

## NATIONAL HOUSING POLICIES IN ROMANIA BETWEEN 1990 AND 2010

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### **Abstract**

*The development of National Housing Policies had a difficult journey and places Romania among the countries of Central and Eastern Europe with the least effective policies in this field. The outcome, in the spring of 2009, of “First Home” program represented the top element of National Housing policies. This article is a critical analysis of Romanian National Housing Policies between 1990 and 2010.*

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**JEL Classification:** G21, R28.

### **1. Introduction**

National Housing Policies are public economic and social policies for any country. Governments pay particular attention to such policies and spend huge amounts of money of national budgets to ensure and improve housing conditions for the population. This is true even for most advanced countries. In communist regimes, the state had a crucial role in building and providing housing. After the economic transformation began in 1990, governments in transition countries have relinquished these duties. They now seek to formulate policies in accordance with the principles of building a market economy, essentially similar to the practice of developed countries.

### **2. Literature Review**

Unfortunately, the Romanian literature on this subject is very low represented, as the National Housing Policies were not declared in this way by the Romanian authorities. The sporadic measures that can be included in this concept were not characterized as a part of National Housing Policies. But the literature from other Central and Eastern European countries is richer.

### **3. National Housing Policies in Central and Eastern Europe**

Policies of the transition economies differ, varying in accordance with their historical, geographical, social and economic features.

First, to offset the decline of public new housing supply, the governments of these countries began to promote new buildings developed by private entities. Thus, various incentives have been applied for this purpose, including subsidies and preferential tax treatments. In addition, some countries like the Czech Republic

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began to pay attention to the existing housing stock by creating incentives for renovation and improvement of houses.

Secondly, the authorities began to focus their responsibility in this area by helping low-income people and young families under adopted social policy. In this context, some countries such as Poland began to build public housing for subsidized rental.

Thirdly, governments in transition countries made serious efforts to build a system of market-oriented housing finance, enabling purchase of houses through market transactions. With the abandon of government's responsibility to provide public housing, they shall provide free trading of properties. In addition to encouraging the building, governments have to create creditworthy demand through appropriate financial arrangements. The lack of a coherent system of real estate financing is the main cause of lack of liquidity of real estate markets in transition economies.

An important objective of creating a coherent real estate financing mechanism is relieving the burden of state budgets expenditure that governments would have as the only responsible for providing public housing. However, significant budgetary allocations were needed to support the creation of housing finance system. In this perspective, strategies aimed at providing a framework for housing provision to be made on a commercial basis and provide the necessary support of the less favored to adequate housing conditions.

#### **4. National Housing Policies in Romania after 1990**

After the political changes of December 1989, in Romania and in other countries in the region, there have been profound changes. The first measure taken was the sale of residential housing area to tenants for low price. The decision was taken mainly to ease the state and local budgets with the burden of maintenance and repair of housing, especially those in apartment blocks. Given the age and poor condition of these homes, the burden of the budget was extremely high.

##### **4.1. National Housing Agency**

Romania has never conceived in the period after 1990 a comprehensive set of integrated National Housing Policies.

In the law nr.152/1998 was established National Housing Agency (NHA), which began to function effectively in 1999, the same year when the first mortgage loan law was adopted. NHA was established with the aim of developing national housing construction and mortgage loans, as the main form of financing the acquisition, renovation and construction of housing. Initially, the NHA has started with funds of about 5 million USD, insufficient for any coherent initiative in the field of housing. National Housing Agency has received major competitive advantage over private developers, receiving for free public owned land from local authorities and viability public works of infrastructure, these benefits resulting in a climate of unfair competition against other players on market. NHA can be compared with the

position of the National Savings Bank on banking market, which made unfair competition to other banks in Romania, the only bank to have guaranteed the deposits of the public by the state. As a result of small funds, NHA projects favored corruption, given the low prices they practiced for housing compared to competitors and reduced the number of housing units that it has delivered. Thus, instead of delivering the housing to young people, in many cases the beneficiaries were politicians and businessmen.

