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106067

**COMMERCIAL REAL
ESTATE LENDING
PROJECT:**

FINAL REPORT

Prepared for



Housing Sector Reform Project II
Project 110-0008

U.S. Agency for International Development, USAID/Moscow
Contract No. EPE-0008-Q-00-5120-00, Task Order No. 001

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August 1998
UI Project 06612-001

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EXECUTIVE SUMMARY

“Commercial Real Estate Lending“ project was initiated by the “Barents Group” company in 1995-1996 and in August 1996 it was transferred for further implementation to the Urban Institute. The purpose of this report is to analyze the current condition of this type of lending in Russia and to determine the rate of fulfilled tasks set by the customer (USAID).

At the start of the project analysis of the current condition of the Russian commercial real estate lending market was undertaken, and several key indicators identified. Our estimates show that in the process of implementing the Commercial Real Estate Lending Project the changes in these indicators were positive. Specifically, the following factors were viewed as indicators:

Indicator 1. The level of interest rates on bank loans.

The whole period of the project implementation, except the final two months, was marked by stabilization of inflation and the ruble exchange rate in US dollars. In this connection practically in the whole course of 1997 one could see stable lowering of the bank interest rates both on ruble and currency loans. Lowering of the bank interest rates and the Central Bank refinancing rates encouraged Russian banks to develop operations linked to commercial real estate lending within the whole reviewed period. The stability of the situation in this type of lending is proved by the fact that the financial crisis that stricken Russia in mid-98 did not dramatically influence terms and conditions of currency loans against commercial real estate. Moreover there are all reasons to believe that ruble loan rates that have recently sharply increased will settle soon and recover to initial level of early 1998 for there are necessary objective macroeconomic prerequisites for that.

Indicator 2. Legal Environment

In the course of the whole project the bank system in Russia increased the volume of transactions connected with loan making and execution of documents in connection with operations secured by pledge of commercial real estate. At the same time the legislative base regulating legal relations under such transactions stayed substantially limited until recent times. A breakthrough in this direction took shape in 1998 due to adoption by legislative bodies of the Russian Federation, several RF subjects and local administration bodies of a number of normative and legal acts and laws that are extremely significant for mortgage lending development. Most important among these is the federal Law on Mortgage. This justifies our confidence that commercial lending has prerequisites for further, more well-paced development in Russia.

Indicator 3. Need for developing a bank system for commercial real estate lending.

The contractor did not conduct comprehensive market surveys of potential borrowers' demand for commercial real estate loans. However during the project implementation and through communication with a large number of the real estate market participants it was learned that for the last two years the need for expanded volumes of commercial real estate lending did not drop but radically increased. This signals that the banks focused on further development of this type of lending have prospects of far- reaching growth.

In their turn the banks--potential lenders--also show interest in working on commercial real estate market. In 1998 a survey including 45 banks was done within the framework of the project and brought a very interesting result. More than 90 per cent of Russian Commercial Banks are interested in boosting their work on this market. Additionally, 70 per cent of the informant banks acknowledged that they intended to work in close collaboration with the IUE on commercial real estate lending development because in a number of cases this collaboration has already brought fruitful results: a developed mechanism and procedures of lending, ready -to -use instruments for work with the borrowers, management of problem loans and even successful practical implementation of several lending projects.

Indicator 4. Structure of bank assets.

The team paid attention to interesting indicators in the asset structure in the largest Russian banks, which have a similar structure: a rather high share of the funds is put into highly liquid assets (basically into GKO's and other state securities), as well as promissory notes with maturity period of not more than 30 days, and only a very small share of the funds of the Russian banks is put into more long-term assets. Additionally short-term commercial real estate loans with maturity period usually not exceeding 180 days from the day of loan is by far the dominate type currently.

Under comprehensive development of the domestic legislative base and interest rate stabilization, Russian banks are gradually increasing the volume of their long- term investment also by using their funds for financing longer-term commercial real estate loans.

Project Activities

The project worked in three primary directions to encourage and strengthen bank lending in the commercial real estate field:

- development of a series of guidelines and methodological materials ready for immediate use by Russian banks, including spreadsheet program for project analysis, model legal forms, and guides on market analysis and loan dispersal policies;
- on-site consultation to participating banks, wherein the specifics of actual loan applications could be addressed; and
- multiple offerings of the two training courses developed by the project for bank and real estate professionals plus presentations at numerous seminars organized by other organizations for similar audiences.

Project Performance Against Contract Benchmarks

The project exceeded the benchmarks set for it in the Task Order:

- Whereas the Task Order included that 25 banks should commit to participating in the project and use the mortgage package developed by the project, 37 did; all of these banks received on-site consultation.
- About 400 bankers and real estate professionals received some form of training from the project, compared with a goal of 200.
- The project developed a highly detailed guide for lenders making commercial real estate loans as indicated by the Task Order and also produced three other guideline documents.

INTRODUCTION

The subject of this report is execution of the USAID Task Order Number 1 by the Contractor in conformity with the contract EPE - 0008 - Q - 00 - 5120 - 00 as of 12 September 1996. A substantial part of the report is taken by review of the current condition of the Russian commercial real estate market based on analysis of basic indicators which allow one to assess banks' activity in this sector of the financial market.

The report also incorporates analysis of the overall financial situation in the country and condition of the normative and legal base regulating relations between all participants of commercial real estate market that largely affected the development of the bank system for commercial real estate lending.

It then gives a detailed discussion of the project's work program. The achievements of the project are compared with the benchmarks set by USAID.

All charts and tables in this report are based on data analysis made by the Russian Information Center "Rating", the Goskomstat of the RF and special surveys of the Russian banks - participants of the Commercial Real Estate Project.

1. ANALYSIS OF THE CURRENT CONDITION OF THE COMMERCIAL REAL ESTATE LENDING MARKET.

Like Russian economy in general, the commercial real estate lending market is currently going through a difficult passage. This is largely connected with external reasons, world financial crisis and inner negative macroeconomic tendencies in the Russian economy that showed up at the end of 1997 and visibly strengthened in the first half of the year 1998.

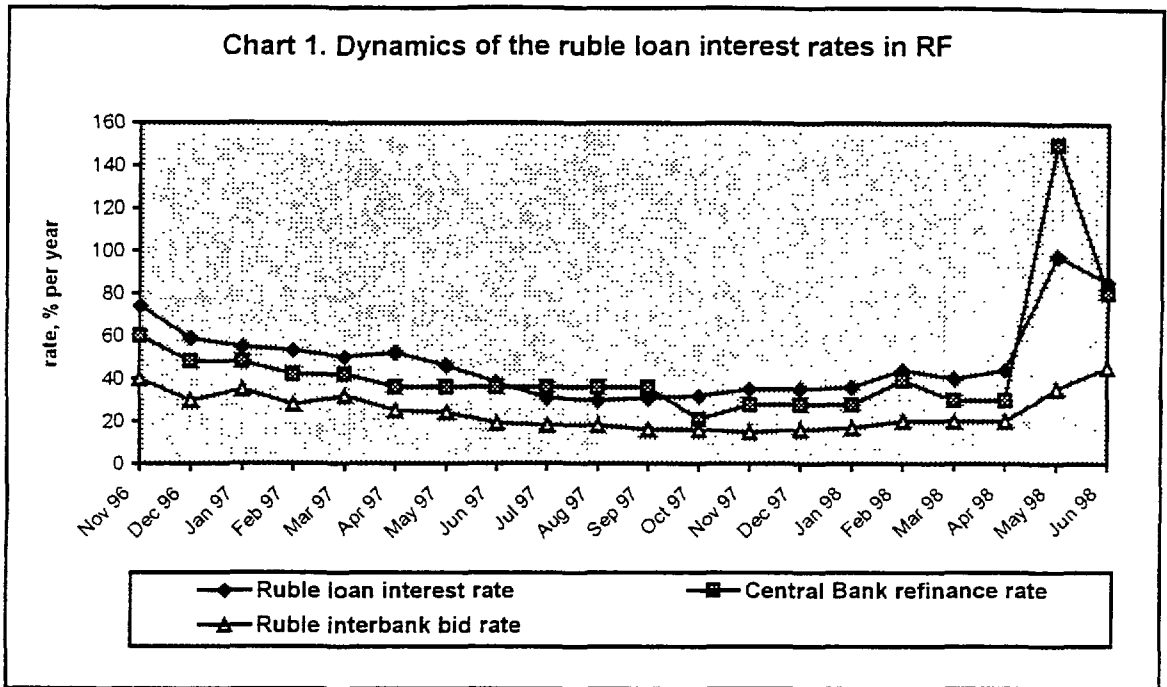
From the end of 1997 the volumes of loans made by the banks for the purposes of commercial real estate development were reduced and the requirements for lending projects were tightened. However the below analysis of the basic indicators of the financial market gives us a possibility to claim that the general situation on the commercial real estate lending market is not as bad as one could forecast if proceeding from the depth of the Russian economy crisis in general.

We now review the development in these indicators for the last three years.

