European Commission

European
Construction Sector
Observatory

Policy measure fact sheet

Italy

First Home Guarantee Fund (*Fondo di Garanzia Prima Casa*)

Thematic Objective 1

March 2016

Implementing body:	Ministry of Economy and Finance (MEF) and Public Insurance Services Concessionary (Concessionaria Servizi Assicurativi Pubblici S.p.A. – CONSAP)
Key features & Objectives:	A Fund providing a state guarantee on mortgages for the purchase and/or renovation of the first home
Implementation date:	July 2014 – 2016 (month T.B.C.)
Targeted beneficiaries:	Open to anyone, although priority is given to young couples (<35), single parents, social housing tenants and individuals with atypical work contracts[1].
Targeted sub-sectors:	Real estate; Construction companies; providers of energy efficiency solutions; construction-products manufacturers
Budget (EUR):	EUR 670 million from the Italian national budget

In a nutshell

Since the onset of the crisis in 2008, Italian families have suffered from a drastic reduction in the availability of financial support for the purchase of their home. Indeed, in 2013, banks only issued EUR 21.4 billion worth of mortgages, compared to EUR 63 billion in 2007, representing a 66% drop[2]. In parallel, the Loan-to-Value (LTV)[3] applied to mortgages also decreased, from about 72% in 2011 to less than 55% in 2013. Families therefore needed a much larger deposit on the property in order to be granted a mortgage. Consequently, this has had negative repercussions on the broad construction sector[4], particularly on the real estate sub-sector. In fact, between 2007 and 2013, the number of residential real estate transactions experienced a 53.6% decline, as discussed in the Italy Country Fact Sheet.

In order to offset the downward spiral in the mortgage and real estate markets, the Italian government has introduced the First Home Guarantee Fund (FGPC), operational since early 2015. The Fund, with a triennial budget of EUR 670 million for 2014-2016, offers young families who are not creditworthy enough to qualify for a loan, a 50% state guarantee on their mortgage for the purchase and/or energy upgrade of their first home. The scheme has proved to be very successful up until now, with about 70% of Italian banks adhering to it. As of February 2016, the value of issued mortgages guaranteed by the Fund amounted to EUR 539 million. These figures suggest an optimal utilisation of the resources available under the initiative.

The scheme is generally seen as a remarkable improvement by all stakeholders, when compared to the previous initiative, the 2011-2014 *Fondo giovani coppie* (Fund for young couples). Indeed, the resources of the latter were grossly underutilised (only EUR 1 million out of 50)[5], mainly due to the low interest rates applied to the loans guaranteed by it, making them unprofitable and unattractive for the issuing banks. On the contrary, the FGPC applies market rates on mortgages, except for those granted to the specified priority categories of beneficiaries. However, stakeholder perspectives differ on this aspect.

General description

With regard to the governance and legal framework, the FGPC, was first announced in December 2013 by the Italian Ministry of Economy and Finance (MEF), and is supported by the Stability Law 2014 (*Legge di Stabilità 2014*). It is managed by the government's Public Insurance Services Concessionary (*Concessionaria Servizi Assicurativi Pubblici S.p.A.* – CONSAP) and governed by the Interministerial Decree of July 31st 2014 (*Decreto interministeriale del 31 luglio 2014*). The Fund became fully operational in early 2015, following the agreement between the MEF and the Italian Banking Association (*Associazione Bancaria Italiana* – ABI), which stipulates the conditions of adhesion to the scheme by financial intermediaries[6].

The FGPC was established as a measure to relieve the burden of the crisis from young families wishing to own their first home, and thus revive the Italian residential market. In particular, the FGPC aims to facilitate access to credit for the purchase and, if needed, renovation (namely with regard to energy efficiency) of a housing unit meant to be used as a primary residence.

