

Crediting for youth housing

Introduction: the program background

The demographic situation in Ukraine is deal of life and death of Ukrainian nation. Our Verchovna Rada (VR) has had special sitting devoted to the demographic crisis. According belief of parliamentarians “The deep demographic crisis is not only serious brake of social and economic development but is treatment for national safety” VR (2003). Among other measures VR recommends to provide support for youth families by promotional taxation and crediting for families depending on number of children and by expenditures increasing for favorable long-term credits on housing (see Clause 6 of mentioned above document). Burns L. et al. (2001) find relation between birthrate and hosing constructions in postwar America. Therefore implementing of promotional policy for youth families crediting to buying (constructing) of habitation is one of the promised way for improvement of demographic situation in Ukraine.

For setting up the legal basis for conducting of youth policies VR adopted “The Low of Ukraine about Promotion of Social Establishment and Development of Youth in Ukraine”. Our government has enacted number of decrees with purpose of enforcing before mentioned acts of Verchovna Rada. I can point out that following act of CMU deals with crediting for youth housing:

- Act of Cabinet of Ministers of Ukraine (CMU) “About adoption state program for provision housing for youth in 2002-2012 years”;
- Act of CMU about granting procedure on promotional long-term crediting for young families and for single young citizens to building (reconstructing) or buying of habitations.

In year 1998 CMU formed State fund for promotion of youth housing.

Program description

The eligibility criteria for getting credit were established by CMU (2001). For participating in program applicant should to:

- be up to 35 old;
- be in list of needed for housing;
- be able to pay initial payment in amount at least of 6 percent of whole expenditure;
- have sufficient income to pay credit back;
- have no tax liabilities.

The participants on the crediting program can yield the following benefits.

- the interest rate on crediting is 3 percent per year;
- one child family pay no interest;
- two kids family have additional discount of 25 percent of whole sum;
- the family with 3 children will pay only 50% of credit.

Other features of the program are:

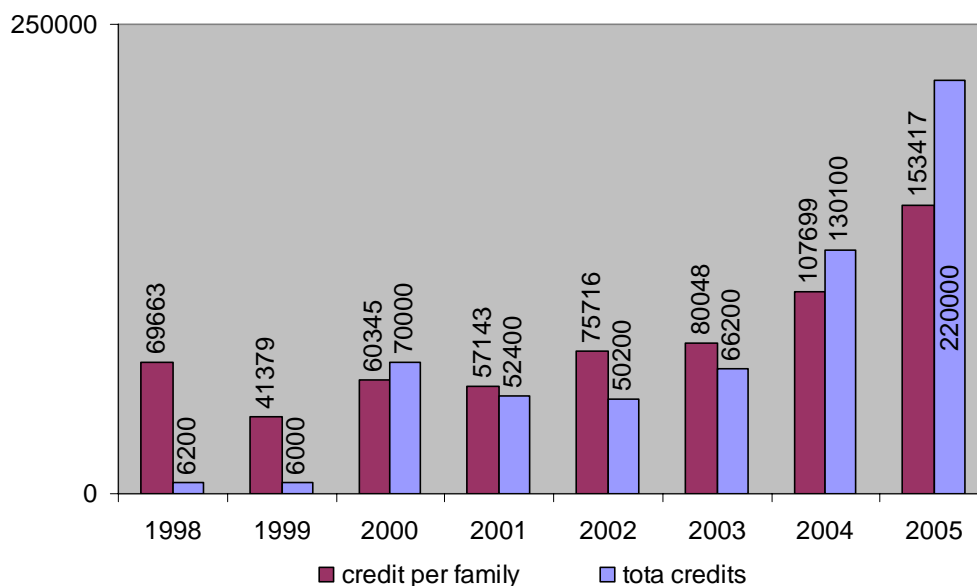
- the loan can spread up to 30 years;
- as the mortgage stands acquired housing;
- borrower should get insurance on hosing (3%-7% cost of the whole sum).

There was some difficulties by analysis of data. At first, the entries format in of State budget was changed several times*. Moreover in State budgets for years 1998 and 1999 VR did not included expenditure for promotional crediting of youth. After year 2003 there was introduced possibility for interest compensation on loans from commercial banks. At second there exists discrepancy between data from State budget and from CMU (2005). One of the explanations is that only part of expenditures was directed for promotional crediting.

