

THE SYSTEM OF HOUSE FINANCING IN ROMANIA

SISTEMUL DE FINANȚARE A PROIECTELOR IMOBILIARE ÎN ROMÂNIA

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Abstract

The system of house financing represents a part of the system for house building and acquisition. It is made up of a net of intermediaries which offer, on one side, the financial instruments needed for savings and inputs mobilization, while on the other side they offer credits (outputs) for buying houses and for works intended to achieve the modernization of the house. It is conceived and used in close connection with national, regional and local politics and programs

Key words: house financing, rehabilitation, methods, institutions.

Rezumat

Sistemul de finanțare a proiectelor imobiliare reprezintă o parte din sistemul de construcția și achiziția de case. Este format dintr-un grup de intermediari care oferă, pe de o parte, instrumentele financiare necesare pentru economisirea și imobilizarea de venituri, în timp ce, pe de altă parte, ei oferă credite (ieșiri) pentru achiziționarea de case și pentru lucrări destinate pentru a realiza modernizarea locuinței. Este conceput și utilizat în strânsă legătură cu politicile și programele naționale, regionale și locale.

Cuvinte cheie: finanțare imobiliară, reabilitare, metode, instituții.

1. General aspects regarding house financing and rehabilitation

The system of house financing must fulfil a series of **conditions** so as to carry on its attributions in an efficient way. Among these are the following:

- to mobilize the savings of the population with the purpose of increasing the quality of living, by means of mortgage and credit markets;

- to create incentives for increasing the amounts of saving deposits of the population, at various institutions which provide credits;
- to extend the financial services towards all segments of the population, especially towards those with low incomes;
- to reallocate funds to less developed areas or to those areas that are experiencing problems.

1.1 *Methods to provide financial resources*

The most important ways for house financing and rehabilitation are:

- The first one – the least expensive – goes by the following principle: “**save and invest**”. In some countries, according to the law in force, the owners have the right to settle a rent so that current expenses, such as repairs and maintenance, are included;
- Most of the restoration activities cannot be financed by only using the owner’s capital, this being dependent of the capital market’s sources;
- **The subsidies** represent another method of financing the urban rehabilitation when the market is not strong enough to ensure the houses rehabilitation. These subsidies may take the form of allowances, small-interest loans provided by national and local institutions, subventions for house credits, ensured by institutions and banks providing mortgage credit; direct subventions for building houses, by allocating the land for the beneficiaries at smaller costs, or in part, the development of the infrastructure without any charges or by paying small instalments; fitting out the area by the local administration;
- Other instruments are the tax deductions or any other forms of tax support.

In what concerns the setting up of financial resources for dwellings and their use, there are two great models (Ioanid, 2000):

- *The British – North American model* based on the mobilization of direct deposits made by the population;
- *The European model*, which has at its basis the indirect mobilization of financial resources by selling bonds on the capital market.

There are various systems of housing applied in the European countries. They achieve a certain combination of the two basic models, more specifically: the contractual system, the commercial banks, the mortgage banks, secondary mortgage markets, and the capital market.

1.2. Types of institutions that offer house financing

There are various financial and credit institutions for housing and house rehabilitation. They are part of both private and public sectors. Therefore we have the following types of private institutions: savings organizations, credit banks, commercial banks, development banks, and financial intermediaries such as insurance companies or private pension funds. The public sector comprises house banks, governmental funds, savings funds.

- **National House Agencies** which are set up as budgetary institutions, part of the government (something like a ministerial department). The main characteristic of this institution is its dependency on the state budget or on the incomes established by the government. The uncertainty regarding the success of this model may be removed by applying two solutions:

These organizations should become de-concentrated units of the government and depend entirely on the annual budgetary allocations;

They should become half-privately owned and cooperate or compete with the private sector.

- **Commercial banks**, which use deposits for lending; these usually represent the most important financial institutions in the field of housing (in the European Union, the deposits ensure 62% of the mortgage loans). These organizations have to face the problem of the repayment capacity that gives this instrument a higher liquidity risk. The relatively low cost of this resource may compensate for the respective risk.
- **Savings banks** – specialized financial institutions, created to collect the savings deposits regularly, at an interest rate, which is lower than that of the market and to finance housing loans with low interest rates. The depositors may benefit from a prize after opening their savings accounts. In many of the Central and East – European countries the German plans for savings deposits have been taken abroad so they would encourage the savings made for dwellings.

- **Mortgage banks** represent the most common type of housing institution in Europe (Germany, Sweden and others). Although traditionally they have provided loans by means of deposits, at the moment they are using more the financing through mortgage titles.
- **Capital markets** are also an alternative source of funds for loans concerning housing. They have an increased relevance in many of the developed countries. Generally, there are two ways to attract funds from the capital markets for mortgage loans: mortgage titles and mortgage guarantees.

The legislation concerning the mortgage titles has been introduced in some countries that are in a transition process such as Hungary, Poland, The Czech Republic, Bulgaria, Russia, Lithuania, and Estonia. But, the development of mortgage titles market is in close relation with the development of pension funds and life insurances, which are considered to be the most important investors.

2. The institutional and legislative framework regarding housing and house rehabilitation in Romania

In Romania, an important source for housing and rehabilitation of house assemblies is the mortgage credit. There is a legal framework represented by *the law of the mortgage credit* and its modifications, which ensures its good functioning.

Law of the Mortgage Credit has provisions regarding the institutions which give mortgages and the persons who are entitled to them:

- Banks, the National House Agency, National Savings House (Casa de Economii și Consemnațiuni) and other financial institutions, provided by the law, including mortgage funds;
- The persons who may benefit from mortgage loans are natural persons, with Romanian citizenship and residence as well as legal persons which have as object of activity the construction, the rehabilitation, the fortification or the expansion of buildings meant for habitation and industrial or commercial activities, as well as Romanian legal persons that wish to build houses for intervention or to provide accommodation for their employees.

