the SHDF had concluded 24 532 contracts, and the subsidies in the total amount of 332 mill. USD were granted, thereof 288 mill. USD in the form of a loan and 44 mil. USD in the form of non-recurring bonus. The provision of subsidies was mainly focused on the construction of flats, and it may be observed that the construction of 28 152 flats was supported through the SHDF. During the period from 1996 to 2001 the Government provided this system with funds in the form of direct subsidies from the state budget in the total amount of 301 mill. USD. Effective from 1st April 2002, the Amendment of Act on SHDF cancelled granting a non-recurring bonus, what has had an impact on the creation of conditions for this Fund be quotient and independent from the state budget.

By 30 September 2002, the SHDF concluded 2 848 contracts and provided subsidies in the amount of 88 mill. USD, what supported the construction of 5 454 flats and reconstruction of 891 flats.

Supporting Programmes of Housing Construction Finance

Subvention Programmes of Housing Construction Finance

In addition to the subsidies provided through systems of financing housing construction, the state aid connected to housing construction is manifested by the annual allocation of subsidies from the state budget and funds gained in the privatisation process for the provision of facilities construction, acquisition of rental flats for residents with low income and remedy of damages of block of flats built using the panel technology, which are not caused by the insufficient maintenance. In 1996 to 2001 the total amount of around 186 mill. USD was allocated from the public finance (from the state budget and from the National Property Fund sources) for this additional form of the aid, which was granted to municipalities within the Housing Construction Programmes annually approved by the SR Government.

The combination of subsidies in the amount of 30%, 40%, eventually 50% of the acquisition price of a structure, depending on costs per 1m² of the flooring surface of a flat, with an advantageous long-term loan from the State Housing Construction Fund was used for financing rental flats construction under the public rental sector. This model of financing was not sustainable for a long-term period, as such financing formed the 100-per-cent-financing of rental flats construction from the Government sources. Therefore, effective from 1st August 2002, a new model has been implemented, which brings the financial sources of commercial banks in this field. Finance for the acquisition of rental flats under the public rental sector is currently supported by government subsidies allocated for the partial payment of acquisition costs of a flat and partial payment of the interest rate from a loan granted for the acquisition of a flat, by a loan from the commercial banks and investor's own sources.

Programme of Bank Guarantees

The program supporting the housing construction development, implemented in the form of the provision of bank guarantees for loans assigned to housing construction, which was approved by the SR Government in 1999, has laid down conditions for using private funds in the field of housing. The aid to legal persons in the form of liability for a loan assigned to the field of housing construction and remedy, modernisation and reconstruction of the housing stock may be granted through this programme. The priority under this programme is given to guarantees for loans assigned to rental housing construction for socially disadvantaged groups of inhabitants. The amount of 1 mill. USD has been allocated from the state budget in order to implement this programme. The provision of such form of the state aid is implemented in accordance with the State Aid Act, which is compatible with EU directives.

5.2 Field of Indirect Support

The field of indirect government support within housing construction, which is formed by tax relief and tax incentives, lags far behind measures in the field of direct support, adopted under the concept of the government housing policy.

Within the fiscal policy, the partial measures regarding the tax exemption have been implemented:

- exemption from tax on real estate: flats, houses and block of flats for the period of 5 to 10 years (from 1st January 1993)
- exemption of housing cooperatives from the tax on income derived from rental of cooperative flats, garages and payments provided in the connection with their usage (from 1st January 1993)
- exemption from tax on income of individuals (natural persons): interests from deposits under housing savings (from 1st January 1994),

- exemption from tax on income: interest gains from mortgage backed bonds of natural and legal persons (from 1st April 1999)
- in the case of a legal person, eventually a possibility to reduce the tax base by the amount of donation provided to the SHDF for rental flats construction (from 1st January 2000)
- the first assignment of the flat ownership in a block of flats or house ownership in a family house from the constructor ownership to the natural person or legal person ownership is exempt from tax (from 1st April 2002).

These measures in the field of fiscal policy have not motivated investors to engage themselves in the housing construction development. For the housing construction development, there is necessary to develop the fiscal tools in order to stimulate investors for the field of housing construction.

6. Tendency in the Field of Housing Construction Finance

In 1999 the Government adopted “The Concept of Housing Development” on the basis of which it is necessary for the effective usage of financial sources to enhance individual systems so that they will not be implemented overall. It is necessary to determine their effects on individual groups of inhabitants depending on the level of their income.

The housing development support using the government economic tools is, in accordance with this Concept, focused on the target solution represented by financing the housing development, mainly from private sources; public finance of the state and municipalities are focused on the housing support of socially disadvantaged groups of inhabitants and on the indirect support in the form of tax relief.

All the systems of housing construction finance created during the previous years, including the investors’ own sources, must take part in the financing of housing construction till 2010. Bank sources are more significantly involved in the system, in the form of both the

mortgage loans implemented through mortgage backed bonds and standard mortgage loans, and commercial bank loans.

From the participation of individual systems in housing construction finance, adopted under the Concept of Housing development, the proportion of these systems of housing construction finance should be considerably modified, and charts 1 and 2 represent its development.

