

ECONOMIC RESTRUCTURING AND PERFORMANCE WITHIN THE ACTUAL MONDIAL ECONOMIC CRISSIS WITH THE FIRST HOME BUYER PROGRAM AROUND THE WORLD

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ABSTRACT

Begining with 2008, the states have been implementing fiscal and monetary strategies to stimulate consumer spending and economic growth. One of the themes that stand up in more countries around the world is the attention given to the residential sector and their social programs to stimulate aquisition and development of first owned homes.

In this paper, we comparatively analise these programs started in USA, Europe and Australia even from 2008. Their characteristics, development and effects will help our aim to make usefull prognostics upon the Romanian First Home Buyer program, which is in it's very early three monts begining.

KEYWORDS: *The First Home Owner Grant, First Home Owner Boost, First Time Home Buyer Tax Credit Program, Family's own home, First Home Program, The Housing and Economic Recovery Act of 2008, The American Recovery and Reinvestment Act of 2009*

Introduction

Over the last twenty years, the US was considered the driving engine of the global economic growth. Authorities encouraged consumer spending and brought in rapid growth through fast and easy crediting. The first warning signs of the crisis came early 2007, as numerous small credit institutions went bankrupt from mortgage subprime loans. Then came the collapse of the bigger companies, banks and investment funds who were citing the same reasons for their losses.

In Europe, the first effect of the US crisis was felt on August 9, 2007, when BNP Paribas, the bank with most assets on the Euro territory, cancelled its paying of three debt funds. The funds could no longer be evaluated due to their exposure to the US mortgage subprime loans. Up until fall 2007, the crisis spread across Europe, affecting the banks from England (Northern Rock went bankrupt), Germany and even the Switzerland through the losses suffered by UBS AG and Credit Suisse Group.

Romania had been enjoying record sales growth well into 2007, even as the global financial markets and mortgages were collapsing. The highest market prices of the Romanian residential products peaked sometime in March-April 2008. The prices stagnated in July, after which they went into a downward slope starting August. The effect of the global financial crisis was finally hitting the residential market even in Romania. (Turcu Andra, Damu Nicu, Analyzing the Romanian residential market under the global economic crisis effect, *Romanian Economic and Business Review, Bucharest, September 2009*).

Begining with 2008, the states have been implementing fiscal and monetary strategies to stimulate consumer spending and economic growth. One of the themes that

stand up in more countries around the world is the attention given to the residential sector and their programs to stimulate acquisition and development of houses. Clearly the programs have a social perspective, as the target sustained buyer is not the investor, but the one with no residential properties. So, the name of the program, in one form or another around the world, is referred to synthetically as "The First Home" program.

First Home Owner scheme was introduced by the Romanian government as an incentive for the housing market. The program is partially similar to other schemes previously established in United States, Poland and Australia.

Australia's First Home Owner Grant

The first home program that pioneered state home ownership assistance was implemented in Australia, on 1 July 2000 as "*The First Home Owner Grant*" (FHOG) designed to assist people to purchase or build their first home. It is a national scheme funded by the states and territories and administered under their own legislation. Under the scheme, a one-off grant of up to \$7000 is payable to first home owners that satisfy all the eligibility criteria.

In 2008, as Australians brace themselves for the global economic shockwave, the Government has announced its "*Economic Security Strategy*". The \$10.4 billion dollar Government package aims to protect the Australian economy by stimulating the building industry, investment and employment. Prime Minister, Kevin Rudd, believes that the housing sector is critical to Australia's economic performance – part of the package is a \$1.5 billion dollar boost to the First Home Owner Grant (FHOG) to counter the predicted decrease in housing demand. So, on 14 October 2008, the Australian Government announced "*First Home Owner Boost*" (FHOB) scheme to supplement the FHOG Scheme.

The current \$7,000 First Home Owners Grant (FHOG) is administered and funded by the States and Territories. The Commonwealth will provide funds to the States and Territories for the First Home Owners Boost (FHOB), which is an additional \$7,000 for *established* homes and \$14,000 for *newly-constructed* homes.

This Initial First Home Owners Boost (FHOB) was effective from the 14 October 2008 until 30 June 2009. The First Home Owners Boost (FHOB) has now been extended for a further six months from 1 July 2009 until 31 December 2009.

