



## **Socio-economic Aspects of Mortgage Lending for Housing Construction in Tatarstan**

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### **ABSTRACT**

This article describes the problems of regulation of mortgage lending under current economic conditions. Mortgage mechanism of housing acquisition is one of the highest priorities of the market economy system, and allows to create favorable investment climate. One of the key requirements of a long-term mortgage lending system is to ensure the availability of mortgages for people with middle income households. The system of mortgage lending should be of market rather than of subsidized character so that it should be completely transparent and understandable to all participants of the process of mortgage lending. However, the current legal regulation of the mortgage does not allow to solve the problem of meeting the housing construction needs of a large part of the population, particularly of low-income one.

**Keywords:** Construction, Mortgage, Credit, Market, Housing

**JEL Classifications:** I38, H41

## **1. INTRODUCTION**

### **1.1. Problem Setting**

Mortgage is currently one of the most effective tools for solving many important social, economic and legal problems existing in our country. In this context, the expansion of mortgage application should improve the reliability of investment and give impetus to housing construction of regions.

According to many experts, there are significant problems in the economic aspect in mortgage lending. These problems are very difficult to solve. But it is impossible to improve the efficiency of the mortgage lending without attempting to solve them. All of the above confirms the topicality of this study.

### **1.2. Latest Research and Publications Analysis**

Regulatory issues and housing administration were considered by Bessonova (Bessonova, 2011), Zagidullina, Romanova

(Romanova et al., 2013; Zagidullina et al., 2013; Zagidullina et al., 2013), Bagautdinova (Safiullin et al., 2012) and many others (Bakri et al., 2012; Sadeghi and Bozorgnia, 1994; Box and Jenkins, 1970; Cho, 2014). Problems of reforming and housing development in the regions and municipalities were investigated by Jiang (Jiang, 2012), Asaul (Asaul and Batrac, 2001), Xie (Xie, 2011), Rumaizah (Rumaizah et al., 2012) and others (Khasanov, 2014). At the same time, in conditions of modern realities of development strategy and implementation of the regional housing policy it still stuck at the early stages of its development and does not have the support. That is the importance of this strategy for the improvement of living standards (Yashin et al., 2015; Assanova, 2015).

### **1.3. The Research Objective**

The research objective is to analyze the problems of mortgage lending and considering possible ways to strengthen its role in the socio-economic growth of regions.

## 2. METHODS

The scientific and methodological basis of the study were: The legislative and other normative acts, the works of domestic and foreign scholars on mortgage lending; as well as scientific papers on economy, finance and housing construction.

The empirical base of the study were the legislative and regulatory acts of the Russian Federation and the Republic of Tatarstan; the official statistics; the analysis of the Ministry of Construction, Architecture and Housing and Communal Services of the Republic of Tatarstan, the Ministry of Economy of the Republic of Tatarstan.

The research work, dedicated to the problems of mortgage lending, was done by various authors. However, the problems of mortgage lending are almost exclusively understood as the problems of lending for housing construction. There are common speculations that say: "Mortgage allows any citizen to solve the housing problem," "mortgage - one of the currently available methods to own a house."

We believe that the mortgage is also one of the most effective ways to increase revenue. Profit growth is got at the expense of the collateral property, which remains at the disposal of the borrower. Therefore, to this aspect of the mortgage lending must also be paid special attention.

During the research work a variety of methods were used: Logical analysis, a systematic approach, the method of expert evaluations, and other retrospective analysis.

## 3. RESULTS

Every law can be analyzed from the standpoint of the economic model and paying attention to strategy for socio-economic security.

Consideration of the problems of such tasks is an independent problem (Krivtsov, Kalimullin, 2015).