Chart 1 – Proportion of three existing systems of housing construction finance in 2005

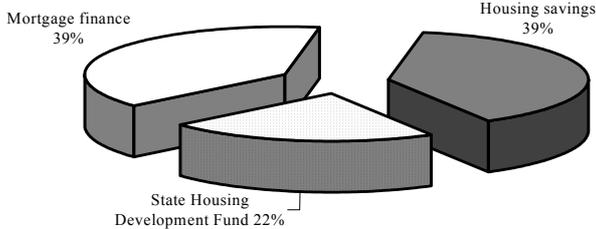
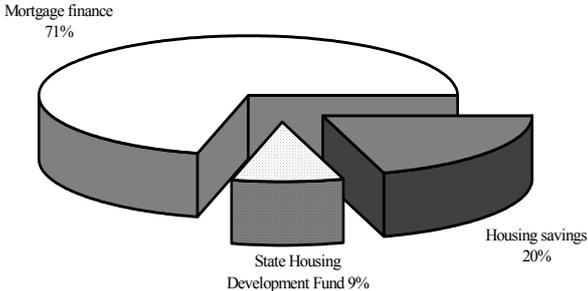


Chart 2 - Proportion of three existing systems of housing construction finance in 2010



SUMMARY

In the near future, in the field of housing construction finance, the economic performance in the Slovak Republic requires from individual participants of this process to continue performing their intents. The field of indirect subsidies, mainly the field of taxation, must be developed in order to develop housing construction. It is necessary to adopt those taxation tools that would motivate investors to invest in housing construction and renovation of the existing housing stock.

Concerning the situation in the capital and financial markets of the Slovak Republic, the participation of foreign financial institutions in granting available sources for financing mainly the construction of flats in the public rental sector is desirable. This field is step-by-step implemented through the entry of foreign subjects into the banking sector of the Slovak Republic.

The Slovak Republic actively co-operates with international institutions in order to assure sources. In co-operation with the Council of Europe Development Bank the project of co-financing the construction of municipal rental flats for residents with low income is currently implemented from sources of municipalities and the Council of Europe Development Bank.

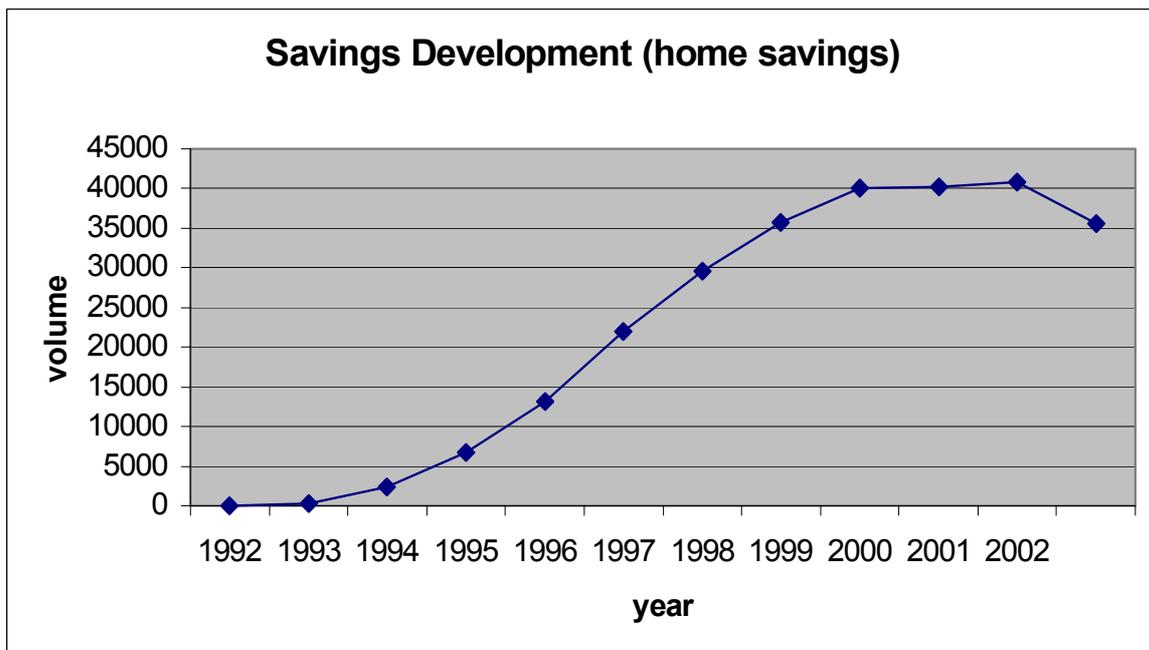
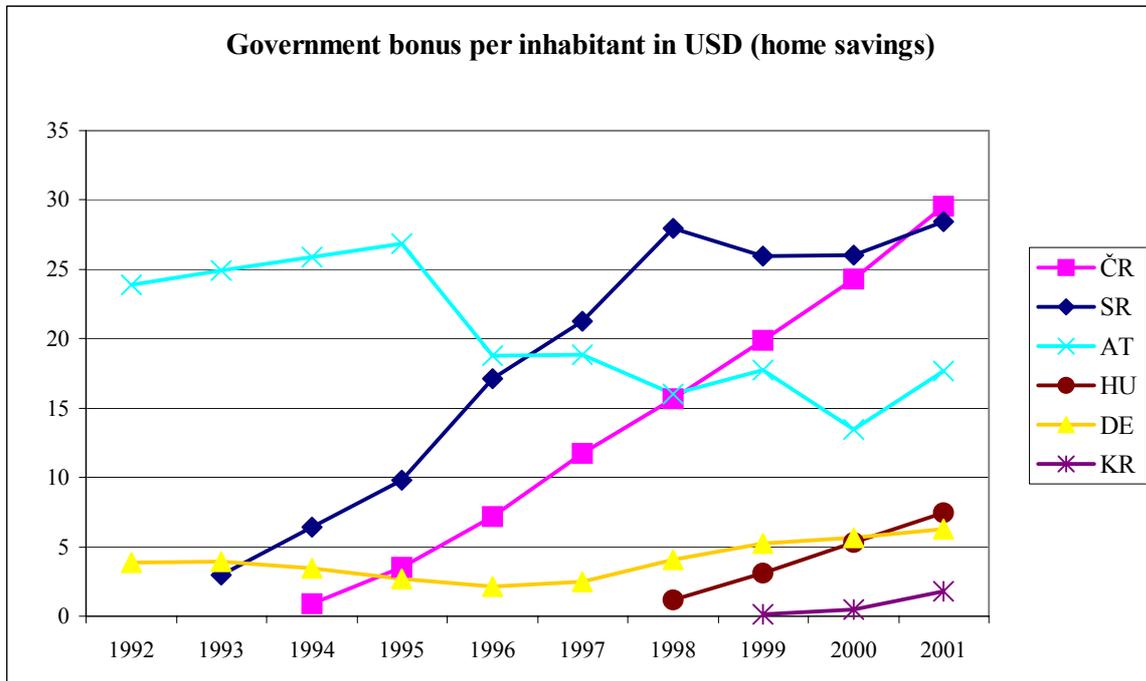
It is to be necessary to analyse in details the current amount of the Government subsidy and its efficiency in order to develop the field of housing construction finance and build an effective state aid in this field. Draft regulations laying down principal parameters concerning setting out the government bonus under housing savings and under mortgage loans consider a decrease in the Government subsidy in 2003 by reason of stabilisation of the budgetary field.

