

# Kazakhstan Issues First Mortgage-Backed Security in the Former Soviet Union

**ALMATY**—Oleg Petrovich Rayenko, his wife, and two children lived in a one-bedroom apartment. Rayenko and his wife recently decided it was time their daughter had her own room.

With his stable income, Rayenko approached several banks about a loan to purchase a two-bedroom apartment. Rayenko chose the mortgage company that offered the best repayment schedule, commenting that the “company’s employees were very attentive.”

Chances are, until USAID got involved three years ago, Rayenko and his family would have had to come up with cash to buy the apartment. The total annual amount of mortgages given out by all banks across the country was only \$1 million.

Today, homebuyers can obtain a five- to ten-year loan at 17.5 percent interest with a 30 percent down payment. Despite the high rates, mortgage lending has jumped to between \$50 and 60 million a year. By 2008, Kazakhstan’s National Bank projects mortgage lending will increase fivefold over today’s levels.

The benefits are already significant. Mortgage loans enabled more than 5,000 middle-class families to buy their own homes last year. Bank portfolios are more robust, thanks to a stable stream of income from residential lending. And as of November 18, 2002, investors—including

the National Pension Fund, which must invest most of its capital domestically—can buy mortgage-backed securities.

How did this happen?

A mortgage system is supported by a web of institutions and professions, including credit bureaus, mortgage insurance companies, loan officers, real estate appraisers, and real estate agents. Three years ago, USAID and the National Bank of Kazakhstan set out to build the infrastructure to support a mortgage industry.

USAID’s Financial Sector Initiative, adapting materials initially prepared for use in Russia, trained and certified 42 bankers in mortgage lending. Kazakhstani loan officers learned proper underwriting practices. Applying international standards, they decided as a group how they would calculate minimum down payments and maximum monthly mortgage payments. USAID also trained the country’s first appraisers.

The next step was to introduce the concept of secondary lending—selling mortgages to a wholesale “liquidity facility” (like Fannie Mae in the United States). Banks use the proceeds from selling mortgages or mortgage-backed bonds to negotiate additional mortgages. This increases the amount of capital available for lending, which, in turn, brings the price of mortgages down.

In November, the Kazakhstan Mortgage Company, a liquidity facility owned by the

National Bank, issued the first mortgage-backed security in the former Soviet Union. The USAID project pioneered virtually all of the major financial and legal provisions required.

The next steps to secure a robust and growing mortgage system include establishing a credit bureau and creating national mortgage insurance.

Credit reporting and mortgage insurance

will lower the risk of mortgage lending. This will make mortgage lending more attractive to banks, helping to make mortgages more affordable to more people.

Rayenko, busy renovating his home, summed up the value of mortgages: “Despite the fact that the actual amount of repayments ... almost doubles the price, this is the only way to buy an apartment now and not in 10 years.” ★



*Oleg Petrovich Rayenko and his family purchased a two-bedroom apartment, thanks to a USAID initiative that helped Kazakhstan create a home financing system.*