

# MONEY, FINANCE AND CREDIT

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## MORTGAGE LOAN: ASSESSMENT OF THE CURRENT SITUATION AND IMPACT ON THE SOLUTION OF HOUSING PROBLEMS

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**Introduction.** The improving mortgage lending is one of the most important tasks today in further reforming the economy and creating a modern market with an adequate structure and institutional components in accordance with modern requirements. At the same time, the development of the mortgage market solves not only economic problems related to the efficient use of financial resources, but also social ones, in particular the issue of providing the population with housing.

However, low incomes, unavailability of mortgage loans in most Ukrainian banks, economic crises and the lack of leverage in the real estate market lead to stagnation in housing lending.

**Reviewing of recent sources of research and publications.** Due to objective historical situations, the problem of mortgage lending has not been sufficiently studied. The following foreign scientists have made a great contribution to the study of mortgage lending: R. Strike, G. Ashauer, G. Douglas, J. Friedman, D. Johnson, L. Livingston, D. Schneiderman [1-6]. The works by many Ukrainian scientists, in particular M.V. Kalinchik, V.A. Borysov, P.M. Makarenko, O.T. Yevtukh, O.I. Datsii, V.P. Kravchenko, V.I. Semchyk, V.I. Mishchenko, S.I. Kruchok, V.I. Savych, V.D. Lahutiv, O.L. Kashenko, T.B. Ivanova, M.M. Fedorova. However, at present, the assessment of the current state of the mortgage services market and its impact on solving the problem of providing the population with housing is becoming increasingly important.

**The aim of research.** The purpose of the study is to develop theoretical principles, guidelines and practical recommendations for improving the mortgage lending system in Ukraine.

**Basic material and results.** Mortgage lending occupies a special place in the economy of each country, because it is the basis for long-term lending, and therefore the main element of the formation of long-term value for money. However, mortgages solve not only a number of economic problems, but also a number of social ones, including the issue of providing the population with housing.

In the Ukrainian and foreign literature, since the beginning of the global financial and economic shirt, there are many works on such concepts as "mortgage" and "mortgage lending", which suggests that this issue is relevant both worldwide and in Ukraine in particular.

In our opinion, the essence of the mortgage is most accurately disclosed in the current legislation of Ukraine, because it combines both legal and economic aspects of this concept. In particular:

– Article 575 of the Civil Code of Ukraine states that a mortgage is a pledge of property owned by the mortgagor or his guarantor [7].

– In the Law of Ukraine "On Mortgage" mortgage is defined as one of the types of loan collateral, in which the subject of the pledge remains in the possession and use of the borrower or a third party

(guarantor). The creditor (pledgee) has the right, in case of default by the borrower, to satisfy, in the manner prescribed by law, their claims at the expense of this pledge [8].

–In Section II of the Law of Ukraine "On Pledge" mortgage is considered as a pledge of land or real estate, which is the subject of the pledge, which remains in the possession and use of the mortgagor or his guarantor [9].

Referring to the definitions we have analyzed, we can provide our own definition of a mortgage loan. Thus, a mortgage loan is a special type of credit services that arises on the basis of economic and legal relations between the borrower and the lender regarding the movement of the value of borrowed funds, which is provided as collateral for real estate.

At the present stage, due to the unstable political and economic situation in the country, the reason for the general decline in the economy is the slowdown in the development of mortgage lending. Tougher lending requirements, ever-increasing interest rates on loans, an increase in the down payment threshold, and higher debt penalties at low-income levels make mortgages an unattainable dream for them, competing with growing demand for housing.

In general, the main indicators of the mortgage lending market in Ukraine in the dynamics of the last six years are presented in Table 1.

**Table 1**

**The main indicators of the mortgage lending market in Ukraine  
for 2015–2019 (UAH million)**

Indicator	01.01.2015	01.01.2016	01.01.2017	01.01.2018	01.01.2019
1	2	3	4	5	6
Net assets of banking institutions,	1316854	1254397	1212813	1345811	1448571
Loan portfolio of banks	1006367	965094	996213	2251163	2174472
Mortgage loans of banks	122006	101842	145684	157481	168565
<i>in UAH</i>	65567	45151	69414	77873	88561
<i>in USD</i>	50791	53404	67234	68747	71475
<i>in other currencies</i>	5657	3296	9043	10877	10658
Official exchange rate, UAH/dollar	15,77	24,00	27,19	28,16	28,27
Average interest rate on mortgages in national currency	19,90%	11,80%	12,40%	16,10%	16,50%
Average interest rate on mortgages in foreign currency	10,20%	11,00%	8,50%	8,90%	9,50%