Annex 1

Basic characteristics of housing savings

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Claim for government bonus (in mill. USD)	4,2	16,9	33,1	49,7	77,3	62,1	56,6	65,7	76,0	69,4	75,0
Client deposits (in mill. USD)	9,5	37,0	80,2	133,0	209,0	224,8	212,9	305,4	309,1	352,9	240,4
Means used for specific purpose (in mill. USD)	0,0	0,5	6,7	25,7	89,1	216,9	343,8	517,1	456,4	384,7	279,1
Amount of saved sum (in mill. USD)	7,4	56,5	156,0	305,4	510,5	689,3	830,9	931,8	936,0	948,8	828,1
Government bonus (as a % of client deposit)	40,0	40,0	40,0	40,0	40,0	40,0	40,0	30,0	30,0	25,0	25,0
Government bonus (as a sum per client/year in USD)	139,5	139,5	139,5	139,5	139,5	139,5	139,5	139,5	139,5	104,7	93,0

Annex 2



Annex 3

Mortgage and Municipal Loans (1997 – 30.6.2002)

	VÚB	Slovenská sporiteľňa	Tatrabanka	Istrobanka	ČSOB	HVB Bank Slovakia	Spolu
<i>Municipal loans</i>							
Approved by bank (in USD)	830 919						830 919
Withdraw by client (in USD)	750 687						750 687
Total amount of loans	2						2
<i>Mortgage loans</i>							
Approved by bank (in USD)	81 487 722	30 907 337	42 369 498	12 376 943	313 605	2 061 037	169 516 142
Withdraw by client (in USD)	79 144 966	30 222 501	40 017 553	6 896 687	110 675	1 835 649	158 228 030
Total amount of loans	4 800	3 150	2 255	677	14	68	10 964
Government bonus (in USD)	2 486 512	1 109 651	750 860	380 581	70	31 698	4 759 372

Annex 4

Act No.483/2001 Z.z.
on Banks and on changes and amendments to related laws

CHAPTER ELEVEN
MORTGAGE BANKING

Article 67

(1) For the purposes of this Act, a mortgage operation shall mean

- a) the provision of mortgage loans and the issuance of mortgage backed bonds related thereto¹,
- b) the provision of municipal loans and the issuance of municipal bonds by banks related thereto².

(2) Mortgage operations may be carried out in Slovak crowns or in a foreign currency.

(3) In case of their execution in a foreign currency, the exchange rate risk shall be born by a the bank or a branch office of a foreign bank that provides mortgage transactions (hereinafter referred to as "mortgage bank"). A mortgage bank has the duty to adopt measures to prevent exchange rate risk from coverage of mortgage backed bonds or municipal bonds by claims from mortgage loans and municipal loans.

Article 68

A mortgage loan is a loan with a maturity of at least four years and a maximum of thirty years, secured by the right of lien established upon a domestic real estate, including an uncompleted construction, which is primarily financed from the issue and sale of mortgage backed bonds pursuant to a separate regulation⁵⁵ that a mortgage bank provides to legal and natural persons for the following purposes:

- a) acquisition of local real estate or its part,
- b)** construction or modification of existing structures³,
- c) maintenance of a local real estate, or
- d) repayment of a provided loan used for purposes under a) to c) that is not a mortgage loan.

Article 69

A municipal loan is a loan with a maturity of at least four years and a maximum of thirty years, secured by the right of lien established upon real estate owned by a municipality, financed primarily from issues and sale of municipal bonds

¹ Article 14 of Act No. 530/1990 Zb., as amended by subsequent legislation

² Article 20 para. 1, letter a) of Act No. 530/1990, as amended by subsequent legislation

³ Article 139 para. 4 of Act No. 50/1976 on territorial planning and the construction order (Building Act)

under a special regulation⁵⁶ which banks provide for the acquisition of real estate, construction or modification of existing structures⁵⁷, maintenance of local real estate and other buildings with the aim of their usage for public service purposes.

Article 70

A mortgage bank may deposit its temporarily disposable funds gained from mortgage transactions with a bank or with a branch office of a foreign bank. Furthermore, it may use these funds for the purchase of:

- a) mortgage backed bonds issued by another mortgage bank,
- b) municipal bonds⁵⁶ issued by another mortgage bank,
- c) bank bills issued by the National Bank of Slovakia,
- d) government bonds⁴,
- e) treasury bills.