A mortgage is a complicated contract. It is used as a second transaction (the "additional commitments") in addition to any underlying transaction (to the principal obligation). In this case, it refers to the implementation of two different contracts. It forms a complex agreement:

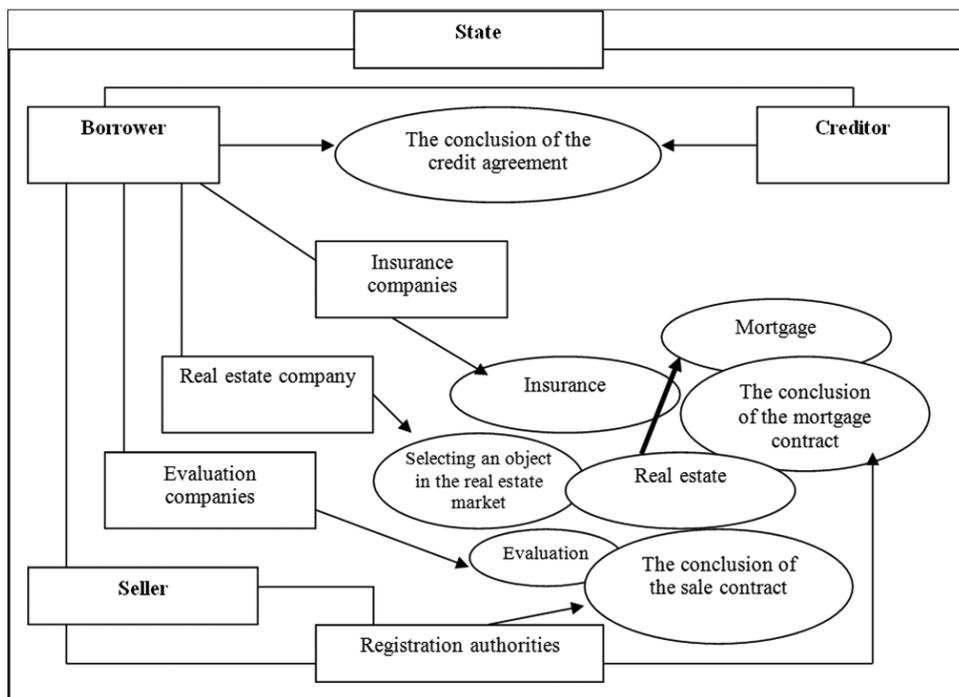
1. A contract for a loan or other "obligations;"
2. Agreement on the mortgage. This agreement is used to guarantee the complete calculation of the debtor with the creditor.

Thus, we come to the following circumstances. Firstly, a mortgagee should not be confused with a lender. A pledgee shall not receive any interest on borrowings. The price of a mortgage object, which is specified in a contract, is already covered by the loan and interest (Ajufov et al., 2015). Secondly, the funds received by a borrower are owned by himself. In this case, the price of an object completely covers the whole mortgage loan debt (along with interest). This is the purpose of the mortgage. Thirdly, if a loan is granted for the acquisition of new properties, rights to which are used for a mortgage, then a lender has different ways to ensure targeted use of the loan by the borrower.

### 3.1. The First Group of Problems

The main tool, by means of which the relationship between the subjects of the mortgage market are being built, is a credit agreement under which a lender provides the borrower with missing money to purchase real estate as collateral obligations. As a result, the number of participants in mortgage lending is much broader than in other types of lending. On Figure 1 the procedure for granting a mortgage loan and the relationship between the participants of mortgage lending at the

Figure 1: Diagram showing the relationship of mortgage lending at the conclusion of the loan agreement and the mortgage agreement



conclusion of the loan agreement and the mortgage agreement are reviewed.

In order to clarify the connection among the debt under the credit agreement and the mortgage agreement and the inadmissibility of the mortgagor to recover from any interest relating to the loan agreement, the following information is given into consideration. Let us name the value of the loan amount as  $S$ . The loan term ( $T$ ) is divided into  $n$  interest periods, by introducing the term of the period  $t_0$ ,  $n = T/t_0$ . Interest rate (in percent) for the interest period is denoted as  $\alpha$ . Then the debt under the loan agreement (the Central Committee) defined by the formula:

$$Rk = S + \frac{n \times \alpha}{100}, \quad (1)$$

Where  $(n \times \alpha)/100$  - the amount of interest accrued on the loan agreement for the period  $T$ .

To guarantee the repayment of credit debt, and as a fallback option for the calculating, mortgages are used. Let the contract price of the mortgaged property (thing) the value of flowers. Let us virtually divide this value into two components: The  $D_{AB}$  and, where  $D_{AB}$  - "deposits things."

