

The Practice of Housing Mortgage Lending in Russia

Basic development tendencies of housing mortgage lending in Russia.

In order to achieve stabilization of the society, it is necessary to address such important socio-economic tasks as finding a solution to the housing problem, improving housing affordability for ever growing part of Russian population, increasing the share of housing owners. Given the reduction of state financing allocated for construction and provision of housing for the population, savings of the population and bank loans become the primary source of funds for purchase of housing - as in the majority of developed nations.

Main prerequisites of problem solution. A number of factors can influence the process of establishing a reliable system of long-term residential mortgage lending and the size of potential mortgage market:

- efficient legislative environment
- sufficient effective demand for mortgage loans
- affordability of mortgage loans for population, determined by interest rate amount, length of the loan term, and housing prices
- level of development of the banking system
- creating conditions for effective attraction of long-term resources into the bank lending sector for the purpose of granting loans for purchase of housing
- current situation and potential of housing and construction market development

Main tendencies in the development of housing mortgage lending:

- increased interest in mortgage lending on the part of banks
- general lowering of interest rates on mortgage loans (from 18-20% to 11-15% on hard currency loans, and from 23% to 15-18% on Rouble loans);
- development and implementation of mortgage lending programs by Russian regions
- introduction of various mortgage refinancing models involving secondary market operators, specially established for this purpose, in the course of implementation of the programs of the Housing Mortgage Lending Agency and Moscow Mortgage Lending Agency, established by the Moscow Government. Similar institutions are created in Samara Oblast, Bashkortostan (Ufa City Mortgage Lending Agency), Orenburg (Orenburg Regional Mortgage Lending Financial Agency), Irkutsk (Irkutsk Mortgage Lending Agency), and a number of other regions - as various regional mortgage lending funds.
- improvement of federal and regional legislation in order to provide legal environment for mortgage lending development
- more active work on providing the regulatory, legal and organizational basis for the establishment of the credit bureaus' system and mortgage risk insurance system.

As economic situation in Russia is more and more stabilized, the necessary economic prerequisites appear for the development of long-term housing mortgage lending.

Russian Rouble has somewhat stabilized since its sharp devaluation in August 1998, which at present provides more favorable financial environment for issuing loans to the population.

Certain reduction of borrower's interest rates (in Roubles, as well as in hard currency) can be noted as a positive development.

Legal aspects

At this time, general legal basis for mortgage lending development has already been formed and includes the Civil Code of the Russian Federation, Federal Law of the Russian Federation *On Mortgage Lending (Pledge of Real Estate)* (with changes and additions made in February 2002), Federal Law of the Russian Federation *On State Registration of Real Estate Rights and Transactions*, Federal Law of the Russian Federation *On Appraisal Activity* and other legal acts regulating the operations in this sector.

RF Government Decree # 28 of January 11, 2000, approving the Concept of mortgage lending system development in Russia, presents a significant step in the development of legal and methodological basis for mortgage lending. The Decree approves a plan for drafting a whole set of regulatory and legal documents, ensuring the development of the housing mortgage lending system. In the course of the implementation of this Decree, in early 2002, Federal Law On Introduction of Changes and Amendments to the Federal Law On Mortgage Lending (Pledge of Real Estate) has come into force, expanding significantly the ability of creditors to issue long-term housing loans on mortgage of the property being purchased.

At this time, drafts of the following federal laws have been developed and are undergoing various stages of enactment: *On Emission Mortgage Securities* (passed 1st reading in the State Duma); *On Construction Saving Banks* and *On Protection of Rights and Legal Interests of Citizens Investing Money in Construction and Purchase of Housing* (currently undergoing the process of being finalized for the 1st reading), as well as a number of other draft laws, regulating certain aspects of mortgage lending development.

However, a number of legal problems still stand in the way of development of the comprehensive market system of mortgage lending: in particular, certain changes have to be made to the current legislation, namely - to the Civil and Housing Codes of the Russian Federation - regarding such issues as possibility of foreclosure and subsequent sale of mortgaged property in case of borrower's insolvency, under the procedure established by law; regulation of the activities of guardianship authorities in connection with mortgage lending.

The law *On Introduction of Changes and Additions to Certain Legal Acts of the Russian Federation for the purpose of Mortgage Lending (Borrowing) System Development* was adapted on December 2002. It provides for protection of the social rights of the borrower and his family, who lost their only housing as a result of foreclosure. However, foreclosure cases are still unique in court practice, and the mechanisms of sale of mortgaged property and court enforcement still need further improvement.

Other problems include: absence of legal and regulatory basis for attracting long-term resources from investors and establishing the system of long-term loan refinancing; defects of tax policy in this sphere; absence of the normative basis regulating the activities of banks engaged in issuing long-term mortgage loans.

Affordability of Housing

Situation on the housing market is characterized by the dynamics of the housing affordability coefficient, which is calculated as a ratio of the average cost of a standard apartment to the average annual income of a household (the resulting value can also be interpreted as a number of years required for acquisition of housing at the given income level). The dynamics of this coefficient in different Russian cities display relatively the same tendency. At present, in most regions, there is some increase in housing affordability, resulting from growth of income, which is demonstrated by some reduction of the coefficient value.

Table data illustrate the dynamics of the housing affordability indicator on the average in Russia, for 1996-2002.

Table 1. Housing Affordability in the Russian Federation in 1996-2002. ¹

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Average per capita monthly money income, RUR (before 1998, RUR thous.) ² | 769,2 | 940,8 | 1007,8 | 1629,6 | 2192,9 | 2881,0 | 4245,3 |
| Average price of housing on the real estate market, RUR per 1 square meter (before 1998, RUR thous.) ³ | 2928,1 | 3057,8 | 4995,2 | 6575,0 | 7634,1 | 9777,7 | 12159,7 |
| Correlation between standard apartment value and annual household income, in years | 5,71 | 4,88 | 7,39 | 6,05 | 5,22 | 5,09 | 4,30 |

Housing Affordability Indicator is one of the key indicators in this sphere, widely used in international practice. In particular, it is used for country-to-country comparison in UN Human

¹ Calculation of Housing Affordability Indicator is based on the following assumptions.

Average size of a household - 3 persons. Calculation of the average household income is based on nominal average per capita monthly income for a certain year. Annual household income is determined by multiplying average annual income per person (average monthly income multiplied by 12) by 3 (the number of household members).

Standard apartment area for the given household is assumed at 54 sq.m. (social norm is 18 sq. m. per person).

² *Social Status and Living Standards in Russia. M.*, Goskomstat, 2002; *Social Indicators of Income and Living Standards*. Publication of the Ministry of Labor and Social Development of the Russian Federation.

³ Calculated based on the data from *Social Status and Living Standards in Russia.*, M. Goskomstat, 2002, and the current data of State Statistics Committee of Russia.

Settlements Program (Habitat). Thus, according to the data for 1998, the value of this indicator for Seattle amounted to 3 years, for London - 4.7 years, for Edinburgh - 3.5 years, for New York - 2.7 years, Stockholm - 6 years, Tokyo - 5.6 years, Amsterdam - 7.8 years. According to the 1996 data, this indicator amounted to 3 years for Paris, 3.6 years for Melbourne, 2.5 years - for Rio de Janeiro. Overall housing affordability indicator in the USA came to 2.85 years in 2000. Of course, in different countries we are talking about different quality of housing, however this quality represents the acceptable (average, mass) standard of living in the given society.

However, evaluating the ability of an individual citizen to acquire housing, one should take into consideration the financial aspect of the problem. Purchase of housing requires preliminary savings, as well as the possibility to take mortgage loans. It has to be noted that there is a considerable difference between Russia and developed nations in terms of accumulating savings for housing purchase and availability of credit resources.

Economic stabilization and positive trends provided the necessary environment for rather stable effective demand for long-term housing mortgage loans. This process is most evident in large cities, and it seems that market refinancing mechanisms of the mortgage lending system will be first developed in such cities.

Difficulties of estimating current income of the population are mostly associated with so called "hidden" real income, associated with the existence of "shadow" sectors of the economy, which are not accounted for in official income sources.

In addition to current income estimate, ability of citizens to purchase housing with the use of mortgage loans depends on a number of other factors:

- Availability and size of preliminary savings, i.e. savings which are usually not kept on bank accounts and are difficult to assess for different income groups;
- Availability of long-term housing mortgage loans, offered by commercial banks, which prefer to employ the wait-and-see policy, viewing mortgage lending as promising line of activity, but so far - not profitable enough when compared to other investment options.
- Terms of loan issue

Banks on Mortgage Market and Problems of Long-term Loans Refinancing

Before the crisis of August 1998, only about 20 Russian banks offered housing mortgage loans to the population. After the crisis, a number of banks suspended their activities, however as the economic situation became more stable, they were replaced by new banks, which gradually started to participate in various mortgage lending programs. The desire of banks to occupy a certain position on the promising market in real sector of the economy, as well as development of regional initiatives in the field of housing mortgage lending contributed to this process.

Generally, long-term mortgage lending is still not a separate line of business for Russian commercial banks. Among the banks issuing mortgage loans the following can be named: Delta Credit, Investsberbank, Fora Bank, Mezhdunarodnyi Promyshlenyi Bank, Sobinbank, Sberbank of Russia,

Ob'edinennyi Promyshlennno-Torgovyi Bank and others. It has to be noted that in recent times there were some positive changes in the conditions under which mortgage loans are issued by the banks.

First of all, loan term was increased from 1-3 years (typical term before) to 5-15 years, and in some regional programs - up to 20-25 years.

Second, interest rates on hard currency mortgage loans dropped from 30% p.a. to 10-15% p.a. Interest rates on Rouble mortgage loans also went down from 42 to 18% p.a. The program of Mortgage Lending Agency and some regional programs set interest rates on Rouble mortgage loans at 8-15% p.a.

It is also very important that more and more banks use mortgage as the main security for credit funds repayment. In contrast with the previous period, when banks preferred to issue mortgage loans under the "leasing" scheme, now they use pledge of the property being purchased as security more and more often, performing detailed procedures for arranging and registering the mortgage of residential property. A number of banks successfully use the procedure of trilateral sale-purchase and mortgage agreement, concluded between the seller of the property (apartment), the buyer/borrower and the bank/creditor. This agreement enables the parties to register almost simultaneously the right of ownership to the residential property being purchased with the use of credit funds and mortgage rights of the mortgagee bank, thus ensuring the repayment of the loan. This agreement lowers significantly the risk of the bank, simplifies and accelerates the procedure of registering the transaction. The trilateral agreement is mostly used in Moscow and St. Petersburg. Other regions are gradually starting to work with this form of agreement.

