

EXTERNAL EXPERIENCE OF THE MECHANISM OF MORTGAGE LENDING IN AGRICULTURAL HOUSING

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Abstract: *The article generalizes theoretical aspects of mortgage lending in the agrarian sector of the economy. The key indicators of the mortgage market situation are determined. The factors hindering the development of mortgage lending to domestic agricultural producers are formulated and grounded. World experience in mortgage lending development is generalized. Two types of mortgage lending systems are considered, in particular one-level (European) and two-level (American) systems of functioning of the mortgage lending market are schematically presented. A meaningful comparison of these systems was carried out and their differences were formulated on the basis of a detailed study of the mechanism of refinancing of issued mortgages. The main sources of mortgage lending in agriculture are highlighted. The principles of foreign and domestic mortgage lending systems, which should be used to form an effective system of investment-mortgage agricultural lending in modern economic conditions, are singled out.*

Key words: *investment-mortgage lending, mortgage, mortgage securities, land mortgage institutes, primary and secondary markets.*

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Introduction

In the market conditions of management for enterprises of the agrarian sector of the Ukrainian economy one of the main problems is attracting investment-innovative resources. Investment attractiveness of the agricultural sector of the country is determined by the main natural means of production - the land, on the quality and use of which its effectiveness depends. Currently, the system of economic levers of stimulating investment activity has not yet been put into operation in agriculture, in particular measures to regulate land ownership relations and property have no investment incentive, the process of creating a stock market does not cover the agrarian sphere sufficiently, financial and credit institutions are not interested in the implementation of investment operations in agriculture, there is no mechanism for supporting the investment in working capital.

Obviously, an important lever in stimulating the development of agricultural production is mortgage lending, which serves as a means of activating the functioning of the land market and the development of the market of financial and insurance services. Conditions of development of market relations in our country require the creation of a powerful mortgage mechanism and smoother organization of its work in the agricultural sector, which would ensure the increase of the efficiency of land use, stabilization of agricultural production. The pledge of land plots of agricultural land and other real estate allows to attract significant investments in the agrarian sector of the economy.

Analysis of recent research and publications

The wide range of problems of investment and mortgage lending in the agrarian sector was covered by well-known domestic economists – O. Gudz, M. Demyanenko, O. Yevtukh, S. Kruchok, P.

Kulinich, M. Malik, N. Revutskaya, P. Sabluk, A. Chupis, S. Yurgelevich and others. Despite the significant theoretical and practical developments of foreign and domestic science on various aspects of mortgage development, until now the problems connected with attraction and stimulation of investment in the agricultural sector of Ukraine still to be insufficiently investigated.

Research results

Mortgages are an integral part of a market economy and one of the forms of property maintenance by the debtor of obligations. Obviously, mortgage is secondary to an obligation that may arise in connection with the attraction of investment for production and for consumer purposes. In the case of a mortgage agreement, immovable property remains in the ownership of the right holder of the property, and the creditor in case of default by the debtor of his obligation acquires the right to obtain benefits through the realization of mortgaged property encumbered with mortgage. The debtor's obligation does not necessarily have to be in front of the bank, they may be based on the sale, lease, other contract, etc. [1].

It is known that the main indicators of the mortgage market situation are interest rates on mortgage securities and mortgage loans. For the successful formation and development of the mortgage lending system it is crucial to create institutions that serve the mortgage market and its infrastructure. Only in the case of the interaction of all elements of the system of mortgage lending, there is an opportunity, first, to reduce the risks of mortgage lenders and thereby increase the availability of mortgage loans, and secondly, to increase the reliability of mortgage bonds and thereby attract additional sources of investment lending.

The subject of mortgages are real estate objects [2], in particular in agriculture, the following may be objects of mortgages: land, buildings and structures, as well as production and property complexes, the right to lease real estate.

Mortgage, as evidenced by foreign experience and current practice, is one of the most effective instruments of the financial market, securities market and real estate market and has a significant impact on the economic processes taking place in these markets.

