

nicipalities, and most difficult, with partners who are outside the region: in other federal entities, entrepreneurs, research institutes and etc. If there is no such willingness, any analytical schemes and development remain on paper.

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## COMPETITIVENESS OF THE MORTGAGE HOME LENDING MARKETS OF RUSSIA AND THE USA

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Due to the active development of the real estate market, the stock market and the new tools used in an equity market, and to the turning of the last financial crisis into the global one, the mortgage lending theme has lately become of an extreme urgency.

Mortgage home lending is a loan, given by a bank, mortgage company or other financial institution for the purchase of a primary or investment residence. In a home mortgage, the owner of the property (the borrower) transfers the title to the lender on the condition that the title will be transferred back to the owner once the payment has been made and other terms of the mortgage have been met. Mortgage home lending is considered to be a financial credit and an investment tool, forming technological system of target crediting of acquisition of housing real estate, the base of which is the bail of real estate as the guarantee of recurrency of proceeds of credit [1, p.13].

Last decades mortgage home lending used to be the mechanism of solution of significant social problem through acquisition of a private accommodation. Recently mortgage home lending has transformed into the independent segment of the national financial system containing the effective mechanism of accumulation and distribution of credit resources in the system of the financial flows. World experience indicates that the correct organization and pursuing the weighted state policy allows the mortgage to turn into self-financed system which provides and substantially defines the functioning of the housing market. The mortgage is capable of becoming the catalyst of development of the real estate market and related branches of the economy

due to the growth of employment combined with the enhancement of solvent demand for accommodation, extension of building, increase in the output of building materials and task equipment, improvement of architectural designs and development of the spheres of retail trade and services.

Mortgage lending isn't new to the Russian financial market. The integral element of the mortgage market is an interest rate, which is determined in accordance with the macroeconomic situation and the state of the national financial system. The rate is a measure of the risk taken up by the bank [4, p.21].

Nowadays the interest rate is determined by four key factors: the currency of credit, the amount of down payment, the form of incomes' confirmation of the borrower and the credit period. The majority of market players consider national currency to be more expensive than foreign one. Also the lower initial payment and the longer credit period mean usually the higher interest rate. The difference averages from 0.5 % to 2 % (fig. 1).

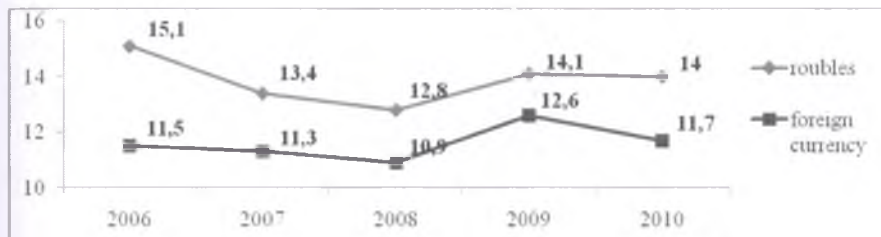


Figure: 1 Trends of the weighted average interest rate's changes in the Russian Federation: 2006 – 2010 years, percent

Source of data: [3]

As it's shown in figure 1, the interest rates on the mortgage home credits in roubles are above rates on the credits in foreign currency. Nevertheless the interest rates, irrespective of currency, have an identical trend of development. In the period of 2006 – 2008 interest rates decreased and reached a minimum in 2008, on rouble credits – 12.8 %, on foreign currency credits – 10.9 %. In 2009 the interest rates soared due to a difficult financial situation in the country, but in 2010 interest rates dropped a bit. Thus, in 2010 interest rates on rouble mortgage credits amounted 14% and on foreign currency credits – 11.7 %.

In the USA interest rates on mortgage credits change weekly. According to the kind of the interest rate mortgage credits can be divided into 3 basic groups: fixed rate mortgage, adjustable rate mortgage (ARM) and jumbo mortgage [8, p.25]. 30 Fixed Rate and 15 Fixed Rate are the most popular in the USA. Their dynamics is presented in figure 2. So, the rate 30 Fixed Rate and 15 Fixed Rate are the fixed rates on mortgage credits with the period of credit of 30 and 15 years accordingly [8, p.28].

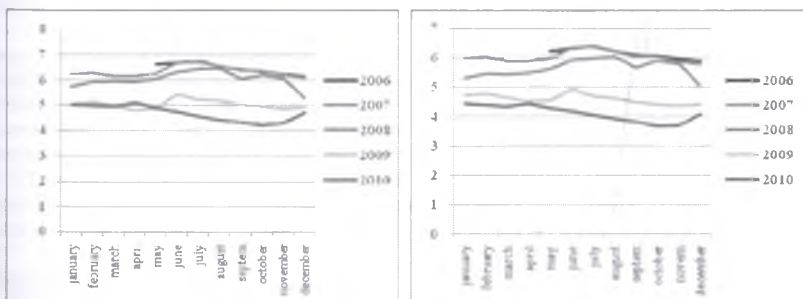


Figure 2: Dynamics of interest rates on mortgage credits in the USA: 2006 – 2010, percent  
Source of data: [6]