The banks experience the following problems when issuing long-term housing mortgage loans to the population:

1. Credit risk - the risk associated with legal and judicial difficulties of foreclosure, problems of borrower's eviction and sale of mortgaged property. The banks evaluate this risk as rather high, which leads to higher interest rates on loans.
2. Interest rate risk. Most banks in Moscow and St. Petersburg prefer issuing long-term housing loans at fixed interest rates denominated in hard currency (12-15%, in USD). However, for the majority of borrowers, who receive their income in Roubles, there is a risk of so called "payment shock", when their Rouble income turns out to be insufficient for making loan payments in hard currency. Unlike in Moscow and St. Petersburg, in most Russian regions the opinion prevails that hard currency loans are unaffordable for the majority of population. Banks, which issue housing loans, either do so under certain regional housing programs, issuing loans on easy terms in Roubles at the expense of budget funds, or use interest rates on Rouble loans of Sberbank of the Russian Federation.
3. Insufficient level of income of the population, lack of sufficient savings, unstable employment, unwillingness to show income - all these problems hinder the selection of reliable borrowers.
4. Lack of long-term and relatively cheap credit resources. The banks currently have mostly short-term resources, therefore issuing a large number of long-term loans may result in serious violation of the bank's balance liquidity and Central Bank standards.

5. Regulatory basis, governing banking activities, does not fully reflect the specifics of long-term mortgage lending operations, and as a result this kind of operations is often less profitable for the banks than other transactions.
6. Lack of trust in banks on the part of the population. This reduces the possibility of saving money for downpayment in a bank, which in turn decreases the resources available for lending operations and prevents the establishment of normal creditor-borrower relationship.

Consequently, given the current legal and regulatory basis, the banks view such operations as housing mortgage lending to population or construction loans to developers as highly risky and not profitable enough. As a result, to this date direct investment of funds by the population or individual investors, as well as funds of regional and local budgets remain the main financing sources for housing construction and purchase.

Mortgage lending in Russia is being developed mostly through budget schemes and is highly dependable on the support of regional administrations and large companies.

Models of Mortgage Loans Refinancing

Establishment of the Housing Mortgage Lending Agency (HMLA) presented a significant step made by the state in the development of the system of housing mortgage lending. The Agency was founded as open joint stock company with controlling interest held by the state (pursuant to RF Government Decree #1010, of August 26, 1996, *On Housing Mortgage Lending Agency*).

In 1999-2001, HMLA implemented in St. Petersburg a pilot project on buying out long-term mortgage loans issued by banks to citizens for purchase of housing. Several banks participated in the pilot project, including OAO Promyshlennno-stroitelnyi Bank, KB Petrovskii, KB Baltiiskiy and OAO Bank St. Petersburg. HMLA made agreements with these banks on refinancing of housing mortgage loans issued by them. In the course of the pilot project, a lot of work was done on developing the regional regulatory and legal basis in order to create a favorable environment for mortgage lending. The following local laws were adopted: *On Development of Housing Mortgage Lending in St. Petersburg* and *On Temporary Residence Houses*.

HMLA played an important part in developing standards and requirements for issuing and servicing long-term mortgage loans. These standards and requirements were developed in order to minimize the risks and improve the reliability of the system. In the course of pilot project implementation, the procedures of mortgage lending and relationship between the banks and HMLA were developed and tested.

Lack of own funds, as well as absence of license for credit operations, prevented HMLA from expanding its activities as an independent secondary market operator.

In late 2002, HMLA's capital fund was increased to RUR 690 mln. These funds came from the federal budget.

HMLA started working more actively. A new version of unified mortgage lending standards was prepared, the Agency started to work with regional operators of the mortgage lending market on the

issues of mortgage loan refinancing. HMLA concluded agreements with 29 regions, in particular, with Orenburg Oblast, Samara Oblast, Moscow Oblast and others. These agreements provide for refinancing of mortgage loans issued by banks. 11 regions have already undertaken to sell to HMLA mortgages for the total amount of over RUR 1 billion (about 2.5 thousand mortgage loans). As of early April 2003, HMLA bought out only 143 loans.

HMLA plans to implement mortgage lending programs in cooperation with large banks. Thus, negotiations are being held with such banks as Delta Credit, National Reserve Bank, Moscow Banks, Gazprombank.

HMLA also works on providing the opportunities for attracting funds through emission of mortgage securities. HMLA's business plan provides for emission of bonds, secured by the state guarantees of the Russian Federation. Initially, HMLA plans to place bonds for the amount of RUR 1.07 billion (approximately US\$ 35 million). In April 2003, bond issue prospectus was registered. State guarantees ensure fulfillment of obligations on bond redemption and payment of coupon yield for the total amount of RUR 2 billion. Overall in 2003, federal budget provides for state guarantees under HMLA securities for the total amount of RUR 4.5 billion.

The bonds have fixed coupon yield rate, which amounts to 11% p.a. The date of maturity is December 1, 2008. In April 2003, HMLA placed the first issue of its corporate documentary interest-bearing bonds. Effective yield to maturity at placement price came to 9.69% p.a.

HMLA now has funds for refinancing of about 1000 mortgage loans (average mortgage loan amount being US\$ 30 thousand). The Agency plans to refinance mortgage loans pools, bought mainly from regional mortgage operators.

It has to be noted that certain aspects of the HMLA program raise doubts. Thus, the Agency now is focused on cooperation with regional institutions of the secondary mortgage market (regional mortgage lending agencies, housing funds, etc). Under the scheme, proposed by HMLA, the banks deal with regional operators and the latter - with HMLA. Each of the intermediaries gets his share of loan income, which does not help to lower the interest rates on loans. It is unclear, what meaning HMLA puts into the notion of "mortgage loan maintenance", which should be the function of a regional operator, although this is a purely banking function.

In Moscow, on the other hand, upon the initiative of the Moscow Government, pursuant to the Moscow Government Decree #194, of March 16, 1999, Moscow Mortgage Lending Agency was registered. At this time, the Agency has credit license (commercial bank Moscow Mortgage Lending Agency - CB MMLA). Main task of the Agency is to organize secondary mortgage market in Moscow, establish the system of mortgage loan refinancing.

As of August 1, 2002, MMLA's credit portfolio, secured by pledge of real estate, amounted to RUR 456 million (1,500 loans). MMLA has bought out the rights (claims) under loan agreements and mortgage agreements for the total amount of RUR 6.885 million, issued mortgage loans for the total amount of RUR 241.964 million. Portfolio of loan applications, being reviewed by the bank, amounts to RUR 203 million.

Partner banks of MMLA issue mortgage loans at fixed interest rate of 15% p.a. in USD. Bank refinancing rate is set by MMLA at 11% p.a. and calculated under the procedure established by the Moscow mortgage lending program standards.

MMLA started bond placement for the total amount of RUR 2.2 billion. The yield on these bonds will come to 10% p.a., maturity - 10 years. Funds received from bond placement will be used for mortgage lending operations in Moscow and Central Federal District. Bonds are secured by guarantees of Moscow Government and the portfolio of mortgage loans issued.

In late 2002, a trilateral agreement was signed on cooperation between HMLA, Moscow Government and MMLA. Pursuant to this agreement, it is planned to start implementation of the HMLA program in Moscow and to guaranty the rights of citizens to housing by involving into the Program the relocation housing fund of Moscow. In addition, Moscow Government will serve as guarantor for a number of MMLA obligations.

At this time, the most actively implemented mortgage lending program is this of the USA-Russia Investment Fund (implemented by Delta Credit Bank). Over 10 banks in Moscow and St.Petersburg cooperate with the Fund. Loans are issued under conditions corresponding to the main program: loan term - up to 10 years, loan currency - USD, interest rate - 12-15% p.a., loan amount - up to US\$ 200 thousand. In addition to that, Delta Credit Bank is implementing an additional program of crediting the purchase of unfinished apartments, finished and unfinished cottages. Under this program, interest rates come to 18-22% p.a. in hard currency

In accordance with general conditions of crediting, downpayment comes to 15-30% of the total apartment cost. The apartment can be purchased in Moscow, Moscow Oblast or St. Petersburg. RF citizenship is not required, and neither is permanent registration in Moscow, Moscow Oblast or St. Petersburg or guarantees from legal or natural persons. Credit worthiness is calculated based on aggregate household income, including wages, insurance payments, bank deposits, and other types of income. The bank provides the option of including realtor's commission and document registration expenses into the loan amount.

Delta Credit Bank implements the following mortgage lending programs:

1. Loans for purchase of finished housing, with fixed interest rate:
 - maximum loan amount - US\$ 200,000;
 - minimum loan amount - US\$ 17,000 (Moscow), US\$ 10,000 (Moscow Oblast, St. Petersburg);
 - loan term - 10 years;
 - interest rate - 10-15% p.a., fixed at the moment of loan issue for the whole loan term;
 - insurance requirements:
 - damage risk insurance for the property (apartment) being purchased
 - life and disability insurance for the borrower;
 - insurance against loss of ownership rights to property;
 - total cost of all three types of insurance amounts to 1.5% of the loan amount, increased by 10%.
2. Loans for purchase of finished housing with floating interest rate:
 - maximum loan amount - US\$ 450,000;

- minimum loan amount - US\$ 35,000;
 - loan term - up to 15 years;
 - interest rate – 10-14% p.a. depending on the interest rate on International Interbank deposit market (LIBOR 12 months);
 - downpayment - from 30% of apartment value;
 - insurance requirements:
 - damage risk insurance for the property (apartment) being purchased
 - life and temporary disability insurance for the borrower;
 - insurance against loss of ownership rights to property;
 - total cost of all three types of insurance amounts to 1.5% of the loan amount, increased by 10%.
3. Loans for purchase of apartment in a building under construction:
- maximum loan amount - US\$ 200,000;
 - minimum loan amount - US\$ 17,000;
 - loan term - 10 years;
 - interest rate – 16-21% p.a. during construction stage, 10-15% after signing mortgage agreement for the apartment;
 - downpayment - 40% of apartment value;
 - insurance requirements:
 - during construction stage:
 - life and temporary disability insurance for the borrower;
 - after registering the borrower's ownership rights:
 - damage risk insurance for the property (apartment) being purchased
 - life and temporary disability insurance for the borrower;
 - insurance against loss of ownership rights to property;
 - total cost of all three types of insurance amounts to 1.5% of the loan amount, increased by 10%.

Also, the bank is implementing a program of loans for suburban real estate (for purchase of finished cottages, for completion of construction, for renovation and finishing works). For example, the following conditions are set for purchase of a finished cottage:

- maximum loan amount - US\$ 200,000;
- minimum loan amount - US\$ 50,000;
- loan term - 10 years;
- interest rate – 13-18% p.a., fixed at the moment of loan issue for the whole loan term;
- downpayment - 50% of the total value of the cottage and the land plot;
- degree of readiness - cottage ready for living;
- cottage location- Moscow or Moscow Oblast;
- loan security - pledge of land plot and cottage;
- insurance requirements:
 - damage and destruction risk insurance for the cottage and land plot
 - life and temporary disability insurance for the borrower;
 - insurance against loss of ownership rights to cottage and land plot;
- total cost of all three types of insurance amounts to 1.5% of the loan amount, increased by 10%.