It is established that in world practice two types of systems of mortgage lending - one-level (European) and two-level (American) systems are used. The difference between a system is the mechanism of refinancing mortgage loans issued. The one-level (European) mortgage lending system has been operating in Europe for more than 240 years. It is based on a system of specialized mortgage lending institutions, through which loans are granted to agricultural producers and regulated by a rigid legislative framework. Interest rates are differentiated depending on the value of the land, the financial condition of the borrower, the level of risk. Along with banks, such loans can also be engaged in savings and loan associations, co-operatives of mutual lending, insurance companies [3]. Such systems are dominated by Denmark, Sweden and Canada, and are also highly developed in Germany, Austria, the Netherlands, the United Kingdom and Finland. In France, Spain and Italy, a one-tier system is implemented through monopoly state mortgage banks. Schematic one-level system is presented in *Figure 1*.

The main source of mortgage lending is the issue by banks of mortgage bonds (mortgage bonded bills, secured by real estate mortgages). This is a type of securities used by European banks to refinance their mortgage pools [4]. It is known that mortgage securities are characterized by high credit quality, high liquidity, different urgency, which allows them to attract long-term and relatively cheap resources, which in a number of European Union countries are subject to preferential tax regulation.

Investors in mortgage letters are both private and large institutional investors, among which are credit institutions (43%), investment funds (22.8%), central banks (13.2%), pension funds (6.6%) and insurance companies (5.2%) [8]. It should be noted that, despite the general scheme, in this country, this system has specific features depending on who is the issuer of mortgages, what is the basis of the issue, what is the ratio between the cost of credit and collateral, etc. Considering the modern one-tier system in the EU countries, based on the criterion of the issuer of the chain paper, different elements of the system such as universal banks, universal banks with a special license,

specialized banks and other specialized financial institutions can be used in different countries. It has been established that the issue of securities, in particular mortgage letters, may be made on the basis of a single legal basis for all banks or on the basis of individual contracts. The ratio of collateral in the form of a mortgaged area and issued loan in various cases ranges from 60-80%.

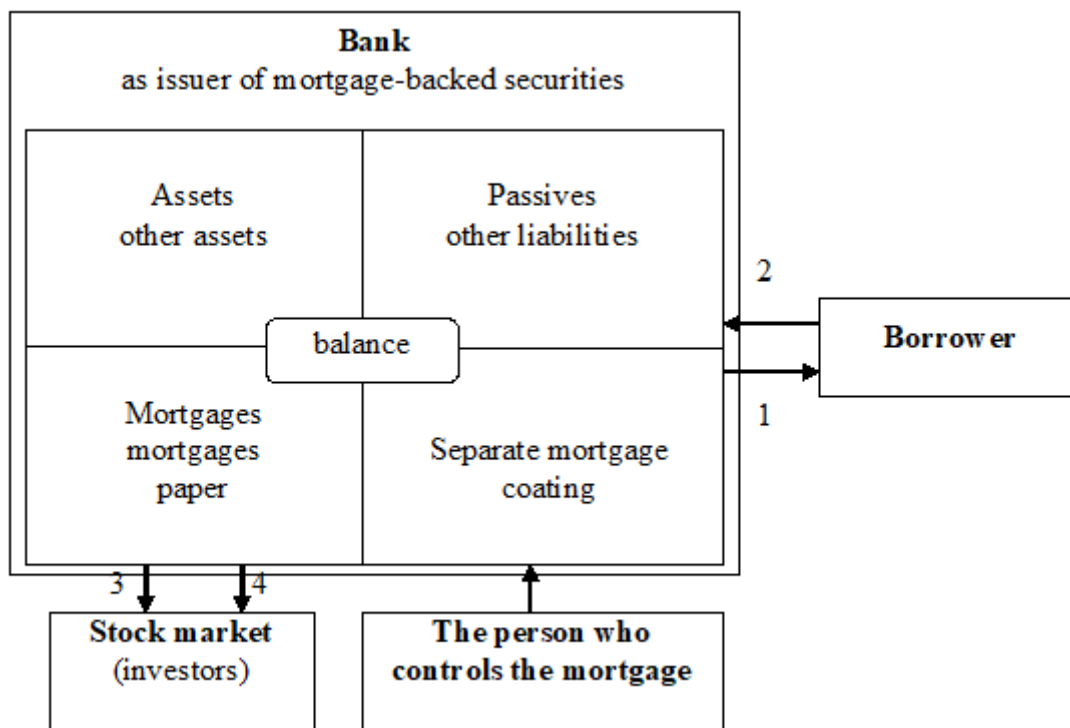


Fig. 1. The one-level system of mortgage lending:

1. Issuance of a mortgage loan. 2. Repayment of a mortgage loan (interest, principal debt).
3. Issue and sale of mortgage securities on the stock market. 4. Revenues (dividends) on securities.

