DEVELOPMENT OF THE LONG-TERM SYSTEM OF HOUSING FINANCING IN THE REPUBLIC OF KAZAKHSTAN
(Mortgage Lending System)

Maiko Sagindykova

Kazakhstan Mortgage Company
The System of Mortgage Lending in the Republic of Kazakhstan

• System of the mortgage lending
  ➢ on the basis of the experience of mortgage lending in Malaysia

• The system of mortgage lending comprises two levels:
  ➢ Primary market of mortgage loans
  ➢ Secondary market of mortgage loans
    – operates since the beginning of 2001

• The operator in mortgage lending market is the «Kazakhstani Mortgage Company» CJSC (KMC)
Functions, Rights, and Responsibilities of the KMC

- Acquires claims on long-term mortgage housing loans, issued for housing acquisition in the Republic of Kazakhstan

- Issues mortgage securities denominated in tenge with fixed and floating interest rates

- On its own authority or with attraction of an independent auditor conducts a periodic verification of quality of the mortgage housing loans on which the claims were acquired
Scheme of Mortgage Lending

Kazakhstani Mortgage Company

Commercial banks and non-banking organizations

Cash assets

Claim rights on mortgage loans

Borrower

Initial installment for housing

Mortgage loan

Housing owner: a person or a construction organization

Investors: pension funds, banks, insurance companies

Cash assets

Secured mortgage bond

Taxes and duties

Government

Sale

Allocation of temporary spare funds in government securities

Initial installment for housing

Government
Principal Standards and Requirements to Mortgage Loans

• Loans are provided to the citizens of the Republic of Kazakhstan
  – a borrower is liable to use the borrowed amount for the housing purchase and to provide it to the lending bank as a collateral by the loan agreement

• Besides the collateral, a borrower has a right to attract third part guarantees on liabilities of prompt payment of the loan and the accrual interest
Principal Standards and Requirements to Mortgage Loans

- A mortgage loan is provided in tenge with inflation indexation

- A mortgage loan is provided for the period of 3 to 10 years

- A loan amount must be not more than 70% of the market value of the purchased housing on the purchase date which is considered to be a loan collateral
Principal Standards and Requirements to Mortgage Loans

- Initial installment must be not less than 30% of the value of the purchased housing

- Estimation of the collateral value is required in order to sign a mortgage housing lending agreement
  - the collateral value is estimated by independent appraisers in accordance with the requirements determined by the acting law of the Republic of Kazakhstan
Principal Standards and Requirements to Mortgage Loans

- Interest rate on loan is to be a market rate which would ensure its prompt payment and be attractive to banks and investors

- Principal and interest are to be paid in monthly payments calculated on the annuity formula base
Mortgage Loans Insurance, Claims on which are Acquired by the KMC

• Property interests associated with life, health, work-ability and employment of a borrower are to be insured - personal insurance
  – insurance coverage is to be in the amount to guarantee the coverage of the principal and interest payments

• Property interests associated with mortgage damage or loss risk are to be insured - property insurance
  – the object of insurance is the property provided as a collateral in the mortgage loan
Mortgage Loans Insurance, Claims on which are Acquired by the KMC

- Insurance of the property provided to the lending bank as a collateral
  - amount of insurance is to be not less than the amount of a mortgage housing loan in accordance with confirming documents
  - a borrower has a right to insure property in the amount equal to the collateral value

- Personal insurance including life, health, and work-ability insurance
  - amount of insurance is to be sufficient to cover loan liabilities
Mechanism of Creditors Refinancing in Mortgage Lending

- A creditor provides a mortgage loan
  - a processed mortgage is transferred to the lender with appropriate state registration of rights on real estate and transactions with it, as well as a mortgage object

- Special funds founders (pension assets management companies, insurance companies, etc.) deposit cash assets
  - in investment declaration a trustee agent (or managing company) of the fund indicates that fund assets will be used for the purchase of mortgages
Mechanism of Creditors Refinancing in Mortgage Lending

- Special fund purchases mortgages from credit organizations at the expense of cash assets provided by its founders
  - transfer of rights on the mortgage refers to transfer of rights on the liability secured by this mortgage (loan)

- A trustee agent (or a managing company) of the special fund forms a mortgage portfolio in order to provide the fund founders with stable income
Mortgage Securities Issued and Placed by the KMC

- Form and structure of mortgage securities are to be oriented on pension and insurance funds and other institutional investors.