According to the data for late 2002, the bank has issued loans for the total amount of over US\$ 35 million and approved loans for US\$71 million.

Thus, examination of the mortgage lending programs of HMLA, MMLA and Delta Credit Bank shows that relationship of banks and refinancing institutions are based on the following common principles:

- long-term agreements are concluded, which set standards and requirements for the loans issued and terms of their refinancing;
- requirements to partner banks are determined (reliability and professionalism);
- conditions provided for lowering of risks, improvement of mortgage loans reliability.

No doubt, there are a lot of difficulties in the way of housing mortgage lending development, however one can't help noticing that credit volumes are growing, banks are learning to issue and service mortgage loans professionally and skillfully, as well as to lower credit risks and cooperate with other real estate market operators: realtors, appraisers, insurance companies, refinancing institutions. The conditions appear for gradual increase of the mortgage market volumes.

Regional Mortgage Lending and Housing Finance Programs

At present, a number of cities and regions of Russia (Orenburg, Moscow, Udmurt Republic, Samara Oblast, Saratov Oblast, Nizhny Novgorod Oblast, Saratov, Republic of Bashkortostan, Ryazan, Irkutsk Oblast and others) attempt to implement their own housing programs.

Under these programs, certain funds from regional and local budgets are allocated for issuing loans to citizens for purchase or construction of housing. Regional and local administrations are interested in housing programs for a number of reasons:

- they are trying to increase effective demand using budget funds;
- they want to increase the activities in construction sector by stimulating the in-flow of funds both from population and from budget sources;
- they are looking for additional forms of housing financing in absence of sufficient supply from the banking sector.

Budget funds allocated for financial support of housing programs are used in different ways. One of the most common forms until recently was subsidizing of the interest rate on mortgage loans issued by authorized banks. In this case, program funds are used to compensate the banks for the difference between the market value of credit resources and preferential interest rate used for borrowers. Housing programs of Udmurtia, Nizhny Novgorod and some other cities and regions were based on this scheme.

Thus, in Nizhny Novgorod Oblast, under similar program, local self-government forms lists of citizens who have the right to receive preferential loans. These citizens receive certificates for the right to take preferential housing loans, which they can present to Nizhny Novgorod Bank of the Sberbank of Russia. Interest rate difference is compensated in the following way: 40% - from regional (Oblast) budget, 60% - from local budget. Interest rate on loan for borrowers is set at 8% p.a. in Roubles and remains unchanged during the whole loan term - up to 10 years. Credit worthiness of the borrower also determines the loan amount limits. The loan is secured with pledge of the housing being purchased.

Another way of using budget funds under housing programs is issuing loans for housing purposes at rates lower than those on the loan market. Examples of this approach can be found in Orenburg Oblast, Samara Oblast and some others. Specific feature of this type of programs is establishment of a special management body - Regional (Oblast) Housing and Mortgage Fund in Samara Oblast, Mortgage Corporation in Orenburg Oblast - which organize the issue of preferential housing loans through an authorized bank or agent bank. Further development of mortgage lending programs in Samara Oblast and Orenburg Oblast is associated with establishment of the market system of mortgage lending and secondary mortgage market.

Moscow

At present, a number of mortgage lending programs are being implemented in Moscow by the Moscow Government. In addition to the program of secondary mortgage market establishment, the key element of which is the Moscow Mortgage Lending Agency, there are other programs being implemented in the city, which rely on financial base of the institutions of construction sectors:

In an attempt to increase the in-flow of funds from the population, developers have recently started to create various savings and loan banks, in the form of share societies, consumer's cooperatives, associations, loan societies, credit unions. Activities of these associations are usually directly linked to construction of specific residential buildings and the citizens are not provided with free choice of housing. These organizations are not licensed to perform such operations as accumulation of funds on deposits, loan issue, servicing of credit operations, all of which can be performed professionally by licensed banks. As state supervisory authorities do not control the safe keeping and proper use of funds, there is a possibility of their uncontrolled spending, which presents risks for regular shareholders of such associations.

Examples of savings associations established by developers in Moscow are numerous:

- Savings and Loan Banks Program
- Joint Program of the Non-budget Planning Department of the Moscow Government and Sobinbank
- Program jointly implemented by DSK-1 (Construction company) and Moscow bank of Sberbank of Russia (loans for the term of up to 10 years issued under pledge of the apartments purchased from DSK-1.
- Program jointly implemented by Mosstroimekhanizatsia-5 Construction Company, Ob'edinennyi Promyshlenno-torgovyi Bank and First Mortgage Company.

The mechanism of these programs can be analyzed using the example of the program of savings and loan associations (SLA), approved by the Government of Moscow in 1998. Under this program, citizens have an option of purchasing apartments in buildings under construction, on following terms:

- downpayment, made under investment agreement, amounts to 5% of the apartment value;
- amount of savings - 45% of apartment value, by making equal monthly payments during 1-3 years at interest of 1.5% p.a.
- after commissioning of the building, SLA members get extension of payment for 3-5 years at 8% p.a. in hard currency;

- the apartment is registered as the property of SLA member only after full repayment of loan.

Thus, already during construction stage, citizens use their savings for construction of a building, getting information on its location, size and layout of the apartment from advertising prospectuses. Advancing funds to the developer in the process of construction, the citizen is extremely limited in his free choice of housing and in his ability to manage his investment and control the cost and quality of construction.

Program mechanisms are often based on combining the interests of banks and developers. Some banks issue loans at relatively low interest rates - 10% in hard currency, but not for purchase of housing on the "free market" - such loans are issued only for purchase of apartments in certain buildings sold by certain developers or real estate sellers at inflated prices. Such a scheme allows the latter to gain high profits, without lowering prices for newly constructed housing, even if the real estate is sold on the 3-year installment plan or on credit from a partner bank at relatively low interest rates in hard currency (10-12%). As a rule, such schemes are common when developers are the founders of the bank and interested in selling their buildings at high prices, or when the bank participates in construction as investor or creditor and therefore is also interested in selling its share of housing.

Samara Oblast

In Samara, active work in the field of housing finance is done by Samara Regional (Oblast) Housing and Mortgage Fund, registered on January 28, 2000. Samara Oblast Administration is the founder of the Fund. At the initial stage of development, oblast budget funds were the main source of financing of the mortgage lending system. Regulatory and legal documents, which define the procedure for issuing mortgage loans, set the following conditions: loan term - up to 25 years (most loans are issued for the term from 3 to 15 years); interest rate - 15% p.a. in Roubles; security - property purchased with the use of loan funds.

The loan is issued for purchase of housing on the secondary market, as well as for participation in share construction of new housing, renovation of old housing. Average loan amount for purchase of housing on the secondary market comes to RUR 225 thousand.

The rights of the creditor, who is the pledge holder under the obligation secured by mortgage and under the combined agreement on sale-purchase and mortgage, are certified by mortgage deed. Initial creditor under loan agreement for purchase of housing is the bank, with which the Fund concluded the agreement. The loan is issued on condition of sufficient creditworthiness of the borrower and members of his household, which is determined based on information on earnings received from borrower's place of employment. The ratio of loan payment to the average monthly net income of the borrower (including co-borrower's income) should not exceed 30%. Loan is issued to the borrower on condition of compulsory investment of borrower's own funds in the amount of no less than 15% of the value of housing being purchased.

At this time, bond issue is prepared in Samara Oblast for the purpose of attracting investors' funds for refinancing of long-term mortgage loans. In 2002, Samara Mortgage Lending Agency was established for the purpose of organizing the system of long-term mortgage loan refinancing.

As of late March 2003, the Fund has issued 870 loans for the total amount of RUR 217 million, out of which 188 loans were issued for purchase of housing on the primary market, 428 - for purchase of housing on the secondary market, 254 - for housing improvement. Loans were issued for purchase of housing with total area of 36 thousand sq. m.

The Fund made an agreement with HMLA, pursuant to which the first 16 mortgages were sold.

Orenburg Oblast

In Orenburg Oblast, three schemes are used for mortgage lending system development:

1. Mortgage lending at market interest rate.
2. Provision of credit funds in the form of loans, credits, installment plans, etc. on preferential terms
3. Mortgage lending with the use of savings-and-loan mechanism.

These schemes differ primarily by sources of long-term funds for issuing mortgage loans.

Under the first scheme, capital market serves as financing source by implementing the refinancing mechanism. The second scheme is based on funds from the regional budget and organizations. The third scheme is based on attracting funds of clients of construction savings associations and consumer's credit cooperatives.

Main operators of the mortgage lending market in Orenburg Oblast are: Orenburg Mortgage Housing Corporation, Orenburg Mortgage Bank Rus, Orenburg Regional Mortgage Finance Agency, Orenburg Mortgage Consulting and Realtor Company, and others.

Orenburg Mortgage Housing Corporation acts as general manager in implementation of housing programs in the Oblast. The Corporation ensures cooperation between borrowers, the bank, local authorities and other program participants.

State Property Management Committee of Orenburg Oblast holds the controlling interest.

Orenburg Mortgage Bank Rus issues and services long-term loans in Orenburg Oblast. Categories of borrowers and interest rates on preferential loans (7-12% p.a. in Roubles) are established by the decrees of Oblast Administrations. Loans are issued for the term of up to 20 years. Loans are usually secured by pledge of residential real estate purchased by the borrower or by pledge of land plot owned by the borrower. In addition to that, under the program, market mortgage loans are also issued, which can be refinanced with the use of resources attracted by Orenburg Regional Mortgage Finance Agency.

According to the data for early April 2003, over 1100 mortgage loans for the total amount of RUR 153 million were issued.

In Orenburg Oblast, regional budget financing is being replaced by the refinancing mechanism and establishment of secondary mortgage market.

In August 2002, an agreement was signed between the Oblast Administration, HMLA and Orenburg Mortgage Housing Corporation on cooperation in the field of mortgage lending. As of today, HMLA bought from the regional mortgage lending agency mortgages for the total amount of RUR 10 million.

Work is being done in the oblast in order to attract funds of companies into the mortgage lending sphere, about RUR 6 million have been raised.

Saratov

One of the mortgage lending programs is the program of housing construction and long-term crediting implemented in Sarov. A non-for-profit organization was established for this purpose - Social Development Fund (SDF), the primary function of which is financial support of the program.

