

MORTGAGE LENDING AS A COMPONENT OF ECONOMIC GROWTH

The purpose of the article is to reveal the role and importance of the mortgage lending development to overcome the financial and economic crisis and ensure the positive dynamics of macroeconomic indicators.

The article reveals the essence of mortgage lending, substantiates the necessity of its development and improvement to create an effective mortgage lending system in Ukraine, which helps to solve the problems related to providing housing for the population and accelerating the development of not only the construction industry but also related areas of the activity.

It is proven within the study that the volume and dynamics of the investment in housing has a significant impact on the macroeconomics, and therefore, by improving the mortgage lending system, it is possible to transmit positive impulses to the real sector of the economy and bring the country out of crisis.

The article outlines the features of a mortgage lending which distinguish it into a separate sphere in the credit market. Based on these features, the functions of mortgage lending in modern conditions are defined, namely: investment, social, stimulating, and formation of the fictitious capital in the securities market.

The research proves the importance of developing and improving mortgage lending by identifying the benefits and disadvantages of all credit entities.

On the basis of statistics, the main parameters of the domestic mortgage market, which indicate a conservative approach to the formation of lending conditions and the reluctance of banking institutions to provide long-term mortgages, are determined. The main reason for this situation is the imperfect legal base of real estate lending.

It has been concluded by the study results that mortgage lending is an important tool for ensuring the social and economic growth of a country, and its role and importance have increased significantly since the financial and economic crisis.

Keywords: mortgage lending, mortgage, real estate, collateral, housing construction.

JEL classification: G21

Introduction and research problem. In today's environment, mortgage lending is one of the most reliable means of attracting investment in house building. Therefore, establishing an effective mortgage lending system in Ukraine is an important financial and socio-economic challenge, which helps solve problems related to providing housing for the population and accelerating the development of not only the construction industry, but also related areas of activity. It is believed that the volume and dynamics of housing investment has a significant multiplier effect on macroeconomic proportions and provides widespread reproduction. Therefore, by improving the mortgage lending system, it is possible to send positive impulses to the real sector of the economy and bring the country out of crisis.

Therefore, the study of the features of mortgage lending and its macroeconomic impact is especially relevant in the conditions of financial and economic crisis.

Recent publications analysis. Current problems of mortgage lending, as well as directions of its improvement are being studied by both domestic and foreign scientists. Theoretical and practical aspects of improving the mechanism of mortgage lending in the domestic financial market are considered in many scientific works of such scientists as V. Bazylevych, Y. Bublyk, A. Evtukh, O. Kireiev, I. Kovalyshyn, V. Korneev, O. Manyuk, V. Merkulov, O. Pylypets, N. Pogoreltseva and many others.

Unsolved parts of the problem. However, the impact of mortgage lending on economic growth remains unaddressed and debatable.

Research goal and questions. The purpose of the study is to reveal the nature and importance of improving mortgage lending to overcome the financial and economic crisis and ensure positive dynamics of macroeconomic indicators.

Main findings. Factors such as increased productivity, entrepreneurial activity, the amount of

investment resources that are invested in the economy, availability of natural resources, etc., primarily affect the development of the country's economy and improvement of living standards. In addition, there are areas of activity that are becoming a center of growth, the impulses of which are spread across a wide range of industries and services, stimulating economic activity in the country.

According to the theory of cyclical development, the very revival of the construction industry contributes to the creation of additional jobs, increased production of related industries, which means an increase in industrial production and an increase in state and local budget revenues. It is also believed that the construction industry is a definite indicator of the depth of the economic crisis, due to the inertia of investment and construction processes and a long production cycle.

Stimulating the development of the investment and construction sector is only possible if the public, collective and personal interest in this field is combined. In the context of a chronic shortage of investment resources in the housing sector, an important task is to develop a system of long-term mortgage lending.

Mortgage lending itself contributes to the real estate sale and the growth of its construction, thus, it affects the real sector of the economy and causes an increase in the production of building materials and structures, construction machinery, woodworking, etc. Active introduction of the mortgage lending mechanism into the country's economy ensures that most of the population's money is invested in domestic production.

Therefore, mortgages are an investment tool that can activate the development of the construction complex and related industries, creating the basis for a multiplier effect on the economy.

The development of mortgage lending has a positive impact on overcoming the social instability, since it helps to create additional jobs and increase the employment rate of the population in addition to solving the housing problem.