Dynamics of change in the bank interest rates

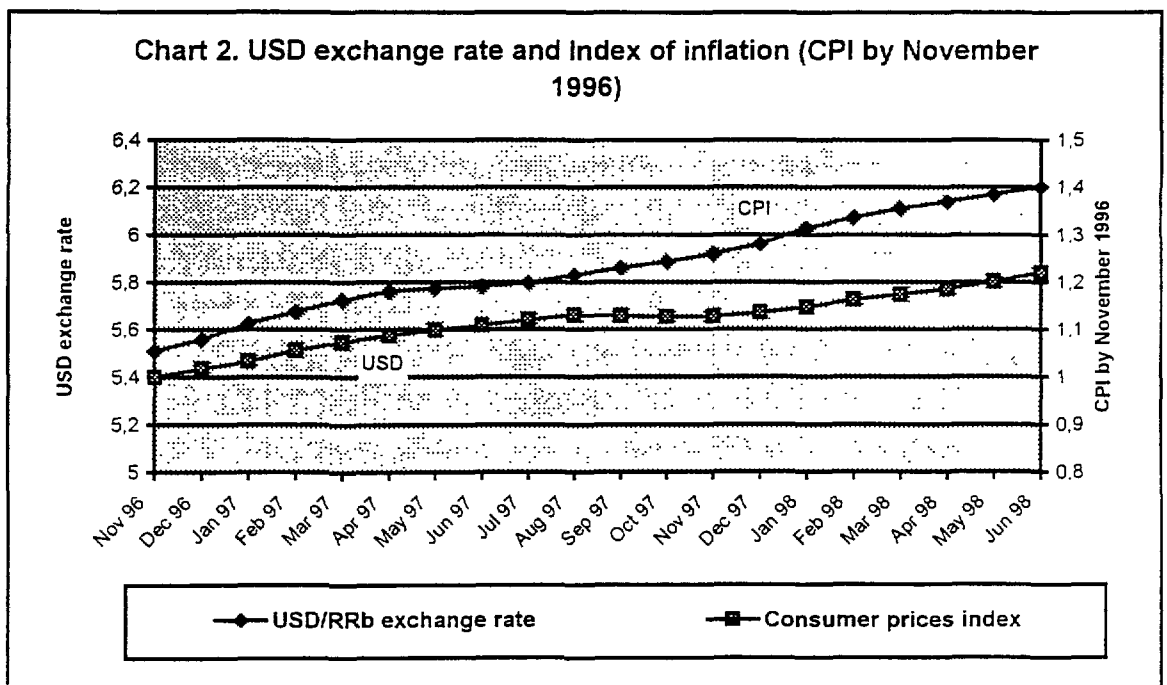
Interest rates have been tracked and analyzed in term of their levels in the market, the rate of inflation, and the impact of exchange rates to determine the course of the real interest rates and their effect upon real estate lending. We focused our attention on a time interval that covers the whole period of implementing the CREL program in Russia. The dynamics of changes in the bank interest rates are shown in Chart #1. The chart reflects the average monthly interest rates on ruble loans made by the banks for the term of three months and on attraction of funds to three months deposits for the period from November 1996 to June 1998. For the purpose of comparison the chart also illustrates dynamics of changes of the refinancing rate at the Central Bank (CB) of the Russian Federation.

Chart 1



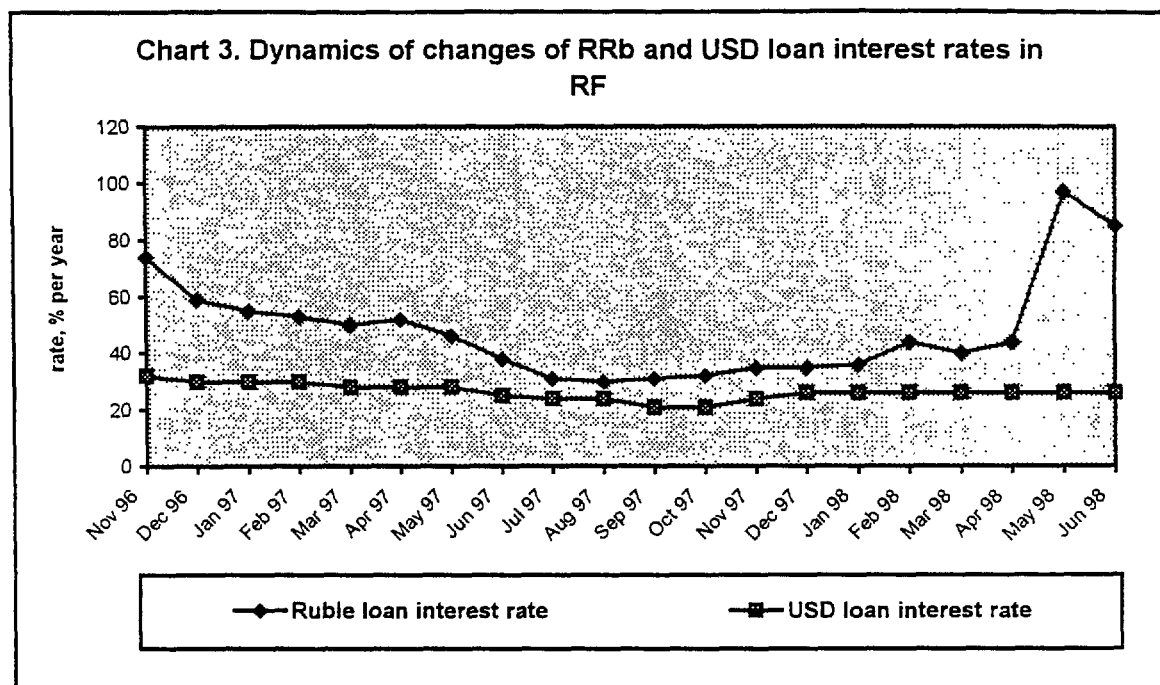
The US dollar exchange rate in Russian rubles continued to grow for the whole analyzed period within the band limits. The rates of growth were insignificant as seen from chart #2. The pace of inflation during implementation of the project stayed rather low and stable.

Chart 2



The relative stability of the ruble influenced the correlation of rates on currency and ruble loans. Until the autumn of 1997 these rates showed an obvious tendency to drawing closer to one another (see chart #3).

Chart 3



The interest rate on both ruble and currency loans was decreasing gradually from the moment the project was started and up to beginning of 1998. This boosted demand for commercial real estate loans. Parallel falling of profitability of alternative instruments for bank investment, first and foremost return on state securities, encouraged Russian banks to work more aggressively in this sector of the market.

Unfortunately, the world financial crisis that erupted at the beginning of 1998 and the subsequent crisis on the Russian financial market negatively affected this situation. This was evident in the growth of the refinancing rate at the Bank of Russia, the rate increasing steadily in the first part of 1998 and soaring to annual 150 per cent at the end of May. Then it started falling and to date of writing the present report it amounts to annual 80 per cent.

Preservation of the currency band limits on the same level and insignificant fluctuations of the average level of inflation coupled by aggressive actions undertaken by the Russian government for stabilization make it possible to view the situation as temporary. This is also proved by the fact that even under crisis conditions most of the Russian banks did not significantly change their rates on currency loans.

We believe that with the present difficult financial situation in Russia taken into account it would be reasonable to review a possibility of carrying on work with the Russian banks with the purpose of further introduction of western techniques for financing investment project that allow the reduction of the cost of bank services in commercial real estate lending (for example, syndicate lending, financial leasing, etc.) already today.

Legal environment

The pace of development of the legislative base providing for implementation of commercial real estate lending by the banks falls significantly behind the demands set by the market. However the years 1997- 1998 witnessed events that allow one to talk with confidence about noticeable acceleration of the process. Primarily we mean the enactment of the following:

1. The law on Registration of Rights to Real Estate and Transactions.
2. The law on Mortgage and the Law on Appraisal and Appraisers Activity.
3. Adoption by a number of the RF subjects of their own laws on Appraisal and Appraisers Activity (for instance in Moscow).

The laws and lending practice are continually being updated and changed to adhere toward a more favorable lending environment. At the start of the project we asked Steve Butler, an attorney with enormous experience on mortgage lending, to give us his opinion of where he thought we were with the legal environment in Russia. In summary, he stated that the present legal system afforded an adequate but limited basis for commercial real estate lending. At the same time he noted the following major concerns:

- 1) **REGISTRATION:** Commercial registration system is still not adequate in some parts of the country.
- 2) **CONSTRUCTION LENDING:** Lending on existing commercial property is still easier and safer than lending on construction of commercial property.
- 3) **PLEDGE OF RIGHTS:** Most cities are not willing to structure land lease agreements so that mortgage lenders are protected upon notice of default, a right to cure their borrowers' default, and a right to prevent termination of the lease by the city until such time as the rights under the mortgage can be enforced.
- 4) **FLEXIBILITY OF SECURITY DEVICES AND REMEDIES:** Security devices and remedies under the current law could be difficult but attainable.

As just noted the situation has changed dramatically in two years.

Another important legal event, beyond those already listed was the acceptance on May 16, 1998 of the Presidential Decree "On Guarantees to owners of real estate objects in acquiring into ownership of the land plots under these objects", which clarifies the process of registration of uncompleted construction. That may also help in banks' practice when using uncompleted construction as a collateral for a commercial loan. In some cities, such as St. Petersburg and Moscow the ability to register uncompleted construction has already existed. Final success in overcoming the flaws and ambiguities that exist now depends to a great extent, on such subjective factors, as , for example, readiness of legal departments of banks-lenders to innovative ways to address the problems which they face and on their ability to think in a new way, to look for solutions, which are not traditional. Experience of working with commercial banks proves that they use in their practical work the newly structured civil agreements on pledge of rights, uncompleted construction, and enabling documentation

The demand for commercial real estate loans

In reviewing the demand for commercial real estate loans from 1996 to 1998 the early indications are that the lending community has begun to take more than a general interest in the commercial real estate loan programs. We have seen a significant increase in the number of lenders that have requested a copy of the "Policy and Procedures Manual" and other documents describing and analyzing banking practice connected with commercial real estate lending.

