



European Construction Sector Observatory

Policy measure fact sheet

Romania

First Home Programme (*Programul Prima Casa*)

Thematic Objective 1

March 2016

Implementing body:	Ministry of Public Finances - the National Guarantee Fund for Loans to Small and Medium Enterprises (<i>Fondul Național de Garantare a Creditelor pentru Întreprinderile Mici și Mijlocii - FNGCMM</i>)
Key features & Objectives:	National governmental programme providing state guarantees on mortgages, with the aim of facilitating the acquisition and/or construction of dwellings
Implementation date:	June 2009 - ongoing
Targeted beneficiaries:	Open to any individual wishing to purchase/build their first apartment or acquire an additional one with a larger usable area; real estate developers; construction companies
Budget (EUR):	(2014) RON 2,983 billion (EUR 667.4 million) (2015) RON 2,839 (EUR 635.9 million) (2016) RON 1,690 (EUR 378.6 million)

In a nutshell

The economic crisis deeply affected the Romanian economy, resulting in a 7.8% decline in GDP between 2008 and 2010, with repercussions on the broad construction sector as a whole. Indeed, the number of companies and people employed in the sector dropped by 20% and 29%, respectively (for more details, see the Country Fact Sheet for Romania¹). Moreover, the 10% increase in interest rates in 2009 compared to the pre-crisis level, and the ever-decreasing Loan-to-Value ratios, have made conditions for loans considerably more stringent, resulting in a slowdown in the real estate market.

To revive the mortgage market and, consequently, the residential construction sector, the Ministry of Public Finances introduced the First Home Programme (*Programul Prima Casă* - PPC) in June

2009. The PPC aims to facilitate access to residential loans for the purchase/construction of dwellings, by providing beneficiaries with state guarantees on mortgages. For the period June 2009 – November 2015, about 163,000 guarantees were given, for a total of approximately RON 13.9 billion (EUR 3.2 billion). The default rate² of the programme is very low, at about 0.2%.

Generally, the PPC was positively received by all stakeholders, proving to be more advantageous than traditional loans from the perspective of the beneficiaries, and acting as a good anti-crisis measure for the construction and real estate markets. However, the risk-averse approach from the banking sector constitutes a constraint for the optimal adoption of the programme, particularly in light of the recent discussions on the draft law “*Dării în plată*” (Law on Dation in Payment).

General description

In terms of legal framework, the PPC was first defined in summer 2009 through the Emergency Ordinance no. 60/2009, and was afterwards approved and implemented through Law no. 368/2009, with subsequent amendments³, and Government Decree no. 717/2009. The programme is managed by the Government’s National Guarantee Fund for Loans to Small and Medium Enterprises (*Fondul Național de Garantare a Creditelor pentru Întreprinderile Mici și Mijlocii* - FNGCMM).

Under the PPC, the state issues guarantees covering 50% of the value of the mortgages granted by adhering financial institutions, thus taking on half of the risks incurred by the latter. The guarantees are applicable to loans for both the acquisition and construction of dwellings, and are given in Romanian currency. Financial institutions can grant mortgages of up to 95% of the value of the dwelling, therefore requiring the beneficiaries to provide a minimum initial deposit of 5% of the value of the

property. The maximum value of the loan on which guarantees can be applied amounts to EUR 57,000 (for existing dwellings), and EUR 66,500 (for new dwellings). The management fee for issuing a guarantee is 0.49% per year, applied to the financing balance, and the interest rate applied to PPC loans is about 3.7%, compared to 4% for traditional loans. Currently, about 19 financial institutions⁴ have adhered to the PPC.

The budget of the PPC is defined through yearly amendments that establish the total ceiling for guarantees and the conditions for beneficiaries.

For 2014, the initial ceiling was RON 1.2 billion (EUR 269 million), with an additional RON 880.4 million (EUR 197.2 million) from the unused 2013 budget⁵. To this, further sums of RON 500 million (EUR 112 million) and RON 400.5 million (EUR 89.7 million) were added in September and October, respectively, bringing the total budget to RON 2.98 billion (EUR 667.4 million)⁶.

