



The use of European experience in mortgage lending in Russian conditions

El uso de la experiencia europea en préstamos hipotecarios bajo condiciones rusas

ERMILOVA, Maria [1](#) & USHAKOV, Denis [2](#)

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ABSTRACT:

The successful experience of mortgage lending in European countries, which is confirmed by the growth in the volume of mortgages, indicates the possibility of its use in Russia. The authors, analyzing popular mechanisms of "building-savings" system, argue about the possibility of its adaptation in Russian practice; propose to use for some categories of citizens as initial investments in the accumulation pension payments or mother's capital. The author showed in the process of using mother's capital in the system of «building-savings».

Keywords: market, mortgage model, credit, investment

RESUMEN:

La experiencia exitosa de los préstamos hipotecarios en países europeos, que se confirma por el crecimiento en el volumen de hipotecas, indica la posibilidad de su uso en Rusia. Los autores, al analizar los mecanismos populares del sistema de "ahorro en la construcción", discuten la posibilidad de su adaptación en la práctica rusa; proponen utilizar para algunas categorías de ciudadanos como inversiones iniciales en los pagos de pensiones de acumulación o en el capital de la madre. El autor mostró en el Proceso de utilización del capital de la madre en el sistema de «ahorro de edificios».

Palabras clave: mercado, modelo hipotecario, crédito, inversión.

1. Introduction and Literature Review

The research topic is relevant, since the mortgage in European countries and Russia is the main tool for housing market financing. For the countries of Europe, this, firstly, is due to its accessibility to the population, expressed mainly in the possibility of obtaining a mortgage loan on loyal terms. Secondly, mortgage lending has a long development history, has established itself as an effective tool. It should be noted that to date, the volume of mortgage lending in developed European countries is approximately 90% of the total amount of housing market financing. Interest rates range from 1,9-5%. In Russia, a

mortgage is not so affordable to the public tool. However, the lack of a developed system of housing finance has predetermined that only mortgage lending can allow citizens to buy housing in the short term. This led to the fact that now the share of mortgage lending has increased to 70% of the total amount of Russian housing market financing, and interest rates on such a loan range from 6.75% (under special programs) to 13%. At the same time, the issue of providing citizens with affordable housing is discussed at the state level, at the expense of mortgage development.

In connection with the poor development of mortgage lending in Russia, it is advisable to use foreign experience, including the experience of European countries. An important problem is the refusal to adapt the experience of foreign countries in the Russian conditions.

The purpose of the study is to formulate recommendations on the adaptation of certain credit mechanisms in Russian practice based on analysis of the European experience in arranging mortgage lending.

To achieve this goal it is supposed to solve the following tasks:

- analyze the experience of foreign countries;
- identify mortgage mechanisms that can be introduced in Russia;
- formulate recommendations on the process of introducing foreign mechanisms into Russian practice.

Mortgage lending was the object of a wide range of studies by both Russian and foreign authors. Being a popular instrument for financing the housing market, mortgage attracted the attention of many scientists in terms of analyzing the mechanisms for its implementation and using the experience of some countries in the mortgage systems of other countries.

Authors (Vitkovskaya E., Grinenko S., Grudtsyna L., Kozlova M., 2004, 2006) define the essence of mortgage lending as an aggregate of economic relations with regard to granting loans secured by movable and immovable property. Such an approach can be defined as general theoretical approach. It based on a general theory of finance.

According to another approach, the author (Zharkovskaya E., 2006) formulates mortgage lending as a process of long-term crediting under real estate (acquisition or construction of a real estate object). This approach can be defined as a bank approach.

(Nenasheva K., Uzhegov A., 2001) mortgage lending is understood as an economic and legal instrument by means of which the real estate pledged by the borrower becomes a reliable means of ensuring the return of the customer, the loans received to the bank. Thus, there is encumbrance of property rights. This approach can be defined as institutional approach. It based on the institutional theory in part of research on the procedure for encumbering property rights.

Foreign scientists are engaged in research in the field of analysis of mortgage lending for a long period.

Analysis of mortgage markets in terms of the models used, the mechanisms being implemented, are considered in the studies of European researchers (Poorvu, W.J., 2003; Wyman O., 2005). The papers describe the process of realizing mortgage lending, the advantages and disadvantages of various mortgage lending instruments.

Basten C., Koch C. (2015) assess the impact of various factors on the supply and demand of mortgages in selected European countries.

Estimation of the probability of delinquency of a mortgage loan or its non-payment depending on the use of insurance instruments is considered in the works of American researchers (Kevin A. Park, 2016).

Zhu B., Betzinger M., Sebastian S. (2017) consider how the position of monetary policy and the structure of the mortgage market affect the formation of house prices in European countries. Researchers (Scharfstein D., Sunderam A., 2014) present evidence that high concentration in mortgage lending reduces the sensitivity of mortgage rates and refinancing activity to mortgage-backed security yields.

