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Form of Credit Security for Housing
Construction**

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1. INTRODUCTION

In some countries, including Belarus, the imperfect legislation in the field of maintenance of housing credits and insufficiently developed stock market complicate financing and slow down rates of housing building. Considering that building is one of stimulators of economic growth in the country, it is necessary to understand the basic problems in the field of attraction of investment means in the given sphere and to create necessary conditions for development the market of housing financing.

The author examines the role of guarantor as one of the means of securing housing credits as well as the international practice of developing mortgage lending.

THE ROLE OF THE GUARANTOR AS A FORM OF CREDIT SECURITY FOR HOUSING CONSTRUCTION

Necessary condition for full overcoming of consequences of a world economic crisis, high-grade development the economy and achievement of the stable rates of economic growth of the country are investing in fixed capital. Thus it is possible to direct capital investments both in industrial and non-productive sphere. First of all investment flows in industrial sphere are carried out by national and foreign investors – legal bodies, and also the state. The considerable share of capital investments in non-productive sphere is made by investments into housing construction for population.

In the conditions of the market economy where integral part is the stock market, the resources of financial corporations become the basic investment resources of financing housing construction. If the stock market is more developed, then there are more possibilities for population to involve in building financial resources at the comprehensible price. In the countries with insufficiently developed financial market the basic source of investment resources are banks resources. In this case the choice of this or that credit program in many respects don't depend on cost and terms of return of extra means only, but also from a guaranteeing kind.

In some countries, including Belarus, the imperfect legislation in the field of maintenance of housing credits and insufficiently developed stock market complicate financing and slow down rates of housing building. Considering that building is one of stimulators of economic growth in the country, it is necessary to understand the basic problems in the field of attraction of investment means in the given sphere and to create necessary conditions for development the market of housing financing.

Securing the population of housing is one of priority problems of social and economic development for Belarus. In our country in 2006 - 2010 it was planned to build 26 million square meters of housing that is 1,6 times is more than in the

previous five-year period. In plans - to bring up housing building the next five years to 50 million, that is in a year to build 1square meter to one resident of Belarus. Building growth is necessary for reaching the population housing in Belarus the level of the developed countries.

But Belarus is still lagging behind on this indicator from a number of countries. However building by fast rates (population security of housing has grown from 20 sq.m. of a total area in 2000 to almost 24 sq.m. in 2009) will allow leaving gradually on the level of advanced states.

Table 1

Security of the population housing in the different countries

Country	Housing security, sq.m. per person.	Year of estimation
Norway	74	2006
USA	65	2006
Denmark	50,6	2003
Sweden	44,4	2003
Germany	40,1	2002
France	37,5	2002
Slovenia	29,5	2002
Estonia	27,7	2003
Latvia	23,9	2003
Lithuania	23	2003

Russia	21,1	2006
Belarus	23,6	2009

Source: www.kapital-rus.ru/articles/article/610,
Statistical collection «Housing and communal services of
Belarus».

Necessary component of accelerated building is a cost of building and level of population incomes. It is expected that by the end of the following five-year period the parity of the average price of one sq. m of housing and an average salary will be one to one. However by the current moment the given indicators correspond as two to one. Without additional financial resources attraction the housing purchase at market prices at current average incomes becomes impossible.

Today building or purchase of housing by the population is often accompanied by attraction of banks credits. In Belarus this is the most widespread way of receiving additional resources for housing building. Thanks to system of preferential crediting even families with low level of income have possibility to take the credit for acquisition and housing building under low interest. The basic forms of maintenance of such credits are pledge of real estate (mortgage loan), insurance of borrowers and the guarantee.

Crediting under pledge of construction or bought apartment is applied by banks. Because of imperfection of the national legislation such kind of maintenance hasn't had due development yet.