For 2015, PPC had a total ceiling for guarantees of RON 2,839 million (EUR 635.9 million)⁷, composed of RON 2,500 million (EUR 560 million) allocated for 2015⁸, the unallocated/unused sums from 2014 (RON 139 million – approx. EUR 31 million), plus a supplement of RON 200 million (EUR 44.8 million) approved through GD no. 962/2015⁹.

For 2016, the available ceiling was established at RON 1,690 million (EUR 378.6 million)¹⁰.

In order to benefit from the programme, applicants have to satisfy a number of eligibility criteria, which are similar for acquisition and construction of dwellings (more detailed in the case of the latter). The main eligibility criteria in case of acquisition are as follows:

- Beneficiaries should not be in possession, either individually jointly, of a dwelling with an area greater than 50m²;
- Acquisition of only 1 finalised dwelling on the Romanian territory, registered in the Land Registry;
- An initial deposit of minimum 5% of the dwelling acquisition price;
- Committing to build a collateral deposit to guarantee the interest (in value equal to 3 interest rates) valid for all the duration of the financing;
- Committing not to sell the dwelling in the first 5 years following acquisition;
- The dwelling to be purchased belongs to one of the A, B or C energy classes¹¹.
- The specific loan conditions of the financing institutions should also be met. For instance, the minimum net income of applicants differs according to credit institutions, between RON 1,000-1,500 (EUR 223-335), as well as the maximum level of indebtedness (with some accepting leverage ratios of up to 70%)¹².

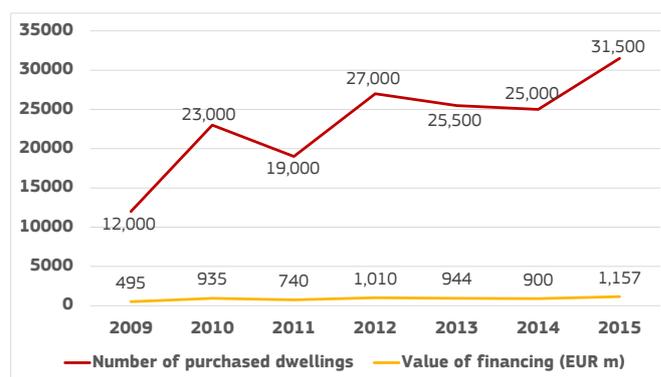
The PPC was modified several times in 2015 to align it with the market conditions and increase its flexibility. The main amendments, regulated in the EO no. 2/2015 and implemented through Order no. 1119/2015, makes it possible for beneficiaries that already own a dwelling though the PPC to acquire a new one with a usable area or value bigger than the one under possession. In addition, the execution period of guarantees has been extended from a maximum of 90 days of arrears, to a maximum of 90 days from the demand of payment by the financial institution. The acquisition/transfer of property ownership was also regulated, e.g. as a result of divorce.

Expected or achieved results

PPC evolved considerably since its first (2009) and second (2010) implementation, when the number of guarantees given per year was around 16,000. Indeed, over the last 5 years, PPC has issued yearly about 20–30,000 guarantees, reaching an average of 140 guarantee requests per day in 2015. Since its launch in 2009, up until November 2015, about 163,000 guarantees were granted, equal to an amount of RON 13.9 billion (about EUR 3.2 billion)¹³. In 2015 alone, 31,500 guarantees were issued, worth RON 2.52 billion (about EUR 565.3 million)¹⁴.

The evolution of the PPC is shown in Figure 1 below. The number of dwellings purchased through guarantees from the PPC has experienced a 2.5-fold increase since 2009, from 12,000 to 31,500. The value of the total financing granted through the programme has grown by 134%, from EUR 495 million to EUR 1,157 million¹⁵.