Thus, mortgage lending is one of the most important financing instruments. However, a

large number of studies about the international experience of mortgage lending are conducted in Russia, since the national mortgage system is not sufficiently developed and the state faces the task of providing citizens with affordable housing, which, among other things, can be carried out through mortgages.

Hypotheses:

- the markets of European countries have enough development of a system of mortgage lending, within which various lending mechanisms are being implemented;
- the development of mortgage lending in Russia can be achieved by using the European experience;
- when adapting foreign experience in Russian practice, it is necessary to take into account those opportunities that have already been implemented in Russia and include them in the implemented mechanisms.

2. Research methodology

The study analyzed the development of housing markets in European countries. It is determined that European housing markets are very diverse and gradually return their attractiveness to investors. Table 1 shows the ratio of the cost of residential real estate to the level of income in European housing markets.

Table 1
The ratio of the value of residential property to the level of income in European housing markets

Markets with inflated prices	Underpriced markets	Price balance
Norway	Slovenia	Luxembourg
Denmark	Ireland	Austria
Belgium	Portugal	Italy
Spain	Germany	Iceland
Netherlands	Greece	Switzerland
Finland		Slovakia
France		
Sweden		
United Kingdom		

Source: Property prices: <http://gooper.ru/evropa>

Belgium, Norway are countries in which the cost of housing continues to grow. However, there is a high probability of changing the cost of housing with an increase in the interest rate on mortgages, changes in the income of both real estate agencies and development companies, and the state.

The cost of residential property was rapidly declining in Greece, Spain, Portugal until early 2015. For example, in Greece, according to official data, the price per square meter of housing for the period from 2008 to 2014 decreased by 33%. This is due to high unemployment (about 27%) and the deep economic crisis that swept the country in 2008. The incomes of the population have sharply decreased, and loans, on the contrary, have

considerably risen in price for the period of 2008-2010. At the same time, banks began to raise higher requirements for potential borrowers. Thus, these factors provoked a sharp decline in prices per square meter. At present, such real estate is extremely attractive for investors.

The German market offers low prices, which are formed due to the action in the country of various programs for financing and supporting the housing market.

The reconstruction bank uses its own funds to increase the financing of the reconstruction program for buildings. The program envisages the implementation of an investment agreement between the government, federal lands and municipalities to ensure the energy efficiency of social infrastructure facilities in cities, as well as buildings related to the housing stock. There is also an increase in funding for the initiative of the federal government "Economic factor - age" implies the reconstruction of housing in accordance with the needs of living.

The study found that the main tool for financing European housing markets are mortgage lending and own funds. The population and other investors to purchase housing actively use mortgage. Currently, in many European countries, the volume of mortgage lending in the total amount of financing for the purchase of housing is up to 90%. This can also be due to loyal loan conditions, interest rates fluctuate on average from 2-5% (table 2).

Table 2
Conditions of mortgage lending in European countries

Country	Loan amount	Loan terms	The size interest rate (average)
Germany	until 80%	until 20 years	1,9%-2,00%
Cyprus	until 60%	until 40 years	2,75%-5,00%
Portugal	until 60%	until 35 years	2,75%-4,00%
France	until 70%	until 25 years	2,10%-3,75%
United Kingdom	until 80%	until 35 years	1,90%-3,50%

Source: Data from the official websites of the Foreign Real Estate Agency Gordon Rock: <http://gordonrock.ru>; International Mortgage Broker Company Lowellfinance: <http://lowellfinance.com>

Low interest rates are explained by the country's high credit rating, determined by state policy aimed at providing conditions for housing acquisition in certain European countries. The received preferences, received by the borrower, even more attract him to use of the mortgage. Borrowers understand that they can get cheaper and sooner get housing.

Instruments of monetary policy with respect to the housing market, depending on the territory in European countries, are quite diverse.

For comparison, the table shows the Asia-Pacific region, where Russia is a part. These tables show that in Europe there is a serious state support for the housing market, especially in Central and Western Europe.

Moreover, in European countries, mortgages are available not only for the local population, but also for non-residents, which also reflects the efficiency of the mortgage market (Table 4). However, it should be noted that the global financial crisis, the impact of which is still felt by a number of countries, has had a negative impact on the possibility of providing mortgages to non-residents in some European countries - namely, Bulgaria and Montenegro. These countries curtailed the previous programs.