For Contracts made between 14 October 2008 to 30 September 2009 (inclusive): first home buyers who purchase established homes will receive a boost of \$7,000 that will double the grant to \$14,000 or first home buyers who build a new home or purchase a newly constructed home will receive an extra \$14,000 to take their grant to \$21,000.

For Contracts made between 1 October 2009 to 31 December 2009 (inclusive): first home buyers who purchase established homes will receive a boost of \$3,500 that will take their grant to \$10,500 or first home buyers who build a new home or purchase a newly constructed home will receive an extra \$7,000 to take their grant to \$14,000.

Eligibility. The eligibility criteria for the FHOB is the same as for the FHOG. That is, in general, the following must be met:

- Applicants must be 18 years of age or over
- Both the owner and their spouse/partner must not have owned a home previously (this means that if either one of the applicants have previously owned a home, then they will both be ineligible)
- The home must be the principal place of residence for at least one applicant for a period of 6 months within 12 months of completion or settlement.
- Eligible first home owners have 12 months from either the date of settlement or date of completion to apply for the FHOG.

Eligibility for FHOB. For *established homes*, this means entering into a contract to buy a property. For *newly-constructed homes*, this means entering into a contract to build a house. The contract must be for building to commence within 6 months and must be completed within 18 months of commencement. For *off the plan purchases* the contract must be signed on or before 30 September 2009 to receive the \$14,000 and on or before 31 December 2009 to receive the \$7,000. Construction work must be completed on or before 31 March 2011.

Payment. For a *newly established house*, the FHOG (and FHOB) is paid (in a lump sum) to the first home buyer upon the laying of the slab if being built or if purchased as a house and land package it will be paid upon settlement of the property. For an *established house*, the FHOG (and FHOB) is paid (in a lump sum) upon settlement of the property. The grant can be paid directly into the first home buyers account but it is generally used for either a deposit or to assist with purchase or loan costs.

House Value Limit. No, there is no limit on the price of the home. However the amount of the benefit payable (i.e. FHOG & FHOB) cannot exceed the consideration paid to buy or build the home.

“Off the Plan” Purchase. Yes, the program includes the purchase off plan, under the following time-table. To be eligible for the \$14,000 boost benefit for purchasing a new home ‘off the plan’ contracts made between 14 October 2008 and 30 June 2009, must specify a completion date on or before 31 December 2010. If not specified the contract must be completed on or before 31 December 2010. To be eligible for the \$14,000 boost benefit for purchasing a new home ‘off the plan’ contracts made between 1 July 2009 and 30 September 2009, must specify a completion date on or before 31 March 2011. If not specified the contract must be completed on or before 31 March 2011. To be eligible for the \$7,000 boost benefit for purchasing a new home ‘off the plan’ contracts made between 1 October 2009 and 31 December 2009, must specify a completion date on or before 30 June 2011. If not specified the contract must be completed on or before 30 June 2011.

Owner Builder Case. Yes, the program includes the case of the owner builder, as it follows:

To be eligible for the \$14,000 boost benefit for building a new home as an owner builder, construction (i.e. laying foundations) must commence between 14 October 2008 and 30 September 2009 (inclusive) and construction must be completed within 18 months of the construction commencing. To be eligible for the \$7,000 boost benefit for building a new home as an owner builder, construction (i.e. laying foundations) must commence between 1 October 2009 and 31 December 2009 (inclusive) and construction must be completed within 18 months of the construction commencing.

Selection of financial institutions. Yes, Australia named 26 financial institutions which are approved agents for First Home Owner Grant applications for property in the ACT.

Program efficiency¹. For the period January 2003 to March 2008, the average sizes of loans for South Australian first home buyers and non-first home buyers were similar. However, after March 2008, the average loan sizes of the two categories showed an increasing divergence. In March 2008, the average loan size for South Australian first home buyers was \$187,200, and for non-first home buyers it was \$187,300; by January 2009 the former had increased by 24.4% to \$233,800, while the latter had increased by 9.5% to \$205,100 (**Chart 1.a**). In March 2008, first home buyer loans averaged \$230,000 while for other borrowers the average was \$234,200. By January 2009 first home buyer loans had increased by 16.6% while non-first home buyer loans increased by only 4.6% in Australia

(Chart 1.b). Since the inception of the scheme (October 2008) and coupled with interest rates at a 49-year low, the number of home loans issued has significantly increased. According to the Australian Bureau of Statistics, home loans, seasonally adjusted, increased from 0.4% in February to 4.9% in March, marking the sixth consecutive month of increases. The proportion of loans being taken out by first home owners is the highest on record, up from 26.5% in February to 27.3% in March.