Commercial organization Real Estate Agency is the managing company directly responsible for program implementation. This company forms the housing stock for sale to citizens on the installment plan. In order to form the necessary housing stock, the managing company organizes construction of new residential buildings, including construction with the use of uncompleted construction units transferred to SDF. Vacated old apartments are transferred to SDF for sale.

Citizens, who already have housing, can participate in the program. The Real Estate Agency determines the assessed value of the old housing, which is used to offset the value of new housing. The loan, or more precisely - the installment plan, is given for the maximum amount of 13-15% of the total cost of new housing. The rest of the cost the buyer pays in cash, using his savings.

Nizhny Novgorod

In 1999, Nizhny Novgorod Administration began implementation of the program of housing conditions improvement, which is based on the Sarov method of addressing the housing problem. Citizens, who are registered residents of Nizhny Novgorod and already have some housing in their ownership, are eligible for program participation. In addition to that, citizens should have their own funds in the amount of at least 15% of the value of the housing being purchased, as well as a permanent and reliable income source. The downpayment together with the value of the old housing should amount to at least 80% of the cost of the new housing. The remaining part of the cost is paid under an installment plan during the 15-year period, at interest rate of 7% p.a.

Ryazan

In Ryazan, municipal mortgage lending program was designed in 1999. A special nonprofit organization was established for program implementation - Ryazan Mortgage Lending Fund (the Fund). MCB Zhivago Bank, which is one of the founders of the Fund, participated in the program. Another participant is the managing company - Ryazan Regional Real Estate Center. The Center is responsible for forming the supply of real estate on the primary and secondary markets, involving the city developers and realtors.

Under the program, budget funds are allocated for investment into housing construction and financing of purchase of housing by the population. The funds are credited to the budget account of the Fund, and then transferred, under loan agreements, to specific buyers (developers) of housing or to special purpose blocked account of specific program participants. The latter scheme is used for crediting retired military personnel who are eligible for housing subsidy in the form of State Housing Certificates. Loans are granted to SHC holders for the purpose of covering the difference between the cost of the housing being purchased and the amount of the housing subsidy.

For other citizens, the Fund, on behalf of the Administration (under power of attorney), acquires housing using the budget funds and sells this housing to citizens on the installment with extension of payment for 7-15 years. Mortgage of the housing is registered as collateral; City Administration acts as the mortgagee.

Bashkiria

There are two housing financing programs in Bashkiria: mortgage lending program in the city of Ufa and housing construction financing program of Republic of Bashkortostan. Both programs are more or less based on subsidizing, especially - the republican program, which is targeted primarily to citizens in need of housing conditions improvement.

The city program stipulates future creation of proper environment for the development of mortgage lending system, aimed at attraction of long-term resources. In the course of program implementation, in 1999, Ufa City Administration established Ufa Municipal Mortgage Lending Agency (Ufa Agency), which is responsible for arranging the refinancing of long-term mortgage loans issued to citizens. Statutory capital of Ufa Agency was formed with municipal budget funds (the city holds 93% of shares) and amounts approximately to RUR 100 mln. Pursuant to the resolution of Ufa City Council, such loans can be issued to Ufa residents, who work in Ufa, and to entrepreneurs who have opened their current accounts in the city. The priority right to participate in the program is given to those citizens who are in need of housing and are recognized as such under the established procedure. In two years, over 750 mortgage loans have been issued, including over 600 loans issued for the purpose of new construction. Over 300 apartments have been commissioned (about 20,000 sq. m). Buildings with total area of over 18,000 sq. m. are under construction.

In 2000 - 2001, mortgage loans were mainly financed with municipal budget funds, which were contributed to the statutory capital of the Agency.

The loans are issued at 8% p.a. in the amount of 50-70% of the total value of the apartment being purchased (under construction) for the term of 10-15 years. Loans are issued through the agent bank

Basheconombank, while Ufa Agency performs all organizational activities on refinancing, forming the construction costs, approving lending methodology. The Agency refinances mortgage loans, issued by the bank in accordance with established requirements. Under the program, both - the loans issued for purchase of housing on the secondary market and the loans issued for purchase of housing in a building under construction - can be refinanced.

The bank preserves the functions of servicing the loans (pursuant to agency agreement, the bank acts as servicing agent, receiving 2%). Mortgage loans are issued for the term of up to 10 years at 8% p.a.

Ufa Agency is working on attracting funds of companies and pension funds into the mortgage lending program.

The second program is implemented by the Housing Construction Fund of the Republic of Bashkortostan. The Fund acts as an investor into construction, performed under the presidential housing program.

Irkutsk Oblast

The experience of Irkutsk Oblast in establishing secondary mortgage market seems very promising. In 1999, OAO Irkutsk Regional Mortgage Lending Agency was registered. Its only shareholder is the state, represented by the Property Fund of Irkutsk Oblast. The statutory capital of the Agency amounts to RUR 26 million. Consumer's Credit Union *Rost* is the main partner of the Agency.

Main activities of the Agency should be acquisition of mortgages and issue of bonds, secured by mortgage pools.

Under the current scheme, the crediting institution issues mortgage loans for purchase of housing at 10-12% p.a. in hard currency for the term of up to 10 years. Loans are granted on conditions, set by the Agency. The loans are secured by pledge of property being purchased. The crediting institution registers mortgages at the Irkutsk Oblast Department for Registration of Real Estate Rights and Transactions. After that, the Agency buys the mortgage, forms mortgage pool and issues bonds, secured by this pool. The bonds are sold to investors, and the resulting funds are used for refinancing of the next portion of loans. As crediting schemes become more developed and reliability of loans increases, these bonds will become more and more attractive for investors and possibilities of loan refinancing will expand.

As of 2003, 77 loans were issued for the total amount of RUR 22,894 thousand. 21 mortgages were registered for the total amount of RUR 5,300 thousand.

In October 2001, the Agency issued bonds for the amount of RUR 5 thousand for the term of 10 years (5% p.a. in hard currency).

Examination of regional approaches to the housing problem enables us to conclude that, notwithstanding all the differences, they are all based on an attempt to use in one way or another the

funds of local budgets in order to support their housing programs. All programs are characterized by small scale of implementation, as they are limited by budget capacity. Budget funds are viewed as "cheap" resources, the system is based on the use of various barter schemes.

The main defect of these programs lies in the fact that in unstable economic situation it may turn out that budget funds allocated for the housing program are insufficient for the whole loan term. It is rather difficult to assess the amount of funds which is needed for implementing the interest rate compensation program, as it is influenced by the changes in cost of credit resources on finance market. Budget burden may prove to be too heavy, and as a result many programs of this kind have been suspended (e.g. in Udmurtia, Nizhny Novgorod).

It has to be noted that most of the regional programs are aimed, directly or indirectly, at supporting the construction sector. Widely used barter mechanisms, offset of tax arrears of enterprises by providing construction materials and equipment for housing construction in the form of commodity credit - these schemes interfere with the transparency of financial flow, making it unattractive and unclear for outside investors. This ultimately leads to the increase in working costs of housing construction and to creation of complicated construction financing schemes.

Thus, one can't help noticing that regional housing programs can to some extent solve the problem of providing housing to citizens by means of "cheap" budget loans, however no evaluation of efficiency of these programs have been performed, which could have demonstrated at what price this results are achieved. Such schemes cannot attract market funds, investments and bank loans as they are difficult to analyze and evaluate.

The programs produce certain results by providing some families with an opportunity to improve their housing conditions, but at the same time they have a number of negative effects, among which the following can be named:

- Budget resources are spent through various non-budget funds, these spending is not always targeted and not always for the designated purpose;
- Subsidies provided to citizens in the form of preferential loans and subsidizing of interest rates present a rather heavy burden for local budgets; these mechanisms are not always targeted to those groups of population who have the most need for budget support;
- Commercial banks, insurance companies, realtors, appraisal firms, selected for participation in regional housing programs, do not function as active market participants, but only serve as authorized intermediaries in issuing and servicing of loans;
- In the situation, when interest rates on loans are intentionally low, it is impossible to attract the funds from institutionalized and private investors on market terms, which limits the scope of regional housing programs.

Commercial banks have adopted a passive, wait-and-see attitude, being reluctant to invest their outside resources into housing mortgage lending, as they prefer to pass possible risks on to regional mortgage lending agencies, which are established at the expense of budget funds.

Programs of Housing Conditions Improvement for Certain Categories of Population

Federal Programs of Housing Conditions Improvement for Certain Categories of Population

A number of programs are being implemented in Russia in order to provide assistance to certain categories of population in improving their housing conditions:

- program for relocation of citizens from the regions of Far North
- program for provision of housing to citizens who lost their housing as a result of emergency situations and natural disasters;
- State Housing Certificate Program

Program for Relocation of Citizens from the Regions of Far North

Citizens, who are being relocated from the regions of Far North and other areas of equal status, are eligible for housing subsidy from the federal budget.⁴

Current legislation stipulates provision of housing subsidies from the federal budget to the citizens of the Russian Federation who have arrived in the regions of Far North and areas of equal status before January 1, 1992, and who have been working in the regions of Far North and areas of equal status for at least 15 years and have no housing in other regions of Russia.

The following order of priority is established for housing subsidy provision:

- Firstly, housing subsidies are granted to citizens who are leaving cities, settlements and polar stations, which are located in the regions of Far North and areas of equal status and which are being closed pursuant to resolutions of state authorities of the Subjects of the Russian Federation as agreed with the Government of Russian Federation;
- Secondly, housing subsidies are granted to citizens, who are recognized as disabled of I and II groups and disabled from childhood and who were born in the regions of Far North and areas of equal status, with regard to their length of employment in the regions of Far North and areas of equal status;
- Thirdly, housing subsidies are granted to pensioners, with regard to their length of employment in the regions of Far North and areas of equal status;
- Fourthly, housing subsidies are granted to citizens who are properly recognized as unemployed and have been registered for at least one year with local Employment Services in the regions of Far North and areas of equal status, with regard of their length of employment in the regions of Far North and areas of equal status;
- Fifthly, housing subsidies are granted to working citizens, with regard to their length of employment in the regions of Far North and areas of equal status.

⁴ At present this process is regulated by the Federal Law # 125-FZ, of October 25, 2002, *On Housing Subsidies for Citizens Moving from Regions of Far North and Areas of Equal Status*.

Rights of citizens, who are relocating or have relocated from the regions of Far North and areas of equal status, to receive and use housing subsidies are confirmed by State Housing Certificate.

The amount of housing subsidies, provided to eligible citizens, is determined based on the following:

- Composition of the family, which is relocating or have relocated from the regions of Far North and areas of equal status;
- Social norm of housing floor area in the amount of 33 sq. m. of total floor area for single citizens, 42 sq. m. of total floor area for a family of 2 persons, and 18 sq. m. of total floor area per person – for a family of 3 or more persons;
- Average market price for one square meter of housing in the region, where the family is relocating to, which is determined quarterly by federal executive authorities authorized by the Government of the Russian Federation;
- Housing subsidy provision standard, which is based on length of employment of a citizen in the regions of Far North and areas of equal status.