Following the latest amendments to the law establishing the NHA, it has the following tasks:

- Achieving financial arrangements;
- Attracting and managing financial resources for construction, purchase, rehabilitation, strengthening and expansion of housing, including those operated under a lease;
- Promotion and development on youth housing construction for rental, building social and necessity housing, the construction of other residential property owned by state or local councils, and assistance on existing buildings in implementing the measures set by government programs;
- Acquisition of land for construction of housing and, where appropriate, monitoring programs for carrying out of their viability;
- Initiation and / or development, under market conditions, of housing programs with private mortgage loans;
- Carrying out specific studies on the real estate market (supply and demand for housing, building land, costs, etc.).

#### **4.2. Thermal rehabilitation**

In 2002, the Romanian government issued an emergency ordinance (Ordinance nr.174/2002), which established deployment of heat insulation. This program provides the thermal rehabilitation of blocks of flats (condominiums and related facilities) built in 1950-1990 by standard projects, located in densely populated areas and connected to centralized heating systems owned by local councils.

Special measures for the thermal rehabilitation of these estates included:

1. insulation of external walls, terraces, floor over basement, roof or roof structures repair or replacement, windows and exterior doors replacement, repair, strengthening and painting of exterior walls and other structural and non-structural elements constituting the exterior of building;
2. interventions in pipes and fittings with loss of basement / heating owned by owners' association or individual owners.

Because of bureaucratic obstacles and lack of coordination of central and local state institutions, this program has been lowly successful.

#### **4.3. Encourage construction of new homes**

The Romanian state has tried to encourage construction of new homes by several types of measures:

- Subsidize a share of the costs of building primarily for young people aged up to 35 years, not owning a house, but who have acquired land, or buy a house using a mortgage loan; initially, the share was up to 20% for homes costing not exceeding € 100,000, then, due the budgetary restrictions, the subsidy was capped at € 10,000;

- Provision of land free of charge by the local authorities to young people up to age 35 years to build a house on the land.

Both programs were unsuccessful because of too many conditions to be fulfilled, and the lack of land at local authorities.

Romanian state has subsidy programs to cover utilities costs for more economically disadvantaged categories. They were taken measures to protect tenants from homes recovered by former owners abusively dispossessed by the communist regime and measures to strengthen the buildings reported by experts with earthquake risk.

#### **4.4. “First Home” Program**

The financial crisis that hit USA in July 2007, also known as subprime crisis, as many economists named it, had as the main source mortgages securitization with high levels of leverage, reaching values of 50-70, and falling prices in the U.S. housing market. The economic crisis that followed the financial crisis led to negative developments in North American and European real estate markets, as regards transactions and prices.

On Romanian property market, the beginning of crisis can be placed in the spring of 2008, earlier than the general economic crisis broke, in September 2008. The reason is mainly the large participation of foreign capital on the Romanian real estate market. Between March 2008 and November 2009, price dropped in residential buildings with about 50% and in first 9 months of 2009 the number of property transactions was 43% lower than the same period of 2008.

These market developments have had serious consequences for real estate developments, construction industry and mortgage loans market.

Mortgage loan bank financing experienced quasi-stagnation during 2009. The funding needs of Romanian state, in order to cover growing budget deficit, made the authorities to turn to the domestic banking market. Available liquidity to credit non-governmental sector became smaller. Due to economic crisis, defaulted loans increased their share three times in the first 9 months of 2009 compared to same period of 2008. Commercial banks faced asset impairment related risk in granting mortgage loans.

In general terms above, the Romanian Government decided to launch the program on "First Home", to facilitate access of Romanians to cheap financing by guaranteeing mortgage loans by the state. The program was launched on May 20, 2009, with the following characteristics:

- Can be eligible for the program people buying first home and have never received a mortgage loan;

- State guarantees 80% of the mortgage loan on houses not exceeding € 60,000;
- State guarantee is provided through National Credit Guarantee Fund for Small and Medium Enterprises (FNGCIMM), which would be changing the statutes;
- Ceiling amount guaranteed was set at € 1 billion;
- Program was intended for existing houses;
- Houses acquired through the program could not be sold earlier than 5 years after the date of acquisition;
- Any acquired house to be mortgaged in favor of the Romanian state and the executor set for cases of default was the National Taxation Administration Agency.