Article 71

Issuing and particulars of mortgage backed bonds and municipal bonds shall be governed by a separate regulation¹¹. The National Bank of Slovakia may stipulate for a mortgage bank in a license to transact mortgage business special conditions for financing of mortgage and municipal loans for a maximum period of two years after this license was granted.

Article 72

(1) Mortgage backed bonds and municipal bonds issued may only be backed by claims from mortgage and municipal loans not exceeding 70 percent of the value of the pledged real estate evaluated in accordance with Article 73.

(2) Mortgage and municipal loans going beyond the limit as stipulated in para. 1 may only be granted on condition that the total amount of claims exceeding the above limit does not exceed 10 percent of the total amount of provided mortgage and municipal loans.

(3) Assets used to back the nominal value of issued mortgage backed bonds and municipal bonds may not be pledged by the mortgage bank or otherwise used to guarantee its liabilities..

Article 73

(1) For the purposes of this Act, the value of real estate shall be determined by a mortgage bank on the basis of an overall assessment of the real estate. In determining the value, the mortgage bank may only take into account permanent features of the real estate and benefit that can be derived by the owner from the real estate in the long run. For real estate encumbered by lien in accordance with Article 74, para. 2, a mortgage bank shall lower the value of the real estate by the amount of claim that this lien guarantees.

(2) A mortgage bank shall only be bound by its own evaluation of real estate.

⁴ Article 18 of Act No. 530/1990 Zb., as amended by subsequent legislation

Article 74

(1) The right of lien securing claims of a mortgage bank from mortgage or municipal loans shall arise upon its entry in the real estate register of the Slovak Republic pursuant to a special regulation⁵ based on a motion of the mortgage bank and the owner of the real estate. The mortgage bank shall have the status of a mortgagee.

(2) A mortgage loan or a municipal loan may not be secured by a lien on real estate on which a lien already has been established and continues in favour of a third party, or a limitation on the transfer of real estate with the exception of a lien established in accordance with a separate regulation⁶ and a lien established in favour of a building savings bank or the Country Housing Development Fund.

(3) Real estate will not be considered encumbered by a lien or transfer limitations where a claim secured by a lien in favour of a third person or transfer limitations shall cease as a result of a provided mortgage loan or municipal loan used to settle this claim and when the lien on the real estate or the limitation on real estate transfers ceases.

(4) A lien on real estate established to secure claims from a mortgage loan or municipal loan shall cease on the repayment of this loan or other amounts due related thereto. A mortgage bank shall announce the cessation of the lien to real estate to the organ of the state administration in the sphere of real estate register. 59

(5) In exercising its right of lien, a mortgage bank may sell real estate pledged as security through distraint in accordance with a separate regulation⁷, on the basis of an agreement made in the form of a notarial deed between the mortgage bank, its debtor, and the mortgagor if not identical with the debtor, if the parties agree on a distraint in accordance with a separate regulation⁶¹ in the said agreement. This agreement shall contain a legal obligation, the specification of the beneficiary and the person subject to this obligation, a legal cause, objects and time scales for the of execution.

Article 75

(1) A mortgage bank shall provide mortgage and municipal loans under general terms and conditions it issues for granting mortgage and municipal loans that must in particular contain

- a) the due form of application for a mortgage or municipal loan,
- b) a procedure for applying for a mortgage and municipal loan,
- c) the terms and conditions for granting mortgage and municipal loans,
- d) the manner in which a mortgage or municipal loan agreement may be recalled,
- e) a procedure to be followed by a bank in the event that a debtor defaults on repayment of a mortgage or municipal loan or other due amounts payable therefrom,

⁵ National Council of the Slovak Republic Act 162/1995 Z.z. on the real estate register and on entry of ownership rights and other rights to real estate (Cadastre Law) in the wording of National Council of the Slovak Republic Act 222/1996, Z.z.

⁶ Article 15 para. 1 of Act of the National Council of the Slovak Republic No. 182/1993 Zb. on the ownership of residential and non-residential premises, as amended by subsequent legislation

⁷ Act No. 233/1995 Zb. of the National Council of the Slovak Republic on court officers and distraints (Distraint Code) and on modifications and amendments to other laws, as amended by subsequent legislation

- f) cases where as a result of a mortgagor's changed situation a mortgage bank is entitled to call early repayment of a mortgage loan or municipal loan,
- g) the conditions for exercising a lien on real estate established to secure mortgage and municipal loans.

(2) A mortgage bank may not enforce early repayment of its claims from mortgage or municipal loans for reasons on part of the mortgage bank or its legal successors; this shall also apply where a mortgage bank is wound up and liquidated.

Article 76

(1) A list of mortgage and municipal loans and their amounts, liens and claims of a mortgage bank from mortgage and municipal loans that serve to back mortgage and municipal bonds or other assets serving as substitute cover, must be recorded separately by a mortgage bank in the register of mortgages.

(2) The register of mortgages and the documents on the basis of which the entries have been made in the register of mortgages must be kept by a mortgage bank separately from other documents and secured against misuse, destruction, damage or loss.

(3) By the end of January and July of each calendar year, a mortgage bank shall be obliged to notify the National Bank of Slovakia and the Ministry of all entries made in the register of mortgages during the last six months.

(4) The due form and method for keeping the register of mortgages and the due form of information as stipulated in paras 2 and 3 shall be determined in detail by the National Bank of Slovakia and the Ministry by means of a generally binding legal regulation.

Article 77

A mortgage bank shall be obliged to maintain separate ledger account detailing records of mortgage transactions in its accounting system.

Article 78

(1) The National Bank of Slovakia shall appoint a mortgage controller to each mortgage bank, to supervise the conduct of mortgage transactions in accordance with this Act and a separate regulation.¹¹ In the same manner, it shall appoint a deputy for each mortgage controller who shall deputise for the mortgage controller in his or her absence, enjoying to the full extent all of his or her rights, duties and responsibilities.