There are some kinds of mortgage loans. The credit can be given out on purchase of the constructed apartment. In this case there is a real pledge under the given credit. If the credit stands out on uncompleted construction, risks increase. Nobody gives guarantees that the housing will be constructed, so that it can be realized.

The operating Housing code of Belarus doesn't provide possibility of eviction of the proprietor from his dwelling in case of default of obligations by him under the credit contract. Moreover, the bank has no right to move the family members of borrower even if they have ceased to be those. Now changes in the housing legislation are considered. According to offered new norms banks can move through court unfair borrowers from pledged apartments.

In view of mortgage backwardness the main part of credits for building is made out only in the presence of guarantors. The main part of contracts on building or housing purchase consists with use of the given kind of securing.

However the guarantee causes a number of censures. Frequently banks demand not one, but some guarantors. As a result potential borrowers face a problem of guarantors search. Not everyone agrees to divide with bank the risk of a non-return of credit.

According to the Civil code of Belarus (CCB) under the contract of the guarantee the guarantor is obliged before the creditor of other person to be responsible for execution of last its obligation in full or in part. It is established that at execution or inadequate execution by the borrower of the obligation provided with the guarantee the guarantor and the debtor answer before the creditor jointly if by the legislation or the guarantee contract it is not provided subsidiary liability. The guarantor answers before the creditor in as the debtor, including payment of interest, compensation of a legal cost on collecting of a debt and other losses of the creditor caused by default or inadequate execution of obligations by the debtor if another isn't provided by the guarantee contract.

That is at non-payment of the credit by the borrower the bank can address to any of guarantors and demands full payment of late payments. Considering that many people who wish to obtain the credit for housing have no high incomes, the risk of a non-return the credit is obvious in time. Therefore even relatives not always agree to act the role of a guarantor. Other problem is connected with guarantors search. Those whom could involve as the guarantor want to take the credit

for building or already are guarantors. Moreover, becoming the guarantor of the third party, citizen's personal solvency decreases automatically.

Full cancellation of the guarantee institute will result to growth of credit interest rates and will decrease the credit sizes. In the presence of guarantors the financial institution can put the smaller award in the credit price. Interest rates under the credits, given out without attraction of guarantors, will be higher because of higher risks of non-return. Even at the developed institute of mortgage the guarantee will be an additional securing, so the cost of borrowings will decrease.

At calculation of the credit size the bank considers the apartment price, percent on the credit and discount (a difference between market cost of apartment and the price for which it can be realized quickly). Discount calculation can essentially reduce the sum of a given out loan. At definition of the credit size the bank also analyzes solvency of the borrower. The considerable part of the families, which are in need of living conditions improvement, has no high incomes and accordingly can't count on a big sum under the credit. The situation can be improved by guarantors' attraction. In this case it will be considered not only incomes of the borrower, but also its guarantors.

Popularity of the guarantee is explained that such credits concern to the fifth group of risk, so, credit institutions should create at themselves reserves (to distract the resources from the turn) the sum equal to the size of the given credit.

The international practice of mortgage lending development

In western countries and also Russia and Ukraine the guarantee isn't a main form of securing of the housing credit. Key parameters on which reception possibility, the size and credit cost depend are pledge of real estate (mortgage), credit history of the potential borrower and insurance.

The mortgage is the most widespread kind of insuring of housing credits. In case of borrower's insolvency banks don't have difficulties with transition of the property rights to real estate. As a result housing pledge is a reliable securing of credit return. The eviction problem is solved by granting replacement housing to defaulters.

Mortgage lending system in the developed countries inseparably linked with stock market. The mortgage bonds or mortgage certificates received big distribution. The bonds represent the rights of requirements on the mortgage loans provided with pledge of real estate objects. Banks, which give mortgage loans, are emitters of the given papers. Such credits are repaid by monthly (or quarterly) payments. Owners of the mortgage securities provided with this pool of credits, receive the most part of these payments under in advance certain scheme.

