



*Improvement of Economic Policy  
Through Think Tank Partnerships*



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# EVALUATION OF MORTGAGE AFFORDABILITY (MOSCOW CASE)

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## Introduction

Today, the countries with transitional economies with their emerging systems of housing mortgage finance are particularly interested in the development of national and region-wide housing finance programs in order to improve the affordability of housing for various population groups. Without mortgage loans, households have to wait until they have large savings to combine with loans from family and friends to purchase a dwelling. The mortgage finance development may substantially boost the national economy by increasing the demand for new units, although the success of this development relies substantially on a diversity of economic, political and administrative factors, as well as on the extent of the national government support and motivation of the market participants to close mortgage transactions. Such programs are of particular importance for unsustainable inflationary economies where the long-term mortgage lending is exposed to high risks and the clients' paying capacity and creditworthiness are very hard to assess due to the inadequacy of available information.

The main objective of the project is the evaluation of the affordability of unit purchase under the different housing mortgage programs in Russia and Hungary. This objective matches thematic area that is considered priority detailed in RFA: *Financial markets and banking*. This objective can be achieved through the development of a simulation model for the housing affordability assessment based on already designed types of mortgage loans and an array of credit enhancements, e.g. mortgage default insurance and a limited range of subsidy schemes. This model will be used as a tool for evaluating the impact of different credit instruments and underwriting standards applied by different banking and financial institutions on the dynamics of the affordability indicator. The project will also investigate the capacity of various forms of budget subsidizing to improve the affordability of mortgage loans and housing for various income groups of clients. The project will use simulation techniques to investigate the variation of housing affordability and market demand indicators resulting from the use of various mortgage instruments and different forms of subsidies in order to assist authorities responsible for budgeting programs of mortgage subsidies to evaluate the market efficiency of these budget allocations and banking institutions to implement more affordable credit instruments and underwriting standards.

In the course of joint work under the project Improvement of Economic Policy Through Think Tank Partnerships, the experts from the Institute for Urban Economics (Moscow), Metropolitan Research Institute (Budapest) and Urban Institute (Washington) have developed a model, which gives one an opportunity to evaluate the affordability of mortgage lending products for various types of households, as well as the affordability of apartments offered at the existing housing market, taking into account different financing options: the use of household's own savings, sale of existing housing, use of residential mortgage loan.

This is the first attempt to create a model, which would enable one to perform a whole complex of inter-related evaluations on the mortgage lending market and obtain the data necessary for determining the priorities of the country's housing policy and performing comparative analysis of the efficiency of various mortgage lending instruments and subsidizing options.

Evaluations made with the use of the model enable one to gain a better understanding of the possibility of introduction of various mortgage lending products in the market and in some cases support the existing expert evaluations with specific calculations.

Presentation of the model and evaluation results indicated that this work is very significant for all participants of the mortgage market. The model also allows for international comparisons of the mortgage programs in different countries, and for identifying development areas for residential mortgage programs.