- KMC has a right to issue and place coupon and discount mortgage bonds.

- An interest rate on coupon mortgage bonds can be fixed or floating. Maturity period of coupon mortgage bonds is up to 15 years.
Mortgage Securities Issued and Placed by the KMC

- Maturity period of discount mortgage bonds is from 3 to 12 months

- Issue and placement of mortgage bonds are implemented by the KMC by the end of formation of a mortgage housing loans pool (mortgage deed)

- Structure and parameters of mortgage bonds issue are to meet the structure and parameters of mortgage housing loans pool, claim rights on which are acquired by the KMC
Interaction Scheme of the KMC and its Partners in Mortgage Market

- **Government, National Bank**
  - Principal regulations of the KMC activities
  - Document form: Instruction on evaluation of borrower’s solvency; Rules on mortgage loans provision, registration and maintenance (confirmed by the KMC)
  - Claims on mortgage housing loans

- **Kazakhstani Mortgage Company**
  - Procedure and rules on interaction of the KMC and lending banks
  - Document form: Package of documents on interaction of the KMC with banks partners (cooperation agreement; Agreement on concession of claim rights on mortgage housing loans; Trustee management agreement)

- **Lending Bank**
  - Procedure of the assets attraction and interaction with investors (including pension assets management companies)

- **Borrower**

- **Investors**
  - Provisions on equity managing of the KMC, Plan on pilot project realization, Business-plan (confirmed by the KMC)
  - Financial plan, risk management,

Document form:
- Package of documents on interaction of the KMC with banks partners (cooperation agreement; Agreement on concession of claim rights on mortgage housing loans; Trustee management agreement)
- Project Law or amendments to the instruction of the National Commission on Securities; project decision about mortgage securities issue
Interaction Mechanism of the KMC with Lending Banks

• Banks provide mortgage loans
  – the KMC acquires claim rights only on mortgage housing loans adequate to its requirements and standards

• Bank enters into agreement with the KMC concerning its co-operation in the market of mortgage lending, in which a procedure of acquisition of claim rights on mortgage housing loans is stipulated
  – an agreement establishes liability of a lending bank to redeem from the KMC claim rights on mortgage housing loans that do not match anymore the requirements of the KMC, as well as its quality
Interaction Mechanism of the KMC with Lending Banks

- After receiving a written notification from the KMC about the possibility to acquire claim rights on mortgage loans, lending banks notify the KMC in written form about the accord to concede claim rights on mortgage housing loans.

- Registration of transition of the pledge-holder rights to the KMC, as the result of the concession of claim rights by the credit agreement, is conducted by a recording authority.
Interaction Mechanism of the KMC with Lending Banks

- The KMC acquires claim rights on mortgage housing loans at contract prices taking into account quoted rates, established by KMC, within the stipulated limits.

- The KMC acquires claim rights on mortgage housing loans from lending banks with the liability of the lending banks to redeem the claim rights in the case of discrepancy of mortgage housing loans to the KMC requirements.
Interaction Mechanism of the KMC with Lending Banks

- The KMC concludes an agreement with a lending bank, conceded the claim rights on mortgage housing loans to the KMC, about the trustee management of claim rights in accordance with which the bank maintains a mortgage housing loan and transfers regular monthly or quarterly payments on mortgage housing loans to the KMC.
Interaction Mechanism of the KMC with Lending Banks

- During the whole period of a loan agreement Bank ensures control for the prompt payment of taxes on pledged assets by the lender, as well as fulfillment of provisions of agreements of mortgage insurance and personal insurance of the lender.

- By the agreement of trustee management Bank ensures control for the safety of pledged real estate and in accordance with provisions of the concluded agreement provides the KMC with a report on current condition of the pledged assets by regulations determined by the KMC.