Housing subsidy amount is established at 75% to 100% of the value of housing, depending on length of employment.

When receiving the subsidies, citizens undertake to transfer, within a year, to the local self-governments residential premises owned or occupied by them under rent or lease agreement in the regions of Far North.

In addition to non-repayable subsidies, pursuant to resolution of the Government of the Russian Federation, starting from 1997, state investments will be allocated to the State Committee for Development of the North from the federal budget in the amount of 40% of costs of housing construction, for the purpose of financing the expenses incurred in connection with implementation of the Federal Special Purpose Program: *Construction of Housing for Citizens Relocating from Regions of Far North and Areas of Equal Status*.⁵

The program relies on the following sources of financing:

- Federal budget;
- Budgets of the Subjects of the Russian Federation, in accordance with approved regional programs;
- Local budgets;
- Funds of companies: RAO Gazprom, RAO Norilsk Nickel, Vorkutaugol, whose employees are relocating from northern areas on a mass scale;
- Funds of other companies and organizations;
- Loans, stipulated by state external borrowing plans;
- Personal savings of citizens. Restored bank deposits of citizens.

⁵ RF Government Decree # 700, of July 19, 1995 “On Federal Special Purpose Program: *Construction of Housing for Citizens Relocating from Regions of Far North and Areas of Equal Status*” (with changes and additions made on May 8, and September 9, 1996 and on August 24, 2002)

Funds allocated from the federal budget are limited by the amount of capital expenditures stipulated annually by the federal budget. State financial assistance for construction of housing for migrants from the North in southern parts of Siberia and Far East includes compensation of 70% of citizens' expenses with federal budget funds.

From the very beginning of this program implementation, actual financing was very insignificant in volume (4-5% of the actual need) and irregular.

Program for provision of housing to citizens, who lost their housing as a result of emergency situation and natural disasters

Another population category eligible for non-repayable housing subsidies is presented by the citizens, who lost their housing as a result of emergency situations and natural disasters.⁶ Under this program the citizens should be provided with apartments from municipal housing stock.

The program employs the following mechanism of granting subsidies. Citizens receive State Housing Certificate, which is valid for one year. The Certificate is a registered non-reversible security which confirms the right of a citizen to receive housing from municipal housing stock within the territory of the Subject of the Russian Federation, in accordance with the established social norms. The Subject of the Russian Federation is responsible for performing the function of provision of housing to the citizens, while the Ministry of Finance of the Russian Federation compensates the executive authorities of the Subject of the Russian Federation for the actual cost of the apartment given to the certificate holder. The citizen can be offered an apartment only in a building constructed with participation of an authorized developer. If the citizen declines the offer, he is put on the waiting list for a new offer. This scheme is inefficient and does not help to form effective demand in the sector.

Also, this scheme fails to provide a transparent and simple procedure for provision of housing to this category of population. Besides, the mechanism of using federal funds for provision of housing though distribution of apartments from municipal housing stock is not efficient enough and limits citizens' options for selection of housing.

A similar mechanism of subsidies is used for solving the housing problem of the victims of the Chernobyl Catastrophe (or their families).⁷

⁶ 1. RF Government Decree #561.2, of June 7, 1995, "On State Housing Certificates Issued to Citizens of the Russian Federation, who Lost their Housing as a result of Emergency Situations and Natural Disasters"; 2. RF Government Decree #982, of October 9, 1995, "On Approving the Procedure for Issue and Redemption of State Housing Certificates Issued to the Citizens of the Russian Federation who Lost their Housing as a result of Emergency Situations and Natural Disasters" (with changes and additions of September 3, 2001). Procedure for Issue and Redemption of State Housing Certificates Issued to the Citizens of the Russian Federation who Lost their Housing as a result of Emergency Situations and Natural Disasters.

⁷ 1. RF Government Decree #511, of May 24, 1995. "On Federal Special Purpose Program for Providing Housing to Citizens who Participated in Elimination of the Consequences of the Chernobyl Accident in 1995-1997"; 2. RF Government Decree #505.3, of April 24, 1996 "On Issuing Housing Certificates to Citizens of the Russian Federation who Became Disabled and Families of Citizens who Died as a result of the Chernobyl Catastrophe, and are in Need of Housing Conditions Improvement"

The program of Ministry of Federation of Russia⁸ calls for provision of forced migrants with long-term (up to 10 years) interest-free repayable loans for payment of the total cost of housing being purchased (constructed or renovated) within the limits of the floor area norms, which are based on the social norms and a complex Relocation Feasibility Index (which takes into account such criteria as ecology, climate, demographic situation, geographical location, situation on the employment market and migration situation), which is established annually by the Ministry of Federations of Russia upon agreement with the Ministry of Economic Development of the Russian Federation, based on the existing socio-economic situation in the Subjects of the Russian Federation. In this case, objective criteria for determining the amount of subsidy are lacking. Under this scheme of loan provision, the appropriate local Migration Service agency instructs the corresponding office of Sberbank of Russia, which holds the budget account of this Service, to issue the loan. The bank transfers the loans to personal blocked special purpose accounts of forced migrants, open with Sberbank of Russia. It has to be noted that the loan can be used only within the territory of the Subject of the Russian Federation, where the decision on provision of this loan has been made, which limits the citizens' options in selecting the location of the housing.

Another considerable defect of this scheme is the lack of a mechanism which would ensure the repayment of the loan, as no provisions are made either for sufficient loan security, or for borrower's evaluation. In the situation of inflation, issuing interest-free loans means continuous devaluation of budget resources allocated for this purpose. Commission paid to the bank for servicing the loan should be added to the cost of this scheme, making it more expensive.

Programs for provision of housing to employees of the mining industry

Cut down employees of mining enterprises⁹ were provided with Housing Certificates confirming their right to purchase housing in accordance with the established social norms. The Certificates are valid for 2 months. The subsidy funds are provided in non-cash form, by local agency of the Federal Treasury of the Finance Ministry transferring the amount of the sale-purchase contract to the bank account of the seller of the housing. At the same time, it is not clear, which local agency of the Federal Treasury should do this: the one at the location of the former residence of the recipient, or the one at the location of the new housing. The procedure for selecting the new place of residence implies that the recipient has the option of purchasing housing in any municipality or settlement in Russian Federation.

State Housing Certificates Program

Federal special purpose program: *State Housing Certificates*¹⁰ is the most successful and efficient of all the programs being currently implemented.

⁸ RF Government Decree # 106, of January 28, 1997 "On Provision of Long-Term Interest Free Repayable Loan for Construction (Purchase) of Housing to Forced Migrants.

⁹ 1. RF Government Decree # 1068, of September 6, 1998, "On Experimental Provision of State Housing Certificates to Cut Down Employees of the Liquidated Mining Enterprises of the Cities Kizel, Gubakha, Gremiachinsk and Chusovoi (Perm Oblast) in 1998". 2. Order of the Ministry of Energy of the Russian Federation #214, of July 11, 2002 "On Approving the Regulations on Assistance to Relocation of Cut Down Employees of the Liquidated Mining Enterprises in Kizel, Gubakha, Gremiachinsk and Chusovoi (Perm Oblast) with the use of Funds Allocated for State Assistance to Mining Industry, Appropriated for Local Development Programs".

¹⁰ 1. RF Government Decree #71, of January 20, 1998, "On Federal Special Purpose Program "State Housing Certificates" (with changes and additions of April 8, 2000 and March 19, 2002). 2. RF Government Decree #168, of March 19, 2002, "On Improving the Activities on Implementation of Federal Special Purpose Program State Housing Certificates (appr. by RF Government #168 of

To be eligible for this Program, a military man has to meet the following requirements: be recognized as being in need of housing under the established procedure, have total length of military service of 10 years or more and be dismissed from service due to age, health status or organizational measures, or have total length of military service of 25 years or more. In addition to that, the Program also targets police workers, as well as employees of Ministry of Justice penal system agencies and facilities, financed from the federal budget, who are dismissed or in the process of dismissal from service and have total length of service of 10 years or more. Also, the citizens who are subject to relocation from closed or isolated military communities are eligible for the non-repayable grant.

The key element of the non-repayable grant scheme is the State Housing Certificate (CHS). CHS is a registered certificate authenticating the right of the program participant to receive the non-repayable grant for purchase of housing. Certificate is not a security.

Pursuant to the Program, citizens receive state housing certificates, which entitle them to purchase housing in any region of the Russian Federation within 6 months of the issuance of the certificate (for those dismissed from service) or within 6 months of the moment of registration with the City Interdepartmental Commission (for those in the process of being dismissed from service). The grant funds are provided in non-cash form, by local agency of the Federal Treasury of the Finance Ministry transferring the amount of the sale-purchase contract to the personal blocked account of the grant recipient for subsequent transfer to the bank account of the seller of the housing. The funds are transferred through specially selected authorized banks. This mechanism of grant funds transfer ensures their proper use, control over the flow of funds and their transparency.

The amount of the grant is determined depending on the term of military service, calculated with the calendar method (80% to 100% of the cost of the housing purchase).

The size of the grant is calculated by the executive body issuing the certificate; it is stated in the certificate and cannot be changed during the whole period of the certificate's validity. The calculation is based on the average market value of the total floor area of housing in the region, chosen for permanent residence, and established standards of total floor area of housing per family.

The practice of SHC program implementation has demonstrated certain advantages of this mechanism over other programs, as it ensures the proper use of funds, transparency of cash flows under the program, freedom of choice regarding the type and quality of housing.

The following positive features of SHC program were demonstrated:

- citizens receive freedom of choice regarding the quality and location of the housing;
- the program ensures the transparency of budget funds spending and simplifies the control over their proper use;
- the program facilitates the solution of the housing problem by directing the funds to purchase of completed housing on the primary and secondary markets;

March 19, 2002)". 3. RF Government Decree #315, of April 8, 2000 "On Introduction of Changes into the Federal Special Purpose Program State Housing Certificates". 4. Federal Special Purpose Program State Housing Certificate (appr. by the RF Government Decree #71, of January 20, 1998, in the version of the RF Government Decree # 315, of April 8, 2000).

- the program provides the option of co-financed purchase of housing by using the citizens own savings and / or borrowed funds;
- the program eliminates the possibility of funds being frozen in an ncompleted construction.

Summary of comparative analysis of federal programs

Several evaluation criteria can be used for comparative analysis of the above programs:

- the mechanism of transferring the funds to the recipient;
- targeting;
- ensuring proper use of funds;
- freedom of choice for the recipient in choosing the place of residence;
- possibility of diversified use on the primary or secondary market;
- option of attracting non-budget funds;
- transparency and simplicity of procedures;
- efficient use of budget funds.

