

## THE FINANCING POLICY ON THE REAL ESTATE MARKET IN ROMANIA

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### **Abstract:**

Generally, the market notion designates a system of specific activities that are proceeding after some goods have been projected from the production sphere and before these overtake the consuming sphere. Also, the market can be considered as the meeting place between the buyers demand and the producers offer. In fact, on the market it is verifying, the concordance or the disparity between the volume, structure and the production quality (offer) with the level, structure and the consume quality (solvent demand). A real estate market is represented by a group of persons or firms that come into contact one with each other with the purpose to make real estate transactions. The actors from the market can be the buyers, the sellers, the renters, the creditors, the borrowers, the entrepreneurs, the constructors, the administrators, the investors and the mediators. A real estate market is made by the market actors signed in real estate transactions. The decisions regarding the allocation of the land to the different real estates destinations (farms, houses, offices, factories, shops, schools, hotels, football fields, parking places etc.), the number of the immovable that must be built and of what type, the prices range to that the buildings and terrains are proceeded – are adopted on the real estate market. A market represents the space (as geographical delimitation and/or according to the good and services characteristics) wherein are meeting buyers and sellers (certain or potentials) to make transactions, to a price, that result from the demand confrontation with the goods or services offer. What individualizes the transactions with the real estate properties is the fact that this aren't developing on a single market. The real estate market is developed, in fact, as two different markets: the market for physical spaces and the market for financial active.

**Keywords:** real estate market, funding, investments, mortgage, real estate property.

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## INTRODUCTION

The real estate markets don't have the same characteristics as the more effective markets of other goods or services. The efficiency of one market is based on the hypothesis regarding the buyers and sellers behavior and on the characteristics of proceeded products. Goods or services on an effective market are essentially homogenous, can be replaced one with another (fungible goods). Over against, each real estate lot is unique and the emplacement is fixed.

On an efficient market there are a big number of buyers and sellers, which create a free market, competitive and none of these participants, become a market segment big enough to have a direct and quantifiable influence on the price. On real estate markets, in the same time, can action few sellers and buyers inside a price interval and to an emplacement or mostly a compact area. The relatively high value of the real estate properties needs big buying capacity and therefore the real estate markets are very sensitive to the change of salary level, to the establishment of venues and in proportion to work places. On an efficient market, the prices are relatively uniform, stabile and low. They represent most of the times primordial criteria in the buying or selling decisions, because at some price range, the quality tend to be the same. On the real estate markets, the prices are relatively high and the buying decisions are influenced by the financing type offered, the credit volume that can be obtained, interests, advance payment amount, returning period.

## FINANCING SOURCES FOR BUYING/CONSTRUCTING OF REAL ESTATES

Not any financing source is profitable from all points of view, even if this is perfect legally. An extremely important variable is the financing cost. In a economy that functions properly, also the loaned (the client) and also the lender (the bank) has to survive and to develop, from the confrontation of their points of view resulting the costs level. For financing the real estates properties, it is possible to appeal for several sources, each of them with their own advantages and disadvantages: (Dragot , V., , L. and others, 2005)

- own sources, that can be obtained from family and friends (as while as for these isn't perceived a cost as interest or other advantages, fixed "a priori", and for the payment isn't set a clear refund term, features that would transform, more or less, the characteristics of the loan from friends into bank credit);

- loans from banks or other able financial institutions.

*The own financial sources* have an advantage from the point of view of their constancy, and also for the fact that there exist a full liberty regarding the manner that it can be used. On the other hand, must keep in view an important aspect: buying a real estate can be seen as an investment. The gains that brings this investment (from the rents and favorable price variations of the real estate properties) should be interpreted as an opportunity cost, as a "lost chance" cost, respective of the gains that would have been possible if, instead buying this property, it would had been invested in other financial instruments (or, it would had been just consumed).

For the *loaned sources* the cost can be much more easily determined, on the base of the interest rate inscribed in the contract. The bank has a higher certitude regarding the credit repayment, but the client will have to adapt himself to the contractual clauses that refer essentially to the pay on time of the expired rates, if not intervening some measures with punitive character, like pulling out for sale the real estate properties bought with bank credit. From the theoretical point of view, because the creditor is more protected against risks, the cost of financing sources borrowed, should be inferior to the own financing sources cost.

The decision for the ponders in which we're financing on the own sources account, respective borrowed, must regard of the risks associated tot the indebttness, risks which can compensate, or even cancel, its positive effects. For example, a rate of indebttness that is too large (up the repayment capacity of the owner) or some payment delays registered in past by the owner constitute alarm signals for banks, that won't agree to give new loans or, will increase the solicited interest rate level, in the same time with the risks amplification.