Different countries use different methods of separating mortgaged property. Thus, in some countries, a mortgaged property is transferred from the balance sheet of the mortgagor to the balance of the mortgagee, in others, the deposit is registered as an encumbrance, and the guarantees of the mortgagee are secured by his priority right to receive compensation from the value of the mortgaged property in the event of the insolvency of the debtor [3].

In order to support and regulate the European system of mortgage lending, there is also a Guarantee Fund in order to redeem bonds issued by participating banks in the event that banks are unable to maintain their rate, taking into account a decline in the stock market.

It is worth noting that the evolution of mortgages led to the formation of a two-tier mortgage system, in which the lender and issuer of mortgage securities are separated. This leads to the support of the liquidity of universal commercial banks involved in long-term mortgage lending.

For the first time, this system has been implemented and has become popular in the United States and has been around for about 70 years. The scheme of functioning of the mortgage lending market is presented in *Figure 2*.

The system of reinvestment of loans of a two-tier model is as follows: issuance and servicing of mortgage loans (primary market), refinancing (replenishment of resources through the issuance of securities (stocks, bonds), sale of claims for mortgage loans) and issuance of mortgage securities under the bullet rights claims for mortgage loans (securitization). From the balance sheet of the bank loans are withdrawn, the bank continues to serve them only, without taking over the risks of issued loans.

On the stock exchange there is a continuous resale of mortgage securities. A key factor for success in this direction was the measures for the formation of the secondary mortgage market, which solved the main problem of long-term financing - the problem of credit resources.