*Source: compiled by the author based on [10]*

Thus, according to the analytical data of Table 1, it can be seen that mortgage lending in banking institutions has intensified and tends to increase: in 2019 the size of mortgage loans increased by 38% compared to 2015, which is primarily due to falling interest rates on mortgage loans in the national currency from 19.9% to 16.5% for the study period. However, despite the significant reduction of the interest rate from 19.90% in 2015 to 11.8% in 2016, the size of mortgage loans decreased by 21%, from which we can conclude that in addition to the interest rate on mortgage lending is influenced by many other factors.

If we take into account the strengthening of the hryvnia in the fourth quarter of 2019, we can say that interest rates on mortgage loans are quite high. The lowest interest rate in Ukraine at the beginning of 2020 was 17 – 18%. However, this rate is available only to certain citizens who can fulfill a number of conditions required by banks. The real rate on mortgage loans varies from 18% to 25% [11].

It is worth noting that citizens who want to get a mortgage loan must prove their official income for the last six months. As for entrepreneurs, it is more difficult for them – an individual entrepreneur must be registered for at least two years and must provide documents confirming his income and taxes paid for one year [8].

In Ukraine, for the last five years, the minimum mortgage advances have been 30% of the total cost of the loan, and the maximum loan term is 20 years. However, it is possible to reduce the percentage of the

advance payment with additional security. For example, JSC "State Savings Bank of Ukraine" can reduce the down payment to 10% in the presence of additional collateral for the loan [12].

Mortgage rates in the primary and secondary markets differ in the trough of the primary market. Thus, the interest rate on a home loan in a new building will vary between 16 – 24% (depending on the size of the advance and the term for which the loan is issued). If the loan term exceeds three years, the rate on this loan will increase to the nominal or a floating rate will be set (4.5 – 5.5% higher than the nominal rate on deposits). As for the mortgage loan for housing from the secondary market, the interest rate will increase by 1 – 2%.

Banks are ready to provide a mortgage loan to a client aged 21-60 years, but at the time of full repayment of the loan must be the age of the borrower is not more than 65 years. The amount provided on credit directly depends on the level of income of the borrower. Thus, to borrow a mortgage worth up to UAH 10 million only those clients whose monthly income level exceeds UAH 25,000 can. Such a mortgage is paid for up to 20 years. The terms of the loan also depend on the down payment – the larger the advance, the more favorable the terms.

The most advantageous mortgage loans are provided for real estate in new buildings from developers who are partners of the bank. Such loans are provided by JSC CB "Globus" [13] and PJSC JSCB "Arcade" [14].

The lowest interest rates (from 0.01%) on mortgage loans are provided if the loan term does not exceed one year, and the down payment is not less than 40% of the loan value. If the term for which the loans are granted is increased to three years, the rate ranges from 5 to 14% (depending on the amount of the down payment). For up to five years, mortgages are provided at 14 – 24% per annum. If the term is more than five years, the rate on such a loan will reach 24% per annum. An example of interest rates on a mortgage loan from OJSC CB "Globus" for different loan terms is presented in table 2.

**Table 2**

**Example of interest rates on mortgages for new housing from JSC CB "Globus"**

Suma of Credit	From 10 000 to 1 500 000 UAH				
	1 variant	2 variant	3 variant		Advance payment
Interest rates, (annual)	Term up to 3 years	Term up to 5 years	In the 1st year	For the next years	
	10,9%	15,5%	5,9%	23,9%	more than 50%
	12,5%	16,5%	9,3%	23,9%	more than 40% to 49.99%
	13,9%	16,9%	11,5%	23,9%	more than 30% to 39.99%
Commission	1.9% of the total loan amount				

*Source: compiled by the author based on [13]*

However, in the Ukrainian mortgage market, the choice of banks that provide appropriate loans is quite small. To date, we can name five banks that are developing in this direction [15]: JSB "UkrGasbank", PJSC "State Savings Bank of Ukraine", JSC "Commercial Bank" Globus ", JSC CB "Privatbank", PJSC "Kredobank" .