A person can be forced to contract a credit, by a certain amount, which should cover the value of the house he want to buy or it can choose for different values of the credit, as to use only partially his own savings. In the last situation, for financing, the person can use h is own sources and borrowed sources in different ponders. To the basis of choosing a certain financing structure must be taken into consideration the costs of each source individually, also the direct visible ones (for example, in the case of own sources, the cost can be given by the impossibility of using this money in other purpose, so by the renunciation to some material or spiritual benefits).

## THE LENDING POLICY OF THE REAL ESTATE PROPERTIES IN ROMANIA

*The credit* is the operation within it takes in directly control resources, in exchange of one assurance of future returning, normally accompanied by the payment of an interest that remunerates the lender. In the social reproduction frame emerge, on the one hand, supplementary necessities of capital, which don't have other hold security possibilities, but with credit, and, on the other hand, available capital resources. In this way, the available resources (back account availabilities) are engaged within credit in order to satisfy the capital needs. *The creditor* is the banking society whom hires the own resources, the available ones in bank accounts and the loaned ones and other resources for financing the capital necessities, and *the debtor* is represented by the population, the economic agents having capital necessities, bank credit beneficiary. (Cioma , C. and others, 2006)

The real estate market development in Romania depends very much by the buying capacity of the population and, in the same time, the financial facilities which this market can offer at one moment. The main problems that is confronting with this market are the following:

- the financing conditions imposed by banks, as well as other institutions that offer real estate credits, that limit or make even impossible the credit access of the persons with small salaries;

- the insufficient informing of the Romanian citizens regarding the investment and economizing, but also the question amount relatively high of these toward some financial institutions;
- the insufficient development of the economize-investment culture of the population from Romania. For example, in 2003, between 60 -70% from the Romanian citizens didn't had any relation with the bank system, and only 59.300 from the Romanians had assumed the active investor role on the mutual funds market. Meanwhile, there has been registered progresses in this direction, whereon a special contribution had the changes supervened in the payment modality within the bank cards of the salaries and other remuneration forms, what "forced" the population to familiarize with this payment system and, generally, to line un more with the bank system; the legislative frame, that can restrict or, contrary, can facilitate the access to real estate credit, with a direct impact on the development process of the real estate market in Romania. (Dragot , V. and others, 2003)

In the purpose of facilitating a fast access of the citizens to the mortgage credits, had started to function in Romania *mortgage societies*, whom want to back up the acquisition, renovation, and houses construction. The mortgage societies try to attract natural and juridical persons interested to obtain this type of credits, mainly with the fact that they present themselves as organisms that assures fast access to the financial sources because:

- doesn't solicit the existence of some work contract of the solicitant made on an undetermined period, as long as the venues are constants;
- fundament the financial decision on the base of analyzing case by case the credit applications, and not on a scoring credit base, what assures a per sonalization of credits received by clients and facilitates the access to this type of resources of a much bigger number of persons that, even if they don't present a grown risk of un -returning credit, are eliminated within the score system applied by the creditor;
- doesn't impose minimal age conditions and any minimal value of the credit.

The main source for financing the acquisitions or the houses modernizations in Romania, in this moment, remains *the real estate/mortgage bank credit*. The conditions regarding the allocation of these credits by the Romanian banks can be found or on the websites of the banks from Romania, or on the websites of the publications that concern this domain. The characteristics of one real estate credit are: the destination, the purpose which for is solicited; the currency in which is contracted the credit; the value of the credit; the advance payment solicited; the interest rate; the commissions take by the bank; penalties; minimum venue solicited to the client; guaranties solicite d; endorsers; insurance policy solicited; requests regarding the evaluation report of the building; age conditions and stability of the work place of the client.

a) The purpose for the credit contraction. The destinations of the given credits can be: buying buildings, houses construction, as well as their renovation. Some banks assure financing for all three types of operations, while other back up only the building acquisition.

b) The currency in which is expressed the credit. The real estate credits can be expressed in lei, euro or dollars, some banks assuring the access to all three variants, as other ones reduce the possibilities to one or two of the currencies. Choosing between different currencies in which it can be expressed the credit must be made according to the rate of exchange evolution of the national currency against the foreign currency, the currency in which is made the payment to the seller of the real estate property, but also according to the currency in which is expressed the salary take n by the client.

c) The credit value. Some banks practice also minimal values, and maximum limit of the credit, other impose only one of these restrictions, according to some criteria, like the age of the solicitant, the value of the guaranties, the existence of some co-payers etc.