In international practice there are some systems of securing for decreasing the risks of bonds holders. In the first case the foreign insurance companies insure payments under such bonds taking into account percentage charges. In the second case the guaranteed credit is issued and then the financial company or bank guarantees to the mortgage securities holder payment of the basic amount of debt and percent on it in the case of bankruptcy of the borrower. Bank, issuing mortgage bonds, involves the additional long-term assets provided by the mortgage loan. The buyer of mortgage bonds receives the income, but bears the risk of a borrowers default in certain degree.

The second way of housing credit's security is presence of information bases (credit bureaus), which are functioning many years and having a high-grade database on each physical person who ever took the credit. Here security is not property pledge or the obligation of guarantors. It is presented in the view of credit history of the potential borrower and its relatives. In Belarus the bureau of credit stories has been created also. It was necessary for information accumulation on borrowers. However it functions recently and it doesn't have sufficient information base yet.

In many countries insurance is one of the most popular securities of credits. In Russia banks oblige credit holders to insure real estate against damages and destruction. Some banks also demands to insure borrowers' life and health. Insurance of mortgaged property and borrower's health undoubtedly reduce risk of credit non-return. However such security can be considered only as addition to a mortgage and the guarantee.

In a number of the countries besides usual bank crediting of housing building there are different ways of resources attraction by the population on building. Building of rent houses is one of possibilities of living conditions improvement for needy citizens. In Kazakhstan, Russia and European countries people who can't issue the housing credit because of the low solvency, receive apartments in rent with the right of the subsequent repayment.

Tenants of such houses besides utility bills in addition pay a rent which is taken into account repayments of cost of apartment. Such houses carry over to tenants after payment through rent payments of all cost of housing. Use of the rent with the repayment allows not only to get access for housing building for population with low incomes, but also to reduce risks of banks essentially. In this case the habitation is not in the property of citizens but belongs to them as a rent only.

It is possible to create special funds with a target orientation. This method is one of the ways of resources attraction for building or housing acquisition. In this case the experience of Ukraine is very interesting. In the country the

Fund of housing building financing (HBF) has been created. The given structure is constructed on principles of functioning of share investment fund. It means that fund resources are in financial institution management.

The property of the manager is separated from property of HBF. Fund resources are used only on specific goals.

HBF difference from other share funds is that its participant acquires the right not for the monetary share, but on certain quantity of square meters of concrete apartment. Appeal of such fund is that use of resources is supervised by the manager and the state rigidly. The Bank-manager carefully checks documents and possibilities of the builder. It insures participants of fund against risk of resources' loss and from risk of discrepancy of object characteristics to those parameters to which the object of investment should answer. Besides, the account of requirements' rights of HBF participants on measurable units of corresponding object of investment is conducted. Such system protects the rights of participants of fund on concrete investment object and excludes acquisition the rights on the same apartment by several persons. Usually if physical persons don't have enough resources for participation in HBF the bank-manager may give the necessary sum. It means that bank gives credit to potential participants of fund on more or less favorable conditions.

One more element of mortgage lending model is the loan-and-savings organizations. Citizens who can't take a mortgage loan on standard conditions address to such organizations. In Russia loan-and-savings organizations had been created since 2000. At the moment we can choose some their versions: housing memory cooperative societies, consumer cooperative societies of citizens, housing co-operatives.

The Loan-and-savings organizations are attractive for population for the several reasons.

First, it is not necessary to confirm personal solvency and credit status. For entry into cooperative society it is necessary the initial payment and regular payments for replenishment of

cash desk and reception of the right to real estate purchase (it is usually necessary to save up 30 - 50 % of cost of housing).

Secondly shareholders receive money resources on more low interest, than at mortgage loan reception in bank.

At the same time such kind of financing not will approach all. There is a waiting list in reception of loans, except that, the real estate offer is limited by the secondary market and the offer of the companies working with loan-and-savings associations.