(2) The National Bank of Slovakia shall discuss the appointment of a mortgage controller and his or her deputy in advance with the mortgage bank to which they are to be appointed.

(3) A mortgage controller and his or her deputy shall be dismissed by the National Bank of Slovakia.

(4) A mortgage controller and his or her deputy may only be a natural person who is professionally competent to carry out this activity and is a person of civic probity. A natural person with completed university education, who has at least five-years experience in economics or law shall be deemed professionally competent. A person shall be deemed as a person of civic probity if he or she has not been lawfully sentenced for an intentional criminal offence or a criminal offence committed by negligence in association with performing a management position in a business corporation.

Article 79

(1) A mortgage controller shall perform his or her duties on his or her own, independently and impartially. In carrying out his or her activity, he or she shall only be bound by generally binding legal regulations and decisions issued based on bank supervision or oversight pursuant to special regulation¹¹ over work of a mortgage controller.

(2) Any dispute between a mortgage controller and a mortgage bank shall be decided by of the National Bank of Slovakia when the matter relates to bank supervision, or an authority pursuant to a separate regulation¹³ if this is a matter to which responsibility pertains of an authority pursuant to a separate regulation.¹³

Article 80

(1) A mortgage controller shall supervise the issuance of mortgage backed bonds and municipal bonds in regard of their particulars and cover under a separate law.¹¹

(2) Prior to each issue of mortgage backed bonds or municipal bonds, a mortgage controller shall be obliged to issue a written certificate testifying that they have been covered in accordance with a separate regulation,⁸ and that any entry thereof has been made in the register of mortgages.

(3) A mortgage controller shall check on whether a mortgage bank makes mortgage and municipal loans in accordance with this Act and whether a mortgage bank meets its obligations towards the register of mortgages as stipulated by this Act and generally binding legal norms.

(4) At request form a mortgage bank, a mortgage controller shall be obliged to provide cooperation in activities related to the conduct of mortgage operations, which cannot be carried out by the mortgage bank without such cooperation.

Article 81

(1) When a mortgage controller detects shortcomings pursuant to Article 80, he or she shall be obliged to immediately notify in writing of these finding the National Bank of Slovakia and if the shortcomings relate to Article 80, para. 1, also a supervisory authority pursuant to a separate regulation.¹³ Article 93 of this Act shall not apply to the provision of information under this para..

⁸ Article 16 paras 4 and 5 and Article 20 para. ⁴ of Act No. 530/1990 Zb., as amended by subsequent legislation

(2) In performing his or her function, a mortgage controller shall act in his or her own name and on the account of the mortgage bank.

(3) A mortgage bank has the duty to enable the mortgage controller to perform his or her function, in particular it shall be obliged to enable him or her to inspect accounting records, the register of mortgages, and other documents related to mortgage transactions.

(4) The amount of remuneration for a mortgage controller and his or her deputy shall be determined by the National Bank of Slovakia upon agreement with the mortgage bank. The remuneration shall be covered by the mortgage bank.

Article 82

(1) The activity of a mortgage controller and his or her deputy shall be subject to the banking supervision performed by the National Bank of Slovakia and supervision conducted by a supervisory authority pursuant to a separate regulation.¹³

(2) If during the course of banking supervision the National Bank of Slovakia detects shortcomings in the activity of a mortgage controller or his or her deputy, except for shortcomings as stipulated in Article 80 para. 1, it may fine him up to SKK 100,000.

(3) If supervision performed under separate regulations⁹ a supervisory authority¹³ detects shortcomings in the activity of a mortgage controller or his or her deputy stipulated in Article 80 para. 1, it shall proceed in accordance with a separate regulation.¹⁰

Article 83

The National Bank of Slovakia and the Ministry shall stipulate the details of the position and activity of a mortgage controller and his deputy by a generally binding regulation.

Article 84

(1) For the purposes pursuant to Article 68, letter a) to c), a natural person borrowing money under a mortgage loan agreement (hereinafter referred to as "mortgagor") shall be entitled to a bonus from the state budget of the Slovak Republic under conditions set out in this Act (hereinafter referred to as "government bonus").

(2) The government bonus shall mean a percentage by which the rate of interest set in a mortgage loan agreement is reduced by the Government. The amount of the government bonus determined in percentage terms may not be changed over the entire maturity of the mortgage loan set in the mortgage loan agreement. The percentage rate of a government bonus for agreements concluded in individual calendar years shall be established by the State Budget Act for the respective fiscal year.

⁹ Act No. 600/1992 Zb., as amended by subsequent legislation; Act No. 530/1990 Zb., as amended by subsequent legislation

¹⁰ Article 22 para. 3 of Act No. 530/1990 Zb., as amended by subsequent legislation

(3) For calculation of a government bonus to a mortgage loan provided in a foreign currency, the amount of mortgage loan shall be converted to Slovak crowns using the exchange rate announced by the NBS28 as of the date when the mortgage loan agreement was concluded.

(4) A government bonus may be granted for a mortgage loan of up to SKK 2,500,000 per housing unit, also in the case of a married couple and acquisition of such real estate into a shared undivided ownership.

(5) A mortgage loan to which a government bonus is granted shall typically be repaid in regular monthly instalments. If instalments of a mortgage loan are agreed-upon otherwise, the sum of government bonuses to this mortgage loan may not exceed the sum that would have been provided as a government bonuses in the instance of regular monthly instalments.

Article 85

(1) A claim to a government bonus from the state budget of the Slovak Republic shall be made by a mortgagor via a mortgage bank on the basis of an application submitted to the mortgage bank.