d) The credit duration. The maxim term for giving a credit is different according to the purpose of solicitation of the credit, usually between 5 and 30 years from the real estate acquisition, respective between 5 and 20 years in the case of the credits for renovation. As long as the credit

duration is larger, the payment rates will be smaller, but the incertitude regarding the venue realization from where are paid these rates will be larger.

e) The advance payment solicited. The majority of the banks solicit a minimal advance payment, according to B.N.R. norms, which is varying between 10% and 30% from the total credit amount. In March 2007, The Rule regarding credit risk limitation of the credits for natural persons, adopted by B.N.R., has eliminated the indispensability of assuring the credit advance, abrogating the 10/2005 and 20/2006 Norms, in which the credit institutions were obligated to solicit an advance payment of at least 25% for the credit of real estate investments.

f) The interest rate. As regarding the interest solicited by banks, there is a diversity of offers, both related to it's level, the moment of perception, and regarding the applied system (determinate or variable). There exist also advantages and limits for both base systems regarding the interest rate, determinate or variable.

g) Applied commissions. In the category of costs involved by obtaining a real estate bank credit must take into consideration also the commissions taken for different services made by banks: credit file analysis, credit administration/instrumentation. These are expressed in absolute amounts or in percents applied on the credit value.

h) Penalties for delay returning of the expiration rate. To discourage the delay tendency in the payment of the expiration rates, banks applies penalties for the period in which wasn't paid the amount due, usually expressed according to the level of the overdue amount. Some banks apply penalties for advance returning of the credit, usually applied to the value of the amount of money returned over the monthly payment rate.

i) The minimum venue solicited to the client. Banks practice different systems for taking into consideration the minimum solicited venue. In some cases there is the possibility to take into consideration also the cumulated venues of the family members.

j) Real estate guarantee. Closing an assurance policy is obligatory, but there exist differences regarding the methods where through this is made: or the client assures the house to the assurance society chosen by him, or the assurance cost is included in the interest and is paid by the bank, this being realized only to assurance societies approved by the bank, being declared as free assurance (which the client doesn't pay it independently, but it exist in the credit cost).

k) The assurance in case of decease of the client. Some banks impose the closing of one extra assurance, inaptly named “lively”, within the bank is protecting against the decease risk of the solicitant, what makes to be about a decease assurance. In some cases, banks are much more prudent, asking also assurance for permanent/temporary invalidity. (Dragot , V., â u, L. and others, 2005)

l) The evaluation of the acquisition property. The evaluation is made by a bank evaluator or approved by the bank, but there are also cases (for small value credits) when the bank doesn't impose the evaluation or accept also an internal evaluation.

m) The age and the credit solicitant occupation. It is used the stabilization of the minimal limit of the credit solicitant age, of the maximum age or both of them. Sometimes it is also important the type of activity taken by the debtor. Also, it is possible to impose certain stability to the work place, directly or limiting the number of work places changed in the last few years.

n) Endorsers. In some cases, banks can solicit the existence of some endorsers to give the credit or can offer, as a facility, the possibility to cover the percent of over 100% from the guaranty value with the real estate goods value that the endorsers have. In Romania, the banks consult a data base administrated by B.N.R., called The Station of Bank Risks, to verify the declarations of the natural persons, potential clients and their endorsers. In this data base are inscribed all the persons that had solicited and received credits from the banks from Romania, existing the possibility to verify the way in which these had accomplished their obligations until that moment.

o) The mortgage on the immovable. All real estate credits that are given, concern mortgage on the bought immovable, which in some cases must cover over 100% from the credit *va lue* (the credit plus the interest for a certain time period). The mortgage is a real claim on the real estates affected on the paying of one obligation, that doesn't involve the dispossession by the good brought

in guaranty period of that that close it. The bank practices the conventional mortgage, which supposes the volition accord of the parts. As the credit develops, even if it was paid a part of the debt, the mortgage will still exist on the entire real estate. (Ciuma , C. and others, 2006)

## THE APPLICABLE LEGISLATION REGARDING THE MORTGAGE CREDIT

The mortgage credit is settled by the Law no. 190/1999 regarding the mortgage credit for real estate investments, O.U.G. no. 200/2002 regarding the mortgage credit societies, O.U.G. no. 201/2002 for the modifying the Law no. 190/1999, the Law no. 541/2002 regarding the saving and lending in collective system for the locative domain and the Law no. 34/2006 for the modification and for completing the Law no. 190/1999. In the Law no. 190/1999 regarding the mortgage credit for real estate investments is taken into consideration the following aspects:

- the mortgage credit and its guaranty;
- the institutions that give mortgage credits and the persons that can beneficiate by the mortgage credits;
- the mortgage credit contracts and the assurance contracts;
- the execution of book debits of institutions that give mortgage credits;
- the cession of the mortgage and privileged book debits and their transforming into value titles.

