

# Foreign experience of the development of mortgage lending as one of the most important economic factors in Ukraine

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## Abstract

The article reveals the theoretical and practical experience of adapting the foreign experience in the development of mortgage lending as one of the most important economic tasks for Ukraine. Being an integral part of the financial system, mortgage loans in world experience implies a relationship between the availability of a procedure for loan pawning applied to obtain special loans and the ratio between the actual receipt of mortgage loans. It is important to note that the mortgage system combines economic, legal and social aspects. One of the peculiarities of the Ukrainian mortgage system, which differs from the foreign one, is that the mortgage market still does not use complex instruments and is not fully integrated into the national and even global financial system.

It has been proven and theoretically justified that the mortgage lending system of some countries is significantly simplified, which makes it very profitable even for non-residents. Spain and Turkey are considered the most profitable among them, but not all banks in these countries grant loans to foreign citizens. In Spain, only a few banks offer mortgage loans to non-residents. These are Bankinter, Santander, Bankia and Caja Murcia, and in Turkey they list only three: Fortis Bank, DenizBank and Garanti Bank. In addition to the above-mentioned countries, favorable mortgage lending conditions are offered by Italy, Cyprus, the USA and France.

The study analyses the mortgages conditions in European countries, as well as mortgage products offered to potential borrowers from various countries of the world. The results reveal the differences in interest rates, customer requirements and mechanisms for deals registration. The analysis of the interest rates for obtaining a mortgage in the EU member states reveal that the lowest interest rates are in Finland at 1.47%, Luxembourg -1.8%, Sweden -1.85% and Slovakia -1.90%. The highest rates are applied in Hungary (6%), Croatia (6%) and Romania (5.5%).

It has been proven that the development of the mortgage market in Ukraine combined with the experience of other countries will contribute to the expansion of the money market and increase the banks competitiveness level. This impact can be put into practice under the establishment of the necessary infrastructure for the mortgage market. Banks will switch from consumer lending to mortgage lending.

**Key words:** mortgage, mortgage market, bank, banking activity, international experience, mortgage lending, interest rates, banking risk, real estate.

## Introduction

Being a modern financial instrument and an integral part of the market economy, mortgage loans are considered an important factor in the national economic and social development. The growing demand for mortgage banking products, accompanied by positive macroeconomic trends and the deepening of the process of transformation of the Ukrainian market, requires a profound study of the impact of mortgage lending on the economic system, since the efficiency of using mortgage

mechanisms does not, for the most part, correspond to the huge economic potential they have. The mortgage system participants often fail to use optimal methods in their running, and the role of the state, which is especially important at the initial stages of the formation of these financial and credit relations, remains fragmented.

Since mortgage loans make an integral part of the financial system, world experience reveal that they imply a relationship between the availability of a real estate pledge procedure for obtaining special loans and the ratio between the actual receipt of mortgage loans. Therefore, as it is mentioned above, the mortgage system combines economic, legal and social aspects. One of the peculiarities of the Ukrainian mortgage system, which differs from the foreign one, is that the mortgage market still does not use complex instruments and is not fully integrated into the national and even global financial system.

However, in the conditions of the global crisis, the influence of external factors, including negative ones, is extremely limited, and sometimes even imperceptible [2]. The negative consequences are mostly indirect, due to the general state of the banking system, a decrease in the amount of available investment resources, formed mainly at the expense of population savings, exchange rate fluctuations, political and macroeconomic instability, etc. Yet, even the smallest manifestation of the crisis can harm the mortgage market of multifactorial nature that does not have a very long history and is currently undergoing its formation.

The paper aims to scientifically substantiate theoretical and practical principles of bank mortgage lending in Ukraine and provide a detailed financial and economic analysis of one of the largest banks of Ukraine, JSC KB PrivatBank, and the financial condition of its insurance partners. The study also aims to develop recommendations on ways to optimize the provision of targeted mortgage loans and identifying possible prospects for cooperation of the bank under study.

### ***Materials and methods***

A complex of general scientific methods was used to achieve the aim of the research. Observational and comparative methods were used to determine the analysis of financial commercial bank. We used a selective method, since the degree of integration of banks and insurance companies is always individual. Therefore, it is advisable for each institution to use a representative sample of several companies. The method of mathematical processing of time series was also in the research, since it is the basis of horizontal and vertical analysis of the enterprise's activity, assessment of the financial state.