As mentioned above, under the current programs, different mechanism of transferring the state assistance funds to specific recipients are used:

- provision of non-repayable subsidies for purchase of housing by transferring the funds to the blocked special purpose account in an authorized bank with subsequent crediting to the account of the seller of the housing (SHC program);
- provision of non-repayable subsidies for purchase of housing by transferring the funds to the local agency of the Federal Treasury of the Russian Ministry of Finance with subsequent crediting to the bank account of the seller of the housing (miners);
- payment of expenses for construction of housing for the citizens relocating from regions of Far North and areas of equal status;
- provision of certificate for purchase of housing from municipal housing stock (victims of emergency situations and natural disasters);
- provision of long-term interest free repayable loan for purchase or construction of housing (forced migrants).

The mechanism of the above programs, if implemented properly, should ensure proper spending of specially allocated budget funds, however, the practice demonstrates that in situation of big budget deficit at all levels and low fiscal discipline, the transfer of funds through executive authorities of the Subject of the Russian Federation and local agencies of the Russian Migration Service can lead to their scattering or considerable delays.

Evaluating the existing methods of granting subsidies for purchase of housing, one should note that one of the defects of the existing subsidizing schemes is the granting of subsidies for construction of housing. The situation is possible when budget funds are frozen in uncompleted construction, or working costs of construction increase, and as a consequence - funds of the federal budget are spent inefficiently. It seems more reasonable to provide subsidies for purchase of completed housing in order to minimize the risk of improper use of funds and construction risk, as well as to increase the overall efficiency of budget expenses for housing purposes.

Lack of uniformity in the procedures for granting subsidies makes it more difficult to control the progress of the program implementation and efficiency of budget spending and proper use of funds.

Another important defect of all the above mentioned programs is that program eligibility requirements do not include any means testing. As a result, there is no correlation between the order of subsidy provision and actual financial situation of the recipient. On the one hand, the logic of the state is clear: the share of well-to-do or rich families among those population groups, which are eligible for housing subsidies, is so insignificant that it can hardly serve as serious ground for development and adoption of a new means testing methodology for persons, applying for subsidies. Besides, the state has undertaken certain obligations to certain groups of population (e.g. provision of housing for the military), which have to be fulfilled, regardless of the financial status of the recipients. On the other hand, in the situation, when strict budget economy is necessary, the state should first and foremost take care of the most vulnerable groups of population, and from this viewpoint, introduction of means testing for housing subsidy recipients is fully justified.

Comparative analysis demonstrated that State Housing Certificate programs, which assist citizens in purchase of completed housing, satisfy the interests of all the stake holders the most.

Summarizing the experience of the above programs, it seems advisable to develop a unified approach to provision of housing purchase subsidies to different categories of population, which are eligible for such assistance pursuant to the law. In particular, we are talking about developing such mechanisms of subsidy provision, that would allow to unify the settlement procedures and document flow for all subsidies provided from the federal budget, regardless of the category of population they are provided to or the federal agency which orders a specific subsidy program. The main objective is to ensure efficient organization of management of the grant provision process, strict control over the proper use of the budget funds allocated to the program purposes, monitoring of the program implementation progress and regular performance evaluation, elimination of deviations from the plan, when necessary, or introduction of amendments. The most important goal, at the same time, is to minimize the costs of managing the program, eliminate excessive coordination process, create clear and simple system of reporting and presenting analytical information.

It is especially important to develop methodically correct forms and techniques of bringing the grant funds to the recipients. In spite of the variety of programs providing budget funds for the purpose of improving housing conditions, set forth in various federal programs, laws, Government decrees or other regulatory acts, it is advisable to develop unified technique for providing the citizens with grants for the purpose of improving their housing conditions, in order to ensure the maximum efficient use of budget funds and eliminate possible risks of their improper distribution or use, prevent the funds from being frozen in uncompleted construction or unjustifiably increased or decreased with a view to a certain recipient.

The most promising practice of housing provision seems to be the one combining different sources of financing: non-repayable subsidies from federal, regional or local budgets, citizens' own savings or credit resources of the banks.

The proposed scheme has already proved its efficiency in the course of implementation of some of the above subsidy programs, first of all - the SHC program for military retirees, as it was already emphasized.

General description of regional programs of assistance to citizens in improving their housing conditions

As mentioned before, in order to assist the citizens in improving their housing conditions, many regions and municipalities develop and implement housing programs, under which regional and municipal budgets allocate certain funds for providing financial assistance to certain categories of population for purchase and construction of housing.

The following types of budget assistance are provided:

- subsidizing of the interest rate on mortgage loans issued by authorized banks, i.e. budget funds are used to cover the difference between the market interest rate applied by the bank to this type of loans and preferential interest rate;
- provision of subsidy for a part of the cost of the housing being purchased;
- provision of loans for housing purposes at the expense of the budget funds;
- accumulation of funds for housing construction by means of issue and sale of municipal housing bonds and housing certificates.

Analysis of a number of regional programs demonstrates that local administrations tend to approve regional programs, which are directly or indirectly aimed at supporting the construction sector. This tendency often leads to such negative consequences as inflated working costs of construction, freezing of funds in uncompleted construction.

Targeted provision of special purpose subsidies directly to the consumer is more in line with the general goal of assistance than preferential treatment of developers; it facilitates more efficient use of funds for supporting the effective demand and makes the use of budget funds more transparent. However, at present, in those regions, where subsidies are provided from regional budgets, they are usually not combined with mortgage lending, but require citizen's participation in regional housing construction programs.

Regional programs also attempt to create conditions for attracting savings of the population into the housing construction sector. For this purpose, administrations provide their guarantees. In general, these guarantees are secured by personal promises of administration leaders. If political or economical situation changes in the region, such guarantees will not be backed by any real funds.

While purchase of housing should ultimately be financed by citizen's own funds, supplemented by market loans and targeted special purpose subsidies, regional schemes mostly rely on budget funds used to subsidize housing loans. However, due to limited availability of budget funds, regional programs contain various schemes of attracting finances from direct consumers. The proposed schemes are not very transparent, efficiency of budget funds spending is usually not evaluated, there is no evaluation of the cost of housing programs for the budget.

The inefficiency of the scheme, under which interest rates on mortgage loans are subsidized from the budget, should be especially emphasized. Interest rate is a market category, its size is determined exclusively by market factors (cost of credit resources for the bank, evaluation of risk associated with various bank operations, in particular - with mortgage lending, etc.). The budget thus undertakes an alien function of compensating the difference between the market interest rate (estimated according to the bank's own criteria) and preferential interest rate. Moreover, mortgage loans are granted for long terms, and in unstable economic situation, significant changes in credit and finance markets can lead to growth of market interest rates with corresponding increase of budget burden. However, it may turn out that the funds allocated by the budget for the housing program are insufficient (such cases occur), which puts additional risk on the banks. It is rather difficult to estimate the amount of funds needed for implementation of interest rate subsidizing program, as it is largely dependent on the trends of the credit and finance market.

Much more efficient is assistance provided to the end consumer of housing through special purpose subsidies granted to citizens in need of housing conditions improvement in order to enable them to make downpayment when receiving a mortgage loan. The subsidy improves citizens' credit worthiness, lowers the amount of the loan and, subsequently, the amount of monthly payment. The subsidy is targeted and is granted for a specific purpose, its mechanism allows to control the use of budget funds. The subsidy enables the citizens to choose the type and quality of housing. This system of subsidizing makes it possible to distinguish between the budget and market spheres of economy and link them together at the same time.

Moscow

Moscow Government is implementing several programs of assistance to certain categories of population in improving their housing conditions. The main forms of assistance are:

- budget financing of housing construction;
- provision of non-repayable subsidies, loans for construction or purchase of housing;
- issue and redemption of housing bonds;
- development and support of various form of investments from natural or legal persons into the housing sector;

The following categories of population are eligible for assistance from the city in solving their housing problems (pursuant to the Law of the City of Moscow #6, of March 11, 1998, "The Foundations of the Housing Policy in Moscow"):

- citizens whose per capita income is below the level set by the Moscow City Duma¹¹ and recognized as being in need of housing condition improvements, in accordance with the established procedure, are eligible to receive housing in the social use fund under social rent agreement;
- citizens, who are not registered as being in need of housing conditions improvement, can receive housing under social rent agreement in the following cases: 1) immediate eviction of citizens

¹¹For 2000 - 2001, it was established that families with monthly income below RUR 3000 per family member, including children, working and dependent family members, are eligible to receive housing in the social use fund under the social rent agreement. For 2002, this minimum was set at RUR 5000 a month.

from housing , which became unusable due to natural disaster, emergency condition, etc; 2) liquidation of communal apartments under the procedure and on terms established by law; 3) in other cases, established by law;

- citizens, who are registered as being in need of housing conditions improvement and eligible to receive housing under social rent agreement, are entitled to receive a non-repayable subsidy for construction or purchase of housing;
- citizens, whose per capita family income is above the level, set by the Moscow City Duma, and who are recognized as being in need of housing conditions improvement under the established procedure, are eligible to receive housing in the commercial use fund under the social rent agreement;
- young families¹² - participants of the Moscow Program "Affordable Housing for Young Families" for 2003 - 2005.

The system of subsidizing occupies a special place among the forms of housing improvement assistance.

The procedure for subsidizing the citizens who are in need of housing conditions improvement was established by the Moscow Government Decree #896-PP, of October 9, 2001, "On Provision of Subsidies for Construction and Purchase of Housing to Moscow Residents in need of Housing Conditions Improvement"¹³.

The following categories are eligible for subsidies:

- citizens registered as being in need of housing conditions improvement under social rent agreement;
- citizens vacating the housing, occupied under social rent agreement, pursuant to a decision of the state authorities of Moscow due to seizure of land plot for municipal needs;
- in other cases, established by laws of Moscow.

The subsidy should be used by the citizens for the following purposes:

- for financing the purchase of an apartment, when participating in the completion of an apartment building with high degree of technical readiness (no less than 70%);
- for purchase of a completed apartment of their choice;
- for purchase of additional residential property within the same communal apartment.

In accordance with the established procedure, the subsidy amount is determined as a percentage of the standard value of residential property, which, in turn is defined as a multiplication of average market value of one square meter of a residential property in typical serial buildings in the districts of mass development by the total floor area provided to a family of the given size, within the limits of the social norm of 18 square meters per one family member, for a family of three or more people.

The subsidy amount is calculated above the social norm: for living-alone person - 33 square meters, for a family of 2 - 42 square meters.