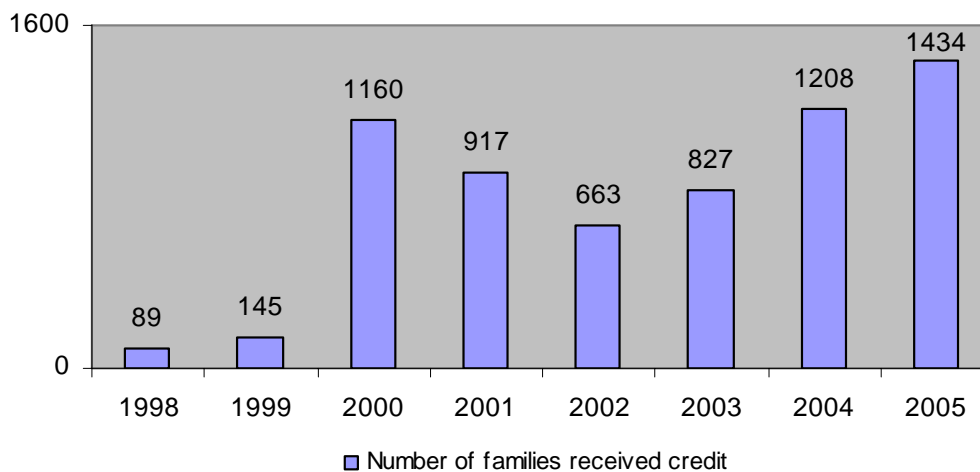
Nevertheless, after analysis of available date I compose two tables. Table 2 (see Appendix 1) provides cost on state budgets for years 2000-2005. Table 3 (see Annex 3) gives actual spending.

* (This includes as well changing the financed institutions: in 2000 versus 2001-2005 as introducing for State budget 2005 "growth expenditures" instead of "capital cost" in earlier State budgets)

The following graph shows steady growth of government expenditures on the program financing. In early years (1998 and 1999) the costs were very little. Since year 2000 VR provide special entry in State budget and spending for promotional crediting of youth increase. In years 1998-2003 the average loan was near 75000 gryvnas. In next periods is expected increasing of this sum. This tendency is related with rising of prices on real estate market.



The second graph depicts number of families that receive credits for housing. From 1998 to 2003 only 3801 families have got credits. Should indicate that after promising start the program met difficulties in 2002 and 2003 when prices for constructing materials begun to increase and number of participants decreased. In next periods government expects that number of families that will get housing credit will be above 1200 in 2004 and near 1500 in 2005.



Incidence of the program

Using reliable assumptions and simple calculations we find this program is orientated for householders with income that is above then average one Let see:

- There are required 9-21 square meters per capita per capita (often get 21 due to hope that number of family members may increase) plus 13 sq.m. for family itself. Taking 15 square meters per capita I calculate needed premises area.
- The average price of 1 sq.m is about 1600 hryvnas (in fact state fund takes local average prices it can slowly differ in different towns and cities).
- Monthly fee is calculated for 30 years loan.
- Utility costs are spending on electricity, heating and others utilities.
- The minimal monthly expenditures are the sum of utility costs and for loan servicing. There is demanded that this sum was no less than one half of legal income of family (according talk with representatives of fund). According to this I calculated the minimal family's earnings before taxation (EBIT).
- By calculating net income per adults I assume that family has two working parents.

Resuming calculations (see Table 1) should be pointed out that the two person families without child are the better of from others types of recipients. Moreover income of adult members of this family type should be no less then 400 gryvnas while other for members of other kind of families have to earn no less then 530 gryvnas.

Till year 2004 only 4 percent of applied families receive housing credit. The influence of program on real estate market is tiny little. In year 2003 the head of the fund, Valeriy Omelchuk, clamed that the number of families submitted documents for credit is near 100000 while only 60 percent of potential participant on program had earnings about 100 gryvnas per month per person* .

* For the reference see interview with

www.kmu.gov.ua/control/uk/publish/article?art_id=1643408&cat_id=436023

Table 1.