The Fund was allocated a total amount of EUR 670 million for the triennial 2014-2016, and issues state guarantees up to a maximum of 50% of the value of the mortgage provided by the mortgagee[7]. Thus, the initiative allows banks and other financial intermediaries to easily gain access to the available liquidity in case the mortgager[8] should no longer be able to repay the instalments of the loan. The measure therefore gives the opportunity to financially precarious individuals who would not be creditworthy under actual market conditions (due to insufficient personal funds and/or low salaries) to obtain financial support through a risk-sharing mechanism. Indeed, it foresees the option for the financial institutions adhering to the scheme, to grant the beneficiaries the suspension of the reimbursement of the mortgage under mitigating circumstances. These include sudden redundancy, handicap and birth/adoption of a child. During this time, which was extended from one to three years with the Stability Law 2015, the Fund's guarantee sets off to temporarily cover for the non-payment. Subsequently, the mortgager has to reimburse the Ministry of Economy (represented by Consap in this case) the amount that was advanced by the Fund to the bank, plus interests[9].

In order to benefit from the scheme, applicants have to satisfy the following **eligibility criteria**[10]:

- They should not be owners of prior residential real estate;
- They should request a "first home" mortgage, which should not exceed EUR 250,000;
- The property in question should not be classified as luxury apartment or villa (i.e. it should not belong to the A1, A8 and A9 cadastral categories), and its energy class should preferentially be type A, B or C;

Access to the Fund is open to anyone who complies with the above requirements. However, in case of multiple applications received on the same day, priority is given to:

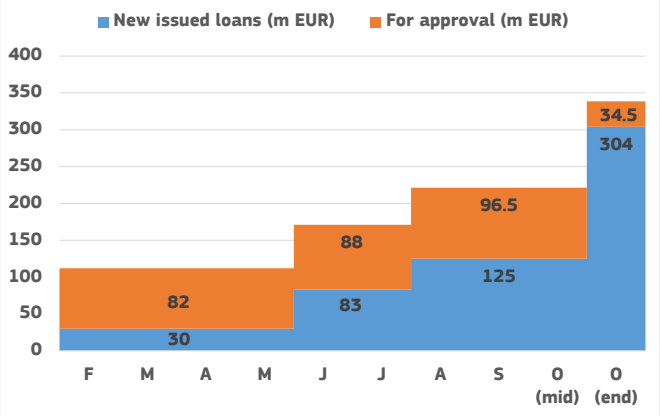
- Young couples with or without children, with at least one member under the age of 35;
- Single parents with at least one underage (<18) child;
- Young people under the age of 35, holding a so-called "atypical work contract" (i.e. which does not entail the same level of stability and security of full-time unlimited contracts);
- Social housing tenants.

For these **priority categories**, the value of the interest rates on the mortgages that will benefit from the guarantee of the Fund cannot exceed the average interest rates recorded by the MEF. For all other mortgages, interest rates and conditions are to be negotiated with the bank issuing the loans.

Expected or achieved results

The Fund has experienced a very positive uptake since its launch, particularly from young couples. Indeed, **53%** of the mortgages were issued to applicants under 35 years of age, in line with the targeted beneficiaries of the scheme. In addition, about 90% of the funding requests was for the purchase of the first home, with renovation and energy upgrades accounting for the rest. The results achieved in 2015 in terms of the value of issued loans guaranteed by the Fund, as well as loans pending approval that will be covered by the state guarantee, are displayed in Figure 1 **Error! Reference source not found.** below. Overall, between February 2015 and February 2016, the value of mortgages issued amounted to over EUR 539 million[11]. In general, it is foreseen that the Fund could guarantee mortgages up to a total value of EUR 12-15 billion.

Figure 1: Value of new issued/pending approval loans (2015)



Source: Associazione Bancaria Italiana (ABI), 2015.

The important surge in the values of issued mortgages covered by the guarantee shows the encouraging uptake of the scheme and goes in parallel with the increase in the number of financial intermediaries adhering to the initiative. Indeed, in January 2015, CONSAP reported 55 banks among the adherents. By October, this had reached 142, representing 70% of the Italian banking sector. In addition, subscribers are no longer limited to smaller regional and cooperative banks, but also include some of the largest national players.

According to the ABI, the reason for this high rate of subscription and for the ensuing increase in the values of issued loans under the Fund, can be ascribed to the recent clarification of the central bank (*Banca d'Italia*), stating that issuing a mortgage guaranteed by the Fund would enable the mortgager to request a loan of up to

100% of the value of the property to be financed (i.e. with a **Loan-to-Value ratio of 100%**). This exceeds the maximum LTV of 80% normally applied to mortgages, as established by CONSAP, provided that the loan does not go above EUR 250,000.