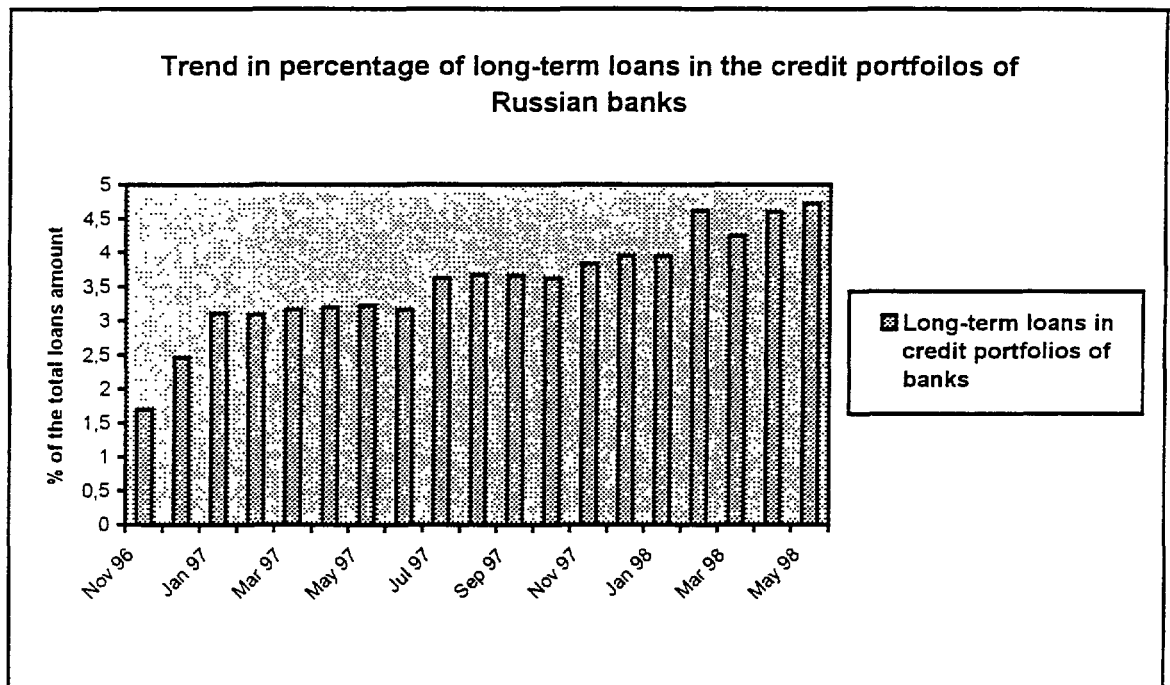
In addition to the increased interest in commercial and construction lending by the banks, there have been several articles written recently by firms that track the absorption of commercial properties that point to the future need of commercial projects in the Russian Federation. One article concluded that " The Western quality office development market in Moscow is new, relatively small, created by a diverse group, difficult but not impossible to finance and desperately needed by Western firms seeking to tap into the enormous Russian markets for all types of goods and services."

A relatively new factor of the economic development in Russia is formation and further growth of large financial and industrial groups. In recent time groups of this kind displayed a deep interest in participating in such projects connected with construction and development of commercial real estate. Among the most promising are projects for construction of large and average administrative trade centers, construction and renovation of hotel complexes, filling stations net.

Liquidity positions of banks

Here we traced the dynamics of changes in the asset structure of commercial banks viewed from the point of their term. The division of assets into long- term and short- term was done according to the following pattern: deposits for a term of less than 1 year are viewed as short - term, for a term exceeding a year - long - term (see Chart #4).

Chart 4



The assets structure of commercial banks displays an obvious tendency towards increasing the share of fund investment into relatively long- term assets. According to analytical surveys a substantial share of these investments is in this or that way connected with commercial real estate which reflects a growing interest of the banks to aggressive performance on the real estate market.

Apart from a certain increase in the share of bank investment in long- term assets there is another positive factor - general warming of the investment climate on the real estate market, connected to a whole number of reasons, including relative stabilization of key market indicators and outlined breakthrough in legislative provision of bank and investment activity, as mentioned above. So far, unfortunately, it is too early to talk of large volumes of investment on the Russian market for commercial real estate in general but in the largest centers, first of all in Moscow and St. Petersburg, these volumes are rather essential. Thus, the banks have a possibility to work with private investors on projects for real estate construction and development, which is often necessary for making a loan.

At the same time, naturally, there are problems linked with liquidity of bank resources. The basic problem is the absence of sources of long-term attracted funds necessary for real estate lending. After the high cost of bank loans this is another reason for practical absence of offered loans with a term exceeding 5 years and in regions where the problem of search for bank resources is most acute - 2-3 years. This goes for loans for not only commercial real estate development, but any other.

In looking at the liquidity of the banks in Russia, we must first look at the bank rating system that is in place. There are four different components defined by the Central Bank of Russia that are looked at when determining the viability of the institution. Those four are in the table below:

Table 1

The "H" Component in CBR Regulations

RATIO	DEFINITION	STANDARD
H2	Current liquidity of bank based on all short term assets against short term liabilities.	since 2/1/97 must be > 30%
H3	High liquid assets (cash, securities, bonds, etc.) against current liabilities.	since 2/1/97 must be > 20%
H4	Long term assets (loans over one year) against long term liabilities over one year.	maximum 120%
H5	All liquid assets against all assets.	since 2/1/97 must be > 20%

The necessity to comply with the Central Bank standards on the one hand and a relatively low level of capital owned by most of Russian banks, compared to international standards, on the other coupled with high risk probability emerging in lending projects connected with commercial real estate, and hence high inner and outer demands to reservation essentially increase the cost of such loans for the borrower and encourage Russian banks to search new forms of organizing financing of such kind. Proceeding from the above stated reasons an ever increasing number of Russian banks start showing interest to such forms of project financing organization as syndicate loans and financial leasing.

2. REVIEW OF THE ESTABLISHED PROCEDURE FOR COMMERCIAL REAL ESTATE LENDING.

At the present time there are more than 1800 working commercial banks in Russia. These banks differ in the size of the owned capital and hence their lending policy on the commercial real estate market varies and is determined to a large extent by their resource opportunities. Monitoring of the situation on the commercial real estate lending conducted by the CREL team showed that Russian commercial banks can be divided into three large categories if following the criterion "position on the market for commercial real estate lending":

- banks with an active position on the market, rendering a whole range of services in commercial real estate lending - so called banks of the "first echelon" (20-30 banks, top of Russian banks rating charts);
- banks working with small projects and extending loans to small and average borrowers for working assets replenishment- banks of the "second echelon" (basically banks taking places from 30 to 400);
- banks not engaged on commercial real estate market owing to lending policy and funds deficit.

Table 2 lists summarized information on established relative volumes of real estate lending and conditions of making such loans.

Table 2

Several general terms and conditions of commercial real estate lending by Russian banks

	BANKS OF THE "FIRST ECHELON"	BANKS OF THE "SECOND ECHELON"
Volume of all real estate loans in the aggregate bank credit portfolio, %	10-15	5-25
Volume of commercial real estate loans in the bank credit portfolio, %	2-10	2-15
Terms of loans:		
- "commercial" loans ¹	3-18 months	3-15 months
- "investment" loans ²	1-5 years	up to 2 years
Loan interest rates:		
- "commercial" loans		
in rubles, % per year	CBR refinancing rate + 3-10% ³	CBR refinancing rate + 3-15%
in currency (USD), % per year	22 - 30	24 - 35
- "investment" loans		
in rubles, % per year	--- ⁴	CBR refinancing rate + 3-10%
in currency (USD), % per year	LIBOR + 5-10%	18-28% ⁵

¹ Commercial loans, mainly short-term (90-120 days) are normally being originated for the borrower working capital expanding. The purposes of the major part of such loans are purchasing industry goods, raw materials, equipment, etc.

² Investment loans are given for the business development, enterprises and real estate reconstruction and new construction. Currently such loans are usually borrowed for the purposes of reconstruction and construction of offices, hotels, stocks, gas stations, wholesale markets.

³ All Russian banks use the Central Bank of Russia refinancing rate as the base for the loans interest rates calculation (for ruble loans only)

⁴ The biggest Russian banks normally do not often originate ruble loans for more than 6 months. Instead, they prefer USD denominated loans for such terms, basing on high exchange rate and ruble inflation risks.

⁵ The "first echelon" banks have much better connections with different international financial institutions and do have an access to the international capital market. Therefore, they use the London Interbank Offer Rate as a base for calculation of their long-term USD loans interest rates. Smaller banks do not borrow abroad and do not have to strictly follow fluctuations of money prices on the international markets.

Having compared data on the absolute size of loans made by Russian banks with the relative indicator of real estate loan volume, we can make a conclusion that now the volume of commercial real estate loans comes up to about 30- 45 trillion rubles.

Addendum #1 of this report contains initial information that was received from separate banks about their work on commercial real estate market.