Program prognostics. Indications of a stabilisation in the Australian residential housing market are strong. The first quarter of 2009 saw Australian home prices increase – exciting news for the property market, which is bucking the dramatic global downward trend seen in many overseas markets. An April report released by RP Data-Rismark saw house and flat prices rise by 1.6% in the March quarter, with most of the growth occurring in February (0.9%) and March (0.6%). This positive outcome follows modest 3% falls in the value of capital city homes during 2008, largely due to mortgage rates peaking at 9.6% in August 2008. Improved housing affordability has been the main driver; while the boost to the First Home Buyer Grant certainly sparked demand, and the supply of available properties has been low, the dramatic drop in interest rates has been the key factor.

First Time Home Buyer program in United States

As part of its plan to stimulate the U.S. housing market and address the economic challenges facing the nation, Congress has passed legislation that grants a tax credit of up to \$8,000 to first-time home buyers, covering 10 percent of the purchase price of the home. ***First Time Home Buyer Tax Credit Program*** in United States is closer to the Australian model but can be partially compared with the 5% taxation program in Romania. This is made through a tax credit, namely an amount which is returned after filing the income statement at the Revenue Service.

For 2008 Home Purchases: The Housing and Economic Recovery Act of 2008 established a tax credit for first-time homebuyers that can be worth up to \$7,500. For homes purchased in 2008, the credit is similar to a no-interest loan and must be repaid in 15 equal, annual installments beginning with the 2010 income tax year.

For 2009 Home Purchases: The American Recovery and Reinvestment Act of 2009 expanded the first-time homebuyer credit by increasing the credit amount to \$8,000 for purchases made in 2009 before December 1. This is made through a tax credit, namely an amount which is returned after filing the income statement at the Revenue Service. For home purchased in 2009, the credit does not have to be paid back unless the home ceases to be the taxpayer's main residence within a three-year period following the purchase.

Payment. The credit cannot be claimed until after the purchase is completed. For purchases made this year before Dec. 1, taxpayers have the option of claiming the credit on their 2008 returns or waiting until next year and claiming it on their 2009 returns. The credit reduces the taxpayer's tax bill or increases his or her refund, dollar for dollar. Unlike most tax credits, the first-time homebuyer credit is fully refundable. This means that the credit will be paid to eligible taxpayers, even if they owe no tax or the credit is more than the tax owed.

Eligibility. The eligibility criteria reveal some other tent similarities and differences:

- to buy the house between April 8 2008 and December 1 2009;
- the purchase price to be more than 75,000 dollars or 80,000 dollars if purchased after December 31;
- to occupy it and not to be a vacation home or rental property;

- not to own another principal residence at any time during the three years prior to the date of purchase
- the income not to exceed 95,000 dollars/year for single taxpayers or 150,000 dollars/year for married couple;
- you neither buy it from a close relative nor sell it by the end of 2009;
- to be US resident.

Other House Ownership limit. Only refers to not have had it upon other house in the last three years, for you nor your wife/husband.

House value limit. Yes, the purchase price to be more than 75,000 dollars, or 80,000 dollars if purchased after December 31

Buyer Income limit. Yes, the income not to exceed 95,000 dollars/year for single taxpayers or 150,000 dollars/year for married couple;

Time limit. Yes, it's mandatory to buy the house between April 8 2008 and December 1 2009;

Credit pay-back. Yes & No. For the first program, in 2008, the tax credit must be repaid in 15 equal, annual installments beginning with the 2010 income tax year. For the second program, in 2009, the buyer does not need to repay the tax credit, if he/she occupies the home for three years or more; however, if the property is sold during the three-year period, the credit will be recouped on the sale.

Owner Builder. / "Off the Plan" Purchase. A home constructed by the taxpayer only qualifies for the credit if the taxpayer occupies it before Dec. 1, 2009.

Selection of financial institutions. No, it's not the case, there is a direct connection between the buyer and the government, throughout IRS.

