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# CapInvest



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'Savings-Loan'  
Housing Finance Product

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# OVERVIEW

*The 'savings-loan' product is perhaps one of the most popular housing finance products in Germany. It combines features of a savings product and a loan product and encourages potential homeowners to save regularly to buy a home - savings are supplemented by a loan at a concessional finance rate.*

*Thus, potential homeowners start saving when they are young and as they grow, so does their capacity to repay the larger amount that needs to be repaid in future when savings are combined with a loan to buy a house.*

*This document presents one variation of the product, which yields significant tax advantages over comparable products. Following are the features of the example (it is just as easy to change any of the variables to develop a product that is fine-tuned to customer requirements):*

- *Monthly deposits of 7,500 for 10 years;*
- *No interest is paid on deposits;*
- *Customer is offered a multiple of 3 as a loan for buying a home – i.e., loan is 3 times the total savings; thus, customer receives a total of 3,600,000 to buy a house after 10 years – 900,000 of own savings PLUS 2,700,000 as loan;*
- *Loan is offered at a concessional rate of 5.7% p.a., repayable via monthly installments over 10 years; it is assumed normal lending rate is 7.5%*
- *It is assumed that customer would have adequate repayment capacity for the loan in the 10 years since the start of the savings scheme;*
- *As can be observed, the accumulated interest on customer's savings completely offsets the shortfall from the concessional financing offered to customer;*
- *This product yields significant tax savings to customers since interest is not paid but influences the concessional interest rate. It also encourages Savings to take place in an economy.*

*Screen shots of the Portal that is used to develop this product follows; as can be observed, there are several variables that can be used to develop a product that fully reflects customer requirements.*

This is the Savings amount (7,500) contracted to be paid by a Customer each month for 10 years on which the Financial Institution pays no interest. As can be noted, savings accumulate to 900,000 after 10 years, on which the interest is 204,374 (which is not paid but used by an institution to reduce the interest on the loan that is extended to the customer).

The financial institution is offering a multiple of 3 as financing for this transaction – customer receives 3 times the amount of savings – for this transaction, the loan would be 2,700,000 plus the amount contributed by customer, which results in total resources of 3,600,000 to the customer to invest in a home. Financial Institution will recover the loan (2,700,000) over a period of 10 years via monthly repayments at the concessional rate of 5.7% p.a. (compared to the normal lending rate of 7.5%). The monthly repayment is 29,439.53

The screenshot displays the 'CapInvest / Savings-Loan Portal' interface. It features three main sections: RATE Parameters, SAVINGS Parameters, and LOAN Parameters. The RATE Parameters section includes Savings Rate (p.a.) at 4.00%, Lending Rate (p.a.) at 7.50%, and Concessional Rate (p.a.) at 0.057067981771614. The SAVINGS Parameters section shows a Period Savings Amount of 7,500.00, Savings Term (Years) of 10, Savings Frequency of Monthly, Total Savings of 900,000.00, Accumulated Interest of 204,373.54, and Accumulated Savings of 1,104,373.54. The LOAN Parameters section includes a Loan Multiple of 3, Sanctioned Loan of 2,700,000.00, Total Customer Resources of 3,600,000.00, Loan Repayment Period of 10, Repayment Frequency of Monthly, Repayment Type of Advance, and Repayment (concessional rate) of 29,439.53. A NET Position section at the bottom right shows Sanctioned Loan of 2,700,000.00, PV of Repayments (lending rate) of 2,495,626.46, Principal Recovery (Shortfall) / Surplus of (204,373.54), Accumulated Interest of 204,373.54, and Break-Even of 00.00. The interface includes buttons for Clear, Print, Default, and Close.

Section	Parameter	Value
RATE Parameters	Savings Rate (p.a.)	4.00%
	Lending Rate (p.a.)	7.50%
	Concessional Rate (p.a.)	0.057067981771614
SAVINGS Parameters	Period Savings Amount	7,500.00
	Savings Term (Years)	10
	Savings Frequency	Monthly
	Total Savings	900,000.00
	Accumulated Interest	204,373.54
	Accumulated Savings	1,104,373.54
LOAN Parameters	Loan Multiple	3
	Sanctioned Loan	2,700,000.00
	Total Customer Resources	3,600,000.00
	Loan Repayment Period	10
	Repayment Frequency	Monthly
	Repayment Type	Advance
LOAN Parameters	Repayment (concessional rate)	29,439.53
	NET Position	
NET Position	Sanctioned Loan	2,700,000.00
	PV of Repayments (lending rate)	2,495,626.46
	Principal Recovery (Shortfall) / Surplus	(204,373.54)
	Accumulated Interest	204,373.54
	Break-Even	00.00

The shortfall to the financial institution from the concessional lending is fully offset by the interest that has accumulated on the customer's monthly deposits (which has not been paid to the customer)