Analysis of this information as well as data received at meetings with the Russian bankers show that not all real estate loans are made for real estate development. Thus, most of these loans are meant for replenishment of the borrower's current assets. The basic distinction between these loans and the classic commercial real estate loans (CREL) is as follows:

- a) loan target differs from commercial real estate construction and development,
- b) loan term is very short;
- c) income generated by mortgage is not used as a source of debt redemption;
- d) collateral is not provided at the expense of income generated by real estate but its physical value.

The number of such loans is still high and greater than the number commercial real estate loans. However, for reasons stated, there has recently emerged a trend towards growth of commercial real estate development loans, i.e. some stabilization of the financial market and progress in the sphere of legislative provision.

Data on targeted loans for commercial real estate construction and development and untargeted loans are deliberately put together in this report. Apart from that problems of both groups of loans were discussed with the bankers. This results from the fact that notwithstanding the above mentioned differences both types of loans have a lot in common from the point of lending projects preparation, their financial analysis and work with the borrower.

3. WORK UNDER THE CONTRACT

The basic goal of the project was to encourage the conditions necessary for the formation of a stable, reliable and profitable *system for commercial real estate lending* in Russia. This was done through active cooperation with the Russian banks, rendering them *free* services in development and implementation of mortgage lending procedures and mechanisms on day-to-day basis, as well as training the staff of banks' lending departments. The process of the Project implementation encouraged a rather large number of banks to work more aggressively on the commercial real estate market which in the end had a beneficial effect on the rate of investment process growth in Russia in general.

At the same time we sought to increase the demand for commercial real estate loans on the part of the Russian investors, developers and enterprises by working with these market participants on the issues of project structuring, of technical documentation development, preparation of document packages and their submission to banks with the purpose of receiving mortgage loans for commercial real estate construction and reconstruction.

In the course of the Project implementation the work on the issues of commercial real estate lending was done nearly on the whole territory of Russia, from Vladivostok to Kaliningrad. Its most fruitful results were to be seen in Moscow, St. Petersburg, Ryazan, Irkutsk, Nizhniy Novgorod and Vladimir.

In general, the Project team acted in close collaboration with the Association of the Russian Banks, Russian Guild of Realtors, Russian Society of Appraisers as well as other domestic and foreign organizations engaged on the commercial real estate market in Russia.

The Project encouraged the aggressive performance of the Russian banks on the commercial real estate market through:

- *development and integration into actual bank practice of modern methods and mechanisms* for commercial real estate lending using internationally accepted procedures adjusted to the current economic situation in Russia;
- *individual consultations to banks* on the issues of lending policy on commercial real estate lending and problems of implementing specific projects,
- *teaching bank staff* modern approaches to addressing key problems of commercial real estate lending as well as study of mortgage lending practice and procedures used by the largest foreign and international financial institutions that work both in developed countries and on emerging markets.

The project's direction of work was dictated by four objectives:

1. to create demand for commercial real estate loans on the part of investors, developers, real estate owners and other subjects of market based relations;
2. to increase the total number of banks extending commercial real estate loans through the development and implementation of organizational and

methodological programs, training courses and seminars for the bank personnel, representatives of financial and industrial groups, local authorities and other participants of the real estate market;

- 3 to create and constantly improve methodological, scientific and legal base for institutionalization and all-round implementation of a concept for commercial real estate lending into developing market economy;
4. to search for ways of addressing problems emerging in bank practice and connected with lending projects for construction and acquisition of commercial real estate.

Development of Guidelines and Methodological Materials

The following methodological aides for project financing connected with commercial real estate lending were prepared and disseminated between the potential borrowers and lending institutions:

- *Manual on Commercial Real Estate Lending Policy and Procedures*

The first version of the manual was developed in 1996 by the "Barents Group" company - initial contractor on the project. In 1998 the IUE staff prepared a second revised and greatly expanded edition of the Guide.

This methodological aide is meant for bank staff who are engaged in commercial mortgage lending or are addressing the issue of initiating such lending. The guide may be of interest to developers and construction firms working in the market for profitable real estate and corresponding loans. Representatives of local administrations can also profit from the information on procedures if they are actively interested in the development of commercial real estate in their cities.

The Guide tackles issues of commercial real estate lending within standards which minimize bank risk, establish effective cooperation of banks and their clients, improve procedures and technologies of lending policy elaboration, analysis of submitted loan applications, and technical and economic analysis of projects for real estate construction and development. These standards follow the lines of commercial real estate lending abroad and take into account the specific conditions of the Russian market under which banks, developers and construction organizations have to work.

- *Lending Documentation*

These legal documents can best be considered as a supplement to the "Manual on Commercial Real Estate Lending Policy and Procedures". Model lending documents incorporated in the set were based on international practice. The documents demonstrate possible alternative approaches to mortgage lending, structuring of lending transactions that are accessible within the framework of the Russian legislation but are not currently broadly used or are not well studied.

The documents included in the aide can be used in commercial real estate lending transactions, i.e., in transactions with office and commercial space and production facilities; but these may also be transactions with residential premises constructed for lease or sale. The form of the lending documentation usually depends on the character of the transaction. The documents address three basic types of commercial real estate lending transactions:

- Mortgage of already existing building occupied by its owner. Such type of transactions supposes that the borrower needs a loan for production needs and therefore he wants to pledge his premises.
- Mortgage of already existing building that is viewed as “investment”. Under such a transaction the owner of the building neither occupies or uses it and treats it as an investment, i.e., an object that can be leased out or eventually sold to other users. Office space, shops and trade centers are examples of such transactions. In such transactions the emphasis is on the cost of the real estate object as profit generating investment.
- Construction or renovation of the building that is either occupied by its owner or is viewed as “investment”. A loan for construction may be given in either case. While preparing lending documentation peculiarities of both types of transactions will be taken into account. Additionally, a loan for construction has several important characteristic features that are not to be observed in loans secured by already existing buildings.

In addition to these types of transactions, the documentation prepared addresses the possibility of using the concept for “enterprise mortgage” in the context of transactions with real estate lending. An enterprise mortgage is one where all the assets of the enterprise are pledged as collateral.

The documents presented in the guide proceed first of all from the fact that in conditions of economic uncertainty lenders demand not one but several guarantees from the borrowers, for example real estate mortgage and simultaneously contract of guarantee and pledge of other property. The types of required guarantee and the corresponding documentation that is used should be aimed at a specific transaction, because security on one type of transactions may significantly differ from security on another transaction.

- *Principles for Land Assessment and Analysis for Lending Purposes*

In cooperation with the closed joint stock company “Assessment -Consulting” a methodological aide “Principles for Land Assessment and Analysis for Lending Purposes” was published. It reflects the newest Russian and promising foreign developments in the sphere of lending where land is used as the collateral. The Guide outlines the basic principles that should govern lenders’ activity in lending against land belonging to the borrower both by right of ownership and long- term lease.

- *Mortgage Lending Involving Undeveloped Land Plots in Russia: Recommendations to a Practicing Lawyer*

This work gives practical advice to lawyers by describing the basic problems that should be taken into account in origination of loans against land, including: analysis of the land liquidity, established encumbrances, possible environmental impact, etc.

Consulting services to the banks.

During the entire period of Project implementation, team-provided direct consulting services to the staff of commercial banks was viewed as one of most effective forms of cooperation with the banks. The project had constant working contacts with 37 banks, which is 30 per cent more than goal set for the project. The client represented a wide geography, in effect the whole territory of the Russian Federation (Table 3, Map 1). We can mark out such largest Russian banks as the Sberbank of the Russian Federation and its regional banks, MOST-bank, "Russian Credit" banks, MENATEP, "SBS-Agro", Incombank, St. Petersburg, etc. But the project also worked with many smaller banks.

Table 3

Russian banks engaged into cooperation on the permanent basis within the framework of the Project.

##	BANK	CITY	START IN THE PROGRAM	NUMBER OF MEETINGS WITH THE BANK	NUMBER OF THE BANK STAFF PARTICIPATED	ACTIVE / NOT ACTIVE IN CREL NOW
1.	Chuvashia bank of Sberbank	<i>Cheboksary</i>	1997	6	5	A
2.	Sokolbank	<i>Cherepovets</i>	1996	10	5	NA
3.	East-Siberian Commercial Bank	<i>Irkutsk</i>	1996	12	6	A
4.	Guta-Bank	<i>Moscow</i>	1998	3	2	A
5.	Diamant		1996	4	2	A
6.	Incombank		1997	4	3	A
7.	Joint Industrial Bank		1997	9	2	A
8.	Lights of Moscow		1997	3	2	A
9.	MENATEP		1996	17	3	A
10.	Mosbusinessbank		1996	4	4	NA
11.	Moscow bank of the Sberbank of the RF		1997	5	3	A
12.	Moscow people bank		1998	3	3	A
13.	Most-bank		1997	7	3	A
14.	Nadejhniv		1998	2	1	A
15.	Rossiyskiy Credit		1998	2	4	A
16.	Sberbank of the RF		1997	4	2	A
17.	SBS-AGRO		1996	15	4	A
18.	Vostok- Zapad	1997	4	2	A	