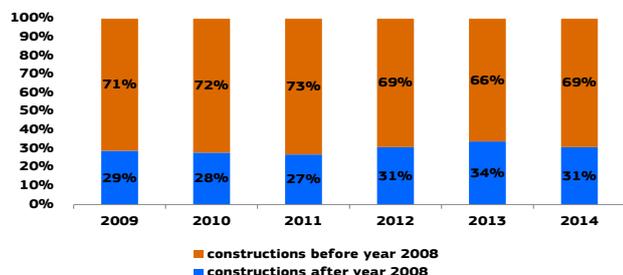
Figure 1: Evolution of the PPC (2009-2015)



Source: FNGCIMM, 2015.

Throughout its implementation, the PPC has encouraged the acquisition of newly built dwellings, with the share of guarantees for properties built after the year 2008 increasing since 2009 and peaking at 34% in 2013 (Figure 2). However, the overall absorption of new dwellings has not been substantial (see Perspectives and lessons learned).

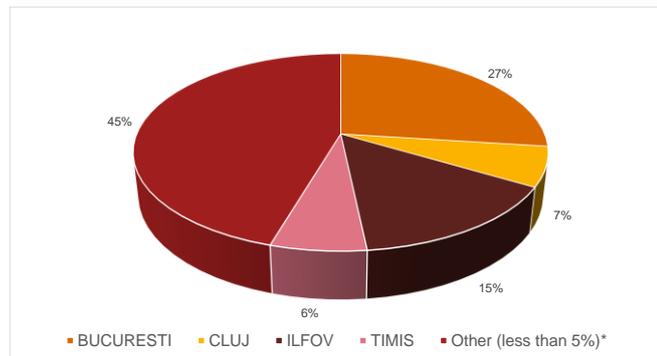
Figure 2: Distribution of issued guarantees according to the construction year of the purchased dwelling (%), 2009-2014



Source: data from FNGCIMM website¹⁶

In terms of regional distribution (Figure 3), data from July 2015 shows that 27% of the total guarantees were given in Bucharest, followed by Ilfov County (15%), Cluj (7%) and Timis Counties (6%). The category 'Other' includes the remaining 38 Counties, each having less than 5% of the total guarantees given.

Figure 3: Regional distribution of provided guarantees (%), 2015



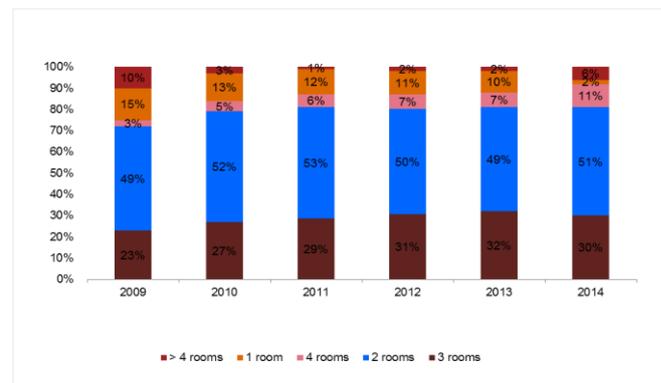
Source: data from FNGCIMM website¹⁷

The statistical analysis made by FNGCIMM¹⁸ in 2014 and 2015 shows that PPC was mainly accessed by young people between 26 and 35 years of age, who preferred buying 2-room apartments. Most of the guaranteed financing (32%) has a value of approximately EUR 30,000, 25% between EUR 30 – 40,000, 19% between EUR 40–50,000 and 24% above EUR 50,000¹⁹

There has been an increase in the preference for 3- and 4-room dwellings between 2009 and 2014, and a decrease in the preference for 1-room properties (Figure 4). In 2014, 51% of the beneficiaries preferred the acquisition/construction of a 2-room and 30% of a 3-room dwelling.