¹² Young family is defined as a family permanently residing in Moscow, during the first 3 years of marriage (in case of childbirth - without any restrictions regarding the duration of marriage), on condition that both spouses are below 30; as well as a single parent below 30.

¹³ Regulations on the procedure and terms of provision of subsidies for construction or purchase of housing to Moscow residents in need of housing conditions improvement.

The subsidy amount is calculated in accordance with the "Regulations on the Procedure for Determining the Amount of Non-Repayable Subsidies, Provided to Citizens in the City of Moscow for Construction or Purchase of Housing"¹⁴.

The subsidy amount depends on the length of time the recipient has to wait after being registered as being in need of housing conditions improvement, as well as on the recipients eligibility for priority provision of housing. The subsidy amount can range from 5% to 90% of the standard value of residential property. Thus, if the waiting period is only one year - the subsidy amounts to 5% of the standard value of residential property; if the waiting period is 10 years - the subsidy is 59%, if the waiting period is 15 years or more - the subsidy amounts to 90%.

The subsidy can be provided only by transferring the funds in non-cash form to the seller (developer) of housing.

If the subsidy is provided in the amount, which covers only a part of the housing being purchased, the citizen has to pay the remaining part of the housing cost at the expense of his own or borrowed funds, including mortgage loans. The funds should be transferred to the account, specified in the housing purchase agreement. In addition, when the citizen is buying housing from the Moscow Government, the cost of his current residential property can be used to cover, fully or in part, his share of the housing cost; also, this share can be paid by presenting for redemption the appropriate block of bonds of the Moscow State Housing Bond Loan.

In addition to that, pursuant to the Law of Moscow #2, of January 23, 2002, "On the Priorities in Provision of Housing and Assistance in Purchasing of Housing in 2002 - 2003", certain categories of population are entitled to receive repayable loans for construction or purchase of housing (provided that targeted budget financing is available). This category includes citizens who are registered as being in need of housing conditions improvement, under the commercial rent agreement:

- for at least 4 years and have priority right to housing conditions improvement;
- for at least 9 years and are entitled to housing conditions improvement under the general procedure.

The program of housing subsidies is being implemented in Moscow for seven years now (from 1996). According to the data provided by the director of the Municipal Housing and Housing Stock Department (V. Logunova), during the years of program implementation, over 2000 Moscow families have improved their housing conditions. The Government of Moscow increases annually the amount of budget funds allocated for provision of non-repayable subsidies to the citizens, registered as being in need of housing conditions improvement. Thus, in 2000, RUR 613.7 mln. were allocated for this purpose, in 2001 - RUR 613.7 mln, in 2002 - RUR 1.2 mln. Among those who received the subsidies, only 36% were able to purchase housing without additional payments, using only the subsidy funds. As a rule, the subsidies are provided for purchase of housing in buildings under construction (with 70% of readiness). The subsidy funds are transferred to the account of the investor-company or the developer. According to V. Logunova, purchase of housing

¹⁴ Approved by the decree of the Moscow City Duma #110, of October 18, 2000, "On the Procedure for Determining the Amount of Non-Repayable Subsidies Provided to Citizens of Moscow for Construction and Purchase of Housing".

on the secondary market is not advisable due to a number of risks associated with it, including possible rights of the third parties to the housing in question.

Thus, under the current program, citizens have very limited possibilities to take mortgage loans, as the subsidies are tailored for housing under construction, while mortgage loans are mostly granted for completed housing. Therefore, the only additional sources available to citizens, when purchasing housing with the use of the subsidy, are their own savings or installment plan for the remaining part of the housing cost.

The program "Affordable Housing for Young Families" for 2003-2005 is aimed at improvement of housing conditions of young families. The following groups can participate in the program:

- first group: citizens recognized as being in need of housing conditions improvement at their place of residence, under the established procedure, as well as employees of municipally financed institutions of municipal economy, to whom the term "Young family" can be applied and who are recognized as being in need of housing conditions improvement at their place of employment, under the established procedure;
- second group: citizens, whose floor area is below the social norm (18 sq. m per person);
- third group: citizens, whose floor area is above the social norm, but who wish to improve their housing conditions.

One of the tasks of the program is to develop and implement the methods of budget, non-budget and organizational support of young families in their attempts to solve the housing problem, based on the need for housing conditions improvement, level of well-being, number of children, employment in budget-financed municipal organizations, and other factors. The system, which should be formed as a result, will include both, social and market, instruments for solving the housing problem of young families.

The program stipulates that municipal budget funds will be allocated for the following purposes:

- housing construction for the purpose of providing housing to program participants under social rent or lease agreements or sale-purchase agreements, including with payment on installment.
- provision of non-repayable subsidies and loans (repayable loans) for construction or purchase of housing, under the procedure established by the Moscow Government;
- establishing social infrastructure.

In addition to that, participants of the program should use their own savings for covering, fully or in part, the cost of the housing being purchased, including housing purchased on the installment plan, as well as the funds of enterprises and organizations allocated for construction of housing under the program and provision of loans and non-repayable subsidies to those employees of enterprises and organizations, who can be recognized as a "young family". Other additional financing sources include the funds of savings and loan banks, commercial banks, issuing loans to program participants, including mortgage loans, as well as funds accumulated by housing cooperatives.

Housing owned by the city will be provided in the form of separate apartments, on the basis of:

- social rent agreement;
- sale-purchase agreement, including with payment on installment;
- lease agreement.

The order of priority for provision of housing out of municipal housing stock is determined based on the following:

- the time of registration as being in need of housing conditions improvement;
- number of children in the family;
- number of square meters per person of the total floor area occupied;
- type of apartment (communal apartment, dormitory, hotel-type apartment, separate apartment).

The program provides for the following mechanism of housing conditions improvement by means of **rent agreement**:

- the city concludes and program participant conclude a rent agreement for the term of up to 5 years;
- the participant makes monthly payments for use of the residential property in the amount set by the Moscow Government;¹⁵
- in addition, the participant makes equal installments into one of the savings systems (construction savings bank, housing and housing construction cooperatives, Moscow State Housing Bond Loan) in order to accumulate funds for purchase of housing on the housing market at market prices minus the amount of non-repayable subsidy or loan provided;
- after purchase of housing on the housing market or expiration (termination) of the agreement, the participant has to vacate the housing occupied by him under the rent agreement and terminate his registration.

When the sale-purchase version of the program is implemented, the sale-purchase agreement is made between the city and the participant, including agreements with payment on installment for the term of up to 5 years (for living and buy out). The participant makes a one-time payment of no less than 30% of the apartment cost when signing the agreement, and pays the rest of the apartment cost in equal monthly payments at interest (3-8% p.a. depending on the year of registration) during the term of agreement validity. The cost of the apartment, given to the participant, is equal to its inventory value, determined by Moscow Municipal Technical Inventory Bureau.

A special benefit is provided in order to stimulate the birth rate - a part of debt is written off when a baby is born in the family: 10 square meters - for the first baby; 14 square meters - for the second baby; 18 square meter - for the third baby and the next ones.

Residential property occupied by program participant remains in the municipal ownership until full cost of apartment is fully paid.

Under the lease version of the program, a lease agreement is concluded between the city and a budget-financed municipal institution for the term of up to 5 years, under which separate apartments

¹⁵ The rate of rent payment per 1 square meter equals the amount of standard rent rate per 1 square meter multiplied by reduction coefficient. This coefficient is set depending on the number of children in the family (3 or more - 0.05; 2 - 0.10; 1 - 0.15; no children - 0.20). If both spouses are employed by municipally financed institutions, the rent rate per 1 square meter is multiplied by 0.05. The standard rate per 1 square meter equals the difference between the average market rent rate per 1 square meter and the actual cost of housing and utility services provided, per square meter. The average market rent rate per 1 square meter is determined on the basis of housing market monitoring, performed by the Housing Policy and Housing Stock Department of Moscow.

are provided to that institution. These apartments are then sublet to the participants of the program, who are employed by this organization. The participant pays installments into one of the municipal savings systems in order to accumulate the funds for purchase of housing on the real estate market at market prices.

In addition to the above versions, the program also provides assistance to young families for housing conditions improvement from the municipal budget, but without the use of municipal housing stock. Participants from the first group can receive non-repayable subsidy or a loan for construction or purchase of housing.

The subsidy is provided in non-cash form, pursuant to the Moscow City Duma Decree #110, of October 8, 2000 "On the Procedure for Determining the Amount of Non-Repayable Subsidies Provided to Citizens in the City of Moscow for Construction or Purchase of Housing".

Loans for construction or purchase of housing are provided to the participants of the first group. They are provided in non-cash form, for the term of up to 10 years.

After using the subsidy or loan, the participant is no longer recognized as being in need of housing conditions improvement and his registration is terminated.

Samara Oblast

On July 5, 2002, the law of Samara Oblast "On the Procedure for Provision of Subsidies for Construction and Purchase of Housing to Employees of Budget Financed Organizations, State and Municipal Workers of Samara Oblast". In 2002, the budget allocates for the purpose of subsidizing RUR 90 mln, in 2003 - RUR 50 mln.

Subsidies from the Oblast budget are given to employees of budget financed organizations, state and municipal employees of Samara Oblast, who are in need of housing conditions improvement and are registered as such with local self government and (or) organizations.

The subsidies are provided:

- to residents of the municipalities of Samara Oblast - by Samara Oblast Housing and Mortgage Fund;
- to residents of rural areas of the Oblast - by Samara Oblast Fund for Assistance to Individual Housing Construction in Rural Areas

The decision on granting a subsidy is based on the applicant's ability to cover the difference between the cost of the housing being purchased (constructed) and the subsidy amount out of his own or borrowed funds.

The right of the citizen to receive a subsidy is confirmed by a Non-Repayable Subsidy Certificate. The subsidy can be used for the following purposes:

- purchase of completed housing from natural or legal persons;
- financing of construction of an individual house, by payments under an individual schedule;

- financing of apartment purchase by participating in completion of construction of an apartment building of high degree of technical readiness (at least 70%). .

In case of purchase of completed housing or share participation in construction of housing, the subsidy funds, confirmed by the certificates, are transferred from the accounts of the above Funds with the agent bank to the seller or developer, in non-cash form, in the amount set by the sale-purchase agreement or agreement on share participation in construction of housing.

In case of construction of an individual house by the recipient himself, the funds are transferred to the developer stage-by-stage, by advancing the construction with subsequent submission of documentation by the developer, confirming the proper use of the funds received.

The subsidy amount is determined by the average value of 1 square meter of the total floor area of the housing in certain municipality of Samara Oblast, established by the Samara Oblast Governor's Decree, and by the social norm of housing, equal to 18 square meters per one family member - for a family of three or more persons, 42 square meters - for the family of 2 persons, no more than 33 square meters - for living-alone citizens, with typical consumer characteristics for the given municipality.