The program was clearly inspired by similar programs implemented in countries with developed economies under the concept of first time buyer, programs designed for buyers purchasing a first home. These programs assume that first home purchase is the most difficult, given the age of applicants, lack of credit history, their position on the lower rungs of the occupational hierarchy and lack of sufficient funds for down payment required to obtain a mortgage loan.

Also, the "First Home" Program was conceived as part of National Housing Policies, chapter in which Romania has not excelled since 1990.

Initially, the program was not conceived as a way to boost the construction sector, given that it was intended only to existing buildings.

The bill governing the program, Emergency Ordinance 60/2009, published on June 4, 2009, changes the prospects for the program:

- Implement the anti-crisis measures initiated by the Romanian Government to support priority economic sectors;
- Unlock lending process and boost construction activity affecting economic growth and job creation;
- Facilitating access by individuals to purchase residential property for the current context of financial and economic crisis.

However, there was no possibility of purchasing unfinished homes, which is not in any way led to boost construction activity.

Subsequently, the program has undergone significant changes:

- Despite the concept of first time buyer, which was the basis of the program, the access to the program has become possible for all those who did not own a home on the effective date of the bill;
- The ban on sale of property acquired through the program for 5 years was lifted, but maintained the requirement of approval of the Ministry of Public Finance;
- The program was expanded to unfinished buildings or off plan, the funding to be made by the developer, the applicant receives a promise of loan guarantee from the FNGCIMM and a promise of credit from the lending bank, and thereafter the amount credited to be released on finishing of the building.

The auction for commercial banks allow pets in the program first imposed the following conditions:

- Down payment 5% of the property price;

- The maximum interest rate on loans denominated in lei: ROBOR at 3 months plus 2.5 percentage points;
- The maximum interest rate on loans denominated in euros: Euribor at 3 months plus 4 percentage points;
- Commission for credit granting: 0;
- Anticipated reimbursement commission: 0.

20 commercial banks showed interest in this program. They oversubscribed the amount of € 1 billion with 47%, bids being corrected with pro rata.

During the program, FNGCIMM has taken some measures against some commercial banks, which did not grant any loan or just several loans, by lowering the ceiling of each bank by the redistribution of about € 200 million.

Romanian state is to guarantee by allocating € 100 million, starting from the assumption that the rate of default loans cannot exceed 10%.

A last-minute amendment stipulated that persons who are owners of an inherited property can participate in the program.

In 2010, the program was continued under another form. The state decided to reduce the program to € 700 million instead of € 1 billion. To encourage the construction of new homes, the Government decided to extend the guaranteed sum to € 70.000 and up to € 75.000 in certain conditions: association of minimum 7 individuals having a piece of land in ownership, their decision to build a condominium. This was a wrong decision. As far as we know, it couldn't be found any association of 7 individuals to meet the legal requirements.

For 2011, the third form of the program will be adopted, the conditions being unknown for now.

Occurred during a pre-election period, the Program „First Home” through its successive amendments gave the feeling of a populist and electoral action. Although it started from the concept of first time buyer, the program has become successively being diverted from its original purpose.

Program development through FNGCIMM, non-bank financial institution, specialized in guaranteeing loans for small and medium companies, induced failures in carrying out the process of guaranteeing mortgage loans through this program.

## 5. Conclusions

The Romanian state must consider in the future conceiving a coherent system of modern National Housing Policies, according to best international practices. They are many models of such public policies, which can be inspired from.

The programs must be extended for many years, being known that the production cycle of real estate assets is very long.

The present crisis can be a good opportunity for building from ground National Housing Policies.

Lack of performance in this area places Romania in an inferior position in the ranking of countries in Central and Eastern Europe in terms of National Housing Policies.

The elements that could make such a successful program could include:

- Program availability only to those who are first time buyers of a home;
- Granting a tax credit for people admitted to the program instead of State's guarantee, able to cover the down payment;
- Insurance of risk given by low down payment;
- Adjusting the ceiling of lending to market conditions.

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