

Public Economics

“First Home” Program: Functionality or Controversy?

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Abstract: The aim of this research is to emphasize the echo-s the “First Home” program had into the economic and social Romanian reality. The subject of this paper is an actual one, which deserves to be written and discussed about, especially because there is no fundamental analysis in this direction. In order to collect the necessary information, I realised some useful desk research to gather information from online sources, then, I passed to research in the library, and finally, to case study. The program managed to unblock the credit activity, and helped around 500,000 families to achieve a house of their own. On the other hand, the program did not succeed in the re-launch of the construction sector, nor in creating new jobs, not even in collecting more taxes to the State budget. This study was part of my recent license degree, so it was used in the academic field as a case study. The research is unique because of its originality, and because of the perspective in the dynamic it offers about the “First Home” program. Moreover, it implies a SWOT analysis, in order to come up with solutions so as to make the implementation of the program much more visible in the future.

Keywords: mortgage loan; real estate market; social help for people looking for a house

JEL Classification: H81

1. Introduction

The problem this article intends to evaluate is the functionality of the “First Home” program, and the extent to which it managed to fulfil its initial aim, taking into consideration the fact that the implementation of the program led to several controversies, regarding the achievement of the objectives for which it was created. Furthermore, through this paper I want to offer measures for a better implementation of the program in the future, in case it will be continued. The main reason why I chose to write about this subject is the importance this program has had in the context of the economic-financial global crisis, which has affected at a large extent the Romanian economy. The program is an interesting one, as it managed to bring together the State, the banks, the construction companies, and of

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course, the clients, in the attempt to obtaining a product from which anyone could benefit. For the State, through a greater number of taxes at the budget, for banks- by unblocking the credit, for the construction companies- by the impulse given to the real estate market, and by creating new jobs, and for clients- through facilitating the access at a credit, and so, at a house.

The “First Home” program was part of the anti-crisis measures taken by the Romanian Government in order to achieve positive results over the economic activity as a whole. How was the program thought in order to do so? The Government guaranteed the borrowings given by banks, under the condition of offering cheaper credits, and in this way, the population had an easier access to a mortgage loan. As a consequence, people should have achieved houses, or even better, build some of their own, thing which would have led to a development of the construction companies, and to the entire real estate market.

2. Method and Research Process

In this paper, I presented the evolution of the program since it was first implemented, in 2009, until today, paying attention to the changes that took place in its dynamic, but also to the consequences the “First Home” program had, so as to extract the results needed for a better comprehension. The SWOT analysis from the conclusion really helps in finding the necessary recommendations, for a more visible action of the program in the market.

For doing so, I first had to execute an exploratory research “undertaken to gain background information about the nature of the research problem. “ (Burns & Bush, 2008, p.104) and the method I used in this case, was secondary data analysis, the process of “searching for and interpreting existing information relevant to the research objectives.” (Burns & Bush, 2008, p. 106)

Therefore, I started with looking in specialized books for theoretical aspects about the mortgage loan and its characteristics, in order to understand the way the “First Home” program was created. Afterwards, I passed to searching for information about the program itself, and about the changes taking place during the four phases of its implementation. For these, I used the laws that introduced and modified the program, official sites of the program, newspapers from the library and from the online medium, and a series of articles related to the subject. With all the data gathered, I then passed to aggregate and interpret it, and after I had achieved the results, I was then able to make some proper recommendations.

The process of achieving the needed information was a difficult one, because of the lack of relevant data. For this particular paper, I would have needed the information for the entire program, so as to have the big picture, and then, for each phase. Unfortunately, I was not able to find all this data, even if I had sent lots of

emails to the institutions that should have taken care of the implementation of the program. And a question arises: did they not answer because they did not have the information, thing that seems outrageous, as how can one control the program, if it lacks data? Or the other possibilities: they just did not bother to answer, or they did not want to share the information. In all the cases, the lack of transparency is a big minus, which is a signal that the program still needs further development. Moreover, I could not find similar articles, because it seems that nobody was interested until now in evaluating the consequences of this program. There are lots of articles announcing changes in the program, or the evolution of the program for some banks, or other information, but for particular cases, not for the entire program, as I wanted to do. Therefore, I had to gather all the data piece by piece, in order to form the following puzzle “First Home”.