Figure 4: Distribution of issued guarantees according to the number of rooms of the purchased dwelling (%), 2009-

2014



Source: data from FNGCIMM website²⁰

Perspectives and lessons learned

PPC was launched 1 month after the Romanian Government decided to sell half of the dwellings built between years 2001-2004 (approx. 3,500 dwellings) through the National Housing Agency²¹. At that time, real estate agents and construction companies welcomed the release of the PPC and saw in it the potential to boost the real estate and construction markets, stressing however the importance of the implication and adhesion of financial institutions.

From **the point of view of Ministry of Finance**, the PPC was developed with the aim of helping the Romanian economy at a time of economic recession. Six and a half years later, as economic conditions changed and households' disposable income rose, the PPC fulfilled its aim, as demonstrated by the increasing number of guarantee requests. This justifies the progressive reduction in the allocated guarantees ceilings, since there is less need for a state intervention of the same magnitude as back in 2009. Hence, the 40% reduction in the guarantees ceiling for 2016 compared to 2015. However, stakeholder views differ on this aspect. Indeed, according to the **Association of Romanian Construction Entrepreneurs (Asociația Antreprenorilor Români de Construcții – ARACO)**, this reduction is mainly a way to minimise government deficit and cut on public spending.

From **the perspective of the beneficiaries**, the small initial deposit (5% of the dwelling value) is one of the key strengths of the PPC, since it gives people, especially young ones, credit conditions that are much more advantageous than traditional mortgages (which require an initial down payment of 15-20% of the value of the property). This facilitates access to housing and contributes to improved standards of living. However, ARACO notes that the PPC is very strict in terms of non-payment exceeding 3 months. In fact, compared to conventional mortgages, very little negotiation is possible for mortgagors that cannot repay the instalments on time, which poses a serious risk of foreclosure, leaving the beneficiary without a home.

From the **perspective of the service providers** (the banking sector), the PPC contributed to the long-term asset development in national currency, encouraging the issuance of bonds denominated in national currency and helping banks recover from previous years losses²². This is due to the fact that guarantees for credits under the PPC are granted only in national currency (RON). However, ARACO believes that the programme should be amended to offer attractive credit conditions also in Euros, to satisfy future demand from the increasing number of Romanians currently living abroad (and with savings in Euros) who will move back to Romania in the future.

Generally, from the **construction industry perspective**, the PPC is a good anti-crisis measure to revive the national economy and support the ailing construction and real estate markets. It represents a first-of-its kind initiative, which marks a transition away from the Communist housing policy (whereby the state was the main developer), putting instead the emphasis on private investments in residential construction. However, despite the positive boost to residential construction and real estate transactions, ARACO believes that the PPC has not yet achieved its fullest potential in terms of the support it could have provided to the construction industry.

Firstly, because it offers guarantees on mortgages of maximum EUR 66,500, the PPC acted as a price standardiser, leading to the convergence of property prices towards EUR 60-70,000. This means that, for new buildings to be eligible to be purchased under the programme, their maximum price should be EUR 70,000, i.e. only EUR 10,000 more than existing dwellings. This marginal distinction between new and old dwellings acted as a constraint for the construction industry developers, who had to apply the almost the same prices as for old properties. Overall, this depreciation led to a lower absorption rate for newly built dwellings, which caused a drop in new residential projects.

Secondly, there has been some inflexibility from the banking sector in adhering to the programme. Many residential projects are still frozen due to lack of investments, leading to banks repossessing them but being unable to resell them and get the funds back. This, together with the large amount of money advanced by the bank to the beneficiaries (95% of the value of the property), has resulted in the risk averse approach of the banking sector. Furthermore, the approval of applications by the FNGCMM can take up to two months, resulting in delays in the start of residential projects, to the disadvantage of both beneficiaries and construction companies²³.