Mortgage lending also improves the stability and efficiency of the banking system, because when the loan is not repaid, the bank sells the institution and returns its funds.

The main indicators of the revitalization of the mortgage lending market are the increase in demand for mortgages, and the recession in the market – an increase in the arrears on them. In turn, the mortgage market has a direct impact on the reconstruction of the construction complex, and therefore on the economy as a whole. The recession in the mortgage market indicates the inevitable downturn in the

economy over the coming period, and the rebound in the mortgage market leads to further economic growth.

Thus, the state of the mortgage market reflects the current trends in the economy, which allows developing and acting appropriately at different stages of the economic cycle. The main task at each stage is to take measures to smooth economic cycles, taking into consideration both domestic policies and global trends.

However, mortgage lending is characterized by some contradiction, since its development can both contribute to overcoming the crisis in the economy by attracting investment in the manufacturing sector, and become a catalyst for the emergence of the economic crisis. An artificial increase in mortgage loans leads to excess housing finance and a reduction in resources to finance other areas of life.

In today's context, the possibility of a negative impact of the mortgage securities market on the economy has also emerged, which must be taken into consideration in the decision-making process. When issuing mortgages, banks provide securities and sell them to investors. A rapid increase in mortgage lending through the availability of mortgages and low interest rates, leads not only to an increase in the proportion of unreliable borrowers, but also to significant inflationary processes. To curb inflation, as a rule, interest increases, and therefore, so do the contributions on loans. As a result, the demand and real estate prices fall, the borrowers' insolvency increases, leading to significant losses to investors and to the financial crisis.

Therefore, in the process of improving the mortgage lending system, it is necessary to take into consideration all its advantages and disadvantages in order to prevent negative consequences of its active growth in a timely manner (Table 1).

Considering the mortgage loan in the banking market, we can distinguish the following features:

- a mortgage loan is a secured one because the mortgage is used as collateral for repayment. As a rule, the pledge is real estate, for the purchase of which a mortgage loan is issued;
- mortgages are characterized by the long-term nature. As a rule, loans secured by real estate are granted for up to 25 years. Abroad, mortgages include loans granted for more than 20 years. Long term repayment of loans allows to reduce the amount of monthly payments of the borrowers;
- mortgage lending involves the payment by the borrower of the down payment, within 10–30 % of the value of real estate, and the balance of funds the lender independently transfers to the seller of real estate. The greater the bank's confidence in the

Table 1. Advantages and disadvantages of the mortgage lending development

| Subjects | Advantages | Disadvantages |
|--------------------|---|---|
| Creditor | Banking is profitable A long term credit relationship provides regular customers Guaranteed loans stabilize the banking system | Reduction of the volume of banking resources for a long term Low margin banking The collateral may lose liquidity Credit default risk A moratorium on foreclosure may be imposed |
| Borrower | Affordable housing for the population Resolving the housing problem The borrower owns the property and can register Possibility of designing an individual repayment schedule Lower interest rates compared to consumer loans | The borrower has the right to home ownership before repayment of the loan, and cannot dispose of property without the consent of the bank Risk of raising interest on the loan Additional costs for the borrower: notary services, insurance, real estate expert evaluation |
| States | Creating new jobs Provision of state support to certain categories of citizens Formation of solvent demand of the population Source of investment in the real economy Stimulating economic development Promoting the development of the necessary legislative framework Use as a tool for regulating money supply | Ability to cause crisis in the financial market through the use of credit mechanisms in conjunction with financial instruments of the secondary securities market |
| Real estate market | Attracting population savings into the high-income housing segment Ensuring the development of the construction industry Increasing the investment attractiveness of the housing sector | |

borrower, the less the down payment and the larger the loan amount, and vice versa. The amount of the down payment also affects the interest on the loan;

- development of mortgage lending is influenced significantly by the macroeconomic conditions, political and social changes in the country;

- the mortgage lending process is associated with the risks at the micro level that accompany the creditors: a lender, a borrower, and a real estate broker. Therefore, comprehensive mortgage insurance is used, which includes insurance for the collateral life of the borrower and the title insurance; the development of the interaction between banking institutions and insurance companies in the process of mortgage lending;

- mortgages are targeted. Mortgage lending can be done to improve the borrower's housing conditions, and can be used for the purchase of commercial real estate, for resale or for rent;

- development of the mortgage lending system contributes to the development of the mortgage-backed securities market – mortgage-backed bonds and mortgage certificates;

- for banking institutions, mortgages are a source of stable long-term income and reliable clients who enjoy a set of additional services of the bank;

- mortgages are a major source of investment in construction and indirectly affect economic growth, contributing to the expansion of manufacturing

(Bazilinska & Panchenko, 2019; Dubyna & Razghulina, 2018).

