



” First Flat Programme

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AMRON CENTRE ANALYSIS

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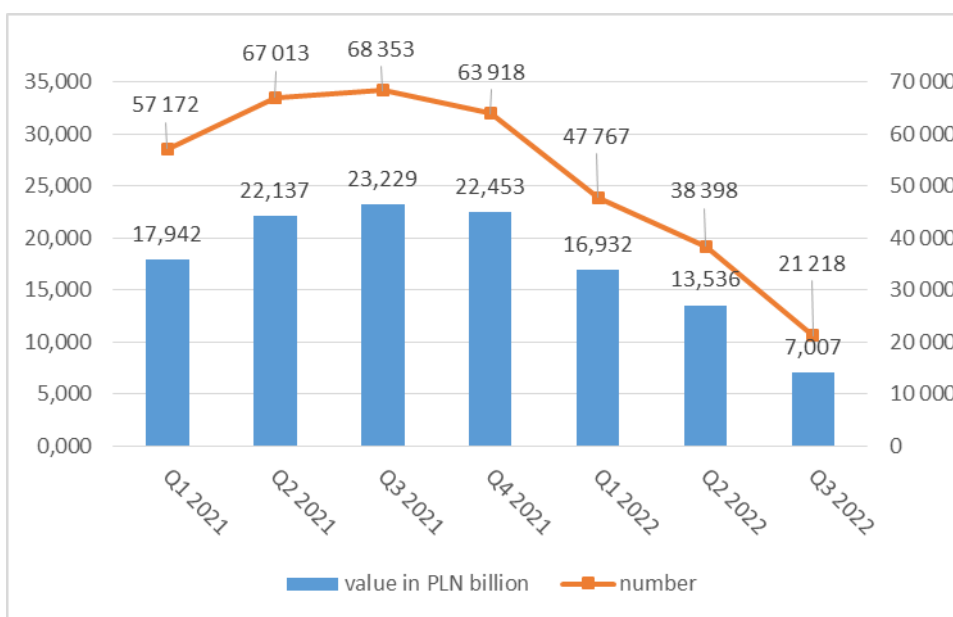




In mid-December last year, the Ministry of Economic Development and Technology announced the preparation of a new, comprehensive programme of support for people who want to buy their first flat. This programme will consist of two solutions, the first of which is addressed to people who are planning to buy an apartment now, the second to those who are planning to do so, but in a few years' time.

Safe Mortgage Loan 2% is one of the two components of the First Flat Programme. It will be a preferential loan granted at a guaranteed fixed interest rate of 2% (plus other credit costs such as margin), which means an interest rate 3-4 times lower than the current offerings of commercial banks. This solution is intended to help in improving creditworthiness. The recommendation of the Polish Financial Supervision Authority, which has been in force since April last year, that obliges banks to accept a minimum change in the interest rate level by 5 pp in the process of assessing creditworthiness, has significantly reduced the creditworthiness of many people. In fact, this safety rule has resulted in many people not achieving creditworthiness with such an increased interest rate ceiling. As a result of the above recommendation, as well as the increase in interest rates by the Monetary Policy Council of the National Bank of Poland and rapidly rising real estate prices, the number of newly granted loans has fallen more than threefold over the past year – from 68 353 mortgage loans amounting to PLN 23.229 billion in Q3 2021 to 21 218 mortgage loans amounting to PLN 7.007 billion in Q3 2022. The new housing programme is expected to change the trend on the market.

CHART 1. NUMBER AND VALUE OF NEW HOUSING LOANS GRANTED QUARTERLY



source: self-study based on the SARFiN System data

The Ministry of Economic Development and Technology has announced changes to Recommendation S regarding the calculation of creditworthiness at fixed interest rate. For fixed-rate loans that are part of the First Flat Programme, the PFSA will reduce the interest rate level change buffer from 5% to 2.5%, i.e. prior to the entry into force of the current recommendations.