19.	NED Bank		1996	2	1	A
20.	Nijhegorodskiy Affiliate of Mosbusinessbank	Nizhniy Novgorod	1997	2	1	NA
21.	Nijhegorodskiy Regional Center of Incombank		1997	2	1	A
22.	Novobank	Novgorod	1996	5	5	A
23.	Donkhlebbank	Rostov-on-Don	1997	2	1	A
24.	Priovneshtorgbank	Ryazan	1996	4	4	A
25.	Zhivago-Bank		1996	5	3	A
26.	Solidarnost	Samara	1998	3	2	A
27.	Baltiyskiy	St. Petersburg	1997	3	1	NA
28.	Petrovskiy		1997	3	1	A
29.	Promstroybank		1996	6	4	A
30.	St. Petersburg		1996	8	6	A
31.	Dalnevostochniy	Vladivostok	1997	4	4	A
32.	Dalrybbank		1997	3	3	A
33.	First Primorskiy		1997	3	2	A
34.	Primor'e		1997	1	1	NA
35.	Most-bank	Vladimir	1997	6	4	A
36.	Ural Commercial Industrial Bank	Yekaterinburg	1996	7	5	A
37.	Uralpromstroybank		1996	8	4	A

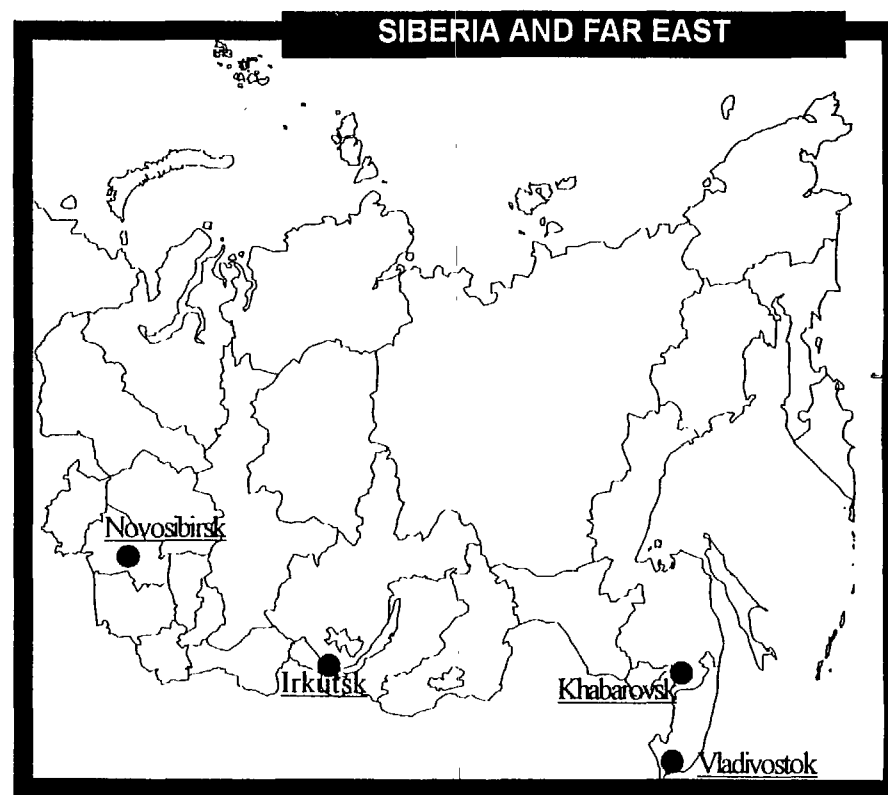
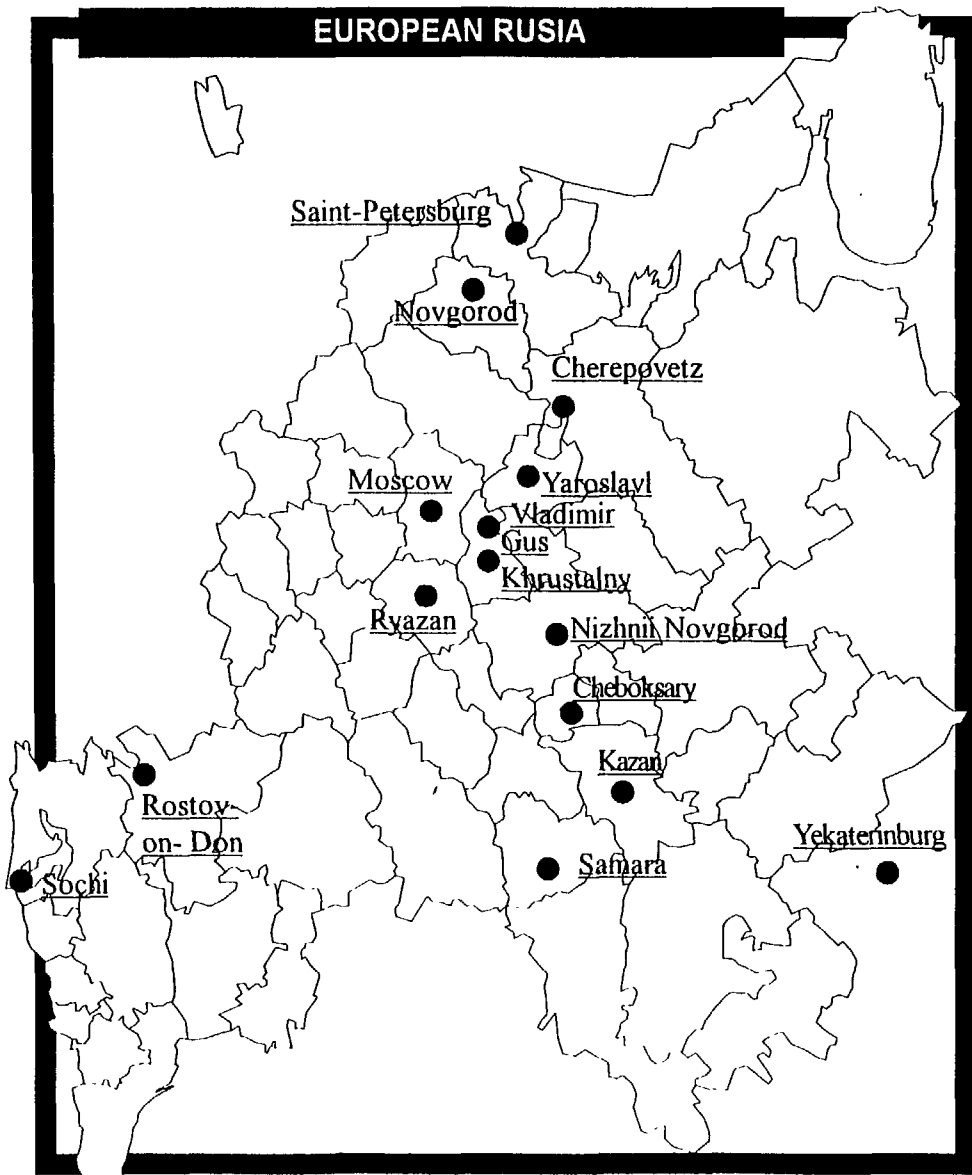
As a part of project implementation, the team actively visited banks and stimulated the interest of the bank management and separate officers of the lending departments in commercial real estate lending, rendered practical aide in developing internal bank documentation (procedures, regulations, job descriptions, etc.) and servicing for this type of lending, consulted on both the issues of organizing lending activity and provided expertise, analysis and assessment of specific loan proposals. The team also provided banks with booklets, documents, methodological guides.

Consulting services were provided on-site to the partner-banks. Cooperation with the Vladimir-based affiliate of the "Most-bank" turned out to be the most fruitful. In 1997-1998 the bank successively turned for consultations on the issues of analysis of loans for hotel construction and issues of lending organization. One loan envisaged financing completion of a private hotel construction in Suzdal. The project staff developed a model of cash flows relating to hotel and calculated both predicted values of income and expenses and predicted cash flows by using initial data. This helped the bank with making a sound decision on project financing. Another project was related to construction of a three-star hotel in Vladimir. The hotel is to have 80 rooms, a restaurant and a health center, a business center and a bar, etc. The project staff calculated the term of loan repayment through using the project's standard cash flow model.

The construction of the first hotel is already completed and the loan is being repaid on a regular basis. Preparation of document set for the second project to be presented at the Loan Committee of the Bank is under way.

On request of the commercial bank "Zhivago-bank" (Ryazan) expertise was provided and a conclusion made on the business plan prepared by TOO "Zemlya" a loan for trade center construction in Ryazan.

CREL ACTIVITIES IN THE REGIONS



LEGEND:

Samara ● cities involved in CREL project activities

The staff of the Uralpromstroybank (Yekaterinburg) turned to the project with a request to consult them on development of a syndicated lending scheme, and the staff of the East-Siberian Commercial Bank (Irkutsk) - a scheme for loan sale to a non-bank institution.

In the course of the project the representatives of the Ryazan city municipality, local commercial banks and construction organizations turned to the project for help in designing a city program for residential and commercial real estate development. The staff gave recommendations on schemes and methods for program implementation.

The team also worked on promoting new commercial real estate finance tools in Russia, such as financial lease and syndicated lending mechanisms.

In June 1998 the round table "The Development of Mortgage Lending in Russia" was organized for representatives of the major Russian banks, such as MENATEP, Rossiyskiy Credit, AVTOBANK, MOST-BANK, Solidarnost, Moskovskiy Narodniy Bank and Inkombank, to present and discuss advantages of financial lease and syndicated lending mechanisms for commercial real estate construction and rehabilitation investment projects financing.

The working group together with MENATEP Regional Business Department and Credit Department of Treasury of NK UKOS Joint Stock Company have developed the forms of real estate property leases contracts. These forms have been used by NK UKOS in its cooperation with "Merkliz" and "Lizinvest" leasing companies. The major goal was to use the services of these leasing companies to develop the net of NK UKOS petrol stations.