3. Brief Theoretical Context

In the trial of identifying the theoretical aspects regarding the “First Home” program, the following subjects have to be taken into consideration. First of all, the program has the characteristics of a mortgage loan, but the concept is not strictly delimited in this direction, because the Government has a great influence in creating the rules of the game, such as the interest’s level, the maturity of the credit, the needed guarantees, and also the eligible persons for the program.

If we try to classify the program after its economic nature, and the participants at the credit relation, “First Home” would be a credit meant to buy or build a house. Under the criteria of the quality of the borrower, the program is a credit for individuals, and when taking into account the quality of the debtor and the creditor, then, the credit becomes a private one. Connected to the maturity of the credit, it lasts on the long run, maximum 30 years. Moreover, regarding the type of interest, it is a credit with a crawling peg interest, at client’s will: EURIBOR or ROBOR. Furthermore, if we refer to a creditor’s rights, the program is a nominalised credit, which means that the credit is given with a certain scope, in this case, the end product is a house. Still under this criterion, the program is a non- cancellable credit, which means that the creditor can ask its money back only at a certain moment in the future, established in the moment of signing the contract.

4. “First Home”- Main Characteristics

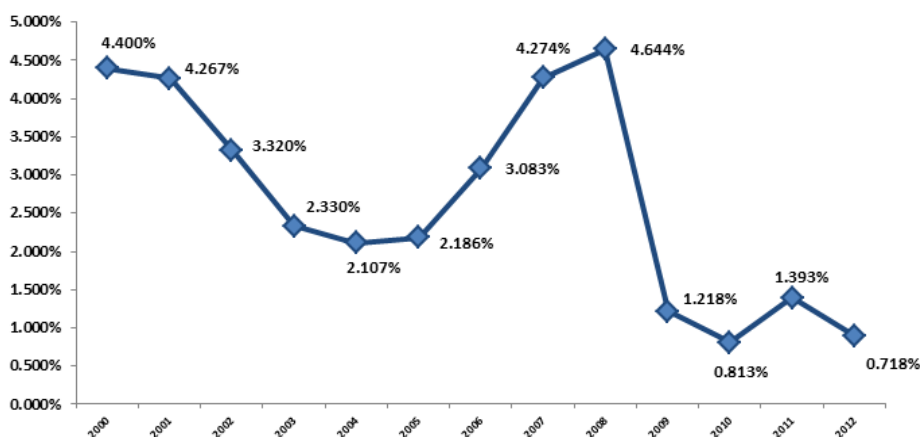
In the context of resenting the consequences of the economic financial crisis, Romanian real estate market suffered at a large extent. “The prices of the houses

decreased with up to 20%”¹, and the number of the real estate transactions decreased drastically, not to say dramatically, in 2009, “with a decrease of approximately 27.3% compared to the precedent year”².

These negative evolutions of the real estate market blocked the construction market and also, the credits. The loans offered through the program are guaranteed by the National Fond for Guaranteeing Credits for Small and Medium Enterprises, in a limit which was modified during the four phases of the “First Home”.

The advantages of the program consist in a reduced advance, the guarantee given by the state, and a smaller interest than that offered by the market. Regarding the interest, the debtors who access credits in Euro have to take into consideration the macroeconomic context, both European and global, because on it depends the evolution of the rates that have to be paid. EURIBOR’s dynamic beginning with 2000 until nowadays, was a cyclical one, with points of maximum and minimum.

In the following graphic I presented this evolution, and we can notice that nowadays, the interest is at a low level, of 0.718%, which is favourable for borrowings in euro, but if it increases at values of 3-4%, then, this increase will be reflected in the cost of the credit.