The adhesion of financial institutions to the PPC could be threatened if the proposal for the Law on Dation in Payment (*Legea dării în plată*) is enforced and is applied retroactively to loans that are still in progress. The law stipulates that mortgagors finding themselves in arrears with their instalments can return the mortgaged property to the bank, which no longer has the right to

claim any further payment or seize additional assets aside from the property in question. Should the draft law be enforced, banks would be exposed to an even greater financial risk, and are predicted to find themselves under the impossibility of granting credits of 95% of the value of the property, having instead to impose larger down payments and higher interest rates to beneficiaries. According to the **FNGCMM, ARACO, the Romanian Commercial Bank (*Banca Comercială Română - BCR*) and other stakeholders from the banking sector**, this would limit bank participation and threaten the viability of the PPC. For this reason, ARACO expressed a feeling of uncertainty about the PPC for 2016 and its impact on residential construction. Indeed, developers expect a 10% slowdown in the sales of properties under construction, should the PPC be discontinued²⁴.

Comparison with other analytical sources

This Fact Sheet concurs with other analytical sources:

- Country Fact Sheet Romania²⁵ in the sections:
 - Access to housing;
 - Access to finance;
 - National & Regional Policy & Regulatory Framework;
 - Outlook.
- Romanian National Reform Plan 2016²⁶, sets as one of the main directions of public administration “an improvement of conditions for housing on the national level ... by continuing to implement the actions under the NRP 2015. National Housing Strategy to be developed by the Ministry of Regional Development and Public Administration by the end of July 2016.

Endnotes

¹ Please refer to the ECSO website for the Romanian Country Fact Sheet. http://ec.europa.eu/growth/sectors/construction/observatory/index_en.htm

² Rate at which debt holders default on the amount they owe

³ Non-exhaustive list of legal acts that modified the basic legislative acts for the PPC:

- [GD no. 16/2015](#) for modifying the ceiling of guarantees given in the PPC
- [GD 962/2015](#), [GD no. 15/2015](#), [no. 913/2014](#), [no. 850/2014](#), [no. 818/2014](#), [no. 615/2013](#), [no. 1286/2012](#), [no. 577/2012](#), [no. 404/2011](#), [no. 324/2010](#) and [no. 29/2010](#) for completing art. 3 of annex 1 to GD no. 717/2009 regarding the approval of implementing norms of the PPC
- [GD no. 388/2015](#), [no. 5/2014](#), [no. 40/2011](#), [119/2010](#) and [no. 840/2009](#) for modifying and completing GD no. 717/2009
- [GD no. 565/2013](#) on modifying and completing annexes 1 and 2 to GD no. 717/2009
- [EO no. 94/2012](#) and [no. 33/2011](#) for completing art.1 of the EO no. 60/2009 in view of implementing the PPC and for the adoption of some measures for continuing and improving PPC