Table 3

Index	Asian-Pacific region (13 countries)	Central and Western Europe (15 countries)	Eastern Europe (19 countries)
RR	150(6.5)	221(8.5)	52(1.4)
Credit	4(0.2)	7(0.3)	3(0.1)
Liq	30(1,3)	4(0,2)	13(0.4)
Monetary total	184(7.9)	232(8.9)	68(1.9)
LTV	56(2.4)	11(0.4)	21 (0.6)
DSTI	20(0.9)	12(0.5)	9(0.2)
RW	14(0.6)	19(0.7)	9(0.2)
Prov	16(0.7)	10(0.4)	4(0.1)
Expro	11(0.5)	8(0.3)	1(0.0)
Prudential total	117(5.0)	60(2.3)	44(1.2)
Total	301(12.9)	292(11.3)	112(3.1)

Source: Shim I., Bogdanova B., Shek J & A. Subelyte, 2013. Database for policy actions on housing markets. Available from: http://www.bis.org/publ/qtrpdf/r_qt1309i.pdf.

LTV – maximum loan-to-value ratio and loan prohibition.

DSTI – maximum debt-service-to-income ratio and other lending criteria.

RW - risk weights on housing loans .

Prov - loan loss provisioning applied to housing loans.

Expro - limits on bank's exposure to the housing sector.

The data of the table show that in almost all analyzed countries, mortgages are available for Russian citizens. Even in countries where restrictions apply, with the approval of lending, its conditions are loyal. Moreover, in addition to the fact that the average Russian interest rate on the loan (fixed rates) are 11.83% according to the Central Bank, mortgage lending for non-residents is almost not developed, as well as the mortgage for residents for the acquisition of foreign real estate is not developed.

Table 4
Conditions of mortgage lending in European countries for non-residents

Country	The availability of mortgages for Russians	Fixed rate, %	Floating rate, %	The maximum mortgage size from the cost of housing
Austria	Available	from 3,4	from 3,1	until 60
United Kingdom	Available	from 3,2	from 2,8	until 70

Germany	Available	from 3,3	from 2,9	until 60
Greece	Available	from 4,5	from 4,2	until 60
Spain	Available	from 4,1	from 2,9	until 70
Italy	Hard-to-reach	from 4,2	from 2,9	until 70
Cyprus	Available	from 4,0	from 3,9	until 80
Latvia	Hard-to-reach	from 4,5	from 3,9	until 60
Portugal	Available	from 3,5	from 2,9	until 70
Finland	Available	from 3,7	from 3,3	until 60
France	Available	from 2,9	from 2,3	until 80
Czech Republic	Hard-to-reach	from 4,5	from 3,9	until 50
Switzerland	Hard-to-reach	from 2,0	from 1,8	until 65

Compiled by the author on the basis of Gordon Rock and Lowell Finance data

It is important to note that in Europe there is mainly a single-level mortgage lending system, the essence of which is that the bank that granted the mortgage independently issues bonded securities secured on the one hand by the mortgage issued and, on the other, by housing, which is mortgaged by borrowers to obtain a loan. Issue and circulation of mortgages is regulated by special legislation. Issuance of mortgage bonds is possible by the issuer, which is indicated in the legislation (mainly banks). The activities of mortgage banks are strictly controlled by the state and banking supervisors.

The use of such a model attracts investors with convenience, simplicity, and reduced risks. Such a system already has a positive implementation experience, effective tools. Elements of other systems - a two-tier model of the mortgage system, are being introduced gradually. Thus, the effectiveness of the model as a whole increases, and mortgages become more affordable for both residents and non-residents. Therefore, the experience is especially valuable for Russian practice.

3. Results

The study showed that from the point of view of use in Russian practice, the experience of Germany and France is most interesting. In the analytical tables presented earlier, it can be seen that in the German and French systems, mortgage-lending terms for both residents and non-residents are the most loyal. In the German mortgage system is implemented a system of "building-savings", which implies a gradual accumulation of the initial contribution, which is 50% of the cost of housing. Next, the remaining amount is provided with a mortgage loan.

It should be taken into account that interest is accrued on accumulated amounts, as for deposits. Mortgage loans to participants of such a system are provided for the remaining amount on loyal terms (reduced interest rates, a longer crediting period, etc.).

Thus, this scheme allows you to reduce a number of risks that the parties to the transaction incur (for example, the delay of a large amount of money. When using such a scheme, half of the cost will be credited to the mortgage account already. The loan amount, therefore, will not exceed 50% of the cost, which is less than for classical lending), to increase the

availability of housing, through accumulated funds and the issuance of mortgages on loyal terms.