Graphic 1. Historical evolution of Euribor at 3 months, since 2000

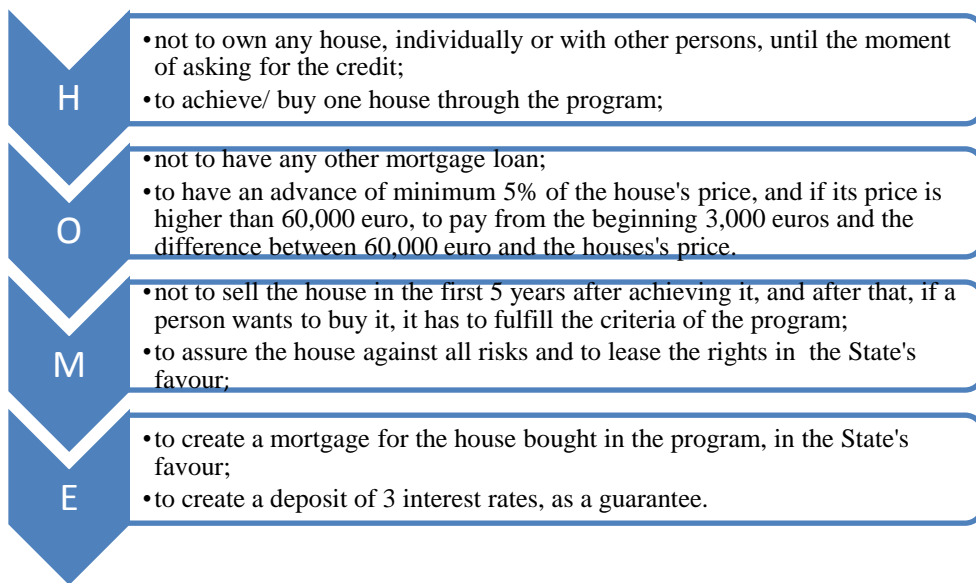
Source: own work after the data available on the site: <http://www.global-rates.com/interest-rates/euribor/2012.aspx>, accessed at 04.08.2012

¹ How did the Romanian houses’ price evolve over the last 7 years, Capital Journal, Sunday, 26th of February, 2012, p. 7.

² Real estate transaction have been reduced with over 27% in 2009, Capital Journal, Thursday, 4th of February, 2010, p. 8

In order to be eligible for the program, the individuals had to fulfil some conditions, which are presented in the following figure:

Figure 1



5. “First Home”- Dynamic of the Program: the Four Phases

In the first phase of the program, 19 banks were interested, and other two got involved in phases number two and three. The last part of the program, given the changes involved- the most important being the fact that the State guarantees just 50% of the value of the credit, in the same interest conditions for the bank, managed to attract only 15 banks. Still as part of the regulation, the total cost of the credit in the program had to be formed of two components. On the one hand, there was the interest rate- which for EURO credits was formed from EURIBOR at three months plus a margin of maximum 4.00% per year, and for credits in LEI- ROBOR at three months plus a margin of maximum 2.50% per year. On the other hand, there was the management commission for the N.F.G.C.S.M.E, of 0.37%, and after some changes, of 0.49% per year. In the second phase of the program, the levels of the credit limits differentiated depending on houses' types. As a consequence, for the houses built until 1st of January 2010, the limit remained at 60,000 euros, but it increased to 70,000 euros for the new built houses, or for the ones which were about to be built. Also, for the associations without a legal entity, formed of 7 persons, the limit was 75,000 euro.

Despite all these changes, about 70% of the bought houses were built before 2007, orientation that can be motivated by the lower price of the already built houses. However, the higher credit limit for the newly built houses, and the fact that, as a consequence of the economic crisis, the market of construction materials found a real decline, corroborated with a low ask, all of these should have contributed to lower prices for the apartments built after 2008. The third part of the “First Home” program brought new changes. Firstly, the minimum number of persons so as to form the association without a legal entity decreased from seven to two. Moreover, the bank could put a wage-assignment on client’s accounts in case one could not pay his rates anymore, and it could also offer the client the chance of changing the currency of the loan, in order to avoid the default. In the same time, the management commission for the N.F.G.C.S.M.E. increased to 0.49% per year.