The IUE experts provided their services to the Moscow "Center" agency to structure a business plan for financing construction of a rifle club in Odintsov region, Moscow oblast. The IUE not only consulted the agency on the feasibility study, but helped its leaders to maintain contacts with the leaders of "Lisinvest" Russian leasing company as well. At the present these two companies are negotiating on further cooperation to start the club construction.

Significant time and attention have been paid to syndicated lending problems during multiple meetings with Russian bankers. Many of them revealed a big interest in these issues, and it is planned to continue close cooperation to provide them with more materials and consulting. For example, the CREL team is working now on the Syndicated Lending Manual a draft of which has been already prepared.

Bank Staff Training

Two basic training courses were prepared as part of the project. They are meant for the bank staff and personnel of construction and investment companies and cover all stages of decision making in loan origination and commercial real estate loan management. The first seminar highlights theoretical methods and principles of addressing the most important issues of commercial real estate lending. The second seminar provides its attendees with practical skills for tackling specific problems of commercial real estate lending.

These training courses are designed to highlight the following basic issues:

- policy and procedures of mortgage lending;
- underwriting principles and procedures;
- commercial real estate loans structuring;
- technique of striking loan transactions;
- methods for estimate of profit- bringing real estate;
- options for commercial real estate market analysis;
- modern approaches to analysis of technical and economic soundness of commercial projects, including cash flow analysis; and
- loan management, disbursement, discipline, and keeping lending documentation, etc.

During project implementation seminars were held in Moscow, St. Petersburg, N. Novgorod, Novgorod, Yekaterinburg. They were attended not only by bank staff, but also by appraisers, investors, builders. Apart from that lectures and presentations on separate issues of commercial real estate lending were repeatedly made during meetings with realtors, appraisers, developers, representatives of city administration of Irkutsk, Vladimir, Stavropol, Kaliningrad, and others (see Table 5).

Specialized project-prepared seminars were attended by 100 representatives of various Moscow and regional-based banks. (Over 200 other professionals attended lectures provided by the project at other seminars.) The project continually improved the course, integrating new real world examples, which is highly appreciated by the seminar attendees. In addition, while improving the course the team's working group paid particular attention to peculiarities of participation in the process of commercial real estate construction and reconstruction projects financing by non-bank investors and lenders (leasing companies, funds, lending units, corporate investors, etc.).

All seminar attendees were provided with a full package of methodological guides and aides covering the seminar subject.

Some seminars were organized in close collaboration with the Association of Russian Commercial Banks. In these seminars the working group introduced its trainees to modern methods of organizing commercial real estate project financing, discussed syndicate lending organization and project financing, use of the financial leasing mechanism and other advanced forms and methods adopted by whole civilized world.

A detailed program of the training courses and seminars and their schedule were drawn in the process of active cooperation with the banks through analyzing information that was obtained from the team's communication with the representatives of the lending institutions and local authorities or extracted from mass media. Analysis was done with the purpose of identifying the interest of the Russian financial market participants in discussing and addressing specific issues and problems of commercial real estate lending. Information on

training opportunities offered by the project was constantly disseminated among banks and other organizations which are potentially interested in development of the Russian commercial real estate market.

Table 4

Seminars provided within the CREL Project

LOCATION	DATES	SEMINAR ORGANIZER	TOPIC	NUMBER OF PARTICIPANTS
Saint-Petersburg	17.06.97 - 19.06.97	International Banking Institute	Commercial Real Estate Lending	17
Moscow	28.07.97	Fund "Institute for Urban Economics"	Analysis of Real Estate Lending Project's Efficiency	14
Nizhniy Novgorod	03.11.97 - 05.11.97	Privatization and Management Institute	Commercial Real Estate Lending	18
Novgorod	27.11.97 - 28.11.97	Novobank Commercial Bank	Practical Issues of Commercial Real Estate Lending	15
Moscow	10.06.98	The Institute for Urban Economics	Mortgage Lending System Development in Russia	14
Baltika (Kaliningradskaya oblast)	24.06.98	Land and Real Estate Eurobaltik Corporation	Commercial Real Estate Lending	10
Khabarovsk	1.07.98	Khabarovsk municipal construction committee	Commercial Real Estate Lending	11

Mortgage Lending Institutionalization

During the life of the project a group of the CREL experts was formed and trained at the Institute for Urban Economics. It is now working aggressively with the Russian banks on the issues of commercial real estate lending. It works in collaboration with responsible heads and specialists of lending and other profile organizations on the issues of improving methods

of commercial real estate lending and financing, organization and implementation of new procedures connected with this type of lending, sharing experience accumulated in this field with the bank structures, financial and industrial groups and local authorities in the regions of Russia. The working group has prepared and published a number of articles in the central and local press that covered the basic approaches to the problems of commercial real estate lending and problems emerging while registering property rights to real estate. The CREL experts gave a few interviews to mass media in the regions of Russia, held a round table with representatives of the Russian banks devoted to the problems of developing mortgage lending to corporate clients of the banks in Russia.

The working group participated in seminars and other presentations held by various educational, state, scientific and research organizations, etc. for commercial real estate market participants (banks, construction and investment companies, realty firms, etc.). At these events the IUE staff of CREL experts:

- delivered specially prepared lectures, reports, took aggressive part in round tables devoted to mortgage lending development in Russia.
- participated in conferences for discussion of mortgage lending problems and registration of rights to real estate by the basic subjects of the real estate market in the regions of Russia.
- introduced seminar and conference attendees to the advanced experience of the Russian and western banks in commercial real estate loans structuring and implementation.

To help establish itself as an important player in this type of lending, the team also worked on a regular basis with the Central Bank of the RF, the Ministry of Construction and the Ministry of Justice of the RF, the State Duma of the RF. The developers of the federal law "On Mortgage" took into account and used methodological and legal recommendations of the Project experts. The working group of the Project took part in many works connected with reforming the real estate market and mortgage lending development in Russia. A member of the working group for commercial real estate lending participated in writing a "Concept of Agricultural Land Mortgage Lending" requested by the Chairman of the Central Bank of the RF.

The team worked actively on promoting commercial real estate lending principles and methodology by publicizing a number of articles in specialized Russian newspapers and magazines. A list of papers publicized within 1997-1998 follows.

Table 5

Major publications by the CREL team

AUTHOR	TITLE	YEAR	PUBLIC EDITION	SIZE OF THE ARTICLE	AIMED FOR
Don McCarthy	The commercial real estate market in the Russian federation	1997	American Chamber of Commerce Magazine		
D. Gofman E. Klepikova	New Legislation on Property Rights Registration does not Solve the Old Problems of Mortgage Lending	1998	The Russian Banks Association Magazine ("Vestnik ARB")	6,500 words	Banking specialists in mortgage lending and property rights registration
M. Khoroshenkov	Real Estate Lending Risks Management	1998	The Russian Banks Association Magazine ("Vestnik ARB")	3,900 words	Banking specialists in lending and risk management
M.Dovgyallo, A.Tkachenko	The Pledge of an Enterprise as of an Entire Property Complex: Problems and the Ways out	1998	Financial and Accounting Consultant ("Finansoviye i Buchgalterskiye Konsultatsii")	3,700 words	Specialists in real estate lending
D.Gofman	The Problems of Mortgage Lending Development in Russia	1998	Financial and Accounting Consultant ("Finansoviye i Buchgalterskiye Konsultatsii")	4,200 words	Specialists in real estate lending
D.Gofman	Mortgage Lending in Russia: Problems and Perspectives of its Development	1998	Finance ("Finansi") - financial magazine	4,100 words	Wide specter of readers

An important part of institutionalization was improving the qualifications of the Russian project staff. One avenue was staff participation in formal training events. In the course of the project all members of the project team attended a course of lectures prepared within the frames of the DURER project "Commercial Real Estate Lending"; five members of the group were trained in the USA on the programs: "Fundamentals of Commercial Real Estate Lending", "Introduction to Commercial Real Estate Finance" and "Financial Underwriting of Commercial Real Estate" by the Association of Mortgage Banks of the USA; "Program for Housing Financing" by the Real Estate Center of the Pennsylvania University; they also took part in the VI International Conference "Problems of Property Assessment in

Transition Economy” organized on initiative of the Russian Society of Appraisers. The total of 8 Russian professionals - members of the CREL team - have participated in one or more of these seminars. The team also benefited from the extensive training provided by U.S. experts in this type of lending who visited Moscow for several weeks at a time. These visits were more frequent in the first year of project. Over time the questions addressed by the experts became increasingly sophisticated, corresponding to the enhanced knowledge and capabilities of the project team.

Coordination with Other Programs of the USAID

Under the sponsorship of the DURER program, the project team took part in all seminars devoted to the problems of the Russian real estate market development held by the IUE in Yekaterinburg, Vladimir, Irkutsk, Stavropol, Kaliningrad, Samara, Khabarovsk, Novosibirsk, Jujhno- Sakhalinsk. In addition, the team participated in the following seminars and conferences: “Indicators of Reform to Real Estate in the Towns and Cities of Russia” (Moscow), “Commercial Real Estate Lending” (Washington), “International Programs for Housing Financing” (Philadelphia), “Russian Enterprise: through Restructuring to Investment” (Moscow), “Restructuring Coal Industry: History, Problems, Prospects” (Moscow), “Mortgage Lending Development in Russia” (Moscow), etc.