The subsidy amount can be influenced by such factors as: time of being registered as being in need for housing conditions improvement; number of dependents, age of applicant, monthly total family income compared to the minimum subsistence level for this family.

The following factors determine the subsidy amount for each applicant: basic subsidy, calculated based on the cost of housing of the applicant with regard to the social norm, coefficient of the applicant's age group and coefficient of dependents per one adult working family member, pursuant to the Appendix to the Law¹⁶

It should be pointed out, that in Samara Oblast, housing finance development is oriented toward the establishment of the market system. The Oblast ceased to subsidize interest rates on mortgage loans and is in transition to subsidizing the mortgage loan downpayment.

It should be noted that mortgage lending scheme, implemented by the Samara Oblast Housing and Mortgage Fund, provides employees of budget-finance organizations with an option of using these subsidies as a downpayment.

Orenburg Oblast

In Orenburg Oblast, pursuant to the Law of Orenburg Oblast #667, of August 30, 2000, "On the Development of Housing Mortgage Lending in Orenburg Oblast", the following types of social assistance and guarantees are provided to the oblast residents in connection with mortgage lending:

- provision of special purpose subsidies to cover the cost of residential property purchased by oblast residents;
- securing mortgage obligations of oblast residents by guarantees extended by Orenburg Oblast and municipalities of the oblast (this provision is still not being implemented);

¹⁶ The procedure for subsidy amount calculation is given in Appendix 1

The following categories of population have the right to this kind of social assistance:

- citizens who have less than 9 square meters per family members;
- citizens who live in the housing, which does not satisfy the established sanitary and technical requirements;
- citizens, who live in apartments occupied by several families;
- citizens who do not have housing or rent their housing;

In addition, employees of the budget-financed sector, young families, etc have the right to receive preferential loans.

The legislative assembly of the oblast establishes annually the interest rates on mortgage loans and categories of oblast residents, who are entitled to preferential mortgage loans. The oblast budget allocates annually certain funds for the development of mortgage lending. These funds are used for:

- special purpose subsidies to the borrowers, who are registered as being in need of housing conditions improvement, for the purpose of making downpayment, when purchasing housing;
- guarantees for the citizens' obligations under mortgage agreements;

On February 26, 2003, Orenburg Oblast Legislative Assembly has adopted the oblast program "Subsidizing the Difference in Interest Rates when Issuing Mortgage Loans" (the Program), for 2003-2022. The Program provides for subsidizing the residents of the Oblast, receiving mortgage loans at the expense of non-budget funds. The subsidies are provided from the budget in the form of compensation to the bank for the difference between the market interest rate on loans and the one set for the borrower. The subsidy amount is set from 6% to 1%, depending on the borrower's credit worthiness. The subsidy is granted, when interest rate on the loan is established at the level over 12% p.a., in Roubles.

The Fund for Subsidizing Mortgage Lending (the Fund) is established for Program implementation. The exclusive goal of the Fund is to provide subsidies for mortgage lending. The Fund is established on the basis of voluntary property contributions made by Orenburg Oblast authorities, OAO "Orenburg Mortgage Lending Corporation, OOO Orenburg Mortgage Lending Commercial Bank Rus, OOO Orenburg Regional Mortgage Finance Agency. The Fund is entrusted with the right to receive budget funds and distribute them between the subsidy recipients.

Subsidies can be granted to Orenburg Oblast residents, who meet the requirements specified in the Regulations of the Procedure for Granting Subsidies for Mortgage Lending. The right to receive subsidies is granted to the citizens whose income does not allow them to get a mortgage loan without the subsidy.

The Statutes of the Fund also provide for granting of subsidies for covering a part of the cost of purchase or construction of housing.

Also, in Orenburg Oblast, there is a program for provision of housing to young families of the oblast (2003 - 2010), which is aimed at establishing the system of state support for young families who are in need of housing conditions improvement.

Young families, recognized, under the established procedure, as being in need of housing conditions improvement, and residing permanently in the Oblast, can participate in the Program, if they wish to do so.

The Program includes the following:

- provision of residential property from municipal housing stock to young families under social rent agreements;
- when a young family is having (or adopting) a child, it can receive a subsidy for covering a part of expenses for housing purchase or paying back a mortgage loan;
- provision of mortgage loans for housing purchase with simultaneous provision of subsidies.

The amount of the subsidy should not exceed the following limits:

- for young families expecting triplets or more children, or having three or more children - 30\$ of the housing value;
- for young families expecting twins or having two children - 20% of the housing value;
- for other young families - 10% of the housing value.

The following order of priority is established for program participation:

- young families expecting triplets or more children, or young families just had triplets or more children;
- young families who have three or more children;
- young families expecting twins or who just had twins;
- young families who have two children
- young families expecting one baby;
- single young parents who have one or more children;
- young families who have one child.

Subsidy programs in Orenburg Oblast are just in the initial phase of their implementation, subsidy mechanisms will be further improved and modified, taking into account the actual conditions and results achieved.

The Program, implemented by the Housing Construction Fund of the President of Bashkortostan, is aimed at construction and provision of housing to certain categories of population. The Funds channels investments, allocated under the President's Housing Program, into housing construction, directing the funds received from the republican budget to finance the housing construction program, approved by the republican government. The Fund makes agreements with enterprises, which act as customers; and for a number of construction projects, the Fund itself acts as a customer-developer. In addition, at the construction stage, citizens contribute their own savings under the share participation agreements. The houses, built by the Fund, are sold on installment.

The Fund returns the funds received from the budget by providing apartments and non-residential property to municipalities (including 20% of residential floor area as residential housing stock provided for social purposes), and the republican budget offsets the debt of the Fund.

Pursuant to the established procedure, the following rules for provision of housing to certain categories of population under installment plans are established:

- for residents of dilapidated or unfit housing, planned for demolition - downpayment - 15% of the housing cost at fixed price; installment plan for 15 years;
- for the citizens, registered as being in need of housing conditions improvement with municipal or raion administrations or with budget-financed organizations - downpayment - 20-30%; installment plan - 10 years;
- for the citizens, registered as being in need of housing conditions improvement at their place of employment (with enterprises, institutions and organizations, not financed from the budget) - downpayment - 30% or more; installment plan - 5 years.
- for other citizens, who are not registered as being in need of housing conditions improvement, but wish to purchase housing from the Fund - downpayment - 50% or more; installment plan - 2 years.

Prospects for housing mortgage lending development

To give an impetus to further development of the housing mortgage lending in Russia it is important to take several steps in order to:

- Develop the secondary mortgage market for refinancing long-term mortgaged loans and attraction of long-term resources of institutional investors;
- Improve mortgage law so that to provide creditors with clear legal guarantees that in event of debtor's default a loan will be recovered and borrowers with social protection in cases when he may become homeless after his apartment is foreclosed;
- Mitigate mortgage lending risks by creation of a system of mortgage risk insurance;
- Establish a net of credit bureaus supplying banks with information about borrowers' creditworthiness in an effort to improve the quality of mortgage loans and underwriting procedures and reduce credit risks;
- Strengthen the state policy of providing assistance in improvement of housing to low-income population groups; determine most favorable models and terms of subsidizing of retail home purchases (with proper differentiation of them by types of population income groups, including models using co-finance and mortgage instruments); support the development of the practice of nonpayment subsidizing of mortgage borrowers.

It is anticipated that the enactment of the Mortgage Securities Law will give a particularly strong impetus to the creation of favorable environment for attracting long-term resources into the mortgage industry. This law will create very favorable legal and economic conditions for private (non-governmental) financial institutions that will operate on the secondary mortgage market in order to:

- Refinance banks that offer mortgage services at the expense of their own credit resources;
- Attract long-term capital into the housing sector by issuing reliable financial instruments.

Resources of private Russian investors may be attracted by way of structuring special credit and debt instruments adjusted to the housing market financial indices.

The possible legal method of achievement of this task is the enactment of a specific law that will govern activities of special financial non-banking institutions engaged in refinancing of mortgage loans to banks by issuing mortgage securities.

Enhancement and expansion of AHML operations will facilitate the process of standardization of mortgage loans, mortgage extension and servicing procedures.

At present AHML is testing a mortgage lending program designed to improve the interaction with regional secondary market operators (regional mortgage agencies, housing funds, etc.). Under the model suggested by AHML banks will deal with AHML via regional operators. Each agent engaged in this model will have its share in lending proceeds, which, of course, will not help to reduce income rates on mortgage loans. Such policy of mortgage lending development makes banks rather reluctant to participate in the AHML programs. However, taking into account the low interest of banks to the current mortgage lending program AHML is now devising new mortgage finance models, under which it will directly cooperate with banks.

A significant contribution to the development of the mortgage lending market can be made by credit bureaus. With the enhancement of the retail lending industry in Russia more and more banks become interested in getting access to reliable information about borrowers, their payment disciplining and borrowing experience with other creditors. The examination of credit histories of prospective borrowers should be a must for banks when they perform underwriting of loans. To this end, it is important to create necessary legal, administrative and economic prerequisites for the development of the credit histories database. Presently, the drafting of the law, *On Credit Bureaus*, is under way. The enactment of this law will improve reliability of mortgage loans, which, in turn, will help make securities backed with these loans more attractive for investors.

Thus, the housing mortgage lending development Russia is now following the market-driven direction suggesting the attraction of long-term capital into this industry. As is shown above, this trend can be traced at both the federal and regional levels.

Appendix

Loan Terms of Moscow Banks

| Bank | Loan Term, years | Loan amount | | Interest Rate | Type or Rate |
|------------------------------------|------------------------|-------------------------|---------------|--------------------|-----------------|
| | | in % of housing cost | in thous. USD | | |
| Fora Bank | 3-10 | 85-70% | 10 - 200 | 15-18% p.a. | USD |
| Investsberbank | 5 | 80% | from 10 | 14% | USD |
| Mezhdunarodnyi Promyshlennyyi Bank | 10 | 70-80% | 17-200 | 15% | USD |
| OPT Bank | 10 | 70-80% | 15 - 200 | 15% | USD |
| First Mutual Credit Society | 15 | 80-70% | 10 – 450 | 12-15% | USD |
| Riffizenbank | 10 | 70% | 25 - 400 | 12% | USD |
| Sberbank of Russia | 15 | 70% | up to 60 | 18% | RUR |
| Sberbank of Russia | 15 | 70% | up to 60 | 11% | USD |
| Sobinbank | 10 | 50-70% | 5 - 60 | 14% | USD |
| Bank of Moscow | 10 | 70% | 3-150 | 15% | USD |
| Delta Credit | 10 | 70-85% | 17-200 | 13-15% (fixed.) | cur |
| Delta Credit | 15 | 70-85% | 35-450 | 12% (flexible) | cur |