The present period of the program brought, probably, the most important changes, and I refer here to the fact that the State does not guarantee the entire loan anymore, just a proportion of 50%. However, the banks have to keep the interest conditions at the same level. In other words, the State does not offer any extra guarantee above the credit ceiling used in the previous three phases, and the banks have to accept for the “credits already sold, that the guarantee reduces at half, and the credit released in this way, to be used to cover in a proportion of 50% for new credits”¹

Other news have to do with the fact that “First Home 4” extends the number of persons that can take part in the program, through the fact that persons having a house of maximum 50 square metres, can also access the program, as well as the ones owning parts of a house, in order to acquire the other parts. The program remains, nevertheless, an attractive one, mainly because of the level of the interest, which is lower than in the market, and with the new regulation from Romanian National Bank, because of the level of the advance needed to be given at the very beginning of the credit contract. For mortgage loans in EURO, the new banking rules ask for an advance of minimum 25%, and of 15% for the loans in LEI, instead of 5% as in the “First Home” program. Even if it is in plain process of development, the program has recently suffered new changes in its legislation, measures taken in the hope of making it better. In this direction, some of the program’s constraints have been excluded. Among them, I mention the fact that nowadays it is possible to sell the house even in the first five years, under the condition of prepaying the credit. Moreover, the house can be changed with a new one, in case it turns out to have some hidden vices. This change was implemented because there were many cases when the houses bought proved to have problems because the ones who sold them, in their wish to fall in the given credit ceiling, did not realise the needed rehabilitation, and sold the houses with bad faith. According

¹“First Home IV” is attractive: three top banks get into the game, Financial Journal, 31st March, 2011, p. 7.

to the initial conditions of the program, if a client cancelled the contract, no matter the cause, then he could not buy again another house with the “First Home” program. Despite the fact that the Ministry of Finances increased in June the existing guarantee limit for the credits with 200 million euros, the money for the “First Home” program is running short.

Lately news stipulates the possibility for the persons who bought a house with the program, to be exempted from the taxes for the house over a period of ten years.

6. “First Home”- Global Perspective of the Program

From the beginning of the program until the end of August, this year, there has been issued a number of 72,000 guarantees for credits of an approximate value of 2,815 billion euros. Around 28% from the value of the issued guarantees was targeted to houses built between 2008-2012. Moreover, “from the total number of issued contracts, 2,248 were new houses, or houses under construction, with the needed authorisation after 22 of February 2010”¹.

Until now, only 62 guarantees were carried out, this meaning a default rate of 0.08%. From this point of view, we can assert that the program was successfully implemented, as the effort related to the effect, and here we can include the unblocking of the credit, and an easier access of the clients to a mortgage loan, was minimum.

According to the data published on the online site of the Government, we can notice a continuous reduction of the medium value of the credits, from 41,651 euros in the first phase, to 37,870 lastly. The following table briefly presents the dynamic of the program along with its four phases.

Table 1. The evolution of the “First Home” program

Indicators	First Home 1	First Home 2	First Home 3	First Home 4 *
Established credit limit	1 billion euro	700 million euro	200 million euro	1,5 billion euro
Guarantees given	18,554 contracts	16,414 contracts	5,114 contracts	31,918 contracts
Medium value of the guarantee	41,651 euro	40,133 euro	39,015 euro	37,870 euro
Total value of the guarantees	771.4 million euro	658.9 million euro	199.5 million euro	1185.2 million euro

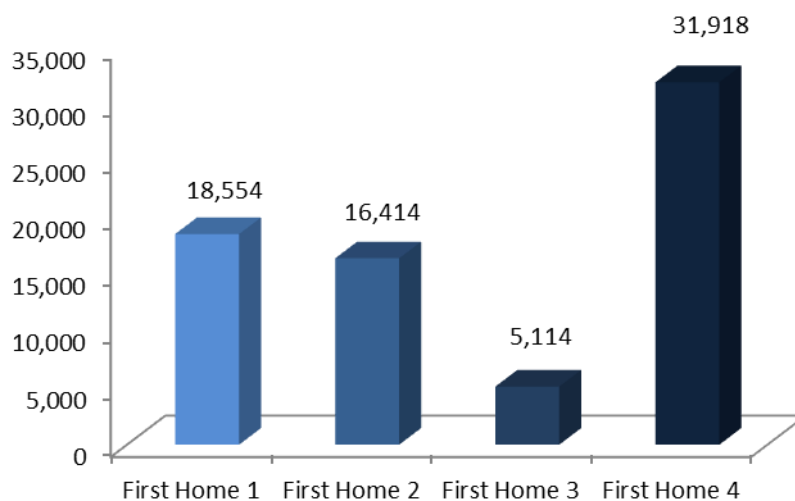
Source: own work after the data available on the sites: <http://www.programul-prima-casa.ro/ce-poti-cumpara/>, <http://www.dailybusiness.ro/stiri-finante-banci/prima-casa-pe-ultima-suta-de-metri-cererile-au-crescut-fondurile-sunt-pe-sfarsite-80669>, accessed at 04.08.2012

¹ “First Home”- the last 100 meters: the bid has increased, the funds are running short, article retrieved from <http://www.dailybusiness.ro/stiri-finante-banci/prima-casa-pe-ultima-suta-de-metri-cererile-au-crescut-fondurile-sunt-pe-sfarsite-80669/>, accessed at 12.09.2012.