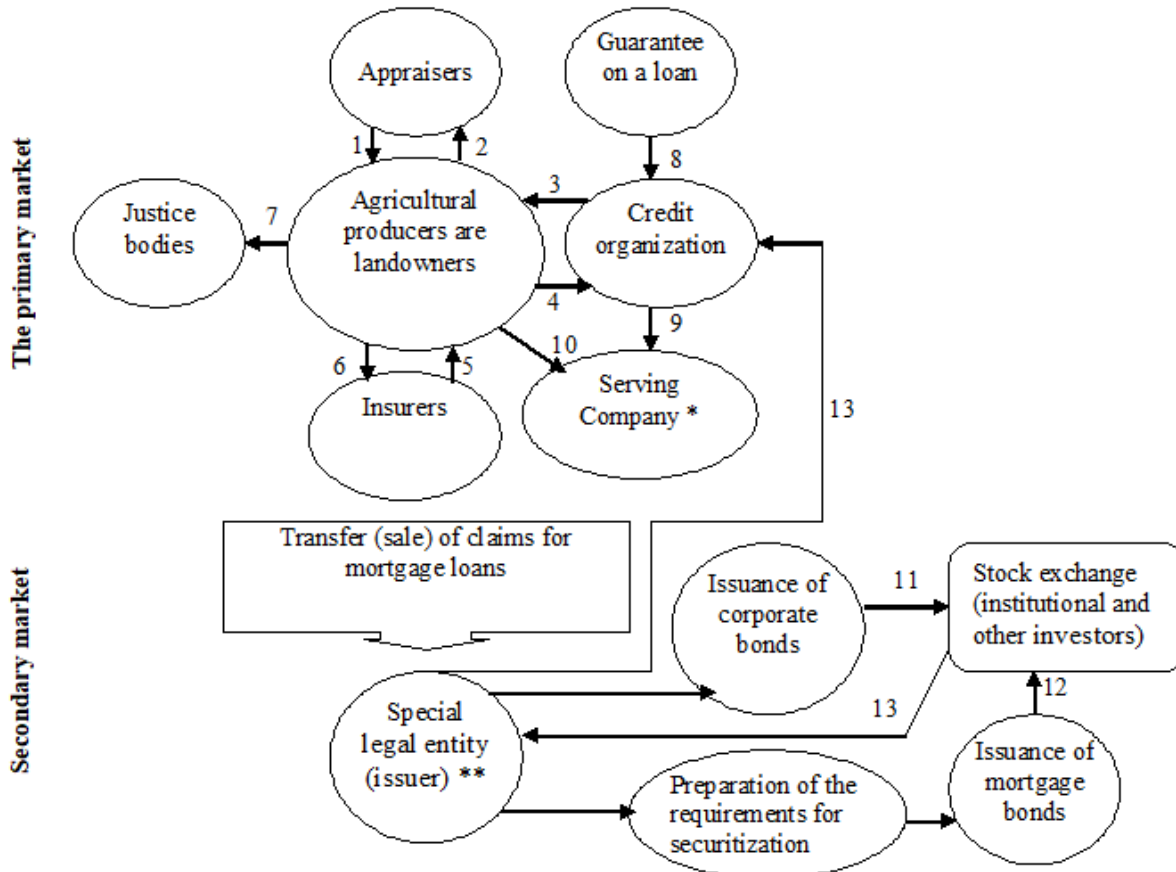


Fig. 2. Two-level model of mortgage lending market:

* A credit institution that issued a loan may act as a service company.

** A special legal entity (issuer) may act as a bank that issued a loan, as well as other banks or mortgage agencies

1. Evaluation of the mortgage value of the subject of mortgage. 2. Payment of the services of the appraiser. 3. Granting a mortgage. 4. Issuance of mortgage collateral. 5. Mortgage risk insurance. 6. Payment of insurance services. 7. Registration of mortgages. 8. Guarantee of the bank on the borrower's loan. 9. Receives payments from borrowers to repay the loan and distributes them among the parties to the transaction. 10. Repayment of the principal and interest on the loan. 11. Placement in the stock market of corporate bonds. 12. Placement in the stock market of mortgage securities (mortgage bonds). 13. Replenishment of long-term liabilities, due to realization on the stock exchange of securities, with the purpose of issuing new mortgage loans.

One should pay attention to the interesting fact: in the countries of Eastern Europe and the USA directly or through the World Bank, where the main "donor" is the United States, spent tens of millions of dollars under the programs of assistance in the creation of mortgage lending and financing systems according to the American model, but in the end these Countries have adopted laws based on German (European continental) law as more appropriate to the historical traditions and economic realities of these countries. At the same time, in recent years in continental European countries, for example, in Germany, increasingly are beginning to address American and English systems

securitization of assets. It should be noted that the considerations of the two-tiered system of mortgage lending are not antagonistic and can operate in parallel [5].

It was found out that in the USA the basis of the agricultural banking system are agricultural loan banks, or land mortgage institutes that are part of the federal system of farmers' loans. The infrastructure of the agricultural banking system includes the Farmers' Housing Administration of the US Department of Agriculture, which is engaged in the provision of guaranteed residential mortgage loans and other purposes and the Farmer Mac Mortgage Lending Facility. Loans are granted to farmers, farmers' associations, and various agricultural cooperatives. The source of financing loans for agricultural producers is government funds and securities issue. Farmer Mac operates similarly to Freddie Mac's residential mortgage corporation, which guarantees farmers' mortgage loans to \$ 2.5 million. and the acquisition of loans, as well as the issuance of securities based on mortgages purchased from land banks in order to address the issue of liquidation of agricultural banks and regulation of the financial market. Farmer Mac's mortgage and mortgage "land" securities are traded on the secondary securities market. The farm loan infrastructure also includes a specially created insurance organization and an organization for the issue of farmer mortgage bonds [5]. A significant role in mortgage development in the United States is played by state regulation, which purposefully and systematically supports this type of financing. The main methods are: state insurance of loans, privileges in obtaining loans, provision of secondary market of mortgage securities, etc. The secondary market for mortgages facilitates the flow of capital into more cost-effective industries, as well as reducing the difference between interest rates in different regions. Its task is to provide a steady inflow of resources for lending and surplus funds from regions that show an excess of credit resources in those regions where there is a deficit.

The two-level system of the United States has become the reference point for the development of mortgage lending in Ukraine. Compared with the US securities market, the Ukrainian market is extremely undeveloped. This increases the risk for the functioning of such a system of mortgage lending in Ukraine.

