



# ESPN – Flash report

## 2015/33

**Protecting the primary residence of vulnerable groups**

Panos Pashardes, Christos Koutsampelas and Mamas Theodorou  
*June 2015*



**EUROPEAN COMMISSION**

Directorate-General for Employment, Social Affairs and Inclusion  
Directorate D — Europe 2020: Social Policies  
Unit D.3 — Social Protection and Activation Systems

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<b>Theme:</b>	<i>Housing and Homelessness</i>
<b>Title:</b>	<b>Protecting the primary residence of vulnerable groups</b>
<b>Category:</b>	<i>Key developments in implementation</i>
<b>Abstract:</b>	As a consequence of the economic crisis, many households in Cyprus are unable to keep up with their mortgage payments. At the same time, the banks are eager to improve their very low ratings by repossessing property, thereby reducing the large and increasing number of their non-performing loans. A scheme has recently been introduced to support vulnerable households that are facing economic hardship and are unable to fulfil their mortgage obligations. This scheme protects the primary residence of these households by subsidising their mortgage interest payments.
<b>Description:</b>	<p>In June 2015, the Council of Ministers approved a scheme for the protection of the principal residence of borrowers who cannot meet their mortgage obligations. This initiative had wide support across the political spectrum and public opinion, although the main opposition party criticised the eligibility criteria of the scheme (see below) for being meagre. On the other side, the government - encouraged by the Troika - tried to contain demands for looser eligibility criteria fearing negative fiscal and banking repercussions. The implementation of the scheme is assigned to the Cyprus Land Development Organisation.</p> <p>In general, the scheme targets vulnerable groups of the population that have loans secured on their primary residence or business assets. It does this by subsidising the interest payments of:</p> <ol style="list-style-type: none"> <li>i. mortgages for the construction or purchase of the primary residence of the applicant; and</li> <li>ii. loans taken up by small firms (companies with an annual turnover of up to €250,000 and less than 4 employees) for business development in order to reduce the risk of foreclosure.</li> </ol> <p>The interest payments are subsidised up to a maximum rate of 4% (e.g. if the value of the loan is €100,000 and the interest is 3%, then the subsidy would be €3,000). The maximum duration of the subsidy scheme is four years.</p> <p>Furthermore, several requirements should be met for eligibility:</p> <ul style="list-style-type: none"> <li>• completion of the procedures which are provided by the Central Bank in the context of the "Directive on Arrears Management of 2015" - thus, an attempt should first be made to restructure the mortgage loan, following the mediation procedures defined by the pertinent Commissioner;</li> <li>• the primary residence should be secured with a bank institution that adheres to the regulations of the Central Bank of Cyprus;</li> </ul>

	<ul style="list-style-type: none"> <li>• the period of residency should exceed five years; and</li> <li>• the applicant should be a permanent citizen of Cyprus or have legally resided in Cyprus for the last ten years.</li> </ul> <p>For applicants already receiving the Guaranteed Minimum Income (GMI) benefit (and, therefore, the housing allowance provided by the GMI), the total subsidy should not be above the level corresponding to the maximum interest rate (4%). Also, the market value of the residence and the level of outstanding debt should not exceed certain thresholds as described below. The eligible beneficiaries must also satisfy certain income criteria. In particular, their annual income should be:</p> <ul style="list-style-type: none"> <li>• less than €22,000 for households without children (the threshold increases by €2,000 for each child);</li> <li>• less than €20,000 for single parent households with one child (increased by €2,000 for each child);</li> <li>• less than €33,000 for households with persons with disabilities (irrespective of the number of persons with disabilities);</li> <li>• less than €13,000 for single persons; and</li> <li>• less than €21,500 for a single person with a disability.</li> </ul> <p>The total immovable property of the claimant should not exceed €100,000. The value of the principal residence is not included in this calculation provided that its estimated value does not exceed:</p> <ul style="list-style-type: none"> <li>• €200,000 for households without children (increased by €10,000 for each child);</li> <li>• €250,000 for households with members with disabilities (irrespective of the number of persons with disabilities);</li> <li>• €150,000 for single persons; and</li> <li>• €180,000 for a single person with a disability.</li> </ul> <p>For example, a couple without children with a primary residence valued at €199,000 and a second residence (or land property) valued at €99,000 is eligible for the programme - as long as other conditions described elsewhere in this Flash Report are satisfied.</p> <p>Furthermore, the value of the loan should not exceed;</p> <ul style="list-style-type: none"> <li>• €240,000 for households without children (increased by €12,000 for each child);</li> <li>• €300,000 for households with members with disabilities (irrespective of the number of persons with disabilities);</li> <li>• €180,000 for single persons; and</li> <li>• €216,000 for a single person with disability.</li> </ul>
<p><b>Outlook &amp; Commentary:</b></p>	<p>In the aftermath of the economic recession in Cyprus, which culminated in the 2013 bank crisis, the number of households facing difficulties with repaying their house loans increased due to falling incomes and loss of assets. The existing legal framework for restructuring loans via foreclosure or bankruptcy of the borrowers was ineffective to fend off the threat of many households becoming homeless. This gave rise to legal initiatives serving a double purpose: protect households who are in dire straits and at the same time avoid the creation of more distortions in the already distressed banking sector.</p>

	<p>The scheme introduced seems to strike a balance between these two competing objectives, albeit: (i) its income/ asset criteria for eligibility are, perhaps, not strict enough to exclude relatively better-off debtors; and (ii) it may create incentives for lenders to limit loans for primary residence only to those with far-reaching collaterals, thereby making it difficult for newcomers in the market to acquire their own house.</p> <p>As the scheme has been very recently launched, we do not yet have any hint about its real impact. However, we tend to agree with the view that its eligibility criteria should have been more austere so as to discourage distortive banking practices and reduce the burden on the government's budget. In any case, this initiative will contribute towards maintaining the good performance of Cyprus as regards the containment of housing deprivation.</p>
<p><b>Further reading:</b></p>	<p><a href="#">Media report</a>  <a href="#">Cyprus Land Development Organization</a>  <a href="#">Detailed description of the scheme (In Greek)</a></p>
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