- [EO no. 57/2015](#), [EO no. 2/2015](#) and [EO no. 30/2010](#) for modifying and completing the EO no. 60/2009 regarding some measures in view of implementing the PPC
 - [Order no. 1119/2015](#) for modifying and completing Order no. 2225/994/2009 for the approval of the Convention regarding the implementation of the PPC and the Convention for guaranteeing and regulation of specific measures for the application of art. 10 from annex 1 of GD no. 717/2009
 - [Order no. 624/2015](#) and [no. 754/2010](#) determining the level of commission management guarantees granted in the PPC framework
 - [Law no. 368/2009](#) approving the EO no. 60/2009 regarding some measures in view of implementing the PPC
- ⁴ Such as BCR, BRD - Groupe Societe Generale, Raiffeisen Bank, etc.
- ⁵ FNGCIMM, Programul "Prima Casa" continua in 2014 avand disponibil un plafon de garantare in valoare de 2.083.379.554 lei. January 2014. <http://www.fngcimm.ro/index.php?mact=News,cntnt01,detail,0&cntnt01articleid=44&cntnt01origid=67&cntnt01returnid=67>
- ⁶ FNGCIMM, Plafonul alocat programului Prima Casa se majoreaza!. October 2014. <http://www.fngcimm.ro/index.php?mact=News,cntnt01,detail,0&cntnt01articleid=70&cntnt01origid=67&cntnt01returnid=67>
- ⁷ According to GD no. 962/2015 and no. 16/2015
- ⁸ FNGCIMM, FNGCIMM a impartit plafoanele pentru anul 2015 celor 17 finantatori participanti in Programul Prima Casa. February 2015. <http://www.fngcimm.ro/index.php?mact=News,cntnt01,detail,0&cntnt01articleid=75&cntnt01origid=67&cntnt01returnid=67>
- ⁹ Economica, 200 milioane de lei în plus pentru Prima Casă în 2015 și plafon redus la 1,5 mld lei în 2016. December 2015. http://www.economica.net/200-milioane-de-lei-in-plus-pentru-prima-casa-in-2015-si-plafon-reduc-la-1-5-mld-lei-in-2016_111281.html
- ¹⁰ FNGCIMM, Programul "Prima Casă" continuă în 2016 având disponibil un plafon de garantare în valoare de aproximativ 1.690 milioane lei. January 2016. <http://www.fngcimm.ro/index.php?mact=News,cntnt01,detail,0&cntnt01articleid=97&cntnt01origid=67&cntnt01returnid=67>
- ¹¹ Ministerul Dezvoltării Regionale și Turismului (MDRT), Metodologie de calcul al performanței energetice a clădirilor. http://www.mdrl.ro/_documente/constructii/reglementari_tehnice/Anexa1_Ordin1071.pdf
- ¹² Agerpres, Cum obtii creditul Prima Casa in 2016?. March 2016. <http://www.agerpres.ro/ots/2016/03/08/cum-obtii-creditul-prima-casa-in-2016--11-24-09>
- ¹³ Capital, Avântul imobiliar va fi retezat din fașă dacă dispăre Prima Casă. December 2015. <http://www.capital.ro/avantul-imobiliar-va-fi-retezat-din-fasa-daca-dispare-prima-casa.html>
- ¹⁴ Digi 24, E oficial. Programul Prima Casă va continua și în 2016, dar cu modificări. December 2015. <http://www.digi24.ro/Stiri/Digi24/Economie/Stiri/Programul+Prima+Casa+va+continua+si+in+2016>
- ¹⁵ Capital, Avântul imobiliar va fi retezat din fașă dacă dispăre Prima Casă. December 2015. <http://www.capital.ro/avantul-imobiliar-va-fi-retezat-din-fasa-daca-dispare-prima-casa.html>
- ¹⁶ [News release of 18.12.2014](#) (2014 figures), [Analysis report of 27.03.2013](#)
- ¹⁷ [News release of 18.12.2014](#) (2014 figures), [Analysis report of 27.03.2013](#)
- ¹⁸ [News release of 17.07.2015](#) and of [18.12.2014](#)
- ¹⁹ FNGCIMM, Bilantul Programului Prima Casa pentru anul 2014. December 2014. <http://www.fngcimm.ro/index.php?mact=News,cntnt01,detail,0&cntnt01articleid=71&cntnt01origid=67&cntnt01returnid=67>
- ²⁰ [News release of 18.12.2014](#) (2014 figures), [Analysis report of 27.03.2013](#)
- ²¹ [NHA](#) carries out mortgage-financed dwellings under the authority of the Ministry of Regional Development and Public Administration
- ²² <http://media.imopedia.ro/stiri-imobiliare/banci-profit-credite-prima-casa-23516.html>
- ²³ 100Construct, Prima Casa intarzie si 2 luni. http://www.100construct.ro/index.php?section=detalii-articol&id=418&cat_id=86
- ²⁴ Capital, Avântul imobiliar va fi retezat din fașă dacă dispăre Prima Casă. December 2015. <http://www.capital.ro/avantul-imobiliar-va-fi-retezat-din-fasa-daca-dispare-prima-casa.html>
- ²⁵ European Construction Sector Observatory, Country Fact Sheet Romania, March 2016, http://ec.europa.eu/growth/sectors/construction/observatory/index_en.htm
- ²⁶ Romanian National Reform Plan 2016, http://ec.europa.eu/europe2020/pdf/csr2016/nrp2016_romania_ro.pdf