* from the total amount available of 1,5 billion euros, only 771 million euros are guaranteed by the state.

The following graphic presents the dynamic of the “First Home” program from the perspective of the signed contracts, for a better image. We can notice the fact that the number of contracts decreased in 2010 compared to 2009, with approximately 13%, mainly because the credit limit diminished from 1 billion to 700 million euros. Then, “First Home 3”, which had a credit limit of only 200 million euros, encountered a drop of the number of contracts with 67% related to the previous phase. The fourth stage of the program, which is still active, has a credit limit of 1,5 billion euros, as the guarantees are paid half by the state, and the other half by the banks. It has fulfilled until now 31,918 contracts, which represents an increase of 524% related to the previous period, and of 72% compared to the first one, thing that stands for a recent boost of the program.

Number of
contracts



Graphic 2. Evolution of the program from the perspective of the number of contracts accessed over the four periods

Source: own work after the data available on the site: <http://www.programul-prima-casa.ro/ce-poti-cumpara/>, accessed at 04.08.2012

Another interesting aspect is the fact that from the total number of guarantees, approximately 51% was given for houses with 2 rooms, and 26% for the ones with three rooms.

The top of the counties, for the entire program, depending on the number of received credit demands, rates on the first place the country's capital, Bucharest, 164

followed by Cluj, Timiș, Ilfovul, Constanța, Iași, Brașov and Sibiu. From the graphic above we can notice that eight counties of the country attracted more than half of the total number of credit demands, during “First Home” program.

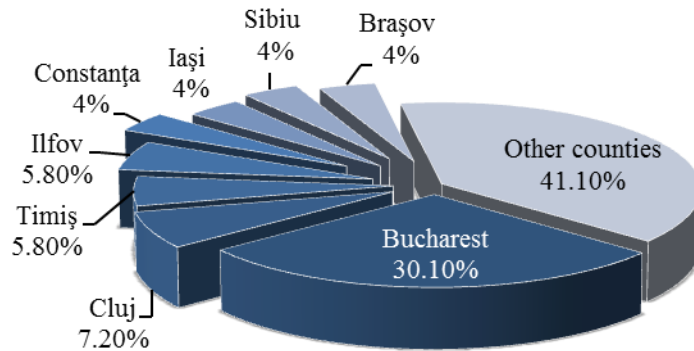


Figure 2. Top counties depending on the number of clients

Source: own work after the data available on the site:

<http://businessday.ro/11/2011/prima-casa-4-numarul-tranzactiilor-a-ajuns-la-10-500-iar-valoarea-garantiilor-la-04-miliarde-euro/>, accessed at 04.08.2012