Calculated parameters for crediting

Family size	Premises	Price	Min. initial fee	Discount	Rest	Monthly fee	Utility costs	Sum columns 7&8	Net income	EBIT	Adults EBIT
1	2	3	4	5	6	7	8	9	10	11	12
1	28	44800	2688	-0,03	43375	120	112	232	465	558	558
2	43	68800	4128	-0,03	66612	179	160	339	678	814	407
3	58	92800	5568	0	87232	242	200	442	884	1061	530
4	73	116800	7008	0.25	82344	229	240	469	937	1125	562
5	88	140800	8448	0,5	66176	184	300	484	968	1161	581

The overall level of wages in Ukraine is too low, while unemployment too high. There is the little number of families where adults legally earn above 530 hryvnas per month. Moreover in families with little kids often work only one parent. This leads to impossibility to participate in program.

Moreover, the fund faced with scarcity of financing offer credits to those families that pay higher initial fee^{*}. As result the actual beneficiaries of this crediting program is upper middle class (the borrowers take cheap credit and can spread free money on consumption or profitable reinvest it over long period of time) while families with lower and middle level of earnings cannot take benefits from participation in this program.

* According to the conversation with representative of the fund a family that deposits higher initial fee has greater chance to be the first in line among other borrowers

Conclusion

After this little investigation of described program of promotional long-term crediting for young families housing I should point out following features of this program.

1) Insufficient financing as well at state as at the local levels causes a pure performance of program.

2) Is not clear the main purpose of program. CMU (in Act about granting procedure) relay on clause 10 of Law of Ukraine about promotion of social establishment and development of youth in Ukraine. But this Law does not introduce any purposes of this program.

3) The impact of program on housing market is little due to relative quantity of participant is too low to have some influence on the market.

4) The social sense of is poor. The actual participant is upper middle class that take benefits from this program. This kind of families without help of state institution can use credits of commerce banks. The government rather should provide policy for decreasing interest rates on housing constructing.

I think the authorities have to decide how much and in what kind government can intervene in market for promotion on youth housing crediting and then provide sufficient expenditures.

References

Burns L., Catron-Sullivan, S., Holcombe, J., Spinks, A., Thompson, S., Waite A., Watts-Edwards M., Welling D., Spring 2001, *ATLANTA HOUSING 1944 TO 1965*, Case Studies in Historic Preservation, Georgia State University

[hpd.dnr.state.ga.us/assets/ documents/atlanta_housing_1944-65.pdf](http://hpd.dnr.state.ga.us/assets/documents/atlanta_housing_1944-65.pdf)

Кабінет Міністрів України, Постанова від 29 травня 2001 р. N 584 Про порядок надання пільгових довготермінових кредитів молодим сім'ям та одиноким молодим громадянам на будівництво (реконструкцію) і придбання житла із змінами, внесеними згідно з Постановою КМ N 246

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КМ N 1065 ([1065-2003-п](#)) від 17.07.2003, N 420 ([420-2004-п](#)) від 31.03.2004, N 988 ([988-2004-п](#)) від 28.07.2004)

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Закон України “Про державний бюджет на 2005 рік” (проект, поданий до розгляду у першому читанні)- Том 2, ст. 145

Appendix

Table 2

Cost budgets spend on program (according entries of State budgets on years 2000-2005)

Year	Common fund		Special fund			total
	Total	Including current expenditure	total	Including current expenditure	where capital cost	
2000	70000	70000				70000
2001	70000	4200	65800	3758,2	3758,2	73758,2
2002	77000	4 620	1593,9	95,6		78593,9
2003	70500	9230	3 013,0	180,8		73513
2004 plan	14 600,0	14 100,0	500			14600
*	4600	4100	500			4600
**	10000	10000				10000
2005 project	20 000	4600		900***		20000
*	5 500	4600				5500
**	14 500			14 500***		14 500

* Financial support of State Fund

** Partial interest compensation on loans from commercial banks

*** Expenditure for growth

Table 3 Historical trends

Year	Credits	Number of families	Loan per family
1998	6200	89	69663
1999	6000	145	41379
2000	70000	1160	60345
2001	52400	917	57143
2002	50200	663	75716
2003	74752	827	80048
2004 (planned)	130100	1208	107699
2005 (projected)	22000	1434	153417