The object of the mortgage credit is the financing the construction, buying, rehabilitation, consolidation or expansion the real estates with locative, industrial or commercial destination. The credit is given for minimum 5 years to the juridical persons, respective 10 years to natural persons. O.U.G. come back on this restriction and filled this stipulation mentioning that it is possible to accept shorter periods of the mortgage credit, of the express demand of the client. Also in the same restriction it was specified that the loan can be expressed in lei or into a convertible currency. (Dragot , V., â u, L. and others, 2005)

The institutions that can finance these credits are the universal banks and mortgage credit banks, the National Housing Agency, the mortgage credit societies and any other entities settled within special laws to give mortgage credits for the real estate investments. According to the Law no. 152/1998 regarding the foundation of the National Housing Agency, modified within the Emergency Ordinance, no.105/2005, can benefitate for credits for building a house within A.N.L. natural persons with Romanian citizenship domiciled in Romania, regardless of the age, giving facilities for the payment before the term.

The mortgage book debts that are part of one authorized by law institution portfolio, can be cession to other institution of the same time or to other authorized institutions and settled in this purpose with special laws. This operation must be notified in at most a 10 days term to the client which it was given the mortgage contract. In the case in which the releasor and the releasee don't agree in other way, the mortgage credit refund for real estate investments will be made by the releasor, whom action as mandatory of the releasee. The releasor will give to the releasee the amount obtained, and the expenses generated by the receiving and transmitting the sums will be supported by the releasee in the limit of the amount determinate within the cession contract of the mortgage book debts.

The 2002 year brought fillings in the legislative plan, regarding the institutions which can finance the investments in the locative domain, within the Law no. 541/2002 regarding the economy and the lending in collective system for the locative domain. It is about:

- savings bank for the locative domain – defined as banks or saving banks authorized to function according to Law no. 541/2002 and according to the legislation.
- banks for economies and lending in collective system for the locative domain, to which it is possible to constitute deposits, under whom it is possible to give credits with fix interest for activities in the locative domain.

Practically, it creates a dependence relation: the client of the saving bank for the locative domain had saved a certain amount of money and under the client quality receives the right to

contract a credit to cover the difference between the total amount that he needs and the amount already saved. In the case of the other representative financial institutions, doesn't exist this condition for giving the cumulated mortgage credit. The law refers to the possibility of given a credit, at the market interest, to the client that didn't cumulated the minimum amount of saving established with the saving-lending contract, to which is paid only the interest and which will transform in credit with determinate interest in the moment of filling all the conditions stipulated in the contract. (Dragot , V., â u, L. and others, 2005)

The Law no. 34/2006 for modifying and completing the Law no. 190/1999 had brought some important modifications regarding the legal frame of the mortgage credit, mainly, the access of the un-resident Romanian citizens and of the foreign citizens for buying real estates under some loans that can be given by authorized institutions. Also, according to the new law, the refunding can be made only with a new mortgage credit for real estate investments, which will be guaranteed with the mortgage on the immovable object of the real estate investment, for whom financing it was previously given the mortgage credit of which refunding is financed. Of course, the law sees also the possibility to transfer the mortgage on the other immovable, within the parts agreement, given in the authentically form. The degree of the mortgage transferred on the new immovable will be determined from the entry date of the new mortgage in the Landed Book. Also, the Law no. 34/2006 sees that, for the opposability of cession for third persons, less the underwriter, must be made its entry to the Electronically Archive of Real Estates Guaranties.

## CONCLUSIONS

In the evaluation of activity in generally and in estimating the market values in privately, knowing the market on some real estate property helps to choose the investigation criteria, selection and interpretation of the comparability with other properties. Sellers and buyers of real estates properties interaction on different aspects/segments of activity, for different reasons and as regarding different types of properties. Consequently, the real estates markets are shared in segments based on differences between properties types and on their attractiveness against the participants on the market. All real estates markets are influenced by attitudes, motivations and interactions of sellers and buyers which, are under the action of some social, economical, governmental or even physics influences.

The reality from the real estate market is transforming in time, as consequence of evolution of the market conditions and of the persons aspirations. A real estate market must assure the development or the space contraction for satisfying the condition from a changing economical environment. This change must follow the individual objective satisfaction, also for natural persons as for juridical persons. In spite of all this, there are also moments in which this development appears as consequence of the general politics of the state.

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