The study proved that the banks in which mortgage lending is the dominant type of lending include: JSB "UkrGasbank", PJSC "State Savings Bank of Ukraine" and JSC "Commercial Bank Globus", JSC CB "Privatbank" and PJSC "Kredobank". However, they do not fully meet the requirements of borrowers. The undisputed leaders in this area are JSB UkrGasbank and PJSC State Savings Bank of Ukraine, which provided mortgage loan services even in the period from 2014 to 2016.

In addition, PJSC "State Savings Bank of Ukraine" provides mortgage loans for the purchase of real estate in both the primary and secondary markets. However, there are some preferential terms for clients wishing to purchase real estate in the primary market [12]. JSB "UkrGasbank" is more inclined to the primary market, so it enters into many agreements with developers. Loans are provided on both general and preferential terms. The latter are provided for real estate from individual developers (Table 3). [16]

Table 3

## Lending programs from PJSC "State Savings Bank of Ukraine" and JSB "UkrGasbank"

Terms of crediting	PJSC "State Savings Bank of Ukraine"		JSB "UkrGasbank"	
	Primary market	Secondary market	Primary market	Secondary market
Advance	30% (10% with additional collateral)	30% (10% with additional collateral)	from 30%	from 30%
Rate	8,9 – 19,99%	20%	13,5 – 19,9%	20%
Period	Up to 20 years	Up to 20 years	Up to 20 years	Up to 20 years

*Source: compiled by the author on the basis of [12; 16]*

Thus, from Table 3 we see that the terms of the real estate loan from the primary and secondary markets do not actually differ, there is only some advantage of the primary market over the secondary in interest rates. However, it should be noted that the rate of 8.9% for the primary market is relevant only for the first two years of the loan and only for housing from those developers who are partners of the bank, and from the third – the interest rate rises to 19.99%, which only 0.01% less than the interest rate on real estate from the secondary market. An important advantage of the mortgage loan of PJSC "State Savings Bank of Ukraine" is the possibility of early repayment of the loan without additional penalty commission and annuity repayment system, which allows the borrower to repay its debt in equal installments. The advance payment and the term of the loan are the same in both cases: the client can take a loan for 70% of the cost of housing or 90%, if there is additional collateral; term – 20 years [12].

If we talk about JSB "UkrGasbank", it provides a significant advantage of real estate from the primary market. For example, the interest rate on such a loan for the first five years will be only 13.5%, and starting from the sixth - 19.9%. Insurance payments in this case will also be lower. For the secondary market, the interest rate starts at 20% per annum. The advance payment in both cases is the same – not less than 30% of the appraised value. That is, the loan can be taken no more than 70% of the value of real estate. The lending period for primary and secondary housing is also the same – 20 years. However, it should be borne in mind that finding housing on the secondary market that would meet all the requirements of the bank is very difficult [16].

Improving banks' mortgage lending is the basis for strengthening stability as part of an overall strategy to build a stable and efficient financial institution that provides a wide range of services that can satisfy as many customers as possible [17].

In our opinion, the formation of conceptual foundations for the development of the housing mortgage lending system in Ukraine should be based on a set of principles and embodied in solving specific problems (Fig. 1).

Based on the above, a rational system of housing mortgage lending should be understood as a combination of existing elements of the system of housing mortgage lending in Ukraine, in which the banks and the population, and, accordingly, the state, were not only participants in this system but also useful effect of participation in it.

We believe that the formation of the secondary mortgage market should take place in two stages:

Stage 1: creation with the participation of the state of the National Mortgage Company as the main institution that will refinance mortgage lenders on the secondary market through the issuance of mortgage securities;

2nd stage: creation of specialized mortgage institutions – in the realities of the Ukrainian banking system – separate mortgage subdivisions of universal banks (mortgage centers), on the basis of which a joint mortgage bank (hereinafter – JMB) will be created, which will issue and place own mortgage securities at the first level of the secondary mortgage market in parallel and coordinated with the activities of the second level institution – the state mortgage company.