The purposes of credits in the habitation domain are regulated by **Law concerning savings and lending in a collective system, for the habitation field**, which supports the construction, the

acquisition, the rehabilitation, the modernization or the expansion of real estates intended mainly for housing.

Most of the banks give credits in advantageous conditions for houses building, as well as for rehabilitating.

Raiffeisen Banca pentru Locuințe (Raiffeisen House Bank) is the first bank in Romania to have been set up according to **Law no. 541/2002** concerning savings and lending in a collective system, for the habitation field. The product offered by this bank has as currency the Romanian Leu and it assumes a minimum saving period followed by the granting of credit with fixed interest, for activities in the above mentioned field. During the saving period the State pays a premium for annual deposits, which is given for the amounts saved by the client in that calendar year. The interest – 6% per year paid in Romanian LEI – will remain the same for the whole period of the credit no matter the interest fluctuations on the monetary market. **The credit may be used for:**

- Stimulating activities in the habitation field, more specifically the construction, the acquisition, the rehabilitation, the fortification or the expansion of real estates which have as main purpose the accommodation of people;
- Modernization works;
- Reconstruction and enlargement of the living space;
- Renovation of the front part of the house;
- Installation of personal heating system/new windows;
- Works meant for saving electricity;
- Purchasing land within the city with a prevalent habitation purpose;
- Refinancing other mortgage credits

BCR provides the **Residential** credit in Romanian Lei and in foreign currency for construction, acquisition, restoration (fortification/modernization/fitting out) or expansion of real estates meant for habitation, acquisition of lands within the city and in the civil circuit with the purpose of building houses, works performed to make the land viable (ensuring the necessary facilities: electricity, water, sewerage,

gases, telephone). The repayment period is of maximum 25 years for credits in RON and maximum 20 years for loans provided in EUR/USD, while the maximum amount is 500 000 the equivalent in EUR.

There are also other banks (such as the Romanian Bank for Development, the Romanian Bank, Transilvania Bank, Țiriac Bank and others) which provide favourable credits for house construction as well as for their rehabilitation.

Besides these banks, there are other categories of financial institutions, which provide mortgage credits. Therefore, there is **the National Savings House** (Casa de Economii și Consemnațiuni-CEC) which gives loans for home building, acquisition, modernization, fortification and repair. The terms are favourable and the beneficiaries may be natural persons of age, Romanian citizens, and residents in Romania.

In what concerns the acquisition and construction of dwellings, CEC gives a credit of up to 95% of the amount mentioned in the documents that certify the destination of the required credit; for house modernization, consolidation or repairs there is no advanced money.

The credits for buying or building new houses are allowed for a period of maximum 25 years, while the ones for modernization and renovation have a maximum credit period of 7 years.

The interest rate for the loans provided by CEC fluctuate during the entire credit period and the client may choose to pay back his debt in equal instalments (credit rate + interest) or to use the method for calculation of the regressive interest during the respective period of the loan.

Another example, worth mentioning, is the **Romanian – American Mortgage Credit**, a mortgage credit society set up in year 2003. Its purpose is to facilitate a fast and favourable access to mortgage credits (meant for acquisition, renovation and construction), for the Romanian citizens. The mortgage loan for house renovation/completion is given for the modernization of residential houses and for finishing the dwellings which are in the “red” stage of the construction (this would allow the in-tabulation of the building in the real estate registrar). The main condition necessary to obtain this credit is that of being the owner or part owner of the building in question. The building must be free of any obligations or servitudes. The house that will undergo works for renovation or finishing must become the applicant's residence.

In order to support the rehabilitation of houses, a law was initiated. The respective law establishes some special measures for thermal rehabilitation of some multi-level buildings and sets the methods for financing these measures:

- a. by means of credits and/or State budget allowances, which will cover 85% of the expenses, among which 30% are subsidies granted by the State, within the limits of the funds annually approved for this purpose in the budget of the Ministry of Public Works, Transports and Housing; also the funds created for repairs by the association of owners/inhabitants will cover 15% of the expenses, in the case of houses owned by natural persons;
- b. by using local budgets, for dwellings and spaces intended for other purposes than habitation, being owned or administered by the administrative – territorial units;
- c. by means of funds from the State budget, from local budgets or personal incomes, according to each case, within the limits of annually established funds for this particular purpose, for houses and spaces aimed for other than living that are owned or managed by the other public institutions, according to the subordination of the institutions in question;
- d. by using economic agents' personal funds, for dwellings and spaces intended for other purposes than habitation, which are owned or administered by them.

The electricity expertise and auditing, as well as the plans of works for thermal rehabilitation of multi-level buildings that are intended for habitation are mentioned in the annual programs. The cash reserves necessary for financing the expenses related to these activities are ensured by State budget allowances, within the limits of the funds approved yearly for this purpose in the budget of the Ministry of Public Works, Transports and Housing.

Another law, which guarantees the advantages related to the improvement of living conditions, is the one concerning the setting up of some special measures for the rehabilitation of some blocks of flats located in areas which have unfavourable conditions and/or a single industry is practised (mono-industrial). The respective law establishes that the expertise, the planning and execution of works for rehabilitation are to be subsidized by the State budget and are to be ensured through "Transfers", within the limits of the funds allowed annually for the attainment of this particular objective, in the budget of the Ministry of Transports, Constructions and Tourism; also, there are some other legally made up sources.

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