From the condition of equivalence of debt under the credit agreement and the mortgage agreement follows:

$$S = D_{AB}, \quad (2)$$

$$\frac{n_0 \times \alpha}{100} = \Delta, \quad (3)$$

Where  $n_0$  - a limited number of interest periods, corresponding to the condition  $T = T_{ot}$  where  $T_{ot}$  - the duration of the suspensive period, the duration of which is an agreement on the mortgage. According to these equations the mortgagee does not receive "interest" on the loan agreement but the difference between the market price of the object of the mortgage, and "collateral costs" of the object:  $\Delta = C - D_{AB}$ . Moreover, public authorities are obliged to prevent impairment of the domestic real estate and see to it to comply with the terms  $D_{AB} > (0.7-0.8) C$ . If one examines the conditions of the Russian law on mortgages and the experience of its application, it turns out that instead of the specified limits depreciation of the domestic real estate, the law gives flawed condition  $D_{AB} < (0.6-0.5)$ .

Thus, the above legislative rule allows the creditor-mortgagee, on the one hand, to avoid duties and responsibilities laid, and, on the other hand, to apply versatile detriment to the citizens and state.

### 3.2. Let us Consider the Example of These Aspects of Mortgage Lending on the Acquisition of Property

Suppose that a citizen living on limited incomes, wants to use the market value of his apartment for financing of a new housing construction. Let the market value of the old property is "A." The question would be: How much (a fraction of the value of "A") the mortgagor can plan and actually (without artificially created risk) invest in new construction?

The mortgage law does not provide straightforward answer to this question. However, such an answer can be obtained by analyzing the text of the law.

A starting price to a citizen, which he seemingly can count on, is determined by the market value of its property in the mode of sale. The fact is that under the terms of the law a citizen must pay various fees at the cost of their property: Ships, the organizers of the auction, unforeseen expenses they mortgagee taxes and fees. This means that when planning the quantities of investment capital, he shall deduct these costs from the value of their homes. Moreover, he must understand that the lender will not give him the money without the cost of the threats that are created by the law on the rights of the mortgagee, not to mention the profits that he wants to get out of the deal.

It is not difficult to make sure that the actual amount, which our citizens can count on in case of mortgage taken, will be 2-3 times less than the selling price of the collateral.

"Profit" of lender may be about 10-15% of the mortgage value. The market value of the object can lead (objectively) to a reduction in prices by 10-15% in comparison with the real cost of sales, for example, within the semi-annual period. The discount income factor in the absence of government guarantees could lead to an interest rate of 10-15% higher than that which would correspond to the market value of real estate. In the absence of government guarantees insurance of real estate will fall on the shoulders of only commercial structures. In this case the insurance can "eat" even 15-20% of the market price of the property. About as many, if not more, will go to pay the costs of lawsuits and the organizers of trades, including evaluators.

Even in such a "set" of potential benefits and costs, we have depleted the above figures (2-3 times). But this is not the limit. The fact that the lender may not be able to confidently exercise their right ownership of the object of mortgage. Such "implementation" is worth money. If so, he must take into account the risk and evaluate this risk in money. One option of such accounting is discussed below. Such account can lead to a "cheapening" of the object of the mortgage by 20-30% of the cost. Subtracting all the potential costs of the lender on the market price of the object, we get the value of the loan that the lender will be able to provide the citizen to secure a mortgage of his property. This estimate of the mortgage citizen potential is referred to as being reduced, overpriced, excluding all facets of risk, that are provided in the law "on mortgage" (Romanova et al., 2013).

Obviously, the majority of the problems above-mentioned are largely concerned with the economic aspects of legal regulation model of the mortgage.

We have to underline once again that the citizens of the Russian Federation as the owners of privatized housing stock have a dwelling, not indebted to anyone (Romanova et al., 2015). Analyzed law effectively aims to deprive them of this quality. One cannot let it happen.

#### 4. DISCUSSION

Thus, taking into account the above-mentioned we can formulate the conclusion that all efforts at the federal level (by means of targeted programs aimed at certain categories of citizens) can not fully solve the problem of providing citizens with affordable housing.