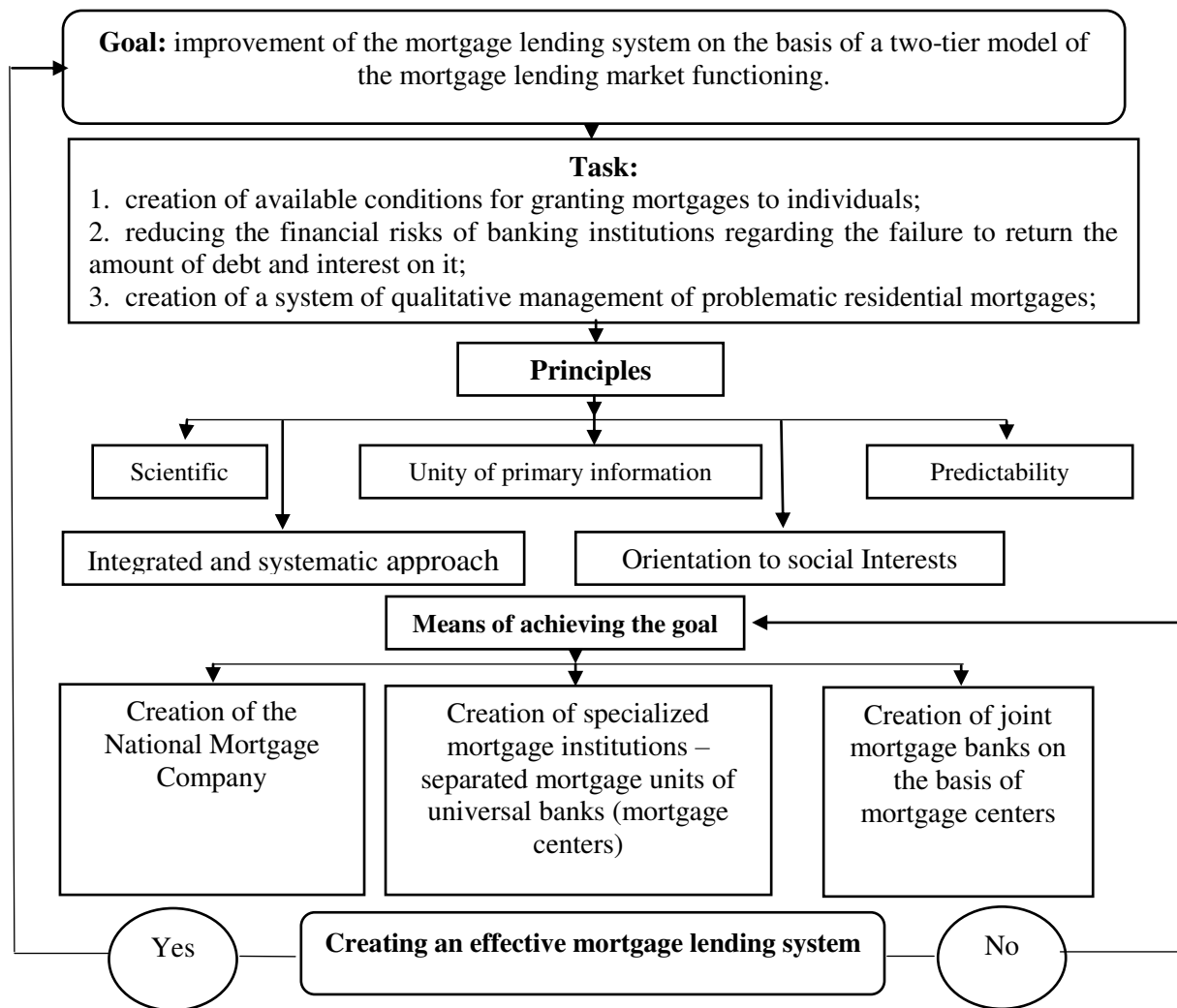


Fig. 1. Conceptual approach to improving the mortgage lending system

In the future, the mortgage centers of the most powerful universal banks could unite to create a JMB that will issue and place their own mortgage securities on the first level of the secondary mortgage market in parallel with the activities of the second level institution – the State Mortgage Institution (Fig. 2).