In the course of their activity the experts of the group maintained close working contacts with the UI and the IUE specialists and consultants working on housing mortgage lending, registration of rights to real estate, reforms of municipal infrastructure, etc. as well as with other organizations interested in commercial real estate market development like the “VEP-Stroy” company working together with the IBRD on implementation of the Housing Project of the World Bank, Association of the Russian Banks, Russian Society of Appraisers, Russian Guild of Realtors, a large number of federal, regional and city ministries working on problems of attracting investment to the real estate market.

4. TANGIBLE RESULTS / BENCHMARKS

According to the goal of the contract EEP - 0008 -Q - 00 - 5120 - 00 from 12 September 1996 the following benchmarks have been reached and exceeded by the end of the period of performance:

4.1. Prepared Work plans

Within 45 days of the proceed order, the Contractor prepared and submitted to USAID for approval a life-of-contract (LOC) work plan covering all tasks and describing planned outcomes and benchmarks by which the results were measured.

4.2. Participation of Lending Institutions

After the two months from the proceed order, the Contractor identified and received commitments of interest from an initial set of 25 Russian financial institutions for undertaking a program of work leading to commercial real estate lending. Additional banks were added over time on a demand-driven basis. More than thirty seven banks have received direct technical assistance under the program.

4.3. Preparation of a Real Estate Mortgage Lending System Package

A real estate mortgage lending system (a package complete with documentation, forms, methodology and procedures suitable for use by Russian commercial banks and other credit and financial institutions and module suitable for a potential national roll-out of this program) was developed, implemented by the banks and other credit and financial institutions participating in the demonstration efforts under this delivery order and evaluated after its introduction. More than 70 copies of the complete package were distributed to such banks and other institutions.

4.4. Training of Banking and Real Estate Professionals

Over 200 Russian nationals employed by commercial banks and other credit and financial institutions and independent real estate professionals or organizations were trained in the methodology of credit risk analysis, real estate appraisal and, with respect to financing real estate projects initiated by private real estate developers, mortgage loan application approval process. More than 100 were tutored on-site at the banks, about 100 attended special project courses, and over 200 more benefited from lectures on these topics at other seminars.

4.5. Processing of Real Estate Loans by Banks

More than 10 banks -- 37 -- have used the mortgage package provided in this delivery order to process real estate loans with land and improvements (if appropriate) used as security for the loans.

5. THE GENERAL PROBLEMS OF FURTHER DEVELOPMENT OF THE SYSTEM FOR COMMERCIAL REAL ESTATE LENDING IN RUSSIA

In the course of the Project basic problems of further development of the system for commercial real estate lending in Russia were identified and ways and methods for their solution were designed.

1. On the first stage of project implementation, Russian banks, including several of the largest and most financially stable, did not have substantial experience in extending long-term commercial real estate loans because of insufficient knowledge of risk assessment techniques, rights of ownership to mortgaged property, absence of skills for assessment of the projects economic efficiency, and models of legal documentation.
2. External obstacles: absence of a single mechanism, complexity and bureaucratization in registration of rights to ownership by registration chambers; extremely low quality of feasibility study and loan applications forwarded by the potential borrowers to the banks.
3. The new Civil Code of the RF extended legal framework for use of cash inflows as a security against mortgage loans, allowing to use in this capacity assignment of rights to profit received from the lease directly to the lender. This form of security is more and more often used by commercial banks. Besides, to make a long-term lease contract effective it has to be registered in corresponding state bodies registering rights to real estate depending on its belonging and type (land or constructions).

However, in several regions registration of this kind is so far impossible because no local power structure registers such contracts. Thus, unregistered lease agreement and agreements on assignment of rights to profits are considered invalid.

4. Another problem connected with lease agreements is as follows. In most cities and towns local authorities have not acted to restructure land lease agreements. Present agreements do not protect the interests of mortgage lenders. In particular, they do not take into account the possibility of using profits from the lease for loan repayment.
5. On 16 May 1997 the Presidential Decree "On Guarantees to Owners of Real Estate Objects in Acquiring into Ownership of the Land Plots under these Objects" was issued. This Decree brings certain clarity into registration of uncompleted constructions. However, the Decree cannot be enacted because several regions lack a working mechanism for registration of rights to real estate, the necessary law being recently approved and signed by the President. The introduction of this mechanism extends the circle of commercial real estate objects taken by the banks as a security against loans

In several cities, like Moscow, St. Petersburg and a number of others the practice of registration of rights to uncompleted constructions already exists.

6. Other factors blocking development of commercial real estate lending in Russia include:
 - poor financial and economic condition of the borrowers reflecting present condition of the state economy as a whole;
 - poor preparation of loan applications by uninformed would be borrowers. Additionally, the lenders are afraid that the projects poorly prepared by the borrower's personnel may be inefficiently managed;
 - currently the staff at most small and average banks do not possess sufficient knowledge for adequate financial and legal analysis of the projects. This factor is supported d by the results of survey conducted in a number of commercial banks by the IUE within the framework of the Project;
 - control over the use of loans is too complicated and labor intensive, and it's assumed that qualifications of personnel are very high;
 - the procedure for the bank to exercise its rights to the mortgaged property is too complicated and it leads to increase in the cost of loans;
 - high cost of resources in domestic financial market and a limited access to resources in overseas currency markets. All this results in a rather high interest rate on the type of lending which is discussed here. Banks lack their own long-term resources which could be used for funding projects involving commercial real estate which results in the situation when loan term is limited by 3-5 years.

6. CONCLUSIONS

1. Proceeding from the available information and results of analysis of the market which was conducted within the framework of the Project we can conclude that in spite of existing problems CREL became a reality of banking practices in Russia.
2. It is evident today that bankers have started to understand that they lack experience in this particular sphere mostly due to the absence of developed technologies and procedures of commercial real estate lending and due to lack of highly qualified personnel.
3. As a result of the project's cooperation with bankers their interest towards possible funding of projects relating to construction and development of commercial real estate has grown.
4. One of the major factors which contribute to development of mortgage lending is the willingness of legal departments within banks to find innovative ways of tackling existing problems and their ability to adopt new thinking. In their work they have already started to use newly structured legal agreements on the pledge of the right to lease uncompleted construction sites, agreements on the assignment of original permits and cost estimate documentation relating to the project.

Within the near future, after financial situation in Russia becomes more stable, we expect sharp growth in the number of loans secured by commercial real estate. Russian banks have started to use in their everyday work classical schemes of mortgage lending.

Methodological materials published by the CREL team

##	TITLE	SIZE	YEAR
1.	Mortgage Lending of Undeveloped Land in Russia: Recommendations to a Practicing Lawyer	16 pages	1997
2.	Principles of Land Appraisal and Analysis for the Purposes of Lending	36 pages	1997
3.	Loan Documentation: Collected Samples of Documents for Using by Banks in their Commercial Real Estate Lending Projects	96 pages	1997
4.	Commercial Real Estate Lending Policy and Procedures Manual	170 pages	1998

ADDENDUM 2

Data on selected commercial real estate loans originated by participants of the CREL Project in 1997 - 1998

POSITION	BANK	ROSSIYSKIY CREDIT					MOSKOVSKIY NARODNIY BANK		SOLIDARNOST		MOSBUSINESS BANK		ZHIVAGO BANK	
Purpose of the loan														
increasing working capital	+	+	+					+		+				+
new construction				+			+		+		+			
rehabilitation					+	+							+	
Loan terms														
up to 6 months	+	+												+
6 - 12 months			+	+			+		+		+		+	
more than 12 months					+	+		+			+			
Loan collateral														
office						+	+							+
retail				+					+		+		+	
ware house	+													
hotel		+	+											
other								+		+				
Additional collateral														
goods			+											
stocks					+								+	
equipment										+				
land lease rights	+							+	+	+	+			
guarantee		+				+	+	+		+		+	+	+
Loan amount, 000 currency units	300	1,150	2,000	5,000	7,700	5,750	8,000	400	300	1,500	800	300	200	
Loan currency	RUR	RUR	USD	USD	USD	USD	USD	RUR	RUR	USD	USD	USD	USD	
Interest rate	39	30-39	10	15	12-15	LIBO R+7	LIBOR +5	35-215	63	23	25	28	30	

POSITION	BANK		ST. PETERSBURG		MOST-BANK		BALTIYSKIY		NADEZHINIY		MENATEP	
	DIAMANT											
Purpose of the loan												
increasing working capital	+		+			+		+		+		+
new construction					+							
rehabilitation		+		+			+		+		+	
Loan terms												
up to 6 months	+		+					+		+		+
6 - 12 months		+				+	+		+		+	
more than 12 months				+	+							
Loan collateral												
office		+					+			+		
retail	+		+			+		+				+
ware house								+				
hotel				+	+						+	
other												
Additional collateral												
goods	+							+				+
stocks			+		+				+		+	
equipment												
land lease rights		+		+			+					
guarantee		+				+				+		+
Loan amount, 000 currency units	1,500	50	500	4,000	2,000	400	500	200	700	300	5,000	1,000
Loan currency	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Interest rate	22	30	26	22	21	28	23	48	36	40	25	20