Having analyzed the data, presented in figure 2, we may conclude that insignificant fluctuations of 30 Fixed Rate and 15 Fixed Rate are observed during the period from 2006 to 2010. Thus 30 Fixed Rate range 4.23 – 6.76 %. Figure 2 (a) shows that 30 Fixed Rate decreases gradually year by year, i.e. on the average in 2006 the rate has amounted 6.46 %, in 2007 – 6.34 %, in 2008 – 6.04 %, in 2009 – 5.04 % and in 2010 has decreased to 4.69 %. With 15 Fixed Rate we can observe the similar trend, which vary within 3.66 % – 6.39 %. Thus the average interest rate during 2006 – 6.14 %, that exceeds an average index both 2007 – 6.03 %, and 2008 – 5.62 %. The tendency of 15 Fixed Rate's decreasing has proceeded in 2009 and 2010, and has amounted 4.58 % and 4.10 % accordingly.

In 2006 – 2010 a steady trend of mortgage originations is not observed in the Russian Federation (fig. 3).

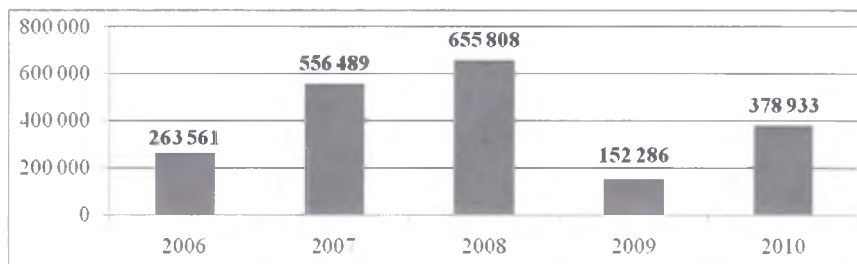


Figure 3: Mortgage originations in the Russian Federation: 2006 – 2010 years, million rub.  
Source of data [2; 3]

In 2006 – 2008 we observe the steady growth of mortgage originations with various degree of intensity. The most significant change has been noted in 2007 when the absolute growth in comparison with previous year has amounted 292928 million rub. (111.14 % grows during the period 2006 to 2008). In 2008 growth rate of mortgage originations has essentially slowed down and amounted 117.85 % which is two times less than indicator of 2007. However in 2008, despite the deferred growth rate of the given indicator, mortgage origination has increased by 99319 million rub.

2009 year is the year of big changes, because in 2009 mortgage origination was reduced by 503522 million rub. and amounted 152286 million rub. (1.7 times less in comparison with 2006 indicator). That happened due to the difficult macroeconomic situation in the country because of the financial crisis and to the absence of demand for mortgage.

Meanwhile, in 2010 the market of mortgage home lending has headed for stabilization and growth of mortgage originations. In 2010 the given indicator has amounted 378933 million rub. that is 148.83 % from the sum of 2009 year.

The market of mortgage home lending of the USA shows the decrease in the volume of crediting in 2006 – 2008 (tab. 1). In 2006 mortgage originations constituted 2980000 million US dol., with the biggest share of conventional mortgage – 2895378 million dol. Though in 2007 volume of crediting was reduced by 18.46 %, and has amounted 2430000 million dol. In 2008 falling of the given indicator has proceeded. Mortgage originations have constituted 1500000 million dol. that corresponds to the negative growth rate 38.27 %. Meanwhile in 2009, contrary to the previous trends of development, mortgage housing lending market has demonstrated confident growth by 21 % and mortgage origination has amounted 1815000 million dol.

While the process of analysis of Russian mortgage housing lending market, it is necessary to draw the particular attention to the amount of mortgage outstandings (fig. 4).

Table 1

## Mortgage originations in the USA in 2006 – 2009, million US dollars

Loan type	2006	2007	2008	2009
Single-Family Mortgages	2 980 000	2 430 000	1 500 000	1 815 000
Single-Family ARMs	922 728	401 886	131 433	65 943
Single-Family FRMs	2 057 272	2 028 114	1 368 561	1 749 057
Conventional	2 895 378	2 330 972	1 218 612	1 373 836
Conventional ARMs	920 723	400 553	125 900	58 305
Conventional FRMs	1 974 655	1 930 419	1 092 706	1 315 531
Government-Backed	84 622	99 028	281 388	441 164
Government-Backed ARMs	2 005	1 333	5 533	7 638
Government-Backed FRMs	82 617	97 695	275 855	433 526

Source: [5, 7]

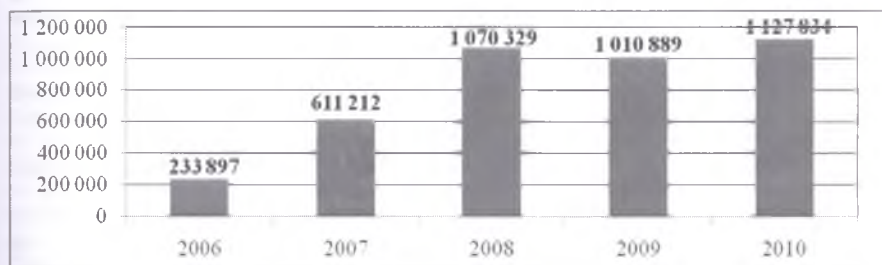


Figure 4: Mortgage outstandings in the Russian Federation: 2006 – 2010 years, million rub.