The main objective of the development of long-term mortgage lending is to create an efficient system of providing affordable housing for Russian citizens with middle income households, based on the free-market housing acquisition without monopoly housing market at their own expense of citizens and long-term mortgage loans. The creation of this system will allow to: Increase the purchasing power of citizens and make housing affordable for the general population; strengthen the housing market; involve privatized housing to real economic turnover; attract savings from the public housing sector and other non-budgetary funds; ensure the development of the construction industry; to revive the country's economy as a whole.

The system of long-term mortgage lending in Russia should be based on existing international experience of mortgage lending; should be adapted to the Russian legislative framework and should take into account macroeconomic conditions (typical of transition economies), the limited solvency of the population, the high inflation. The system of mortgage lending should be based primarily on the efficient use of borrowed funds of citizens, commercial banks, lenders, investors, and less funding from the state budget. The pace and scale of mortgage lending development in the regions should be determined by the present economic situation in the region, the effective demand for housing and its supply, but also by the presence (or absence) of the need for regional regulatory framework and infrastructure.

The housing market was not provided with adequate credit and financial mechanisms that would support the purchasing power of the population and would permit the purchase of housing the population en masse. One must use the real conditions and opportunities that there are now in the regions to create the necessary institutional, legal and financial preconditions for the development of mass housing market and with using the state (municipal) regulatory mechanisms of social processes in this important sector of the economy (Sadyrtdinov et al., 2015).

The essence of long-term mortgage lending lies in creation of a market system of mortgage loans to citizens for the purchase of finished housing both in the primary (newly built housing sold by developers) and in the secondary (already available privately owned housing) housing markets. In most countries, the purchase of housing loans is not only a basic form of solving the housing problem, but also an area of economic activity, in which the key role is played by banks and other credit institutions. The state also has a supporting role by establishing common rules to ensure the effectiveness of interaction of all the parties in the process of mortgage lending, as well as the need for direct or indirect use of budgetary funds in order to attract more private investment to the housing sector and assist citizens in acquiring housing.

The current model of mortgage lending in Russia was created as a two-tier system: The right to claim credit is transferred to a specialized agency, which, in turn, attract investors' funds through the placement of securities. Regarding this model, it should be noted, that it can be used in the organization of the Russian mortgage market only partially, with certain restrictions and amendments, and provided more protection for citizens that buy real estates.

#### 5. CONCLUSION

In conclusion, it should be noted that the key conditions for the attraction of credit resources to the long-term mortgage lending in the country lie in creating the favorable economic and political situation, the development of the necessary legal and regulatory framework and improving the welfare of the population. One of the central issues is an affordability, i.e. the ability of citizens to acquire housing as the property at their own expenses and borrowed funds, to a large extent characterizes the level of development of society. Lack of effective demand, the gap in real incomes on housing prices, volatility of earnings - all of these factors adversely affect the ability of citizens to acquire housing, even with a mortgage loan.

Therefore, this article analyzes the mechanism of mortgage lending, which includes the provision of long-term housing mortgage loans by commercial banks and other creditors to citizens - borrowers.

Respectively, it should be noted that the study revealed the following fact: The contemporary mechanism of mortgage lending not only blocks the progressive nature of the mortgage use but also creates a wider space for misconduct involving the executive and the judiciary bodies which is not an acceptable condition. Especially flawed the mortgage would be for the people with middle income households, and especially for the poor. It leads nor to progress neither to regress. The main task, which is solved by means of this mechanism, is to ensure the most effective framework of interests of citizens that are homeowners. Protection of interests should be provided with two conditions to meet:

1. Mortgage of single property should be used only for the purpose of improving living conditions and should not be used for the purpose of depriving citizens of a single housing;
2. A single housing mortgage should provide a mortgagee with the reasons for the issue of derivatives based on mortgage and without prejudice to the rights of the pledgor.

Summarizing, we can conclude that the solution of the problem of meeting of the housing needs of the population can be successfully made according to the interest of society and the state, but it is necessary to radically revise the law on the mortgage taking into account above-mentioned comments.

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