The issuance of mortgages to foreign citizens is developed in French practice. Loans are made according to the "leaseback" scheme, in demand among non-residents of France, including Russians. The investment scheme implies the conclusion of an agreement under which the client, buying a house or apartment, leases the property to a developer company. Usually such an agreement is concluded for 7, 9 or 11 years. The contract also provides for the possibility of a free client stay in the apartment from 2 to 6 weeks per year. The main reason for using the mechanism in France is the influx of tourists, which is larger in volume than in any other country in the world. Citizens of France themselves often rent residential property for a long time - especially in the summer months. In any French bank, they are offered reverse lease schemes as long-term investments. Places in hotels are constantly in short supply. That is why the French government decided to encourage foreigners to invest in a "leaseback" scheme. It should be taken into account that a Russian citizen can acquire several "leaseback" projects in different regions, which will allow the Russian family and his friends to spend vacations, for example, in Paris, Normandy, Nice or the Alps at any time of the year. Thus, the client can also avoid the risk of reducing the demand for residential real estate in a specific location. It is important to emphasize that "leaseback" can be used in new or completely redeveloped areas of France, including Paris, Normandy, the Atlantic coast, the Mediterranean coast and southern France. In addition, many European countries have joined the "leaseback" program, so some of them also have "leaseback" projects. Both of these mechanisms can be attractive for Russian practice.

4. Conclusions and Recommendations

As can be seen from the table presented earlier, the cost per square meter of residential real estate in European countries is different. However, it seems possible to say that it can be compared with the cost of housing in the Russian regions. Despite a rather large gap in prices, European real estate is attractive for investors both for acquisition for own residence, and for investment purposes. In order to make Russian real estate attractive for investors and solve social problems (providing citizens with affordable housing, etc.), it is necessary to use foreign experience.

For the purposes of this study, it is proposed to adapt the German system of "building-savings". At the same time, maternity capital can be used as means of accumulation; pension payments of various citizens categories. Since these payments are public, this serves as a certain guarantee for the organizer of the system and allows potential borrowers to calculate the period through which they can receive a full initial payment taking into account those charges that are made within the system. Together, this allows you to reduce the risks that may arise for all parties to the transaction. The presence of government payments can become a guarantee and allow lenders to offer the most loyal conditions for mortgage lending (reduced interest rate, long-term loans, etc.).

So, in this study, we will examine how the author suggests using mother's capital in the system of "building-savings".

Mother's capital implies a certain measure of state support for Russian families with a second (third, etc.) child born between 2007 and 2018. One of the directions laid down in the program for supporting young families is obtaining such capital that can be used to improve living conditions, a pension for the mother or to pay for education. At present, the amount of mother's capital is 453026 rubles.

Let us consider in more detail the scheme proposed by the authors.

1 - the depositor (potential borrower) enters into an agreement with the Savings and loan bank to open a savings account.

1a - at the same time or in a later period, the depositor submits an application to the Pension Fund taking into account the fulfillment of all conditions, to receive mother's capital. Also the data of the savings account is transferred to the fund.

2 - savings and loan bank open savings account for the customer, interest is accrued on it for the storage period. Savings are made before reaching 50% of the value of residential real estate, which the investor intends to purchase.

2a - The Pension Fund transfers the mother's capital to an earlier opened account specifying in its documentation after checking the documents that the recipient chose to choose a variant of improving housing conditions.

3 - the depositor transfers funds to the savings account until the required amount is reached. Mother's capital allows you to shorten the period of accumulation, as well as receive interest payments from a savings account in a larger amount. As a result, the availability of housing in a shorter time and in some cases better quality (for example, a large area of housing) increases.

4 - the investor (potential borrower) enters into a mortgage loan agreement as soon as he accumulates 50% of the cost of housing. Savings and loan bank and mortgage bank can be in one person in the form of a universal bank.

5 - Money from the savings account together with the mother's capital is transferred to the mortgage account.

6 - the full amount of the value of real estate, taking into account the mortgage loan is transferred to the seller of real estate.

The transfer of mother's capital to a savings account is more preferable than to a mortgage account. This is because the savings account allows you to increase the total amount of savings due to accrual of interest. State funds - this is an additional guarantee for both the savings bank, and for the mortgage bank or universal bank, if they carry out both operations.

The study showed that the main sources of financing housing markets in European countries is mortgage lending, its volume reaches up to 90% of the total funding. It is advisable to use the European experience in Russian practice, which can contribute to the development of a mortgage lending system. The most optimal tool is system of "building-savings" for Russia. In connection with the existing Russian specifics of functioning of the mortgage system, it is appropriate to adapt this system in view of Russian features. The author shows how the cash flows can be moved in the system, taking into account Russian specifics and opportunities of the parent capital.

As for «leaseback» system, such a project can be implemented as a pilot in some regions, which are the most attractive in terms of tourism development (for example, Saint Petersburg, Kazan and others.). Then it is necessary to calculate the costs for the implementation of the scheme, taking into account regional specificities.

However, at present, it is most important for Russia to resolve the issue of social mortgages, that is, to provide needy citizens with affordable housing.

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1. Department of financial management, Plekhanov Russian University of Economics, Moscow, Russia; e-mail: masha080487@mail.ru

2. (corresponding author), International college Suan Sunandha Rajabhat University, Bangkok, Thailand; e-mail: denis.us@ssru.ac.th

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