(2) A government bonus shall be granted to a mortgagor on a yearly basis over the loan maturity period fixed in a mortgage loan agreement, namely only for a single mortgage loan agreement.

(3) If the mortgagor makes more than one mortgage loan agreements, the government bonus shall be provided for the agreement to which a written statement is attached, if such statement is contained in several mortgage loan agreements in the same year, the mortgagor shall lose his or her claim for a government bonus under all agreements for that year for a period of subsequent 12 calendar months, where this term shall start to lapse on the first day of the calendar month following the receipt of the written information from the Ministry or an entity appointed thereby concerning the existence of several agreements on which a claim for a government bonus has been made. For a married couple or co-owners the claim in this instances ceases for both partners or all co-owners.

(4) A claim to a government bonus shall cease,

- a) when a mortgagor fails to use the loan for the purpose for which it was intended,
- b) when a mortgage bank reclassifies a claim arising from a mortgage loan into a category of classified claims under the conditions stipulated in separate regulations issued pursuant to Article 39, **para.** 9.

Article 86

(1) The Ministry shall transfer government bonus to a mortgage bank on a monthly basis.

(2) A claim for government bonus advance for a given month shall be submitted by a mortgage bank to the Ministry no later than the 25th day of the following month.

(3) The Ministry shall transfer the funds pursuant to para. 2 by the 25th day of the month following the submission of application by the mortgage bank for a government bonus, to a separate account of the mortgage bank opened for this purpose

at the National Bank of Slovakia. From this account, the mortgage bank may withdraw funds for the payment of bonuses to individual mortgagors claiming government bonuses.

(4) Government bonuses granted to mortgagors for the year in question shall be cleared by a mortgage bank within the time limit set by the Ministry.

(5) A mortgage bank is responsible for

- a) timely implementation of claims to government bonuses from the state budget,
- b) correct calculation of the amount of government bonuses,
- c) return of government bonuses when terms have been violated for providing the government bonus.

Article 87

(1) The central register of mortgage loan agreements to which government bonus are claimed shall be kept by the Ministry or an entity it commissions to do so.

(2) Mortgage banks shall be obliged to provide the Ministry or the commissioned entity information about new mortgage loan agreements for the purposes stated in para. 1. This information must contain

- a) the mortgagor's birth certificate number,
- b) the number of a mortgage loan agreement,
- c) a statement whereby a claim for a government bonus is made,
- d) the amount of a mortgage loan in Slovak crowns,
- e) the amount of monthly instalments,
- f) the loan maturity date,
- g) the interest rate agreed in the mortgage loan agreement,

(3) The country supervision over compliance with the terms and conditions for the provision of a government bonus shall be the responsibility of the Ministry. The Ministry shall be authorised to request any data from a mortgage bank for the audit of the use of funds granted as government bonus. The performance of country supervision shall appropriately be subject to the provisions of a separate regulation.¹¹

(4) Employees and members of bodies of the commissioned entity under para. 1 shall be obliged to keep confidential all facts that are connected with the performance of activities pursuant to paras 1 and 2, also when they end their employment or a similar work relationship or when they leave their functions in the bodies of this entity. This does not affect provisions of Article 91, paras 2 to 7, Article 92, paras 1 to 6, and Article 93.

Article 88

For the purposes of mortgage transactions and government bonuses, provisions of this Act and a separate law¹¹ relating to real estate shall equally apply to residential and non-residential premises.

Annex 5

Act No. 310
Home Savings Act as amended

P A R T O N E

Basic Provisions

Article 1

(1) The purpose of home saving is to finance housing needs from the resources of the Home Savings Fund specially created for that purpose.

(2) The Home Savings Fund consists of:

- a) deposits of members participating in home savings (hereinafter referred to as 'home-savers');
- b) interest income;
- c) subsidies from the State budget of the Slovak Republic (hereinafter referred to as 'government bonus');
- d) loan repayments;
- e) other resources.

Article 2

(1) Under the Act, home saving is to be understood as:

- a) the acceptance of deposits from home-savers;
- b) granting loans to home-savers (hereinafter referred to as 'home loans').

(2) Only a bank incorporated as a joint-stock company in possession of a banking licence covering home savings business issued in accordance with separate regulations, is allowed to conduct home savings business (hereinafter referred to as 'home savings bank'). Stipulations of separate regulations apply to a home savings bank, if not otherwise stated in this Act. The title 'home savings bank' or translations thereof may only be used by a home savings bank.

(3) In addition to business stated in para 1, a home savings bank may conduct the following banking operations, provided they are stated in its banking licence:

- a) providing bank guarantees for home loans, mortgage loans and municipal loans to other banks;
- b) accepting interbank deposits;
- c) trading on the bank's own account in mortgage bonds, municipal bonds and Government bonds including Government bills and NBS bills, on the basis of a special permit issued under separate regulations;
- d) payments and settlement in connection with home savings business;
- e) providing consultancy services in connection with home savings business;
- f) mediating in insurance business related to home savings business.

(4) Home savings banks may conduct the operations mentioned in para 3 subject to the following conditions: priority must be ensured in respect of liabilities connected with home savings agreements; that maturity periods set remain unchanged; that periods allowed for their provision are not extended.

Article 3

(1) A home savings bank is obliged to set the deposit and lending rates so that the difference between them does not exceed 3%.

(2) The rates of interest on deposits and home loans are to be fixed for the term of the relevant home savings agreement.

Article 4

A home-saver may be:

- a) any individual with permanent residence in the Slovak Republic, who has entered into an agreement with a home savings bank, or the person on behalf of whom such agreement has been signed;
- b) any legal person *) or natural person-entrepreneur with permanent residence in the Slovak Republic, who has entered into a home savings agreement with the home savings bank.