### ***Results and Discussion***

The development of the mortgage market in Ukraine strengthened with the experience of other countries will contribute to the expansion of the money market and increase the banks competitiveness level. This impact can be realized provided the necessary infrastructure for the mortgage market is established. Banks will switch from consumer lending to mortgage lending [9, 10, 14, 15].

The financial system of the country will be consolidated owing to the expansion of its participants number. The expansion of the mortgage securities flow in the stock market, second only to government securities in terms of their reliability, is likely to increase the investment orientation of savings. Liquid asset-backed mortgage securities will significantly expand bank refinancing. All these will strengthen the role of the state in regulating the country's financial system and contribute to increased competitiveness of banks.

The formation of the mortgage lending system is one of the most important economic and social tasks of the modern world since it affects the issues of housing provision, population income distribution, housing construction and the rapid acceleration of the related industries. Mortgage lending is currently the most active banking business and an important condition for people's life quality improvement.

There are good reasons for mortgage terms attractiveness abroad rather than in domestic

banks with low interest rate on loans as one of them. For example, European banks implement a mortgage policy and issue long-term bonds, and they can independently provide financial resources for their activities, thereby ensuring interest rates on loans. In addition, low interest rates on mortgage loans are determined by low discount rates established by a country [6].

For example, the discount rate in Great Britain is 2.25%, that is, if the bank issues a loan at 3.25%, the final interest rate makes 5.5%. However, banks are much more demanding when making agreement with foreign borrowers than with the compatriots. To draw up a mortgage agreement, the borrower must provide the source of income proof the along with other documents required.

In some countries, the mortgage lending system is significantly simplified, which makes it very profitable even for non-residents. Spain and Turkey are considered the most profitable among them, but not all banks in these countries allow foreign citizens to receive loans. For example, in Spain only a few banks offer mortgage loans to non-residents: Bankinter, Santander, Bankia and Caja Murcia, and in Turkey only three: Fortis Bank, DenizBank and Garanti Bank. In addition to the above-mentioned countries, favorable mortgage lending conditions are offered in Italy, Cyprus, the USA and France [9].

Over the past few years, mortgage lending abroad has undergone a lot of changes. First of all, the minimum and maximum loan amounts offered have changed. Two or three years ago, banks in Spain could provide 100% of the loan amount, while now you can count on no more than 60%. Israel and Germany have introduced the same framework. The maximum lending limit in Cyprus and Great Britain raised to 70%, and for France the figure made 80%. Therefore, similar schemes run in many countries and the upper limits do not differ significantly.

The lowest minimum is EUR 5,000 in Bulgaria and EUR 30,000 in Turkey, as real estate prices in these countries are quite low.

In French banks, the minimum limit is set at the level of 80,000 euros. Cyprus, Spain, Greece and Portugal set a minimum level of €100,000. The upper limit offered by Swiss and UK banks is around €400,000 [3].

Payment term is a special and rather important requirement for mortgage loan. Payments with the longest payment terms are currently offered only by the USA – from 1 to 30 years. Turkey also has the narrowest timescale ranging from 5 to 15 years. All in all, the banks in other countries have approximately the same maturity terms: from 5 years to 20-40 years.

The main disadvantage of a foreign mortgage is that the borrower does not own the dwelling until the mortgage is paid off in full. And if the borrower does not repay the loan according to the schedule specified in the loan agreement, the house may be confiscated to the fund or bank.

With regard to Europe, it is recommended to consider mortgage rates in EU countries (Table 1). The list of EU countries includes 27 countries in 2022. A single economic zone, a healthy competitive environment and absolute integration do not make the basis for applying a single credit policy in the operating banks and financial institutions [10]. Instead, the mortgage products offered to potential borrowers differ in the interest rates, customer requirements and agreement registration mechanisms.