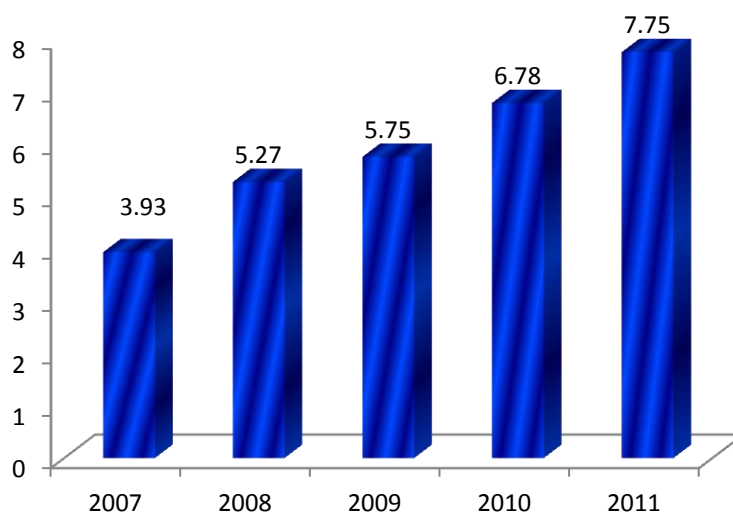
7. “First Home”- Pro’s and Con’s

The “First Home” program caused many controversies, some specialists from the real estate market cherishing it for the consequences it had in the social and economic reality, while others considered it a failure, because of its lack of visible result: “we have to think of the <First Home> program as a process. The one that buys a house, buys it from another person that moves out. Finally, the last from the chain has to buy, or build a new house. Therefore, the demand for new properties should have risen, the same for the construction industry, the market of construction materials, and so, the state would have collected much more money from taxes. The program should have been a snow ball, from the first house bought, but it was just a bubble”¹.

Even if, as I presented earlier, the program did not manage to stimulate the real estate market, the number of transaction achieved through the program cannot be denied, and the social aspect of the program managed to unblock the middle residential segment. Concerning the impulse given to the mortgage credits, this aspect can be shown by the increasing trend of this particular type of credit. In the first eleven months of 2009, the mortgage credits in Euros increased by 17.4%, while the ones in Lei increased by 4%. What’s really important is the fact that 60%

¹ “First Home” unstrung by inability and bad faith, article retrieved from: <http://media.imopedia.ro/stiri-imobiliare/prima-casa-daramata-de-incompetenta-si-rea-vointa-14998-print.html>, accessed at 03.06.2012.

of these increases came in the last three months of 2009, development which can be explained with the launch of the “First Home” program. ¹

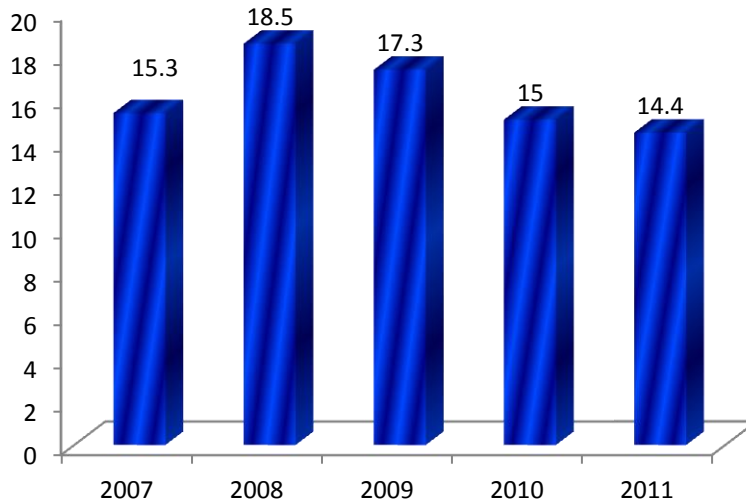


Graphic 3. Dynamic of the mortgage credit between 2007-2011 (billion euros)

Source: own work after the data available in the article: Supported by the State, the mortgage credit has on more year of increase. The personal credit continues to go down, Financial Journal, 1st of February, 2012

In comparison, the following graphic shows the evolution of the personal loans, which did not get any support from the state, or from any other source, and therefore, they had to deal with permanent decreases, based on the economic and financial crisis.

¹ *Supported by the State, the mortgage credit has on more year of increase. The personal credit continues to go down, Financial Journal, 1st of February, 2012*



Graphic 4. The dynamic of the personal loans between 2007-2011 (billion euros)

Source: own work after the data available in the article Supported by the State, the mortgage credit has on more year of increase. The personal credit continues to go down, Financial Journal, 1st of February, 2012

From the graphics above, we can notice a slowdown in 2009 of the advance the mortgage credit had in the years before crisis, lagging that represents, still, an increase of approximately 9% in 2009 compared to 2008, unlike the personal loan that decreased with 6%. These trends, of increase for the mortgage credit, and of decrease for the personal loan, are the same in the present.

The state however, did not manage to impose the Leu as credit currency in the program, and this can be “because of the difference of over 3 percentages in the interest rate”, which was an advantage for the credits taken in Euros.