Based on the above list of features, mortgage lending performs the following functions:

- investment, because it is a credit mechanism for attracting investment in the real sector of the economy;

- social, as housing becomes more accessible to the majority of the population and helps to solve an important social problem;

- stimulating because it contributes to the activation of the real estate market and the country's economy as a whole;

- formation of the fictitious capital in the securities market.

Despite significant benefits of mortgages for all financial market entities and the economy as a whole, in Ukraine, the mortgage market is underdeveloped because a small number of banks provide loans secured by real estate. In Ukraine, 92 % of new mortgage loans are provided by a third of banking institutions. New loans come mainly from the secondary real estate market, and lending for new housing to affiliate programs is slowing down.

In this case, the conditions of domestic mortgage lending are characterized by conservatism. The maximum amount of a mortgage loan is UAH 2 million; however, most often contracts are

concluded for the amount of UAH 600 thousand, up to UAH 1.5 million. The amount of the first installment is in the range of 20–60 %, but it is most often set in the amount of 30 % of the loan amount. About 60 % of new mortgages are granted over a 15 to 20-year period. The average age of the borrower

from 2014 to 2017 by 47 %, and only began to grow from 2018 (Monetary-banking and financial statistics, n.d.). This significantly reduces the share of mortgage loans in the total amount of loans. Long-term loans account for about 90 % of the mortgage structure (Table 2).

Table 2. Dynamics of mortgage lending for individuals, UAH million

| Indicators | Years | | | | | | | | | | Rate of growth, % | | | |
|---------------------------------------|-------|------|-------|------|-------|------|-------|------|-------|------|-------------------|---------------|---------------|---------------|
| | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | | 2015/ 2014 | 2016/ 2015 | 2017/ 2016 | 2018/ 2017 |
| For 1 year | 3806 | 5.2 | 3546 | 5.9 | 3212 | 5.3 | 1659 | 4.3 | 1418 | 3.4 | 93.2 | 90.6 | 51.7 | 85.5 |
| From 1 to 5 years | 6428 | 8.8 | 4502 | 7.5 | 4374 | 7.3 | 2611 | 6.8 | 2517 | 5.9 | 70.0 | 97.2 | 59.7 | 96.4 |
| More than 5 years | 61922 | 86.0 | 52167 | 86.6 | 52679 | 87.4 | 34330 | 88.9 | 38373 | 90.7 | 84.2 | 101.0 | 65.2 | 111.8 |
| Intotal | 72156 | 100 | 60215 | 100 | 60265 | 100 | 38600 | 100 | 42308 | 100 | 83.5 | 100.1 | 64.1 | 109.6 |
| Share in the total amount of loans, % | 34.16 | | 34.43 | | 36.90 | | 22.16 | | 21.04 | | +0.27 | +2.47 | -14.7 | -1.12 |

is 37 years. Most often, mortgage loans are provided to individuals with a confirmed total income of 50 to 100 thousand UAH. Some banks provide housing loans even to households with official incomes of up to UAH 10 thousand per month. However, the credit market is projected to intensify mortgage lending (NBU, 2019).

The situation may change significantly in relation to the coronavirus pandemic and the sanitary crisis affecting all countries. This threatens the unfolding of the global financial and economic crisis, which will adversely affect the real economy and household incomes. To date, the main obstacles to resuming mortgage lending from a bank perspective are:

- a moratorium on foreclosure;
- insecurity of creditors' rights;
- legal non-regulation and opacity of the primary market;
- stringent requirements of the NBU;
- unfair competition in the market (Bublyk & Korneev, 2011; Novakova, 2016; On mortgage lending: The Law of Ukraine, 2005).

Therefore, the main deterrent to the mortgage lending development is the imperfection of the regulatory framework. Under these conditions, banking institutions are not interested in increasing the volume of long-term mortgages. The situation in the domestic credit market is also significantly influenced by the low level of household income and the underdeveloped housing lending mechanism. In the context of high inflation, the effect of these factors is increasing.