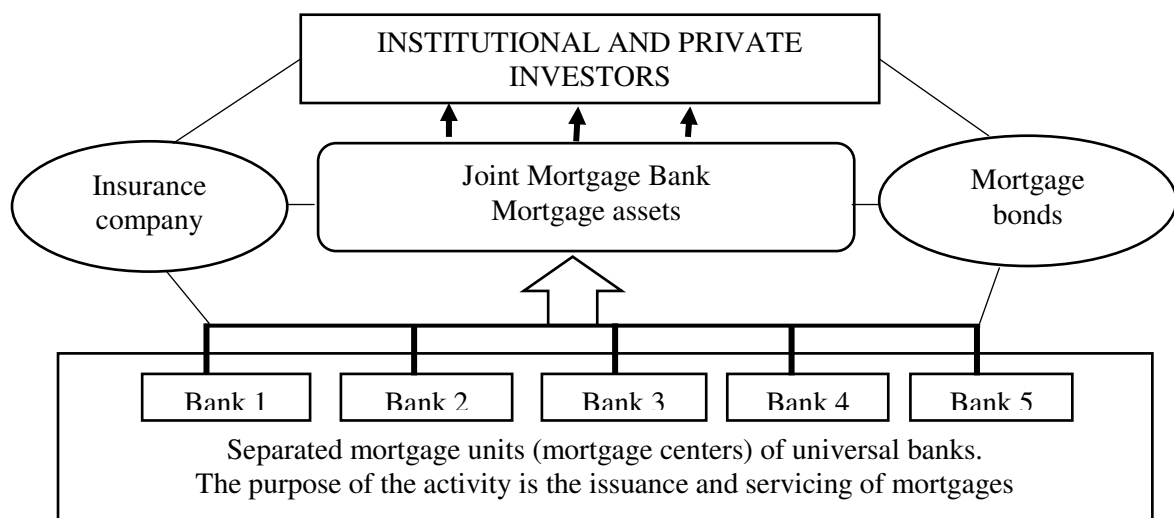


Fig. 2. Organization of a joint mortgage bank for the purpose of issuing mortgage bonds

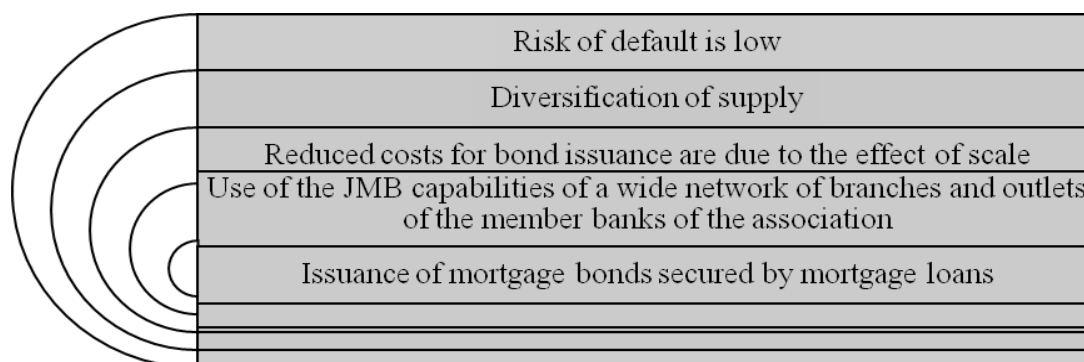
There are two alternative options for a joint mortgage bank:

1. Participating banks perform the functions of agents for finding clients, issuing and servicing mortgage loans JMB, for which they receive a commission. Mortgage loans issued through the network of mortgage centers of the participating banks are accounted for in the assets of JMB, and mortgage bonds are issued to finance them.

2. Participating banks carry out mortgage lending activities independently, and NIB is used as a center for issuing and placing mortgage bonds in order to save costs, and the joint mortgage bank operates as a non-profit structure.

In our opinion, the first version of the organization of JMB is more appropriate for Ukraine, because it is quite structured, each party clearly knows its responsibilities, in addition, in the realities of the banking system of Ukraine it is advisable that the whole process of bank mortgage lending on the basis of one institution.

In addition, the advantages of organizing a joint mortgage bank as a cooperative association of banks for the issuance of mortgage bonds are presented in Figure 3.



**Fig. 3. Advantages of organizing a joint mortgage bank as a cooperative association of banks**

*Source: compiled by the author based on [18]*

**Conclusions.** In the list of economic concepts, without the practical implementation of which it would be absolutely impossible to fully form the domestic market infrastructure, a special place is occupied by "mortgage" and "mortgage lending". Especially because the mortgage is not only a component of the financial market, forming, in particular, the basis for long-term lending, and hence the long-term value of money in the country, but also helps to solve a number of socially important problems. Assessment of the current state of mortgage lending in Ukraine has proved that the mortgage market is one of the most mobile segments of the financial market. To date, real estate lending has intensified and started to grow, but the significant scale of mortgage lending as it was before the crisis period, unfortunately, has not yet been achieved. Implementation of conceptual approaches to strengthening the importance of mortgage lending in solving housing problems will ensure the creation of an effective mortgage lending system in Ukraine.