The scheme has significantly contributed to spurring access to finance, which had experienced a drastic decline since the onset of the crisis. Namely, the national residential mortgage market has increased by **97%** in 2015 compared to 2014[12].

Perspectives and lessons learnt

Despite its recent implementation, the FGPC has already shown very positive signs of success, representing a considerable step forward compared to its precursor, particularly with regard to its uptake and utilisation of the available resources. Indeed, the Fund's achievements are the result of a series of lessons learnt from the shortcomings of the Fund for young couples, in place between February 2011 and early 2014, and which can serve as best-practice for similar policy measures across the EU.

From the **perspective of the consumers** (the mortgagers), a **first positive lesson learnt** relates to the accessibility of the Fund's guarantee. In terms of income requirements, under the previous measure, applicants should have yearly incomes below EUR 35,000, 50% of which originating from "atypical" work contracts. This automatically excluded potential mortgagers that, though in financial need, had incomes above the maximum limit. These were therefore neither creditworthy enough to be granted a standard mortgage, nor poor enough to benefit from the support of the scheme. With the new FGPC, this barrier has been removed, thus allowing access to the measure regardless of the income level, to the advantage of the consumers. Furthermore, mortgagers need little or no initial deposit when requesting a loan under the new scheme, due to the possibility to be granted a mortgage with a LTV of up to 100%.

However, a **second lesson learnt** concerns the interest rates applied to the loans covered by the Fund. In fact, the FGPG foresees that, with the exception of the above-mentioned priority categories, mortgages should be granted at the market interest rate, as opposed to preferential rates, thus removing the advantageous condition for the mortgagers which characterised the Fund for young couples. Thus, banks are free to set their interest rates, as is the case for regular mortgages.

Despite being a negative provision from the consumer standpoint, from the **government perspective** it was an attempt to stimulate financial institutions to adopt the measure and offer it to the targeted mortgage seekers as a concrete alternative to traditional loans. This was the primary reason for the failure of the Fund for young couples. Indeed, from the **perspective of service providers** (banks and other financial intermediaries), the artificially low interest rates imposed by the scheme did not make mortgages issued through it profitable, since they decreased the profit earned by banks through the lending transaction. In fact, the interest rates had to be equal to the Eurirs[13] (Euro Interest Rate Swap) or to the Euribor[14] (Euro Interbank Offered Rate), plus a spread of 120 or 150 base points. This dictated a limit of 1.5% for interest rates on mortgages under the previous Fund. As a result, and because adhesion to the scheme was voluntary, banks were not incentivised to offer this option over their traditional products. Indeed, out of the available budget of EUR 50 million, only EUR 1 million was issued in guarantees over its implementation, with only 96 couples benefiting from it. The government's decision therefore contributed to boosting the uptake of the FGPC and ensured a better utilisation of public funds.

However, this issue highlights the difficulties often encountered by governments in aligning measures in favour of consumers with the perspective of financial institutions. In fact, despite the progress made in this respect, it is still common for banks to bind access to the Fund to the purchase of Payment Protection Insurance (PPI) policies which, though optional, have increasingly been imposed on prospective mortgagers as a necessary condition. This practice allows financial intermediaries to make additional profit upon issuing mortgages and to obtain an extra guarantee on the mortgage, on top of the one already provided by the Fund, possibly to compensate for the potentially higher risk linked to the LTV of 100%. Thus, as a **third lesson learnt**, it is important for the government to ensure higher levels of customer protection as part of these transactions, to avoid defeating the purpose of the Fund and offsetting the positive outcomes.

The FGPC is also seen positively from the **construction industry perspective**. According to the National Association of Building Contractors (*Associazione Nazionale Costruttori Edili* – ANCE), the deep crisis that has struck the construction sector can significantly be ascribed to the cut in bank financing to the real estate sector, including both companies but especially families at the end of the value chain. In particular, the reduction in investments in the construction of new residential properties, as well as the fall in real estate prices and transactions, have been severely affected by the drop in mortgages issued by Italian banks. Reinstating purchasing power to families through financing schemes such as the FGPC therefore paves the way for the recovery of the broad construction sector as a whole. Indeed, directly rekindling the real estate sector through the FGPC will also eventually benefit construction companies and construction-products manufacturers, since the scheme does not restrict the property to be financed to the secondary market, and could therefore stimulate the construction of new buildings in the future.