The present research allowed me to arrive at some essential results, and I personally consider that the program was beneficial, because with its help many families managed to more easily access a mortgage credit, and instead of paying for the rental rates, they paid for their own house. Also, the banks had a lot to win, taking into consideration the fact that this type of credit formed the largest part of the demand of the financial products, “attracting 85% of the clients from the segment of the mortgage credits”¹. Talking about the program’s drawbacks, I can

¹ *What chances do you have to get a “First Home” credit in 2012*, article retrieved from: <http://www.evz.ro/detalii/stiri/ce-sanse-mai-ai-sa-prinzi-un-credit-prima-casa-in-2012-960498.html>, accessed at 15.01.2012.

mention the fact that the majority of the transactions were realised with houses already built, which meant no new taxes for the state, and no new constructions on the market.

8. Conclusion

In what follows, I realised a SWOT analysis, for a better comprehension of the program.

<p style="text-align: center;">STRENGTHS</p> <ul style="list-style-type: none"> + high availability of the program, by offering easier conditions to access a mortgage loan; + reduced advance, of only 5%, compared to 15-20% in the market; + lower interest than in the market: Euribor plus a fix margin of 4% or Robor plus a fix margin of 2,5%; + guarantee given by the state; + unblocking of the credit activity; + increase of the real estate transactions; + help given to individuals so as to buy/built a house. 	<p style="text-align: center;">WEAKNESSES</p> <ul style="list-style-type: none"> - temporary distortion of the real estate market by buying old houses instead of new ones; - restrictive credit limits, which led to a buying houses with 2 rooms, or situated in the suburbs; - limited effect over the construction market, limited number of new jobs created, and of new taxes collected to the state budget; - long time needed for taking the credit, because of the banks' and N.F.G.C.S.M.E.'s bureaucracy; - lack of information transparency.
<p style="text-align: center;">OPPORTUNITIES</p> <ul style="list-style-type: none"> + property worship, the clients being willing to pay for their own house, than for the rent; + high need for houses on the market; + attracting a bigger number of persons in the program, by extending the credit conditions over the persons who own a house, but they want to buy a new one; + reducing the taxes on the houses built in the program, so as to stimulate this segment of the market; + a plus of attractivity compared to the credit offer of the banks, much more today, taking into consideration the new reglementation if the National Bank. 	<p style="text-align: center;">THREATS</p> <ul style="list-style-type: none"> - political and economic instability; - possible increase of the Euribor; - possible increase of the credit conditions, if the banks do not want to accept any more the same rules; - re-orientation of the state's funds on other directions and priorities; - transactions with vitiated houses, because of the bad faith of the sellers; - existing possibility for defaults, taking into consideration the low level of the initial advance, and the state's guarantee.

The SWOT analysis above requires careful exploration, so as to identify the aspects that deserve attention in the future, if the program will be continued, such as the level of the advance, and the one of the interest rate.

These are the strong points the “First Home” program had, and they should be the starting point for a new phase, in the case one would commence. In the same time, it is important that the weak points, such as the impulse the program gave to the houses already built, instead of the new ones, and the unbalances created in the market because of the credit limits available, be converted in advantages with the help of the on hand opportunities.

Great attention has to be paid to the threats, as well, because the future existence of the program depends on them, as it needs a coherent political, economic and social context for a better implementation.

A series of measures for stimulating the clients to focus on building their own houses has to be taken, so as to stir up the construction market. In this direction, some reduction of the taxes for the newly built houses, or if the budgetary funds allow it, even some support for paying the interest over a determined period of time, would be welcomed. Moreover, the level of the VAT could be diminished for the bought construction materials so as to build a house in the program. In the same time, an increase of the credit limit, again for the new houses, could be of a real help. Another solution could be the extension of the criteria needed to be fulfilled by individuals in order to get access to the “First Home” credit, in the idea that persons who already have a house, but they want a new one, could obtain the money needed.

As a conclusion, I assess that no matter the minuses some specialists claim the program has, “First Home” remains a new product on the Romanian market, through which the credit activity was re-launched, and the individuals were able to access more easily a mortgage credit, being a real help for those buying their first house.

So, functionality or controversy?

The present research intends to further continue, in order to bring in what will happen next with the program: whether it will be continued, or not by the Government. Maybe time will bring new unknowns in the “First Home” equation, and will fundamentally change its way of implementation for the future.

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