The global financial crisis has shown that a one-tier mortgage model provides for a more reliable and secured system of mortgage reinvestment. In connection with this increased interest in it in the United States, where they began to consider the one-level model of mortgage lending as an alternative to a two-tier system. The analysis of the causes and consequences of the US mortgage and financial crisis shows that in order to support domestic mortgage lending, it is necessary to use different mechanisms for financing loans and the creation of an alternative to external borrowing, that is, the intensification of the attraction of domestic sources of long money, such as funds of pension funds, stabilization fund and others. . For the development of the mass market and available to most agricultural commodity producers in the mortgage market, along with the underdeveloped civilized turnover of agricultural land, equally important problem is the establishment of a mechanism for the creation of resources for the issuance and refinancing of mortgage loans. It is clear that without levers of state support mortgages at the stage of its formation and the development of models and mechanisms for its application in order to increase the efficiency of agricultural production can not be implemented. This requires the participation of the state in the formation of infrastructure, resource potential of mortgage lending, as well as in the form of subsidizing interest rates on mortgages. In addition, improvement of regulatory regulation of land relations in the part of accelerated registration of rights to land, which will strengthen the ability to provide collateral for loans.

As a result of the global financial crisis, the European mortgage bond market suffered less than a two-tier mortgage market in the United States. As the world experience shows, without the refinancing of loans, the volume of loans issued decreased sharply as compared to 2008, and in 2009 they decreased by 3-5 times [3]. For the resuscitation of the domestic mortgage market, these facts are aimed at introducing this instrument in domestic banking practice. Despite the many factors hampering the development of mortgage lending to agricultural producers, it can be argued that in the current situation in Ukraine, the mechanism of mortgage lending in agriculture has been launched. At the same time, taking into account the diversity and complexity of the problem, the dynamic development of the system of mortgage lending in agriculture, including on the ground of agricultural land, requires significant financial infusions of the state and the efforts of specialists: economists,

financiers and other experts associated with this institution financing of the agrarian sector of the economy. In our opinion, under a scientifically sound system of economic relations with the participation of the state, mortgages can become an effective financial instrument for regulation of investment activity in agriculture in Ukraine [6; 7]. It is clear that the global financial crisis has a very negative effect on the development of agriculture and agro-industrial complex of Ukraine as a whole. This is manifested, above all, in terms of financing agricultural development.

It should be emphasized that the need to improve the financing of investment activities in agriculture by the method of mortgage lending is due to the lack of sources of investment activity in agricultural producers. It was established that improvement of the system of mortgage lending is necessary not for the development of lending organizations and for the receipt of their profits, but for helping and supporting the development of the agrarian sector. Therefore, in the case of the creation of a domestic system of mortgage agricultural lending, it is necessary to use the general methodological foundations of the construction of such systems, taking into account national peculiarities of domestic law, while taking into account that agricultural production is a special category of production, where it is necessary to consider the long-term return on projects, seasonality, cyclicity and expenditure the nature of the work performed. The study of the peculiarities and problems of the development of mortgage lending in agriculture has allowed to allocate such initial principles of foreign and domestic systems of mortgage lending, which should be applied in the formation of the system of investment and mortgage agricultural lending in the modern country:

1. Creation of conditions for the availability of mortgage loans for a wide range of borrowers-agricultural producers (standard terms for issuing and repayment of mortgage loans, including taking into account the procedure for subsidizing the payment of interest).

2. Ensuring protection of interests of both the borrower and the creditor and the investor (insurance, state guarantees, detailed procedure of foreclosure on land plots, mortgage encumbrances, procedure for their implementation, etc.).

3. Direct participation of the state, especially at the initial stage of functioning of the mortgage lending system, in the form of control and regulation of the activities of credit institutions that provide mortgage lending to agricultural producers, granting preferences to credit organizations specializing in this category of borrowers and types of loans (in the form of state guarantees, tax privileges, etc.).

4. Creation of a clear mechanism for distribution and insurance of risks in the market of mortgage loans.

Conclusions

Based on the results of the study, it can be argued that Ukraine should create a mortgage mechanism that would fulfill the demand of agricultural producers for long-term sources of financing modernization of production, the needs of the banking system for mobilizing long-term credit resources, and at the same time would be clear, attractive and characterized by minimal risks for investors, when widely used financial risk insurance instruments. At the same time, it is also necessary to support investment-mortgage lending at the state level: the creation of infrastructure, regulatory and economic conditions for the development of securitization in the country. In addition, there is a need to make radical changes to the tax laws that protect the interests of investors, mortgage securities, tax holidays for investors at the initial stage of market development, and stimulate the development of regional programs.

Thus, the generalization of the theoretical provisions of financing investment activity in agriculture and analysis of the development of its implementation methods indicate the need to improve investment-mortgage lending as a possible tool for attracting long-term investments.

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