The dynamics of mortgage lending in recent years shows that the volume of mortgages decreased

Data for 2019 indicate a gradual increase in housing demand and mortgage lending. Overall, net hryvnia loans for real estate construction and reconstruction increased by 13.4 % in October 2019 compared to 2018, but lending volumes remain insignificant (NBU, 2019).

At the same time, interest rates on mortgage loans in the national credit market are gradually increasing (Table 3).

Table 3. Dynamics of interest on mortgage loans to individuals in UAH, %

| Years | Interest rates |
|-------|----------------|
| 2014 | 15.9 |
| 2015 | 11.7 |
| 2016 | 12.1 |
| 2017 | 17.3 |
| 2018 | 17.1 |

Based on the data in the table, we can conclude that interest rates on mortgage loans fluctuate significantly, but since 2015, there is an upward trend.

These interest rates on mortgages are considered high, since in European countries the population uses mortgages on average under 4.5–5 %. In a time of economic crisis, banking institutions in some European countries have provided mortgage loans at even below 2.5–3.5 % for up to 20 years.

As a result, the share of mortgage loans in the GDP of Ukraine is rapidly decreasing. If in 2014, it was 4.64 %, then in 2018 – only 1.19 % (see Figure).

This is a very low figure since in other countries of Eastern Europe, it ranges from 5 % to 9 % and in European countries, the share of mortgage loans in GDP is above 10 %. This value of this indicator is explained not only by the existence of a developed

financial and credit system and high level of household income, but also by the state support for mortgage lending.

Thus, there are processes in the national mortgage market that are diametrically opposed to those in other countries. This situation is connected not only with the financial and economic instability in the country and the low-income level of the population, but also with the imperfect mechanism of granting mortgages and their insurance.

a term of 10 to 30 years or more. The debt repayment scheme provides for the reduction of the borrower's expenses in the first stages and an increase in the future.

The experience of other countries shows that investing in residential real estate has a positive impact on the macroeconomic situation in the country, contributes to GDP growth and is an important engine of economic development. A mortgage can play the role of a defibrillator, the

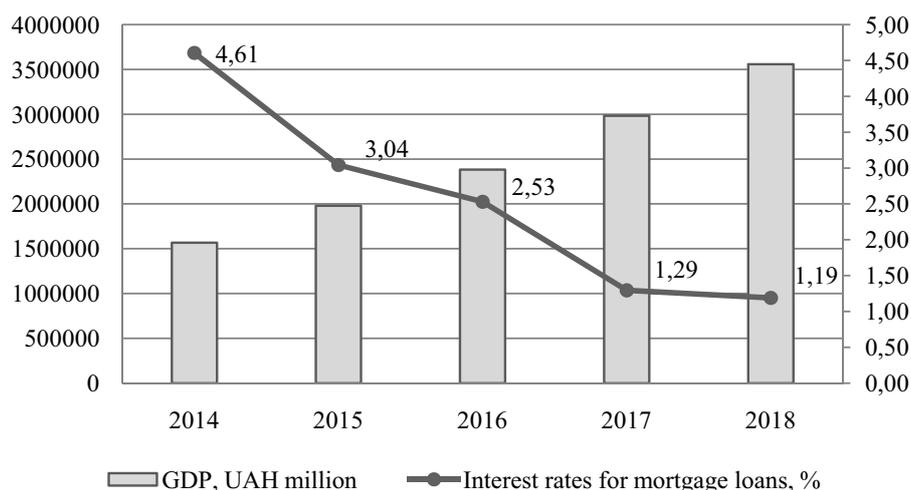


Figure. Dynamics of mortgage loans share in GDP

Foreign experience shows that mortgage lending is one of the priority areas for further development of the credit market, which gradually covers different areas of the economy. Overseas practice takes into consideration that mortgage loans are low-margin banking operations that only generate large profits with large volumes. Therefore, the advantage of a mortgage lending system abroad is the minimal amount of the down payment and low interest rates on loans, which are secured by implementing a proper bank lending policy and setting a low discount rate by the banking market regulator. It is also characteristic of many European countries to create a profitable and simplified mortgage lending mechanism that can be used by even non-residents. The list of documents for obtaining a mortgage loan in many countries is the same and includes a document confirming the identity of the borrower; income statement for 2-3 years; certificate from the tax service on the absence of debt; real estate purchase agreement. The borrower needs to confirm the ability to pay the down payment and the loan service. The bank also checks the borrower's current accounts and credit history.