Source of data [2; 3]

As we see in figure 4 the steady growth of mortgage outstandings is the tendency of the period from 2006 to 2008. In 2007 and 2008 we observe the considerable growth of mortgage outstandings, and it amounted 377315 and 459117 million rub. accordingly. This negative trend we can explain by difficult financial position of the majority of borrowers and by absence of stable source of income. However in 2009 we had the positive tendency to the reduction of outstandings. Thus the absolute growth in 2009 in comparison with previous year has constituted -59440 million rub. or -5.6%. But in 2010 the positive tendency of outstandings' reduction was replaced by its sharp growth by 116945 million rub. and mortgage outstanding reached 1127834 million rub.

In the American market the dynamics of mortgage outstandings is opposite to the tendency of mortgage originations (tab. 2).

Table 2

## Mortgage outstandings in the USA: 2006 – 2009, million US dollars

Loan type	2006	2007	2008	2009
Single-Family Mortgages	10 415 736	11 111 488	10 999 964	10 785 623
Single-Family ARMs	2 599 704	2 486 279	2 189 813	1 809 818
Single-Family FRMs	7 816 032	8 625 209	8 810 151	8 975 805
Conventional	9 853 943	10 520 410	10 207 703	9 788 444
Conventional ARMs	2 565 967	2 459 672	2 163 012	1 782 476
Conventional FRMs	7 287 976	8 060 738	8 044 691	8 005 968
Government-Backed	561 793	591 078	792 261	997 179
Government-Backed ARMs	33 737	26 607	26 801	27 342
Government-Backed FRMs	528 056	564 471	765 460	969 837

Source: [5, 7]

In table 2 in 2006 – 2007 we observe growth of mortgage outstandings from 10415736 million dol. to 11111488 million dol. accordingly. Meanwhile in 2008 the given indicator reduced by 111524 million dol., and mortgage outstanding had amounted 10999964 million dol. In 2009 the tendency of outstandings' decrease proceeds and this indicator is reduced by 1.95 % to 10785623 million dol.

Thereby, the analysis of the competitiveness of the mortgage home lending markets in Russia and in the USA, allows ascertaining the following common features of the markets' development:

1) Decrease of interest rates on mortgage credits. The given tendency is positive for one countries but negative for others. Undoubtedly, decrease of the interest rate floor to 9.5 % is the positive fact for Russia. However soaring prices on housing market cancel that positive effect which bears with the decrease of interest rates. More than that, interest rates in the Russian Federation are still considerably higher the rates of US mortgage market (3 – 6 %).

On the other hand, decrease of interest rates on mortgage credits in the market of the USA to 3 % is a negative event in modern conditions of this market. In terms of the results of research, the mortgage market of the USA is open, and mortgage loans are accessible and simply registered. But in the conditions of soaring outstandings the decrease of interest rates enhances the current situation, transforming mortgage loan into more accessible mechanism of lending.

2) High level of outstandings. Sharp fluctuations of outstandings on mortgage credits are observed in 2008 – 2010. In many respects the given trend is connected with world financial economic shocks and with absence of the stable source of incomes.

Particularly, in Russia, despite the positive tendency of 2009 to mortgage outstandings' reduction by 5.6 %, in 2010 the outstanding increase to 1127834 million rub. The volume of mortgage outstanding of the USA is so great, that even the positive tendency of reduction of this indicator in 2009 doesn't improve the situation. Mortgage outstanding at the end of 2009 has amounted 10785623 million US dol.

3) Decrease of mortgage originations. As the consequence of all factors, which we have mentioned above, in Russia and in the USA we observe the reduction of mortgage originations. In Russia 2009 year was the heaviest for mortgage home lending when mortgage origination was reduced by 503522 million rub. And in the USA the decrease of mortgage housing lending became obvious in 2007 when mortgage origination was reduced by 18.46 %.

So, the mechanism of mortgage home lending, as the approach of solution of social and economic problems, is gradually restored. But, despite positive tendencies of the mortgage market in 2010, there is a large quantity of problems which should be solved. These problems hinder the markets of both Russia and the USA to be truly competitive. Only the properly functioning system of mortgage lending will provide the development of housing markets and promote balance between the quality and volumes of offered accommodation and the satisfaction of customer demand.

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