**Table 1 – Average mortgage rates in EU countries**

Country	Interest rate
Austria	2.25%
Belgium	2.47%
Bulgaria	5%
Greece	3.50%
Denmark	2.20%
Estonia	2.50%
Ireland	3.80%
Spain	3%
Italy	3%
Cyprus	4%
Latvia	2.90%

Country	Interest rate
Lithuania	2%
Luxembourg	1.80%
Malta	3.50%
Netherlands	2.50%
Germany	2%
Poland	4%
Portugal	2.50%
Romania	5.50%
Slovakia	1.90%
Slovenia	4%
Hungary	6%
Finland	1.47%
France	3%
Croatia	6%
Czech Republic	2.20%
Sweden	1.85%

*Source: Drawn by the authors based on their own research*

Analysis of the interest rates for obtaining a mortgage in EU member states reveal that the lowest interest rates are in Finland (1.47%), Luxembourg (1.8%), Sweden (1.85%) and Slovakia (1.90%). The highest rates apply in Hungary (6%), Croatia (6%) and Romania (5.5%). It is worth noting that the given data apply to residents, while other conditions apply to foreigners. The value of the EU lending rate is mainly determined by the Euribor indicator that is the European interbank offer rate. Since its value is subject to cyclical fluctuations, interest rates (especially floating rates) change according to Euribor [14]. Conditions for obtaining a mortgage in EU countries are listed in Table 2.

**Table 2 – Conditions for obtaining a mortgage in Europe**

Country	Interest rate	Loan amount	Payment term	First installment value, % of the purchased accommodation value
Sweden	1.85%	Up to 85% of the purchased accommodation value	Up to 50 years	Minimum 15
Finland	1.47%	Up to 75% of the purchased accommodation value	Up to 30 years	Over 25
Germany	2%	Up to 80% of the purchased object value	Up to 40 years	Minimum 20
Slovakia	1.9%	Up to 100% of the accommodation value	Up to 30 years	Ranges from 0

*Source: Drawn by the authors based on their own research*

There are also some other features of mortgages that worth mentioning. In Finland, the loan can be paid quarterly or monthly. Mortgage lending is provided by state (e.g. Bank of Finland), commercial (e.g. Aktia Savings Bank), foreign (e.g. Carnegie Investment Bank) and cooperative banks (e.g. Pulkkilan Osuuspankki) [6].

In Sweden, the maximum amount of the loan is 85% of the value of the purchased property. In order to speed up and simplify the process of obtaining a loan in Sweden, one needs to provide other property as collateral. In Slovakia, mortgages for apartments, houses or land for their construction are available to both residents and non-residents of the country. Loans are issued to citizens aged 21 to 65, with a loan term of 1 to 30 years. In Slovakia one can make a loan without providing information about income, but in this case the size of the down payment will be higher

than average [11].

Among the peculiar features of mortgages in the USA the following can be highlighted: a well-developed refinancing system, which means that citizens will not accelerate the maturity as the country has an established and well-developed home mortgage refinancing system; quite active work of banks at the primary and secondary levels. The nature of home mortgage lending in the US is a large-scale, state-of-the-art banking system in terms of lending to various social groups (low-income, veterans, disaster victims, retirees, etc.).

Mortgage lending in the United States is considered stable in terms of raising resources owing to mortgage-backed securities have pre-announced yields and maturities, but this is largely because the financial markets have not experienced major shocks to the nation’s economy [2].

The national legislation is based on the instrument embedded in the American model, which provides for the presence of a secondary mortgage market. However, few key prerequisites necessary for its functioning have been created in Ukraine. The participation of a developed market of mortgage securities is necessary for the successful application of the American model instruments in Ukraine.

In Ukraine, access to long-term and cheap housing loans is very limited, and the housing market needs additional mechanisms for attracting investments in housing construction. The model of savings and loan institutions (S&Ls) can be one of these mechanisms. The construction of savings and loan banks makes the basis of the model of savings and loan institutions functioning.

Building Savings Bank (BSB) is a bank that specializes in raising money from interested parties with the obligation to provide depositors with housing loans to improve housing conditions at rates lower than market rates at the time of the contract [9].

The peculiarity of the building savings bank is that the buyer receives a long-term loan not for money, but for housing, that is, for a specific apartment. Unlike building savings banks, savings and loan banks (S&Ls) do not use the money received from depositors to finance the construction of specific objects. They can buy apartments in the primary and secondary housing market, because buying an apartment is not only housing under construction. The functional model of the system of savings and loan institutions is summarized in Figure 3. In this system, depositors pass three main stages of participation: accumulation of savings, distribution and borrowing [2].

