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WAYS TO IMPROVE MORTGAGE LENDING MECHANISM

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A B S T R A C T

This article makes analyses of the ways to improve mortgage lending mechanism in the republic of Uzbekistan. Therefore, theoretical background of the topic was investigated with vivid examples at all. Examples of the mortgage with the structures of the topic were also mentioned in order to speculate investigation itself.

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A R T I C L E I N F O

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1. Introduction

Banks of the Republic of Uzbekistan today have developed and envision a range of mortgage lending programs. It is no coincidence that the issuance of a mortgage loan is recognized as one of the priorities of the state credit policy. Indeed, in any state with a developed economy, it is mortgage loans that are considered the main instrument of direction for the purchase of housing(Simon & Zhou, 2017; Universidade Taubaté Mestrado em Gestão e Desenvolvimento Regional, Grotta, & Junior, 2010). The provision of housing to the population is a priority socio-economic problem in countries with economies in transition. In the Republic of Uzbekistan, the ongoing changes in the economy in the direction of the development of lending to the population for the purchase of housing have changed the set of means by which this social task can be solved more effectively. One of the most important tasks is to ensure a stable income of borrowers. One of the sources of public funds for the purchase of housing is to become a mortgage loan. This form of financing is common in all countries with developed economies (Madritsch & Ebinger, 2011; Muhammad et al., 2012). With the help of this type of lending, a complex of economic tasks is now being solved in countries with transitional economies. However, the provision of this type of loan secured by housing requires the improvement of the mortgage lending mechanism. At the same time, an important aspect of public policy is the creation of conditions and institutional environment that will increase the availability of mortgage loans for borrowers. This includes a set of measures to regulate interest rates, taking into account inflation and the dynamics of the exchange rate of the national currency.

2. Theoretical background

The stability of the borrower's income and its liabilities is considered transparent if the maximum ratio of all long-term liabilities to its income and payments on a mortgage loan does not exceed the established norms. In this case, additional protection against credit risk should be the

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conditions for the buyer to make a down payment for the purchase of a house at his own expense. Such protection, firstly, reduces the risk of non-payment by the borrower of a mortgage loan. Secondly, by investing its own funds, the borrower will strive to reduce prices, and, therefore, increases the reliability of the property security of the loan(Li, Qian, Howard, & Wu, 2015).

Along with the credit one, it is necessary to take into account the interest risk - the possibility of depreciation of funds disbursed in the form of a loan as a result of inflation, which is the case in both domestic and foreign economies. A prerequisite for the prevention of interest rate risk should be a way of issuing mortgage loans at fixed interest rates with the inclusion of two components in the pledged percentage: the real interest rate and the rate that takes inflationary expectations into account. Consequently, these newer forms of mortgage lending, such as floating rate mortgages or mortgages, in which the lender obtains the right to a portion of current income or proceeds from the sale, can be attributed to these methods.

The initiators of mortgages in order to draw attention to floating rate mortgages can often go on setting rates for the first years, markedly lower than market rates, with their further reduction to rates for either biennial securities or some other indicators with the latter exceeding by a specified number of points(Eshchanov, Grinwis, Stultjes, Eshchanov, & Uzbekistan, 2011).

“Participating” mortgages, unlike mortgages with a floating interest rate, should be built on a different principle and be used mainly in the area of commercial real estate lending. To a certain extent, they are close to such financing options as the creation of syndicates, joint ventures. But in this case, the lender should not become a shareholder of its own capital, but remain a creditor. Additional funds that he can receive either as part of operating income or as part of selling price over purchase should be treated as a conditional percentage.

3. Main analyses

The peculiarity of this mechanism is that the lender’s income depends on the successful implementation of a specific project for which funding is provided, and not on any external index, as is the case in a number of other schemes also used in the practice of mortgage lending (when using “floating” interest rates in various variants). In this case, you can use two ways to provide a mortgage loan. First, the mortgage, in which the lender can participate in part of the operating income. In this case, the borrower receives a loan at a rate lower than the market one, while compensating, the lender gets the right to a part of the income from the excess of the sale price of the object over the purchase price. Both the interest rate and the share of the lender can be negotiated in a special agreement. The creditor’s share in excess can take the form of a “conditional” interest, i.e. can be realized at some pre-specified stage of the project’s life, when the object is sold, or when refinancing. Usually, the maximum term of such an agreement should be provided for a period of 10 years, although interest may be paid on the basis of a longer loan period. After 10 years, there should be refinancing, moreover, the lender, as a rule, undertakes to refinance the project [1].

In our opinion, a similar regulatory scheme for the lender is aimed at insurance against unanticipated inflation. The main attractive feature for the borrower is a reduction in the interest rate, which in this case represents a function of the lender’s share in the increase in the value of the object and expectations regarding the likelihood of such an increase in value.

Secondly, the mortgage, in which the lender can participate in part of the excess of the sales portion of operating income, it can be used, as a rule, in the case of financing income property.

Conclusion

For a number of reasons, such financing schemes can be quite popular. For the borrower, this scheme is beneficial in that it reduces the interest rate on the loan. The lender, this scheme allows you to issue traditional loans secured with a fixed interest rate.

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