At last housing deposits are one more way of investment resources attraction on housing building. In this case the future borrower puts the certain sum on the deposit in bank. After accumulation the certain sum, the physical person has possibility to take a mortgage loan on enough concessionary terms. Such kind of financing is already used in Belarus, but hasn't had due development yet.

On the basis of the above-stated information it is possible to conclude that the basic form of housing credit security in Belarus is a guarantee because of imperfection of legislative base in the field of mortgage lending. The given kind of security isn't unique and used in a number of states. However in majority countries such kind of security is minor. But it still occupies the lead position in Belarus. Compulsion of guarantors' presence at housing credit registration causes a number of censures because solidary (together with the borrower) responsibility under the credit is borne on guarantors.

Citizens are afraid to guarantee solvency of the third parties, risking the well-being. Besides, as it was already marked, guarantors may have a problem in credit reception as their material solvency automatically decrease. Because of it a number of potential borrowers face a problem of guarantors finding.

At the same time the interdiction of the given kind of securing may lead to a number of negative consequences. Full cancellation the guarantee's institute will lead to growth of credit interest rates and decrease their sizes. In the presence of guarantors the financial institute may put the smaller award

in the credit price. Rates under the credits, given out without attraction of guarantors, will be higher because of higher risks of non-return. Even at the developed mortgage institute the guarantee will be an additional assurance and consequently, cost of borrowed resources will decrease.

In due course the guarantee will play a supporting role. Its role decrease will occur in parallel with creation of updated system of housing crediting. For realization this intention it is necessary to develop new schemes and tools of attraction by the population such financial resources on housing building. Within the framework of creation the developed system of housing crediting it is possible to allocate following innovations.

First of all, it is necessary to approve the amendment in the Housing code for the purpose of institute of a mortgage development. In parallel it is required to create the system of citizen securing of replacement housing.

For citizens with low incomes but who need in housing it is possible to build rent houses. In the given direction it is necessary to solve questions on financing of their building, designing, analyzing a procedure of monthly payments, and also to develop the mechanism of granting the given habitation to needy.

As additional security of mortgage loans it is necessary to apply more actively such tool as insurance of mortgaged property and borrowers' health. Insurance reduces bank risks and decreases requirement in the guarantee.

In parallel it is necessary to fill up information base of the Credit register, to raise financial literacy of the population which should be informed on all possibilities of the modern market of crediting. All people should be informed about responsibility which lies on participants of crediting and guarantee contracts. By the way, the National bank has already developed projects of instructions to borrowers and guarantors.

Increase the overall performance of the economy becomes stimulus for growth of population's real incomes. The advancing increase of nominal salary in comparison with cost

of housing one square meter will promote growth of borrowers' solvency. So, necessity in its increase by using the guarantee of third parties will decrease.

If banks involve cheaper resources, interest rates on not preferential mortgage loans can be lowered. One of the ways of borrowing resources price reduction could become securitization of mortgage loans. It means issue of mortgage bonds.

Development the market of mortgage bonds, in turn, will stimulate creation of the institutional investor, which will be capable to provide banks with cheap investment resources. Non-state pension fund can become such investor. All over the world pension funds are the basic investors in mortgage securities.

The developed system of insurance, bureau of credit stories, depreciation of credit's prices and also alignment of a parity of housing cost and population incomes – all of it reduces the probability of non-payments occurrence under mortgage bonds to a minimum.

Besides bank credits it is necessary to introduce and develop other forms of housing crediting actively by creation of specialized share funds, the loan-and-savings organizations, and also to carry out financing through housing deposits.

Thus, all such measures, like insurance development, creation of high-grade information base, acceptance of amendments in the legislation on a mortgage, creation of the ways to attract alternative to bank credits resources for housing building, will promote formation of modern system of housing crediting at direct decrease the role of guarantee as pledged securing. All given measures will expand housing construction possibilities. As the result it will lead to growth in the level of housing provision for the population.

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