Safe Mortgage Loan 2% may be offered by all commercial banks that sign an agreement with Bank Gospodarstwa Krajowego. Loans that will be eligible for the programme have to present a market proposal for the cost of the loan, including both the interest amount, as well as the single instalment amount.



The government will finance part of the loan instalment, which is the interest rate difference of more than 2% through Bank Gospodarstwa Krajowego. Thus, the cost to the client will be the loan interest rate of 2%, the margin, commission and other fees associated with granting of the loan. The subsidy from the state budget can be received for 10 years. Proposed solution will apply to loans with decreasing instalments, therefore the loan instalment will remain at the same level even after a 10-year period. During the loan repayment, the instalments will firstly consist of the paid-up capital. Funds from the programme can be used for housing purposes, which means both the purchase of an apartment, as well as purchase of the land plot and subsequent construction of a detached house.

Programme will be addressed to people under the age of 45 who have not previously owned a property. Disposal of real estate will not entitle to qualify for the scheme. It was tentatively announced that owners of a fraction of a property not exceeding 50%, acquired by inheritance, in which they do not live, will be able to sign to the programme. The maximum amount of credit that may be obtained for a one-person household is PLN 500 thousand, while for married couples or a parent with a child it is PLN 600 thousand. The indicated amount does not include own contribution. If the loan is granted to a married couple, the age condition will have to be met by only one of the spouses. Among the assumptions of the program, there is no restriction on the price of 1 sqm of flat acquired, nor on the usable floor area of the property that will qualify for the subsidy. The purchased property can originate from both the primary and secondary markets.

The second element of the First Flat Programme is Housing Account. This solution assumes that the beneficiary deposits funds in the amount of PLN 500 to PLN 2 000 per month over a period of 3 to 10 years. If after this time the funds are used for housing purposes, the State will pay bonus at the level of the indexation rate. This index has not yet been precisely defined, but it has been announced that it will be equivalent to the inflation rate for a given year or the rate of increase in house prices, if it turns out to be higher than inflation. Therefore, if inflation falls, but real estate prices rise above inflation, the last-mentioned will be the reference for determining the bonus amount. Housing bonus will be calculated annually and disbursed once when the funds are used for apartment or house purchase or as a financial contribution to an investment, such as housing cooperative.

Housing Account is planned to be available for a person who does not own a dwelling and has not owned a property in the past (including a single-family house or a cooperative right to a dwelling). A person who lives in one small apartment with at least two of their own or adopted children may also be beneficiary of the programme (i.e. a dwelling of up to 50 sqm with two children, 75 sqm with 3 children and 90 sqm with 4, with no limit of sqm with 5 or more children).

There are two solutions that will make this programme attractive. Firstly, it is a commercially interest-bearing deposit in a bank (currently interest rate on deposits reach 7-8%). Secondly, it is the possibility of obtaining the aforementioned housing bonus reaching up to the value of the indexation rate. Housing Account provides flexibility regarding monthly deposits, there is no obligation to declare what sums will be paid to the account, as long as it is in the range of PLN 500 to PLN 2 000 per month. This financial instrument provides for the retention of the right to the bonus also in the event of a lack of deposit in one month of the year. What is more, Housing Account allows to accumulate funds for the purchase of an apartment for a child over the age of 13. If the collected funds are used to purchase an apartment within 5 years of the child reaching the age of majority, the bonus will be paid. According to the Ministry of Economic



Development and Technology, there is currently no other product in Poland or the world that rewards saving and gives such a high rate of return.

First Flat Programme is scheduled to start on July 1, 2023, which will be preceded by the introduction of the relevant act. The duration of the programme has not yet been specified, but it is intended to be a long-term solution. The assumptions of the First Flat Programme promise to be very favourable. Since the announcement of the programme, Safe Mortgage Loan 2% has been described as the cheapest loan ever, while Housing Account has been described as the best deposit on the market. Implementation of the programme will show how much it will boost mortgage lending and stimulate the housing market.



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AMRON Centre

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