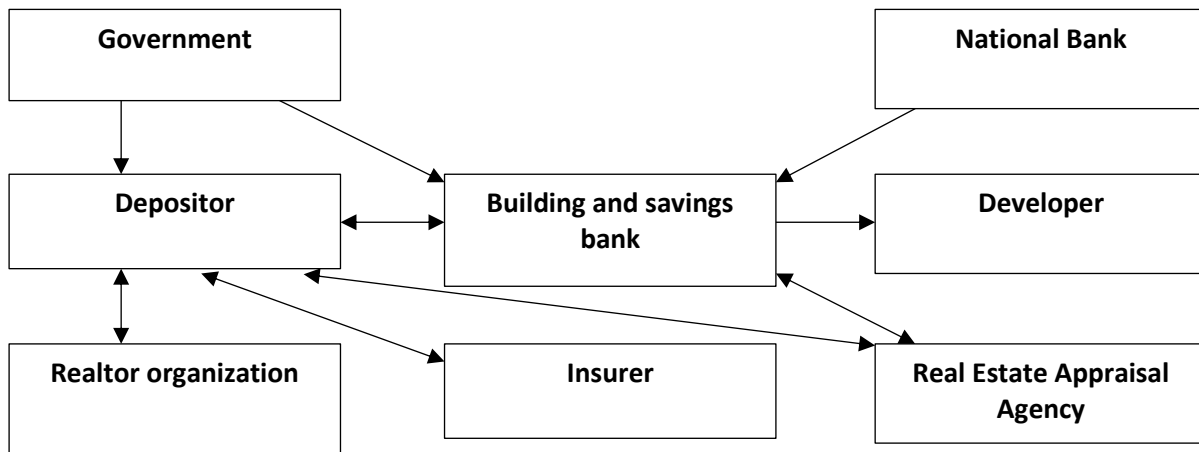


Figure 3 – Model of the savings and loan institutions system functioning

Source: Compiled by the authors based on their own research

At the savings stage, depositors sign a contract with BSB for a certain amount and deposit the amount established by the contract into their account every month. The cashier calculates interest on the deposit, which is fixed for the duration of the contract and is usually slightly lower than the market rate.

If the depositor fulfills all the conditions of the agreement on the accumulation of funds, the state pays the depositor a bonus from the budget, and the amount of the bonus is set for each

depositor in accordance with the amount and duration of accumulation, type of deposit, income, depositor group and other factors. It is important to note that the deposit and credit rates of these banks remain unchanged for the duration of the contract with depositors.[2]

The distribution stage occurs when the accumulation amount reaches 45-50% of the contract amount and the minimum accumulation period is observed (usually 3-7 years). At this stage, the sequence of depositors in the distribution of housing loans is determined depending on the degree of participation of this depositor in the general portfolio of the BSB resources. At the lending stage, depositors become borrowers who have the right to a state subsidy (up to 10% of the cost of housing) and the right to a soft loan. Repayment of this loan usually lasts 10-15 years. In addition, depositors are not required to take out loans, but can exit BSB by withdrawing deposits (including premium).[2] The analysis of benefits indicates the potential success of the system, however, comprehensive state support, including legal and financial regulation, provision of state guarantees, tax benefits and subsidies, is required to ensure its effective functioning.

Therefore, mortgage lending is an important factor in the economic and social development of the country. The economic essence of mortgage lending implies a system of economic relations arising in the process of providing a mortgage loan, that is, a cash loan secured by real estate. Mortgage is much broader in its scope and covers not only the financial sector. Mortgage lending must take into account its impact not only on the financial sector, but on macroeconomic, social and political spheres and the prerequisites of public life as well.

The mortgage market is an important element for efficient mortgage system running. The mortgage market is referred to as an organized system of economic relations arising in the process of mortgage capital generation and its transformation into financial obligations secured by real estate. Loan capital provided as collateral for real estate is a specific product on the mortgage market which circulates in the form of mortgage loans on the one hand and mortgage securities on the other. In the mortgage market, financial resources mobilization is the most important function, since the structure and cost of funds directly affect the ability of banks to turn them into loanable mortgage capital, that is, to direct them to finance the economy and business entities.