Program efficiency. First-Time Homebuyer Credit Provided Tax Benefits to 1.4 Million Families by date September 17, 2009 (according to USA IRS, IR-2009-83). Not only are first time buyers more prevalent, they also plan to own homes longer than past buyers. The 2008 National Association of Realtors® Profileⁱⁱ of Home Buyers and Sellers showed that first time home buyers are increasing when compared to total market share. First-time home buyers have risen in market share - to 41% of transactions from 39% last year - and plan to own their homes for 10 years, up from seven years in 2007. The median age of first-time buyers is 30, down from 31 in 2007, and the median income was \$60,600. The typical first-time buyer purchased a home costing \$165,000.

Poland's "Family's own home". The Polish government has introduced a roughly similar scheme to Romania's First Home program, called "*Family's own home*" (*Rodzina na swoim*), being on January 1, 2007. Under the program, the government covers the repayment of 50% of mortgage loan interest due within the first eight years of taking the loan. The program is aimed at enabling married couples or single parents to purchase their first home. The program imposes certain limits on the surface of the apartment and maximum price per square meter.

Program efficiency. From the moment the act came into force until the end of 2008, only 10 000 families exercised their right to loan subsidies, and the total amount of mortgages was approximately 383 million dollars. In this first phase, nearly 90% of concluded contracts concerned the purchase of real estate located outside the main cities, and the share of the primary market was simply marginal (Chart 1). The introduction of a new conversion index at the level of 1.4 has brought a significant change in the availability of that type of loan in the market. Consequences of that decision are visible already after two months from its launch. Within the first two months of 2009, the number of granted loans was the highest since the launch of the program, almost 2 000 loans were granted only in January and February 2009 (Chart 2). The increasing need for that type of loan is

also indicated by the growing number of banks implementing the government program - already ten banks are offering loans on these conditions.

Program Shortcomings. In 2008 - the level of the average conversion index of reconstruction cost of 1 square meter of usable area in residential apartments which according to the original arrangements was not adjusted to the reality of the rapidly growing market. Even in 2009, when observing the condition of the primary market, it seems that few developers will be able to take advantage of the chance to obtain this group of prospective buyers. The level of specific average conversion indices of the reconstruction cost of 1 square meter is often far from market reality. Instances of such locations are first of all suburban areas of large Polish agglomerations or the example of Krakow which with its current price levels is not able to reach a numerous group of clients. (Chart 3)

Program Prognosis. The disparity between prices in the primary market and the value of the index may however have serious implications for market development. Those families who are able to meet the conditions of participation in the program are, due to demographic factors, one of the largest group of buyers. Unfortunately, high level of prices of new apartments as compared to prices in the secondary market may reduce clients' interest in the primary market. It can be expected that many developers will attempt to reduce their price levels to the amount specified in the program, and the price reduction alone will increase both the demand and the number of transactions on the primary market. On the other hand it is likely that more new residential projects entering the market will be addressed to clients buying their first apartment. (Chart 4)

Romanian's First Home Program

Locally, *The First Home Program* has been designed as a social one. The beneficiaries of this program are natural persons who don't own a residential property in common or individually, at the date of becoming effective (June 4, 2009), and don't have a mortgage loan underway. Potential buyers must pay 5% in advance of the home's purchase price, which is lower or equal to 60,000 euro. If the purchase price is higher than 60,000 euro, the applicant must pay 3,000 euro in advance, in addition to the price difference between 60,000 euro and the actual purchase price. Moreover, the persons qualified for the program are compelled not to alienate the purchased house in the first five years.

Benefits. Applicants eligible to the mortgage loans under First Home program, will pay interest rates lower by 42-49% in average than current lending conditions, as government will impose banks some conditions related to the margins practiced, so that banks granting mortgage loans through the "First Home" program can apply a margin of maximum 4 percent per year over the EURIBOR interest rate at 3 months for credits in euro and a margin of 2.5 percent the most over the ROBOR rate at 3 months for credits in lei. Another advantage is that more persons can become eligible for the loan, following the cut of costs with interest rates and commissions. For instance, for a 50,000 euro home, the minim required monthly income for a loan on 25 years and a 5 percent down payment would be around 595 euro per family, compared to 863 euro required now on the market. The Financial institutions approved will not ask for any commissions for anticipated payback and will not unilaterally modify the lending contract.