POSITION	BANK		PETROVSKIY		DALRYBBANK		GARANTIYA		DONKHLEB BANK		SOKOLBANK		NBD BANK	
Purpose of the loan														
increasing working capital				+		+			+	+				
new construction	+								+					+
rehabilitation		+			+						+		+	
Loan terms														
up to 6 months				+		+		+		+			+	
6 - 12 months				+		+					+			
more than 12 months	+								+					+
Loan collateral														
office	+				+			+						
retail				+						+				+
ware house									+				+	
hotel											+			
other						+		+						
Additional collateral														
goods														
stocks						+		+			+			
equipment														
land lease rights	+	+										+		+
guarantee								+		+		+		+
Loan amount, 000 currency units	2,000	300	100	50	500	200	300	100	700	500	200	400		
Loan currency	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Interest rate			27	30	21	23	50	35	28	33	25	27		

ADDENDUM 3

Information on the commercial real estate lending activity by major participating banks (1997 - 1998)

BANK	CITY	TOTAL AMOUNT OF THE CREDITS PER QUARTER	SECURITY TYPE		LOAN CURRENCY	LOAN AMOUNT		INTEREST RATE				LOAN TERMS		COMMENTS		
			basic	additional		commercial	investment	commercial		investment		commercial	investment			
								RUR	USD	RUR	USD					
Guta-Bank	Moscow	1	outside guaranties	CRE	USD		1-10 mln.				LIB.+1 2-18%		up to 2 years	collaborates with GOSINKOR holding, make investment in trading and office real estate construction of condominium for leasing in very prestige part of Moscow region in the main lends for the working capital expanding in 1997 the CREL program was interrupted, in 1998 tries to participate in Moscow government. Program for wholesale market construction		
Vostok-Zapad		1	local authorities guaranties	land plots	USD	5 mln.				LIB. +12%		1 year				
Diamant		1	outside guaranties	CRE	USD	0.5 mln.				LIB. +16%		up to 1 year				
Rossiyskiy Credit		2	outside guaranties	CRE	USD	-	-	-	-	-	-	up to 6 months	up to 2 years			
Incom-bank		4	outside guaranties, local authorities guaranties the borrowers securities, outside and bank guaranties	lands plots, CRE	USD	0.2-0.5 mln.	2-12 mln.			LIB. +16-19%		LIB. +10-12%	up to 1 year		up to 3 years	in the main credits for construction period of hotels and retail centers
MENATEP		1	outside guaranties, local authorities guaranties the borrowers securities, outside and bank guaranties	CRE	USD	0.2-5 mln.	1-10 mln.			LIB. +12%		LIB. +18%	up to 6 months		up to 18 months with prolongation	from 1998 CREL program interrupted due to change of the bank policy

BANK	CITY	TOTAL AMOUNT OF THE CREDITS PER QUARTER	SECURITY TYPE		LOAN CURRENCY	LOAN AMOUNT		INTEREST RATE				LOAN TERMS		COMMENTS	
			basic	additional		commercial	investment	com-mercial		invest-ment		commer- cial	investment		
								RUR	USD	RUR	USD				
Mosbusinessbank	Moscow	1	outside guaranties	CRE	USD	up to 1 mln.	up to 5 mln.		LIB.+ 13%		LIB. + 15-18%	up to 6 months	up to 18 months with prolongation	several years ago bank created the special mortgage company but now it's disintegrated due to the change of bank policy	
Most-bank		2	outside guaranties, the borrowers securities	CRE	USD	up to 2 mln.	up to 10 mln.		LIB. +12-13%		LIB. + 22%	up to 6 months	up to 2 years	mainly lends for regional construction of the middle class hotels (included private)	
Joint Industrial bank		-	-	CRE	USD	-	-		-		-	-	-	looking for the short terms loans for working capital expanding	
Lights of Moscow		2	outside guaranties	CRE	USD	-	-		-		-	-	up to 3 months	up to 2 years	prefers to lend small industrial enterprises
Sberbank of the RF		7	CRE, outside guaranties	land plots, the borrowers and state securities	USD, RUR	up to 3 mln. USD and RUR equivalent	up to 20 mln. USD and RUR equivalent	CB refinance rate + 3-5 %	LIB. + 12-15%	CB refinance rate +6-8%	LIB. + 15-20 %	up to 6 months	up to 4 years	prefers to have widely varied credits portfolio	
Moscow Sberbank		-	CRE, outside guaranties	land plots, the borrowers and state securities	USD, RUR	-	-	-	-	-	-	-	-	-	deals with construction in Moscow region
SBS-AGRO		4	outside guaranties, the borrowers securities	CRE	USD	up to 5 mln	up to 18 mln.		LIB +15%		LIB + 18%	up to 6 months	up to 2 years	attracts funds from international financial institutes (World Bank and EBRD)	

BANK	CITY	TOTAL AMOUNT OF THE CREDITS PER QUARTER	SECURITY TYPE		LOAN CURRENCY	LOAN AMOUNT		INTEREST RATE				LOAN TERMS		COMMENTS
			basic	additional		commercial	investment	com-mercial		invest-ment		commer- cial	investment	
								RUR	USD	RUR	USD			
Moscow People bank	Moscow	2	outside guaranties (included foreign investors guaranties)	CRE	USD	-			LIB. + 8%			up to 3 months		deals with Moscow government, plans to participate in Moscow mortgage program
Nadejhniy		3	outside guaranties	CRE	USD	from 0.05 to 1 mln.	from 0.1 to 3 mln.		LIB. +29%		LIB. +30%	up to 6 months	up to 12 months with prolongation	deals only with real estate lending for working capital expanding
Petrovskiy	St. Petersburg	2	outside guaranties	CRE	USD	up to 2 mln			LIB. + 17%			up to 6 months		deals with S. Petersburg municipal real estate committee
Promstroy bank		2	outside guaranties, local authorities guaranties	CRE	USD	up to 1 mln.	up to 5 mln		LIB. + 15 %		LIB. +18%	up to 8 months	up to 2 years	deals with construction lending
St. Petersburg		2	outside guaranties, the borrowers security	CRE, land plots	USD	up to 3 mln.	up to 15 mln.		LIB. + 15-18%		LIB. + 20%	up to 6-8 months	up to 30 months	was involved in the big and badly organized five stars hotel construction project, in spite of this project failure does not break down the CREL development

BANK	CITY	TOTAL AMOUNT OF THE CREDITS PER QUARTER	SECURITY TYPE		LOAN CURRENCY	LOAN AMOUNT		INITIAL REST RATE				LOAN TERMS		COMMENTS
			basic	additional		commercial	investment	commercial		investment		commercial	investment	
								RUR	USD	RUR	USD			
Dalnevostochniy	Vladivostok	2	outside guaranties	CRE	RUR, ¥	up to 12 mln. RUR or ¥ equivalent						up to 6 months		deals only with working capital expanding
Ural CIB	Yekaterinburg	2	outside guaranties, the borrowers and state securities	CRE	USD, RUR	up to 0.5mln USD and RUR equivalent	up to 2mln. USD and RUR equivalent	CB refinace rate + 4-6 %	LIB. + 13-18%	CB refinace rate +6-9%	LIB. + 15-17 %	up to 7months	up to 14 months years	prefers to lend the construction period and working capital expanding
Solidarnost	Samara	1	the borrowers securities	CRE	RUR	-	-	CB refinace rate + 1-2 %		CB refinace rate +3-4%				started the CREL from 1998, originated 3 loans in Samara region
East-Siberian Commercial Bank	Irkutsk	1	outside guaranties	CRE	RUR	-	-	CB refinace rate + 3-4 %				up to 6 months		deals with lending of working capital expanding

BANK	CITY	TOTAL AMOUNT OF THE CREDITS PER QUARTER	SECURITY TYPE		LOAN CURRENCY	LOAN AMOUNT		INTEREST RATE				LOAN TERMS		COMMENTS
			basic	additional		commercial	investment	commercial		investment		commercial	investment	
								RUR	USD	RUR	USD			
NBD Bank	Nizhny Novgorod	3	outside guaranties, local authorities guaranties the borrowers and state securities	CRE, land lots	USD, RUR	up to 1 mln. USD and RUR equivalent	up to 4 mln. USD and RUR equivalent	CB refinace rate + 4-7 %	LIB. + 12-17%	CB refinace rate + 7-10%	LIB. + 15-20 %	up to 6 months	up to 2 years	deals with almost all big construction projects in the N. Novgorod
Novobank	Novgorod	2	outside guaranties, land plots	CRE	USD	up to 0.5 mln.	up to 2 mln.		LIB. + 13-16 %		LIB. + 18 %	up to 3 months	up to 3 years	attracts funds from international financial institutes (World Bank and EBRD)
Priovnesh torgbank		1	outside guaranties, land plots	CRE	RUR	-	-	-				up to 2-3 months	up to 2 years	has a temporary problems with CREL development
Zhivago-Bank	Ryazan	3	outside guaranties, land plots	CRE	RUR	up to 18 mln.	up to 10 mln	CB refinace rate + 3-5 %		CB refinace rate + 6-7%		up to 6 months	up to 2 years	involved in several construction projects, included the biggest in Ryazan wholesale market construction, needs additional capital, tries to negotiate with Moscow banks
Sokolbank	Cherepovets	2	outside guaranties	CRE	USD, RUR	-	-	-	-	-	-	up to 5-6 months	up to 18 months	deals with construction finance

Abbreviations:

- CRE - commercial real estate,
- LIB. - LIBOR rate,
- CB - Central Bank of Russia,
- " - " - means that information exists but is not available from the bank.