The effectiveness of the mortgage system functioning depends on the interconnection of all its structural elements. The development of the system is based on credit and financial, special credit and financial, socio-legal and socio-economic principles. Mortgage lending in Ukraine tends to develop in recent years, but mortgage loans make up a small share of the total portfolio of commercial banks. The development of the mortgage partly depends on the state of the real estate market and the efficiency of the latter. Therefore, the formation of an effective mortgage lending mechanism requires not only the real estate market functioning improvement, but also the stabilization of the national financial market, i.e., the policy in this regard should ensure the full development of investment relations related to the real estate market, on the one hand, and, on the other hand, it must protect mortgage markets from the instability of the global financial system.

In Ukraine, state programs to support the development of mortgages are running, but they are not very effective due to low incomes of citizens (those with low incomes are not allowed to use these programs), insufficient financing of projects from the state budget, and insufficient awareness of the population about state programs. Solving these issues at the state power level will contribute to increased effectiveness of the analytical project and improving the social well-being of the Ukrainian population.

None of the mortgage lending models used in Ukraine to date has been able to calculate the long-term resources of banks or apprise the flexibility of mortgage portfolios managing. For mortgage restructuring, taking into account the reasons that led to the current mortgage crisis, it is possible to predict the future dominance of the American model of mortgage lending in Ukraine. One of the mechanisms for optimizing mortgage lending is the establishment of the system of savings and loan institutions (S&Ls). Their operation will be based on the establishment of savings and loan banks. The development of mortgage lending and its positive impact on the competitiveness of the national economy of Ukraine can be achieved under the mortgage market development, its transparency provision, fair pricing and sustainability that will result in growing

supply and demand for real estate.

## **Conclusions**

Therefore, the main task of the state in supporting the mortgage system can be attributed to the following:

1. Expansion and improvement of the legislative framework regarding the activities of financial and credit institutions in the mortgaging, adopting financial instruments to attract long-term resources in the construction sector and improvement of credit procedures supervision.

2. Increased transparency and predictability of the real estate market and improving the procedures for registration and accounting of real estate rights and transactions.

3. The construction industry support the and reducing construction costs through optimizing the permitting procedures, land transactions and programs aimed to eliminate corruption in the land and real estate markets.

4. Strengthening the role of the National Bank of Ukraine in the mortgage sector credit affairs.

5. Tax benefits for investors in the “social” real estate market.

6. Popularization of the mortgage loan concept among the population, establishment of consultation centers and the borrowers free legal support provision [2].

Taking into account the current trends in mortgage lending, the experts of the credit market of Ukraine lay down the overdue tasks of the anti-crisis policy of the mortgage market:

1. Strengthening competition and transparency of the banking system, improving corporate culture and management.

2. Improvement of the banking supervision system in the context of the regulatory field.

3. Ensuring the ability of the banking system to withstand possible systemic risks, especially the concentration of credit and deposit portfolios, imperfection of risk assessment and management systems, a decrease in the overall level of capitalization and systemic vulnerability to fluctuations in the real estate market.

4. Wider introduction of modern banking products and technologies in the mortgage market.

5. Reducing the cost of credit resources in the real sector through bank costs optimization [6].

Currently, banks have to undergo some challenge to attract the customers. The reason is that the customer used to have to be served at “their” bank while now with the intensified competition between banks, they may have a choice. In addition, the activity of subsidiary foreign banks and access to international capital markets contribute to the competition.

Therefore, the development of mortgage lending and the activation of its positive impact on the competitiveness of the national economy of Ukraine can be achieved under the following circumstances:

1. Development of the real estate market, ensuring its transparency, fair pricing and balance of supply and demand for real estate.

2. Improvement of the real estate evaluation mechanism and legal procedures regarding collateral.

3. Providing the credit system with a sufficient number of resources to reduce risk and increase interest rates to an appropriate level.

4. Restoration of public trust in the banking system and attracting the resources owned by the population to banking institutions.

5. Ensuring the real protection of the rights of all participants in mortgage relations, including the prevention of unilateral changes to the terms of mortgage contracts and the improvement of relevant mechanisms of responsibility for violations of such contracts.

6. Comprehensive support of mortgage housing lending as one of the main directions of ensuring social stability and social security of the country [3].

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