The 5% VAT program. In order to compare the romanian program with the US and Australian ones, we should name another important Romanian measure of restructuring it's real estate industry under crissis. This measure rises under the same concept as the US and Australian first home aquisition, although it doesn't have the non-ownership of a household as a condition, but it does limit the aquisition under this benefit at one. If the US

first house program establishes a tax return of 10% from the house value, and the Australian program a grant of 14,000 – 21,000 \$, given after the acquisition of the house, the Romanian program directly diminishes the VAT for certain residential acquisition from 19%, to 5%. The OUG no 200/2008 Art I, Point 7, specifies the residential unit requirements one could benefit in order to benefit of the 5% VAT: under 120 util sq.m and commercial value under 380.000 RON (VAT excluded), including the given land.

The two programs are supplementary, that is the persons who would buy a house under the First House program will benefit of a VAT reduced to 5%, measure applicable for social dwellings.

Off the Plan Purchase. Yes, provided they are finished in 18 months from the program start. **The Owner Builder.** No

Program efficiency. In Romania's case, as in the USA, Poland and Australia's case, we investigate the development of the government initiatives in two stages. Here, we have the first semester of 2009 for the 5% VAT scheme, and the last three months for the "First House" program. The first semester of 2009, real estate transactions went lower by 32.92% compared to the same period of 2008 (according to Public Notary Union of Romania, UNNPR) **Chart 5.** With July 2009, the First Home program is on and we can already observe the transaction number slightly going up. August 2009 is the month with 31.368 transactions, down by 25.41% compared with August 2008 (42.055 de transactions), but up by 8% compared with the January-August media, representative for the 5% VAT program (UNNPR)

After three months of First Home program there are 4,700 approved demands, 220 million Euro value out of 1 Miliard disposable, 100 demands per day from 200 in the first two months. (FNGC Media Comunicate, October 15, 2009)

No new residential project has been launched in this period.

Program prognostics.

The programme brings optimism to the market. The main short-term advantage of this programme is that it will restore confidence to home buyers. The "First Home" programme will at best manage to unfreeze the real estate market, but it will not be able to give work to builders if developers are not willing to cut prices of new homes and to remain within the 60,000-euro limit, the maximum amount that the Government will guarantee for a mortgage credit

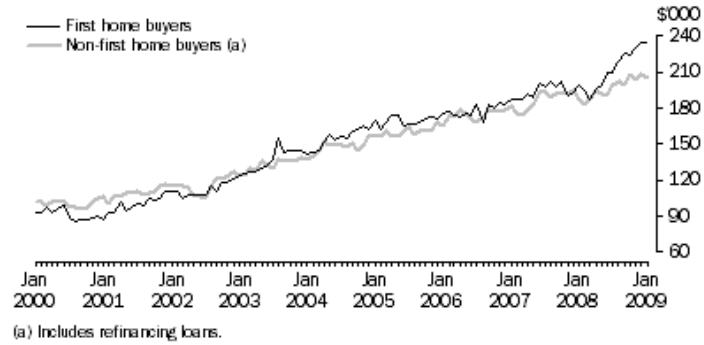
Builders and real estate developers behavior under the "First Home" programme consists in price moderation under the 60,000 Euro guaranteed level for the already built units, but no engagement in future residential construction is noted. For this important aspect as targeted effect of the program, is expected the support of a medium-term strategy, which should also entail a national home building programme.. Its effect is not quantifiable at the moment. It will take a while until the money reaches the constructor.

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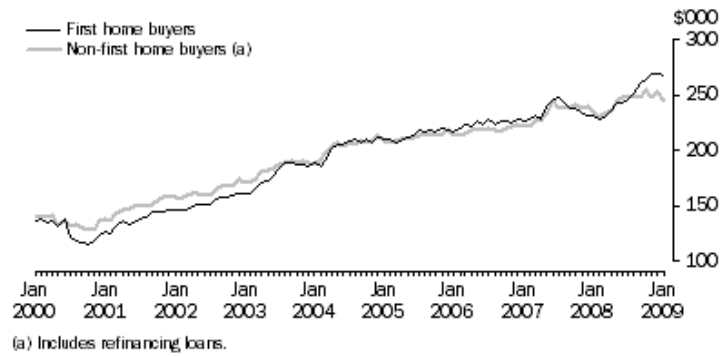
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CHARTS



Source: Housing Finance, Australia (cat. no. 5609.0)

Chart 1.a: Average Loan Size, South Australia



Source: Housing Finance, Australia (cat. no. 5609.0)