Article 5

(1) Government inspection of compliance with the conditions for the provision of a government bonus shall be conducted by the Ministry of Finance of the Slovak Republic (hereinafter referred to as the 'Ministry').

(2) The Ministry is authorised to request from a home savings bank any document required for the inspection of the resources in the Home Savings Fund.

Article 6

(1) A central register of home savings agreements in accordance with Article 4 letter a) shall be kept by the Ministry as proof that the home-savers' claims for receiving a government bonus are legitimate.

(2) For reasons stated in para 1, home savings banks are obliged to provide the Ministry with the following data within ten days of the end of each calendar month:

- a) the home-saver's birth certificate number;
- b) the number of its home savings agreement;
- c) date of signing and expiration of the agreement;
- d) statement of the home-saver's government bonus claim.

(3) For reasons stated in para 1, home savings banks are obliged to provide the Ministry with data on claims for a government bonus within ten days of the end of each quarter.

(4) The Ministry will continuously monitor the correctness of the data and will notify the respective home savings bank of any inconsistencies.

P A R T T W O

Conditions for Home Saving

Article 7

(1) Home savings banks may conduct home savings business in accordance with prescribed rules approved by the National Bank of Slovakia upon agreement with the Ministry, and which include the following:

- a) types of home saving and the terms of savings agreements;
- b) the structure of the Home Savings Fund; the procedure and the time limits involved in obtaining a home loan and the conditions for the provision of the loan;
- c) the procedure and the time limits for settling the accounts of terminated home savings agreements;
- d) the protection of home-saver funds in the event the home savings bank is closed or its licence to operate withdrawn;
- e) prerequisites for the provision of home loans subject to general business conditions.

(2) Home savings agreements shall contain the following:

- a) amounts and time schedules of the home-saver's deposits;
- b) interest rates on savings deposits and home loans;
- c) conditions for the provision of home loans; procedure for determining the schedule for granting home loans, and the conditions for withdrawals from home savings accounts;
- d) procedures for settling liabilities arising from home loans;
- e) conditions under which a home savings agreement may be split or combined with another agreement; a reduction or increase in the target amount (Article 8, para 1) and the subsequent provision of a home loan;
- f) conditions under which the rights and obligations arising from a home savings agreement may be transferred to another person;
- g) conditions under which the agreement may be terminated;
- h) statement by the saver in which he makes a claim for a government bonus under the terms of the agreement.

(3) Home savings agreements may include other related issues.

Article 8

(1) Home saving begins with an agreement between the home-saver and the home savings bank on an agreed amount (hereinafter referred to as 'target amount').

(2) The target amount consists of

- a) home-saver deposits;
- b) interest;
- c) government bonus;
- d) home loan;
- e) other resources.

(3) Upon the terms and conditions of the agreement being met, the claim of a home-saver for a home loan becomes legitimate.

(4) The home-saver may:

- a) make a claim for a home loan;

- b) withdraw his deposit without making a claim for a home loan;
- c) continue saving.

(5) A home savings agreement with a legal person or natural person - entrepreneur may be entered into only:

- a) if the share of the total target amount of home savings agreements concluded with legal persons or natural persons-entrepreneurs in any one year is not higher than 5% of the sum of target amounts that have been agreed in all home savings agreements concluded in that calendar year, or
- b) if the share of the total target amount of home savings agreements concluded with legal persons or natural persons-entrepreneurs not yet entitled to a home loan, is not higher than 10% of the sum of the target amounts for which (i) the saver though satisfying the conditions agreed in home savings agreements is not yet entitled to a loan, and (ii) the saver is entitled to a loan but has not applied.

(6) To a legal person or natural person-entrepreneur with whom a home savings agreement has been concluded, but who is as yet not entitled to a home loan, a home loan may be granted only if the share of such home loans is not higher than 10 % of the sum of the target amounts for which (i) the saver though satisfying the conditions agreed in home savings agreements is not yet entitled to a loan, and (ii) the saver is entitled to a loan but has not applied.

(7) To a legal person or natural person-entrepreneur with whom a home savings agreement has been concluded, only a loan up to the 50 % of the target amount may be granted.

(8) A legal person or natural person-entrepreneur with whom a home savings agreement has been concluded, and who has received a home loan for the purpose stated in Article 11, para 1, letter b), must repay the outstanding amount to the bank before disposing of any funds received from the sale of the apartment, apartment building or a part thereof. In the case of rental of flats in an apartment bloc, a legal person or natural person - entrepreneur shall repay the loan as stipulated in the home savings agreement.

Article 9

(1) The home-saver will become eligible for a home loan after complying with the agreed conditions for home saving and the terms of loan repayment.

(2) The amount of the home loan equals the difference between the target amount and the volume of savings, including interest, any government bonus, (Article 10, para 1) and other resources.

Article 10

(1) Government bonuses shall be granted to home savers in accordance with Article 4, letter a).

(2) The savers' claims for government bonuses from the State budget shall be the responsibility of home savings banks.

(3) The government bonus has been set in the amount of 25% of the annual deposit, up to the maximum amount laid down in the State Budget Act for the relevant fiscal year. For the purposes of this Act, an annual deposit is defined as the sum of deposits made by the home-saver pursuant to Article 1, para 2, letter a) and deposits made by

other natural or legal persons pursuant to Article 1, para 2, letter e) of the Act in the account of the home-saver during the calendar year.

(4)The government bonus is paid to the saver each year during the whole savings period, on the basis of the home savings agreement. If the home-saver enters into a number of agreements, the government bonus shall be paid on the basis of an agreement that includes a written statement made by the saver. If the statement is included in more than one agreement in the same year, the saver will lose his right to receive a government bonus in that year.