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**Волкова Неля Іванівна**, кандидат економічних наук, доцент. **Хамула Катерина Володимирівна**, студентка. Донецький національний університет імені Василя Стуса. **Іпотечний кредит: оцінювання сучасного стану та впливу на розв'язання житлових проблем.** Вдосконалення іпотечного кредитування є одним із найважливішим на сьогодні завданням у подальшому реформуванні економіки та створенні, відповідного до сучасних вимог, фінансового ринку з адекватною структурою та інституціональними складовими. У той же час, розвиток іпотечного ринку вирішує як економічні проблеми активізації й ефективного використання фінансових ресурсів, так і соціальні щодо залучення соціальних верств населення до задоволення своїх потреб через механізм фінансового ринку. Проте, низький рівень доходу населення, недоступність іпотечних кредитів у більшості банків України, кризові явища в економіці та не розробленість важелів впливу на ринку нерухомості призводять до стагнації житлового кредитування. Мета роботи полягає у розвитку теоретичних засад, методичних положень та практичних рекомендацій щодо поліпшення системи іпотечного кредитування в Україні. Узагальнено теоретичні положення стосовно сутності іпотечного кредитування, як ефективного засобу трансформації капіталу, прив'язаного до нерухомості; завдяки аналізу сучасного стану іпотечного кредитування в Україні доведено, що воно є одним з найбільш мобільних сегментів фінансового ринку, і на сьогодні кредитування нерухомості активізувалося та почало зростати, але значних масштабів іпотечного кредитування, які були до кризового періоду, на жаль, ще не досягнуто; визначено концептуальні підходи щодо посилення значення іпотечного кредиту в розв'язанні житлових проблем, що полягають у вдосконаленні системи іпотечного кредитування в Україні. Для вирішення поставлених завдань використано сукупність як спеціальних, так і загальнонаукових методів дослідження: теоретичне узагальнення, статистичний аналіз, кластерний аналіз, графічний метод.

**Ключові слова:** іпотека, іпотечний кредит, застава, спільний іпотечний банк, концептуальні підходи.

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**Volkova Nelia Ivanivna**, PhD (Economics), Associate Professor. **Khamula Kateryna Volodymyrivna**, student. Vasyl Stus Donetsk National University. **Mortgage Loan: Assessment of the Current Situation and Impact on the Solution of Housing Problems.** The development of the mortgage market solves both the economic problems of activation and efficient use of financial resources, and social problems in attracting social groups to meet their needs through the mechanism of the financial market. This determines the pattern of development of ways to ensure and develop these processes in Ukraine, their

theoretical justification, taking into account the peculiarities of the national economy and current global trends in the development of housing mortgage lending. The purpose of the work is to develop theoretical principles, guidelines and practical recommendations for improving the mortgage lending system in Ukraine. To achieve this goal, the following tasks were set: to summarize the theoretical provisions on the essence of mortgage lending; to analyze the current state of mortgage lending in Ukraine; identify conceptual approaches to enhancing the importance of mortgage credit in solving housing problems. The object of study is the process of assessing mortgage lending. The subject of the research is theoretical-methodical and practical aspects of mortgage lending in Ukraine and its impact on solving housing problems of the population. The paper summarizes the theoretical provisions on the essence of mortgage lending as an effective means of transforming capital tied to real estate; thanks to the analysis of the current state of mortgage lending in Ukraine it is proved that it is one of the most mobile segments of the financial market and today real estate lending has intensified and started to grow, but significant mortgage lending as before the crisis, unfortunately, has not yet been achieved; conceptual approaches to strengthening the importance of mortgage credit in solving housing problems, which are to improve the mortgage lending system in Ukraine. The information base of the study consisted of official materials of the National Bank of Ukraine, performance indicators of JSC "State Savings Bank of Ukraine", JSC CB "Globus", PJSC JSCB "Arcade", JSB "UkrGasbank", materials of scientific conferences, Internet sources. The scientific novelty of this work is to substantiate the theoretical, legal provisions and provide practical recommendations for improving the mortgage lending system in Ukraine.

**Key words:** mortgage, mortgage loan, collateral, joint mortgage bank, conceptual approaches.