Chart 1.b: Average Loan Size, Australia

Chart 2. The number of loans granted within the program „Family’s own home”

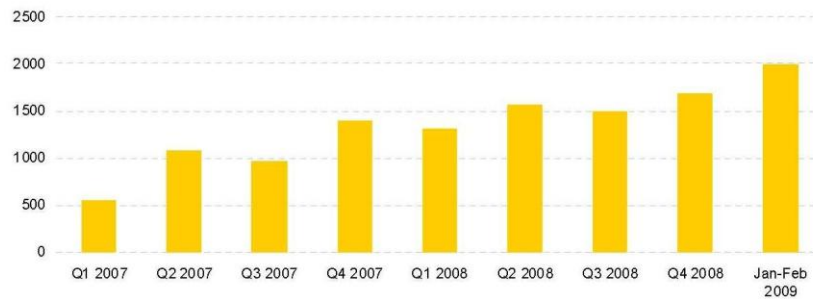


Chart 3. Average offer prices in the primary market compared against the value of conversion index of the reconstruction cost

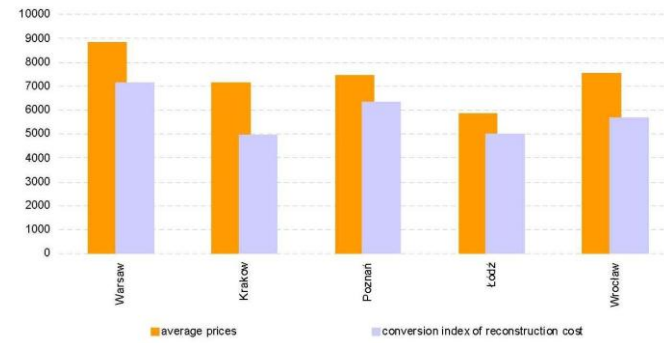


Chart 4. Estimated share of apartments remaining on offer qualified to the subsidies program

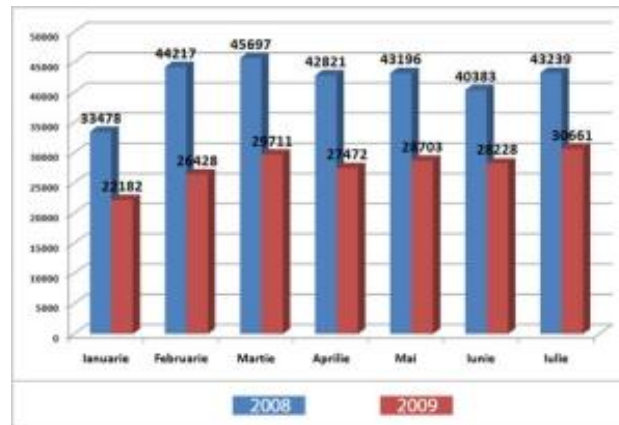
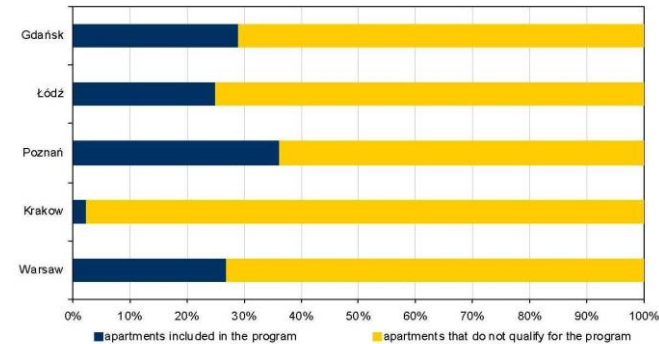


Chart 5: RE Transactions in Romania, Ian-July 2008/2009

ⁱ Note that data for first home buyers only represents borrowings for the purchase of dwellings, whereas the non-first home buyers includes borrowings for either the purchase of dwellings or for the refinancing of existing home loans.

ⁱⁱ The 2008 National Association of Realtors Profile of Home Buyers and Sellers is the latest in a series of large national NAR surveys evaluating demographics, marketing, preferences and experiences of home buyers and sellers. NAR mailed an eight-page questionnaire in August 2008 to a national sample of 133,000 home buyers and sellers who purchased their homes between July 2007 and June 2008, according to county records.