(5) Should a home savings agreement expire during a calendar year, and the home-saver enters into a new home savings agreement, he may make a claim for the government bonus in relation to the new agreement, provided that entitlement for the government bonus has not arisen during the relevant year. Where a claim for a government bonus is made based on agreement which has expired during the calendar year, and, at the same time, another claim for the government bonus is made in relation to a new agreement concluded in the relevant calendar year, the amount of state bonus may not exceed 25 % of annual deposits made in relation to both agreements, and, at the same time, it may not exceed the amount laid down in the State Budget Act for the relevant fiscal year.

Article 10a

(1)Should a home-saver fail to adhere to the terms and conditions for the granting of the government bonus laid down in this Act or as stated in the home savings agreement, the claim for the government bonus becomes null and void.

(2)The saver's claim for the government bonus is not null and void in cases where the home-saver:

- a)cancels the home savings agreement within two to six years of its having been made, and uses the funds obtained through home savings for purposes stated in Article 11, para 1 and can prove this; or
- b)the saver fails to apply for a home loan within six years of entering into the home savings agreement.

(3)Should a home savings agreement be cancelled due to death or invalidity of the saver, the claim for a government bonus shall still be valid

Article 10b

(1)Home savings banks may apply for the payment of government bonuses in writing within 10 days of the end of the relevant calendar quarter. The Ministry may make advances to home savings banks from the State budget for the payment of government bonuses within 25 days of the receipt of an application for the payment of a government bonus for the foregoing quarter.

(2)The home savings bank shall credit the aliquot parts of the annual bonus to the accounts of savers upon receipt of funds from the State budget, within 10 (ten)days.

(3)The government bonus credited to the account of a home saver shall attract the same interest rate as saver's deposits; the home savings bank shall keep a separate account for the government bonus credited to the home saver.

(4)The home savings bank shall be responsible for:

- a)the processing of government bonus claims from the State budget in due time;
- b)the correct amounts of government bonuses;
- c)the accounting of government bonus payments;

d)the repayment of government bonuses if the conditions for their payment were not met by the home savings bank.

Article 11

(1)The saver may use the target amount, including a home loan, for the financing of his housing needs in the Slovak Republic (hereinafter referred to as 'housing purposes '), such as:

- a)the purchase of an apartment, house or apartment building;
- b)construction of a new house, apartment building, or alteration to an already existing property;
- c)modernisation and maintenance of an apartment, house or apartment building;
- d)purchase of land for the building of a house;
- e)purchase of land with a house;
- f)purchase of a non-residential part of an apartment bloc for the purpose of conversion into an apartment;
- g)conversion of non-residential parts of a building into an apartment;
- h)payment to housing association for the purpose of acquisition of an apartment;
- i)settlement of obligations related to the purposes listed in a)-h)above.

(2)Where the builder is a legal person, the costs of public gas, water, electricity and sewerage networks as well as public transport network and other technical infrastructure for developing land do not qualify for a saving loan in accordance with Article 4 letter a).

(3)In cases pursuant to Article 4,letter b)where the home loan is a part of the target amount, the home-saver is not allowed to use the target amount for the purchase of an apartment or a house; construction of a house, or alteration to a house; modernisation and maintenance of an apartment or a house; purchase of land with an existing house, and for purposes stated in para 1,letters h)-i).

(4)Liabilities of home savers in respect of home loans received must be secured in accordance with separate regulations.

Article 12

(1)The home savings bank shall make payments from the Home Savings Fund in respect of the legitimate claims of savers, in accordance with agreed terms and conditions, as follows:

- a)repayment of savings account deposits after the saver's claim for a home loan became legitimate;
- b)repayment of a home savings deposit terminated during the period of saving;
- c)provision of a home loan to a saver eligible for such a loan.

(2)Home savings banks may only use the temporarily free resources of the Home Savings Fund for

- a)provision of home loans for housing purposes, under commercial conditions, to home-savers who have met the conditions of saving, but have not yet complied with the conditions for receiving a home loan, or to home-savers who are still saving;
- b)purchase of mortgage bonds, municipal bonds, Government bills, Government bonds and NBS bills;
- c)deposit with another bank according to express agreement.

(3)The home savings ban s may use the temporarily free resources of the Home Savings Fund pursuant to para 2 only where the requirements laid down in para 1 have been complied with.

P A R T T H R E E
Temporary and Final Provisions

Article 13

(1)Provisions of this Act also govern legal relationships established in home savings agreements that were concluded prior to 1 October 1999.

(2)Pursuant to stipulations of this Act,additionally,a home-savers claim to receive a government bonus on the basis of a home savings agreement concluded before the coming into effect of this Act will be considered.

(3)Home savings ban s and other legal persons and natural persons are obliged to accommodate their legal relationship to this Act within six months of the Act coming into effect, primarily those following from loan agreements or home savings agreements.

Article 13a

The Decree of the Ministry of Finance of the Slova Republic No.400/1992 Coll. stipulating the amount of,and conditions for the provision of a government bonus,and basic conditions for the maintenance of a central register of home savings agreements,as amended by the Decree of the Ministry of Construction and Public Works of the Slovak Republic No.108/1997 Coll. is hereby repealed.

Article 13b

Home savings ban s are obliged to revise their principles of home saving and general terms and conditions of trade so as to adhere to this Act by 30 June 2001.

Article 14

This Act becomes effective on 1 October 1999.

Act No.386/1996 Z.z.came into effect on 1 January 1997.

Act No.242/1999 Z.z.came into effect on 1 October 1999.

Act No.443/2000 Z.z.came into effect on 1 January 2001.