In the US, they provide mortgages in an amount not exceeding 80 % of the cost of housing and for

category of which will launch a mechanism for financing, reforming and revitalizing the Ukrainian economy (Mortgage as the defibrillator for the Ukrainian economy, 2019). Thus, mortgage lending is an important tool for ensuring the socio-economic growth of a country, and its role and importance is significantly increased in the wake of the financial and economic crisis.

Conclusions and further research proposals.

In order for the aggregate production, and as a consequence, aggregate income and aggregate consumption to grow steadily, it is necessary that some of the savings from total income in the form of investments be directed to the development of production. Therefore, in many foreign countries, the recovery of the economy began with the development of mortgage lending.

A stable political situation in the country, the development of the necessary legislative framework, and raising the level of material support for citizens are the conditions for the development of the mortgage lending system. In addition, the mortgage lending mechanism should ensure the coordination of all participants in the credit process, timely repayment of the debt by the borrower and low risk of default for the lender. Moreover, the mortgage lending system should encourage the mobilization

and use of public funds, with simultaneous government support in various forms.

Therefore, the main steps to improve the mortgage lending mechanism are as follows:

- improvement of the legal framework of mortgage lending;
- standardization and unification of the procedure for issuing and servicing mortgages, rules for assessing the creditworthiness of the borrowers;
- formation of integrated information systems about the borrowers and accounting of their income;
- making compromise legal decisions regarding the implementation of the borrowers' housing rights and reducing the creditors' risks in the event of the borrowers defaulting on their loans by providing them with housing that would correspond to the amount of the loan repaid;
- the use of flexible credit schemes which provide for the first 5 years of granting discounts in debt repayment;

– reduction of interest on mortgage loans in the presence of comprehensive mortgage insurance;

- development of new credit products to stimulate economy-class housing demand;
- development of special programs for those who are eligible for state support;
- formation of mortgage lending programs at the expense of retirement savings, when non-government pension funds are invested in mortgage bonds.

In today's environment, banks can restart mortgage lending and make it accessible by forming different loan products.

Thus, the formation of the effective domestic mortgage lending system is an urgent task, and its successful solution is only possible when economic, legal and organizational components of this process are agreed. In doing so, the mortgage lending system should draw on international experience, adapted to national law.

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ІПОТЕЧНЕ КРЕДИТУВАННЯ ЯК СКЛАДОВА ЕКОНОМІЧНОГО ЗРОСТАННЯ

Метою статті є з'ясування ролі та значення розвитку іпотечного кредитування для подолання фінансово-економічної кризи та забезпечення позитивної динаміки макроекономічних показників.

У статті розкрито сутність іпотечного кредитування, обґрунтовано необхідність його розвитку та вдосконалення для створення дієвої системи надання іпотечних кредитів в Україні, яка допомагає вирішити проблеми щодо забезпечення житлом населення та прискорення розвитку не тільки будівельної галузі, а й пов'язаних із нею сфер діяльності.

У процесі дослідження доведено, що обсяги та динаміка інвестицій у житлове будівництво суттєво впливають на макроекономіку, тому завдяки удосконаленню системи іпотечного кредитування можна передавати позитивні імпульси реальному сектору економіки та виводити країну з кризи.

У статті розглянуто особливості іпотечного кредитування, які виділяють його в окрему сферу на кредитному ринку. На основі цих особливостей визначено функції іпотечного кредитування в сучасних умовах, а саме: інвестиційну, соціальну, стимулювальну та формування фіктивного капіталу на ринку цінних паперів.

У процесі дослідження доведено важливість розвитку та вдосконалення іпотечного кредитування через визначення переваг і недоліків для всіх суб'єктів кредитних відносин.

На підставі статистичних даних визначено основні параметри вітчизняного ринку іпотечного кредитування, які свідчать про консервативний підхід до формування умов кредитування та небажання банківських установ надавати довгострокові іпотечні кредити. Основною причиною такої ситуації є недосконала нормативно-правова база кредитування під заставу нерухомості.

За результатами дослідження зроблено висновок, що іпотечне кредитування є важливим інструментом забезпечення соціально-економічного зростання країни, а його роль та значення суттєво зростають під час виходу з фінансово-економічної кризи.

Ключові слова: іпотечний кредит, іпотека, нерухомість, застава, житлове будівництво.

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