Finally, the FGPC preferentially supports the financing of properties with good energy-performance ratings, as specified in the eligibility criteria. This can in turn contribute to steering the construction sector towards new markets, namely renovation and energy efficiency, which have been identified as the way forward

for the revival of the industry, in line with what is reported in the Italy Country Fact Sheet.

All in all, the FGPC is an efficient and easy-to-access instrument (beneficiaries can simply apply by filling out an online form, available from the websites of the Ministry of Economy, Consap or adhering banks[15]).

However, two **recommendations** can be made. Firstly, the government should insure that the recovery of the real estate market goes hand in hand with the financing of construction companies for the construction of new buildings, which is currently still lagging behind. This would avoid inflating demand without stimulating supply. Secondly, Italian regions could invest their resources into the national FGPC, instead of creating their own regional instruments (which is often the case in Italy), thus contributing to expanding the Fund's budget and its geographical reach.

Comparison with other analytical sources

This Fact Sheet concurs with other analytical sources:

- Country Fact Sheet Italy[16] in the sections:
  - Access to housing;
  - Access to finance;
  - National & Regional Policy & Regulatory Framework;
  - Outlook.

Endnotes

[1] Atypical work contracts include a number of different types of work contracts that are not full-time and unlimited. They include fixed-term contracts, part-time contracts, occasional/seasonal contracts, project-based contracts, etc.

[2] Associazione Nazionale Costruttori Edili (ANCE), Osservatorio congiunturale sull'industria delle costruzioni. July 2015.

[3] The Loan-to-Value is the ratio of the mortgaged amount to the appraised value of the property

[4] The broad construction sector includes the following sub-sectors: construction (NACE F), real estate activities (NACE L), architectural and engineering activities and related technical consultancy (NACE M) and certain manufacturing sub-sectors (NACE C) related to the construction sector.

[5] Il Fatto Quotidiano, Fondo mutui prima casa, pronti soldi e garanzia statale. Ma le banche latitano. January 2015. http://www.ilfattoquotidiano.it/2015/01/15/fondo-mutui-prima-casa-pronti-soldi-garanzia-statale-banche-latitano/1309731/

[6] Associazione Bancaria Italiana (ABI), Fondo di garanzia per i mutui prima casa. https://www.abi.it/Pagine/Mercati/Crediti/Crediti-alle-persone/Mutui/Fondo-di-garanzia-mutui-prima-casa.aspx

[7] The mortgagee is the financial institution (e.g. bank) that lends money to the borrower.

[8] The mortgager is the recipient of the mortgage, i.e. the borrower.

[9] ADUC (Associazione per i Diritti degli Utenti e Consumatori), Nuovo fondo di garanzia per i mutui 'prima casa': chi può fruirne e come. October 2014. http://sosonline.aduc.it/stampa/?id=22577&settore=90001

[10] Ministry of Economy and Finance, Fondo di garanzia per l'acquisto e ristrutturazione prima casa. http://www.dt.tesoro.it/it/attivita_istituzionali/interventi_finanziari/misure_casa/fondo_garanzia.html

[11] Associazione Bancaria Italiana (ABI), Banche: Abi, dal "Fondo garanzia prima casa" è boom mutui con oltre 539 milioni di euro in un anno. Dal "Fondo casa" oltre 338 milioni di euro di nuovi mutui a giovani coppie. March 2016. https://www.abi.it/DOC_Info/Comunicati-stampa/Fondo_garanzia_prima_Casa_5_3_2016.pdf

[12] Ibidem.

[13] Eurirs is the reference interest rate calculated by the European Banking Federation (EBF), indicating the average interest rate at which major European banks enter into swaps to hedge the interest rate risk.

[14] Euribor is a daily reference rate, published by the EBF, based on the interest rates at which Eurozone banks offer to lend unsecured funds to other banks.

[15] Form available at: http://www.dt.tesoro.it/export/sites/sitodt/modules/documenti_it/interventi_finanziari/interventi_finanziari/istanza_fondo_casa_2.pdf

[16] European Construction Sector Observatory, Country Fact Sheet Italy, February 2016, http://ec.europa.eu/growth/sectors/construction/observatory/index_en.htm